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Business Taxpayers' Satisfaction with the Tax System in Addis Ababa, Ethiopia

By:

Tentime Debere

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This is to certify that the thesis prepared by Temtime Debere, entitled: *Business Taxpayers' Satisfaction with the Tax system: Taxpayers in Addis Ababa* and submitted in partial fulfillment of the requirements for the Degree of Master of Science (Accounting and Finance) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

This thesis examines business taxpayers' satisfaction with the tax system. The study focuses on examining the views of taxpayers toward the tax taxpayers' services, tax policy, tax administrative mechanism, and tax law enforcement.

The study adopted a sequential explanatory mixed method research approach. The data was collected from federal business taxpayers through questionnaire and in-depth interview and descriptive. The collected was analyzed using descriptive data analysis.

The findings of this study shows that business taxpayers are not satisfied with the existing tax systems. The ways tax authority provides tax information to taxpayers, tax collection and tax refund, administration capability to solving taxpayers' problem and the area of tax audit procedures are found to be the major dissatisfied areas. Moreover the finding revealed that the tax system is so complex and unfair, discretionary treatment by officers and existent of lack of monitoring in the tax authority. Finally, the thesis suggests a series of measures which could be taken by the government in general and tax authorities in particular are; improving tax policy and administration issues; step up their duty of promoting tax awareness, tax officers should be given intensive and repetitive training to improve their attitude and promoting code of conduct with emphasis on ethical values and finally, tax refund procedure would be improved.

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List of Abbreviations

CRM: Cash register Machine

ECC: Ethiopian Chamber of commerce

ERCA: Ethiopian revenue and customs authority

FDRE: Federal Democratic Republic of Ethiopian

GDP: Gross Domestic Product

IMF: International Monetary Fund

LTO: Large taxpayers Office

OECD: Organization for Economic Co-operation and Development

TIN: Tax Identification Number

VAT: Values Added Tax

Chapter One: Introduction

It is obvious that taxes are important source of government revenue in both developed and developing countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends among other things, on the willingness of the taxpayers to comply with tax laws of a country (Eshag, 1983). According to Organization for Economic Cooperation and Development (OECD) (2010), the primary mandate of most tax administrations is to ensure compliance with tax laws and improve taxpayers' satisfaction. In order to do that and find the most effective treatment, revenue bodies benefit from knowledge about taxpayer behavior. For example, OECD (2010) indicated that better understanding of taxpayer behavior can be expected to place revenue bodies in a stronger position to design and implement effective compliance strategies, which contributes to the sustainability of taxation systems.

In addition, Fjeldstad, Herzenberg and Sjurson (2012) suggested that understanding how citizens perceive and experience taxation may provide an essential diagnostic of the political realities for tax reform. Consequently, Taxpayers' behavior towards tax system has evoked great attention among many Revenue Authorities in the world especially in developed countries. However, it is debatable on what has been done towards the study of taxpayers' view towards tax system in developing countries (Omweri, *et al*; 2010). Fjeldstad, *et al* (2012), McKercher and Evans (2009) also explained that taxpayer non-compliance is a continual and growing global problem that is not readily addressed.

Following the increasing cases of tax non-compliance, especially tax evasion and its consequences on the capacity of government to raise public revenue, great amount of attentions have been paid to the issue of tax compliance globally by public policy makers and researchers for the past few decades. However, there are bulky of research evidences on tax compliance behavior linked to developed countries especially the United State (US); it is limited on developing countries (Alabede, *et al*; 2011).

Perhaps, understanding the taxpayers' behavior and perception in terms of their satisfaction towards tax system and how it influences the tax compliance will be a solution to this gap.

In line with the above discussion, there has been a growing concern in literature on the contribution of tax compliance to the design and improvement of tax system. For example,

OCED (2010), Kirchler (2007) and Fjeldstad et al (2012) suggested tax compliance is determined by five broad factors: deterrence, norms (both personal and social), fairness and trust (in the tax administration), opportunity and complexity and the role of government and the broader economic environment. There is also considerable evidence on the subject of 'taxation and behavior' of taxpayers. For example, Congdon et al. (2011), Wenzel (2005), Barone and Mocetti, (2009), Niemiowski et al. (2002), Oberholzer (2007) and Research is being undertaken by many researchers in OECD tax administrations levels to improve taxpayers' perception towards taxation.

However, while these studies are based on evidence from developed countries, studies in developing countries are limited. Besides, very limited work has been done with the objective of assessing the taxpayer's satisfaction level even in developed countries.

More specifically, in the case of Ethiopia, to the knowledge of the researcher, there is no single study on business taxpayers' satisfaction in the country tax system. Even the related study conducted in the country by Aborat (2011) does not try to see the perception of taxpayers towards their satisfaction. In this context the broad purpose of this study was to assess taxpayers' satisfaction with the tax system in Ethiopia.

The remaining discussions in the thesis are arranged in seven sections. The first section (1.1) discusses the overview of business taxation in Ethiopia. The second section (1.2) presents the problem statement. The third section (1.3) presents the general objective of the study. The fourth section (1.4) present research methods, the fifth section (1.5) presents the scope of the study. The sixth section (1.6) presents the significance of the study. The seventh section (1.7) discussed the limitations of the study. Finally, the structure of the study is discussed in the last section (1.8).

1.1 Tax System and Business Taxation in Ethiopia

Tax systems are continuously changing as countries align their tax systems with evolving economic, political, and administrative conditions (Norregaard & Khan, 2007). Ethiopia has also pursued this track of tax reform following the shift in the economic ideology of the government and of course in response to the advice from global financial institutions such as the International

Monetary Fund (IMF)¹. For example, In recognition of the need to undertake coherent and comprehensive reforms, currently, ERCA adopted a Tax Administration Reform and Modernization Program whose primary objective was to modernize and integrate its operations in line with international best practice of tax collection. Under this ongoing program, ERCA has implemented, among others, the following key measures aimed at enhancing revenue collection and service delivery to taxpayers: the introduction of Standard Integrated Government Tax Administration System (SIGTAS), the issuance of a unique identification number known as a TIN (Taxpayer Identification Number) together with the introduction of biometric finger print system (this is to deter taxpayers from having multiple TINs), Cash registered machine, introduction of call centre, the installation of scanning machines at Millay check point and at the Addis Ababa Airport Customs branch office, introduction of Value added tax withholding, the Income Tax self-assessment system, as well as the simplification of documentation and processes in various areas. In addition, the arrangement of taxpayer information and educational services within the authority are considered to be another parts of a reform (ERCA, 2012).

Currently, the tax system is comprised of direct tax and indirect tax that levied by both central and regional government. Direct taxes are taxes including employment income taxes, business income tax, and taxes on royalties and chance winnings while indirect taxes are mainly composed of value added tax (VAT), excise taxes, and custom duties.

Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which forced in compliance with the generally accepted accounting standards. Accordingly, Corporate businesses are required to pay 30% flat rate of business income tax and the business income tax is progressive ranges from 10% - 35% for unincorporated or individual businesses (Federal Democratic Republic of Ethiopia (FDRE), 2008)

The tax law has also classified the business income tax payers on business profit into three major categories with respect to their legal personality and annual turnover as category A, B and C. Therefore, in Ethiopia business taxpayers with annual turnover of Birr 500,000 and above are categorized under Category “A” Taxpayers, business taxpayers with annual turnover of between

¹ Over the past three decades, the IMF has been heavily involved in the tax reforms of less developed countries whether it is in the form of advice that originates in the European model of taxation in which taxes and redistribution are relatively high and VAT is employed (Damme et al. 2008)

Birr 100, 000 and Birr 500, 000 are Category as “B” Taxpayers and business taxpayers with annual turnover of less than Birr 100,000 are Category under “C” Taxpayers.

Furthermore, at the federal level taxpayers are classified as large taxpayers and medium taxpayers based on their annual turnover². Under this configuration, a separate division or department of the tax administration is responsible for each type of taxpayer in the Authority. Within each division of the tax authority there is also sub function that is responsible for each major activity performed by the tax authority; for example, audit/inspection, taxpayer service, returns processing and revenue collection.

1.2 Problem Statement

Taxation in developing countries is a challenging topic and has attracted increasing attention in the last two decades. During this period, many problems observed like poor administration, failing to collect sufficient tax revenues, lack of government and economic stability (Vadde & Gundarapu, 2012). As stated by Vadde and Gundarapu, Ethiopia, like any other developing countries, has faced difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time.

To address this problem, in recent years the Ethiopian government has been undertaking substantial efforts in reforming and modernizing the revenue administration with the aim of simplifying the tax system and increasing government revenue. Despite the efforts taken by government, there has been poor tax revenue collection, tax compliance has still remained a problem and the taxpayers continued to complain about the behavior of the ERCA staff. There are also poor handling taxpayer queries and complaints on tax matters, lengthy bureaucratic tax administrative procedures coupled with the nature of physical facilities in keeping and processing taxpayer information. In the other dimensions, the tax revenue performance of Ethiopia as a percentage of GDP remains low. Ministry of Finance and Economic Development of Ethiopia (MOFED) reported that the tax revenue as a percentage of the GDP was achieved 11.6 % which

² In Ethiopia, those businesses having annual turnover of greater than 15 million are categorized under large business taxpayers and those having annual turnover of birr 500,000 up to 15 million are categorized under medium taxpayers and they are required to pay their obligation to federal government (ERCA,2012)

was less than the tax to GDP ratio in 2003/4 which is 12.6. The following table (table1.1) shows the tax revenue performance of Ethiopia as percentage to GDP from the year 2009/10 to 2014/15.

Table 1.1 Percentage Share of Ethiopian Government Revenue to GDP at current market price

Item	2009/10 actual	2010/11 actual	2011/12 actual	2012/13 estimation	2013/14 estimation	2014/15 estimation
Domestic revenue	14.3	13.5	14.2	15.3	16.8	17.1
Tax revenue	11.3	11.5	11.6	13.2	14.7	15.3
Non-tax revenue	2.8	2.0	2.1	2.1	2.1	2.1

Source: F ederal D emocratic R epublic o f E thiopia, g rowth an d t ransformation p lan (MOFED 2010), African Economic Outlook (2012) and International Monetary Fund (2013)

Even the tax to GDP ratio targeted by the end of the five-year Growth and Transformation Plan in 2015 is 15.3% which is lower than the Sub-Saharan average (18%) in 2005³. Furthermore, As compared to some selected Eastern African countries, the Ethiopian tax performance is very low and even less than the averages of the selected eastern African countries. The following table shows the tax to GDP ratio's of some selected Eastern African countries that have been taken from World Bank data statistics.

Table 1.2: Percentages of tax revenue to GDP Ratio of Selected Eastern African countries

No	Eastern African countries	2005	2006	2007	2008	2009	2010
1	Ethiopia	8.8	8.3	7.9	7.4	6.6	9.8
2	Kenya	18.7	17.4	17.8	18.8	18.8	19.5
3	Madagascar	10.1	10.7	11.4	13.0	*	*
4	Ugandan	11.8	12.3	12.4	12.9	12.2	12.0
5	Zambia	17.2	16.3	16.9	17.4	15.0	16.6
	Average**	13.32	13	13.28	13.9	13.15	14.48

Source: T ax r evenue (% o f G DP), w orld b ank 2012. * D ata n ot av ailable, * *Researcher calculation.

As described in Yesegat (2011) that a low percentage of tax revenue to GDP ratio will lead to pressurize the tax administration to increase revenue collection considerably. As a result of this,

³ The Sub-Sahara African countries tax to GDP ratio was 18% in 2005 (Gupta &Tareq, 2008, Di John, 2009) and in Ethiopia, for example tax to GDP ratio was 12.6 in 2003/4 (Yesegat & Fjeldstad, 2012).

unfair practices will be taking place which will violate the rule of law that may automatically increase the burden of taxes on honest taxpayers. Such pressure on honest taxpayers would lead to the prevalence of taxpayers' resentment. This could be a source of dissatisfaction in the service given by ERCA. On the contrary, Oberholze (2007) indicated that one of the main reasons for the tax gap is noncompliance by taxpayers and potential taxpayers with tax legislation and the perception of taxpayers on tax system. Both gaps of poor perception and taxpayers' resentment towards taxes system will lead to inefficient and ineffective collection of taxes. Unless efforts are made to narrowing down the gap, in line with knowing the taxpayers' perception and how tax regimes satisfy taxpayers, will help tax administration to mobilize adequate tax revenues. This study has therefore undertaken to investigate the behavior and satisfaction level of taxpayers towards business tax system in Ethiopia.

1.3 Research Objective and Specific Research Questions

The main objective of this study is to examine the satisfaction level of federal business taxpayers with the various aspects of business tax regime in Ethiopia. Based on this broad objective the following specific research questions were developed:

RQ1. How is the satisfaction of federal business taxpayers with tax system?

RQ2. How is the satisfaction of federal business taxpayers with the taxpayer's service and availability of tax information?

RQ3. How do federal business taxpayers perceive they are treated by the tax administration?

RQ4. How is the satisfaction of federal business taxpayer with tax collection procedures, administrative mechanism and tax law enforcement?

RQ5. How is the satisfaction of federal business taxpayers with current tax reform? Specifically, with cash register machine and VAT withholding?

1.4. Research Methods

The research methods used in this study is a sequential explanatory mixed study. From the quantitative approach, the study uses self-administered survey to collect the primary data. The questionnaire was designed according to the objectives of the study with mostly close-ended questions using a 5 point scale. The sampling design applied to this study is proportional stratified sampling procedure. The participants are federal business taxpayer's residing in Addis

Ababa. A total of 200 questionnaires were distributed to the randomly selected respondent and 172 of them filled and received, and 24 of them were determined to be unusable. The data were analyzed using the descriptive statistics like mean and standard deviations. From qualitative approach, the researcher used in-depth interview with eight taxpayers who were selected by using snowball sampling method.

1.5 Scope of the Study

The research studied the business taxpayers' satisfaction with tax system, as one of the factors that affected the level of performance of tax revenue collections and the study was conducted on large and medium business in Addis Ababa who are paying business income tax and VAT to federal government. The effort was included Trader (wholesaler and retailer), Manufacturer and Service provider. Therefore, it was not the purpose of the study to generalize the conclusions reach to the whole of Ethiopian taxpayers i.e. this study only highlights the various level satisfactions amongst all large and medium federal business taxpayers residing in Addis Ababa only⁴. The following section presents the importance of the study and who benefit from it.

1.6 Significance of the Study

It is well known that understanding the attitudes of business men towards tax system do have significant advantage to generate revenue. This will also be considered as fundamental for Ethiopia Revenue and Custom Authority being effective and efficient to provide relevant information and knowledge that will help tax administrators, policy makers and collectors to identify factors that may affect tax collection performance and compliance. This will enable them to draw applicable policies that will enhance tax compliance. It also hoped that by unearthing the burden associated with tax compliance on the large and medium business, ERCA will gain a deeper understanding of the business community and hence customize its services to better suit its clientele because it reflects the taxpayers' beliefs, perceptions and interpretations of tax

⁴ This is because of the complexity of the tax law, business structures and transactions in the large and medium business segment has created a need for specialized knowledge and expertise in certain areas. In addition, with respect to the level of tax collected from segments of taxpayers, large and medium business taxpayer's account for a significant proportion of total tax collected in any countries (OCED, 2009).

system. Especially, the findings of this study may help ERCA to know the problems that need attention to provide solution and further improve in the area of handling tax procedures and hence, better meet the need of taxpayers. The study is also important for the business as well, as they stand to benefit from an improved service offering from a tax collector who knows how they feel. The next section discusses the potential limitation of the study.

1.7 Limitations of the Study

The researcher had faced various problems when trying to obtain taxpayer database. One of the most common and compelling reasons was restricted access to taxpayer information particularly possessed by tax authorities. Initially, the tax authority promised to provide the necessary data for this study. However, things were changed and restricted to handwritten and incomplete information which was unsuitable for direct use in sample creation. This was the challenge that initiated the researcher to salute again to get the necessary information. This has made great change to avail the needed data. But, even if procedure caused a delay of this study, the study was done with complete information⁵.

The other limitation with this thesis was that some respondents frightened to respond to the questionnaire because they felt that the information that was required was private. To alleviate this, the researcher showed the letter given by department of Accounting and finance (AAU) to assure the respondents' information was strictly for academic purpose and all information used were confidential. This has made respondents became willing to fill in the questionnaires. As usual, very minor error might be a part of this thesis in line to analysis and interpretation of qualitative data.

1.8 Structure of the Study

The study report is made up of five chapters. Chapter One introduces the study by discussing the introduction to the study, brief discussions of Ethiopian tax system, statement of the problem, purpose of the study and research objectives, research questions, the scope of the study, and significance and limitations of the study.

⁵ The researcher suggests that obtaining data about the taxpayer population is often not easy and should be given due importance, early priority, and resources when planning a survey of taxpayers.

The second chapter presents the literature review part of the study which will include the theoretical review in its first section followed by the review of the previous studies related to the area and conclusion and knowledge gap.

Chapter Three discusses the methodology that was used by the researcher to collect data, in order to achieve the objectives of the study. It describes the research design, study area and population, the sample size and sampling technique, data sources and collection instruments, as well as methods of presenting, interpreting and analyzing the findings.

Chapter Four, deals with the presentation, interpretation and analysis of findings of the study in line with the research objectives and questions. Chapter Five presents conclusions, and recommendations that have been made from the presentation and interpretation of findings from chapter four. The following chapter present literature review related to the study.

Chapter two: Literature Review

The purpose of this chapter is to review the literature in the area of tax system and taxpayers' perception and compliance behavior. The review has three major sections. Section 2.1 presents a review of the theoretical aspects related to the study. This is followed by the empirical literature review in section 2.2. Section 2.3 present conclusions on the literature review and knowledge gaps.

2.1. Theoretical Review

This section reviews the basic theory related to tax administration and taxpayer. Hence, section 2.1.1 present tax administration and taxpayer, section 2.1.2 present Factors that Influence Taxpayer Behavior and section 2.1.3 present taxpayers' attitude.

2.1.1 Tax 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 recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave 2005).

The low revenue yield of taxation can only 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). Since taxes are an involuntary payment for government services (Parameswaran, 2005), taxpayers have a strong incentive 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. Based on the discussions so far, the following sub section present the tax administrative issue in detail.

2.1.1.1 Efficiency of Tax Administration

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 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 (Mansfield 1990).

In developing 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) rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently.

2.1.1.2. 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 (Parameswaran, 2005, Mesfin & Sisay, 2009,). 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 are; filing return, filing return and return processing of tax, audit examination and tax collection and enforcement.

Filing returns; taxpayers are required to file returns within specified months of the end of their tax accounting year. The returns 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 taxpayer has 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 (Eissa and Jack, 2009).

Another procedure undertaken by tax administration is **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 (Baurer, 2005).

Collection and Enforcement is 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 (Mesiku, 2011).

2.1.1.3. Service Commitments of Tax Administration

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 taxpayer 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. The main service commitments of tax administration to taxpayers are discussed as follows.

Taxpayer education

It is considered that taxpayer education and a better relationship with taxpayers, along with well thought out taxpayer education programs can go a long way in improving voluntary compliance and that most commonwealth countries currently have some form of taxpayer education program built into their system (Kuala, 1992). With respect to better taxpayer relationships, it has now become increasingly evident that a neffective and efficient tax system would depend on the consent and willing cooperation of the general body of taxpayers, employers and consultants.

Countries like Canada, New Zealand and the United Kingdom have given the lead by publishing Taxpayers Charters which set out for the first time in public the principles which should be adopted in handling taxpayer's affairs, along with the rights and obligations of taxpayers (United Nation, 2000). This is also the experience of some developing countries for example, in Uganda, Tanzania. Some right to courtesy and consideration, the right to the presumption of honesty, the

right to privacy and confidentiality and the right to every benefit allowed by the law should not remain as unattainable goals, but as something which both the tax administrations and the taxpayers should strive to achieve as partners in a common endeavor.

The strategy to improve taxpayer education, information and assistance to enhance tax collections and reduce compliance costs should be based on a commitment to high quality and constructive interaction between taxpayers and the tax administration. The approach should address compliance in the context of correcting system deficiencies; simplifying cumbersome and complex tax laws and rules, forms and instructions; presenting the tax laws as fair in their intent and administration; and assisting complying taxpayers who are trying but are unable to meet their obligations.

Taxpayer information

Tax administration should ensure that the tax forms are as simple and few in number as possible, the forms should be accompanied by detailed instructions for their completion, written in a clear and simple style. It may prove beneficial to issue leaflets and booklets on various aspects of the tax laws, designed for the general public and for different groups of taxpayers. The public should be informed of the issuance of these publications and of the places where they can be obtained or consulted. The public should likewise be informed about the location of tax offices and other places where tax forms can be filed and tax payments effected; the offices should be strategically located and as numerous as is consistent with available resources and cost-benefit criteria.

On top of the above, taxpayers must be informed where they can obtain their tax forms (if they are not mailed to them), where, when and how they are expected to file their return and pay the taxes due, and what penalties are levable if they fail to fulfill their obligation within the stipulated time limit.

For both educational and information activities, the mass media can be used to advantage in reaching large numbers of population at minimum cost. In the specific case of information, newspapers and magazines can be used to remind taxpayers of filing dates and of addresses of tax offices, and to highlight penalties imposed on delinquent taxpayers. However, written materials will not reach taxpayers who are illiterate, either because they have not attended school or

because their education has been inadequate. Radio, on the other hand, can be understood by all and reaches a very wide audience, and should be used to the maximum; during the filing season, short spot announcements and advertisements can be inserted in popular programs. Television too reaches a wide audience and has the advantage of presenting information both visually and aurally. Some countries have also used mobile units, which tour towns and villages disseminating tax information.

Furthermore, intermediaries, such as professional associations, such as lawyers, accountants, etc., trade associations (businessmen, industrialists, contractors, etc.) and trade unions can be used as a means for informing their members.

Taxpayer assistance

Tax officials should assist taxpayers in an efficient, courteous and considerate manner.

Tax offices should also be made as accessible and comfortable as possible. Taxpayer assistance involves personal contacts between tax administration staff and taxpayers, and can do much to enhance the image of the tax administration and promote voluntary compliance (United Nations, 2000). The tax administration can reinforce the idea that its intention is to provide the best possible service to the taxpayers by making tax offices as accessible and comfortable as possible, within the limits imposed by financial constraints. The staff at tax offices can help small taxpayers to complete their returns either in person or by telephone, but should encourage taxpayers to help themselves, so that they would be able to complete their tax returns unaided on subsequent occasions.

The taxpayer assistance has taken many forms, namely, on-line enquiries of data base, unloading from website, personalized enquiries, delivery of returns, elimination of forms, electronic payments, on-line modification of returns, etc. (Olaechea 1998). For example, a number of developing countries such as, Barbados, Cyprus, Malaysia, Malta, Mauritius, Swaziland and the United Republic of Tanzania have established taxpayer assistance centers or units within the tax administration to provide assistance to taxpayers (United Nations 2000).

In general, efforts to improve tax services are generally focused on general tax outreach and education and measures to reduce compliance costs, including taxpayer support services. One of the best-documented examples is that of Peru during the 1990s, where improved tax services and

education were a major focus. This included major investment in staff training, the creation of a central information centre, the development of a free taxpayer bulletin, the hosting of tax fairs in localities throughout the country and the dissemination of important information through newspaper ads and brochures (Durand and Thorp 1998 cited in Wilson, 2010)

Performance Measures to Improve Voluntary Compliance

In any tax administration, quality of services and taxpayer satisfaction are significant indicators that tax authorities should use (Simon et.al. 2006). To provide taxpayers top quality services by helping taxpayers understand and meet their tax responsibilities and enforce the law with integrity and fairness to all, for example, the Internal Revenue Service (IRS) of America, establish strategic goals and strategic foundations in the IRS Strategic Plan (IRS, 2010).

Success in achieving these goals benefits every taxpayer. By making it easier for taxpayers to understand, calculate, and report their tax obligations, and to remit payment conveniently, the tax administration can reduce the administrative burden borne by taxpayers. According to America's Internal Revenue service's (IRS), performance in tax administration can be measured as follow

Behavioral Outcome Measures: Behavioral outcome measures evaluate taxpayer transactions with the tax administration to determine how effectively the tax administration is influencing taxpayer behaviors, such as using the web site, filing electronically, or voluntarily fulfilling their tax obligations. Taxpayers can get their questions answered faster by using tax administrations' self-assisted services on the web site

Quality Measures: Quality measures evaluate key characteristics of taxpayer products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public's trust and confidence in the tax administration. Therefore, Taxpayers should receive accurate information when asking questions about tax law and should receive accurate responses when asking question about their account.

Timeliness Measure: Timeliness Measure evaluates how quickly tax administration product or service can be delivered. The timely execution of activities by the tax administration can help taxpayers avoid potential burdens resulting from long wait times (such as fees, penalties, and opportunity cost due to delayed actions). Some studies indicate that timeliness is highly correlated with taxpayer's satisfaction.

Taxpayer Satisfaction Outcome Measures: Taxpayer satisfaction measures evaluate approval levels reported by taxpayers during various tax administration transactions and identify potential areas for service improvement. Organizations applying for tax exempt status should experience high levels of satisfaction with the process and taxpayers should experience high levels of satisfaction in their transactions with the tax administration.

2.1.2 Factors that Influence Taxpayer Behavior

The work of a tax administration includes activities that cover both compliance and customer service. For example, Revenue Authorities' range of functions includes: assessment, collection, debt management, audit and other interventions, anti-smuggling and other customs functions and anti-avoidance.

Many of the functions of tax administration depend to at least some degree on the voluntary compliance of taxpayers. In addition, large elements of the tax system in developed countries are based on self-assessment. In this context, there is clearly potential to influence behavior to improve compliance.⁶

The central contribution of behavioral research to tax administration is to understand why taxpayers are compliant or not. This can inform the work of tax administrations across a range of their functions. Several factors that determine the level of compliance in a taxpayer population have been identified. The sections below present an overview of these factors. The factors are grouped under headings adapted from research by the OECD Forum of Tax Administration (OECD, 2010): deterrence; norms (personal and social); fairness and trust; opportunity and complexity; and the role of government and economic factors. (European Commission, 2010) also covers similar topics and Fjeldstad et al (2012) suggest on the theories.

2.1.2.1 Deterrence Effects

The standard model of tax compliance, derived from Becker (1968) assumes that a rational taxpayer assesses the costs and benefits of evading taxes. If the expected benefits (less income

⁶ Compliance in taxation has a broad meaning, it covers filing compliance (filing returns on time), reporting compliance (reporting incomes correctly) and payment compliance (paying tax due on time).

lost to tax) outweigh the costs (the chances of a non-compliant taxpayer being caught and the sanctions incurred) then the taxpayer will evade tax. The taxpayer makes a rational choice after considering the options.

Deterrence (the risk of detection and the punishments incurred) should positively influence taxpayer compliance (Slemrod, 2007). However, the empirical evidence is somewhat mixed. OECD (2010) discusses several studies that examine the role of deterrence. Some findings are as expected (increases in the probability of detection improve compliance) but the effects are quite weak. One reason is that auditing compliant taxpayers is found to sometimes undermine their willingness to comply. While deterrence is a vital tool (audit, other interventions and sanctions) for any tax administration, simply increasing the level of deterrence (often an expensive process for the tax administration) is not guaranteed to improve compliance. A targeted approach to deterrence is likely to be more effective.

2.1.2.2 The Impact of Norms on Behavior

A key factor in tax compliance is a widespread desire to “do the right thing”. Taxpayers seek to comply because they believe it the right thing to do, not because of fear of punishment if they do not comply (Wenzel, 2005). The desire of a taxpayer to comply is strongly linked to behavioral norms, both the personal norms and beliefs of the individual taxpayer and the social norms that prevail in society at large.

Personal norms are the result of a combination of factors inherent to the individual. These guide a taxpayer’s posture to the tax administration (OECD, 2010) but are difficult to influence. Tax administrations can try to send messages that stress the importance of compliance to educate taxpayers and build up positive personal norms. Engagement by tax administrations with young people (early working age or younger) can influence their personal norms and this benefits tax compliance in the long-term.

There is evidence from diverse areas (not just tax related) that people seek to conform to social norms and that the behavior of others strongly influences an individual’s choices (OECD, 2010). This influence is important though in many cases people do not consciously realize it. This effect can be heightened when the relationship to the social grouping is stronger or closer (peers or neighbors may exert greater influence than those more distant to the individual).

Social norms influence taxpayer behavior. If there is a perception that tax evasion is limited and the majority of the people are compliant, this makes people less willing to evade taxes themselves. Often people tend to believe that non-compliance is more prevalent than it is in practice so correcting misperceptions regarding the scale of evasion is also a positive way to reinforce compliance.

2.1.2.3 Fairness and Trust in Tax Administration

Whether an outcome is perceived to be fair will often influence behavior. Experiments have shown that people prefer an option in which they receive no reward to an option in which they are rewarded but are perceived as unfair. They are rejecting an outcome that would make them better off (Braithwaite 2009). Often trust and legitimacy are linked to fairness, as the perceived fairness of an outcome will be contingent upon them.

OECD (2010) discusses three types of fairness in taxation: distributive fairness (the perception that government acts as a wise spender of tax revenues); procedural fairness (the perception that the tax administration adheres to procedures that are fair in dealing with taxpayers); and retributive fairness (the perception that the tax administration is fair in applying punishments when the rules are broken). The latter two are more relevant to (and can be influenced by) tax administrations. Distributive fairness depends on policy makers.

If taxpayers do not trust the tax administration to collect tax fairly, this will increase non-compliance. By extension, if there is a lack of trust in the broader government to spend tax revenues wisely (or a lack of legitimacy in the government), this will also have negative effects on tax compliance) a perception of fairness and trust are important tools for a tax administration in attempting to reduce evasion. The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and emphasize the perceived fairness of the approach taken.

Norms and the motivation to pay taxes are influenced by fairness both in how a person is treated by the administration individually and perceptions of fairness of the taxation system in general (whether other people are also paying their fair share). If a tax administration can demonstrate its commitment in these areas, there should be a compliance benefit (Reeson and Dunstall, 2009).

A service and client approach by the tax administration is more likely to encourage trust than a cops and robbers approach based on sanctions (Kirchler, 2007). The more respectfully taxpayers

are treated by the tax administration, the less likely they are to evade and this contributes to the desire to do the right thing (New Economic Foundation, (NEF), 2005).

2.1.2. 4 Opportunity and Complexity in the Tax System

A key assumption in decision-making is that people are capable of assessing a range of complex choices, and by correctly evaluating all of the available information, select the option with the best outcome for them. In reality it is rare to find situations in which people are fully informed of all their choices and always select the best option. In many cases, people fail to make the optimal choice. Simpler tax systems should encourage greater compliance and lower costs through the use of less tax agents. Less complexity should reduce the scope for tax avoidance and evasion (Alm *et al.*, 2010). Interactions between Revenue and tax agents and representative bodies improve communication and compliance. Working together can help to achieve buy-in and support for changes in the tax system.

Opportunity is a related concept to complexity. Tax administrations seek to reduce the opportunities for taxpayers to evade or avoid tax. Prominent examples of this in Ethiopia is withholding tax systems⁷

OECD (2010) argues that tax administrations have tended to overlook the lazy non-compliers, taxpayers who would have complied if opportunity for compliance had been easier. Suggestions to make it easier to comply include the use of plain language in communications and simplifying forms and tax laws where possible.

Targeting improvements in complexity and opportunity should increase taxpayer compliance. This should reduce unintentional non-compliance if fewer errors are made completing returns and make it easier for those seeking to comply.

2.1.2.5 Role of Government and Broader Economic Factors

There are many other factors that influence the level of compliance in a population. These are grouped together here, as for the most part they are beyond the control of the tax administration. Some involve tax policy or public spending, while others relate to the broader economy.

Section 2.1.2.3 notes that distributive fairness influences compliance. Taxpayers link the tax they pay to the ability of the State to fund expenditure on public goods and services (Barone and

⁷ As OECD (2010) notes, withholding systems can also have compliance and simplification benefits as they place less burden on taxpayers (as well as reducing opportunities for non-compliance).

Mocetti, 2009). If there is a perception that the government spends tax revenues wisely, this should encourage tax compliance. If taxes are associated with spending on goods and services that the taxpayer values (for example, schools or infrastructure), then the taxpayer is likely to be less reluctant to comply.

Economic conditions are important to compliance. For example, businesses with liquidity problems may be more likely to consider evading taxes. At a more macroeconomic level, OECD (2010) notes that although the research is limited, factors that promote economic growth also tend to promote tax compliance. Likewise, economic downturns are often associated with increased tax evasion. Higher tax rates are often linked with tax evasion if they incentivize taxpayers to move into the shadow economy.

While these issues are clearly important in determining tax compliance levels they are not discussed further as the focus here is on behavioral insights for tax administration. In the Ethiopian case, these factors are beyond the control of tax administration, some are beyond the influence of any policy makers. Tax administrations can and do attempt to mitigate their impacts as much as possible.

In addition to the above discussion, there is also principle of influence on taxpayers' behavior and tax compliance. For example, Cialdini (2001) develops six principles that can be applied to influencing individuals' behavior and decision making which is offer a useful structure. OECD further develops these including, as shown in Table 3.1, a series of possible applications of the principles to tax administration (Walsh, 2012).

Table 2.1: Principles of Influence Applied to Taxation

Influence principle	Explanation	Potential tax application
Reciprocation	People feel obligated to return favours.	Indicate to taxpayers the ways in which the tax administration can assist them and emphasize the benefits of compliance
Authority	People look to experts to show the way.	Take opportunities to communicate the tax administration's relevant expertise and experience in taxation matters.
Commitment & Consistency	People want to act consistently with their values.	Allow taxpayers the possibility to communicate their commitment to compliance and to show consistency with previous actions
Scarcity	People place higher values on resources that are limited.	Attempt to characterize compliant behavior as avoiding losses and show that the tax administration is unique as its services to taxpayers cannot be offered by anyone else.
Social Proof & Consensus	People look to others to guide their behavior.	Signal to taxpayers that compliant behavior is the norm but be wary of publicizing evasion as severe or widespread as this may legitimize undesirable behavior.
Liking	People are supportive to ideas or actions they like.	Emphasize the positive aspects of the tax administration's work and the tax system to improve taxpayers' views.

Source: Based on Coalmine (2001) and OECD (2009)

The factors discussed in the previous sections and these principles offer a framework to address the issue of how to influence taxpayers to improve compliance and hence, performance.

Moreover, the tax satisfaction to ward perception or view may be defined as positive or negative views of tax compliance behavior. These views may be explained by Psychology-based theories which reveal that taxpayers' perception may be influenced by the following factors which eventually influence taxpayers' behavior. Taxpayers perceptions of the tax system and Revenue Authority, taxpayers' understanding of a tax system or tax laws, use of information (Le Baube

1992); motivation such as rewards (Field et al. 2006); ethics or morality of the taxpayer, tax collector; equity of the tax systems (Trivedi & Shehata 2005); Demographic factors such as sex, age, education and size of income (Oberholzer 2007)

Perception may also be defined as positive or negative views of a person, behavior or event. In relation to taxation, taxpayers' attitude may be defined as positive or negative views of a tax compliance behavior and the same true for taxpayers' satisfaction. The outcome of positive views (satisfaction) is tax compliance and negative views (dissatisfaction) are tax non-compliance (Omweri et al. 2010).

2.2 Empirical literature review

Although not specifically related to Ethiopia, this section highlights a number of previous studies and some specific findings that deal with tax related matters.

Serra (2000) in survey of measuring the performance of Chile's tax administration to develop an effectiveness indicator found that the high responsiveness of tax compliance to the tax base could be explained by the existence of scale economies in tax enforcement, taxpayers' higher willingness to pay taxes in a fast growing economy, and changes in the tax structure. Procedures of tax have been simplified and the average time per procedure was 27.8 minutes, the number of frivolous penalty assessments by tax auditors has also been cut back. The study also shows that taxpayers completed their procedure in a single visit tax administration.

Fjeldstad (2004) conducted the survey on citizens' views on taxation in local authorities of Tanzania, covering 210 households in 6 case councils. The researcher explored a variety of tax related issues such as taxation and tax evasion, compliance motivations, service delivery, tax collection problems as well as possible solutions to improve revenue collection. The result of the survey found that taxpayers would be willing to pay more taxes if public services were improved. However, taxpayers' unwillingness to pay is not perceived to be the main problem in revenue collection. According to the survey data, poor public services to be the most important explanatory factor behind poor tax compliance. Fjeldstad (2001) cited in this survey, argues that coercive tax collection has important consequences for citizens' rights and for the democratization process. If taxpayers' rights are unclear for both taxpayers and tax authorities,

tax compliance and accountability will be affected. The most serious problem hampering tax collection, according to citizens' perceptions, is that taxes collected are not spent on public services revenue collection. The survey concludes that citizens feel they get little in return for taxes paid. This perception has impacts on their willingness to pay and contributes to eroding peoples' trust in the local government's capacity to provide the expected services.

Minnesota Department of Revenue (2005) conducted the survey study on taxpayer Satisfaction with the filing process of individual income tax survey. The survey result found that find or obtains tax forms from department of revenue has high quality. However, providing taxpayers with information about how their tax money is spent and making the Minnesota tax forms easy to understand is complex. The survey also shows that almost all taxpayers (sample) expressed satisfaction with the availability of the income tax forms. However, a number of respondents expressed displeasure with various aspects of filing a paper return, most notably in the areas of, ease of filling out the forms and schedules, understandability of the forms understandability of the instructions, time it took to fill out the forms and schedules and helpfulness of the instructions. With regarding to tax refund, the survey result shows that nearly all taxpayers were *very satisfied* or *satisfied* with the time it took regardless of the refund method they chose.

Oberhlzer (2007) conducted a comparative study on perception of taxation in South Africa. The main purpose of the study was to determine the perception of South Africa taxpayers about various aspects with regard to taxation. The survey was conducted on 260 sampled taxpayers by using face-to-face interview. The survey concluded that tax compliance may depend upon several factors, other than deterrence, and that the perceptions of South African taxpayers are likely to be influenced by these factors. The study also recommended that South African Revenue Service should communicate and educate both taxpayers and potential tax payers.

Oberhlzer (2007) again conducted one pilot study in 2008 in South Africa with a aimed at investigating taxpayers' perceptions of taxation. The survey was carried out amongst the four different population groups of South Africa by means of personal, face-to-face interviews with a structured and semi-structured questionnaire administered at respondents' homes. The survey finds that although the majority of respondents did not feel it is unfair to pay tax. The survey also found that waste and corruption in government is high. Furthermore, according to the survey

result, government does not provide enough information about how they utilize taxpayers' money and in addition, the survey reports that perception of taxpayer that tax rate should be reduced. The study also indicate that the most effective tools for making people more positive is to empower them with knowledge. Finally, the survey suggest that there is no better tool for government to positively influence the taxpayers of a democracy than to provide them with knowledge on how taxpayers' money is utilized.

Barone and Mocetti (2009) conducted the working paper on tax morale and public spending inefficiency. The aim of the paper was to shed light on the relationship between the taxpayer and the public sector and specifically to investigate whether public spending inefficiency shapes individual tax morale. They combine data from Italian municipalities' balance sheets with individual data from a properly designed survey on tax morale. The paper result shows that the attitude towards paying taxes is better when resources are spent more efficiently.

Lumumba et.al (2010) conducted Taxpayers' attitudes and tax compliance survey on sample of 260 small and medium size enterprises taxpayers in Kenya. The main purpose of the study was to identify factors which influence taxpayers' attitudes and to establish relationship between attitudes and tax compliance behavior among small and medium business income earners in Kerugoya town, Kirinyaga district in 2010. The survey used structured closed ended questionnaire to collect data and chi-square was used to test the correlation between variable. The survey result found that most taxpayers view the Kenyan tax system as unfair and some of the factors for tax non compliance were found to be: the inability to understand tax laws, a feeling that they are not paying a fair share of tax, positive peer attitude and Rewarding. The survey also shows that there is a very strong relationship between the taxpayers' attitudes and tax compliance in Kenya i.e. taxpayers' attitudes encourages tax compliance in Kenya. Finally the survey recommended that improve the taxpayers' ability to understand tax laws, tax authority should also make the taxpayer feel and understand that they are not paying unfair share of tax, they should work to improve peer attitude and Rewarding taxpayers i.e. giving a trophy for being best tax payer.

Recently in 2010 Taxpayers' satisfaction level survey was conducted by a joint project of the Inland Revenue Department (IRD) of Nepal ministry of finance and the German Technical Cooperation (GTZ) in Nepal. The project use questioner and interview to collect necessary data

from ground source. The result of the survey shows that people should pay income taxes and deserve to be penalized if they fail to do so. Only few respondents were satisfied with the delivery of public services in the fields of security, electricity supply, drinking water supply and social benefits, whereas about 50 percent of the respondents were satisfied with the services in the telecommunication, transportation and education sectors. According to survey result, taxpayers were not satisfied with the quality of the services provide by Nepal inland revenue department. With regarding to tax procedures and administrative mechanisms, the survey found that taxpayer were reasonably satisfied except with tax refunds. As indicated in the survey result, the most important source of information on tax issues is newspapers. The survey also focuses on the availability of information and it found that majority of taxpayer were satisfied. With reference to the contents and coverage of the documents, over 83 percent were satisfied. The survey strongly recommended that when taxpayers are not satisfied, the tax authorities have to identify the reasons for their dissatisfaction and take corrective measures.

Most recently, one study was made by Shikhaliyev (2011) on 'Assessment of Taxpayers' Satisfaction with Tax Administration Reforms in Azerbaijan'. The survey was conducted in two stages, first by selected respondent from four geographical locations because satisfaction can be affected by emotional factors (perceptions and expectations). This stage focused on satisfaction within four primary services (e-tax return system, call centre, website, and taxpayers service terminals) being provided by the Azerbaijan ministry of tax. In the second stage of survey the answers from small and medium enterprise representatives and individual entrepreneurs by the survey questionnaire. The findings of the study show that the general level of satisfaction with service and awareness provided by ministry of tax is quite high. The general opinion on the e-tax return system is positive and the level of satisfaction is high. The survey also found that telephone information service, as a source of general information. The ability to receive information at any time and place is another factor that satisfies the taxpayers. The weakness of this survey was unclear objectives as it was based on tax administration reforms, i.e. the survey didn't specify the specific reform to be studied.

James et.al (2011) conducted study on 'Taxpayer Information Assistance Services and Tax Compliance Behavior in Nigeria' by utilizes laboratory experiments to test the effectiveness of taxpayer service programs in enhancing tax compliance. The result indicates that uncertainty

reduces both the filing and the reporting compliance of an individual. However, the result also finds that agency provided information has a positive and significant impact on the tendency of an individual to file a tax return. The researchers also find that tax uncertainty reduces filing but that information provision again offsets the uncertainty effect on filing.

Michael et al. (2011) conducted research on Behavioral dynamics of tax compliance under an information services initiative. The purpose of this research was to investigate the behavioral dynamics pertaining to information acquisition and tax evasion by utilizing laboratory experiments. The study found that the overall effect of a helpful information service is to decrease tax evasion. Further, a n audit has the behavioral effect of lowering information acquisition rates and increasing evasion immediately after experiencing a penalty.

Even though it is not related to taxpayers' satisfaction, recently in Ethiopia, Gebreselassie (2011) conducted survey on tax assessment and collection problems of Category "A" taxpayers in Addis Ababa. The survey use self administered semi structured and in-depth interview in the case study of yeka sub city and the survey find that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. As a result, the survey point out that delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. By the same time Aborat (2011) investigated the fairness perceptions of Addis Ababa City business profit taxpayers and its impacts in their perceptions. The survey used self-developed questioner and in-depth interview to collect both qualitative and quantitative data. The survey found that Addis Ababa City business profit taxpayers did not perceive positively in respect of general, vertical, personal, exchange, and administration fairness except horizontal fairness on the prevailing business profit tax system. With regard to tax knowledge and complexity, the finding of this survey shows that the taxpayers did not have sufficient knowledge and there were no easily understandable and vague procedures of the business profit tax system. Finally, the survey suggests that a series of measures should be taken by government in general, and tax authorities in particular; to improving policy and administration issues, educating the taxpayers and conducting awareness creation, and maintaining the tax system fair and equitable

2.4 Conclusion and knowledge gap

This chapter describes the relevant literature under three major sections. In the first section the theoretical aspect related to the study was discussed under two sub-sections. The first sub-section of this section mainly focused on tax administration activities such as efficiency of tax administration, procedure of tax collection, service commitment of tax administration. In all these discussion, it may relevant to summarize that ineffective, inefficient or insufficient administrative or compliance procedures affect maximum collection of tax properly due and consequently raise the risk of increasing the tax burden for all taxpayers. Hence, there is need to evolve new methods and strategies to promote greater taxpayer compliance by placing adequate emphasis on taxpayer education, information and assistance. On the other hand, the second sub-section of first section presents the five broad factors that influence taxpayers behavior such as deterrence; norms (both personal and social); fairness and trust (in the tax administration); opportunity and complexity; and the role of government and the broader economic environment. The second section of this chapter discussed the considerable empirical evidence related to the study. For example, Serra (2000), Fjeldstad (2004), Oberhlzer (2007,2008), Barone and Mocetti (2009), Lumumba et al (2010), Skikhaliyev (2011), James et al (2011), Kawano (2012). However, while these studies based on evidence from developed countries, a available studies in developing countries, like Ethiopia, are limited.

The following chapter provides details of the research method approach in respect of the identified research problem.

Chapter Three: Research Methodology

The preceding chapter indicated that the literature on business taxpayers' satisfaction issues is limited. Especially from the perspective of Ethiopia, it appears that there is no research conducted in investigating whether the business taxpayers are satisfied or not with tax system.

The purpose of this chapter is to present the research methodology adopted in this study by arranging it into two major sections. Hence, section 3.1 presents overview of the research objective and specific research questions, section 3.2 present a brief discussion of the nature of the different research approaches and section 3.3 Research methods adopted in the study and finally section 3.4 present ethical considerations and reliability.

3.1 Objective and Research questions

As shown in the preceding chapter the broad objective of this study is to examine the satisfaction level of federal business taxpayers with the various aspects of business tax regime in Ethiopia. To achieve this broad objective the following specific research questions were developed:

RQ1. How is the satisfaction of federal business taxpayers with tax system?

RQ2. How is the satisfaction of federal business taxpayers with the taxpayer's service and availability of tax information?

RQ3. How do federal business taxpayers perceive they are treated by the tax administration?

RQ4. How is the satisfaction of federal business taxpayer with tax collection procedures, administrative mechanism and tax law enforcement?

RQ5. How is the satisfaction of federal business taxpayers with current tax reform? Specifically, with cash register machine and VAT withholding?

3.2 Research Approaches

Research approach can be regarded as a blueprint, a master plan that specifies the methods (Leedy & Ormrod, 2013). Thus, every research requires a research design that is carefully tailored to the exact needs of the problem under investigation (Creswell, 2009). Therefore, the philosophy of different methods approaches were discussed in the next paragraphs.

Quantitative research, in this approach, an investigator relies on numerical data (Creswell, 2003). Researcher uses postpositive claims for developing knowledge, such as cause and effect thinking, reduction to specific variables, hypotheses and questions, use of measurement and

observation, and the test of theories. The main advantage of this approach is that numbers are easy to work with data are readily collected, coded, summarized, and analyzed. In addition, data collection is relatively quick and less time consuming and free from bias. But, in this approach researchers know much about the collective or average experience of research participants, and focus on theory or hypothesis testing rather than on theory or hypothesis generation (Creswell 2003).

Qualitative research, on the other hand, is “an inquiry process of understanding” where the researcher develops a complex, holistic picture, analyzes words, reports detailed views of informants, and conducts the study in a natural setting (Creswell, 2009). In this approach, the researcher makes knowledge claims based on the constructivist (Creswell 2009) perspectives. This has advantage of design results mainly from its flexibility to follow unexpected ideas during research and to explore processes effectively. However, knowledge produced may not be generalized to other people or other settings and it is also difficult to make quantitative predictions and to test hypotheses and theories.

The third research methods approach is **mixed method approach** in which the researchers build the knowledge on pragmatic grounds (Creswell, 2003). A major tenet of pragmatism is that quantitative and qualitative methods are compatible which can help better understanding of the research problem.

Based on the above discussions and by considering the research problem and objective, in this study, mixed-method research approach was used. This is to get the benefits of a mixed methods approach and to mitigate the bias in adopting only either quantitative or qualitative approach. The following section hence presents the method used in the study.

3.3 Research Methods Adopted

In line with the above discussion, clearly a research design is so important if one needs to carry out an authentic and valid investigation as precise methods are pivotal for different types of investigations. Therefore, every research requires a research design that is carefully tailored to the exact needs of the problem under investigation (Creswell, 2009). Accordingly, this study used mixed methods design, which is a procedure for collecting, analyzing and mixing both qualitative and quantitative data in the research process to understand a research problem. The rationale for

mixing is that neither qualitative nor quantitative methods are sufficient by themselves to capture the trends and details of the situation. When used in combination, qualitative and quantitative methods complement each other and enhance complete analysis (Leedy and Ormrod, 2013; Creswell, 2009).

This study, therefore, consists of two phases in which a sequential explanatory mixed method applied (Creswell, 2009) which is characterized by the collection and analysis of quantitative data in a first phase of research followed by the collection and analysis of qualitative data in second phase that builds on the results of the initial quantitative result. Weight typically is given to the qualitative data, and the mixing of data occurs when the initial quantitative results informs the secondary qualitative data collection. In addition, a sequential explanatory design is typically used to explain and interpret quantitative results by collecting and analyzing follow-up qualitative data. It can be especially useful when unexpected result arise from a quantitative study. Furthermore, it is easy to implement because the steps fall into clear, separate stages. It was for this reason that this study adopting sequential explanatory mixed design although time involved in data collection is long (Creswell, 2009).

The two database might be separate but connected; that means, data begin with quantitative phase (priority), the analysis of the data and its results can be used to identify participants for qualitative data collection in a follow-up phase. The researcher has a primary aim to collect quantitative data and has the qualitative data that provides supportive information; neither integrating the data nor connecting across phases is being utilized. Instead, the researcher is embedding a secondary form of data within a large study having a different form of data as primary database. The qualitative database provides a supportive role in the study⁸. Therefore, in this study, the goal of the quantitative phase was to identify potential perception and satisfaction of taxpayers and qualitative aspect was used to collect text data through individual semi-structured interviews and documents analyses to embed taxpayers' satisfaction investigated in the first phase. A brief discussion of the two research components, including the research instruments and samples, along with the data analysis are as follows.

3.3.1 Research Method: Quantitative Aspect

⁸ In short, the qualitative data provides a supportive role in the study.

In this study, surveys are being used to measure the perception and satisfactions' of taxpayers. Survey is one method of descriptive research method that helps us to gather data at a particular point in time with the intention of describing the nature of existing conditions. Therefore, the adoption of survey design in the study is helpful in order to represent a wider population, provides descriptive, inferential and explanatory information, gather data on a one-shot basis, or gathering of information that will not be available from archive records (Yesegat, 2009). In addition to the mode of collecting data, a sample survey is concerned with issues including sampling and instrument designs. The subsequent subsections, hence, present sample design, survey instrument in respect of this study.

Sample Design

A population is a large pool of cases or elements from which the researcher draws a sample and results generalized from the drawn sample (Leedy & Ormrod, 2013). The survey population in this study was 17,315 registered federal business taxpayers residing in Addis Ababa⁹.

The intentions of the study was not to generalize the findings to all federal business taxpayer in Addis Ababa, but to obtain a large and sufficient diverse sample in order to obtain meaningful spread of taxpayers' satisfaction concerning the tax issue. Therefore, sample selection needed to conduct the study. A sample selection about broader potential respondents giving equal chance of selection is vital to increasing the representativeness of the sample (Yesegat, 2009). Accordingly, taking into account the previous research studies and judgments, for example research conducted by Yesegat (2009), and taking the available resources, time, budget, and transportation problem into account, the researcher had drawn 200 sample sizes out of total population stated above. In addition, in order to avoid difficulties such as; inactive business, closed business and other problem (bearing in mind refusal rates and other reasons for failure to conduct survey), 20% (40) of the sample respondents were taken as contingency or reserve.

Sampling technique is another issue covered in this study. In order to ensure representativeness, the federal business tax paying population has been stratified into large and medium taxpayers¹⁰

⁹ This information is gathered from the three federal tax authority offices (western branch, Eastern branch and large taxpayers' office in December 2012

¹⁰ Large taxpayers are those taxpayers having annual turnover of equal to or greater than Birr 15 million and has been treated in the LTO and medium taxpayers are those taxpayers that has been treated in the Eastern branch and western branch of tax office in Addis Ababa.

and sector categories proportionally. To increase the representativeness of the sample, potential respondents were randomly selected from each stratum. Proportional Stratified sampling technique has been chosen to make sure that all characteristics in the population are reflected in the samples drawn¹¹. The following table shows Sample size selection procedures by using proportionate stratified sampling.

Table: 3.1 Sample size selection procedures by using proportionate stratified sampling.

Sector	Size	Population		Sample	
		Frequency	Percentage	Frequency	Percentage
Merchandise	Large	615	3.5%	7	3.5%
	Medium	10,130	58.5	117	58.5%
Manufacturing	Large	90	.5%	1	.5%
	Medium	1,450	8.4%	17	8.4%
Service	Large	160	.92%	2	.92%
	Medium	4,870	28%	56	28%
Total		17,315	100	200	100

Source: Ethiopian Revenue and Custom Authority and own computation

The Survey Instrument

The adoption of the survey instrument was helpful to represent a wide target population, and generates numerical data as well as to gather information that would not be available from archive records. Creswell (2009) noted that the survey is the preferred type of data collection procedure for research because it is used to generalize from a sample to a population. In this study self-administered, structured questionnaire was used. The reason behind this is that self-administered questionnaires have the advantage of scanning a wide field of issues, population, programs, with low cost. However, this method is likely to result in a low response rate¹². The

¹¹ In addition, Yesegat (2009) also suggests that this method is very economical, and offers a high degree of representativeness.

¹² With very low response rates, it is difficult to establish the representativeness of the sample because those who responded to the survey may be different from the population they will intend to represent (Yesegat, 2009).

drawbacks of the self-administered questionnaire were mitigated largely by informing respondent through different necessary personal techniques.

As part of the procedure for data collection, questionnaire which contains likert-type, dichotomous and categorical items was used to ascertain business taxpayers' satisfaction toward tax system. This is adapted from the questionnaire developed by Nepal Ministry of Finance together with the German Technical Cooperation (GTZ), for the Study on Taxpayers' Satisfaction Level in Nepal. The strength of this approach is that it enables a large number of respondents to be surveyed with minimum expenses.

The survey questionnaire had a cover letter which explained the purpose of the study to encourage candid response to the study. The letter also explained the anonymity of the respondents would be maintained. Therefore, confidentiality and/or anonymity of the respondents were assured as the respondents were not requested to provide their names or any other information that could be used to identify them in person in the questionnaire, the research report. The two hundred survey questionnaire was distributed directly at working place of randomly selected business but only 172 were returned (86%), and 24 of them were determined to be unusable because they were partially completed and some were mutilated. As result, this study has based on 148 (74%) returned and well completed questionnaires.

Data Analysis Methods

The questionnaires used in the survey were closed ended questions; this means the respondents were to choose between given alternatives for their answers instead of constructing their own responses. This was mainly done to simplify the analysis process. Before the statistical analysis, data collected from the primary survey was compiled, edited, and coded. Then, data was analyzed using a computerized data analysis package known as SPSS version 20. Tables, pie charts, bar graphs were used in analyzing the descriptive findings on the study variables.

Quadrant analysis was created based on the importance of improving tax system and perceptions (satisfaction) of taxpayer on the current tax system. This method was adapted from the one used by Minnesota's department of revenue in the survey of "taxpayers satisfaction with filing process" in 2005.

This type of analysis maps selected components on a grid with importance to improvement and taxpayer’s satisfaction as the axes. Through this technique, the tax authority can determine its key strengths (issues with high importance to improve and high perceived satisfaction), as well as identify areas that are particular concerns to improve (areas of high importance to improve and low satisfaction) (Minnesota Department of Revenue, 2005). The following graphic depicts the quadrants and explains the meaning of each.

Figure 3.1 Quadrate analysis matrixes

		High important(HI)			
		CONCERN		STRENGTHS	
		HI & LS		HI & HS	
Low performance		LOW PRIORITES		NOT A CONCERN	High Performance
/satisfaction(LS)		LI & LS		LI & HS	/satisfaction(HS)
		Low Important (LI)			

Source: Adapted from survey conducted by Minnesota Departments of revenue survey (2005)

While the rationale for quantitative aspect presented above is that the quantitative data and results provide a general picture of the research problem, the qualitative data and its analysis were to refine and explain those statistical results by exploring participants’ views in more depth. Thus, in order to supplement the information obtained from 148 business taxpayers respondents; eight business taxpayers were interviewed.

3.3.2 Research Method: Qualitative aspect

The use of interviews is appropriate in obtaining either multifaceted or sensitive information, as well as understanding concepts that require detail elaboration (Hair, *et al.* 2007). Semi-structured

In-depth interview is applied to this study. Which interview protocol is used as a guide and questions may not always be asked in the same order. It anticipated that this approach would provide researcher a more accurate data to enhance the findings for this study. The interview questions were developed based on the results of the quantitative results.

With regards to participant selection, as it is hard-to-reach the right person, inexpensive convenience sampling method known as 'snowball sampling' technique was used to the qualitative data¹³. This was done, initially, tax officer and taxpayers were contacted and briefed about the aim of the thesis. The names of taxpayers who were particularly vocal in the business community were then provided. These taxpayers then also suggested the names of additional taxpayers who they thought might be participating in the study. But it was not easy procedure to convince them. Finally, eight out of fifteen contacted taxpayers agreed to participate in the study. Accordingly, semi-structured in-depth interview was conducted with eight taxpayers from both large and medium federal business taxpayers over a two-week period as each individually (taxpayer) interviewed independently. This took on average one and half hour and explored the circumstances that led participants to tax system, respondents' experiences with the tax issue, and their beliefs about the tax system and its procedures depend on the result generated in the quantitative aspect.

Moreover, the text data obtained through the interviews and documents will be coded and analyzed for themes. The result of the two phases was also integrated during the discussion of the outcomes of the whole study.

3.4 Ethical considerations and Reliability

Ethics are norms or standards of behavior guiding moral choices about our behavior and relationships with others, therefore in research; ethical considerations aim to ensure that no individual suffers adverse consequences or is harmed (Leedy & Ormrod, 2013). The basic ethical principles of autonomy, beneficence and justice (Marshall & Rossman, 2011) was incorporated in this study by means of maintaining confidentiality of information and of respondents.

¹³ Snowball sampling is a chain referral sampling method that relies on referrals from initial subjects to generate additional subjects and used when hard-to-reach population (Johnston & Sabin, 2010).

Reliability and validity tests are other important in standardizing the proposed measurement scale, and in demonstrating whether it truly measures what it is supposed to measure (Leedy and Ormrod, 2013; Creswell, 2009). Thus, a series of steps was undertaken to check the validity and reliability of both the quantitative data and the accuracy of qualitative findings which is an important in the data analysis of various research methods that needs to be described. Accordingly, the content validity was checked by ensuring that the data collection instruments designed very carefully to include all the necessary questions related to answer the problem statement. To test reliability the researcher ensures that ambiguity in the wording of the questions is removed as this is one factor known to affect reliability (Neuman, 2006).

CHAPTER Four: Research Results and Analysis

The previous chapter presented the methodology used in the thesis. More specifically, the chapter was showed the different research approaches, methods of data collection, and a nalysis adpated in the study.

This c hapter p resents t he r esults o f t he v arious d ata c ollection m ethods a nd a nalysis i n t he context of the existing knowledge reviewed in chapter two. Accordingly, this chapter is arranged into three sections; the first section (4.1) presents overview of the research objective and specific research questions and in the second section (4.2) presents the results of the survey data sources and in-depth i nterview. T his i s f ollowed b y t he p resentation o f d ata a nalysis i n t he context of the knowledge in the literature and Ethiopian socio-economic condition in section (4.3).

4.1 Objective and Research questions

As shown in the presiding chapter the broad objective of this study is to examine the satisfaction level of federal business taxpayers with the various aspects of business tax regime in Ethiopia. To achieve this broad objective the following specific research questions were developed:

RQ1. How is the satisfaction of federal business taxpayers with tax system?

RQ2. How is the satisfaction of federal business taxpayers with the taxpayer's service and availability of tax information?

RQ3. How do federal business taxpayers perceive they are treated by the tax administration?

RQ4. How is the satisfaction of federal business taxpayer with tax collection procedures, administrative mechanism and tax law enforcement?

RQ5. How is the satisfaction of federal business taxpayers with current tax reform? Specifically, with cash register machine and VAT withholding?

4.2 Research Results

One o f t he p urposes o f t his s tudy i s t o a sses t he b usiness t axpayers' s atisfaction w ith t he t ax system. The principal data sources to this end are the survey and in-depth interview conducted to federal business taxpayers in Addis Ababa. Thus, the following discussion presents the results of the survey as well as in-depth interview result in section 4.2.1 below

4.2.1 Survey results

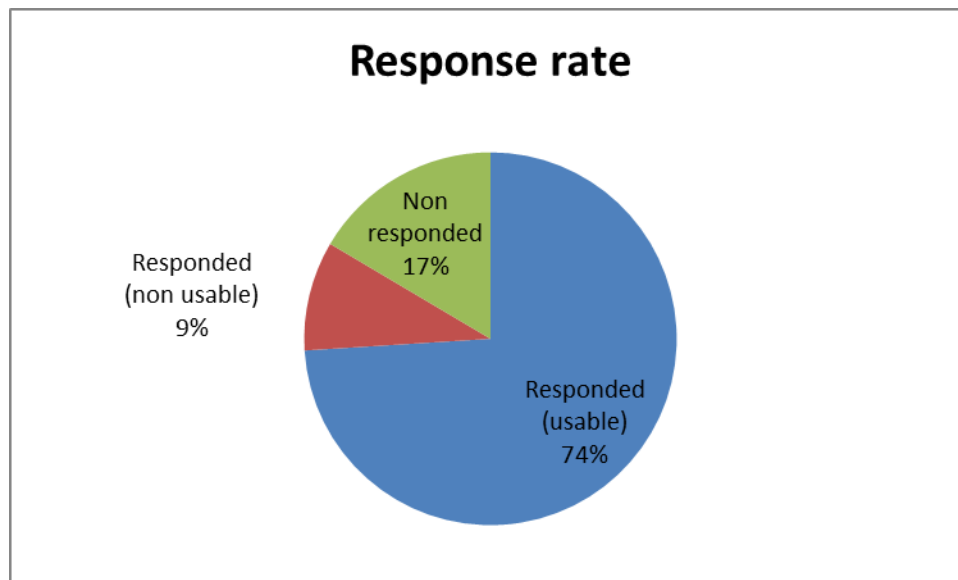
The purpose of this section is to show the survey results. Accordingly, it covers the respondents' profiles in section 4.2.1.1. Investigate the taxpayers' perception with the various aspects of VAT and business tax regime in Ethiopia in the next section.

4.2.1.1 Respondents profile

This section presents information about the demographic characteristics of the respondents in line to their gender, age, formal education, respondents working experience, business type, size of business, business length of operation. Some descriptive statistics are also illustrated in this section.

As mentioned elsewhere in this report, population of federal business taxpayers in the Addis Ababa city were 17,315 and the sample size of 200 were determined using simple random sampling. A total of 200 questionnaires were administered to these taxpayers and at the end of the field work, a total of 148 usable questionnaires were retrieved representing 74% response rate. This shows that the response rate considered as fair. (Dillman, 2007) suggests that the response rate for a personal delivery approach varies considerably from the lower of 28 percent to the highest of 50 percent (figure 4.1).

Figure 4.1 Response Rate



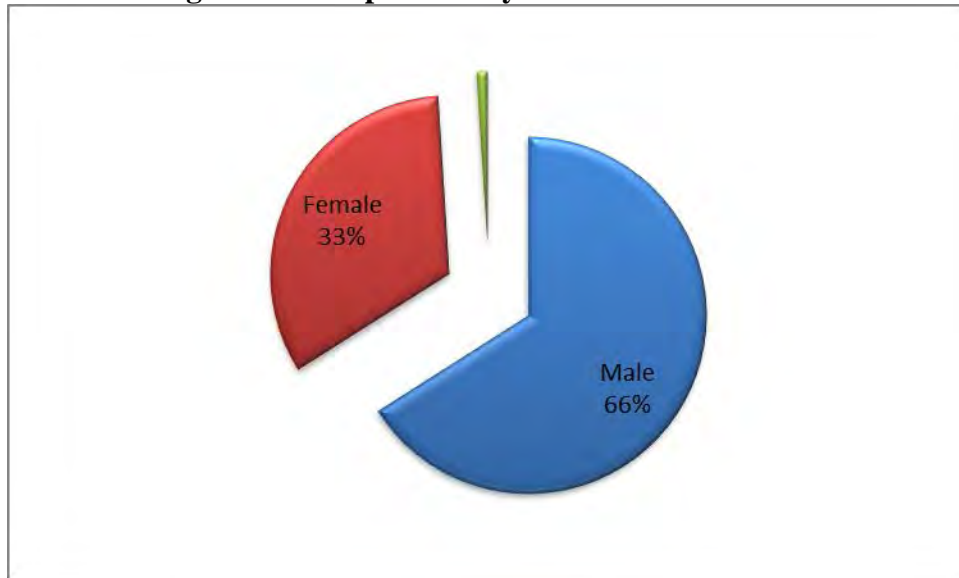
Source: Business Taxpayers' satisfaction survey and own computation

In general, the demographic information on the respondents indicates that about 66% of the respondents were male leaving 33% as female and that the age grouping of majority of the respondents fall between 30 and 40 years (70.9%). Approximately all the respondents had good education background. The majority of respondents were also had an experience of doing tax issue more than six year. In case of business activity majority of them engaged in general trade followed by service provided business and majority of them were owned by private limited company. In addition, majority of the business had been in operation for more than 6 years. Finally, almost all of the sampled business paying tax like business profit tax, VAT and other tax in their corresponding tax office branch. Moreover, the composition of the respondents to a greater extent fairly reflected the characteristic of business population distribution of Addis Ababa. This is also an indication that the information provided in this study was given by experienced businesses and informants as well. Each of the demographic background and its implication discussed below.

Personal information with regard to their gender, age, educational qualifications and working experience, are separately described below.

The survey respondents comprised of 97(66%) males, 49 (33%) females while 2 respondents did not mention their gender. It could be concluded that men draw a high level of participation in large and medium businesses than females (figure 4.2).

Figure 4.2: Respondent by Gender



Sources: Business taxpayers' satisfaction survey and own computation

The age distribution of the respondents who participated in the study is provided in table 4.1 below. The sample age categories were divided with a range of 10 years except age category above 50. Accordingly, the results showed that majority of respondents in the large and medium business (60 or 40.5%) were aged between 31 and 40 years old and (45 or 30.4%) were between 41 and 50 years of age. Respondents in the group of above 50 years old were the lowest number with 6 responses which represent 4.1% of the total respondents, while 3 (2%) respondents did not mention their age. This is an indication that most taxpayers in the sample are at their matured ages and information given to this study is free from emotional (Table 4.1)

Table 4.1: Respondents by Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid no responses	3	2.0	2.0	2.0
20 - 30 years	34	23.0	23.0	25.0
31 - 40 years	60	40.5	40.5	65.5
41 - 50 years	45	30.4	30.4	95.9
above 50 years old	6	4.1	4.1	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' satisfaction survey and own computation

It is believed to be that the ability to read and write influences one's ability to understand and interpret the tax laws. With this regard the survey collected the educational background of the respondents and the survey result shows that 14 respondents had lower level of educational qualification (below grade 12) and 22 were completed grade 12 ; each of them account to 9.5% and 14.9% of the total respondents respectively. On the other hand, the numbers of respondents who were diploma and first degree holders were 39 and 69; each of them representing 26.4% and 46.6% of the total respondents respectively, the remainder 4 or 2.7% of the respondents had masters and above qualifications. Cumulatively, all of the respondents were in possession of at least reading and writing and none of the respondents had no schooling.

Therefore, the implication to these findings indicates that the majority of business taxpayers were well educated to know the need for taxation and they can understand and interpret the tax law as well (table4.2)

Table 4.2: Formal Education of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 12 grade	14	9.5	9.5	9.5
Grade 12 completed	22	14.9	14.9	24.3
Diploma	39	26.4	26.4	50.7
First degree	69	46.6	46.6	97.3
Masters degree and above	4	2.7	2.7	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' satisfaction survey and own computation

Considering the position of the respondent in the business, it can be seen that the largest proportion of respondents was owners and manager of the business as compared to others. The owners and manager of the business were represented by 16.9% and about 36.5% and 25.7% of the respondents respectively were owners and managers while 20.9% were employee. It could be concluded that most of the medium and large business enterprises in Addis Ababa are managed by their owners other than recruited employee (Table 4.3).

Table 4.3: Respondents' Position

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Owner	38	25.7	25.7	25.7
Manager	54	36.5	36.5	62.2
Employee	31	20.9	20.9	83.1
Owner and manager	25	16.9	16.9	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' satisfaction survey and own computation

The number of years one has been in business has an influence on his/her taxpayers' experience and level of paying taxes. For those who have done business for long implies they are used with the routine practices of paying taxes to tax authority. Accordingly, the respondents were required to indicate their working experience related tax issue and findings of the survey shows that more than half of the respondents (56.1%) indicated that they had 6 to 10 years of experiences in business, 22.4% of the survey respondents indicated that they had 1 to 5 years of work experience, while 11.5% had 5 to 10 years of experience, the rest had less than 1 year of experience in the business. Therefore, it can be said that the business taxpayers had relatively average experience on tax related issue which indicates that almost half of them are well experienced which can able them measure the old tax system and the new one. In other words, it can be conclude that the information provided in this study was given by experienced respondent and informants (Table 4.4).

Table 4.4: Respondents' Working Experience on Tax Related Issue

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 1 year	15	10.1	10.1	10.1
1-5 years	33	22.3	22.3	32.4
6 - 10 years	83	56.1	56.1	88.5
More than 10 years	17	11.5	11.5	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' satisfaction survey and own computation

The respondents were also asked to indicate the frequency of time that they visit ERCA. From the responses it became evident that majority of the respondents (75.7%) indicated that they visit ERCA monthly, 20.9 % of the respondents were visit tax office on a average 6 time per year, some respondents (3.4%) answered that they would visit the tax office (ERCA) on a average three times per year.

In connection to this, the respondents were also requested to indicate the last time that they were visiting ERCA this is to find out whether they know the current activities of the tax office. Regarding this question, it was interesting to note that just more than 81% of respondents visit the tax office before or less than one month ago for the last time, some respondents (11.5 %) were visit tax office three month ago, the remaining 6.8 % and 0.7 % of the respondents were respectively visit the tax office six months ago and one years ago.

This indicates that the majority of them know the current tax authority's services and other tax issue and it is important to note that information given to this study was given by well informed person and add value to the quality of the study. Table 4.5 and table 4.6 show the frequency and the last time that the respondent taxpayers visit tax office respectively.

Table 4.5: Frequency of Time that Respondents Visit ERCA

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid On average 3 visits a year	5	3.4	3.4	3.4
On average 6 visits a year	31	20.9	20.9	24.3
Monthly	112	75.7	75.7	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' satisfaction survey and own computation

Table 4.6 The last Time Respondent Visit Tax Office

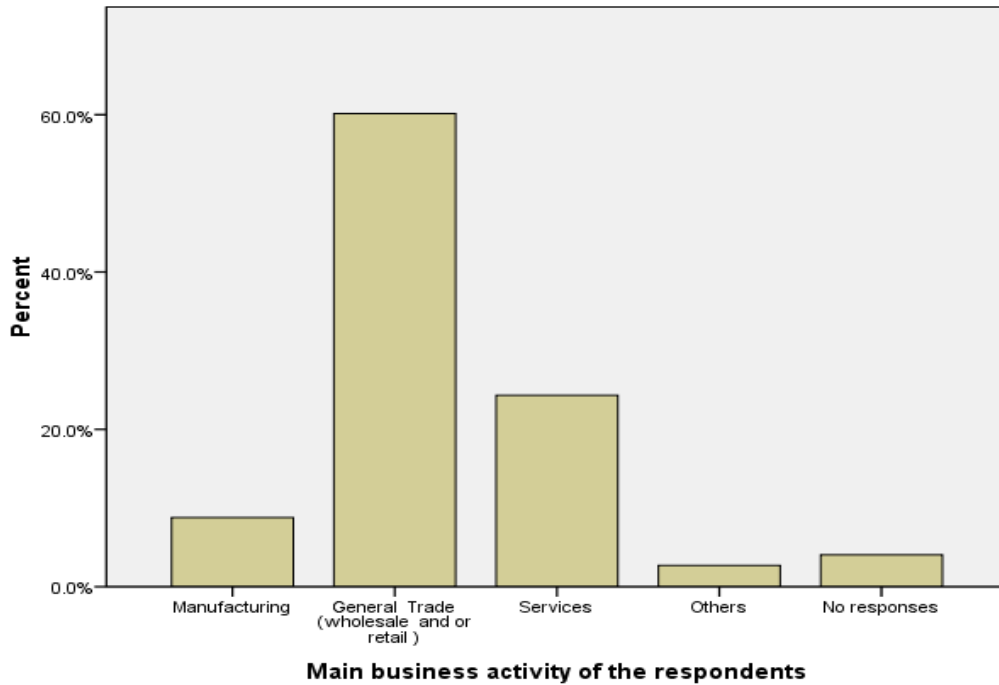
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 1 month ago	120	81.1	81.1	81.1
3 Months ago	17	11.5	11.5	92.6
6 Months ago	10	6.8	6.8	99.3
1 years ago	1	.7	.7	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' satisfaction survey and own computation

By grouping the federal business taxpayers in four business sectors, as general trade, services, manufacturing and others, the researcher tried to investigate the nature of business in the sample size. Accordingly, as expected from the sample size, about 60.1% of the respondents were general trader which includes wholesale and retail business, 24.3% were service provider business, 8.3% of respondents were engaged in manufacturing business sector and the remainders (7.1%) were not responses.

This implies that general trade firms constitute a sizeable number of medium and large business enterprises in Addis Ababa as expected in the survey sample (figure 4.3)

Figure 4.3 Businesses by their Activity



Source: Business Taxpayers' satisfaction survey and own computation

As to forms of business ownership, all the sampled respondents are classified into four legal forms of business such as; proprietorship, partnership, private limited company and share company. Of the total sampled business units, the largest number are private limited company (69 or 46.6 %) followed by sole proprietorships (48 or 32.4 %), Share company (12.2 %), partnership (8.8%). This is an indication that all the registered business taxpayers in Addis Ababa were well represented looking at their proportionate numbers. The distribution of the sampled business units are shown below (Table 4.7)

Table 4.7: Business by form of business ownership

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Sole proprietorship	48	32.4	32.4	32.4
Partnership	13	8.8	8.8	41.2
Privet limited company	69	46.6	46.6	87.8
Share company	18	12.2	12.2	100.0
Total	148	100.0	100.0	

Source: Business taxpayers' satisfaction survey and own computation

The number of years a business has been in operation determines the experience of the business in filling its tax returns. It also determines one's ability to evaluate an old tax system, when changing to a new tax regime.

Accordingly, the respondents were asked to give the age of their businesses, and from the research data, it was found that most businesses have been in operation for between 6 to 10 years, which accounts 60.8% of the total respondents, while 25% and 12.2% of them have been in operation for between 1 and 5 years and more than 10 years respectively. This is an indication that the information provided in this study was given by experienced businesses and informants (table 4.8)

Table 4.8: Business by their Year in Operation

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5 years	37	25.0	25.0	25.0
6-10 years	90	60.8	60.8	85.8
More than 10 years	18	12.2	12.2	98.0
No responses	3	2.0	2.0	100.0
Total	148	100.0	100.0	

Source: Business taxpayers' satisfaction survey and own computation

Taxpayer survey respondents were also asked to indicate types of taxes they paid to government. Accordingly, Most of the respondents in the sample (79.7%) pay both business profit tax and Value added tax (VAT) to the government. Business profit taxes and Value Added (VAT) is paid by 12.8% and 5.4% of the respondents respectively and the remainder 2% of the respondent paying other taxes. This indicates that the respondent taxpayers were knowledgeable with both business profit tax and VAT (Table 4.9).

Table: 4.9. Types of Taxes the Respondent Pay to the Government

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Business profit tax	19	12.8	12.8	12.8
Value Added tax (VAT)	8	5.4	5.4	18.2
Other taxes	3	2.0	2.0	20.3
Both business profit tax and Value Added tax(VAT)	118	79.7	79.7	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers' Satisfaction Survey and Own computation

4.2.1.2 Perception of Taxpayers toward overall Tax System

Under this section, the respondent taxpayers' general perception on the current tax system has been discussed. The respondents were asked to indicate their extent of agreement or disagreement with some statements relating to some of the factors that influence ones' view on business tax system in Ethiopia. This was based on a likert scale, where strongly Disagree to 1; Disagree to 2; Uncertain to 3; Agree to 4, and Strongly Agree to 5. The effort was also made to calculate the mean and standard deviation of the result as well. On the mean 1 to 2, it is assumed as dissatisfaction; as from 4 to 5, it is taken as satisfaction; as 3 is between dissatisfaction and satisfaction, and the results are summarized here below in the table as follows (table.4.10).

The respondents were asked to indicate their view whether tax authority solve their problem (enquire) properly. The result shows that, cumulatively over 79 % of the respondents reported that tax authority do not solve taxpayer's complain properly, only 9.5% of the respondents were agree on the statements and none of the respondents strongly agree. Regarding the tax policies, respondents were asked to indicate their view on how the government clearly defines tax policies. Majority of the respondents (70.9%) strongly disagree and disagree on the statement that government clearly define the tax policies; only 15.5 % and 5.4 % of the respondents agree and

strongly agree respectively that the government has defined tax policy clearly. The effort was also included the fairness of levying taxes on the taxpayers by the government. Accordingly, nearly half of the respondents were disagreed on the statement that the government fairly levying taxes on the taxpayers; while 29.7% agreed on the statement. In case of the clarity and simplicity of tax procedure, about 52% of the respondents felt that the tax procedure is not clear and simple, only 29.1% and 6.8% of the respondents agree and strongly agree respectively on the statement.

About 37.2% of the respondents reported that their neighbors and friends are reporting and paying tax dishonestly, 28.4% of the respondents stated that their neighbors and friends are reporting and paying tax honestly, the remaining 34.5% of the respondents were neutral on the statements. Most of the respondents strongly disagree and disagree, with 49.4%, that tax audit selection procedure is sound enough. With regard to amount of tax paid to the government, the respondents were asked to indicate their perception. Then, the survey data shows that, over 61% of the respondent felt that amount of taxes to be paid to the government is generally high. More than 69% of the respondents realized that it is every ones responsibility to comply with the tax laws. Likewise, it is encouraging to note that the majority of the respondent taxpayers (86.5%) reported that they keep up-to-date transaction records and books of accounts. Nearly all, 94% of the respondents felt that failure to pay taxes lead to strong punishment.

About 87.2% of the respondents taxpayers were agree (sum of agree and strongly agree) and only 6.8% of the respondents were disagree (sum of disagree and strongly agree) with regard to the statement that it is every one responsibility to pay the correct amount of tax. Table 4.xx revealed the summary of the result.

Table 4.10 Respondent’s Perception on Tax System

	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		mean	Std. Dev
	No	%	No	%	No	%	No	%	No	%		
	Tax authority solve your complain properly	42	28.4	76	51.4	16	10.8	14	9.5	0		
The government has clearly defined tax policies	15	10.1	90	60.8	12	8.1	23	15.5	8	5.4	2.45	1.045
The government is fairly levying taxes	6	4.1	75	50.7	19	12.8	44	29.7	4	2.7	2.76	1.013
The tax procedure are clear and simple	17	11.5	60	40.5	18	12.2	43	29.1	10	6.8	2.79	1.179
Tax audit selection procedure is sound enough	18	12.2	55	37.2	26	17.6	36	24.3	13	8.8	2.8	1.193
You neighbors and friends are reporting and paying tax honestly	16	10.8	26	17.6	51	34.5	42	28.4	13	8.8	3.07	1.117
Amount of taxes to be paid to the government is generally high	0	0.0	45	30.4	12	8.1	71	48.0	30	13.5	3.45	1.064
It is every ones responsibility to comply with the tax laws	2	1.4	25	16.9	18	12.2	65	43.9	38	25.7	3.76	1.060
I keep up to date transaction records and books of accounts.	0	0	9	6.1	11	7.4	70	47.3	58	39.2	4.20	.822
Failure to pay taxes leads to strict punishment	0	0	5	3.4	4	2.7	88	59.5	51	34.5	4.25	.669
It is everyone’s responsibility to pay the correct amount of tax	1	.7	9	6.1	9	6.1	55	37.2	74	50.0	4.30	.884

Std. Dev- standard deviation

Source: Business Taxpayers’ Satisfaction Survey and own computation

As is seen in the table above, most of the respondents disagreed, with mean value of approximately less than 3 that tax authority solves the taxpayer enquiry properly, tax policy is clearly defined, fairness of levying tax, simplicity of the overall tax procedure, and tax audit selection procedure. This means that although substantial effort has been made to modernize the tax system and make it easy for taxpayers, the taxpayers still not satisfied and need more simplification. Therefore, satisfaction on factors such as understandability of tax law, fairness of levying tax; attitudes of tax officer towards solving taxpayers problem, have a positive effect on the tax revenue performance. This is further analyzed later in the qualitative section.

The respondents were asked to reveal their views on how high and low in line to the prevailing tax rate in the country (Ethiopia). From the research data, 52 % of the respondents indicated that the Ethiopian tax rates are medium, 29.1% and 11.5 % of the respondents respectively indicated that tax rates are high and very high. Only about 6 % of the respondents felt that the tax rates are low. In general, the perception of respondent taxpayers towards the tax rate is medium as mean is 3.43 (Table 4.11).

Table 4.11 Perception of Taxpayers with Tax Rate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very low	2	1.4	1.4	1.4
	Low	9	6.1	6.1	7.4
	Medium	77	52.0	52.0	59.5
	High	43	29.1	29.1	88.5
	very high	17	11.5	11.5	100.0
	Total	148	100.0	100.0	
Mean 3.43					
Std.dev .826					

Source: Business taxpayers' satisfaction survey and own computation

4.2.1.3 Taxpayers' satisfaction with Service Given by ERCA

It is reasonable for taxpayers to expect the tax office to be accessible, provide friendly service, fair and respectful treatment from the tax officials and completion of their matter in time. All these are the major factors that influence taxpayers' decision to pay taxes. This survey, therefore, discussed the satisfaction of sampled taxpayers on the service and related issue provided by tax administration. The information was collected on five likert scale ranging from 1 which is very poor to 5 which is very good. The survey questions consider the location and accessibility of tax office to taxpayers as well as how easily to contact appropriate tax officer. Accordingly, 35.1 % and 6.8% of the respondents reported that the location and accessibility of tax offices convenience to their business is good and very good respectively; only 30.4% of the respondents felt that contacting appropriate persons in the offices was easy. With regards to friendliness and behavior of tax officials, majority of the respondents (86 or 58.1%) stated that friendliness and behavior of the tax officials was not good enough.

Length of time taken to complete taxpayers matter is another factor that influence taxpayers to pay or comply with tax system, the survey result on the issue shows that, over half of the respondents (80 or 54 %) mentioned that the time taken to complete their tax matter issue in tax office was very long or it was difficult to complete the tax process within a short period of time. Similarly, the level of satisfaction of taxpayers with regard to fairness in dealing with tax matters by tax officials was found low, as only about 37.2 % of the respondents felt well on the statements.

Regarding the attitude of tax officials towards to solve the taxpayers' problem was found to be the following. About 54.7% of the respondents think that the responses of tax officials towards solving their queries were almost at good level, whereas another 28.3% of the respondents mentioned that the attitude of tax official addressing to solve their problem was not fair. The remaining 16.9% were in between.

Respondents overall satisfaction is lie on the following figure. Over 71% of the respondents rated their perception as poor level and 23.7% of the respondent mentioned it to be just good. Therefore, the above survey result clearly indicates that business taxpayers are not well satisfied with the services provision of the tax authority. Overall data above is summarized in table 4.12 below.

Table: 4.12 Taxpayers' Satisfaction with the Taxpayers' Services

	Very poor		Poor		Neutral		Good		Very good		mean	Std. Dev
	No	%	No	%	No	%	No	%	No	%		
Location and accessibility of tax office/ convenience	22	14.9	28	18.9	36	24.3	52	35.1	10	6.8	3.00	1.190
Ease in locating and contacting appropriate person/ officer in the tax office (direction signals)	19	12.8	69	46.6	15	10.1	38	25.7	7	4.7	2.63	1.139
Friendliness and behavior of tax officials	28	18.9	58	39.2	20	13.5	29	19.6	13	8.8	2.60	1.244
Length of time taken to complete your task/tax matter	31	20.9	49	33.1	12	8.1	40	27.0	16	10.8	2.74	1.347
Fairness of tax officials in dealing with tax matters	21	14.2	48	32.4	24	16.2	42	28.4	13	8.8	2.85	1.231
Attitude of tax officials towards solving your problem	11	7.4	31	20.9	25	16.9	68	45.9	13	8.8	3.26	1.121
Overall satisfaction with the service provided by tax officials	14	9.5	92	62.2	7	4.7	25	16.9	10	6.8	2.49	1.091

Source: Business Taxpayers' satisfaction survey and own computation

4.2.1.4 Taxpayers' Perception with the Taxpayers' Awareness Creation

The respondents were asked to indicate whether they had participated in any of the taxpayers' training, education, awareness development programs conducted by tax authority. This could reveal to identify whether they are satisfied or not in the given training. If the respondents were participated in the program, they had to indicate whether they were satisfied with the program. If this was the case, the respondents were further requested to indicate the level of their satisfaction. Accordingly, only 37.8 % of the respondent indicated that they had participated at least in one of programs conducted by tax office. Out of the respondents who had participated in the program, 37.5 % of the respondents were satisfied with the program while the majority of the respondents (59 %) were not satisfied with programs. Table 4.18 provided the summary of the findings.

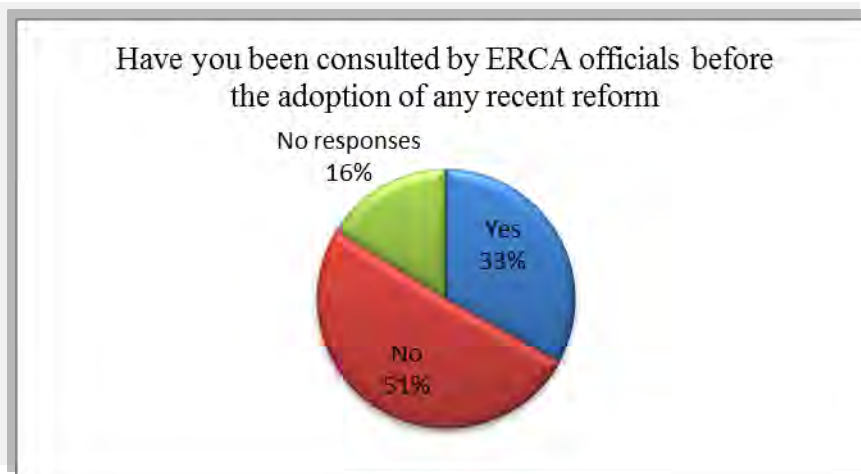
Table: 4.13 Taxpayers view with Taxpayers' Education program

Question No 17 & 18	Yes		No		No responses	
	No	%	No	%	No	%
Have you ever participated in the training / education/ awareness development programs conducted by tax authority?	56	37.8	86	58.1	6	4.1
If your answer to question above is yes, do you believe that awareness creation program organized by ERCA is satisfying business taxpayers?	21	37	33	59	2	4

Source: Business Taxpayers' Satisfaction Survey and own computation

In addition to the above, the respondents were required to indicate whether ERCA consulted taxpayers before any measures and change have been undertaken. It is not surprise, that majority (50.7%) of the survey respondent replied that no consultation have been made to aware taxpayers as tax law or reform changed frequently (figure 4. 4)

Figure 4.4 Taxpayers perception with tax consultation



Source: Business Taxpayers' satisfaction survey and own computation

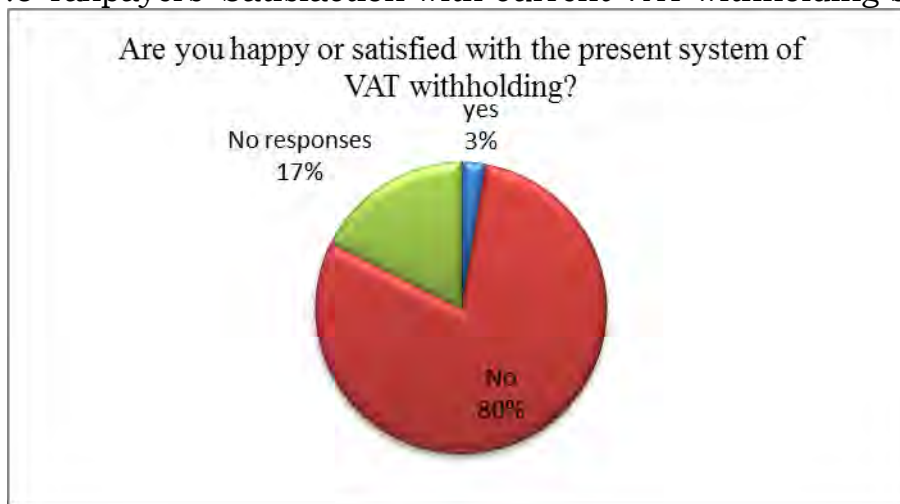
With respect the above finding, it is the duty and responsibility of the tax authority to conduct series training and consult to the taxpayers, especially on new tax provision. However, the research indicated that majority of the respondents didn't attend the tax training sessions. This may be either as a result of poor control and follow up mechanism of the tax authority or due to lack of awareness of the business taxpayers. Therefore, it can be concluded that still many

respondents are not attending or participating in the tax training session and were not consulted when new tax reform emerged to the tax system.

4.2.1.5 Taxpayers' perception towards current VAT collection System

With regards to the current VAT withholding reform, responses were needed from the sampled taxpayers in order to find out whether they were satisfied with the current VAT withholding system. From the finding, approximately 80% of the respondents were not happy with the current VAT withholding system in the country and it was surprised that only 2.7 % of the respondents were satisfied with current VAT withholding system, the remainder 17.6% were not responded on the statement. In connection with this, those respondents who were not happy or not satisfied were further requested to provide their reason and the respondents repeatedly mentioned that it creates enormous cash flow problems and a heavy financial cost to them until they got refund in cash, while they always preferred cash immediately. The findings are summarized in the figure 4.5 below and further exploration of information link to why this happen dealt in qualitative phase section.

Figure 4.5 Taxpayers' Satisfaction with current VAT withholding system



Source: Business Taxpayers' Satisfaction Survey and own computation

With regards to the current introduced automated tax system /using cash register machine, the respondents were required to indicate their view whether it is interesting to use or not.

Approximately 65% of the respondents were satisfied with the current automated tax system but their satisfaction was at moderate level, about 31.8% of the respondents were not satisfied. Who were not satisfied further requested to provide their reason to not satisfy but none of them provided such suggestions. Those case which do not make respondents unsatisfied dealt in qualitative data analysis later in this study (table 4:14).

Table 4.14 Taxpayers’ Satisfaction with the Current Automated Tax System

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	96	64.9	64.9	64.9
No	47	31.8	31.8	96.6
No responses	5	3.4	3.4	100.0
Total	148	100.0	100.0	

Source: Business Taxpayers’ Satisfaction Survey and own computation.

Cash register machines like any other machine is subject to breakdown which might lead to drawbacks including failure to file returns, failure to pay correct taxes, tax evasion activities. The respondents were asked to indicate how well or not well to the ERCA responses when machine face with some problem like machine break down (lack of function), lack power and network connection. With respect to timely responses of ERCA at the time of machine breakdown or lack functionality, 14.9% replied very good, 36.5% replied good, 30.4% replied poor, 12.2% replied very poor and 6.1% were indifferent respectively. The respondents were also asked timely responses of ERCA at time of power off, 10.1% and 56.8% of the respondents reported that the ERCA responses was very poor and poor respectively, only 26.4% of the respondents were felt that the response on these statements was good and very good. In connection to network accessibility, the respondents mentioned that the responses was not sufficient as 79.7% indicated very poor and poor, only 14.2% of respondents agreed that the responses was well as seen in table 4.15 below.

Table 4.15 Taxpayers’ Perception with ERCA Responses to CRM Problems

	Very poor		Poor		Neutral		Good		Very good	
	No	%	No	%	No	%	No	%	No	%
Timely responses when cash registered machines breakdown (lack of function)	18	12.2	45	30.4	9	6.1	54	36.5	22	14.9
Timely responses when power off to use cash register machine	15	10.1	84	56.8	10	6.8	29	19.6	10	6.8
Timely responses when net work that connected to cash register machine off	85	57.4	33	22.3	9	6.1	19	12.8	2	1.4

Source: Business Taxpayers’ Satisfaction Survey and own computation

4.2.1.6 Taxpayers’ Satisfaction with Tax Return (filling) and Refund procedures

The respondent taxpayers were asked to indicate their views on administrative mechanism like how easy in filling up tax form, simplicity and clarity of tax return procedure, decision of tax officials and tax refund mechanism.

Starting from filling up tax forms, Combining very good and good group together, over 87% of the respondents stated that ease in filling up tax forms was well, whereas 6.7% of the respondents felt that ease in filling up tax form was not good, the remaining 5.4% of the respondents were indifferent on the statement.

With regards to simplicity and clarity of tax return procedures, 2.7% of the respondents think that simplicity and clarity of tax return was very good and 20.3% of the respondents felt that it was good, while 10.1% and 62.2% of the respondents respectively mentioned that the tax return procedure was very poor and poor, the remainder 4.1% were indifferent. On the other hand, the level of satisfaction of taxpayers with regard to fairness in decisions of the tax officials seems to be low, as cumulatively majority of the respondents (84.4%) do not view the decisions of tax officials as fair and only 9.5% of the respondents were indicated that the decisions of the tax office was somewhat good, the remainder 6.1% were indifferent.

With regards to tax refund, only few of the respondents (20.9 %) stated that getting tax refund was ease, but 41 (27.7%) respondents stated very poor and 64 (42.2%) respondents stated poor on the statement, this is clearly indicates the business taxpayers were dissatisfied with tax refund procedure.

In general, it is clear from the finding that about half of the respondents reported that the overall tax procedures towards tax returns and refund mechanism was poor, about 25% of the respondents rated good. The summary of the findings on the responses have been presented in table: 4.16 below.

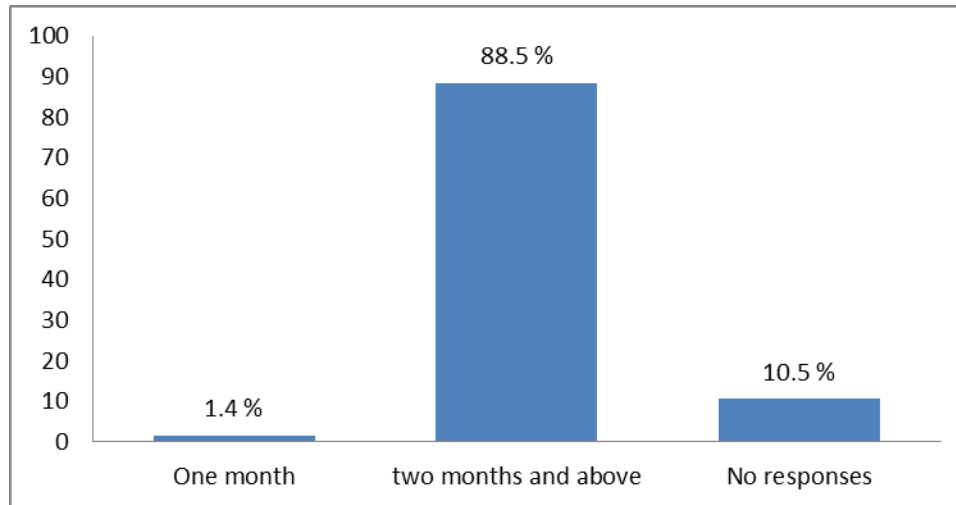
Table: 4.16 Administrative Mechanisms and Tax Procedure

Q26	Very poor		Poor		Neutral		Good		Very good		mean	Std. Dev
	No	%	No	%	No	%	No	%	No	%		
Easy in filling up the forms	3	2.0	7	4.7	8	5.4	79	53.4	51	34.5	4.14	.870
Simplicity in procedures in submitting tax returns	15	10.1	92	62.2	6	4.1	30	20.3	5	2.7	3.4	1.004
Fairness in decisions of the tax officials	57	38.5	68	45.9	9	6.1	12	8.1	2	1.4	1.86	.938
Ease in getting tax refund	41	27.7	64	43.2	12	8.1	24	16.2	7	4.7	2.27	1.170
Overall tax procedures	20	13.5	74	50.0	10	6.8	37	25.0	7	4.7	2.57	1.143

Source: Business taxpayers' satisfaction survey and own computation.

In addition to above response to getting tax refund, the respondents were asked to indicate whether they have ever had any delay in receiving tax refund (including refund form VAT withholding) if their business is due for income tax or VAT refund after tax return. 55% of the respondents indicated that they have to wait two months and above to receive their refund. None of the respondents responded the periods of less than two month, 10.5% of the respondents were not responded (figure 4.6).

Figure 4.6: Taxpayers' Perception with Frequency of Tax Refund Time



Source: Business taxpayers' survey and own computation

4.2.1.7 Perception of taxpayers with Tax Enforcement

The respondents were asked to indicate their extent of agreement or disagreement with some statements relating to some of tax law enforcements in Ethiopia. This was on a likert scale, where Strongly Disagree =1; Disagree=2; Uncertain = 3; Agree=4 and Strongly Agree =5. On the scale 1 to 2, it is assumed as dissatisfied; as from 4 to 5, is taken as satisfied; as 3 is between satisfied and dissatisfied.

The responses were sought from the respondents on their perceptions towards imposing penalty by ERCA and then, the respondents were asked about the consistency and transparency in imposing penalties in Ethiopia. From the findings, 16.2% of the respondents had a positive (agreed and strongly agree) perception about the way penalties were being enforced by the tax authority. However, over 80% of the respondents had a negative (disagreed and strongly disagreed) perception about the way the penalties were being enforced by Ethiopian Revenue and Custom Authority, the remainder 3.4% of the respondents were indifferent (neutral) about the way ERCA enforces its penalties.

The respondents were also required to indicate their view on the fairness of the audit selection and audit procedure. Similar to the finding reached under question No 14, under this section the finding revealed that there is a negative view in regard to fairness of the audit selection as indicated by 62.2% of the respondents (strongly disagree and disagree). However 12.2% were indifferent on the fairness of the audit selection and 10% had a positive view on the statement.

In case the audit outcome and its acceptability, majority of the respondents 57.5% (agree and strongly agree) replied the audit outcome is fair and acceptable, 34.5 % replied the audit outcome is not fair and unacceptable; the remainders 8.1% were indifferent.

Respondents were also asked in connection with the general law enforcements of the tax authority and the respondents replied that 2% strongly agree, 14.9% agree, 2.7% neutral, 65.5% disagree and 14.9%strongly disagree. With this statistics, majority of the respondents were not happy with the tax law enforcements as seen in table 4.17 below.

Table 4.17 Perceptions of Taxpayers with Tax Enforcement

	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		mean	Std. Dev
	No	%	No	%	No	%	No	%	No	%		
Imposing penalties is sound enough in Ethiopia.	16	10.8	103	69.6	5	3.4	20	13.5	4	2.7	2.28	.925
The criteria for selection of taxpayers for audit and auditing procedures are fair and sound enough.	39	26.4	53	35.8	18	12.2	30	20.3	8	5.4	2.43	1.229
Generally, tax audit outcomes are fair and acceptable	14	9.5	37	25.0	12	8.1	71	48.0	14	9.5	2.64	1.241
In general tax law enforcements are fair and acceptable	22	14.9	97	65.5	4	2.7	22	14.9	3	2.0	2.24	.950

Source: Business Taxpayers' satisfaction survey and own computation

4.2.1.8 Perception of Taxpayers with Tax Information

For any taxpayer, information related to taxes is very important. When the documents related to taxes: laws, manuals, brochures, guidelines, circulars are clear and concise, many of the taxpayers do not require support from others, e. g. tax consultants, accountants, auditors and lawyers. Considering the importance of the availability of information and quality of documents, the respondents were asked about their perception on availability of information on tax, easily understanding the available tax documents, contents and coverage of those documents and overall satisfaction level on the documents.

In terms of the availability of tax information, 77.7 % of the respondents argued that the availability of tax information in Ethiopia was poor, only 16.9% of the respondents reported that the availability of tax information is good but even a single respondent didn't reply that it is very good (0%) and 5.4% of the respondents were indifferent. In addition, information was gathered from the respondents towards whether they easily understand the existing tax documents. Accordingly, a relatively high percentage (75 %) of the respondents viewed that the available tax documents are easily understandable, 22.3 % of the respondents felt that the existing tax documents was difficult to understand(very poor and poor).

Further investigation on the content and coverage of the existing tax documents showed that 68.3% of the respondents reported that the coverage and contents of tax documents was good and very good, where as 24.3 % of the respondents felt that it need some improvement (poor and very poor). Furthermore, it is clear from the finding that about 56.7% of the respondents were satisfied with the overall tax documents and cumulatively 41.3% of the respondents were not satisfied with over tax documents (table 4.18)

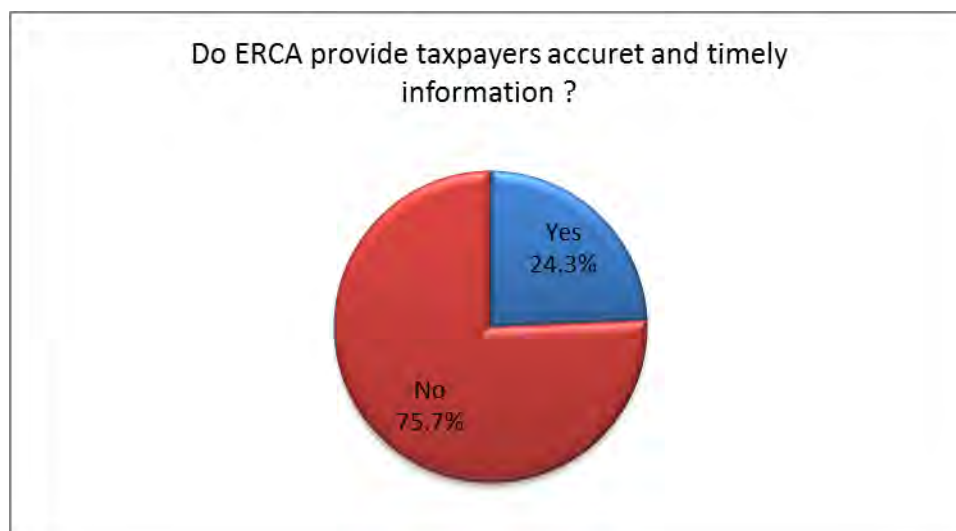
Table 4.18: Taxpayers' Perception with Tax Information and Tax Documents

	Very poor		Poor		Neutral		Good		Very good	
	No	%	No	%	No	%	No	%	No	%
Availability of tax information	42	28.4	73	49.3	8	5.4	25	16.9	0	0
Ease in understanding the available tax documents	8	5.4	25	16.9	4	2.7	91	61.5	20	13.5
Content and coverage of the tax documents	7	4.7	29	19.6	11	7.4	88	59.5	13	8.8
Overall satisfaction with tax documents	10	6.8	51	34.5	3	2.0	65	43.9	19	12.8

Source: Business taxpayers' satisfaction survey and own computation

Information access is essential in increasing people's knowledge and awareness of what is taking place around them, which may eventually affect their perceptions and behavior. In the survey, the respondents were asked to indicate whether the ERCA provided accurate and timely tax information to the taxpayers. Over 75% of the respondents reported that they never receive tax information from tax authority and only 24.3% of respondents reported that the ERCA had provided information to them. Respondents who said ERCA had provided information for them were further asked to indicate how satisfied or dissatisfied they were with various aspects of this information. With this aspect, more than 50% of the respondents were unsatisfied with the various aspects of information such as its usefulness, accuracy and timeliness. Only 27.8%, 30.6% and 16.7% were satisfied with these aspects. Figure 4.7 and table 4.19 reveals the summary of the survey.

Figure 4.6: Taxpayers' Perception with Taxpayers Information



Source: Business Taxpayers' Satisfaction Survey and own computation.

Table: 4.19. Taxpayer's Perception with Various Aspects of Tax Information

	Very unsatisfied		unsatisfied		Neutral		Satisfied		Very satisfied	
	No	%	No	%	No	%	No	%	No	%
Usefulness of the information	1	2.8	22	61	1	2.8	10	27.8	2	5.6
Accuracy of the information	3	8.3	18	50	2	5.6	11	30.5	2	5.6
Timeliness of the information	2	5.6	23	63.9	1	2.8	6	16.7	4	11

Source: Business taxpayers' satisfaction survey and own computation

4.2.1.9 The Overall Taxpayers' Satisfaction with Tax System

This section provides the general information about taxpayers overall satisfaction level. The scales, very unsatisfied to 1, moderately satisfied to 2 and very satisfied to 3 and the corresponding statement are presented in table 4.20 below. It is evident from table 4.20 that most of the respondents were dissatisfied, with mean value of below 3; that the awareness creation to taxpayer, a availability of tax information to taxpayer, tax collection procedure and transparency, tax refund mechanisms and tax audit system. Majority respondents were also indifferent

(moderately satisfied), with mean value between 3 and 4, with the statement that tax policy and administrative capability, overall taxpayer's services, tax form and with taxpayers rewarding. The result also shows that the respondent didn't reply to satisfied/very satisfy with the statement. This show t hat the majority o f t he r espondents a greed t hat the t ax a uthority is not do ing t o the maximum of their capacity in order to satisfy tax payers.

Table: 4.20. The Overall Taxpayers' Satisfaction

Possible statement on the tax system	Very unsatisfied /unsatisfied		Moderately satisfied		satisfied/ very satisfied		Mean
	No	%	No	%	No	%	
Tax policy and Administration issue	64	43.2	17	11.5	67	45.3	3.11
Taxpayers educating, awareness creation and consultation sessions	84	56.8	20	13.5	44	29.8	2.68
Generally, availability, accuracy and usefulness of tax information to taxpayers	80	54	27	18.2	41	27.7	2.64
Simplicity of collection procedures and transparent	65	43.9	23	15.5	60	40.6	2.88
Overall service provided by tax officials (timely and adequately)	56	37.9	18	12.2	74	50	3.14
Over all tax refund procedure like VAT withholding	66	44.6	25	16.9	57	38.7	2.84
Understandable and completeness of tax forms	28	18.9	14	9.5	106	71.6	3.78
Taxpayers rewarding system	16	10.8	45	30.4	71	47.9	3.01
The criteria for selection of tax payers for audit and auditing procedures	52	35.2	15	10.1	81	54.8	3.26

Source: Business taxpayers' satisfaction survey and own computation

4.2.1.10 Possible Measures to be undertaken to Improve Tax system

With regard to measures taken by the government, the survey respondents were given the opportunity to suggest on the issue which can improve tax system implementation. In this aspect, all respondents,

with the exception of tax policy and Administration issue and rewarding taxpayers, agreed that all other possible measurements should be undertaken in order to improve the tax system of the tax authority. With respect to the strengthening of tax policy and Administration issue and rewarding taxpayers, majority of the respondents become indifferent, with mean value of 3.72 and 3.92 respectively. The remaining possible measurements such as educating the taxpayers and conducting awareness creation and consultations sessions, Provide useful and accurate information to taxpayers, Making the collection procedures simple and transparent, Provide adequate and timely services to taxpayers, Making the tax forms easy to understand and complete, improve audit selection and auditing procedure and the tax refund procedure like VAT withholding was what the respondents were reported as important and very important possible measurement with mean value of > 4.3. Table 4.21 provided summary of the result.

Table 4.21 Possible Measures to be Undertaken to Improve Tax system

	Not very important / Not important		Neutral		Important/very important		Mean *	Std. Dev
	No	%	No	%	No	%		
Improving tax policy and Administration issue	15	13.5	9	6.1	119	80.4	3.72	.887
Rewarding taxpayers i.e. giving a trophy for being best taxpayer,	7	4.8	2	1.4	141	95.3	3.95	.943
Provide useful and accurate information to taxpayers	5	3.4	2	1.4	140	94.6	4.34	.646
Making the tax forms easy to understand and complete	5	3.4	1	.7	142	96	4.36	.792
Provided adequate and timely services to taxpayers	2	1.4	1	.7	145	98	4.49	.714
Making the collection procedures simple and transparent	6	4.1	1	.7	141	95.5	4.63	.673
Improve audit selection and auditing procedure	6	4.1	8	5.4	134	90.6	4.64	.700
Educating the taxpayers and conducting awareness creation and consultation sessions	20	13.5	6	4.1	122	82.4	4.73	.656
Improve the tax refund procedure like VAT withholding	6	4.1	1	.7	141	95.3	4.84	.482
Valid N (listwise)								

Source: Business Taxpayers' Satisfaction Survey and own computation.

Finally, the table 4.20 and table 4.21 above present the overall business taxpayers' satisfaction and area to be improved respectively on the same specific tax-related statements. This was also summarized in table 4.22 below to cross check and identify area to be strength and concerned to be improved.

4.22. Frequency of the Overall Taxpayers' Satisfaction and Level of Improvement

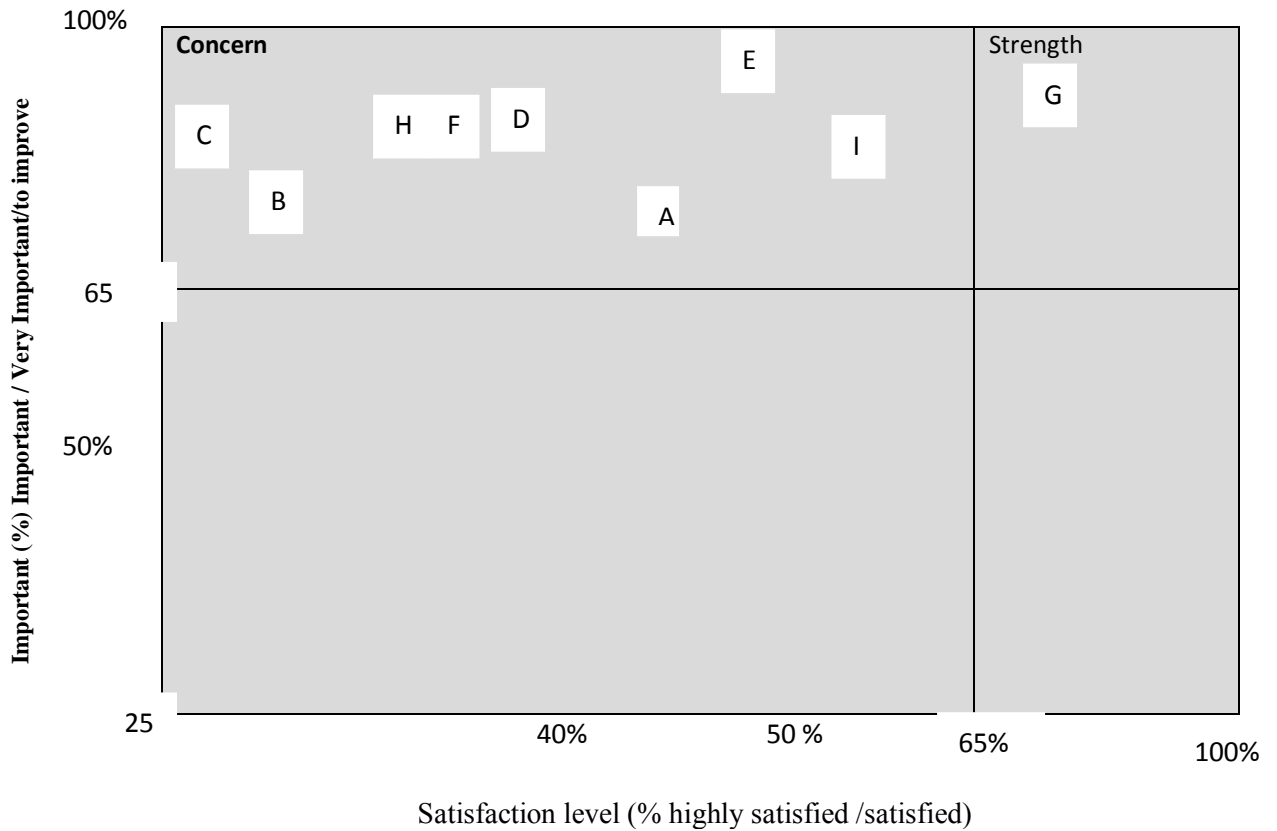
Tax-related statements		Satisfied/ very satisfied		Very important / Important	
		No	%	No	%
A	Tax policy and Administration issue	67	45.3	119	80.4
B	Taxpayers educating, awareness creation and consultation sessions	44	29.8	122	82.4
C	Generally, availability, accuracy and usefulness of tax information to taxpayers	41	27.7	140	94.6
D	Simplicity of collection procedures and transparent	60	40.6	141	95.5
E	Overall service provided by tax officials (timely and effectively)	74	50.0	145	98
F	Over all tax refund procedure like VAT withholding	57	38.5	141	95.3
G	Understandable and completeness of tax forms	106	71.6	142	96
H	Taxpayers rewarding system	71	47.9	141	95.3
I	The criteria for selection of tax payers for audit and auditing procedures	81	54.8	134	90.6

Source: Business Taxpayers' Satisfaction Survey and own computation.

Based on the above data the following quadrants depicts to suggest the tax authority by identifying the area to be concerned and strength on the specific- tax related issue stated in the above table. It should note that the following quadrant analyses show current taxpayers satisfaction or tax authority's performance and important to improve axes that range from 25 to 100 percent. The quadrants are defined by a vertical line and a horizontal line, both plotted at 65 percent¹⁴. The Horizontal line serves to differentiate items taxpayers' satisfaction as high satisfaction/performance and lower satisfaction/performance, whereas the vertical line distinguishes issues of higher important to improve and lower important to improve. Thus, strengths occur when at least 65 % of respondents think highly satisfied or satisfied with the specified statements and at least 65 % rate the issue as very important or important to them to improve. Concerns are distinguished by issues that are very important or somewhat important to at least 65 % of respondents, but less than 65 % perceive the tax authority's performance as highly satisfied or satisfied (figure 4.8).

¹⁴ Considering the Ethiopian socioeconomic situation and previous researches 65% is assumed to be high satisfaction and satisfaction as well as high Important to improve the tax system.

Figure: 4.8: Quadrant Analysis: Taxpayer's Satisfaction and improvement



Source: business taxpayers' satisfaction survey own

Figure 4.9 show that there is one area to strength among specified statements and several areas to be improved. Its strength is in making the tax forms easily understandable and complete; important to improve is high (96%) and respondents' satisfaction in this area is high as well (71.6%).

The area of greatest concern is providing taxpayers with useful and accurate tax information, taxpayers awareness creation (especially when new provision added to tax system and tax law is changed) and tax refund procedure (F). For these particular issues, taxpayers' satisfaction was less than 40% and more than 82% respondents were look for high improvement. There are also other areas which need some room for improvement, with tax policy and Administration capability (A), tax collection mechanism (D), taxpayers services (E), taxpayer's incentives (H) and in the area of tax audit selection; there were high number of respondents who expressed low satisfaction in these areas and look for improvement.

Towards the end of the survey questions, the respondents were requested to provide their suggestions and comments. Accordingly, majority of respondents gave their comments and suggestion. The responses were many but, in one way or another they were similar with what were discussed in the close ended once. To sum up, their responses have been presented below.

- One of the points that respondents commented was about tax laws and regulations. The rules and regulations pertaining tax system was not transparent enough that every business taxpayer could understand without requesting support from other.
- The other point raised by respondents was that tax authority was not conducting continuous training which focuses on awareness creation and enhances the smooth relationships with business taxpayers.
- In addition to the above points, respondents also commented on the basic services to the taxpayers which need improvement. The tax payment process need to be very simple and easy to encourages more taxpayers to pay tax regularly. The tax refund procedures also need to be simple and shorter.
- Furthermore, several respondent taxpayers have alleged that the current VAT withholding mechanism creates cash flow problems and violates the principle of legality whereby only formal laws may create taxes.

In addition to the survey data above, as noted in the chapter three, survey data should be complemented by other sources of information, qualitative data. Such additional sources may improve understanding of the context underlying survey data. Accordingly, as can be seen from above quantitative results, some portions of the results generated from the quantitative study need further understanding. These are: 1) Mechanisms that tax authority is solving taxpayers' complain; 2) how business taxpayers express their understanding with regard to fairness of Ethiopian tax system; 3) fairness in the tax collection procedure; 4) behavior of tax officials; 5) taxpayers education and information issues; 6) tax enforcement issues and 7) About the recent tax reform specifically about VAT withholding and CRM.

Accordingly, the above mentioned points were explored using qualitative data. Hence, the researcher was in a position to use semi-structured in-depth interview to collect data from eight business taxpayers.

The outcomes of the in-depth interview with regard to way of solving taxpayers' complain show that the taxpayers continued to complain about the behavior of the ERCAs' staff in connection to handling taxpayers' queries and complaints on tax matters. The reason behind this is the lengthy and bureaucratic tax administrative procedures in keeping, retrieving and processing taxpayer information. In addition, the taxpayers are also viewed and treated as potential criminal by tax office. The interview result further identified that it is the most problematic area where the tax officials unable to solve taxpayers problem. For example, one relates to valuation of Cargo system, which does not work as effectively and smoothly as it is intended to, hence complex calculations of price, ambiguous definitions, and complicated interactions with other provisions. With regards to the tax policies, majority of the interview participants reported that the rules and regulations pertaining Ethiopian tax policies are unfair and so complex to understand. The principal contributing factors to this complexity includes: the voluminous of rule and regulation, misbehavior of tax officials, lack of monitoring and supervision, unexpected change to the tax rule and sometimes lack of communication between federal and state tax rule. Interview participants were also revealed that these complexities have made things difficult for honest taxpayers to fulfil their obligations.

In line to tax collection procedure, the interview result shows that the role of the Ethiopian tax authority in the area of facilitating and simplifying tax procedure has been quite negligible and unfair. Furthermore, the interview result revealed that there is also a high degree of discretionary power and lack of adequate monitoring in Ethiopian tax authority. Surprisingly, as the outcome of discussion with taxpayers shows, certain staff networks are very strong in the ERCA and many tax officers and managers remain under the strong influence of traditional patterns of benefit relations and recognize the benefits of large extended friendship ties.

Another points raised during interview discussion were about tax office, behavior of tax official, ways of awareness creation and providing tax information to taxpayers, as well as timely service. The interview data with these regard shows that the majority of interview participant believe that the number and location of the tax administration offices are not in balance with taxpayers; the tax officers are also too busy and inconveniently located in the office; some of the ERCA official as a n impersonal, insensitive and heartless bureaucratic toward helping the taxpayers. furthermore, the interview participant reported that the time taxpayers wait at office when

preparing tax returns; inquiring about tax form and information; refund process were generally time consuming particularly, in getting VAT refund.

In relation to taxpayers' awareness creation and providing accurate tax information, a very large proportion of the business taxpayers do not have adequate tax education. Few of them with some education do not have the kind of education that encourages voluntary tax compliance. The emphasis of taxpayers training is on teaching the contents of tax laws, little or no attention is paid to skills (like filling), techniques, procedures, purpose of paying tax, where it is spent and tax officer relations. Regarding the tax information, the data shows that the tax authority does not provide useful and accurate information to the taxpayers. Moreover, the information obtained from the interview participant indicated that the overall view of the business taxpayers was that submitting tax return is perceived as complex, with unfairly time consuming and compliance costs.

During the interview, an effort was also given to understand tax enforcement issues. Accordingly, taxpayers perceived that tax audits aim to penalize taxpayers instead of educating the taxpayers and encourage voluntary submission of income tax returns. Asking about audit selection criteria, the interview data found that the participants seem to have a misconception that tax audits are either based on criteria selection or not. With regarding to audit outcome, the taxpayers perceive that tax auditors appear to adopt a hidden approach and mostly the basis for tax audit adjustments has lack of transparency and consistency as they were very goal oriented.

From the point of view of interview participant, there are legislative sources of inflexibility in the penalty system. Sometimes, more than one penalty was applied on the same mistake. In addition, in some cases the authority's ability to enforce tax law is too complicated as they do not try to identify intentional and unintentional mistake.

Another serious area of concern raised during the discussion with taxpayers is the issue of withholding VAT. Accordingly, the interview results shows that taxpayers were not happy with the new VAT withholding mechanism as it creates enormous cash flow problems and a heavy financial cost to the large business taxpayers. The interview data with regarding to automated technology like CRM revealed that taxpayers were happy to use CRM. However, taxpayers were not happy with the network system connected to CRM as it interrupted again and again.

To sum up, the above discussion presented the data results obtained through survey and in-depth interview independently. The next section presents the analysis of the results based on the information generated from literature review, data results and Ethiopian socio-economic environment.

4.3 Data analysis

The purpose of this section is to address each research question in achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly analyzed to address each research question

4.3.1 Tax system versus business taxpayers' satisfaction

Data obtained from large and medium business taxpayers survey and in-depth interview with some business taxpayers was used to address this research question.

The goal of tax administration is to foster voluntary tax compliance (Silvani, 1992) and hence reduce tax gap and compliance gap. This can be done through assessment of potential tax payers, identifying and registering the tax payers and provision of tax payer services among others.

The primary goal of a revenue authority is to collect taxes and duties payable in accordance with the law in such a manner that will build confidence in the tax system and its administration (Vadde & Gundarapu, 2012). To achieve this, tax authority should in place strategies and structures which ensure that non-compliance with tax law is kept to a minimum. To do this, Since 1992/93, the Government of Ethiopia has made a major economic policy shift from central planning to market oriented economic system. In line with this change, a series of tariff and tax reform measures have been taken (Geda & Shimeles, 2005). The major reasons to this change were: outdated tariff and tax laws; weak customs and tax administration; failure of the tariff and tax regime to attract investment, to facilitate trade and to generate adequate revenue to cover current and capital expenditure, and hence finance development and poverty reducing projects (Mesfin & Bogale, 2009). As there are many attempts have made to reform the tax system, and yet, very few attempts have been made to examine the satisfaction level of taxpayers. Understanding the federal business taxpayers' attitude and their compliance with tax system is one of the most important factors for increasing the revenue of a government.

This thesis, therefore, was trying to understand the views of federal business tax payers towards Ethiopian tax system by raising survey questionnaire in conjunction with in-depth interview. In-depth interview was used to support what had been stated in the survey result. With this regard, question no 14 and 15 of the survey questionnaires required respondent to indicate their view about some of the factors that influence ones' view on business tax system in Ethiopia. The results of these questions are seen in Table 4.10.

Based on the survey results generated above, the researcher tried to find out further support why these disagreements happened through in-depth interview. In line with this, the important of the points that raised by interviewee were related to the way that the tax authority is solving taxpayers' problem or complain. Although ERCA has reformed and simplified the tax system to improve the quality of taxpayer services, the outcome of the in-depth interview with this regard support the survey result that the taxpayers continued to complain about the behavior of the ERCAs' staff when handling taxpayer queries and complaints on tax matters. Sometimes, as to the opinion of taxpayers, rather than solving the taxpayers' problem, the taxpayers are viewed and treated as potential criminal at tax office.

The interview result further identified as the most difficult area that tax official unable to solve taxpayers problem is related to evaluation of Cargo. This indicate that, although ERCA created some automated system over time to improve the quality of taxpayer services¹⁵, as one of the strategies to raise the performance of income tax revenue collections, according to interview results, the system does not work as effectively and smoothly as it was intended to, hence complex calculations of price, ambiguous definitions, and complicated interactions with other provisions. These procedures, again, allow for many points of interaction between taxpayers and officials and when it is time-consuming and costly to appeal, the taxpayer might resort to corrupt behavior simply to get things done.

In general, from the above findings it can be noted that large and medium business taxpayers had a generally negative perception towards ERCA. This is linked to insufficient capacity of ERCA

¹⁵ Since 2006 great strides in automating ERCA's operation had been made, like automating foreign trade and procedure, automating the examination of import-export cargo, cash register machine and others (ERCA, 2012)

to solve taxpayers' problem. Taxpayers, with this regard, also suggested that tax authority need to solve taxpayers' problem mainly to lower compliance costs, to reduce uncertainties faced by taxpayers, and increase the level of voluntary compliance.

The other important issues raised in the survey question number 14 was about how the government clearly defines the tax policy, simplicity of the tax procedure and whether tax system is fair or not. All these are addressed as follows.

The goal of tax policy is to design a tax system that produces the desired amount of revenue and balances the minimization of these costs with other objectives, such as equity, transparency (Arthur *et al.* 2011). This objective can be achieved only when the policy is properly administered. Failure to properly administer the tax system, therefore, defeats its purpose and threatens the canon of equity. In addition, it allows the government to collect taxes only from easy-to-tax sectors and people who cannot avoid paying tax (Mahesh, n.d). Besides, taxpayers' treatments are another factor in a good tax system. For instance, using a survey methodology in Australian tax office, Wenzel (2006) found that taxpayers reported being more compliant when they thought that they had been treated fairly and respectfully.

Simplicity, as stated somewhere above, is another important indicator when assessing the tax systems. The more complex a tax system, there are greater opportunities for tax avoidance, evasion and other forms of abuse and also greater chance for exclusion for non-tax experts who are unable to understand the system. The simplicity of a tax system can be measured for instance by the ease to calculate tax liability, the number of tax rates and allowances and the number of loopholes in the system. In addition, simplicity criterion means that tax rules should be understandable, accessible, and uncomplicated (Association of Chartered Certified Accountants, 2008).

The above discussion, therefore, tell us that taxpayers expect that tax policies are clearly defined, the tax procedures are clear and simple and taxpayer also expect to contribute their fair share.

In case of Ethiopia, it is obvious that the Ethiopian tax system is based on the fundamental concept of self-assessment. The efficiency and effectiveness of this approach largely depends on the ability and willingness of taxpayers to understand and comply with their legal obligations, as

well as the ability of tax administrators to interpret and equitably enforce an extensive body of tax law. But the survey result revealed that majority of the sampled taxpayers was highly educated and even then they felt that the tax policy is not clearly defined, imposing tax is unfair and the tax procedures are not simple and clear. Therefore, researcher initiated to conduct interview to support the result. Accordingly, interview results revealed that the rules and regulations pertaining in Ethiopian tax policies was unfair and complex or difficult to understand that every business taxpayer could understand without requesting support from other individuals. The principal contributing factors to this complexity were: the volume of rule and regulation, misbehavior of tax officials, lack of monitoring and supervision, unexpected change to the tax rule and sometimes lack of communication between federal and state tax rule. Examining the interview result with respect to tax law also revealed that the legislative field of taxes is so disorganized that it is difficult for an average taxpayer to have a clear idea of their obligations. With this regards, there are many pieces of legislation and amendments. New amendments and changes to the tax rule are made every time and the tax administration has so far made no attempt to organize these systematically and logically in order to make them accessible and intelligible to taxpayers. This indicated that one of the consequences of complexity is that it makes difficult for honest taxpayers to fulfill their obligations. Moreover, the general observation of the researcher from this finding was that most owners of medium and large business have little or no knowledge of the laws or regulation that govern their operations and they are still struggle to look at simple tax system.

With regard to tax collection procedure, examination of the survey and interview result shows that the role of the Ethiopian tax authority in the area of facilitating and simplifying tax procedure has been quite negligible. This indicates that one problem for tax authority is that different activities in the field of taxpayer's services are not fully co-ordinate, especially, in the area of how the tax office consults and make it easier for tax payers to meet their obligations.

Furthermore, the data obtained from both survey and in-depth interview shows that tax system is unfair. Particular issues considered as unfair were: Aggressive stance of tax official towards taxpayers, sometimes calculations of price based on subjective or internet, VAT withholding system, disparity of the treatment of taxpayers and the frequent change in tax law. Moreover, the

data suggest that tax procedure should promote investment and production so as to expand the economy of the country and not only aim at imposing taxes and penalty.

Generally, as many taxpayers suggests on the survey question and examination of in-depth interview result shows, significant simplification is needed to ensure the continued viability of good tax system in Ethiopia.

Furthermore, the outcome of the interview result revealed that there is also a high degree of discretionary power and the lack of adequate monitoring in Ethiopian tax authority which give space to tax official to provide favorable interpretations of government rules and regulations to businesses in exchange for illegal payments like corruption. Surprisingly, as the outcome of discussion with taxpayers shows, certain staff networks are very strong in the ERCA and many tax officers and managers remain under the strong influence of traditional patterns of benefit relations and recognize the benefits of large extended friendship ties. This implies that the collusion between corrupt taxpayers and corrupt tax officials puts honest taxpayers at a disadvantage, encouraging them to evade taxes. Likewise, corrupt tax official encourages and weaken the will of honest officers to engage in corruption¹⁶. It is these routine cases that corrupt tax practices that ultimately erode business taxpayer confidence in tax authority and hence, complicate the tax system as well. However, the Ethiopian government has been working on it to minimize the impact of corruption linked to the tax. For example, some recent measure taken by government on higher tax officials is promise that the government is working on some of its gaps. In general, the topics discussed above from both survey and in-depth interview results generally summarized in the following.

First, although tax reforms have been undertaken, a strong tradition of challenging the procedures and rules of the tax authority has not taken root in Ethiopia particularly in the area of simplicity and fairness. This shows that there is scope for the government to further simplify the tax policies and procedures.

¹⁶ The presence of corrupt managers may also have a contagious effect on the general corruption level within the revenue authority. Firstly, corrupt leaders may not worry very much about corruption at lower levels in the organization. Hence, the probability of being detected for corruption is likely to lower for the rank and file tax officers. Second, corrupt leaders contribute to a reduction in the moral and stigma costs connected with corruption. In such a situation we would expect the general level of corruption to increase (Fjeldstad, 2005)

Second, tax authority has difficulty in providing accurate assistance to taxpayers, designing understandable forms and instructions, and promulgating timely regulatory guidance. This indicates that taxpayers still complain regularly about high compliance costs, a lack of clarity over tax regulations, seemingly arbitrary behavior by tax officials and a lack of transparency. This combined with lack of access to information about rules and regulations, unfair tax procedure makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers. Therefore, a key message for government arising out of this study is the need to organize tax systematically and logically and reduce the volume of directives and regulations and thereby moderate complexity.

Third, many tax officers may be truly in favor of respecting the taxpayer domain and may want the tax bureaucracy to be at the service of taxpayers, but still some tax official and manager participate in everyday actions that reproduce the system that is an authoritarian nature. Thus, a spiral is created in which networks of corrupt official at different level undermine efforts to modernize the tax system and thus create an ongoing need for these very networks to continue to operate.

In general, from the above discussion it can be noted that federal business taxpayers had a general perception towards the Ethiopia revenue custom authority which could largely explain the way they feel about change. Therefore, a key message for government arising out of this finding is the need to be restructuring the duties of various functionaries within the tax authority.

4.3.2 Service Delivery and Treatment, Tax Information and Perception on Taxpayers' Satisfaction

This section starts with the discussion of location and accessibility of the tax office to taxpayer. The organizational status and location of the tax office in overall tax authority structure is major issues to be addressed as part of the taxpayers' service. In the literature, the tax office should be easily accessible either by telephone and internet or being in a convenient location and the physical appearance of equipment, facilities and layout should facilitate taxpayers' services (Aslund, 2002). In Ethiopia, examination of the survey result with this regard shows that the location of tax office to taxpayer business is average. However, ease in locating and contacting appropriate officer in the tax office is quite difficult. Further, according interview results, the

number and location of tax administration offices are not in balance with taxpayers¹⁷. The interview result also revealed that tax officers are too busy and inconveniently located in the office. This indicates that, although ERCA has a separate division or department of the tax office that is responsible for each major business process or activity performed by the tax authority such as large taxpayers office, medium taxpayers office and subunit in each¹⁸, it couldn't bring balance with number of taxpayers and majority of the respondents were not satisfied with the location and accessibility in the tax office. Hence, the key messages from this finding to increase the number of tax office in the town.

For any tax administration (authority) to meet the canons of taxation¹⁹, it must be supported by a quality taxpayer service. Taxpayer service usually means service and information, which the Tax Administration provides to taxpayers so that they can fulfill their tax obligations. It should also give the taxpayer a fair guideline of what consequences taxpayers' activities will have in terms of taxes. The service should not only address the expressed needs of the taxpayer, it should also include assistance in areas in which the taxpayer might not even have realized that compliance could be facilitated through taxpayer service and information (Grampert, 2001).

The rationale for providing quality taxpayer services is to raise tax awareness and enhance the level of voluntary tax compliance. This is done by providing the taxpayers and their agents with clear, precise and timely tax information, simplifying the tax forms and tax laws, translating the laws into local understood dialects by the taxpayers, ensuring courtesy and considerate treatment is extended unconditionally to all taxpayers, responding expeditiously to every taxpayer's enquiry, compliant or request, explaining the grounds for derivation of every tax assessment, providing proper technical advice to the taxpayer requests about tax implications, assisting new taxpayers to register, educating the taxpayers and the general community about tax obligations and rights (Jenkins and Khadka, 2000).

¹⁷ The ERCA's office is organized primarily along functional lines as large taxpayers and medium taxpayers. Currently only three tax offices are serve all federal taxpayers (Including non business taxpayers)

¹⁸ For example, audit/inspection, taxpayer service, returns processing and tax collection.

¹⁹ Principles of equality, simplicity, and convenience.

Of all the various operating functions of the tax administration, the staff of the taxpayer service function has by far the most interactions with taxpayers. Their attitude and demeanor will shape the taxpayers' feelings towards the tax administration. The staff must, therefore, be good communicators and have a genuine desire to assist the taxpaying population and have the ability to stay calm when faced with adversity (Baurer, 2005).

There is evidence to show that people who feel they have been treated fairly by an organization will be more likely to trust that organization and be inclined to accept its decisions and follow its directions (e.g. Murphy 2002). The literature has also shown that being treated politely, with dignity and respect, and having genuine respect shown for one's rights and social status, will enhance feelings of fairness in the tax system and promotes commitment to paying taxes which then increases compliance levels. Murphy (2002) has specifically shown that taxpayers value respectful treatment by authorities and view those authorities that treat them with respect as more entitled to be obeyed. Taxpayers are also influenced by judgments of neutrality in decision-making procedures²⁰. On the contrary, the survey results shows that majority of the respondents dissatisfied with both friendliness and fairness of tax official as it is seen in Table 4.12.

In the literature again, it was found that tax payers who felt they were treated unfairly by the tax office were also less likely to trust the tax office and hence affecting the compliance level (Murphy, 2005). On the other hand, helpful officials, who can understand not only a business person's questions but also the concerns that lie behind those questions, and who appreciate and care about the effects that official action can have on the running of a business, can do a great deal to reduce the burden of the tax system (Richard, 2010). Having this in mind the researcher discussed the issue with the interview participant. Accordingly, examination of the interview data indicate that the taxpayers still encountered a lot of inconveniences, partly from misconduct of the tax officers such as impersonal, insensitive and heartless bureaucratic. This may results lengthy procedures in paying taxes, creating anxiety and stress and increasing taxpayer compliance cost. This finding, therefore, clearly indicate that taxpayers continued to demand for better services from ERCA's staff despite the taxpayer services unit being in operation in each tax office.

²⁰ Neutrality includes honest assessments of tax payers, impartiality, and the use of fact, not personal opinions, in decision-making.

With regards to the time taken to get services from tax officials, the examination of survey and interview result shows that timeliness of responding to taxpayers inquiries; such as the time taxpayers wait at office when preparing tax returns; inquiring about tax form and information; refund process were generally time consuming. In particular, taxpayers were confused and angry about having to get VAT refund because of the tax office's perceived lack of timeliness to identify the problem or conduct verification checks on suspect cases. Overall, the service standard outlined in ERCA and the actual service are at unfavorable variance to taxpayers. One possible explanation is that the phone service might be answered promptly, but it may take more time before the call is directed to ERCAs' person who is in position to deal substantively with the caller. In general, it can be noted that the tax office had not been helpful in looking for a cooperative and fair solution to taxpayers' inquire on time.

Another important point covered under taxpayers services are issue related to taxpayers' education and information provided to taxpayers. The strategy to improve taxpayer education, information and assistance in order to enhance tax collections and reduce compliance costs should be based on a commitment to high quality services and constructive interaction between taxpayers and the tax administration. Enhancing quality services through taxpayer education, information and assistance requires a determined effort to increase public confidence by focusing on taxpayer requirements and satisfaction. The approach should address compliance in the context of correcting system deficiencies; simplifying cumbersome and complex tax laws and rules, forms and instructions; presenting the tax laws as fair in their intent and administration; and assisting complying taxpayers who are trying but are unable to meet their obligations (United Nations Secretariat, 2000).

Previous researches indicate that tax knowledge is very essential in order to increase level of tax compliance (Richardson, 2006; Kirchner *et al.* 2008). Hence, it is very important to have knowledgeable and competent taxpayers. Park & Hyun (2003) suggest that tax education is one of the effective tools to induce taxpayers to comply more. In other word, taxpayers are more

willing to comply if they understand basic concept of taxation²¹. From a tax administration viewpoint, other researchers (Cialdini, 1989) have concluded that compliance could also be influenced by educating taxpayers of their social responsibility to pay and thus their intention would be to comply.

In Ethiopia, examination of survey outcomes in this connection indicate that majority of the taxpayers were not participated in the taxpayer education provided by ERCA, even taxpayers who participated in the taxpayer education were not satisfied. The interview result with this regard also shows that a very large proportion of the business taxpayer does not have adequate tax education. Few of them with some awareness do not have the kind of awareness that encourages voluntary tax compliance. Mean that, the information available to them in the education or awareness creation is limited to tax rate and the fact that penalties exists for not paying tax²². Furthermore, the training or awareness creation provided to the taxpayers by tax authority does not justify much attention to the tax system. The emphasis given to of taxpayers training is on teaching the contents of tax laws. Little or no attention is paid to skills like filling techniques, purpose of paying tax, where it is spent and tax officer relations.

Therefore, the conclusion that the study can draw is that, although ERCA has educational units in its structure, the emphasis given by this unit is so limited to content of tax laws irrespective of the other needed dimensions.

Another important point towards taxpayer's service is providing reliable and accurate tax information to taxpayers. Taxpayers have the right to get information and help in complying with tax laws (Canon of taxation). The tax revenue organizations as service providers are therefore under obligation to offer quality service to their customers, who are mainly taxpayers.

One way to alleviate the administrative burden of tax system is to make it easy for taxpayers to get the information they require, without making them plough through a lot of information that is

²¹ Tax knowledge will also reduce the potential of evasion. In a cross country study by Richardson (2006) towards 45 countries in the world, he finds that education in general has negative relationship with tax evasion, where the tendency to evade tax will reduce with the level of education.

²² Furthermore, the interview participants suggest that the awareness should not be about laws and penalties alone but also on needs and justifications for tax and appreciation.

irrelevant to their needs. Difficulties in getting information not only represent a missed opportunity to reduce burdens, it can positively increase those burdens as they lead taxpayers to spend unnecessary time searching for information that may not be available (Richard,2010).

To meet the needs of a diverse taxpayer, which has differing needs and preferences about how and where to get their tax information, the ERCA uses multiple communication channels. For example, telephone, web-site, social media (television), and face-to-face assistance. But the results of the survey show that there is more to be done as majority of survey respondent fail to feel good on the availability and understandability of tax information (table 4.18). In addition, the examination of the interview data shows that taxpayer spend unnecessary time searching for tax information because taxpayers may need guidance to fill gaps in their knowledge because of the changes in the tax law (frequently), changes in ERCA procedures. This indicates that the tax rules are not simple enough to allow business taxpayers to see easily what they have to do. In general, from this study, one can conclude that the business taxpayers were not satisfied with the information function of the tax office towards obtaining accurate, useful and timely information.

4.3.3 Tax Collection Procedure, Administrative Mechanism and Tax Law Enforcement on Taxpayers' satisfaction

The desired objectives of tax policy can be achieved only when it is properly administered. Failure to properly administer the tax, therefore, defeats its very purpose and threatens equity, procedural deficiencies in tax operations, reduce overall tax collection, and cause corruption in tax administration (Mahesh, n.d). Kaldor (1980) stated that 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. Another researcher Jenkins (1992) emphasizes that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. He also warns that many ambitious tax reforms failed because of the inefficient tax administration.

The tax administration, therefore, must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. Failure to bring business activity

from the shadow economy into the tax system puts compliant taxpayers at a competitive disadvantage, and ultimately leads to an erosion of the tax base (Baurer, 2005). Baurer (2005) further indicates that a well functioning tax administration, perceived as treating all taxpayers fairly and with respect, and concerned with collecting only the proper amount of tax, will go a long way towards achieving the goal of voluntary compliance which benefits everyone. Therefore, business taxpayers along with other taxpayers benefit from a well functioning tax administration system. Moreover, the tax system's administrators must be able to understand the system sufficiently to (1) provide timely, comprehensible guidance to taxpayers and their advisers and, (2) are able to enforce the tax law and make appropriate collections. The growing burden placed on tax administrators significantly reduces efficiency and impedes effective interactions with taxpayers and advisers (American Institute of Certified Public Accountants, 2003).

The government of Ethiopia has established Ethiopia Revenue and Custom Authority in 2008 and has been able to further strengthen tax administration through a series of institutional reforms (ERCA, 2012). Currently it administers different types of taxes such as Income Tax, Value Added Tax, Customs Duties and Excise Tax among many others. Hence ERCA is supposed to ensure taxpayers comply with the respective tax law and the work of the Ethiopian tax Authority includes activities that cover both compliance and customer service. For example, revenue's range of functions includes: assessment, collection, audit and other interventions, anti-smuggling and other customs functions and anti-avoidance.

In addition, many of the functions of tax authority of Ethiopia depend to at least some degree on the voluntary compliance of taxpayers. Moreover, large elements of the tax system in Ethiopia are based on self-assessment²³. In this context, there is a clearly potential to influence behavior to improve compliance²⁴. In this study, the taxpayers' perception toward tax administration was

²³ Self-assessment means; where taxpayers, with access to information and assistance from the tax administration, calculate their own liabilities and refund entitlements, file returns, and pay tax and claim refunds that they themselves assess. If they fail to make accurate assessments and pay insufficient tax, or falsely claim refunds, they run the risk of being audited and subjected to penalties

²⁴ Compliance in taxation has a broad meaning, it covers filing compliance (filing returns on time), reporting compliance (reporting incomes correctly) and payment compliance (paying tax due on time).

assessed through taxpayers' survey questionnaire and in-depth interviews. Accordingly, examining taxpayer survey result with this regard (Table 4:16) showed that there was scope for improvement, both in filling up tax form and submitting the tax return and the decision of tax officials.

In addition to survey result above, the information obtained from the interview result indicated that the overall view of the business taxpayers was that submitting tax return is perceived as a complex, with unfairly time consuming and compliance costs. The interview data also shows that the tax authority's internal communications and coordination within the tax authority, especially in the customs service, is minimal. As a result taxpayers, sometimes, fail to file tax declarations. This also increases the burden on those taxpayers who try to comply with the tax law, and discourages their future compliance.

Additionally, the interview participant considered that tax officials take an aggressive stance towards taxpayers instead of timely responses to taxpayer inquiries, processing of tax refunds and resolution of problems and disputes. In general, examination of interview outcomes in this connection supports the survey data that 84.4% of the survey respondents felt the decision of tax official towards tax returns is unfair.

Tax refunds are another problem area to be considered in the tax authority. Examining the survey results with respect to how easily getting tax refund revealed that about 72 per cent of taxpayer survey respondents were reported that it is difficult to get tax refund back easily. In theory, tax refunds should be paid promptly following receipt by the tax authority of a tax return giving rise to an excess credit. But, examination of survey responses in this regard showed that the taxpayers unreasonably wait for two and more months to get refund. According to interview data, delays in such refunds thus carry a significant cost to the taxpayer. These results, therefore, suggest that business taxpayers are not overly satisfied with how easily and timely get tax refund. Hence, one can conclude that the tax authority's capacity of refund processing system is not strong enough.

In order to promote tax compliance, the tax code is enforced by a system of fines and penalties. The incentives of rational and selfish individuals to voluntarily pay taxes are pretty low because

undeclared income is not taxed, therefore the individual needs to face a certain threat of punishment if he/she does not truthfully declare his/her income (Mubiru, 2009).

Feld & Frey (2002) argue that the tax code is enforced by systems of fines and penalties in order to promote tax compliance. Tax payers need to face certain threats of punishment if they do not truthfully declare all their income. On the other hand, Cummings, *et al* (2005) argue that, although there is considerable evidence that enforcement efforts can increase tax compliance, there must be other forces at work because observed compliance level cannot be fully explained by the level of enforcement.

One of the tax law enforcement mechanism is tax audit. In principle, the tax system is moving in the direction of self-assessment, whereby individuals and firms calculate their tax liability directly and submit returns and payments. Administrative assessment, on the other hand, requires that each taxpayer's liability is calculated by a revenue official, using data supplied by the taxpayer.

The purpose of tax audits is, therefore, to determine if taxpayer returns have been prepared and filed correctly. This usually involves a re-examination conducted at the taxpayer's place of business. During the examination process, the auditor reviews the facts, circumstances, records, and other pertinent information that supports the taxpayer's return. Ultimately, the auditor makes a final determination that the taxpayer's return is: 1) Filed correctly (no changes), 2) Overpaid (taxpayer is entitled to a credit) and 3) Underpaid (taxpayer owes additional tax).

The Ethiopian business tax regime is relying primarily on self-assessment and backed by risk-based audit selection method. The ERCA, therefore, carries out tax field audits at taxpayers' business premises or at office depending on the complexity of the audit situation for example, size of business, diversity of operations, to ensure appropriate amount of income has been reported by adopting correct tax treatments on business income and expenses in accordance to the tax law. In any instance the record of the business taxpayer for example does not support the tax computation and the taxpayer cannot provide reasonable explanation on the discrepancy, a 10% to 50% penalty will be imposed.

As stated in the literature the primary objective of tax audits is to detect non-compliance i.e. non submission of income tax returns or nonpayment of income tax by taxpayers in turn; this study elicits respondents' opinions on the course of tax audit, like on soundness and fairness in audit

selection criteria and on the tax audit outcome (table 4:17). The result with these regard indicates that the audit selection criteria and its procedures are not sound enough and taxpayers were also unhappy with the outcome of audit result.

According to discussion made with the interviewee, majority of the taxpayers generally perceived that auditing is a necessary element of good tax system that examine the filed returns to determine the correctness of self-assessed taxes. Therefore, the purpose of tax audits should be to determine if taxpayer returns have been prepared and filed correctly and to educate taxpayer on tax compliance matters. But, despite the ERCA's objectives of tax audits are to encourage voluntary submission of correct income tax returns, the taxpayers perceived that tax audits aim to penalize taxpayers instead of encourage voluntary submission of income tax returns. Asking about audit selection criteria, the interviewed data found that the participants seem to have a misconception that tax audits are either based on criteria selection or not. Thus, taxpayers perceive poor understanding of audit selection criteria and they expect more transparency.

With regarding to audit outcome, the interview findings show that when conducting tax audits, the taxpayers perceive that tax auditors appear to adopt a hidden approach and most of the time, the basis for tax audit adjustments lack of transparency and consistency i.e. some taxpayers asked to provide justification for tax adjustment and some asked for additional tax payment upfront.

In addition, the interview output also shows that the tax auditors were very goal orientated in conducting their work; tax auditors seem to be very result based and more interested to find out irregularities in the tax computations rather than correct and encourage the taxpayers, especially in case of unintentional error. All this, thus, result incompetence and slow in finalizing the tax audit and lead the audit outcome to unfavorable result.

With regarding to the tax penalty, it is obvious that the tax code is enforced by a system of fines and penalties to promote tax compliance. The incentives of rational and selfish individuals to voluntarily pay taxes are pretty low because undeclared income is not taxed, therefore the individual needs to face a certain threat of punishment if he/she does not truthfully declare his/her income. The individual should be fined by a penalty tax rate when tax evasion has been detected (ECC, 2005; Mubiru, 2009).

In Ethiopia, there are two types of penalty on the business profit tax, penalty on under statements of the amount of tax and late payment. Penalties for non- or under-payment of taxes are defined by law, for example the business taxpayer is liable for a penalty in the amount of 10% of the understatement or 50% if the understatement is considered substantial²⁵ and taxpayer who fails to pay tax liability on the due date is subject to a penalty of 5% of the amount of unpaid tax on the first day after the due date has passed and an additional 2% of the amount of tax that remains unpaid on the first day of each month thereafter and penalties are imposed for violations of the VAT Proclamation²⁶ (Ethiopian Chamber of Commerce, 2005)

From the point of view of survey and interview result, imposing penalty is not sound enough. In particular, penalties for non- or late payment of VAT, income tax, and customs are defined under different separate laws, which are difficult to coordinate and to adjust as changing circumstances require. Sometimes, more than one penalty was applied based on the same mistake. In addition, in some cases the authority's ability to enforce tax law is too complicated as they do not try to identify intentional and unintentional mistake.

Overall, while penalties were perceived to have some impact upon the compliance behavior of taxpayers, from this study, there was a clear message that the penalties should be supported by other preventative measures such as educational programs. Lastly, based on the results from the above discussion, one can safely conclude that the business taxpayer were not satisfied with the overall law enforcement mechanism in Ethiopia.

4.3.4 Cash Register Machine and VAT Withholding on Business Taxpayers' Satisfaction

One of the objectives of the tax reform agenda is to improve the efficiency of the tax administration. In order to increase revenue and curb corruption, a number of African countries have implemented comprehensive reforms in their tax administrations over the past 10 to 15 years (Devas, *et al.* 2001).

²⁵ The understatement is considered substantial if it exceeds 25% of the tax required to be shown on the return or 20,000 Birr

²⁶ Like; Unregistered taxpayers, issued incorrect tax invoice, engages in taxable transactions without VAT registration, fails to maintain records required, and fails to file a timely return.

Ethiopia has been one of the countries to introduce a major reform of its tax administration system with the formation of an autonomous federal agency having its own legal personality, the Ethiopia Revenue and Custom Authority in 2008 (FDRE, 2008). The primary objective of this reform was to modernize and integrate its operations in line with international best practice of tax collection. Under this ongoing program, ERCA has implemented the following key measures, among others, aimed at enhancing revenue collection and service delivery to taxpayers: introduction CRM, Installation of Cargo Scanners at the Ethiopian Air Port in Addis Ababa and Millay check point, the introduction of Personal Identification Number (PIN), the Income Tax self-assessment program. It is also in the process of implementing an electronic Cargo tracking system aimed at addressing the intractable problem of the dumping of transit goods (ERCA, 2012). VAT withholding system is also one among many tax reform measures that the ERCA has undertaken recently.

Although these reforms have had a positive impact on tax revenue as well as corruption, the ERCA seems to have been unable to sustain its early successes. This study, therefore, tried to investigate taxpayers' view on the recent reform, specifically CRM and VAT withholding system among others.

The Cash register machine program is one among many tax administration reform measures that the ERCA has undertaken. CRM was introduced in August 2007 to ensure that sales are properly recorded by registered taxpayers in the country (FDRE, 2007)²⁷. This is initially focused on improving compliance with VAT requirements by replacing the manual paper system of remitting VAT returns that was considered inefficient and straining. The machine is also connected to the central computer of ERCA and allows it to be more accurate in its tax estimates and to trace tax evasion. This devices offer unique benefits to traders and the Revenue Authority alike by recording transaction data in such a manner that it cannot be deleted.

CRM also reduces tax preparation costs, reduces costs of tax refund claims and increases efficiency in businesses. By now all large and medium taxpayers surely use CRM. This study will therefore ascertain to what extent the taxpayers are satisfied towards to use CRM. From the survey findings, taxpayers have been satisfied with using CRM. In addition, the interview data

²⁷ Considering all the advantages of sales register machine, ERCA has made business buy obligatory Cash Register Machine imported by some recognized suppliers since February 2008 (ERCA, 2012).

shows that it is interesting to use CRM in such a way that it saves time which was initially wasted in perusing of record; reduction in tax preparation costs; good record keeping-increases profit; and also it increase efficiency in business. Therefore, although it is obligatory to use CRM, business taxpayers have been satisfied with the introduction of CRM technology.

The result also clarified the problem related to CRM specifically the network system. There was an intermittent interruption of network that prevents the flow of data in and out of the system. This has made the taxpayers as one of dissatisfy area that need to be improved. The reports of Mesfen (2012) also support this finding that since 2010, around 45,367 taxpayers has been using a total of 50,607 machines, nationwide. Out of these, only 16,675 (36 %) have thus far sent data to the Authority, for the period up to October 2012 due to poor network services. Given these findings, it seems that simply adopting the advanced technology, without completely integrated system of taxes (like own network set up), is not sufficient in increasing taxpayer satisfaction.

In 2003, the federal government of Ethiopia passed legislation to introduce Value-Added Tax as replacement to sale tax (FDRE, 2002; Yesegat, 2009). Since then, VAT is the principal source of revenue for the Ethiopian government.

In order to minimize the damage that may be caused attempts to avoid and evade the VAT and to ascertain the collection of the accurate amount of VAT by the government, the Ethiopia government has recently enacted regulations based on the VAT proclamation No 609/ 2008 (Amended VAT law) incorporated a new provision obligating buyers to withhold the VAT that should have been paid to the supplier on the domestic taxable transactions or taxable service, irrespective of whether both are registered for VAT or not, and transfer the withheld taxes to the concerned tax authority (for whom the tax authority or office the tax agent registered for). VAT withholding is withheld (retained or deducted) by a VAT withholding agent at the time of payment to the taxable supplier or service provider and transfer to the tax authority the amount withheld VAT during a month within thirty days. This provision is also supported and elucidated by VAT directive No 27/2002 E.C. Under this only the VAT withholding agents are liable to withhold the withholding VAT on their payments²⁸. Therefore, VAT withholding agents must

²⁸ As per the newly issued VAT directive No 27/2002, federal government agencies, Regional government agencies' City administration government institution and public enterprise are the withholding agents in Ethiopia.

withhold a portion of the VAT charged to them in respect of supplies of goods and services and remit it to the tax authority (to whom it registered). And then, the business authorized to claim for overpayments from the authority. This study, therefore, ascertain to what extent the taxpayers are satisfied towards to the current VAT withholding mechanism.

Accordingly, the survey findings suggest that business taxpayers have not satisfied with VAT withholding system in general. In addition, as the in-depth interview outcomes revealed, the effect of VAT withholding is to put some businesses, in particular importers, in a more or less permanent net credit position (creates enormous cash flow problems and a heavy financial cost to business taxpayers), in which they seek VAT refunds from the ERCA each month. This, however, has led to compliance problems, as those subject to withholding rationally expect delays in receiving refund, where it often takes several months, and sometimes more than a year, to process refund claims.

In the literature, most countries have statutory deadlines for payment of VAT refunds. A common feature of VAT laws is to impose a deadline on the tax authority to pay refunds within a prescribed period starting from the time a claim for a refund is made (Harrison and Krelve, 2005). Another argument in support of statutory deadlines is that they help reduce corrupt practices, the rationale behind that if the law requires prompt refunding (and this is properly enforced), tax officials will have less opportunity to extract payments from traders in return for speeding up refunds (or indeed paying them at all).

In case of Ethiopia, according to survey data, although the statutory time limit to VAT refund is 30, It is no surprise that approximately 89 percent of survey respondents (see figure 4:7) report that the tax authority has not made refunds payments within a prescribed timeframe, it takes two months and above. This indicates that business tax payers were not satisfied with the time it took to receive their refund.

Overall, from the above finding, one can conclude that business tax payers were dissatisfied with the current VAT withholding system as it creates cash flow problems and tax refund procedure are often insufficient in guaranteeing that timely refunds will be made.

Finally, the survey result (table 4.20 and table 4.21) and figure 4.9, shows the overall business satisfaction and area to be improved. The result shows that there is one area to strength among specified statements and several areas to be improved. Its strength is in making the tax forms easily understandable and complete.

The other key message from this matrix analysis is that the tax authority should improve various aspects of the tax system (the area of greatest concern in the figure 4.9), specifically providing taxpayers with useful and accurate tax information, taxpayers awareness creation (especially when new provision added to tax system and tax law is changed) and tax refund procedure. For these particular issues, taxpayers' satisfaction was less and taxpayers are look for high improvement.

There are also other areas which need some room for improvement such as with tax policy and Administration capability, tax collection mechanism, taxpayers' services, taxpayer's incentives and in the area of tax audit selection. In these areas there is low satisfaction and need for improvement. Based on the above data presented and analyzed, in the following chapter conclusion and appropriate recommendations are made.

Chapter Five: Conclusions and Recommendations

This chapter provides the conclusions and recommendations from the study. The conclusions and recommendations are derived from the findings of the study, which are presented in chapter four.

5.1 Conclusions

It is obvious that taxes are important source of government revenue in both developing and developed countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends, among other things, on the willingness of the taxpayers to comply with tax laws of a country. Ethiopian government has undertaken substantial measures in reforming and modernizing the revenue administration expecting its customer remains satisfied. However, this reform has not yet brings the required result (still low revenue performance). Having this as a gap, the main objective of this study is to examine business taxpayers' satisfaction with the various aspects of business tax system in Ethiopia. To achieve this objective, the study adopted a sequential explanatory mixed method research approach. The results of survey coupled with data obtained from in-depth interviews with taxpayers were jointly used in analyzing the business taxpayers' satisfaction. Accordingly, the finding of this thesis is presented below.

Although tax reforms have been undertaken, a strong tradition of challenging the procedures and rules of the tax authority has not taken root in Ethiopia particularly in the area of simplicity and fairness. As a result, taxpayers are still complain regularly about high compliance costs, a lack of clarity over tax regulations, arbitrary behavior of tax officials and a lack of transparency in the tax authority. In addition, lack of access to information about rules and regulations, unfair tax procedure makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers.

Another finding in the study suggests that business taxpayer were not satisfied with the location and accessibility of the tax office as it is imbalance with number of taxpayer. Besides, the study found that taxpayer are encountered a lot of inconveniences, partly from misconduct of the tax officers like an impersonal, insensitive and heartless bureaucracy.

Another important point reached in this study was that tax authority is not doing to the maximum of their capacity to create awareness (educate) to the business taxpayers. In addition, the inability of the tax authority to provide complete, prompt, and correct advice and guidance before and after any tax reform had undertaken, contributes to complexity and ambiguity to taxpayers.

The finding also revealed that submitting tax return, getting tax refund, tax law enforcement are perceived as complex and unfair. Moreover, the study reached that taxpayers were more dissatisfied with the current VAT Withholding system as it creates enormous cash flow problems and a heavy financial cost to the business taxpayers. On the contrary, taxpayers were satisfied with the use of CRM technology.

Finally, the findings noted that business taxpayers had a general negative view or dissatisfaction towards the Ethiopian tax system. The key message arising out of this study is the need to organize tax system systematically and logically and further simplify the tax policies and procedures and thereby moderate complexity.

5.2 Recommendations

As indicated in the literature review, the desired objectives of tax policy can be achieved only when it is properly administered. Failure to properly administer the tax, therefore, defeats its very purpose and threatens equity. Therefore, one of the most important policy prescriptions for simplifying tax system is creating a tax system that is rational, equitable and simple.

The primary responsibility of tax authority is to ensure compliance with tax system. At the same time, they should ensure that the tax system is simple, transparent and minimize compliance cost. Thus, the authority should aim to simplify and clarify the tax policy to motivate taxpayers to pay taxes. Especially, while changing the tax law (system), consultations should be held with the business taxpayers.

The use of information technology automates government actions and procedures, reducing delays and face-to-face contact. It builds transparency and trust by sharing information with the public and making them more aware of their rights and privileges. Therefore, it is better to use information technology like e-tax so as to reduce the interaction between taxpayers and tax

officials, thereby reducing compliance cost and the opportunity to engage in corrupt practice. However, information technology alone is not sufficient if the authority does not recognize the need for skilled tax officials and a completely integrated tax system.

Tax authority should step up to their duty of promoting awareness. The awareness should not be about laws and penalties alone but also on needs and justifications for tax. In addition, taxpayers are entitled to have up-to-date information on the operation of the tax system and the way in which their tax is assessed. All the information provided to taxpayers should reflect the complexity of the situation, thereby enabling them to understand better their tax affairs. The authorities may use a variety of means to fulfill this obligation: information pamphlets, taxpayers' charters, the telephone or oral statements, video guides.

Many of the tax officials still have to learn and practice how to deal with taxpayers in a fair and professional manner and should be provided with effective orientation on the basic principles of good tax administration. The officers should also be given intensive and repetitive training for improving their attitude and promoting code of conduct, with emphasis on ethical values, such as integrity, honesty, public service, justice, transparency, accountability, and rule of law. This will help them to follow up on issues raised by the taxpayer and give feedback timely, provide quick resolutions on queries raised by taxpayer.

Customer surveys should be introduced to find out the view of taxpayers and obtain regular feedbacks on tax affairs. This would help in identifying areas of weaknesses so as to devise means for improvement.

The researcher observed that in literature, reducing tax refund time had a positive impact on the voluntary compliance. The researcher would therefore suggest that tax refund time be reduced in the authority especially refund from VAT withholding as this would reduce taxpayers' cash flow problems.

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Appendix

Appendix 1: **Business Taxpayers' Satisfaction Survey Instrument (English Version)**



Addis Ababa University
College of business and economics
Department of Accounting and Finance

Dear participant

This project is entitled Business Taxpayer's Satisfaction with the Tax System: Taxpayers in Addis Ababa: the case of federal business taxpayer. The investigator is Temtime Debere who is currently an Msc (in Accounting and Finance) student at Addis Ababa University.

The aim of this project is to assess your satisfaction (perception) with the various aspects of business tax issue in order to enable the government, particularly tax authority improve themselves and its services more effectively. To supplement the data obtained from different sources, the investigator seeks to gather relevant information from a sample of 200 business taxpayers by means of self-administered question using semi structured questionnaire.

Participation in this project is completely voluntary, the questionnaire results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator's Msc thesis.

For further information please contact **Temtime Debere** by the following address.

[Tel:- 0913 82 10 53](tel:0913821053)

Email:- teme.debere@gmail.com

Section I A: Respondent's Background

For each of the following questions/items, please indicate your choice from the list, and show your choice by putting \checkmark in the box along the selected item.

1. Please indicate your age.

20 - 30 years	<input type="checkbox"/>	1
31- 40 years	<input type="checkbox"/>	2
41-50 years	<input type="checkbox"/>	3
Above 50 years	<input type="checkbox"/>	4

2. Please indicate your gender.

Male	<input type="checkbox"/>	1
Female	<input type="checkbox"/>	2

3. Please indicate your educational qualification.

Below 12 grade	<input type="checkbox"/>	1
Grade 12 completed	<input type="checkbox"/>	2
Diploma	<input type="checkbox"/>	3
First degree	<input type="checkbox"/>	4
Masters degree and above	<input type="checkbox"/>	5
Others Please specify _____ _____	<input type="checkbox"/>	6

4. Please indicate your position in the business.

Owner	<input type="checkbox"/>	1
Manager	<input type="checkbox"/>	2
Employee	<input type="checkbox"/>	3
Owner/manager	<input type="checkbox"/>	4
Other Please specify	<input type="checkbox"/>	5

If your answer is, Employee please tell us your position _____

5. Please indicate how long you have been working on tax related issue.

Less than 1 year	<input type="checkbox"/>	1
1-5 years	<input type="checkbox"/>	2
6-10 years	<input type="checkbox"/>	3
More than 10 years	<input type="checkbox"/>	4

6. Please indicate the frequency of your visit to ERCA.

On average 2 visits a year	<input type="checkbox"/>	1
On average 3 visits a year	<input type="checkbox"/>	2
On average 6 visits a year	<input type="checkbox"/>	3
Monthly	<input type="checkbox"/>	4
Not applicable	<input type="checkbox"/>	5

7. When was the last time you visited the Tax Office?

Less than 1 month ago	<input type="checkbox"/>	1
3 months ago	<input type="checkbox"/>	2
6 months ago	<input type="checkbox"/>	3
1 years ago	<input type="checkbox"/>	4
Never	<input type="checkbox"/>	5

Section I B: Company's Background

For each of the following questions/items, please indicate your choice from the list, and show your choice by putting \checkmark in the box along the selected item.

8. What is your company's main Business activity?

Manufacturing	<input type="checkbox"/>	1
General Trade (wholesale and or retail)	<input type="checkbox"/>	2
Services	<input type="checkbox"/>	3
Others, Please specify _____ _____	<input type="checkbox"/>	4

9. Please indicate the legal form of your business

Sole proprietorship	<input type="checkbox"/>	1
Partnership	<input type="checkbox"/>	2
Privet limited company	<input type="checkbox"/>	3
Share company	<input type="checkbox"/>	4
Others, Please specify _____ _____	<input type="checkbox"/>	5

10. Please indicate how long your company has been in business

Less than 1 year	<input type="checkbox"/>	1
1-5 years	<input type="checkbox"/>	2
6-10 years	<input type="checkbox"/>	3
More than 10 years	<input type="checkbox"/>	4

11. How much turnover did your company have in 2011/12 fiscal year (2004 Ethiopian calendar)?

Less than Ethiopian Birr (ETB) 100,000	<input type="checkbox"/>	1
ETB100,000 to ETB500,000	<input type="checkbox"/>	2
ETB500,000 to ETB5,000,000	<input type="checkbox"/>	3
ETB5,000,000 to ETB15,000,000	<input type="checkbox"/>	4
More than ETB15,000,000	<input type="checkbox"/>	5

12. What taxes have you been paying to the government (multiple answer is possible)?

Business profit tax	<input type="checkbox"/>	1
Value Added tax (VAT)	<input type="checkbox"/>	2
Others, Please specify _____ _____	<input type="checkbox"/>	3

13. Please indicate ERCA office that you pay your tax liability/obligations.

Eastern Addis Ababa branch	<input type="checkbox"/>	1
Western Addis Ababa branch	<input type="checkbox"/>	2
Large taxpayers office (LTO)	<input type="checkbox"/>	3

Section II: General Perception on Tax

14. Please indicate your agreement or disagreement to the following statements

		Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5
14.1	Failure to pay taxes leads to strict punishment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.2	The government is fairly levying taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.3	The government has clearly defined tax policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.4	The tax procedure are clear and simple	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.5	Amount of taxes to be paid to the government is generally high	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.6	Tax audit selection procedure is sound enough	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.7	My neighbors and friends are reporting and paying tax honestly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.8	Tax authority solve your complain properly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.9	It is every ones responsibility to comply with the tax laws	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.10	It is everyone's responsibility to pay the correct amount of tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.11	I keep up to date transaction records and books of accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15. How high/ low are the tax rates in general in Ethiopia?

1. Very low 2. Low 3. Medium 4. High 5. Very high

Section III: Taxpayers' satisfaction with tax system

16. Kindly rate your responses on the quality of services provided by ERCA on five scale ranging from (1-very poor to 5-very good)

		Very Poor (1)	Poor (2)	Neutral (3)	Good (4)	Very Good (5)
16.1	Location and accessibility of tax office/ convenience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.2	Ease in locating and contacting appropriate person/ officer in the tax office (direction signals)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.3	Friendliness and behavior of tax officials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.4	Length of time taken to complete your task/tax matter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.5	Fairness of tax officials in dealing with tax matters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.6	Attitude of tax officials towards solving your problem	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.7	Overall satisfaction with the service provided by tax officials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

17. Have you ever participated in the training / education/ awareness development programs conducted by tax authority?

1. Yes 2. No

18. If your answer to question number 17 above is yes, do you believe that awareness creation program organized by ERCA is satisfying business taxpayers?

Yes No

19. Have you been consulted by ERCA officials before their adoption of any recent reform such as VAT withholding, cash register machine etc?

1. Yes 2. No

20. Are you happy or satisfied with the present system of VAT withholding?

1. Yes 2. No

21. If your answer to question number 20 above is NO, please explain the reason why you are not happy with VAT withholding scheme

22. Are you satisfied with the current VAT collection system /using cash register machine?

1. Yes 2. No
 If yes
 1. Just ok 2. Satisfied 3. Very satisfied

23. If your answer to question number 22 above is No, Please explain

24. How do you rate the ERCA’s responses regarding the following point

		Very poor 1	Poor 2	Neutral 3	Good 4	Very good 5
23.1	Timely responses when cash registered machines breakdown	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23.2	Timely responses when power off to use cash register machine	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23.3	Timely responses when net work that connected to cash register machine off	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

25. Kindly rate your response on the tax procedures of tax office on a 5 point scale ranging from “Very Poor” (1) to “Very Good” (5)

Tax procedure		Very Poor (1)	Poor (2)	Neutral (3)	Good (4)	Very Good (5)
24.1	Easy in filling up the forms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24.2	Simplicity in procedures in submitting tax returns	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24.3	Fairness in decisions of the tax officials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24.4	Ease in getting tax refund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24.5	Overall tax procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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25. If your business is due for an income tax refund or VAT refund, how long does it take to receive the refund after submitting the income or VAT return?

Day	<input type="text"/>	1	Weeks	<input type="text"/>	2	1 Month	<input type="text"/>	3	2 months and more	<input type="text"/>	4
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26. Are you satisfied with present refund procedure?

1. Yes 2. No

If "No" please explain

27. For each of the following statements, please indicate your agreement or disagreement on a 5 point scale ranging from "SD -strongly disagree" (1) to "SA - strongly agree" (5)

		strongly disagree 1	Disagree 2	Neither 3	Agree 4	Strongly Agree 5
27.1	Imposing penalties is sound enough in Ethiopia.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27.2	The criteria for selection of taxpayers for audit and auditing procedures are fair and sound enough.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27.3	Generally, tax audit outcomes are fair and acceptable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27.4	I'm satisfied with the present system of audit and investigation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27.5	In general tax law enforcements are fair and acceptable take	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

28. Kindly rate your response on the following with regards to tax information and tax document on a 5 point scale ranging from “Very Poor” (1) to “Very Good” (5)

		Very Poor (1)	Poor (2)	Neutral (3)	Good (4)	Very Good (5)
28.1	Availability of tax information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28.2	Ease in understanding the available tax documents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28.3	Content and coverage of the tax documents (simple to fill)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28.4	Overall satisfaction with tax documents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

29. Please select how often you get tax information from the tax office/frequency of time.

Never 1	Rarely 2	Once a week 3	About 2-3 times a week 4	Daily 5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

30. How satisfied or dissatisfied were you with the following aspects of the information?

	Very unsatisfied	Unsatisfied	Moderately satisfied	Satisfied	Very satisfied
Usefulness of the information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accuracy of the information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Timeliness of the information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

31. A, How do you rate the overall business tax system in Ethiopia in each of the following area (performance)? Generally, how satisfied are you as a taxpayer In each of the following area?

Possible performance	Very poor 1	Poor 2	Neutral 3	Good 4	Very good 5
Tax policy and Administration issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taxpayers educating, awareness creation and consultation sessions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Generally, availability, accuracy and usefulness of tax information to taxpayers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Simplicity of collection procedures and transparent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall service provided by tax officials (timely and adequately)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Over all tax refund procedure like VAT withholding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Understandable and completeness of tax forms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taxpayers rewarding system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The criteria for selection of tax payers for audit and auditing procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

32. B, How important or unimportant are each of the following measures that the government should undertake to you in order to improve the tax system.

Possible measures	Not very important 1	Not important 2	Neutral 3	Important 4	Very important 5
Improving tax policy and Administration issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Educating the taxpayers and conducting awareness creation and consultation sessions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provide useful and accurate information to taxpayers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making the collection procedures simple and transparent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve the tax refund procedure like VAT withholding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provide adequate and timely services to taxpayers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Making the tax forms easy to understand and complete	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rewarding taxpayers i.e. giving a trophy for being best taxpayer,	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve audit selection and auditing procedure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

33. Please provide the researcher with any suggestions/ comments you may have with regard to business tax system in Ethiopia
