ADDIS ABEBA UNIVERSTY

COLLEGE OF BUSSINES AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Tax Assessment and Collection Problems of Category "A" Tax Payers: The Case of Gulelle Sub City Revenues and Customs Authority Branch Office in Addis Ababa City Administration

Prepared by: Messay Tilaye

Advisor: Abebe Yitayew (PHD)

March, 2019

Tax Assessment and Collection Problems of Category "A" Tax Payers: The Case of Gulelle Sub City Revenues and Customs Authority Branch Office in Addis Ababa City Administration

By

Messay Tilaye

A Thesis Submitted to Department of Accounting and Finance

Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Master of Science in Accounting and Finance

STATEMENT OF CERTIFICATION

This is to certify that Messay Tilaye has carried out this research work on the topic entitled "Tax Assessment and Collection Problems of Category "A" Tax Payers: The Case of Gulelle Sub City Revenues and Customs Authority Branch Office in Addis Ababa City Administration" under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Master of Science in Accounting and Finance.

Advisor Abebe Yitayew (PHD)

Signature ___________________

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Tax Assessment and Collection Problems of Category "A" Tax Payers: The Case of Gulelle Sub City Revenues and Customs Authority Branch Office in Addis Ababa City Administration

______________________________	____________
Advisor	**Signature**
______________________________	____________
Internal Examiner	**Signature**
______________________________	____________
External Examiner	**Signature**

Acknowledgments

First and foremost, I would like to thank my almighty God with his mother, who helped me in every aspect of my life.

Next, I would like to express my greatest and heartfelt appreciations to Dr. Abebe Yitayew, my thesis advisor, for his dedication in giving professional as well as constrictive comments and timely feedback. Without his support, my work would have not been accomplished successfully.

I am also deeply thankful for all the respondents who have responded for the questionnaire and the concerned wereda and sub-city staffs who were very helpful to me in any way during the data collection. Besides, I would like to thank my friends for their continuous professional support and encouragement throughout the study.

Finally, I would like to thank my husband and kids for their patience while writing the thesis and my appreciation also goes to the beloved families.

Declaration

I, the undersigned declare that this study is my original work, Prepared under the guidance of Dr. Abebe Yitayew. All Sources of materials used for the study have been dully acknowledged.

Name Signature

Messay Tilaye ____________________________

Date of submission: March, 2019

Contents

List of Tables

pages

Acronyms

ERCA	Ethiopian Revenues and Customs Authority
IMF	International Monetary Fund
IT	Information Technology

Abstract

- *Taxation is defined as government revenue to fulfill public necessities. Despite the fact that taxation is not favored by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens. Governments of developing countries struggle to create modern tax systems. However most of these developing countries are burdened with weak tax administration and tax payers' resentment towards taxes. The goal of this study is to investigate Tax assessment and collection problems regard to category "A" tax payers found in Gulelle sub-city. The researcher distributed questionnaires to selected tax payers and tax officers. In addition the researcher used in- depth interview with management bodies. The study was based on descriptive analysis. The findings indicated that most taxpayers lack sufficient knowledge of tax assessment and collection Procedures, rules and regulations. There is lack of clear, transparent and up-to- date information and training. Moreover, tax assessment and collection officers are inefficient and insufficient in relation to number of tax payers in the sub city, tax officers are non-motivated, lack adequate skills. Due to this and other factors mentioned in the analysis of this study, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment. This study suggests that the tax authority should provide continuous training both for tax payers and tax office employees, use advanced information technology (IT), make the collection procedures simple and transparent, and strengthen legal enforcement and penalties. In general, the tax authority should try to ensure tax fairness and equity so as to encourage voluntary compliance behavior.*

Keywords: *Tax Assessment, Collection Problems, Tax Payers and the Authority*

Chapter one

1. Introduction

1.1 Background of the Study

Tax is a compulsory contribution payable by economic units to a government without expectation of direct and equivalent return from the government for the contribution made. Taxes have both micro and macroeconomic effects in a modern economy. Taxes have good as well as bad effect in the production, distribution of income and stabilization of the economy (Misrak, 2008).

A tax is a fee charged or levied by a government on a product, income, or activity. The purpose of taxation is to finance government expenditure (Gupta, 2001). One of the most important uses of taxes is to finance public goods and services, public goods like roads, power, municipal services, street cleaning and other public infrastructures. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes. Despite the fact that taxation is not favored by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens (Oberholzer, 2008).

If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. A tax payer doesn't expect direct and equivalent return from the government for the compulsory contribution made (Ethiopia Trade and Investment, 2015).

Steinmo (in Rakner, 2002) stressed the importance of revenue as the lifeblood of the state and that taxation is the primary mechanism of revenue generation. He further emphasized that taxation is considered the most economically efficient way of transferring resources from the private to the public sectors.

Business income, or business profit, includes any income which is derived essentially from business activity or activity recognized as trade. Business profit tax is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses the business income tax ranges from 10% - 35% (ECC and EBDSN, 2005).

With the aim of broadening the tax base and facilitating the overall development of the economy, the government of Ethiopia has undertaken a comprehensive tax reform program. The reform measures are intended to encourage trade, investment and development through transparent and stable functioning of the tax system and to increase government revenue to support social and economic development programs and thereby alleviate poverty, strengthen the enforcement capacity of the taxes and custom authorities, and promoting equity in the tax system (Derartu, 2007).

According to article third of the proclamation No.587/2008, the authority is looked upon as "an autonomous federal agency having its own legal personality". Authority came into existence on 14 July 2008, by the merger of the ministry of Revenue, Ethiopian Customs Authority and Federal Inland Revenue Authority who formerly were responsible to raise revenue for the federal government to prevent contraband. Reasons for merging are to provide the basis for modern tax and custom administration, to avoid unnecessary and redundant procedures that results delay and are considered cost inefficient, to be much more effective and efficient in keeping and utilizing information, to promote law resource utilization and service delivery and to transform the efficiency of the revenue sector to a high level.

Ethiopian Revenues and Customs Authority (ERCA) have its headquarters in Addis Ababa. It is led by a Director General who reports to the Prime Minister and is assisted by five Deputy Director Generals. ERCA is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The above idea initiated the researcher to investigate the Tax Assessment and Collection Problems in the Case of Gulelle Sub City Revenues and Customs Authority Branch Office.

1.2 Statement of the Problem

From all sources of finance, tax is the major source of finance for the government; however, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to sufficiently finance its expenditures (World Bank, 1999).

Along with the growth in the overall Ethiopian economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collect significant amount of revenue including grants, which could not fully finance the total expenditure. Without grants, the deficit could have been also about significant. This makes the borrowing and grant element of government's total expenditure counts too much. Of the external grant that constitute part of government revenue, almost half comes in the form of grants in kind and the remaining comes in the form of untied cash (IMF, 2006).

Furthermore, due to the great encouragement and conducive environments like investment opportunities created by the Ethiopian government, new firms are emerging surprisingly, however, the amount of tax revenue for the government is not increasing proportionately even every so often a decreasing trend was observed. Accordingly, huge unfavorable variance is observed in the performance report. Consequently, huge amount of money that should have been paid is not really given to the government, which in turn can be used to meet the various objectives of a government.

Moreover, the prevalence such significant deficit demands the government to improve internal revenue generating activities to reduce dependence on foreign funding. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. Perhaps the most commonly used is to take corrective measures on the potential problems of tax administration at each tax office.

In order to raise adequate revenue to minimize revenue shortfall, ERCA and the different sub cities are working together. Gulelle sub city tax authority has mandate to look into tax assessment, periodic declarations, records and books of accounts to be maintained and submitted by taxpayers. The authority conducts pre-audit assessment by the time these documents are submitted so as to perform timely collection. This low revenue yield of taxation can be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers (World Bank, 1999).

Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country.

Therefore, identifying the problems on tax assessment and collection at each tax office and taking corrective measures need attention since they have adverse effects on the overall revenue of the government. Accordingly, this study tries to identify tax assessment and collection problems of the Gulelle Sub-city Revenue and Customs Authority Branch Office.

Research Questions

To this effect the study was guided by the following basic research questions:

1. Do Tax payers have enough knowledge and awareness about taxation?
2. How effective and efficient is tax assessment and collection procedure for category 'A' tax payers in Gulelle Sub-city Customs and Revenue Authority Branch Office?
3. What challenges are there which impede tax assessment and collection procedure at Gulelle Sub-city Customs and Revenue Authority Branch Office?

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study is to assess the tax assessment and collection problems in the case of Gulelle Sub City Revenues and Customs Authority Branch Office.

1.3.2 Specific Objectives

The specific objectives of this study are the following:-

1. To understand the status of tax payer's knowledge and awareness about taxation.

2. To assess the efficiency of tax assessment and collection procedure of Gulelle sub city Revenues and Customs Authority Branch Office.

3. To identify challenges that the authority faces with its customers with regard to collection of tax.

1.4. Significance of the Study

The findings of this study may give clear understanding of what type of tax assessment and collection procedures are there, what problems are there and how those problems were handled by both tax payers and Administrators. Thus, all the concerned body will be able to strength the tax collection and try to adopt a comprehensive strategy, and minimize the observed tax administration problems to increase tax revenue. The Sub-city revenue& customs bureau may use this finding to revise its strategies concerning tax assessment and collection. Furthermore the results of finding will serve as a reference for other researchers on this area.

1.5. Scope and Limitation of the Study

The researcher has found that it is very important to limit the scope of the study to a manageable size in order to investigate the issue thoroughly. Therefore, this research is confined to Gulelle Sub City Revenues and Customs Authority Branch Office for the sake of in-depth analysis with genuine investigation on tax assessment and collection problems. Addis Ababa is classified in to ten sub-cities; out of these sub cities the researcher select Gulelle Sub-city.

Secondly, it is impossible and difficult to conduct a research on tax assessment and collection problems across citywide within such a short period of time together with limited financial resource owned by student researcher. Hence the focuses of this study is "Tax assessment and collection problems in Gulelle Sub City Revenues and Customs Authority Branch Office".

1.6 Organization of the Paper

The study is organized into five chapters. The first chapter explains background of the study, statement of the problem, objective of the study, research design & methodology, significance of the study, scope and limitation of the study, and methods of data analysis. The second chapter is review of related literature. The third chapter presents the research design and methodology. Chapter fourth is presentation, analysis and interpretation of the data. The last chapter consists of summary, conclusion and recommendations of the study.

Chapter Two

2. Review of Related Literature

This chapter review literature that have relevance to the study so as to have an insight into the research topic and to briefly expose the readers to some of the major areas of the subject matter under consideration. In line with this, this chapter will discuss the meaning and concept of tax, category of taxpayers, Objectives of Taxation, characteristics of an effective tax system, the base of tax, impact, incidence, and shifting of taxes, Tax saving, Tax implementation and administration, Procedures for tax collection, Importance of tax administration, tax administration challenges, Efficiency of tax Administration, tax administration in Ethiopia, and the present tax reform in Ethiopia.

2.1. The Meaning and Concept of Tax

A tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. In other words, a tax is a compulsory payment or contribution by the people to the government for which there is no direct return to the taxpayers (Bhatia, 2003). Tax imposes a personal obligation on the people to pay if they are liable to pay it. The general public should be taxed according to their ability to pay, i.e., the people in the same financial position should be taxed in the same way without any discrimination. Thus, tax can be defined as, "an involuntary fee or more precisely, "unrequited payment", paid by individuals or businesses to a government (Richard, 2005).

Tax has been defined by various authors and professionals in various ways. Taxes are the major source of the public revenues. Government needs financial resources to act as a government and play a role that is expected from it by the public. So what the government gives, it must first take away. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (James, S., and Nobes, C. 2000). According to these authors, tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return’.

Throughout history, people have debated on the amount and kinds of taxes that a government should impose, as well as on how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. For instance in Ethiopia there was the Gojjam peasant rebellion, in 1968 (Gebru Tareke 1991).The immediate cause of the rebellion was the introduction of a new agricultural income tax, which peasants opposed. In political campaigns candidates' views on taxation may partly determine their popularity with voters. Although countries differ considerably in the amount of taxes they collect, yet the most important source of revenue for modern government remains to be tax. The remainder of government revenue comes from charging fees for services, borrowing and from other related sources.

Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Some economists consider taxation an important tool for maintaining the stability of a country's economy. This is because taxation can redistribute a society wealth by imposing a heavier tax burden on one group in order to fund services for another (Gebrie, 2006)

2.2. Category of Taxpayers

According to the federal income tax proclamation no.979/2016, source of income has classified into five schedules: Schedules A (income from employment), Schedule B (income from rental of buildings), Schedule C (income earned from business) and Schedule D (other income not categorized in any of the three, e.g. Income from royalties). Schedule E (exempt income). Schedule C type of tax system, which is the topic of this study, is further divided into three major categories, namely Category "A", "B", and "C" based on the volume of their sales, form of their business and annual turnover.

Category "A" Taxpayers: Ethiopian Tax proclamation 979/2016 describes category 'A' taxpayers as any company incorporated under the laws of Ethiopia or in a foreign country and any business having an annual turnover of Birr 1,000,000 or more. They are required to submit Balance sheet, profit and loss statement, incorporate gross profit and the manner in which it is computed, general and administrative expense depreciation expenses and provisions and reserves to Revenue Authority at the end of the year.

Category “B” Taxpayers: Category B taxpayers falls under the income range between 500,000 birr and one million. This category of taxpayers should submit to the Revenue Authority profit and loss statement at the end of the year similar to category ‘A’ taxpayers.

Category “C” taxpayers: are taxpayers that are not classified under Categories “A” and “B”, and businesses whose annual turnover is estimated up to Birr 500, 000 are classified under this category of taxpayers. A standard assessment method should be used to determine the income tax liability of category “C” taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment.

2.3. Objectives of Taxation

The main objectives of taxation are rising of revenue with which governments can drive human development by providing systems of health, education and social security and the provision of a successful economy through regulation, administration and investment infrastructure. Additionally reduction of poverty and inequality to ensure that benefits for development are felt by all, and appropriate utilization of taxes and subsidies to ensure that all social costs and benefits of production or consumption of a particular good are reflected in the market price, for example, the taxation of tobacco to limit damage to the health of citizens. Moreover strengthen and protection of channels of political representation (Cobham, 2007).

2.4. Tax system or structure

The complexity of tax systems, probability of detection and penalties and tax rates affect the effectiveness of a tax system. The more tax laws become complex the lower the compliance levels. Simple, understandable and clear tax rules enhance tax compliance (Chau & Leung, 2009).

The complexity of tax laws makes it difficult for ordinary taxpayers to understand. Although taxes are not part of everyday conversations, people will normally try and make sense of the contributions that they make to the government through the payment of taxes. When trying to makes such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent tax behavior (Kirchler, 2009).

Complex tax laws are a concern worldwide. Tax laws have become so complex that even experts such as accountants, lawyers and tax officers have difficulty in interpreting many of the legislative provisions. Research conducted on the linguistic analysis of tax laws found that high level abstraction in the written language combined with long and complex sentences resulted in unnecessary complexities, making it difficult for taxpayers to understand the laws. Several countries have attempted to simplify their tax laws but to no avail, for example, New Zealand's tax laws were written in simplified English, but they still faced the same administrative and compliance problems as before the simplification (Kirchler, 2009).

2.5. Tax compliance

Tax compliance is the willingness of taxpayers' to obey tax laws by true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due (Ahmed and Kedir ,2015). It is therefore an important factor for the collection of tax revenue. Taxpayers make conscious decisions on whether or not to comply with tax laws. An assumption can be made that taxpayers' knowledge and concepts of taxation form the basis of their judgments, evaluations and perceptions of fairness, willingness and ability to comply with the law. Nevertheless, it is important to gain an understanding of taxpayers' behaviors as they will most probably behave in accordance with the subjective knowledge that they have. Subjective knowledge does not focus on whether the knowledge is correct or not, but instead focuses on the knowledge that taxpayers have and how such knowledge is organized to form a meaningful representation (Kirchler, 2009).

The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Ideally any government would want one hundred percent compliance which would mean optimal tax collection. Tax compliance is influenced by the behaviors of taxpayers which are shaped by their attitudes, and such attitudes are influenced by various factors. Understanding taxpayers' behaviors in terms of factors that influence their attitudes towards tax compliance is therefore important in encouraging higher levels of compliance and minimization of noncompliance (Berenson, 2007). It is important for any government and revenue collecting authority to understand the reasons why taxpayers choose not to comply with tax laws as such understanding will have an impact on both the equity and efficiency of the economy (Devos, 2005).

Tax compliance may be seen in terms of tax avoidance and tax evasion (Tulu 2007). The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. In the contrary, tax noncompliance is individual failure to comply with their tax obligation. Tax noncompliance consists of three distinct types:

Filing noncompliance: refers to non-filing of returns to the tax authority which will lead to tax gap i.e. the amount of unpaid taxes due foregone.

Nonpayment compliance: refers to untimely taxes paid, that means payment not made on a timely manner to the tax authority. Timely tax payment is important to the tax authority. The dues received now will used for the government's expenditure otherwise, the insufficient fund needs to borrowed and incur additional cost.

Tax underreporting; considered a criminal offence that imposes severe penalty. The taxpayer practices no reporting by way of evasion and avoidance; both are same except that the latter is legal while the former is illegal. This area of noncompliance poses a serious problem to tax authority because these taxpayers' escape tax and their burden pushed to the other complying taxpayers'. This is where the fair and equitable tax system is questionable.

According to James et al (2003), the degree of non-compliance measured in terms of the net tax gap (the difference between „true" individual income tax liability and that finally collected on a voluntary basis or by enforcement action) which happens by means of both tax avoidance and tax evasion. Most tax administrators and taxpayers believed that, the growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance (Chau and Leung, 2009). Tax noncompliance can reduce revenue, distort labor market and weaken state stability by feeding perception of cheating and fraud (Ahmed and Kedir 2015).

2.6. Characteristics of an Effective Tax System

A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency and administrative ease. Although opinions about what makes a good tax system will vary; there is general consensus that these five basic conditions should be maximized to the greatest extent possible.

1. Fairness, or equity, means that everybody should pay a fair share of taxes. There are two important concepts of equity: horizontal equity and vertical equity. Horizontal equity means that taxpayers in similar financial condition should pay similar amounts in taxes. Vertical equity means that taxpayers who are better off should pay at least the same proportion of income in taxes as those who are less well off. Vertical equity involves classifying taxes as regressive, proportional, or progressive.

2. Adequacy means that taxes must provide enough revenue to meet the basic needs of society. A tax system meets the test of adequacy if it provides enough revenue to meet the demand for public services, if revenue growth each year is enough to fund the growth in cost of services, and if there is enough economic activity of the type being taxed so rates can be kept relatively low.

3. Simplicity means that taxpayers can avoid a maze of taxes, forms and filing requirements. A simpler tax system helps taxpayers better understand the system and reduces the costs of compliance.

4. Transparency means that taxpayers and leaders can easily find information about the tax system and how tax money is used. With a transparent tax system, we know who is being taxed, how much they are paying, and what is being done with the money. We also can find out who (in broad terms) pays the tax and who benefits from tax exemptions, deductions, and credits.

5. Administrative ease means that the tax system is not too complicated or costly for either taxpayers or tax collectors. Rules are well known and fairly simple, forms are not too complicated, it is easy to comply voluntarily, the state can tell if taxes are paid on time and correctly, and the state can conduct audits in a fair and efficient manner. The cost of collecting a tax should be very small in relation to the amount collected.

2.7. The Base of Tax

The base of a tax is the legal description of the object with reference to which the tax is payable. For example, the base of an excise duty is production, packing or processing of a specific good; the base of an income tax is the income of assesses ; defined and estimated in terms of certain rules laid down for this purpose; a gift may be defined and made a base for levying a gift tax. Note that the base of each tax has to be defined legally and it is to be quantified for the purpose of determining the tax liability of an individual tax payer. Each taxpayer is considered a legal entity for this purpose. Accordingly, and individual legal entity may be subjected to more than one tax. It should be noted that a tax base may have a time dimension also. For example, income tax is usually on an annual basis and the law has to decide whether income would be taxed on the basis of accrual or receipt. The authorities, while determining a tax base, are expected to give due consideration to various questions like those of cost of collection, administration and effect of that tax. The exact coverage of a tax base is sought to be determined by an optimum combination of these considerations. With the passage of time, a tax base under consideration may grow or may shrink. For example, as production of excisable goods increases, the base of excise duties also grows. Relevant provisions, definition and rules of a tax may be changed to extend its coverage or base (Bhatia, 2003).

2.8 Impact, Incidence, and Shifting of Taxes

The burden of a tax does not always lie on the person from whom it is collected by government. When a tax is imposed on a person, it is quite possible that it may be transferred by him to a second person, and this tax may be ultimately borne by this second person or transferred to other by whom it is finally borne. Thus, a person who originally pays the tax may not be actually bearing its money burden as such. Hence, it is necessary to know who bears the immediate burden of tax and who bears the ultimate burden of tax.

2.8.1 Impact of Tax

Impact of a tax refers to the immediate/initial burden of a tax on the person who pays it in the first instance. In other words, the person who pays it in the tax to the government in the first instance bears its impact. Hence, impact of the tax is always on the person who is responsible by law to pay the tax amount to the government in the first instance (Fullerton and Rogers, 1993).

2.8.2 Incidence of Tax

Incidence of a tax refers to the final or ultimate resting place of the burden of the tax payment. It is the place where the tax is finally collected. The person who has the legal obligation to make a tax payment may not be the person whose welfare is reduced by the presence of the tax. If a person who pays the burden of the tax to anybody else, then the incidence as well as the impact of the tax is on the same person. However, if the original or the first taxpayer is able to transfer the tax burden (tax paid by him) to a second person who cannot shift the burden of tax to any other person, then the incidence of the tax rests on the second person (Fullerton and Rogers, 1993).

2.8.3 Shifting of Tax

Shifting of tax refers to the process by which the money burden of a tax is transferred from one person to another person. In other words, the person up on whom the tax is imposed not necessarily bears the burden of tax. In this case, the person is given the right to pass on the tax burden to the buyer of goods. Thus, the process of passing on the tax burden to the buyer of goods by the seller of goods is known as shifting of tax (Fullerton and Rogers, 1993).

2.9. Tax Saving

At tax is a compulsory contribution without quid pro quo, tax saving is one of the important issues of taxpayers be it an individual or a business, new or old, small or big, public or private. Tax saving is a method of minimizing or decreasing taxable income and tax to be paid to the government (tax liability). Some of the methods are legal and some are illegal (Misrak, 2008).

2.9.1. Tax Evasion

Tax evasion is a method of saving tax liability by a tax payer through fraudulent means or by directly violating tax laws. It is illegal and involving the deliberate breaking of the law in order to reduce the amount of taxes due. It usually entails tax payers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability. The author however stresses that it excludes unintentional non-compliance resulting from calculation errors or inadequate knowledge of tax laws. Tax evasion is illegal, unethical, uneconomical and highly risky since it may result in penalty, imprisonment and closing up of business.

Tax evasion is a world-wide phenomenon that is prevalent in almost all societies and has been in existence for as long as taxes have been implemented. It is also a concept that is difficult to understand or to combat completely and is a huge challenge to tax authorities and a threat to the tax base of a country. Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion will improve government's revenue. Reduction of tax evasion is generally done through imposing penalties and subjecting taxpayers to tax audits (Kirchler, 2009).

2.9.2. Tax Avoidance

Tax avoidance refers to the payment of the least tax possible by taking advantage of the loopholes within the law (Kirchler, 2009). Unlike tax evasion, tax avoidance is the art of escaping from tax burden without breaking tax laws. Tax evasion provides for short term benefits to taxpayer until corrective actions are taken by the government. Even though tax avoidance is travelling within the frame work of law or acting as per the language of the law in form, it is undesirable by government since it result in loss of revenue to the government and increase in the burden of the tax on the other taxpayers who do not resort to such practices (Misrak, 2008). In today's ever changing business environment, tax authorities cannot cover all the possible scenarios of business structures. Big companies therefore take advantage of loopholes in the law when considering the setup of business structures. As a result, tax authorities will constantly have to close loopholes to avoid the many grey areas in the tax laws. The closing of loopholes is therefore an ongoing process.

2.10. Tax Implementation and Administration

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on disobedient taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Murphy, K., 2002).

Since taxes are an involuntary payment for government services (Sjursen, I, 2012), taxpayers have a strong inventive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures.

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of the economy. Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system.(Damme, L, T. Misrahi and Orel 2008).In developing countries, tax administration can be organized respecting the functional principles such as collecting, recording, auditing, and enforcement. These are according to the type of taxpayers, the type of taxes; and type of enterprises in economy.

Tax payment needs to be assessed, collected and recorded more efficiently and periodically. The tax administration should provide impartial and professional courteous service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear, understandable and current tax information and will make this information available to tax payer through various media and provide timely, accurate written information that one can rely on to questions and requests for tax information (Asian Development Bank 2001).

Education and information programs on specific tax issues should be arranged with taxpayers to enhance their awareness and taxpayers should be allowed to voluntarily disclose their tax situation without incurring a penalty or being prosecuted for tax violations under certain conditions.

2.11. Procedures for Tax Collection

It is expected that taxpayer's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income (Damme, L, T. Misrahi and Orel 2008). On the other part of the tax collectors, according to canon of taxation, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Some of the procedures undertaken by tax authority to ensure compliance such as Filing return, return processing of tax, audit and examination, tax collection and tax enforcement.

2.11.1. Filing Returns

Taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayers have their file. Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer (James, S. and Nobes, C. 2000).

2.11.2. Audit and Examination

The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (James, S. and Nobes, C. 2000).

2.11.3. Tax Collection and Enforcement

Tax collection and enforcements another procedure in the tax administration. When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The tax administration may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences (James, S. and Nobes, C. 2000).

2.12. Importance of Tax Administration

According to Asian Development Bank, 2001, tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of tax systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population. In recent years, the shift away from these taxes - corporate income and progressive individual income tax - and toward tax systems that rely more on broad-based consumption taxes such as the value-added tax, flatter rate structures, and the adoption of "dual income taxes," in which a progressive tax on labor income is accompanied with a low flat-rate.

Tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Asian Development Bank, 2001).

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994). Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explained by changes and differences in the environment, resources and technologies available to the country's tax administrators (Asian Development Bank, 2001).

Aside from the role of tax compliance and administrative issues on the evolution and general features of the tax system, there is no question that administrative considerations influence, and often impose decisive limits, on particular tax laws. Most obviously, the failure to tax all sources of economic power, such as the imputed rental value of homes or accruing capital gains, are often justified by reference to practical concerns of administer ability. It is futile to design a complex and sophisticated response to a tax policy problem if the rules to implement the regime cannot be administered (Asian Development Bank, 2001).

Ensuring that taxes are collected from those who owed them has always been an elusive challenge for tax departments. It has never been easy to collect taxes from lawyers who take cash for a Saturday office visit; waiters who receive most of their income as tips; landlords who collect rent in cash; small business people who skim part of their profits or hire people off the books; cash-only window cleaners, roofers and painters; or large corporations that contract out to sweatshops. It has been even more difficult to collect taxes from crack cocaine dealers, smugglers, hit men and hit-women, and those who make their living defrauding and extorting their clients. The underground economy has always been diverse and even faster than these examples suggest (Asian Development Bank, 2001).

However, as if these traditional forms of tax evasion were not challenge enough, the combined effects of information technology and globalization is now alleged to allow those who have been able to hide in the shadow economy to evade paying their fair share of tax to disappear altogether. Many individuals are no longer tied to one national jurisdiction; those that are increasingly receive payments from work and investment abroad; anyone can have access to an over sea's bank; anyone with access to a computer can transact business anywhere in the world; property is becoming increasingly intangible and consumption difficult to locate; and, capital is becoming increasingly fungible and can be shifted relatively easily between jurisdictions. These and other developments are said to call into question governments' continued ability to levy taxes in a world in which companies, assets and people are infinitely mobile (Asian Development Bank, 2001).

Tax administrators face a formidable number of challenges in every country. According to Asian Development Bank, (2001), in many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Moreover, there is the need to establish the legitimacy of tax collection. In all countries tax administrators face the challenge of modernizing the tax administration so that it can operate effectively in an increasingly global economy.

In spite of these challenges, several countries' recent experiences in improving the effectiveness of their tax administration have shown that fundamental reform is possible. In recent years, there has been a considerable amount of study on the steps that should be taken to improve tax administration and reform. Of fundamental importance to all reform efforts, to improve the effectiveness of tax administration significantly, the government must be politically committed to reform, the major obstacles to an effective tax administration have to be identified, and there has to be well-designed strategies for addressing them (Asian Development Bank, 2001).

As a preliminary step to developing a successful strategy for the reform of a revenue agency, the "Tax Policy and Administration Thematic Group" of the World Bank has developed a useful diagnostic framework for revenue administration. It includes a description of quantitative indicators of effectiveness and efficiency that might be used to get a general idea of the physical dimensions of the revenue administration and how effectively and efficiently it is currently performing its functions and where performance problems might be acute. It also provides a framework and checklist of questions relating to all aspects of revenue departments operations, environment, resources, history, organization and management functions and informal culture that can be used to assess its operations and diagnose its failings (Asian Development Bank, 2001).

A reform strategy to increase compliance requires a concerted, long-term, coordinated and comprehensive plan. It is vital that tax administrators ensure that every compliance policy instrument at their disposal is being used as effectively as possible. The uses of these instruments complement one another.

2.13. Tax Administration Challenges

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as is the tax administration (Kaldor, 1980).

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure.

During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes. In more than 15 countries, traditional tax departments have been granted the status of semiautonomous revenue authorities, which are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Robert 2003).

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often *ad hoc* taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990). This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF 2006).

Heavy tax distortions in transition economies come from various sources. First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation.

2.14. Efficiency of Tax Administration

Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system. Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or could aid in application of the law (Mansfield, 1990).

Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. In transitional countries, tax administration can be organized respecting the functional principle (collecting, recording, auditing, and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers.

More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which - particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers. This can lead to the decrease of their compliance, resulting with lower total revenue. Next should be improved auditing and follow-up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code (Hesse, 1993).

2.15 Tax Administration in Ethiopia

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authority of the federal government and state governments. A good and efficient tax administration has Management system through which it carries out its activities, Tax laws or codes that guide tax management system and knowledgeable administration (Misrak, 2008).

In order to be successful and effective in tax administration, the following factors are considered essential. An explicit and sustained political commitment, relevant training for staff (who engages in assessment and estimation; additional resources to the tax administration, chants in incentives for both tax payers and tax administrators, simplification of the tax procedures, decentralization of tax administration, development of a good accounting system etc.

One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditure. In order to attain this objective, a close relationship between tax structure and tax administration and an organized tax collection structure should be maintained (Misrak, 2008).

2.16. Profit tax administration

If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, ERCA has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his/her income or has submitted a fraudulent declaration, assessment is made by the tax by the Tax Authority.

Every assessment notification should contain the following elements: gross income and deductions applicable; taxable income; rates applicable or percentage; taxes paid and due; any penalty or interest; taxpayer's name, address, and TIN; and brief explanation of the assessment and a statement of the taxpayer's rights.

The category "A" taxpayer shall be liable for a penalty of 20% of the tax assessed if he/she failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority.

If the amount of income tax shown on a tax declaration by a Category "A" taxpayer is less than the amount of income tax required genuinely, the understatement of tax results in the following penalties 10% of the understatement if the understated amount of tax is considered not substantial, or 50% of the understatement if the understated amount is considered substantial. However, there is no any stated parameter to say a certain amount is substantial or not. Therefore, it is up to the perceptions of the individuals, which is very subjective and subjected it to undesired bargaining and complaints that in fact made the administration on such regard very difficult and complicated.

2.17. The Present Tax Reform in Ethiopia

The fiscal systems of government should reflect the economic and social conditions of a given period of time. Since such conditions are likely to change overtime, public sector revenues and expenditures are subject to change in reflection of these changing economic and social parameters. The reasons presently being given for Ethiopia tax reform include that the existing tax system was:

1. Old and loose tax legislation
2. Weak administration
3. Tax base principles not in place
4. Operation programmers, reorganization and tax payer's education

The present's tax reform is aimed at over having the tax legislation and improving the tax administration (ERCA, 2010).

2.18. Research Gap

A study performed by Debere (2014) on Addis Ababa federal business taxpayers' satisfactions with the tax system also show dissatisfaction of the taxpayers'. The findings identified high compliance costs, a lack of clarity and access to information about tax regulations, arbitrary behavior of tax officials and a lack of transparency in the tax authority makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers. In addition, the study found that taxpayer are encountered a lot of inconveniences, including from misconduct of the tax officers like an impersonal, insensitive and heartless bureaucracy and imbalance between location and accessibility of the tax office with number of taxpayer.

The study performed by Tulu (2007) on Dire Dawa City taxpayers’ voluntary tax compliance finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government as the main determinant of voluntary compliance in the city.

A study performed by Belay &Viswanadham (Belay&Viswanadham2016) to evaluate the business income taxpayers' level of tax knowledge, perceived complexity of the income tax system and tax compliance issues in Amhara regional state of Ethiopia show taxpayers have inadequate technical knowledge and perceive the income tax system as complex. The result also revealed that tax knowledge and tax complexity as important factors towards non-compliance behavior among business income taxpayers'.

One study was performed on taxpayers' perception towards the fairness of business profit tax system through considering various tax fairness dimensions and other influencing factors in the case of Addis Ababa City Administration Business profit taxpayers’ fairness perception (G/Meskel2011).The researcher commented no single study on such issues especially in the case of business profit tax system. The study considered all business category business profit tax payers and lack presentation of the result per each sub-city and per each taxpayer’s category.

Revenue generated from taxation has got the attention of governments as a major source of funds necessary for the countries overall development. According to (Brautigam et al. 2008), taxation is the new frontier for those concerned with state building in developing countries. But revenue come from tax are not sufficient to finance the government expenditures because the tax revenue performance is low in developing countries due to various problems. As per Crandall and Bodin (2005), the developing countries tax revenue is in a weak position because of both a complex tax system and widespread corruption. Complex and fragmented tax administration has its source in part in developing countries.

Generally, one can see that the empirical studies undertaken so far bothered little to see the potential tax assessment and collection problems. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the assessment and collection activities. Therefore, this research will not only identify the problems of the Gulelle sub city tax administration and tax payers, but also clearly understand the nature and the practice of tax assessment and collection related problems in the study area. This is because the researcher believes that identifying existing practices of tax assessment and collection problems in the sample sub-city can be one of the indicators to other researchers to deal with and can give appropriate solutions to all stakeholders as well.

Chapter Three

3. Research Design and Methodology

3.1. Research Design

This research paper was designed in such way that enables the researcher to study problem more easily and clearly using quantitative and qualitative methods. It is structured to provide relevant information, both quantitative and qualitative, to sufficient level that would be essential for further processing. Quantitative data is expected to provide current stands and trends while qualitative one will be useful to understand people's feelings and expectations which have linkage to the research questions raised at the beginning.

3.2. Research Approach

Inductive research Approach was employed in this study. Inductive approach starts with research questions and aims and objectives that need to be achieved during the research process. Inductive studies follow the following route observation, pattern, and theory.

3.3. Research Methodology

Descriptive survey method was employed in this study with the assumption that it is appropriate because it helps in obtaining large variety of data related to the problem under the study. The research methods have quantitative and qualitative nature. For the quantitative approach, the study use self-administered survey. The sampling design for this population is random sampling. The participants are Category "A" tax payers in Gulelle sub city. Under this category, there are importers and exporters; wholesalers and retailers; manufacturers; and service providers. For qualitative approach, the researcher use in-depth interview with executives of Gulelle sub city Revenues and Customs Authority Branch Office employees. The nature of this research is exploratory and open-ended. This research use both primary and secondary data sources. The primary data was collected through interview and self-administered semi structured questionnaires. The questionnaire was distributed to the selected tax payers and tax officers. To get primary data the questionnaire was comprised of both closed and open ended questions. Most of the closed ended questions were designed as 'yes' or 'no' questions. The secondary data was generated from tax related policies and guideline documents, reports of Ethiopian Revenues and

Customs Authority's (ERCA's) web-site, books, Internet , handouts, other unpublished materials, and from the data base of the sub city's tax authority.

3.4 Sample and Sampling Techniques

Addis Ababa consists of 10 sub cities. From these Sub-cities, Gullele Sub-Cities was selected using random sampling technique, which gives each of them an equal chance of being included in the study, because it was difficult and unmanageable to conduct a research on all of these sub-cities at a time. Due to their large size, tax payers were selected randomly and tax administration office workers were also selected on the basis of availability sampling techniques. Accordingly, 100 tax payers, 24 tax office works from the sample Sub-city were selected and participated in the study. In sum, the study has 124 sample respondents. Furthermore, three independent focus group discussions were formed and conducted.

3.5 Data Collection Instrument

Questionnaire, interview and document analysis were employed to collect data from respondents. The data were collected from both primary and secondary sources through Questionnaire, interview and document analysis which enable the researcher to gain genuine information.

3.5.1. Validity and Reliability

Checking the validity and reliability of data collecting instruments before providing to the actual study subject is the core to assure the quality of the data (Yalew, 1998). To ensure validity of instruments, initially the questionnaires were prepared by the researcher with guidance from the advisor. The questionnaires were subjected to pilot test.

3.5.2. Procedures of Data Collection

In order to gather the necessary data three groups of respondents' were actively involved in the study. To this effect, different data collection instruments were developed by the researcher based on the review of related literatures. Tax payers and Tax Office Worker in one hand treated through questionnaire and executives of the branch office were treated through interview. The rationale behind selecting such variety respondents is perhaps to consolidate the reliability of information.

3.5.3. Method of Data Analysis

The data collected through questionnaire, semi structured interview and document analysis from the study representative sample were processed and subjected to a variety of analysis techniques. Simple arithmetic calculations and descriptive statistics were deployed to analyze and interpret the data. Summaries are presented as counts, and percentages in tables. The researcher use both qualitative and quantitative analysis in this study. Besides, the data gathered through interview and document review were analyzed in the form of narration or telling. Finally, the researcher enhances the reliability of the findings.

3.5.4. Ethical Considerations

The researcher addresses ethical considerations of confidentiality and privacy. A guarantee was given to the respondents that their names should not be revealed in the research report. Participation in the study was voluntary, and all participant responses were confidential and can quiet to respond the question anytime they like. Finally, a copy of the final report is available.

Chapter Four

4. Data Presentation, Analysis and Interpretations

4.1. Introduction

This chapter has two parts: the first part deals with the characteristics of the respondents and the second part presents the analysis and interpretation of the main data. Objective of this study is to assess the Tax Assessment and Collection Problems: The Case of Gulelle Sub-City Revenue and Customs Authority Branch Office. To this end, both quantitative and qualitative data obtained through questionnaire and individual interviews were used to answer the basic research questions. Besides, document analysis also used in order to get insight about the whole picture of the sample Revenue and Customs Authority Branch Office.

Due to their large size, tax payers were selected randomly whereas tax office workers and tax office management body's availability sampling techniques were used. Accordingly, 100 tax payers were selected and participated in the study. The number of participants involved in the study and sampling proportion was statistically representative and adequate to the analysis as well as to make the inference. The respondents were provided with questionnaires both close & open ended. Accordingly, 94 (75.81 %) of respondents properly completed and returned the questionnaire just in time and while 30(24.19%) of them did not return for various reasons.

The quantitative part of the analysis was treated based on the data obtained from respondents on tax assessment and collection problems. The closed ended questions of the questionnaire were analyzed using statistical tools such as frequency count, percentage. Whereas, the second section that is the qualitative part of the study was treated based on the data from interviews and open-ended questions of the questionnaires were integrated systematically. Since the objective of this study was to assess tax assessment and collection problem, the qualitative data analysis strategy employed was thematic analysis which according to Lindlof, T. R. & Taylor, B. C. (2002) focuses on the coding of qualitative data, producing clusters of texts with similar meanings, often searching for the central themes capturing the essences of the phenomenon under investigation.

Initially Responses to questionnaire at Gulelle Sub-City Revenue and Customs Authority Branch Office were quantitatively analyzed whereas responses gained through interviews were qualitatively analyzed and the central themes mentioned by the informant's interview in related to the research questions were identified. The collected data was transcribed and verbatim from individual interviews discussions. And then, the identified themes were categorized and thematically analyzed.

4.2 Characteristics of Respondents

The following table presents respondent's characteristics and deals with their sex, age, and qualification.

Table 1: Characteristics of Respondents

No	Items	Variables	Respondents	
			No	%
1	Sex	Male	69	73.4
		Female	25	26.6
		Total	**94**	**100**
2	Age	21-30	29	30.85
		31-40	41	43.62
		41-50	18	19.15
		51 & above	6	6.38
		Total	**94**	**100**
3	Qualification	Certificate	16	17.02
		Diploma	51	54.26
		B.A/BSC	27	28.72
		M.A & Above	0	0
		Total	**94**	**100**

Source: Survey data

As it has been indicated in the table 1 of item one the gender of the respondents is described and the composition of the respondents is somehow proportional in that 69 (73.4%) of the respondents are male whereas 25 (26.6%) of the respondents are women. Based on the data indicated above the student researchers can deduce that more male respondents participated in filling out the questionnaire compared to female respondents.

Item 2 of Table 1 reveals that, the majority 41 (43.62 %) of the respondents were categorized between 31-40 years old. Whereas 29 (30.85%) respondents are between 21-30, 18 (19.15 %) of them were found between 41-50 years . And insignificant amount of the respondents 6 (6.38%) are above 51 years. The above figure clearly shows that most of the study participants were in the age of 31-40 years. That means they were relatively energetic, matured and fit to take responsibilities. Having reasonably matured age significantly impacts on the courage and efficiency of them because these people are ready and fit to take their responsibilities as per needed.

Item 3 of Table 1 illustrate that the qualification of the respondents. Accordingly, 16 (21.62%) respondents have certificate, 43 (58.10 %) of them have diploma, and 15 (20.27 %) of the respondents have B.A Degree. From this result one can realize that a significant number of respondents have diploma. The low level in academic qualification yields poor and irresponsible practices in tax related matters.

The majority of the tax payers are engaged in small and medium business enterprises. These are small shops, mini super markets, bakery, pastry, blacksmithing, woodwork, metal work, plumber, cafeteria and the like. Regarding the tax payers experience in the business, a significant number of the tax payers had the work experience of more than 10 years in the current business that they are engaged in. This figure clearly indicated that that most of the tax payers have reasonably adequate experience to carry out responsibility and to provide sufficient information about what is going on in their businesses. Having relevant and adequate work experience defiantly attracts and contributes a lot for the delivery of quality work to their respective business enterprise.

4.3 Tax knowledge of taxpayers

Table 2: Taxpayers Awareness about taxation

The following discussions were prepared based on the research questions number one. Accordingly, each items forwarded to sample respondents were discussed independently.

Items	Description	Response	Frequency	Percent (%)
1	What is your perception towards tax Payment	Development	82	87.23
		as debt	3	3.19
		as Obligation	9	9.57
		Others	0	0
		Total	**94**	**100**
2	What are the benefits you get by paying your tax liability	Get Bank loan	28	29.79
		Participate in Bid	34	36.17
		Guarantor	10	10.64
		Others	21	22.34
		Total	**94**	**100**
3	When do you pay your tax Liability	On time	70	74.47
		When time is over	24	25.53
		Total	**94**	**100**

Source: Survey Data

In the above Table 2, Item1, respondents were asked about tax payer's awareness the reason why they pay taxes. 82, (87.23%) taxpayers believe that paying tax to government contributes to national development. 3, (4.05%) of them believe tax as debt and the remaining 9 (5.41%) respondents perceived tax as an obligation. Based on this result one can possibly concluded that almost all respondents in the sample sub-city are well informed about the reason of paying taxes.

In item 2 of Table 2, 28 (29.79%) respondents perceived that they can get bank loan if they pay tax, 34 (36.17%) can participate in bid, 10 (10.64%) believed that right to be guarantor and 21 (22.34%) can get other benefits. This implies that taxpayers know the advantages of paying taxes.

In item 3, of Table 2 70 (74.47%) taxpayers respond as they pay tax on time and 24 (25.53%) of them pay their tax after the due date. It is necessary to increase the culture of paying tax on time and introduce attractive approaches to welcome the tax payers that paying tax means developing the entire nation by contributing their side.

In order to supplement the qualitative data analysis and interview was also conducted. Based on the items raised to the interview participants the following summarized findings were explained. Respondents stated that tax payers appeared to have inadequate knowledge on the technical aspects of the income tax. The absence of tax knowledge may lead to non-compliance behavior among taxpayers. In addition, small business taxpayers are not even aware of their tax knowledge shortfall and this may lead to unintentional non-compliance behavior.

Concerning the perception of the people on paying tax, it has two faces; the first group believes that paying tax is totally obligatory and mandatory whereas the second group perceived that paying tax has to be voluntary because there is no development without having proper tax collection procedure.

4.4 Efficiency and Effectiveness of tax assessment and collection procedures

Table 3: How effective and efficient are tax assessment and collection procedures

The following discussions were prepared based on the research questions number Two. Accordingly, each items forwarded to sample respondents were discussed independently.

Item	Description	Response	Frequency	Percent (%)
1	Would you agree that tax office managers are skilled enough to lead their fellow tax collection officers according to the law and existing procedure?	yes	23	24.47
		No	66	70.21
		Neutral	5	5.32
		Total	**94**	**100**
2	Is the Tax rate fair?	Yes	28	28.79
		No	62	65.96
		Neutral	4	4.26
		Total	**94**	**100**
3	Would you agree that laws and procedures about taxation are understandable?	Yes	37	39.36
		No	54	57.45
		Neutral	3	3.19
		Total	**94**	**100**
4	Would you agree that tax collection officers are skilled enough to assess and collect taxes?	Yes	19	20.21
		No	71	75.53
		Neutral	4	4.26
		Total	**94**	**100**
		Yes	33	35.11

5	Would you agree that tax collection officers are transparent, genuine and properly follow the right tax collection procedure?	No	55	58.51
		Neutral	6	6.38
		Total	**94**	**100**
6	The Chance of being detected is relatively low if an official is engage in corrupt activity?	Yes	71	75.53
		No	21	22.34
		Neutral	2	2.13
		Total	**94**	**100**
7	Would you agree that tax authorities' enforcement actions in the Sub-city are effective ?	Yes	24	25.53
		No	56	59.57
		Neutral	14	14.89
		Total	**94**	**100**

Source: Survey data

In Table 3 of item 1, respondents were asked about the tax office managers' skill and the ability to lead their fellow tax collection officers according to the law and the existing procedure. Accordingly, 23(24.47%) agree that the tax office managers in their sub city leading their fellow tax collection officers according to the law and the existing procedure. Whereas 66(70.21%) of them disagree. And only 5 (5.32%) of them were neural. This implies respondents think that managers have no the required skill to lead tax collection officers and activities.

Concerning to present tax rate item 2 of table 3, 28(29.79%) of the respondent believe that they are made to pay as balanced as their ability to pay and concluded that the tax payment is made fair to them. However, 62 (65.96%) of taxpayers believe the opposite and they believe that they are forced to pay beyond their capacity and unfair tax. The remaining 4 (4.26 %) percent assumed that the tax payment neither more than their capacity nor it is as balanced as the capacity or ability they have. They simply responded as being neutral not to say something about the fairness with regard their ability to pay. This implies that the tax rate is not fair.

Tax laws and procedures need to be easily understandable as far as possible. As it is indicted in item 3 of Table 3, 37(39.36%) of the participants agreed that laws and procedures about taxation are understandable whereas 54 (57.45%) of the respondents have perceived that laws and procedures about taxation are too complicated which does not easy to understand it. And only 3(3.19%) participants were neutral. This implies that tax laws are not easy to understand by the majority of the tax payers. This show the understandability issues are main constraint for tax assessment and collection and this may lead to unintentional non-compliance behavior.

In item 4 of Table 3, 71(75.53%) respondents were disagreed that tax collection officers are skilled enough to assess and collect taxes. 4(4.26%) of them were neutral and only 19 (20.21%) agree that tax officers are skilled enough. From this one can infer that the respondents believe that the officers were not skilled enough to asses and collect taxes. Thus whenever the taxpayers have this understanding about the tax officials, then it is likely it will affect their intention to pay tax on time and honestly and could result in tax evasion.

In item 5 of Table 3, respondents were asked whether tax collection officers are transparent, genuine and properly follow the right tax collection procedure or not. Accordingly, 55 (58.51%) respondents confirmed that tax collection officers are not transparent, genuine and properly follow the right tax collection procedure. Whereas 6(6.38%) respondents were neutral and 33(35.11%) said the opposite. From this one can infer that tax collection officers are not transparent, genuine and properly follow the right tax collection procedure. In this case customers will lose confidence and reliability of the service tax officers give.

In item 6 of Table 3, 71 (75.53%) respondents agree that the chance of being detected is relatively low if an official is engage in corrupt activity. Whereas 21 (22.34%) of them said no, and only 2 (2.13%) are neutral. This implies that taxpayers don’t trust tax officers that they are free of corruption.

With regard to item 7 of Table 3, respondents were asked about the tax authorities’ enforcement actions in the Sub-city is effective or not. Accordingly, 24(25.53%) tax payers confirmed that tax authorities' enforcement actions in the Sub-city is effective and oppositely more than half of the study participants that is 56(59.57%), confirmed that tax authorities' enforcement actions in the Sub-city is not effective and not welcomed by the tax payers. 14(14.89%) study participants underlined that, they are neutral with the current tax authorities' enforcement actions in the Sub-city. From this we can understand that the Authority usually takes aggressive effort instead of teaching in various ways to implement its sophisticated taxation system.

Based on the items raised to the interview participants the following summarized findings were explained. Taxpayers don't meet deadlines. Some of the reasons are economic difficulties, tradition of rush hour payment. Be it for these or other reasons, according to James and Nobes (2000), though a tax payer might eventually pay his/her full liability, since the payment is late, the taxpayer cannot be considered to have been compliant. Furthermore, rush hour show up of taxpayers result in work overload of tax office personnel on the top of inadequate man power. Respondents also imply that tax laws and procedures are slightly violated with tax officers and tax payers.

The amount of tax liability tax payers have paid is overstated. Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalization of businesses. This is particularly important for small and medium-size enterprises, which contribute to growth and job creation but do not add significantly to tax revenue. Also it is indicated that tax payers complain frequently about the way the tax is assessed and collected. Major complaints raised by the taxpayers were unfair tax rate, Double taxation on imported items, rejection of purchase invoices by tax officers.

Respondents were asked whether they receive trainings or not. Accordingly, Tax officers indicate that they get regular training relevant to their duties and responsibilities. As they have listed they have received short term trainings on tax audit, tax assessment, tax regulations and guidelines, estimating daily income, computer applications and data encoding, other trainings based on respective job position. This undoubtedly enables the tax personnel to develop simple and user friendly tax administrative systems and procedures as well as to have sufficient powers to effectively enforce them.

Moreover it is indicated that there are many citizens in Addis Ababa city Administration in general running their business without legal trade license and the tax authority has poor law enforcement on such type of business persons.

4.5 Major causes of tax collection problems

Table 4: Major causes of tax collection Problems

The following discussions were prepared based on the research questions number three. Accordingly, each items forwarded to sample respondents were discussed independently.

Items	Description	Response	Frequency	Percent (%)
1	Absence of willingness and poor understanding about tax proclamations, rules and regulations by taxpayers	Strongly Agree	44	46.81
		Agree	35	37.23
		Neutral	3	3.19
		Disagree	7	7.45
		Strongly Disagree	5	5.32
		Total	**94**	**100**
2	Inefficiency and ineffective computerized system in tax administration	Strongly Agree	42	44.68
		Agree	32	34.04
		Neutral	0	0
		Disagree	13	13.83
		Strongly Disagree	7	7.45
		Total	**94**	**100**
3	Do you think there is redundant Electric power interruption?	Yes	84	89.36
		No	10	10.64
		Neutral	0	0
		Total	**94**	**100**
4	Do you think Tax evasion in category "A" tax payers is Significant?	Yes	65	69.15
		No	22	23.40
		Neutral	7	7.45

		Total	**94**	**100**
5	Sometimes Tax Officials cooperate with tax payers who intend to evade tax and engage in bribery activity.	Strongly agree	38	40.43
		Agree	26	27.66
		Neutral	6	6.38
		Disagree	18	19.15
		Strongly Disagree	6	6.38
		Total	**94**	**100**
6	What problem(s) are there during tax collection?	Inefficiency of the tax collectors	54	57.45
		ill-treatment	17	18.09
		Tax underreporting	16	17.02
		There is no problem	7	7.45
		Total	**94**	**100**

Source: Survey data

As we can see in item 1, table 4 above, 44 (46.81 %) of respondents strongly agree and 35 (37.23%) of them agree that there is absence of willingness and poor understanding about tax proclamations, rules and regulations by taxpayers. However 7 (9.46 %) disagree, and 5 (6.76 %) respondents strongly disagree with this assertion. Only 3(4.05%) of them were neutral. This implies that taxpayers have poor understanding about tax proclamations, rules and regulations and they are not willing to know it.

Table 4, item 2 indicates that taxpayers were asked if there is inefficient and ineffective computerized system in tax administration. 42 (44.68%) of them strongly agree and 32 (34.04%) agree on the issue. only 20 (21.28%) of the tax payers said that it is effective and efficient computerized system. This shows that having ineffective and inefficient computerized system in branch offices wastes their valuable time and gives them burden.

As it is discussed in the above Table 4 of item 3, Majority, 84 (89.36%) of respondents agree that there is electric power failure Only 10 (10.64%) of them disagree with the issue. This implies that there is redundant electric power interruption and it would result decreased employee productivity, damaged equipment, unnecessary delay and work overload during deadlines.

In item 4 of table 4 above, 65 (69.15%) of the respondents indicated that Tax evasion in category "A" tax payers is Significant and 22(23.40%) indicated as not significant whereas 7(7.45%) kept silent. The respondents' response implies that there is significant tax evasion in the branch office. Significant amount of Tax evasion diminish the earnings of the government. Due to this the government could spend less, had to borrow more money or hire more people to combat the tax evasion.

In table 4 item 5, more than half of the respondents 64(68.09%) strongly agree and agree that sometimes tax officials cooperate with tax evaders. But tax officers are employed to combat tax evasion. Whereas 24(25.53%) of respondents' disagreed the tax officials' cooperation with tax evaders and only 6(6.38%) kept silent. The respondents indicated in their response that there is gap in identifying and controlling the corrupted tax officers in the branch office.

According to item 6 of Table 4, respondents face problem during tax collection. 54 (57.45%) respondents were perceived inefficiency of the tax collectors while 17(18.09%) of the respondents perceived ill-treatment and 16 (17.02) said there is Tax underreporting. While 7 (9.46%) of tax payer respondents replied as there is no problem. This implies that there are different problems in both tax payers and tax officers' side during tax collection.

Based on the items raised to the interview participants it is stated that, the tax authority provides regular information to category "A" taxpayers to create tax awareness through mass media such as television, radio, newspaper, brochure, poster (banner). Creating awareness helps to inculcate in taxpayers a sense of responsibility towards tax and ultimately promotes a positive view to voluntary compliance.

On the other hand, the branch office did not assign sufficient number of adequately qualified personnel who are able to assess and collect tax efficiently. This inevitably affects the operations and effectiveness of the tax office. They mentioned the following as reasons for the assignment of less appropriate personnel, short term solution to address the shortage of manpower, assignment by political affiliation, loose recruitment procedures.

Moreover there is very frequent employees turn over in their office. Frequent employees turn over will drop productivity, It costs a company money to deal with turnover. Every time they have to spend resources on recruiting, hiring and training a new employee. Gaps in staff mean there aren't the correct number of team members to do the job, this means productivity simply drops. Add burden on the other employees, and dissatisfy other employees.

In general, it can be noted that the key challenges and their causes identified among both tax authority and tax payers. These are lack of tax education, the taxpayers' culture to evade and avoid taxes , tax rates are too high, great resistance to take or attend the tax awareness training or panel discussion arranged by the tax authority, hiding their actual taxable income intentionally and not to pay the true amount of tax to the government, lack of understanding the tax authority's employees work burden at the time of taking the tax authority's service, gossiping, running their business illegally, undesired communication of tax officers with taxpayers, tax revenues are not spent on public services.

Chapter Five

5. Summary, Conclusion and Recommendations

The previous chapter presented the data analyses of the study. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

5.1 Summary

This study was conducted aiming at the Tax Assessment and Collection Problems of category A tax payers: The Case of Gulelle Sub-City Revenue and Customs Authority Branch Office with the intension to understand the issue from taxpayers, tax office workers, and tax office management bodies' perspectives. The study employed both qualitative and quantitative research design with the assumption that reality is socially constructed by participants and there are many truths. This research approach was appropriate as the researcher was trying to understand the complexity of the issue under investigation through the lived experience, perceptions and perspectives from a holistic standpoint.

For the purpose of this study, a descriptive survey method was employed to disclose the understanding of respondents on the issue under study. This method was chosen with the assumption that it helps to conduct data as it exists and to gather several data related to the problem under study. Both primary and secondary sources of data were used. Data were gathered via questionnaire, interview and document analysis. The collected data were analyzed by descriptive statistics such as frequency count and percentage. The response rate was 75.8 % which clearly shows that the researcher has got adequate and representative responses to the intended research undertakings. The data secured through questionnaire are analyzed quantitatively and data secured through interview was thematically analyzed and organized in to themes to answer the research questions.

5.2. Conclusion

Since tax is the main source of public expenditure, the assessment and collection of tax at any category should be effective to generate adequate amount of funds that can cover all the capital that the government needs. The following conclusions were made based on analyzed data of quantitative and qualitative part of the study.

Gulelle sub-city tax office has faced different financial, operational and administrative problems and challenges. Tax payers have inadequate knowledge on the technical aspects of the income tax. Furthermore, the tax office does not offer sustainable training to create tax awareness for taxpayers. Most of them do not know the rules and regulations of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

Moreover, the tax collectors did not have adequate skills. The tax office does not offer sustainable training for employees. Training was not considered as vital activity. The emphasis of staff training is on teaching the contents of tax laws as opposed to applying the laws. Lack of clarity in tax law left room for interpretation. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training. The prevalence of poorly trained employees accompanied by perceived low remuneration packages and corruption have affected the tax administration.

There exists inefficient and insufficient number of tax assessment and collection officers in the sub city. Farther more some tax authority's employees lack integrity, honesties, transparency and professional ethics at the time of tax assessment. Besides, there are problems in relation to treating each and every taxpayer equally and fairly and bringing non taxpayers to tax system.

Taxpayers continuously complain on challenges existing in the tax office, The major causes for the aforementioned challenges on tax administration are poor understanding about tax proclamations, rules and regulations by taxpayers , Complexity of tax laws and proclamation, delayed tax assessment process by the authority due to lack of sufficient assessors, Lack of skilled and motivated management bodies and very frequent employee turnover , Inefficiency and ineffective computerized system in tax administration, redundant Electric power failure and inflexibility of the software in use, unfair tax rate.

Generally, taxpayers and tax offices have tax administration problems of different natures. The following section presents different recommendations as to which these observed tax administration problems can be solved.

5.3 Recommendations

Based on the study conducted it would be reasonable to give the following recommendations that may help tax payers, the tax authority and other policy makers to improve the problems associated with assessment and collection of category "A" tax in general and at Gulelle sub city in particular. These are

- ❖ It suggests that the authority should continuously work on tax awareness creation and tax knowledge by giving adequate tax training and education to tax payers.The role of tax awareness and perception of tax payers towards the tax system is pivotal for voluntary tax compliance decision. If tax payers perceive the tax rate is high, their tax compliance level will decrease and vice versa. Fair and equitable tax system can encourage taxpayers to voluntarily obey with the tax system.
- ❖ When the Authority arranged tax awareness program for managers, tax officers and taxpayers they should actively attend and get reliable information about the current tax rules, regulations, and procedures in order to improve their tax awareness. The most influential aspect of tax compliance is the increased knowledge and understanding of tax regulation because tax collection is based on a law that can be imposed.
- ❖ The manner of tax payment needs to be fully convenient to taxpayers. Otherwise severity of penalty imposed on any tax evasion has negative impact on the level of voluntary tax compliance.
- ❖ There is a problem in service delivery and transparency in the sub-city. If this remained unchecked, this will demolish the performance of the tax authority. Therefore the tax authority needs to avoid these issues by using extensive trainings. Employees need broader range of knowledge than customers do. This includes extended subject matter knowledge that is employees need to have additional knowledge that an agency makes available to its customers. This is essential for serving customers effectively. And also tax office employees should have customer knowledge. This means employees should have as much knowledge as possible about the customers they are assisting.
- ❖ Tax payers should keep necessary source documents and prepare different financial statements in order to minimize complains with the tax authority.
- ❖ Taxpayers also should improve their culture or behavior such as hiding their true income to the tax authority, being careless to give receipt to their customers for the services or goods they sold, and seeing the tax authority employees as an enemy. Key measures to improve compliance are outreach and education. Outreach can be through business or civil society associations which allow discussion or bargaining between government and citizens on tax issues. Education can be through different forms of media and schooling,

and can involve teaching tax payers their responsibilities, how to pay their taxes, and how tax money will be spent.

- ❖ It suggests that taxpayers should get incentives for their true tax amount and on time payment.
- ❖ The authority should advance the information technology (IT), system like filling, payment system, recording system, registration and others related issues to improve revenue collection, accounting for taxes paid, monitoring of taxpayers, service delivery to taxpayers and compliance, and also to reduce the administration cost.
- ❖ The management should work towards bringing the team spirit. Team members enhance the skills, knowledge and abilities while working in teams. Organizations which emphasize more on teams have results in increased employee performance, greater productivity and better problem solving at work. The core process must also give high attention on employee training and personal development, to cop up the new science and technology.
- ❖ A common reason for turnover lies with the pay and benefits and the lack of appreciation. So the authority should pay a standard rate and provide appropriate incentives and awards to the best performing tax officials. Such as invest in learning and development programs. Learning and development programs can be excellent incentives for employees to improve their performance, and investing in these programs is a win-win for both the employer and employee. The second incentive could be showing heartfelt appreciation. Money and other forms of remuneration are definitely drivers and important, but the most immediate, and also the longest-lasting, tool to drive employee performance is showing a genuine, heartfelt appreciation for people’s efforts, coupled with sincere compliments that reinforce the behavior you desire most. The other incentive could be offering better options for health and wellness.
- ❖ Strong audit follow up is very important element. Tax audit affects revenue collection in that it promotes voluntary compliance of taxpayers which increases revenue. With tax audit tax liability can be easily declared and matters that need adjustment are identified. It also helps in collecting tax interests and penalties which thereby increase revenue collection. Tax audit also helps to implement changes to eradicate evasion. Thus, the authority should have audit follow up on tax payers.

- The tax authority should make alliance with institutions like universities, external auditors ,audit firms, tax agents ,chamber of commerce, investment office, minister of trade, international tax advisors and like can conduct joint programs such as capacity building and researches that enable solve the tax administration problems and others.
- The tax authority should provide continuous training, building an efficient system of operation that does not only focus on announcing about tax issues it should rather depict the benefits and impacts in a practical examples through different medias can solve the existing problem.
- The last but not the least, Gulelle sub city tax administration can achieve its goals if it allows taxpayers to give their genuine feedback on the process. Feedback gives all sorts of insights into what customers want. Here are some ways how to get feedback from customers. Feedback boxes, setting up a customer panel and explain how the feedback will be used, reaching out directly, putting a feedback button on website, responding to everyday feedback. Then customers problems will be taken due attention in order to have voluntary compliance.

References

Asian Development Bank 2001. Tax Conference, Challenges of Tax Administration and Compliance.

Berenson, M. P. 2007. Becoming citizens: attitudes toward tax compliance in Poland, Russia and Ukraine. Princeton University

Creswell, J W 2003, "Research design: qualitative, quantitative and mixed methods Approaches", 2nd ed.,Sage Publications, California.

Chau, G. & Leung, P. 2009. A critical review of Fischer tax compliance model: A research synthesis. Journal of accounting and taxation. Vol.1 (2), July 2009.

Damme, L, T. Misrahi and S. Orel 2008, "Taxation Policy in Developing Countries: available at <http://visar.csustan.edu/aaba/LaurenDamme.pdf>, accessed on January14.

Devos, K. 2005. The attitudes of tertiary students on tax evasion and the penalties for tax evasion a pilot study and demographic analysis

Douglas and Green Wald (1983): "The Thought of Tax Collection Practice," 6th Edition, Thomson South Western, Princeton University, Canada.

Ethiopian Chambers of Commerce (2005). "Taxation in Ethiopia: Direct and Indirect Taxes Categories of Taxpayers Declaration of Income and Assessment of Taxes Tax Incentives" Addis Ababa, Ethiopia.

ERCA, (2010): "Federal Government Tax Collection," Ethiopian Revenue and Custom Authority. Addis Ababa.

Falconer, D. J., & Mackay, D. R. (1999). Ontological Problems of Pluralist Research Methodologies.

Gebrie Worku (2006), Tax Accounting in Ethiopia Context.

Gebru Tareke 1991, A History of Modern Ethiopia, 1855–1991: Second Edition

Gupta, A and Mookherjee, D .(1998). Incentive and Institutional reform in tax enforcement: An analysis of developing country experience. Oxford University Press, New York

Hesse (eds.) (1993): Administrative Transformation in Central and Eastern

Europe, Towards Public Sector Reform in Post-Communist Societies, Blackwell Publishers, Oxford, UK. And Cambridge, MA.

H.L Bhatia 2003, public finance, Delhi, College of commerce, 23 edn.

IMF Working Paper No. 05/218, IMF, Washington DC, available at <http: imf.org/external/ 2005>, accessed on December, 2013.

James, S. and Nobes, C. (2000). The Economics of Taxation: Principles, Policy and Practice 7thed. Prentice-Hall.

Kaldor (1980): “The Role of Taxation in Economic Development”, Essays on Economic Policy I, Duckworth, London.

Kirchler, E. 2009. The economic psychology of tax behaviour. Cambridge University Press

Lindlof, T. R. & Taylor, B. C. (2002).Qualitative communication research methods (2nded) Thousand Oaks, CA: Sage Publications.

Lymer, A., and Oats, L. (2009). Taxation: Policy and Practice. 16th ed. Birmin Fiscal Publications.

Mansfield, C.Y. (1990): “Tax Reform in Developing Countries, the Administrative Dimension”, Bulletin International Bureau of Fiscal Documentation.

Misrak, Tesfay (2008): "Ethiopian Tax Accounting: Theory and Practice", Senior Essay, School of Economics, Addis Ababa University, Addis Ababa.

Murphy, K., (2002). ‘Trust Me, I’m the Taxman: The Role of Trust in Nurturing Compliance’. Centre for Tax System Integrity Working Paper No 43, Australian National University and Australian Taxation Office, Canberra.

Oberholzer, R. 2008. Attitudes of South African Taxpayers towards taxation: A pilot Study. Accountancy business and the public interest.

Rakner, L. 2002. The politics of revenue mobilisation: Explaining continuity in Namibian tax policies.

Richard M.Bird and Joseph L.Rotman (2005): Value Added Taxes in Developing and Transitional countries: Lessons and Questions.

Richard,B., (2010) 'Tax administration–where next?'.

Samuel Alemnew Belay and P. Viswanadham (2016). "Tax Fairness Perceptions and Compliance Behavior: Evidence from the Metropolitan Cities of the Amhara Regional State of Ethiopia." International Journal of Science and Research 5(4): 1173-1183.

Sjursen, I. (2012). People's views of taxation in Africa: a review of research on determinants of tax compliance, ICTD Working Paper 8, Brighton: International Centre for Tax and Development.

Temtime Debere (2014). Business Taxpayers‟ Satisfaction with the Tax System in Addis Ababa, Ethiopia. Master's thesis, Addis Ababa University, Department of Accounting and Finance.

Tulu, L. (2007). Determinants of Taxpayers‟ Voluntary Compliance with Taxation: The Case Study of Dire Dawa City. Master's thesis, Addis Ababa University, Department of Management

World Bank (1990): Lessons of Tax Reform, The World Bank, Washington, D.C.

Zelalem, Y. (1999). Revenue Productivity of the Tax System in Ethiopia. M.Sc. Thesis, Addis Ababa University.

Appendix A

Addis Ababa University

Faculty of Business and Economics

Department of Accounting and Finance

Questionnaire

Dear Participants

I would like to express my heartfelt appreciation, in advance, for taking time to discuss the following issues. The questionnaire is designed for the preparation of a research for the fulfillment of Msc degree in Accounting and Finance entitled “Tax Assessment and Collection Problems of category “A” tax payers: The Case of Gulelle Sub-City Revenue and Customs Authority Branch Office”. Be confident that the information you provide will be kept and used only for academic research purpose. So you are kindly requested to give your genuine answer.

Section I. Personal Information

1.1 Sex Male ☐ Female ☐

1.2 Age (1) Below 20 years (4) 41-50 years
(2) 21-30 years (5) 51 years & above
(3) 31-40 years

1.3 Academic Qualification

1. Illiterate ☐
2. General secondary school or less ☐
3. TVET/certificate ☐
4. Diploma ☐
5. First Degree & above ☐

1.4 Type of business: ________________

1.5 For how many years you are in this business? _______

Section II. Issues related to Tax Assessment & Collection Problems

Direction: Please answer the following questions on this questionnaire by putting the" √" mark in the space provided.

1. Awareness/Knowledge about taxation

(The following questions are prepared to answer research question number one.)

Items	**Description**	**Response**	**Frequency**	**Percent (%)**
1	What is your perception towards tax Payment?	Development		
		as debt		
		as Obligation		
		Others		
		Total		
2	What are the benefits you get by paying your tax liability?	Get Bank loan		
		Participate in Bid		
		Guarantor		
		Others		
		Total		
3	When do you pay your tax Liability?	On time		
		When time is over		
		Total		

2. How effective and efficient are tax assessment and collection procedures

(The following questions are prepared to answer research question number two.)

Item	Description	Response	Frequency	Percent (%)
1	Would you agree that tax office managers are skilled enough to lead their fellow tax collection officers according to the law and existing procedure?	yes		
		No		
		Neutral		
		Total		
2	Is the Tax rate fair?	Yes		
		No		
		Neutral		
		Total		
3	Would you agree that laws and procedures about taxation are understandable?	Yes		
		No		
		Neutral		
		Total		
4	Would you agree that tax collection officers are skilled enough to assess and collect taxes?	Yes		
		No		
		Neutral		
		Total		
5	Would you agree that tax collection officers are transparent, genuine and	Yes		
		No		

	properly follow the right tax collection procedure?	Neutral		
		Total		
6	The Chance of being detected is relatively low if an official is engage in corrupt activity?	Yes		
		No		
		Neutral		
		Total		
7	Would you agree that tax authorities' enforcement actions in the Sub-city are effective ?	Yes		
		No		
		Neutral		
		Total		

3. Major causes of tax collection Problems

(The following questions are prepared to answer research question number three.)

Items	Description	Response	Frequency	Percent (%)
1	Absence of willingness and poor understanding about tax proclamations, rules and regulations by taxpayers	Strongly Agree		
		Agree		
		Neutral		
		Disagree		
		Strongly Disagree		
		Total		
2	Inefficiency and ineffective computerized system in tax administration	Strongly Agree		
		Agree		
		Neutral		
		Disagree		
		Strongly Disagree		
		Total		
3	Do you think there is redundant Electric power interruption?	Yes		
		No		
		Neutral		
		Total		
4	Do you think Tax evasion in category "A" tax payers is Significant?	Yes		
		No		
		Neutral		
		Total		

5	Sometimes Tax Officials cooperate with tax payers who intend to evade tax and engage in bribery activity.	Strongly agree		
		Agree		
		Neutral		
		Disagree		
		Strongly Disagree		
		Total		
6	What problem(s) are there during tax collection?	Inefficiency of the tax collectors		
		ill-treatment		
		Tax underreporting		
		There is no problem		
		Total		

II. Please write short and precise response for the following questions.

1. Why do you pay taxes? Paying tax is voluntary or obligatory?
2. The amount of tax liability you have paid is overstated or understated?
3. Does the Authority provide regular information to taxpayers to create tax awareness? List the methods.
4. Please try to forward anything missing regarding the overall tax assessment and collection problems in your Sub-city?

Thank you for your cooperation!

Appendix B

Addis Ababa University

Faculty of Business and Economics

Department of Accounting and Finance

Interview Questions to be answered by tax office officers & Management bodies.

Dear respondent:

I would like to express my heartfelt appreciation, in advance, for taking time to discuss the following issues. The purpose of this interview is for the preparation of a research for the fulfillment of MSc degree in Accounting and Finance entitled "Tax Assessment and Collection Problems of category "A" tax payers: The Case of Gulelle Sub-City Revenue and Customs Authority Branch Office". Be confident that your valuable information will be kept and used only for academic research purpose. So you are kindly requested to give your genuine answer.

II. Please write short and precise response for the following questions.

1. What do you think about taxpayers' general knowledge about taxation and public attitude towards taxation?
2. Does the Authority provide regular information to category "A" taxpayers to create tax awareness? List the methods.
3. Are tax laws and procedures respected or violated at your office?
4. Do category "A" tax payers pay their tax on time? What would be possible reasons?
5. To what extent do taxpayers complain about the way the tax is assessed and collected?
6. Did you receive any training relevant to your duties and responsibilities?
7. Is the number and qualification of the employees at your office sufficient to assess and collect tax efficiently?
8. Is there very frequent employees turn over in your office?
9. Is there strong enforcement action to control businesses running without legal license and collect tax?

10. What measures should the tax authority undertake to motivate tax payers to pay tax?
11. Please try to forward anything missing regarding the overall tax assessment and collection problems in your Sub-city?

Thank you for your cooperation!