ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF COMMERCE

DEPARTMENT OF PROJECT MANAGEMENT

EVALUATION OF TAX COMPLIANCE: IN THE CASE OF ETHIOPIAN REVENUE AND CUSTOMS AUTOHRITY MERKATO PROJECT

Prepared By: Gezahegn Zewdie

A Project Work Submitted to Addis Ababa University College of Business and Economics School of Commerce in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Project Management

Adviser: Fesseha Afewerk (Assistant professor)

June, 2018

Addis Ababa, Ethiopia

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Approved by:

Advisor	Signature	Date
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Internal Examiner	Signature	Date
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External Examiner	Signature	Date
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DECLARATION

I declare that the project entitled “Tax Compliance Project Evaluation: The Case of Ethiopian Revenue and Customs Authority” is my original work and has not been submitted for any degree or diploma in this university or any other university and that all sources of material used for the project have been duly acknowledged.

Name ______________________ signature __________________

Acknowledgement

I give thanks to the almighty God for his infinite mercy on me and helped me in all aspects of my life. I would like to express my heartfelt and sincere gratitude to the advisor of this research, Fesseha Afewerk (Asistant Professor) for his guidance and support in making my vision achievable. I would like to acknowledge my family for their love and support since without them, none of my ambitions would have ever happened.

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List of Abbreviations

ADB	Asian Development Bank
BMS	Block Management System
ERCA	Ethiopian Revenue and Customs Authority
GDP	Gross Domestic Product
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
PMBOK	Project Management Body of Knowledge
SME	Small and Medium Enterprises
UNDP	United Nations Development Program

ABSTRACT

This research project was mainly set out with a general objective of evaluating ERCA's tax compliance specifically in the case of Merkato project. To achieve its objective, the study employed descriptive research approach whereby the researcher has collected data, through questionnaires and interviews which were conducted with higher level tax officials, tax experts and also reviews available documents such as annual reports, organization profiles, research papers, journals, books and online resources. The study focuses on evaluating the essential elements that account for tax compliance in respect of the objectives set for the project. The data gathered indicate that despite the Branch Office's efforts geared toward enhancing the awareness of taxpayers on various tax laws, most taxpayers still remain unresponsive and reluctant to accurately file, report and pay as specified for taxpayers. Based on the data analysis the researcher has found that the project objectives of block management system has gained some achievements particularly with respect to increasing tax revenue, voluntary compliance and tax awareness. The results of this study provide valuable insights to identify and gauge the factors that are important for instituting tax compliance and eventually allow the Branch Office to design and implement better tax compliance enhancing strategies that rectify the current gaps. In a nutshell the project has a lot do to ensuring high level of tax compliance that maximizes government revenue through establishing equity and transparency for taxpayers.

Key Words: *Tax Compliance, Tax Block Management System*

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The primary goal of a revenue authority is to collect the taxes and duties payable in accordance with the law and to do this in such a manner that will sustain confidence in the tax system and its administration. The actions of taxpayers whether due to ignorance, carelessness, recklessness, or deliberate evasion as well as weaknesses in a tax administration mean that instances of failure to comply with the law are inevitable. Therefore, tax administration should have in place strategies and structures to ensure that non-compliance with tax law is kept to a minimum (Organization for economic cooperation and development, 2004).

Achieving high levels of voluntary tax compliance and/or maintaining current compliance rates as well as increasing the marginal levels are issues of concern to fiscal policy makers in developed and developing countries alike. This is the case because, irrespective of the nature of the economy, the principal objective of taxation is one and the same: to raise revenue towards the financing of public goods and services, and funding of governments (Martina H, Silvia R, Eric K, Alfred S, 2008).

To be able to collect the revenue which the economy generates the tax authority was restructured bringing together the former Ministry of Revenue, Federal Inland Revenue and Ethiopian Customs Authority merged to establish the Ethiopian revenue and customs authority (ERCA) based on Proclamation No. 587/2008. According to the 2017/18 annual report of ERCA, the government was able to collect more than seventy billion Birr revenue in 2017/18 budget year which accounts for more than 60% of the government budget in that physical year. This seems ideal and is promising but there needs to be continuous efforts to bring tax compliance in the years to come, in order to fully finance the budget of the country by 2020.

Tax non compliance is a serious challenge slackening income tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries. Like other developing countries, Ethiopia faces hurdles in raising revenue to the required level in order to scale up the development endeavors. Ethiopia has experienced an unswerving surplus expenditure over revenue for a sufficiently long period of time. To address this problem, the government introduced direct and indirect taxes to improve public revenue although prior statistical evidence proves that the contribution of income taxes to the government's total revenue remained consistently low (Engida, T. & Baisa, G. 2014).

In order to develop methods and instruments for fighting tax evasion and avoidance, it is important to foremost establish a broad understanding of the different determinants underlying tax compliance. ERCA implement of a broad-based compliance framework. However, pending that, there is an urgent need to address the high level of non-compliance existing within the Merkato business district. The organization applied Block Management system (BMS) aimed at promoting compliance and registering all eligible traders within particular pectoral or geographic areas.

In order to have the taxpayers in the tax net, expand the tax base and for optimizing tax collection, ERCA adopted the BMS from Tanzania. According to Shekidele, C. (2009), the basic objective of BMS is for promoting tax compliance and registering all eligible traders within a particular business within geographical area, capturing their correct level of economic activities and for gathering valuable tax information. BMS assists tax administration in improving and assurance of quality of assessments, as well as monitoring closely their business activities and be able to fight tax evasion. Tanzania BMS is set up so that trading areas are mapped and divided into blocks/segments on the basis of geography, administrative boundaries or a few streets. Each block has mandated to operate all tax functions of identification, registration, assessing and accounting for revenue collection.

Having this in mind, this study will attempt to evaluate Tax Compliance Project of Ethiopian Revenue and Customs Authority's, specifically Merkato tax compliance project.

1.2 Background of the study organization

1.2.1 Ethiopian Revenue and Customs Authority Overview

The Ethiopian Revenues and Customs Authority, an Autonomous Federal Agency having its own legal personality (according to Article 3 of the Ethiopian Revenues and Customs Authority

Establishment Proclamation No. 587/2008), established on 14 July 2008, by the merger of the ministry of Revenue, the Ethiopian Customs Authority and Federal Inland Revenues Authority. Reasons for the merger of the foregoing institutions include: to provide the basis for modern tax and customs administrations; to cut through the red-tape or avoid un necessary and redundant procedures that results in delay and that are considered to be cost-inefficient; to be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery, and to transform the efficiency of the revenue sector to a high level.

Merkato project/Merkato Branch Offices are one of the branches of ERCA found in Addis Ketema sub city. the project have two branch offices namely, Merkato Number one and number two branch offices, On top of this, the business area is divided in to six tax centers or blocks borrowing names of the area in which they are located and Each branch administers three tax centers.

Formerly the branch offices were administered by Addis Ababa city administration. From January/2013 up to January/2018 the tax administration and collection was takeover by ERCA but, until January/2018 for effective and efficient collection of taxes it is takeover by Addis Ababa Revenue Authority.

1.2.2 Objective, Vision and Mission of ERCA

OBJECTIVE

According to the Proclamation No.587/2008 of the establishment of ERCA, it is bestowed with objectives including: establishing or setting up modern revenue assessment and collection system, and providing customers with fair, efficient and quality services; causing taxpayers voluntarily discharge their tax obligations; enforcing tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion; collecting timely and effectively tax revenues generated by the economy; and providing the necessary support to regions with a view of harmonizing federal and regional tax administration systems.

VISION

To be “a leading fair and modern tax administration in Africa by 2020 that finances the government expenditure through domestic revenue generation”

MISSION

“The ERCA shall promote the voluntary compliance of taxpayers, ensure integrity and develop the skill of the employees, support the modernization and harmonization of the taxes and customs administration system, contribute to economic development and social welfare through effective revenue collection”.

1.2.3. Power and duties of the ERCA

The ERCA has the powers and duties of establishing and implementing modern revenue assessment and collection systems; providing efficient, equitable and quality service within the sector; properly enforcing incentives of tax exemptions given to investors and ensuring that such incentives are used for the intended purposes. In addition, ERCA has the responsibility of collecting and analyzing information necessary for controlling import and export goods and the assessment and determination of taxes; compiling statistical data on criminal offences relating to the sector, and disseminating the information to others respected sectors.

1.3 Statement of the Problem

The Ethiopian Revenues and Customs Authority (ERCA) administer the legislation for which it is responsible in a service-oriented, fair and progressive manner. The Authority seeks to improve voluntary compliance amongst its clients, to reduce the administrative burden on compliant participants, to enhance service and to ensure that all taxpayers pay their legitimate tax obligations.

ERCA’s contribution to the government expenditure of Ethiopia is increasing significantly over time and will play a major role in the successful implementation of the recent Growth and Transformation Plan of the Government of Ethiopia. ERCA seeks to improve its performance in tax administration in order to achieve a targeted tax to Gross Domestic Product (GDP) ratio of 15.7% by 2013/14 and to reach 17.2% by 2020 (Ministry of Finance and Economic Cooperation, 2013).

ERCA places considerable emphasis on encouraging taxpayer voluntary compliance and this is reflected in its mission statement. The administration has expressed the view that voluntary compliance is not currently at the level expected or desired and are conscious of the need to ensure that there is a balance between facilitation and control. ERCA has implemented this broad approach to encourage voluntary compliance in some key projects recently in merkato (IMF 2012)

The authority has launched a broad based tax compliance framework and Merkato was chosen as a top priority area since Merkato is one of the highly exposed areas for tax evasion due to large number of traders. According to International Monetary Fund report (2011), tax compliance within Merkato is estimated to be 25%. The 75% non-compliant population is in breach of its responsibilities for the reasons like failure to register properly and not being in the tax net, failure to file returns and/or to pay and Failure to pay the appropriate amount of tax liability.

Therefore, ERCA in collaboration with International Monetary Fund (IMF) has started addressing the non-compliance situation within the Merkato business area through the designed project based on conveniently manageable blocks. This is called block management system.

Based on the study conducted, ERCA has decided to establish two branch offices namely, Merkato number one and two branch offices, to administer the large number of taxpayers that exist in this business area. On top of this, the business area is divided in to six tax centers or blocks named after the area in which they are located. Each branch administers three tax centers. Since January/2013 the Merkato project was and began its operational activities.

Though the project was completed before 5 years ago before the implementation of the project there were gaps of the tax administration like failure to register properly, failure to file returns, and Failure to pay the appropriate amount of tax liability, Thus far no project performance evaluation has been conducted. Therefore, this study intends to evaluate the project based on ex-post project evaluation method.

1.4 Research questions

The research paper attempts to answer the following research questions:-

1. What issues planned to be address through the implementation of the project?
2. What are the achievements of the project?
3. To what extent is the project achieving the intended goal?
4. What are the major challenges ERCA faced or likely to face in implementing the project?

1.5. Objective of the study

The general and specific objectives of this study are presented as follows:

1.5.1 General objective

The general objective of this study was to evaluate Tax compliance in the case of ERCA's Merkato project.

1.5.2 Specific objectives

In line with the above mentioned general objectives, the specific objectives of this study include the following:

1. To assess the issues planned to be address through the implementation of the project.
2. To investigate the achievements of the project.
3. To investigate the extent of the project in achieving the extended goal.
4. To identify the major challenges ERCA faced/ likely to face in implementing the project.

1.6 Significance of the Study

The research is valuable as it addresses the following operational areas:

- Identifying the strength and weakness of the project execution.
- The findings and recommendations thereof may serve as a source of information for those who want to pursue further study on the subject.
- The study will be used for better improvement on the knowledge of tax compliance project evaluation.

- The study will be used to help the organization to take corrective action to improve the performance of current operation and take the necessary lessons for designing future projects.

1.7 Scope/delimitation of the study

Geographically this paper was to cover around the area of Merkato (Woreda 1 and Woreda 8 Adiss Ketema sub city) and conceptually the paper is tried to pinpoint evaluation of Merkato tax compliance project. Moreover the project is implemented in two branches and six satellite/ tax centers. So, this study was tried to evaluate the performance of the project. Other ERCA branches were not part of this study.

1.8 Limitation of the study

In conducting this study, the first limitation was time constraint. The time given to do this study was quite short and this makes difficult in the data collection process. The second limitation was lack of relevant and up to date literatures conducted in the specific context of Ethiopia.

1.9 Organization of the research paper

The research comprises five chapters. The first chapter deals with an introduction part which consists background of the study, statement of the problem, objectives of the study, research questions, scope of the study, significance of the Study and limitation of the study. The second chapter deals with a review of related literature. The third chapter contains research methodology, whereas the fourth chapter presents the analysis and discussions of the study and Chapter five holds conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical literature review

This chapter covers review of literatures related to the study. The first section of the chapter covers theoretical literature review while empirical literature review and conceptual framework are dealt in the second and third sections of the chapter respectively. This review of the literature establishes the framework for the study and formulating the research questions for the study.

2.1.1 The definition and concept of tax compliance

This section reviews previous literature in tax compliance. Specifically, first it provides the definition of tax compliance, then reviews of theoretical and empirical literature on tax compliance. This review of the literature establishes the framework for the study and formulating the research questions for the study.

2.1.2 Definition of Tax Compliance

The exact meaning of tax compliance has been defined in various ways. For example, According to Brown and Mazur (2003) Cited in Mutai, M. K. (2013) tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance.
Kirchler, E. (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes.

In considering definitions of compliance, it is convenient to divide compliance into two key categories. These categories are administrative compliance and technical compliance where the administrative compliance refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the technical compliance refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax (OECD, 2001).

2.1.3 Factors affecting compliance

According to Mera, A. (2011), the fundamental goal of any revenue authority is to collect taxes and duties payable according to the law. However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. A compliant taxpayer is one who fulfills every aspect of their tax obligations including:

- Registering with the revenue authority as required;
- Filing the required returns on time;
- Accurately reporting tax liability (in the required returns) in accordance with the prevailing legislation, rulings, return instructions and court decisions;
- Paying any outstanding taxes as they fall due; and
- Maintaining all records as required.

A non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses a risk to revenue collection.

2.1.4 Categories of taxpayer obligation

According to OECD (2004), the broad categories of taxpayer obligation are:

1. Registration in the system;
2. Timely filing or lodgment of requisite taxation information;
3. Reporting of complete and accurate information (incorporating good record keeping);
4. Payment of taxation obligations on time.

If a taxpayer fails to meet any of the above obligations then they may be considered to be non-compliant. As noted in OECD (2004), the main reasons for non compliant behavior can be categorized as:

- **Equity:** the perceived fairness of a taxation system is important, with taxpayers' behavior influenced by two perceptions: the first one is that the system treats them unfairly compared to others, and that the government is doing too little with the income it collects.
- **Opportunity for non-compliance:** several studies report this as the most important explanatory factor for non compliant behavior. However, it is unclear whether those who are pre-disposed to non compliance seek work where there are further opportunities.

- **Individual differences:** those who do not observe tend to be male, younger, and egotistical and have positive attitudes towards tax evasion and negative attitudes towards taxation authorities. There is some evidence to suggest that education about the taxation system has a straight impact on reducing the propensity to evade.
- **Social norms:** If a person believes that incompliance is widespread they are much more likely not to comply themselves. Studies indicate that it is effective in reducing non compliant behavior to ensure that taxpayers have an accurate understanding of the compliance behavior of others.
- **Dissatisfaction with revenue authorities:** There is a positive correlation between belief by tax payers that the revenue authority is inefficient and the likelihood of their non compliance. However, it is unclear just how potent this is compared to other factors.

2.1.5 Main Mission and Responsibilities of the Tax Administration

According to URESPOND (2013), all national governments must have the revenue necessary to fund the operations of their various departments, to give infrastructure and services for the population, to invest in economic development, and to advance various other priorities. The main mission of the tax administration is to collect the tax revenue due and needed by their governments from taxpayers, under the country's low of tax, without hindering private sector development. As noted on URESPOND (2013), tax administration main responsibilities are:

- Facilitate and encourage voluntary compliance by taxpayers with the country's tax laws;
- Administer the tax laws impartially and fairly;
- Minimize the cost and burden of taxpayers to comply with their tax obligations;
- Monitor the compliance;
- Enforce the country's tax laws in cases of noncompliance;
- Use its resources efficiently and effectively; and
- Ensure tax officials perform their functions with integrity and honesty.

In pursuing their mission, all tax administrations confront similar challenges, such as how to: broaden the tax base by continually bringing non-registrants and non-filers into compliance, strengthen organization and management, control tax evasion, improve tax collection, and facilitate voluntary compliance. The greatest challenges for any tax administration is achieving and maintaining high degree of voluntary compliance, which can be facilitated by vigorous tax payer service and education programs and creative measures to minimize the burden on taxpayers in complying with their tax obligations.

The main responsibilities of the tax administration is to facilitate and encourage voluntary compliance by taxpayers with the country's tax laws; administer the tax laws fairly and impartially; minimize the cost and burden on taxpayers to comply with their tax obligations; monitor compliance; enforce the country's tax laws in cases of non-compliance; and use its resources efficiently and effectively (URESPOND, 2013).

2.1.6 Importance of tax administration

According to Asian Development Bank (2001), tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decrease in the rural sector, the concentration of employment in big corporations and the growing literacy of the population.

2.1.7 Service commitments of tax administration

The tax administration should provide impartial and professional well-mannered service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear, reasonable and current tax information and will make this information available to tax payer through various media and provide timely, accurate written information that one can rely on to questions and requests for tax information (ADB, 2001). Education and information programs on specific tax issues should be arranged with taxpayers to enhance the 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 (ADB, 2001).

2.1.8 Core and Support Functions of Tax Administration

According to URESPOND (2013), the core or basic functions that a modern tax administration performs in its direct operations are:

- **Taxpayer registration:** the collection, recording, and maintenance of basic identifying tax payer information in the tax administration's master database that permits the administration to understands its tax payer base and to plan accordingly;
- **Taxpayer services**: the information, forms, publications, and tax education that the tax administration provides tax payers to help them comply with their tax obligations, to demonstrate that they are considered valued customers of the tax administration, and to reduce the need for extensive enforcement, given limited resources;
- **Processing of tax declaration filings and tax payments:** the processes and forms designed by the tax administration for taxpayers to file their tax return and pay their tax liabilities on specified dates, and the processes used by the tax administration to receive, document, review, correct if necessary, and archive the tax returns;
- **Taxpayer audits:** the processes used by the tax administrations to monitor compliance, by selecting filed tax returns to audit income, expenses, and supporting information reported by the taxpayer and to make additional assessments which require collection action;
- **Taxpayer objections:** the processes offered to tax payers to first dispute proposed additional tax assessments in forums within the tax administration’s field offices;
- **Taxpayer appeals**: the formal processes available to tax payers under the law to protest projected additional tax assessments or other actions by the tax administration at forums away from the direct authority of the tax administration’s compliance offices, including judicial reviews and hearings;
- **Collection of tax arrears:** it is opposed to tax payment the business processes used by the tax administration to collect taxes which are due, assessed, not paid by the due date under the law, including use of enforcement measures, such as liens, levies, and seizure and sale of taxpayers’ property; and
- **Tax-fraud investigations:** the processes used to investigate financial transactions declared by tax payers on their tax returns in cases in which the tax administration has a reasonable cause to expect that the taxpayer has committed tax fraud. Tax-fraud investigations also involve cases of tax evasion, when taxpayers subject to tax do not register, file, and pay their taxes.

2.1.9 Taxpayer Segmentation

As it has been stated by African Tax Administration Forum (2017), Taxpayers are not homogeneous and different groups of taxpayers generate different types of tax administration challenges. The criteria that countries use to segment taxpayers are principally:

- Turnover, where taxpayers are classified as large, medium or small according to the size of their turnover.
- Tax payment, where they are classified as large, medium or small according to the amount of tax collected from them.
- Nature of business, i.e. the economic sectors in which a taxpayer operates. Those that operate in the financial sector, like banks and insurance companies are generally considered large taxpayers

2.1.10 Block Management System

A taxpayer outreach scheme which physically identifies and maps taxpayers and breaks them down into manageable blocks tax administrators then visit them in person to educate and encourage compliance. Proper implementation of BMS prevents the under-declaration of sales and profits, the non-issuance of invoices, false refunds and offset claims. It also helps revenue authorities track down untraceable taxpayers and reduce the size of the large informal sector (African Tax Administration Forum, 2017).

2.1.11 Concepts of Projects

According to PMBOK (2013), project is a temporary endeavor undertaken to create a unique product, service, or result. The temporary nature of projects indicates that a project has a definite beginning and end. The end is reached when the project's objectives have been achieved or when the project is terminated because its objectives will not or cannot be met, or when the need for the project no longer exists. Project lifecycle involves five stages such as project identification, project preparation, project appraisal, project implementation and project monitoring and evaluation (Kerzner, 2002).

2.1.12 Concepts of Project Management

Project management is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements. Project management is accomplished through the appropriate application and integration of logically grouped project management processes, which are categorized into initiating, planning, executing, monitoring and controlling, and closing (PMBOK, 2013).

2.1.13 Project evaluation

Project evaluation is Evaluation of an individual development intervention designed to achieve specific objectives within specified resources and implementation schedules, often within the framework of a broader program (World Bank, 2004)

A project evaluation assesses the performance of a project in achieving its intended results. It yields useful information on project implementation arrangements and the achievement of outputs. It is at this level that direct cause and attribution can be addressed given the close causal linkage between the initiatives and the outputs (UNDP, 2009).

2.1.14 Purpose of Project Evaluation

The primary purpose of a project evaluation is to make improvements, to continue or upscale an initiative, to assess applicability in other settings, or to consider alternatives. Therefore, although project evaluations are mandatory only when required by partnership protocols, program units are strongly recommended to commission evaluations, particularly of pilot programmes, before replication or up scaling, projects that are going into a next phase, and projects more than five years in duration (UNDP, 2009).

2.1.15 Categories of evaluation

According to UNDP (2009), Evaluations can also be defined by when they are carried out. There are five basic stages of projects at which evaluation can be conducted:

2.1.15.1 Ex-ante evaluation: is a forward-looking assessment of the likely future effects of new initiatives and support such as policies, programs and strategies. It takes place earlier to the implementation of an initiative.

2.1.15.2 Midterm evaluation generally has a formative nature as it is undertaken around the middle period of implementation of the initiative. Formative evaluation intends to improve performance, most often conducted during the implementation phase of projects or program.

2.1.15.3 Final or terminal evaluations normally serve the purpose of a summative evaluation since they are undertaken towards end of the implementation phase of projects or programs.

2.1.15.4 Summative evaluation is conducted at the end of an initiative a phase of that initiative to determine the extent to which anticipated outcomes were produced. It is intended to provide information about the worth of the program.

2.1.15.5 Ex-post evaluation is a type of summative evaluation of an initiative after it has been completed, usually conducted two year or more after completion. The purpose is to study how well the initiative project served its aims, to assess sustainability of results and to draw conclusions for similar initiatives in the future.

2.2 Empirical studies on tax compliance

Mutai, M. (2013). "The Determinants of tax compliance among small and medium enterprises in Uasin-gishu" The problem was a large segment of the informal sector, especially the SMEs in Uasin-Gishu exhibit low tax compliance levels. The objective was to investigate on the causes of low tax compliance among small and medium enterprises (SMEs) in Uasin-Gishu.

The researcher used quantitative research method. The findings show the factors that compliance was influenced by: first there was the issue of taxpayers' behavior towards tax system, Secondly, there was the issue of hostility between the taxpayers and tax collectors. And also there were other factors like outward resistance from taxpayers, lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the government, shortfalls in tax collection procedures as well as weak capacities of tax administrations to detect and prosecute tax violators, a lack of a well-functioning body of tax investigation, the lack of sufficient capacities in tax administrations and the use of family and unpaid labor by SMEs, perception on government spending by the tax payers, organizational financial constraints, and simplicity of tax return forms and awareness on offences and penalty on those that do not comply with tax payment were to blame for non compliance of tax. Finally for solving the compliance problems and to build the Kenyan developing economy and the achievement of vision 2030 the researcher recommended areas for further researcher, the selected study areas are: the thoughts of taxpayers' attitudes towards tax systems, the factors which influence taxpayers' attitudes and the relationship between attitudes and tax compliance behavior.

Mwansele, K. (2014) "Tax Compliance in Local Government Authorities in Tanzania: a case study of Sumbawanga District Council" The problem was tax compliance is serious concern in many local government authorities, limiting the capacity of local government authorities to raise enough local revenues to facilitate recurrent and developmental purposes.

The objective of the study was to assess factors that affect tax compliance in Local Government Authorities in Tanzania Sumbawanga District Council. The researcher used Purposive and simple random sampling techniques and select 51 respondents from different population categories. The study discovered that, varies factors for non tax compliance includes; improper enforcement of tax law by penalizing tax evaders as such punishments limits potential evaders, complexity of the by-laws of the council, behavioral attitude, unsatisfactory return in form of service delivery, and absence of trustworthiness in the local government. The study also found that most of tax revenue of the council is mostly collected at tax payers' premises, farm gates, during follow ups and inspection of stores and sometimes at government offices. This implies that, voluntary compliance is doubtful. There is a need for the council to curb this situation since it increases the cost of collection in respect of time and other resources.

Tilahun, A., & Yidersal, D. (2014) "determinants of tax compliance behavior in Ethiopia: the case of Bahir Dar City taxpayers" The study used quantitative methods research approach. The study employed survey methods of data collection using questionnaires. The results discovered factors that significantly affect tax compliance behavior of taxpayers were perception of government spending, personal financial constraint, perception of equity and fairness of the tax system, penalties, and changes on current government policies and referral group. However gender and probability of being audited have no significant impact on tax compliance behavior. The findings also showed that older people will comply less if there is no fairness and equity in the tax system and any changes in government policy on electricity, fuel prices, and water rates are not favorable.

Tulu, L. (2007) “Determinants of Taxpayers’ Voluntary Compliance with Taxation: The Case Study of Dire Dawa City.” The problem was only about 60% of the business communities which are subjected to tax are paying their tax obligation regardless of the existing powerful tax proclamation. Factors found to be the determinants of taxpayers’ voluntary compliance are, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government. The study discovered that one of the main reasons for the tax gap is non-compliance of taxpayers and potential taxpayers, with the tax legislation. One of the causes for non-compliance has been demonstrated to be the attitudes and perceptions of people. It is obvious that these different population groups may have differing perceptions of taxation resulting from their cultural backgrounds or social histories. These perceptions may, in turn, influence their attitudes towards tax compliance. The researcher was concluded that the tax rate undoubtedly is a lot higher than what most taxpayers would like it to be. The researcher recommended that tax compliance will be developed only with the voluntary participation of the society and all approach has to be backed by legal enforcement and the efforts must complement each other.

Finally the researchers recommended as this case study and findings are not generalized and as it needs further researches.

2.3 Conceptual Framework of the study

The proposed framework for this research is illustrated in Figure 2.1. A theoretical framework enables to predictions about the performance of Merkato Tax Compliance Project. According to the project proposal the expected outcomes of the project were simplification of processes, educating targeted taxpayer, enforcement of tax laws, enhancing risk management, one-stop registration and block management system. The project was established for increasing tax compliance and decreasing tax incompliance. According to the report of IMF (2011), the reasons for incompliance were failure to register, failure to file and failure to pay.

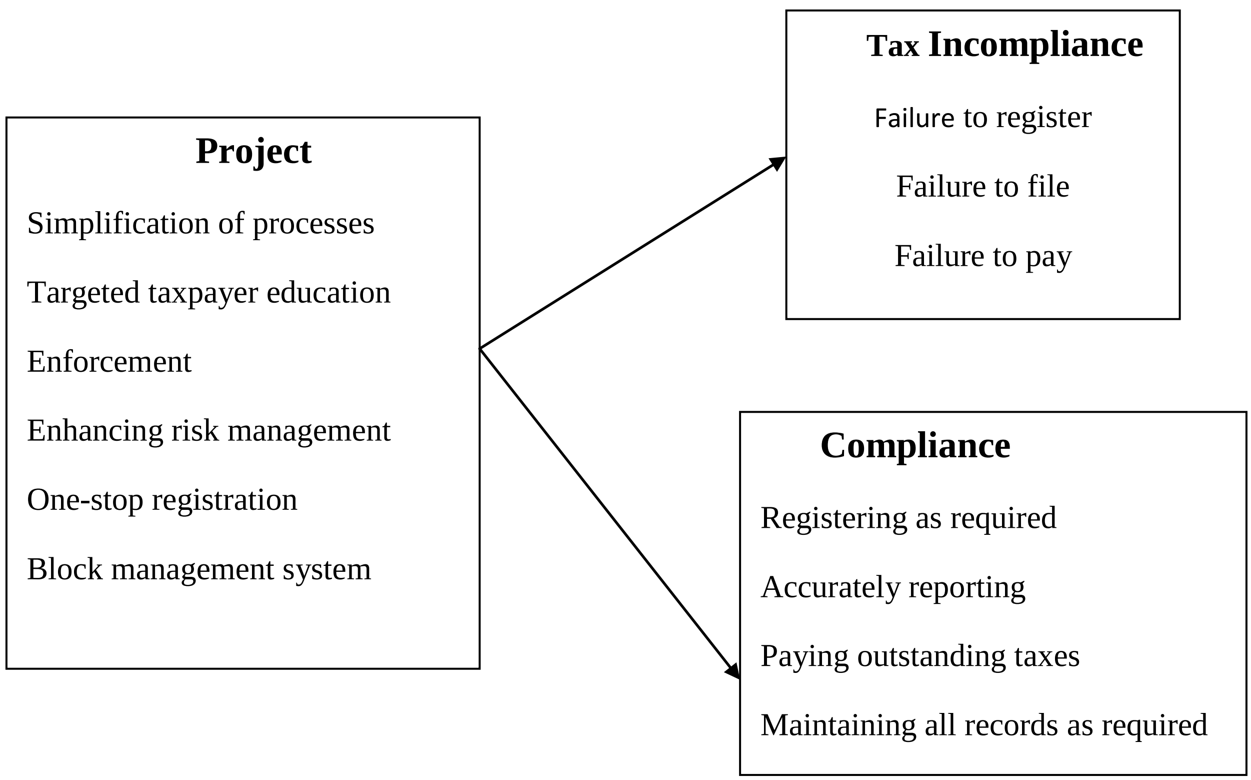


Figure 2.1 the conceptual framework adopted from Merkato tax compliance project plan (2011) and International Monetary Fund report (2011)

Therefore, this paper focuses on to evaluate Tax compliance in the case of ERCA Merkato project.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This part tries to discuss the research design, sample and sampling technique, sources, tools and procedures of data collection and method of data analysis employed for the study.

3.1 Research Design

The research design that employed for this study is descriptive research design. As the major purpose of descriptive research is description of the state of affairs as it exists at present (Kothari, 2004). The reason behind using descriptive type of research is the manner of the study or issue of the title of the research. Since descriptive research is based on describing the existing situation. In order to describe the variables the researcher used mixed research design in order to achieve the stated research objective and to answer research questions.

Qualitative approaches help to interpret the research data and describe aspects about the respondent in the research qualitative. Quantitative approach helps the data to present in a tabular form and percentage quantitatively numerical value.

Therefore, this study tries to describe the performance of Merkato tax compliance project.

3.2 Data types and sources

Both primary and secondary sources are used to collect enough information in the study area. The primary data gathered through questionnaire and semi structured interview. Secondary data was obtain through document analysis, annual reports, research papers, journals, books, online resources and other relevant materials used to the study.

3.3 Sampling Size and Sampling Technique

The target population of the study was employees of Merkato Branch Office. According to the March, 2018 report of human resource department of branch offices there were 350 employees at Merkato number 1 Branch Office and 346 employees at Merkato number 2 Branch Office(total population is 696). For this study the sample was selected from officer and above officer from each Branch Office because they are able to give appropriate information for the study. The total number of officer and above officer from branch offices was 323. It is very expensive in terms of money and time to collect data from all these employees. There are several approaches to determine the sample size, out of them Yemane (1967) was used for this study. Therefore the simplified formula to calculate the sample size uses for this particular study will be determined at 95% of confidence level and 7 % precision.

To conduct the study 323 of the total population 125 employees are considered as respondents to collect primary data using the formula below:

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

$n= 323/1+323 (0.07)^{2}= 125$

Where: N= Population

n= the size of the sample

e= level of precision

The study was used both probability and non-probability sampling to select the respondents from the total population of the study. Accordingly, for probability sampling for selecting respondents using questionnaire, the researcher was used simple random sampling where the respondents are any officer and above officer from each branch office.

From the non-probability sampling, purposive sampling technique was used to collect data. In which the sample was involve two vice managers from both branch offices.

3.4 Source and tool of data collection

Both primary and secondary sources were used in the process of collecting data. Primary sources include such instruments as interview and questionnaires. Secondary sources include documents analysis such as annual reports, research papers, journals, books, online resources and other relevant materials used to the study.

3.4.1 Questionnaire

Questionnaire was prepared based on the tax compliance which is indicated in different literatures. The questionnaire was prepared to see the performance of the project. The questionnaires were designed in Likert Scale which consists of three sections the first section were the general information section and the second and third sections were about the project performance. All questions were closed ended questions and in the first part, questions like the age, gender, marital states, educational background, years of experience in the branch office, and current position of the respondent in the Branch Office were the focused. The second and third parts were questions about tax compliance project performance and the alternative answers were scaled from 1 to 5 on Likert Scale.

3.4.2 Interview

In addition to questionnaires, the study was involved interviews to provide more information to the data obtained through the questionnaires. This research was conduct a semi structured interview that was consist a list of themes and questions covered based on the responsibility and role of the interviewee, so face to face interviews was carry out with two branch managers from the branch offices.

3.5 Data collection procedure

The consent of all respondents was confirmed before they included in the study. For each branch office, simple random sampling method was used to select respondents for the study. The questions were prepared based on the research questions. Then it was distributed and collected. The same was applied for interview and it was conducted by the researcher face to face. Secondary data was collected from ERCA head office, Merkato Branch offices and from other relevant sources.

3.6. Method of data process and analysis

Two types of data analysis techniques namely qualitative and quantitative techniques were used in this study. Information was obtained from questionnaires, interviews and document analysis. The data gathered through questionnaire was analyzed by descriptive statistics, i.e. frequency and percentage using SPSS statics version 16 quantitatively. The data presentation was made, first the results obtained through the questionnaires was presented by tabularization including the interpretation, the data obtained by secondary source was presented using frequency tables, graphs and percentages, the data obtained from semi structured interview was presented. In the discussion and summary part of the study, the data obtain from the questionnaire was analyzed against the literatures. The information obtained from the document study and interview was summarized as additional information to reinforce what was obtained from the result. Finally, conclusions were made based on the results of the study and recommendations were forwarded on the basis of the analyzed data.

3.7 Ethical Consideration

Regarding ethical consideration an attempt was made to ensure all respondents to keep their identity and responses as confidential in order for all the information to be given in full confidence. The questionnaire was distributed based on willingness of each respondent. In addition, the purpose of the questionnaire and interview was clearly indicated beforehand within questions. To ensure anonymity they are not required to write their names on the questionnaires. This ensured that the respondents are anonymous.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

In this chapter the data gathered using questionnaires, and interviews were reorganized, tabulated and analyzed. The analysis has been made by categorizing the data in to two parts where the first part deals with the demographic characteristics of the respondents which includes age, gender, marital states, educational background, employees years of experience, and current position of the respondent and the second parts deals with the analysis of the data gathered from different sources.

4.1 Demographic characteristics of Respondents

The demographic characteristics of the respondents which include age, gender, marital states, educational background, employees years of experience, and current position of the respondent were analyzed in the table below.

Age, gender, marital states, educational background, years of experience, position respectively

Table 1. Demographic Characteristics of all respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Age	Below 25	57	50.9	50.9	50.9
	25-34	30	26.8	26.8	77.7
	35-44	18	16.1	16.1	93.8
	45-50	7	6.2	6.2	100
	Total	112	100	100	
Gender	Male	71	63.4	63.4	63.4
	Female	41	36.6	36.6	100
	Total	112	100	100	
Martial state	Married	51	45.5	45.5	45.5
	Single	61	54.5	54.5	100
	Total	112	100	100	
Educational background	Bachelor of Art or Bachelor of science	97	86.6	86.6	86.6
	Master of science or Master of Art	15	13.4	13.4	100
	Total	112	100	100	
Years of experience	Below 2 yrs	6	5.4	5.4	5.4
	2-5 yrs	36	32.1	32.1	37.5
	6-10 yrs	30	26.8	26.8	64.3
	11-15 yrs	22	19.6	19.6	83.9
	16- 20 yrs	18	16.1	16.1	100
	Total	112	100	100	
Position respectively	Officer	56	50	50	50
	Senior officer	47	42	42	92
	Team Leader	4	3.6	3.6	95.5
	Management	5	4.5	4.5	100
	Total	112	100	100	

Source: SPSS output from survey result of 2018

As presented in Table 4.1, among 112 respondents 50.9% (57) of the respondent was on the age group between 25-34 years, 26.8% (30) of respondents age was between 25-34 years, 16.1% (18) of respondents age was between the age group 35- 44 years, 6.2% (7) of them were between 45-50 years of age and there is no respondent above 50 years of age.

The table also indicates regarding sex of respondents 63.4% (73) of the employees were male and the remained 36.6% (41) were females, this shows the number of males is slightly greater than number of females. However, the difference in number does not affect the reliability of the data. Regarding martial states, it was realized that 45.5% (51) of the respondents are married and 54.5% (61) are single. Regarding educational level of respondents that 86.6% (97) of the respondents were first degree holders and 13.4% (15) hold second degree, According to the all respondents were well educated. This shows that the majority of the respondents were on the age below 25 years and most of the respondents have first degree education level this might have a positive effect on the implementation of the project.

Regarding year of experience, it was realized that 5.4% (6) of the respondents have below two years of work experience, 32.1% (36) of them have 2 to 5 years of experience, 26.8% (30) of them have 6 to 10 years work experience, 19.6% (22) have an experience between 11 to 15 years and the remaining 16.1% (18) have an experience 16 to 20 years. Based on this, majority of the respondents are work experience between 2 to ten years.

4.2 The planned issues to address implementation of the project

Table 4.2 The educational and training session were highly instrumental in enhancing the compliance level

		Frequency	Percent	Valid Percent	Cumulative Percent
Educating the taxpayers	Strongly agree	9	8.0	8.0	8.0
	Agree	62	55.4	55.4	63.4
	Uncertain	17	15.2	15.2	78.6
	Disagree	24	21.4	21.4	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.2, it can be observed that, the respondents respond strongly agree were (8%), the respondents responded agree were (55.4%), the respondents responded uncertain were (15.2%) the respondents responded disagree were (21.4%). The result shows most respondents agree on educational and training session were highly instrumental in enhancing the compliance level, the managers also support their idea, but as they mentioned there is less number of trainings due to lack of skilled trainers and budget.

Table 4.3 Tax audit carried out by tax auditors enhance compliance at the branch office

		Frequency	Percent	Valid Percent	Cumulative Percent
Tax audit	Agree	70	62.5	62.5	62.5
	Uncertain	8	7.1	7.1	69.6
	Disagree	34	30.4	30.4	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.3, it can be observed that most respondents (62.5%) agree tax audit carried out by tax auditors enhance compliance at the branch office. The interviewees respond that tax audit carried out by the auditors is one of the efforts done in following up and enforcing tax laws. In addition to tax audit they mentioned that the office employs cash register machine and other automations to verify the documents and track the validity of records.

Table 4.4. The ranch Offices devised simple and accessible complaints handling procedure to address the complaints of taxpayers

		Frequency	Percent	Valid Percent	Cumulative Percent
Compliance handling	Strongly agree	16	14.3	14.3	14.3
	Agree	60	53.6	53.6	67.9
	Uncertain	10	8.9	8.9	76.8
	Disagree	26	23.2	23.2	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From Table 4.4 it can be observed respondents respond strongly agree were (14.3%), (53.6 %) of respondents respond agreed, (8.9%) of respondents respond uncertain and (23.2%) of respondents respond were disagree for the question simple and accessible complaints handling procedure to address the complaints of taxpayers so the result shows the compliant handling procedure was simple and accessible.

Table 4.5 the establishment of tax center decreases the compliance cost of taxpayers

		Frequency	Percent	Valid Percent	Cumulative Percent
Tax center	Strongly agree	24	21.4	21.4	21.4
	Agree	63	56.2	56.2	77.7
	Uncertain	16	14.3	14.3	92.0
	Disagree	9	8.0	8.0	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.5, it can be observed that, respondents respond strongly agree were (21.4%), respondents respond agree were (56.2%) the respondents respond uncertain were (14.4%), and only (8%) of the respondents were not agreed. The interviewees respond that the nearness of the office for tax payers and although, the tax payers use of telephone communication contributed to decrease the compliance cost.

Table 4.6 the Branch Offices has done an effective work to collect all overdue and outstanding taxes

		Frequency	Percent	Valid Percent	Cumulative Percent
collect all overdue and outstanding taxes	Strongly agree	6	5.4	5.4	5.4
	Agree	52	46.4	46.4	51.8
	Uncertain	15	13.4	13.4	65.2
	Disagree	35	31.2	31.2	96.4
	Strongly Disagree	4	3.6	3.6	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.6, it can be observed that, the respondents respond strongly agree were (5.4%), respondents agree were (46.4%), respondents respond uncertain (13.4%), respondents responded disagree were (31.2%), respondents respond strongly disagree were (3.6%). The response of the interviewees' positive response, but too much outstanding debt remains to be collected due to shortage of auditors.

Table 4.7 Taxpayers submit an accurate and credible tax return statements in the right time allocated to the respective category of taxpayers

		Frequency	Percent	Valid Percent	Cumulative Percent
accurate tax return	Strongly agree	4	3.6	3.6	3.6
	Agree	47	42.0	42.0	45.5
	Uncertain	13	11.6	11.6	57.1
	Disagree	43	38.4	38.4	95.5
	Strongly Disagree	5	4.5	4.5	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.7, it can be observed that (3.6%) respondents were strongly agree, (42%) of respondents were respond taxpayers submit an accurate and credible tax return statements in the right time allocated to the respective category of tax payers, (11.6%) respond uncertain, (38.4 %) respondent disagreed, and (4.5%) responded strongly disagree on the issue. According to the response of the managers, the branch office use automated computerized system for follow up track purpose.

Table 4.8 Taxpayers follow the tax law and procedure when they declare their taxes

		Frequency	Percent	Valid Percent	Cumulative Percent
Follow tax law	Strongly agree	8	7.1	7.1	7.1
	Agree	48	42.9	42.9	50.0
	Uncertain	14	12.5	12.5	62.5
	Disagree	35	31.2	31.2	93.8
	Strongly Disagree	7	6.2	6.2	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.8, it can be observed that, (7.1%) respondents respond strongly agree, (42.9%), respondents agreed on as taxpayers follow the tax law and procedure when they declare their taxes, the respondents respond uncertain were (12.5%), the respondents respond disagree were (31.2%) and (6.2%) of the respondents were not agreed. According to the response of interviewees, most Merkato traders stayed for longer period and this helps them to understand the tax laws conventionally.

4.3 Achievements of the project

Table 4.9 Do you agree tax administration has ensured that all due government revenue is collected and tax evasion and avoidance are controlled

		Frequency	Percent	Valid Percent	Cumulative Percent
Tax evasion and avoidance	Strongly agree	8	7.1	7.1	7.1
	Agree	44	39.3	39.3	46.4
	Uncertain	25	22.3	22.3	68.8
	Disagree	27	24.1	24.1	92.9
	Strongly Disagree	8	7.1	7.1	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.9, it can be observed that, (7.1%) of the respondents were strongly agree, (39.3%) of the respondents were agreed tax administration has ensured that all due government revenue is collected and tax evasion and avoidance are controlled. (22.3%) respondents were uncertain about the main responsibility of the office, (21.1%) respondents were not agreed and (7.1%) were strongly disagreeing. As mentioned in interview also tax avoidance and evasion are one of the challenges of the branch office because the office has fewer number of tax enforcement officers that limit to enforce the coverage area.

Table 4.10 Taxpayers maintaining all records as required

		Frequency	Percent	Valid Percent	Cumulative Percent
Maintaining all records	Strongly agree	8	7.1	7.1	7.1
	Agree	42	37.5	37.5	44.6
	Uncertain	26	23.2	23.2	67.9
	Disagree	36	32.1	32.1	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.10, it can be observed that, (7.1%) respondents strongly agreed on taxpayers maintain all records as required, (37.5%) of respondents were agree, (23.2%) respondents respond uncertain were and (32.1%) of respondents were disagree. The result shows there is problem of holding records on tax payers. The interviewees support the above result they respond that there is lack of willingness on taxpayers for maintaining records most Merkato tax payers have less educational level and they are not willing to employ skilled accountant.

Table 4.11 Taxpayers fill in the tax return forms correctly

		Frequency	Percent	Valid Percent	Cumulative Percent
Tax return forms	Strongly agree	8	7.1	7.1	7.1
	Agree	45	40.2	40.2	47.3
	Uncertain	15	13.4	13.4	60.7
	Disagree	37	33.0	33.0	93.8
	Strongly Disagree	7	6.2	6.2	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.11, it can be observed that, (7.1%) of respondents strongly agreed on tax return forms, (40.2%) of respondents were agree, (13.4%) of respondents respond uncertain, (33%) of respondents were disagree and (6.2%) of respondents respond strongly disagree on Tax return forms fill correctly.

Table 4.12 Taxpayers are reluctant and want to avoid paying taxes

		Frequency	Percent	Valid Percent	Cumulative Percent
Avoid Paying tax	Agree	35	31.2	31.2	31.2
	Uncertain	19	17.0	17.0	48.2
	Disagree	42	37.5	37.5	85.7
	Strongly Disagree	16	14.3	14.3	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.12, it can be observed that (31.2%) of the respondents respond taxpayers are reluctant and want to avoid paying taxes, (17%) respondents responded uncertain, (37.5%) of respondents responded disagree, and (14.3%) of respondents responded strongly disagree. According to response of (31.2%) respondents taxpayers are reluctant and want to avoid taxes. These shows, the project has not reached the desired level of voluntary compliance creation.

4.4 Extent of achievement

Table 4.13 Registrant taxpayers give the necessary support for the branch offices effort to enroll the non compliant unregistered traders in to the tax net

		Frequency	Percent	Valid Percent	Cumulative Percent
Taxpayers support	Agree	38	33.9	33.9	33.9
	Uncertain	16	14.3	14.3	48.2
	Disagree	49	43.8	43.8	92.0
	Strongly Disagree	9	8.0	8.0	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 201

From the above Table 4.13, it can be observed that (33.9%) agreed registrant tax payers give the necessary support for the branch offices effort to enroll the non compliant unregistered traders in to the tax net, (14.3%) respondents respond uncertain, (43.8%) respondents respond disagree, and (8%) of respondents respond strongly disagree. The interviewees mentioned that tracing illegal traders is the sole responsibility of the branch office and although they do not want inter into conflict with the nearby illegal traders.

Table 4.14 Do you agree the Branch Offices satisfying the needs of taxpayer through its educational and supportive services

		Frequency	Percent	Valid Percent	Cumulative Percent
Education and support	Strongly agree	1	.9	.9	.9
	Agree	29	25.9	25.9	26.8
	Uncertain	26	23.2	23.2	50.0
	Disagree	48	42.9	42.9	92.9
	Strongly Disagree	8	7.1	7.1	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above table 4.14 the respondents respond strongly agree were (0.9%), the respondents respond agree were (25.9%), the respondents respond uncertain were (32.2%), the respondents respond disagree were (42.9%), the respondents respond strongly disagree were (7.1%). The result shows most respondents were not agreeing with the satisfaction of education and supportive service. According to the response of the interviewees they mentioned that, the contents and mode of delivery do not satisfy the needs of taxpayers, though the trainings are delivered periodically.

Table 4.15 Did the block management system meet its objectives as expected in the project proposal

		Frequency	Percent	Valid Percent	Cumulative Percent
block management	Strongly agree	18	16.1	16.1	16.1
	Agree	83	74.1	74.1	90.2
	Uncertain	11	9.8	9.8	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.15, it can be observed that, very significant proportion (74.1%) of the respondents agreed on the block management system application, (16.1%) of respondents respond strongly agree on the block management system only (9.8%) of the respondents respond uncertain. Managers responses were align with this idea; they appreciate the application of BMS, because it allows for the gathering of valuable information which assists both the taxpayer and ERCA without taking too much time and money.

Table 4.16 traders that are not register are willing to come and register

		Frequency	Percent	Valid Percent	Cumulative Percent
registration	Agree	42	37.5	37.5	37.5
	Uncertain	21	18.8	18.8	56.2
	Disagree	32	28.6	28.6	84.8
	Strongly Disagree	17	15.2	15.2	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.16, it can be observed that, (37.5%) of the respondents respond agreed, (18.8%) of respondents respond uncertain, (28.6%) of respondents responded disagree, (15.2%) of respondents respond strongly disagree. The willingness of traders for registration is not very satisfied.

Table 4.17 Taxpayers do not consider failure to register as a serious offence

		Frequency	Percent	Valid Percent	Cumulative Percent
Tax registration	Strongly agree	18	16.1	16.1	16.1
	Agree	65	58.0	58.0	74.1
	Uncertain	12	10.7	10.7	84.8
	Disagree	17	15.2	15.2	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

Table 4.17 shows above half of respondents (58%) respond Taxpayers do not consider failure to register as a serious offence, (16.1%) of respondents respond strongly agree on tax payers do not consider failure to register as a serious offence and only (15.2%) of respondents respond disagree to the question and (10.7%) were uncertain. So the office needs to create awareness for the taxpayers, because awareness creation is one of the main responsibilities of the tax office. The interviewees mentioned as taxpayer failure of register is one of the main problem of the office.

Table 4.18 Taxpayers do not consider failure to file as a serious offence

		Frequency	Percent	Valid Percent	Cumulative Percent
Failure to file	Agree	50	44.6	44.6	44.6
	Uncertain	12	10.7	10.7	55.4
	Disagree	50	44.6	44.6	100.0
	Total	112	100.0	100.0	

Source: SPSS output from survey result of 2018

From the above Table 4.18, it can be observed that, proportional (44.6%) of the respondents were agreed and equal number of respondents disagree on taxpayers do not consider failure to file as a serious offence and (10.7%) respond were uncertain. As mentioned from the managers most tax payers want to keep the collected value added taxes for running their own businesses.

4.5 Major challenges of the project

- Branch office and tax centers have poor facilities and not convenient for operations such as office layout, office furniture, inadequate logistics, and car parking.
- Inefficiency and ineffective organized computerized system in the offices.
- Frequent change of taxpayers address without acknowledgement of the office.
- Lack of willingness to provide information by third party.
- The Branch offices/project did not document the taxpayer's file/profile properly.
- Some Taxpayers declared play down sale, did not give receipt or inappropriate receipt.
- Lack of sufficient, incompetent and motivated tax officers.
- Most of the service delivery process was automation systems which are constrained by poor telecommunication network and low processing speed of the system itself.
- Frequent employee turnover.
- Most of the taxpayers did not file their monthly and quarterly reports such as value added taxes and turn over taxes timely.
- Lack of adequate skills and absence of willingness and poor understanding about the concept of tax by tax payers.
- There was knowledge gap among the Branch Office employees regarding updating themselves on circulars, changing guidelines and directives.

4.6 Secondary data

Table 4.19 Addis ketema sub-city and Merkato project revenue collection execution after project implementation.

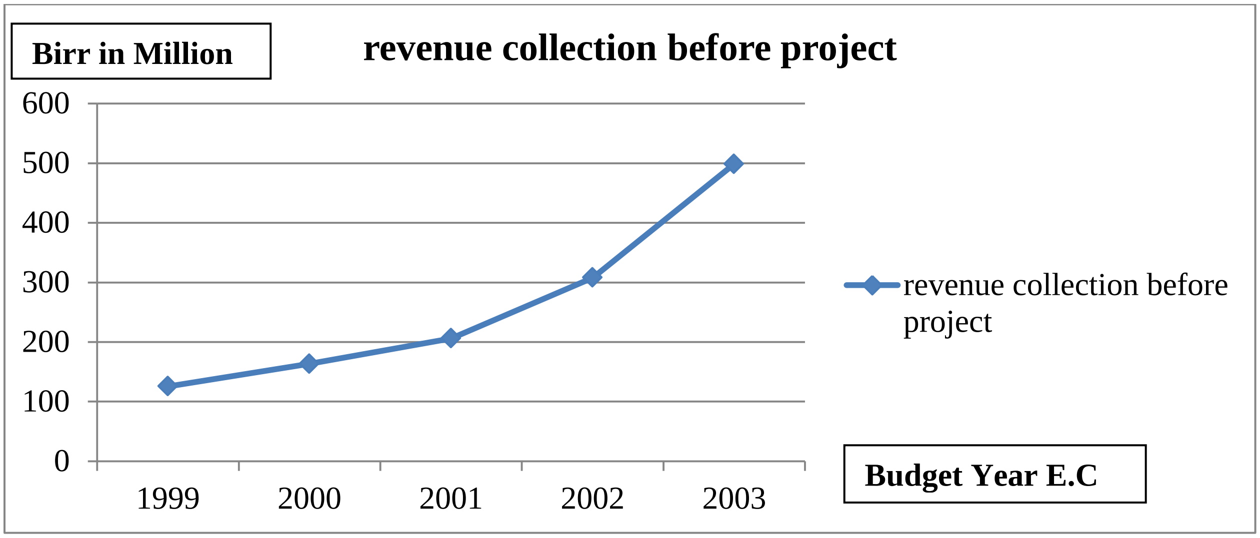
Birr in million

budget year	Addis ketema sub-city without project		Merkato project		project plus Addis Ketema	
	Plan	Actual	Plan	Actual	Plan	Actual
2009	441.01	403.88	1,704.93	1,531.68	2145.94	1,935.56
2008	293.58	332.79	1,374.04	1,301.84	1667.62	1,634.63
2007	310.94	194.92	1,226.10	995.47	1537.04	1,190.39
2006	357.39	265.68	1,040.75	908.22	1398.14	1,173.90
2005	648.89	659.88	202.86	224.23	851.75	884.11
2004	632.31	672.33				

Source: ERCA Report 2003-2009

From the above Table 4.19 Addis Ketema sub-city plan in 2004 and 2005 which include this project area where as when we see this plan for the fiscal year of 2006 to 2009 that is after project has been separated from the sub city it starts to declines up to 2008 and in 2009 the plan is increase by 148.43 million birr. With the same idea project area collection progress is increase from year to year. In general the outcome of this project is appreciable.

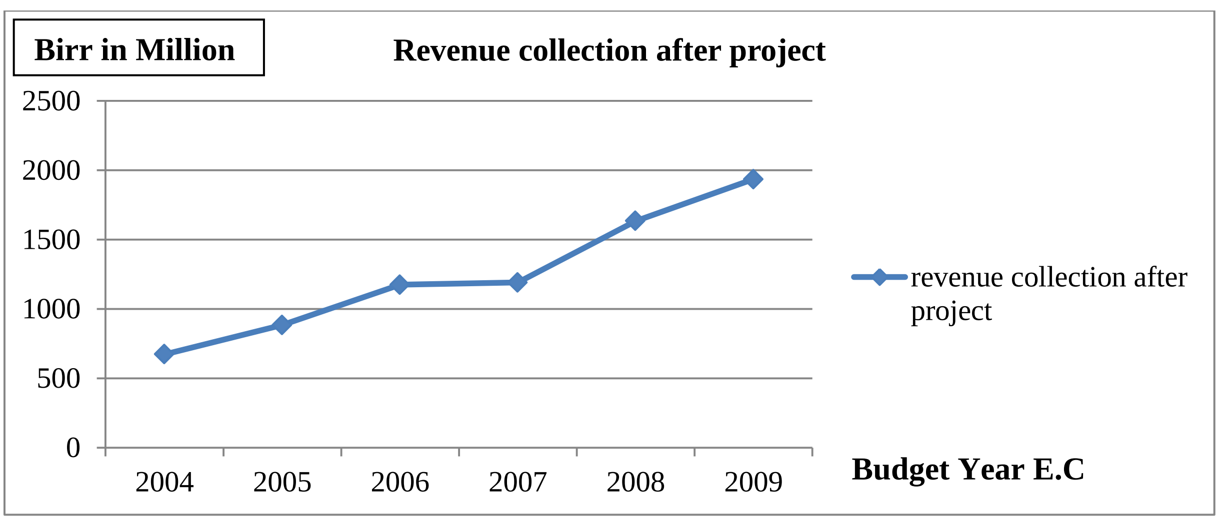
Figure 4.2 Revenue collections before project implementation



Source: ERCA Report 1999-2003

According to the above table, before the project implementation the revenue collected in 1999 E.C was birr 125.61 million, and in the fifth year 2003 E.C the revenue collected growth to birr 498.44 million on average the total revenue is growing by 40.48 million birr but it was below half billion birr.

Figure 4.3 Revenue collections after project implementation



Source: ERCA Report 2003-2009

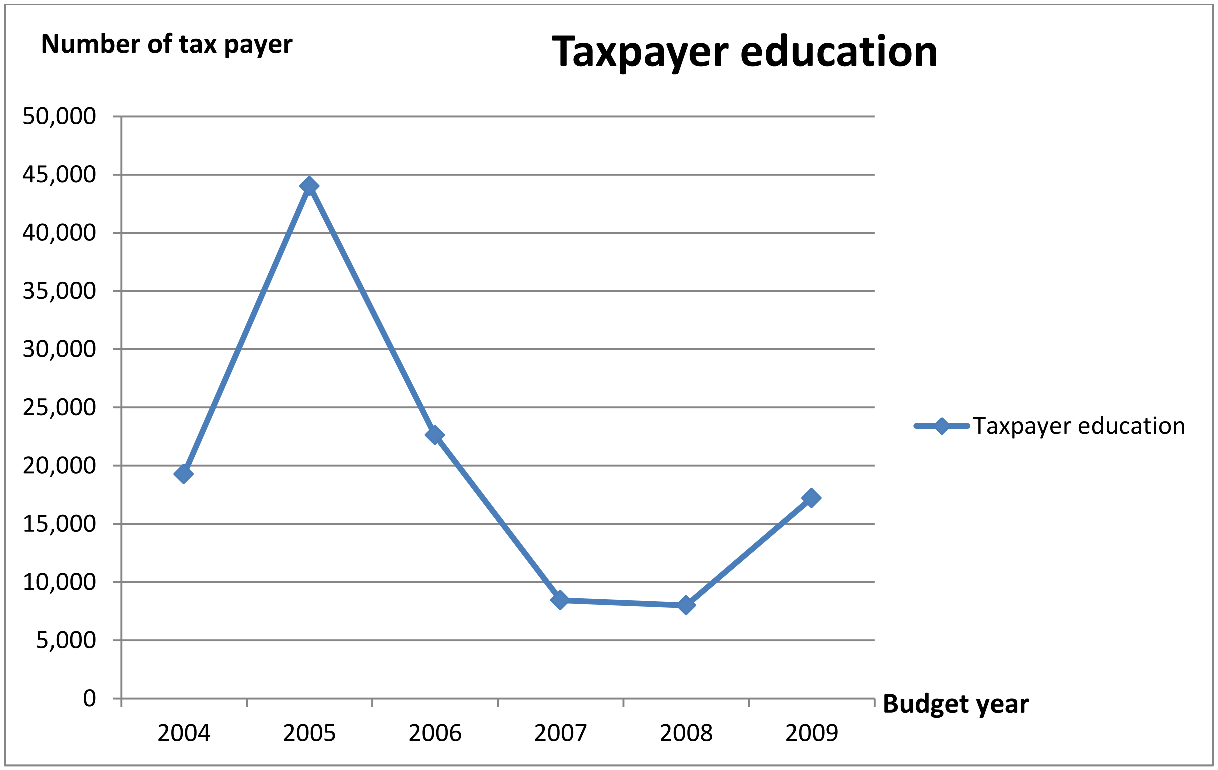
According to the above table, on average the total revenue is growing by 24.28 million birr this show that the project performance is progressive even if it doesn't reach at desired goal.

Taxpayer education

Chan (2000) suggest that greater education is directly linked to a likelihood of compliance. They argue that educated taxpayers may be aware of non compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Chan also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.
While the education levels become more important in increasing tax compliance across countries, Mohani (2001) suggested that one of the measures to increase voluntary compliance is by assuring that tax payers have a certain level of qualifications, ability and confidence to exercise their tax responsibility. According to the above idea and it is seen on the graph below

ERCA had provided educational service through varies ways like Electronic media (Radio and Television), printing Media (Gebi Lelimat news paper, and brushers.), and by lecturing. But after implementation of the project one of the main objective was providing continuous and scheduled educational program for those taxpayers by segmenting through block. Accordingly from the beginning of the project up to 2009 EC the numbers of taxpayers those participate on the educational program were as shown in the figure below.

Figure 4.4 tax payer's education



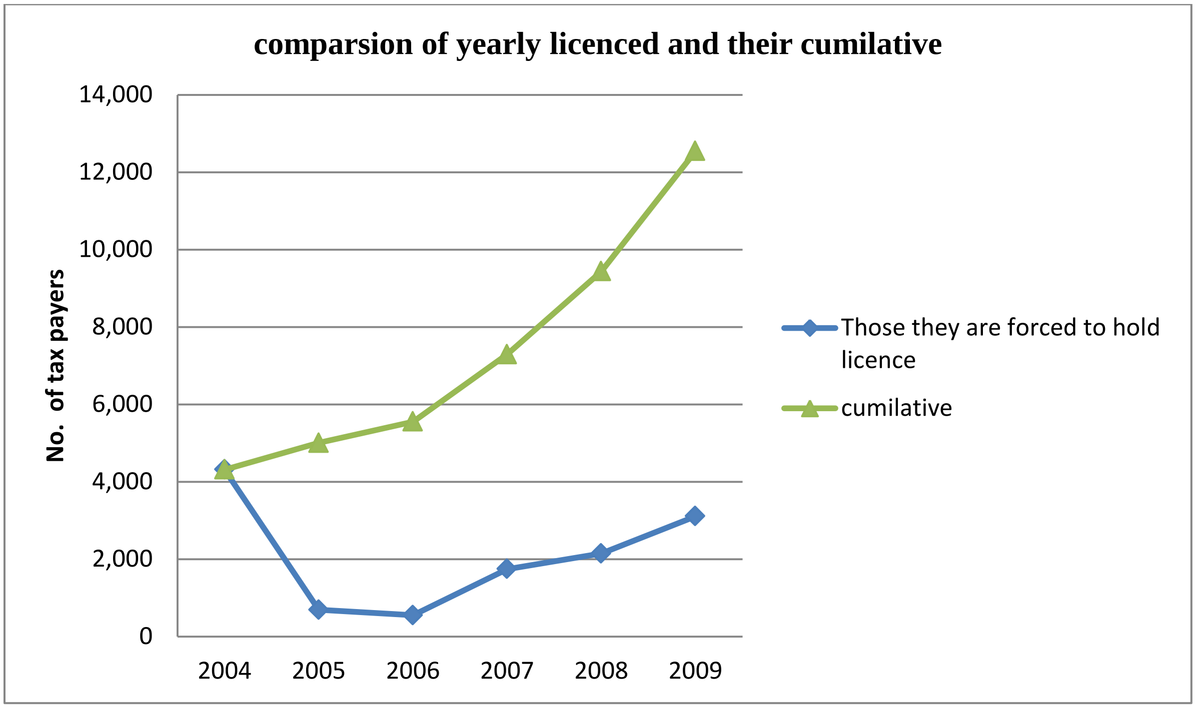
Source: ERCA Report 2003-2009

As it is shown on the graph above the tax payers education is grow whit appreciable number in between 2004 &2005 fiscal year, this is a time when less tax payers education in the area before project were implemented and during project implementation one of the project objective was to increase tax compliance rat through giving tax payers education.

Taxpayers those which are forced to hold license

Before the project implementation the numbers of taxpayers in 2004 EC were 3,108 but up to 2009 E.C. the number of taxpayers those they are forced to hold license became 12,543.

Figure 4.5 Taxpayers those they are forced to hold license



Source: ERCA Report 2003-2009

The above graph shows there was business person who has no legal privilege to start business, but after project implementation and tax payers education to create awareness on tax compliance and use of tax as whole those business persons who make business without legal license become registrant and get license and subscribed in tax net .

For the reason of increasing the number of taxpayers from year to year ERCA open two additional special tax centers for those taxpayers whose annual sale is above birr 80 million.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary of findings, conclusions derived from the analysis and recommendations. The purpose of the chapter is to review the whole thesis.

5.1 Summary of the findings

In order to solve the stated problem both primary and secondary data has been collected using questionnaire and semi structured interview comprising of various variables, and document sources of the project respectively related to the problem. The collected data has been analyzed using descriptive method of analysis and output of the quantitative analysis was based on SPSS Version 13.

Accordingly, the major findings of the research are:

- Educational and training sessions were highly instrumental in enhancing the compliance level. Tax audit carried out by the auditors is one of the efforts done in following up and enforcing tax laws. In addition to tax audit the office employs cash register machine and other automations to verify the documents and track the validity of records.
- The establishment of tax center decreases the compliance cost of taxpayers because the nearness of the office for tax payers and although, the tax payers use of telephone communication contributed to decrease the compliance cost. The BMS allows for the gathering of valuable information which assists both the taxpayer and ERCA without taking too much time and money. The Branch Offices has done an effective work to collect all overdue and outstanding taxe**s** debt remains to be collected due to shortage of auditors.
- Most Merkato traders stayed for longer period in business and this helps them to understand the tax laws conventionally and for submitting an accurate and credible tax return statements.
- Most registrant tax payers did not give the necessary support for the branch offices effort to enroll the non compliant unregistered traders in to the tax net. They believe that tracing illegal traders is the sole responsibility of the branch office and although they do not want inter in to conflict with the nearby illegal traders, and The project has not reached the desired

level of voluntary compliance creation, In spite of the trainings and enforcement actions taken thus far, most of the taxpayers do not submit an accurate report of their tax liabilities.

- Some Taxpayers declared minimized sale, not give receipt or give inappropriate receipt.
- Most of the service delivery process is automation systems which are constrained by poor telecommunication network and low processing speed of the system itself.
- There is knowledge gap among the Branch Office Employees regarding updating themselves on circulars, changing guidelines and directives. As a result, it is difficult for some of them to provide appropriate service.

5.2 Conclusions

Based on the intended general objective and specific objectives of this study, and the findings of the study resulted after the whole efforts stated under the research methods were made, the following major conclusions were drawn

Though the project has not fully achieved its objectives, it has managed to attain certain critical objectives some of which are mentioned below:

As the revenue generated is the main yardstick to measure its effectiveness, the revenue has registered an average rise of 22.48 million Birr per annum for the last five years;

It has resulted in decreasing the compliance cost of taxpayers. The project improved the culture of voluntary compliance due to enhancement of taxpayers' education and sensitization. Those who make business without duly issued licenses become registrant and get licenses and enrolled in the tax net.

The researcher has also revealed some limitations of the project which it failed to meet adequately and some of the most prominent ones are mentioned below:

In spite of the trainings and enforcement actions taken thus far, most of the taxpayers do not submit an accurate report of their tax liabilities;

It has limited capacity to enforce tax evasion and avoidance scheme as a deterrent;

Frequent change of taxpayers address without acknowledgement of the office;

Lack of skilled human resource particularly in the areas of audit management, personnel management and tax assessment due to absence of proper human capital development scheme; Though one of the main objectives of the project was to provide door to door educational and support services for taxpayers, there is huge gap and shortfall in the implementation of this particular objective;

There are limitations for using all enforcement tools properly.

Therefore ERCA should draw the necessary lessons, from the strong and weak points of the project as mentioned above, so as to attain the objectives effectively and efficiently.

5.3 Recommendations

In line with the findings and conclusions made the researcher gives the following set of recommendation, as being important to ERCA and branch offices, for taking duly corrective actions to remedy the identified problems.

- ❖ Education and awareness creation is the basic necessity for creating compliant taxpayer. Thus a continuous awareness creation initiative needs to be devised and enacted on the tax laws, regulations and procedures as this factor has proved to be an important ingredient for the existence of an efficient and effective tax assessment and collection scheme.
- ❖ ERCA needs to design and enact a strong enforcement tools with a view to supporting taxpayers pay the right amount of tax at the right time with minimal administrative and compliance cost both for ERCA and taxpayers.
- ❖ The conduction of an effective taxpayer education scheme is an effective tool to promote voluntary compliance and increase the number of compliant taxpayers. In the context of reaching to the large number of taxpayers with a minimum cost, the Branch Office must launch door to door scheduled outreach initiatives in addition to the printing and electronic media a means to educate taxpayers' and change their perceptions about taxation. All these combined efforts yield in a high degree voluntary compliance. This is to inculcate in citizens a sense of responsibility toward taxes as well as for taxpayers to understand and accept their responsibilities of compliance.
- ❖ The Branch Office needs to give continuous short term on job trainings and medium term capacity building trainings to its employees, especially for newly hired staff so that they

can provide objective and correct technical support to the taxpayers while also developing their skills and knowledge in the process.

- ERCA should offer sustainable training and prepare discussion or forum for collaborators such as legal bodies, city administrators, and security bodies as they have direct contributions for the enforcement of the law.
- Transparency and fairness should be the guiding principles in the process of providing appropriate services for the taxpayers and all citizenry as a whole.
- ERCA Merkato Branch Office has instituted tax block management system with a prime objective of promoting voluntary compliance and registering all eligible traders within particular geographic areas, despite some evident limitations that cripple the attainment of this objective. So the Office needs to periodically monitor and evaluate the progress and achievements of the BMS and rectify the drawbacks in due time with the involvement of the concerned public and private entities.
- Besides extensive work must be done by the tax office to gather information and register taxpayers, who have refused to be registered. Moreover, it should also identify taxpayers, who present under invoicing, commit sale without invoice, and extraordinary credit declaration
- In order to identify the root causes of the failures associated with main the performance of the project, ERCA has to pay due attention to conduct a research so as to provide appropriate viable set of recommendation in line with the findings of the research.

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APPENDIXES

APPENDIX 1 RESEARCH QUESTIONNAIRE

Addis Ababa University

College of Business and Economics

School of Commerce

Masters of Art in Project Management

Dear Respondent,

My name is Gezahegn zewdie. I am a MA student in Project Management at Addis Ababa University School of Commerce. As part of my MA research work, I am studying Tax Compliance Evaluation: The Case of Ethiopian Revenue and Customs Authority Merkato Project. The information you provide will be used for academic purpose only, and you reserve full assurance that the information you provide will be kept completely confidential. I also sincerely request you to respond to the questions as honestly as possible and return the completed questionnaires. Knowing that your time is valuable please, take few minutes of your time to complete the questionnaire.

For any clarification and further information, please do not hesitate to contact with the researcher by the following address:

Gezahegn zewdie
Mobile: +251911757104
Email: gezeetu@gmail.com

Thank you in advance for your co-operation

Questionnaire General Instruction and information:

- Part I includes demographic of general information; part II and part III include close-ended questions.
- Please attempt to answer all the questions.

Part I: Demographic characteristics of respondent

Make **“**√**”** mark as your response in the box given below.

1. Your age group below 25 □ 25-34 □ 35-44 □
45-50 □ above 51 □

2. Sex male □ female □

3. Marital status married □ single □

4. Qualification 10- 12 □ certificate/diploma □ BSC/BA □
MSC/MA □ PhD □

5. Year of service in your career
Less than 2 year □ 2 - 5 year □ 6 to 10 year □
11 -15 years □ 16 -20 years □ more than 20 years □

6. What is your current position? Officer□ Senior officer□ team coordinator □
Management□

Part II: Please rate the following elements of Merkato Project by putting a tick mark **“**√**”** where,

Strongly Agree = 1, Agree = 2, Uncertain = 3, Disagree = 4 and Strongly Disagree = 5.

S.N	**Statement**	**Choice**				
		Strongly agree	**agree**	**Uncertai**	**Disagree**	**Strongly Disagree**
1	The educational and training session were highly instrumental in enhancing the compliance level					
2	Do you agree the Branch Offices satisfying the needs of taxpayer through its educational and supportive services					
3	Do you agree the branch office has ensured that all due government revenue is collected and tax evasion and avoidance are controlled					
4	Tax audit carried by tax auditors had immense role to enhance compliance					
5	Registrant tax payers give the necessary support for the branch offices effort to enroll the non compliant unregistered traders in to the tax net					
6	The Branch Offices devised simple and accessible complaints handling procedure to address the complaints of taxpayers					
7	The establishment of tax center decreased the compliance cost of taxpayer					
8	Did the block management system meet its objectives as expected in the project proposal					

Part III: Please rate the following tax compliance elements of Merkato project by putting a tick mark **“**√**”** where,

Strongly Agree = 1, Agree = 2, Uncertain = 3, Disagree = 4 and Strongly Disagree = 5.

S.N	**Statement**	**Choice**				
		Strongly agree	**agree**	**Uncertai**	**Disagree**	**Strongly Disagree**
1	The Branch Offices has done an effective work to collect all overdue and outstanding taxes					
2	Taxpayers maintain all records as required					
3	traders that are not register are willing to come and register					
4	Taxpayers submit an accurate and credible tax return statements in the right time allocated to the respective category of taxpayers					
5	Taxpayers follow the tax law and procedure when they declare their taxes					
6	Taxpayers fill in the tax return forms correctly					

Part IV: Please rate the following tax incompliance elements of Merkato project by putting a tick mark "√" where,

Strongly Agree = 1, Agree = 2, Uncertain = 3, Disagree = 4 and Strongly Disagree = 5.

S. N	Statement	Choice				
		Strongly agree	Agree	Uncertai	Disagree	Strongly Disagree
1	Taxpayers do not consider failure to file as a serious offence					
2	Taxpayers are reluctant and want to avoid paying taxes					
3	Taxpayers do not consider failure to register as a serious offence					

Appendix 2 INTERVIEW GUIDE

II. Interview Questions to Concerned Body (for managers or deputy managers of ERCA Merkato Branch Office)

1. What is the compliance situation of taxpayers when evaluated based on basic compliance obligations such as payment, filling, registration etc?
2. Is there a workable partnership with concerned stakeholders to effect compliance of taxpayers?
3. Do you think taxpayers get the necessary tax education and training frequently?
4. Do you believe taxpayers get any updates on tax directives and guidelines timely? Please explain.
5. Did the Branch Offices organize periodic discussion forums with taxpayers to evaluate its performances?
6. Do you think the project achieved its overall objectives? Please explain
7. What are the main factors affecting the performance of the Branch Offices regarding revenue collection?
8. What are the main success stories after Merkato branch is opened?
9. What are the main problems and challenges that the Branch Offices faces in its efforts to bring about compliance?
10. Additional comments and suggestions, you would like to forward?

Appendix 3: Map of Tax blocks/centers at Merkato Business Area