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**Assessment on Tax Administration in State Owned Enterprises in Ethiopia: the case of Large Taxpayers Branch Office-LTO)**

**A Thesis Submitted to the College of Business and Economics of Accounting and Finance in the partial fulfillment of the requirements on the Degree of Masters of Science**

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**November, 2019,  
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**Declaration**

I, the under signed hereby declare that this thesis work entitled “Tax Administration in State Owned Enterprise in Case of MOR/Large Taxpayers Branch Office” submitted in partial fulfillment of the requirements for the award of degree of Masters in Accounting and Finance in AAU, is my own effort and study and all sources of materials used have been appropriately acknowledged. I have produced it independently with only guidance and suggestion of the thesis Advisor. The thesis is original work and not submitted for the award of any other degree or any other similar qualifications.

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**Statement of Certification**

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### Abstract

This research mainly assesses the tax Administration practices in state owned enterprises in Ethiopia specifically in SOEs in LTO branches. While undertaking the study, the researcher used both qualitative and quantitative data to clearly assess the Tax Administration challenges with respect to the branch office and the SOEs in particular and its performance in the National Economy in general. Thus, this paper explores the taxation systems of developing countries and studies on the particular cases of the 30 selected enterprises in Ethiopia in detail, identifies gaps both in the system and the quality of awareness on taxation and related issues of the hired staff members and the tax payers and consequently illustrated conclusions based on the reference of the related literary reviews presented, interviews and questionnaires collected. Therefore, Based on the analysis and discussion of the research, even though tax knowledge, tax law complexity and procedures have significant effect on tax administration efficiency, in the case of these particular enterprises, the researcher concluded that there are no adequate trainings and awareness creation programs towards the new tax law concepts which resulted the lack of clarity with the tax regulations. At last, after examining the above problem and other related gaps in the area, the researcher ended the study by recommending that the tax system should be approached strategically and realistically in order to maximize taxpayer participation, an efficient filing and tax administration system should be created, trainings and awareness creation programs should be implemented better and among other recommendations, also suggested participation from all sectors should be initiated through proper accounting and reporting.

**Key words:** Tax Administration, Ministry of Revenue, State Owned Enterprises, Large Taxpayers Office, Income Tax, VAT, Profit Tax, Value Added Tax,

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**LIST OF ACRONYMS**

<b>ADB</b>	Asian Development Bank
<b>BPR</b>	Business Process Reengineering
<b>ECA</b>	Ethiopian Customs Authority
<b>EIA</b>	Ethiopian Investment Authority
<b>ERCA</b>	Ethiopian Revenue and Customs Authority
<b>FDI</b>	Foreign Direct Investment
<b>FIRA</b>	Federal Inland Revenue Authority
<b>GDP</b>	Gross Domestic Product
<b>IMF</b>	International Monetary Fund
<b>LTO</b>	Large Taxpayer's Branch Office
<b>MOFED</b>	Ministry of Finance and Economic Development.
<b>MWIT</b>	Merchandise Wholesale and Import Trade
<b>MDGs</b>	Millennium Development Goals
<b>METEC</b>	Metals and Engineering Corporation
<b>MOR</b>	Ministry of Revenue
<b>NBE</b>	National Bank of Ethiopia
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>RQ</b>	Research questions
<b>SOE</b>	State Owned Enterprises
<b>SOEE</b>	State Owned Enterprises in Ethiopia
<b>SPSS</b>	Statistical Package for Social Science
<b>VAT</b>	Value Added Tax
<b>WB</b>	World Bank

**CHAPTER ONE**  
**INTRODUCTION**

**1.1. Background of the study**

Tax is the most important source of revenue for any country's economic development. Without tax, no country can lead its economy efficiently. Thus, Any Government needs to use tax revenues in order to run both its public and administrative activities since the main purpose of generating revenue from different sources is to finance government expenditure.

Given that tax is the most important source of revenue for a country's economic development as mentioned above, tax administration then would consequently be the most decisive factor in making the taxation process work. The current difficulties of many developing countries facing problems regarding with collecting taxes effectively and efficiently and their challenges in tax designs can be great examples in showcasing the importance of tax administration. And because of these problems, Taxation and tax administration have become alarming issues in all economic activities.

Good tax administration system, not only generates revenue, but also minimizes distortion of resource allocation and simplifies its administration (Getaneh, (2011). Therefore, to generate revenue from taxation, developing countries should give great attention to the policy and administration of taxation. As Belay stated on his thesis (2015), governments of developing countries are eager to create modern tax systems. In order to make the multipart tax system relatively successful, it should be approached strategically and realistically in order to maximize taxpayer participation, create an efficient filing and audit administration.

Tax administration is a complex and dynamic responsibility. Most tax administrators face new issues, conflicting priorities, taxpayer compliance and emerging commitments (Thomson, 2008). Tax and tax administration involves every aspects of income generating activities and consumption items, and requires not only administrative capacity of revenue authority but also the participation of all sectors through proper accounting and reporting (Tadros, 2009).

As Organization for Economic Cooperation and Development study /OECD/ (2009) explained, taxation is central to the modern economic development program. It provides a stable flow of revenue to finance development priorities such as strengthening physical infrastructure, and is

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interlinked with many other policy areas from good governance and formalizing the economy to encouraging growth. In addition, tax policy shapes the environment in which international trade and investment takes place. Okoye and Raymond, (2014) explained the main function of a tax system by stating that it is to raise enough revenue to finance essential expenditures on the goods and services provided by government. According to Kaldore, (1980), taxation is one of the best instruments to improve the potential for public sector performance, to finance the social insurance program and for the repayment of public debt.

As Toye, (1978) indicated, the relationship between taxation and economic development is a tie between a universal desire and a form of government action that is believed to be the means to an end. While actual tax revenue collected falls short of the projected revenue, it affects development plans of that nation. At this time; there is a pressure on most developing countries to provide energy, water, waste management and other social services. However, governments find it difficult to raise taxes in order to carry out these activities.

The most important motivation for one country's fiscal policy in the world is the need to raise revenue. However, generation of tax revenue requires strong economic decisions and good administration with taxation. The average 2010/11 to 2015/16 Ethiopian Tax Revenue Ratio to GDP is about 12.08. Although tax revenue to GDP showed an insignificant improvement in 2013/14 that is 12.7 compared to 12.4 in 2012/2013, it still remains small compared to the tax revenue generating capacity of the economy and the financing requirements of the development programs as GTP one target of tax to GDP was 15-17%. Similarly, it is well below the average performances of sub Saharan African countries of about 20% (Kenya 23%, Mauritius 19% and Tanzania 17%), ( African Economic Outlook, 2015).

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

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In Ethiopia's case, different tax reforms have taken place throughout the years. since 1940's, there have been a number of tax administration improvements; Various taxes have been introduced at different times with the principal objectives of enhancing revenue productivity, economic mobilization and financing development plans. The imperial government had introduced modern taxes and the socialist government had done its part with a view to support their respective economic programs. The Ethiopian People Revolutionary Democratic Front/EPRDF/ government, since the transitional period in the early1990's played its part by initiating tax reform as part of the development reform process against the long lived economic crisis. and because major types of taxes such as income tax, turn over tax, excise tax, stamp duties and custom duties were by far reformed; The 2002's tax reform that introduced VAT was, however, distinctive as it was the first comprehensive tax reform in the history of the country.

As part of the Tax reform the Ethiopian Government introduced in the Tax withholding plan in 2009, government institutions and public enterprises are required to withhold 100% of the VAT on their purchases, Income Tax deducted from their employees and pay the amount to the tax authorities within 30 days from the end of the month in which the VAT and income tax was withheld. Taxpayers are allowed to offset VAT withholding against VAT payable in a period.

The state owned enterprises are divided in to two: those profit maker institutions like Ethiopian Airlines, Merchandise Wholesale and Import Trade (MWIT), Commercial Bank of Ethiopia, Ethiopian Electric Power, Ethiopian Electric Utility, Metals and Engineering Corporation (METEC), Ethiopian Sugar Corporation, Ethiopian Railways Corporation and Industrial Park Development Corporation. And nonprofit making institutions like Ethiopian Broadcasting Corporation and other federal Government offices. In which all these State Owned Enterprises and institutions, a lot of employees are working as Permanente employees and casual employees. Therefore, this research intends to study what the actual practice of income Tax deduction is, find out if all salaries are paid, whether or not different allowances are taxed on the base of the income tax proclamation, and further more investigates the questions; what the reporting system is? Is the law applicable? And other related issues.

In addition to income tax administration, the research also investigated the actual VAT withholding & profit tax treatment in State Owned Enterprise in the case of Large Taxpayers Branch Office/LTO/.

### 1.2.Statement of the problems

A well designed and administered taxation system is very vital in generating revenue as well as increasing the tax base to the government of developed, developing, and transitional economies. As Bird, (1991) expresses, taxation is one of the direct ways for government revenue generation. One of the factors determining capacity of a country to generate adequate revenue from taxation is the tax administration competence and efficiency.

As IMF 2016 stated, the average fiscal revenue-to-GDP ratio in sub-Saharan Africa was around 17.9% of GDP in 2015, but in 2015 many low-income countries in Africa had a tax-to-GDP ratio 16.3% which is less than the average. Whereas, Ethiopia's Tax revenue to GDP ratio was 15.1% which is a number below the sub Saharan Africa average 17.9% as well as the low income countries average indicating low performance in collecting revenue in the past years as per analysis made by IMF (IMF 2016).

A number of challenges were identified related to tax administration and performance. In developing countries there are evasions and fraud, poor administration which increased administrative expenditure and compliance costs, miss understanding of taxpaying community ,and poor technology management; especially Electronic Tax Registers. Different studies further disclosed challenges related to consumers` awareness, taxpayers misunderstanding and evasion act, tax authority commitment and organizational inefficiency, unfair competition due to unregistered (Birhanu , 2018).

The average 2010/11 to 2015/16 Ethiopian Tax Revenue Ratio to GDP is about 12.08. Although tax revenue to GDP showed an insignificant improvement in 2013/14 that is 12.7 compared to 12.4 in 2012/2013, it still remains small compared to the tax revenue generating capacity of the economy and the financing requirements of the development programs as GTP one target of tax to GDP was 15-17%. Similarly, it is well below the average performances of sub Saharan African countries of about 20% (Kenya 23%, Mauritius 19% and Tanzania 17%), ( African Economic Outlook, 2015).

In Ethiopia, taxation has been used for the purpose of raising as much revenue as possible to meet the ever-expanding public expenditure needs of the government. It is also a mechanism for reduction of inequalities in income distribution, promotion of capital investment and trade,

encouraging and/or discouraging certain industries depending on how suitable it is for a country's economic development program. However, it is not often the case to collect the potential tax revenue in the country due to lack of awareness of taxpayers as well as small number of tax agencies. The business owners do not have easy access to and clarification on information of the tax laws. The tax agencies do not also provide advising services. As a result, taxpayers misinterpret tax rules and regulations (Birhanu, 2018).

Ethiopia still mobilizes not more than 14 percent of GDP in tax revenues. This may be as a result of evasion or fraud by the taxpayers which includes; not applying the proper income Tax law, not reporting the total withholdings on the timely base, underreporting profits and turnover, underreporting employee wages, failure to register or file tax declarations, lack of willingness to operate in accordance with tax laws. The Tax administration should be provided with appropriate enforcement tools. Hence, to create an effective and fair tax system, it is vital to address the administration problems that affect it. This research fills the gap as there is no prior study concerning Tax Administration in State Owned Enterprises.

### **1.3.Objective of the study**

Research objectives have general and specific characteristics each of them are explained separately in the following paragraphs.

#### **1.3.1. General objective**

The general objective of this study is to assess Tax Administration in State Owned Enterprises in Ethiopia in the case of Large Tax payers Office.

#### **1.3.2. Specific objectives**

The specific objectives of this study are;

- ❖ To assess the role of the tax law to tax administration.
- ❖ To investigate Tax collection and settlement process in SOEs.
- ❖ To assess the computation and administration of Income tax, VAT and profit tax in SOEs.
- ❖ To determine whether there is accountability in Tax Administration in every level in SOEs.

- ❖ To determine the role of tax proclamation, regulation and directives knowledge to Tax Administration.
- ❖ To assess the revenue contribution of state owned enterprises taxes to total revenue and GDP.

### **1.4. Research questions**

In line with the mentioned above objectives, the researcher developed one central question and four specific research questions:-

- ❖ What is the role of the tax law to tax administration?
- ❖ What is the Tax collection and settlement process in SOEs?
- ❖ Is the computation and administration of Income tax, VAT and profit tax in SOEs are the same with private enterprises?
- ❖ Is there accountability in Tax Administration in every level in SOEs?
- ❖ What is the role of tax proclamation, regulation and directives knowledge to Tax Administration?
- ❖ What is the revenue contribution of state owned enterprises taxes to total revenue and GDP?

### **1.5. Significance of the Study**

The purpose of this study was to assess Tax Administration in State Owned Enterprises in Ethiopia in the case of Large Tax payers Office /LOT. In fact, knowledge of these factors and suggested solutions from the research report will help ministry of revenue and LTO branch to strengthen its revenue collection from SOEs.

In addition, this study helps for the management of Ethiopia revenue ministry and policy makers. This study is intended to help the Ethiopia revenue ministry to identify the factors affecting tax administration in State Owned Enterprises. It can also update the MOR/LTO office on the current issues that contribute to the existing gap of tax revenues from SOEs. The findings of the study may be used by the MOR/LTO office to serve as a benchmark in setting certain standards for improvement on the amount tax collection from SOEs. The policy makers can use the findings to come up with the policies that will be helpful in revenue mobilization in SOEs. It will

guide on how corrective measures should be taken to improve tax revenue from SOEs. Finally, the study might have valuable importance for future researchers who need to conduct a study in this and related fields.

### **1.6.Scope and Limitations of the Study**

The study focused on tax administration in ministry of revenue large tax payer's office and in thirty (30) selected state owned enterprises. The study examined the actual practices of Tax Administration in the selected State Owned Enterprises in Ethiopia with the reference of the Tax proclamations, Regulations & directives. And since collection of different taxes is an alarming issue for both tax payers and the Government at this time, the study as a result, faced the challenges and limitations of lack of clear information and Absence of documents.

### **1.7.Organization of the study**

The study contains five chapters: The first chapter comprises General introduction such as background of the study, statement of the problem, basic research questions, objective of the study, significance of the study, limitation of the study and scope of the study. The second chapter reviewed the relevant literatures in the field. In Chapter three, the methodology of the study such as research design, source of data, method of data collection, method of data analysis and sampling methods are discussed. Chapter four presents the results and discussion of the study. Finally, chapter five focuses on the summary, conclusions and recommendations of the study.

**CHAPTER TWO**  
**LITERATURE REVIEW**

The purpose of this chapter is to review the literature in the area of tax administration, tax administration in State Owned Enterprises in Ethiopia and research gap and conceptual framework. The review has four major sections. The first section presents a review of the theoretical aspects related to the study. This is followed by the empirical literature review and the third section is research gap on the literature review.

**2.1. Theoretical perspectives**

The theoretical part of the literature covered topics like definition of State Owned Enterprises, State Owned Enterprises versus private Enterprises, problems of tax administration, State Owned Enterprises in Ethiopia and other tax administration related topics.

**2.1.1. State Owned Enterprises**

Different scholars defined State Owned Enterprises in different ways. And some of them are referred to the term as public undertaking, public enterprise, public corporation, national enterprise, state-owned enterprise or as governmental enterprise. The public entities range from purely regulatory at one end to purely commercial at another. H.L. Bhatia attempted to provide a distinction as he divided public sector into three categories: - The first group is constituted by those public services which are provided to the members of the society free of cost, or at least with that intention which he referred to as pure public goods. Those public services which are run and maintained by the Departments called Departments make up are the second category. Here are included postal services, education, roads, bridges, etc.; their finance may fall on different grounds and some of them may be in the nature of public undertakings. The third category on the other hand, comprises those public services which are provided not by the departments but through the means of autonomous or semi-autonomous bodies like firms, companies and corporations. These are economic units that may have owned by the government, their own price policies according to different objectives and criteria.

Bhatia further claims that only the last two categories constitute “public undertakings”. Even in the first category, he says, the government might charge fees for certain services, but is in the nature of taxes and for regulating the supply of some goods/services. For Bhatia, the terms

“undertaking” and “enterprise” cause confusion. He said that there is a tendency to regard public enterprise to be more like a private enterprise where there is a consideration of risk and intention to gather profit, but public undertaking needs not to be risky and shouldn't be intended for profit. He states that public undertaking faces risks like a private enterprise depending upon numerous circumstances like the product it supplies, the market structure and so on, and a public undertaking may or may not have a policy of making a profit.

State-owned enterprises /SOE/ are independent bodies partially or wholly owned by government; They perform specific functions and operate in accordance with a particular Act. Even though State Owned Enterprises /SOEs/ can sometimes be referred to as state-owned companies, state-owned entities, or state owned enterprises, they are all government owned business entities or publicly owned companies created by government to undertake commercial actions on the behalf of government (Shabalala, 2011).

A non-commercial SOE is a company created and solely owned by government to carry out particular functions on behalf of the government with the main aim of providing goods and services to its citizens (OECD, 2005).

According to Bantug (2013) SOEs exist in two main categories, depending largely on the activities they offer and engage in: Category one SOEs deliver the essential public infrastructural services, such as: sanitation and water; postal services; power; telecommunication; airports; and broadcasting. Category one SOEs thus, can either engage in commercial or non-commercial activities. But according to his analysis, Category two SOEs consist of SOEs that are purely commercial. For example entities like banks, air transport real estate development, shipping and retailing. Both these categories of SOEs are key actors in the economy with the main objective of generating profits (Bantug, 2013). It is also crucial to note that even though commercial SOEs are focused on economic development, they are theoretically tasked at bettering service delivery (OECD, 2005).

SOEs were long in existence in developed countries they were created for the purpose of economic development (Turner and Hulme, 1997). According to a 2013 report done by The Organization for Economic Co-operation and Development (OECD), SOEs are seen as vital actors in the development of infrastructure.

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SOEs were set-up to aid in the provision of services by the government. They were expected to ensure that the state provides effective and efficient goods and services to the citizens while also providing the state with revenue for further capital investment. SOEs have been created worldwide each with their own public policy agendas, such as the building of basic physical infrastructure in order to provide services like water, electricity. However, this was to be done in a manner that would generate income for the treasury (World Bank Group, 2015). While SOEs have contributed to the economy, it became evident that from the 1970s through the 1980s many SOEs had performed below expectation. SOEs did not generate revenue/profits necessary for capital investment. Compared to private sector operations, SOEs were financially not viable. However, the World Bank pointed out those SOEs (unlike the private sector) serves a multitude of policy aims and goals, many which are not profitable (World Bank Group, 2015).

OECD and World Bank have identified a range of reasons behind the establishment of SOEs, namely to:

- ❖ Provide public goods (e.g. national defense and public parks) and merit goods (e.g. public health and education), both of which benefit all individuals within a society and where collective payment through tax may be preferred to users paying individually.
- ❖ Improve labor relations, particularly in ‘strategic’ sectors.
- ❖ Limit private and foreign control in the domestic economy.
- ❖ Generate public funds. For instance, the state could invest in certain sectors and control entry in order to impose monopoly prices and then use the resulting SOE revenues as income.
- ❖ Increase access to public services. The state could enforce SOEs to sell certain good and services at reduced prices to targeted groups as a means of making certain services more affordable for the public good through cross-subsidization.

State owned enterprises are considered to be vital elements of development in most economies (Buge, 2013). In addition SOEs can contribute by improving the living conditions of the citizens and focusing on economic development, SOEs are relevant entities in rising economies, and a responsibility to provide strategic facilities that are seen as national interests.

According to Bhatia, the core concept of ‘public enterprise’ lies embedded in the term itself: an organization which has two faces or dimensions. And if one or the other of the dimensions is not

present, the body cannot be described as a public enterprise. The two faces are obtained by splitting the phrase into two parts: they are the enterprise dimension and the public dimension. There is a double-faced relationship regarding a public enterprise one with the private enterprise and the other with the state. Each of the dimensions exhibits characteristics as stated herein below. (Frehiwot, 2017)

### **2.1.2. State Owned Enterprise versus Private Enterprise**

State Owned Enterprises and private enterprises have many things in common, as well as areas of differences. This apparently conflicting state of relationships may place a State Owned Enterprise in a comparatively advantageous position on the one hand, and may subject it to a stiff situation in relation to private enterprises because they put up with the obligation of social achievement at the same time. There also exists a relatively inaccurate status of semi-governmental enterprises that occupy a place somewhere between public enterprises and private enterprises.

Given that the political economy of a state allows, sometimes even encourages, the private enterprises to grow and that public enterprises also operate in a competitive atmosphere, the two entities are practically similar in structure and operations. All the essential elements that make up the enterprise dimensions are shared by public and private enterprises.

However, in reality, public enterprises operate within a modified one, sometimes even totally different, environment from private enterprises partially because of the public nature involved in their corporate life. It is possible to forward certain factors that are relevant to public enterprises as compared to private enterprises.

Public enterprises are typically created by a special statute. Their public obligations make them legally responsible to governance by special legislations, and ordinary commercial laws serve only a gap-filling purpose. But all private enterprises formation, structure, management, rights and duties fall under the exclusive purview of ordinary commercial laws.

Public enterprises have multiple goals and multi-dimensionality of objectives under their belt. They are side by side assigned with the profit end and the task of achieving greater social results. It would have multiple objectives in many directions. Whereas private enterprises, on the other

hand, would normally have a single goal, profit making, and they primarily judge their status by using this as a yardstick. Both public and private enterprises owe accountability, ultimately liability to the public. But the accountability required of a public enterprise is substantially greater in degree and scope, as can be gathered from the ultimate public ownership through the representative of the state.

State owned enterprises get direct financial support to settle capital and operational costs mostly in the form of initial capital, increase of capital and financial budgetary deficit. These advantages allow public enterprises to price below those of more economically efficient ordinary commercial rivals and raise their ability to unusually force those rivals out by reducing the rival's share in the market. In addition, public enterprises may not be supposed to follow market principles and objectives; they may be guided by budgetary principles and their services may not presuppose relationship. Private enterprises are greatly influenced by market forces and adhere to the principle of economic rationality.

### **2.1.3. Tax Administration**

Tax has been defined by various professionals in different ways. Theoretically, tax can be defined or seen as an obligatory transfer of resources from the private to the public sector. According to The World Bank (2015) taxes are obligatory transfers of resources to the government from the rest of the economy. And in another study by Lymer and Oats (2009), tax is defined as

...a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the Taxpayer receives nothing specific in return.

Revenue creation is a way through in which a government increases revenue for the purpose of meeting its capital and recurrent expenditure. There are three major sources by which a government raises revenue for the purposes of financing its expenditure; these are tax sources, non-tax, and capital receipts. Tax sources are revenue received by the government from all available components of tax in a given country, whereas non-tax revenue sources are aids from inter-governmental or another level of government (James, 1995). On the other hand, capital revenue includes all revenue received by the government from investments made in other countries or within the country. Among these three sources, taxation is the most important source

of revenue because the level of government expenditure is to a great extent dependent on the ability and efficiency of tax administration to generate adequate revenue from taxation (Bird, 2005).

Government expenditure depends on the amount of revenue generated by the government. One way of generating sufficient revenue is through well-structured tax Administration. Taxes play a very important role in every nation's economy and comprise primary sources of revenue for developed countries. But in most developing countries, revenue from tax has been low because of the insufficient personal and modern facilities of Tax administration.

There are so many reasons for a weak and unproductive tax revenue administration in most developing countries. Among the reasons inefficient tax administration; as well as corruption and distrust from tax administration; and inefficient outcome that change taxpayers' attitude toward compliance (Bird, 2015).

The efficiency of a tax system is not determined only by proper legal regulation but also by the efficiency and integrity of the tax administration. In spite of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a trained and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as the tax administration (Kaldor, 1980).

A tax administration is the entire organizational set-up for the management of the tax system. The tax administrative set-up is a subdivision of government under regulations prescribed by tax legislation. Tax administration is the procedure of assessing and collecting taxes from tax individuals and companies by authorities in such a way that correct amount is collected efficiently and effectively with minimum tax avoidance or tax evasion.

The main objective of a tax system is to assure the long-run fiscal soundness of the policies and programs of government while the purpose of tax administration is to completely implement the tax system, that is, to ensure that tax payers meet the terms with the provisions of tax laws and that the funds derived from tax sources are paid into the government takings. Certain aspects of the tax system are preconditions for a successful tax administration; First the tax laws should be simple, clear and understandable both to those who must apply them and those who are subject to them.

The scope of tax should also be clear. It should be certain that the tax can and will be enforced, for a tax that is easily evaded causes resentment among the honest taxpayers and often decline in taxpayers' morality. Secondly, the taxes should be fair, that is the burden should be spread as fair as possible, with regard to the tax payer's ability to pay. The taxes should also be equitable as between one tax payer and another; they should be of universal application, and imposed without distinction of persons between citizens in similar circumstances. Thirdly, the taxes should be easy, economical and convenient to administer that is the cost of collecting to the tax authority and the cost of compliance to the tax payer should be as low as possible and should be consistent with effective enforcement (Birhun, 2018).

As Balls (1965) pointed out, the purpose of the tax administrator is, to plan taxes in conformity with the principles that will raise revenues sufficient to meet the needs of government to establish the basis of assessment and a procedure for collection that are as simple, effective and economical as possible.

At this time tax administrators face an alarming number of challenges in every country. In many developing countries tax administration reforms are needed to achieve economic stability. In countries with economies in transition, there is a need to establish a tax administration that can respond to the demands of a growing market economy.

### **2.1.4. Problems of Tax Administration**

According to Soyode and Kajola (2006), the problems of tax administration are Tax Evasion; Tax evasion is a deliberate and determined practice of not disclosing full taxable income so as to pay less tax. In other words, it is a breaking of tax laws whereby a taxable person neglects to pay the tax due or reduces tax liability by making falsified or untrue claims on the income tax form. Tax is evaded through different methods some of which include the following:

- ❖ Refusing to register with the relevant tax authority.
- ❖ Failure to supply a return, statement or information or keep records required.
- ❖ Making an incorrect return by omitting or understating an income accountable to tax.
- ❖ Overstating of expenses so as to reduce taxable profit or income, this will also lead to payment of less tax.
- ❖ Entering into artificial transactions.

The other problem of tax administration is Tax Avoidance. Tax avoidance has been defined as the arrangement of tax payers' affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws, so as to pay less tax than someone should pay.

### **2.1.5. State Owned Enterprises in Ethiopia**

In Ethiopia, business in an organized form has been established during Emperor Menelik's reign (Frehiwot, 2017). However, few small firms were in the hands of foreigners who were residing in the empire. In 1894 emperor Menelik authorized to establish a company for the purpose of building a Railway from Djibouti to the White Nile through Harar and Entoto (Frehiwot, 2017). In 1905, the Bank of Abyssinia was established in Addis Ababa as a branch of the National Bank of Egypt, which was in turn an English company. In 1909, however, a private share company was established under the name of Agricultural and Commercial Development Company of Ethiopia (Frehiwot, 2017). It was incorporated by proclamation of Emperor Menelik II. As Frehiwot, 2017 stated in her study, this company was important for two basic reasons, one, it was the first of its type to be established in Ethiopia. Second, the principles of the company were incorporated in the Law of Companies of 1933 and later in the Commercial Code of 1960. It was actually the beginning of Ethiopian company law (Frehiwot, 2017).

According to Ethiopian Investment Authority profile on Private investments in Ethiopia, after the 1974 "social revolution", the country declared socialism as a political philosophy. Private sector and particularly foreign investors from that time on wards were viewed as exploiters of the labor power, raw material and financial resources of the country (EIA Review, 1992). Therefore, private owned companies were nationalized to form State Owned Enterprises. Generally, investment climate in Ethiopia was completely low. For this reason, there were not companies in the first fifteen years of the Derge regime. On the other hand, because of the international political changes and the needs of the people, the Derge realized that the socialist economic policy would not be able to bring development and hence, it declared mixed economic policy (EIA Review, 1992).

The report also stated that, after the fall of the Derge regime, the then Transitional Government of Ethiopia (TGE) issued a liberalized market-oriented economic policy which was basically aimed at gearing the economy towards revival and sustained growth (EIA Review, 1992).

Tewodrose Meheret (2014) on The Concept and Characteristics of Public Enterprise in Ethiopia stated that, the term public enterprise refers to enterprises established under the ownership of the state or public authorities.

Any commercial, financial, industrial, agricultural or promotional undertaking owned by public authority, either wholly or through majority shareholding which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. Such undertakings may have diverse legal and corporate forms, such as departmental undertakings, public corporations, and statutory agencies, established by Acts of Parliament or Joint Stock Companies registered under the Company Law.

This definition embodies three basic elements that determine the feature of a public enterprise. The first element relates to ownership and requires an enterprise to be wholly owned by the state so that it can be characterized as a public enterprise (Tewodrose, (2014). The second element requires establishment under the proclamation. The proclamation sets the legal framework for entities established by the State for the purpose of economic activities for gain. The requirements for their formation, operation, structure, and exit are embodied in the proclamation. The third element in the definition of ‘public enterprise’ under Proclamation No. 25/1992 is the purpose of the entity which distinguishes it from the main function of the State. Public enterprises are commercial entities as distinguished from administrative agencies which carry out regulatory activities and render public service. Subsequent to this definition, several proclamations have come up with diversified usages.

### **2.1.6. Tax Administration in Ethiopia**

The Ethiopian Government has been introducing tax policy reforms with a vision of improving tax revenues collection because the fiscal deficit has necessitated tax reforms in the Tax and Customs Administrations since 1992. As Demrew (2004) stated, the country faced severe macroeconomic imbalances such as falling export earnings, decline balance of payments, and rising debts and declining economic growth. For these reasons the country undertook various policy measures following a major economic shift from central planning to market oriented system. The government has attempted to rationalize the tax structure, make wider the tax base, and improve equity, consistency, in the administration and the tax laws so as to increase revenues performance. As part of the reform program, the government has undertaken different

tax policy measures through designing and implementation of tax policy and administration package.

The Ethiopian government has been introducing tax policy and administration reforms over the last twenty two years; specifically during the last ten years tax policy and administration reform was comprehensive and intensive in nature. On the policy side, rate schedules have been rationalized and the numbers of rate have been substantially reduced. Moreover, Value Added Tax (VAT) has been introduced as a replacement of conventional sales tax in 2003 and foreign trade tariffs brought down from the maximum of 30 percent to a maximum of 35 percent by the reforms (FDRE 2002).

In corresponding to tax policy reform, tax administration reform has taken place. In line to tax administration reform objective, Revenues Board was replaced by the Ministry of Revenues in 2001 to lead the tax system reform. And the Tax Reform Taskforce was established to deepen tax policy and administration reforms. An inter-ministerial steering committee chaired by the Ministry of Capacity Building- only one of its kind ministerial office established to lead the national reform program to improve and support the tax system reform program. The most distinguished tax administration reform has taken place recently in 2009 which centralized tax collection by merging different tax collection authorities under one umbrella headquarters. The administration reform was the result of Business Process Reengineering (BPR) study which was carried out to modernize the process of the tax administration operations with a view of process efficiency and effectiveness.

The primary objective of the tax policy and administration reform was to raise tax revenues measured in terms of tax to GDP ratio from less than 10 percent to 18 to 20 percent of over medium range plan after implementation of the reform program. These targets have so far remained indefinable as the tax to GDP ratio over the last 10 years shows about 10 percent as IMF stated.

## **2.2. Empirical Studies**

### **2.2.1. Empirical evidences on Tax administration Global Studies**

Tax Administration in Different scholars studied on tax administration areas throughout the years. To mention some, Mahesh C Purohit: Corruption in Tax Administration which is a study

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that focuses on corruption in tax administration, Katarina Ott (1998) study on Tax Administration Reform in Transition: The Case of Croatia This research discusses the basic issues of modern public administration in general and tax administration in particular, trends in their development and reforms in tax administrations. In addition, the paper suggests the main problems of prevention of tax evasion, measures for making tax administration more efficient and reducing the complexity of taxation laws. According to the writer special attention is paid to tax administrations in transition countries with an emphasis on public officials, revenue collection problems and tax administration reforms suggesting that, modern tax administrations are concerned with a stronger focus on taxpayers, specialization of personnel, independence from the ministries of finance and privatization of those areas which could be better performed by the private sector.

Asian Development Bank (2016), a comparative analysis of tax administration in Asia and the Pacific. The study focuses on:-

...the primary purpose of taxation is to raise revenue to finance government expenditure. With the revenue collected, governments are able to provide a wide range of public goods and services such as maintaining security; constructing infrastructure; and providing education, health systems, and social safety nets. Sustainable tax collection requires a well-designed set of tax administration arrangements that are managed competently.

The report focuses on the Asian Development Bank's (ADB) comparative series on tax administration analyzes the administrative frameworks, functions, and performance of 21 economies in the Asia and Pacific region. The report address the primary objective of the series is to help governments and revenue officials by sharing knowledge of important developments and trends in tax administration practice and performance, and to identify opportunities to enhance the operation of their tax systems.

Schaffer & Turley (2001) compared "Effective versus statutory taxation: measuring effective tax administration in transition economies". This paper attempts to measure the effectiveness of tax administration in transition economies and how it compares to a benchmark for the mature market economies. It measures the effectiveness of tax administration by comparing statutory tax rates with effective tax yields.

The "IMF Working Paper, Asia and Pacific Department compiled by Poirson (2006) on the tax system in India assesses the effects of India's tax system on growth, through the level and

productivity of private investment. The paper finds that the most recently proposed package of reforms would improve tax productivity and lower the marginal tax burden and tax-induced distortions.

Abdella & Clifford (2010) has studied the impact of tax reform on private sector development. Produced and distributed by Addis Ababa Chamber of Commerce and Sectoral Associations with financial support from the Swedish Agency for International Development Cooperation, Sida. The study has an overall objective of assessing the impact of the tax reform on private sector development. This includes reviewing the new tax policy, its impact on business, and making recommendations that would help improve the tax system so that it may contribute to the growth and development of the private sector and hence to the overall economic development of the country.

### **2.2.2. Empirical evidences on Tax administration in case of Ethiopia.**

According to Tadesse (2014), on his study on the Ethiopian income tax system: policy, design & practice, said the objective of the study is:-

...to analyze the current structure (particularly the four income tax schedules) of Ethiopian income tax system in light of the general tax policies of Ethiopia and principles of taxation, with special emphasis upon the equitability of the current structure of income taxation in Ethiopia.

The study draws upon the various policy documents and tax laws of Ethiopia to articulate Ethiopia's tax policy and in particular establish tax equity as a fundamental goal of Ethiopian tax policy. It also draw upon the comparative study of income tax structures of select countries from both the developed and the developing world to suggest the possible ways to forward for the restructuring of Ethiopian income tax system in order to meet the general objectives set out for it in Ethiopia's general tax policy objectives.

The study also investigates the practical challenges and problems the Ethiopian income tax system faces and highlights the problems that arise from design problems of the Ethiopian income tax system.

Abeba (2013) also conducted a study entitled as 'assessment of tax administration focusing on tax assessment and collection procedure in Nifas Silk Lafto Sub City small taxpayer's branch office'. The study focuses on investigating tax assessment administration & collection problems

found in N/Lafto sub city faced by both taxpayers and the authority. The specific objective of the study is to identify the main problems and their causes in tax assessment faced by taxpayers and tax administrators involved in the tax assessment. And the writer says the main aim of the study is to identify the problems faced in the tax collection system and to comment on possible solutions.

The study of Belay, (2013) on determinants of tax revenue performance: Ethiopian Federal Government also conducted to investigate the determinants of tax revenue performance in Ethiopian Federal Government. The specific objectives of the study is, to investigate the effect of gross domestic product on tax revenue, to investigate the effect of inflation on tax revenue, to investigate the effect of foreign direct investment on tax revenue, to investigate the effect of public debt on tax revenue, to examine the effect of trade openness on tax revenue & to investigate the effect of foreign aid on tax revenue.

Wollela (2008) conducted a research on the title “value added tax administration in Ethiopia. This paper examines VAT administration in Ethiopia and identifies key problems including lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing and filing requirements. The study emphasizes the need to strengthen the administration capacity in general and the tax audit program in particular.

### **2.3.Research Gap**

From the literature examined, different writers have raised different issues on Tax Administration basing their opinion and data’s on various points of views according to the contexts of the scopes of their studies. But yet there is no researched issue on Tax Administration on State Owned Enterprises in Ethiopia/SOEE/.

The researcher believes that this study fills some gaps in the area of tax administration in State Owned Enterprises in Ethiopia in the case of Large Tax payers Office, not tested in the above study for the coming researchers and current policy recommendations. The researcher also feeling that no study has been carried out on the issue assessment of Tax Administration in State Owned Enterprises in the case of Large Tax payers Office

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

The main part of the research process is to develop a valuable research design which indicates the link between the data collected, the analysis and conclusions to be illustrated. The research design fulfills the most appropriate methods of investigation, the nature of the research instruments, the sampling method, and the types of data to be collected.

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

#### **3.1. Research approaches**

There are two main research methodologies: quantitative and qualitative. And there's also a third methodology created as a combination of the above two which is called a mixed research method. Mixed research method a method which is currently getting a high recognition as a way to improve and substantiate research findings. The quantitative method, which has its origin based in the scientific method, relies on statistical procedures for data analysis. In contrast, qualitative methods rely on the descriptive narrative for data analysis (Berrios& Lucca, 2006).

Qualitative Research Method is used to analyze and evaluate non-numerical information. Whereas Quantitative studies try to understand intangible evidence, such as emotion and behavior. Qualitative method is applicable to studies that involve relationships between individuals, their environments and motives that drive individual behavior and action (Berrios and Lucca, 2006).

Qualitative research focuses on the collection of detailed primary data from relatively small samples by asking questions or observing behavior. The main objective of qualitative research is to gain preliminary insights into decision problems and opportunities. In this research interviewing techniques played an important role to collect qualitative data.

Quantitative Research Method implies using numerical data. So, quantitative methods rely on experiments and surveys to collect measurable data such that statistical processes can be applied (Creswell, 2003). A major advantage of quantitative methods is that the results are usually generalized to larger populations.

Quantitative research generates statistical data through the use of large scale survey research, using methods such as close-ended questionnaires and structured interviews. Mixed Research Method is the combination of qualitative with quantitative methods. This method is invented because of the controversy between qualitative and quantitative methods.

As Kemper, Springfield and Teddlie (2003) define mixed research method design as a method that includes both qualitative and quantitative data collection and analysis in parallel form (concurrent mixed method design in which two types of data are collected and analyzed in sequential form). Bazely (2003) defines this method as the use of mixed data numerical and text and alternative tools statistics and analysis, but apply the same method. It is a type of research in which a researcher uses the qualitative research model for one phase of a study and a quantitative research model for another phase of the study.

Even though there are three types of research approaches, since the research problems of the research need both quantitative data and qualitative data, the researcher of this study found mixed research method more appropriate in order to achieve the stated research objective and to answer research questions regarding tax administration on state owned enterprises. Apart from the primary data collected, Documentary analyses of financial records were used from the selected State Owned Enterprises and Ethiopian Revenue Minster in large tax payer's branch office.

### **3.2. Research Design**

A research design is a conceptual structure that shows how all the major parts of the research project come together. It constitutes the blueprint for the collection, measurement and analysis of data. The central main part of the research activity is to develop an effective research design which indicates the link between the data collected, the analysis and conclusions to be illustrated. Actually, it is a map that is usually developed to guide the research (Gibaldi, 2009).

Research design fulfills the most appropriate methods of investigation, the nature of the research instruments, the sampling organization, and the types of data. In more general way the aim of this section focuses on describe and identifying the various characteristics of a population or phenomena. Descriptive research is designed to give answers to different questions. Descriptive research aims at a classification of the range of elements comprising the subject matter of study.

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It contributes to the development of concepts through empirical observation. It can highlight important methodological aspects of data collection and interpretation.

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

The data to conduct this study is the primary data through questionnaire distributing. There will be two types of questionnaire. The first questionnaire is for Large Taxpayer Office/LTO/ and the second questionnaire is for selected State Owned Enterprises in Large Taxpayer Office. The study areas are selected using purposive sampling method from State Owned Enterprises in Large Taxpayers Office /LTO/.

### **3.3.Study Population**

The target population of this study is all State Owned Enterprises registered and currently declaring their tax at large taxpayers branch office (LTO) and the employees who are directly involved in Tax collection and administering departments.

According to Ethiopian investment report there are 125 State Owned Enterprises in Large Taxpayer Office (Ethiopia Investment Report, 2017). This research focus on thirty /30/ selected State Owned Enterprises/SOE/ from the 125 State Owned Enterprises/SOE/ registered and currently declaring their tax in large tax payers office /LTO/. Because of the limitations of covering all of the existing State Owned Enterprises/SOEs/ the research obligates to minimize its study focusing only on thirty /30/State Owned Enterprises/SOE/ in LTO purposively.

The sampling method is purposive mainly on different sectors which are represented in the sample. Referring specifically to the selected State Owned Enterprises/SOE/, 30 SOEs were selected as a sample sources.

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1. Commercial Bank of Ethiopia
2. Development Bank of Ethiopia
3. Berhanena Selam Printing Enterprise
4. Ethiopian Mineral Petroleum & Bio Fuel Corporation
5. Branna Printing Enterprise
6. Ethiopian Management Institute
7. Educational Materials Production & Distribution Enterprise
8. Ethiopian Insurance Corporation
9. Ethiopian Tourist Trading Enterprise
10. Ethiopian Airlines Group
11. National Alcohol and Liquor Factory
12. Ethiopian Industrial Inputs Development Enterprise
13. Ethio-Telecom
14. Ghion Hotels Enterprise
15. SPA Service Enterprise
16. National Veterinary Institute
17. Ethiopian Commodity Exchange
18. Defense Construction Enterprise
19. Ethiopian Railways Corporation
20. Sugar Corporation
21. Ethiopian Shipping & Logistics Services Enterprise
22. Ethiopian Petroleum Supply Enterprise
23. Chemical Industry Corporation
24. Ethiopian Electric Power
25. Ethiopian Electric Utility
26. Ethiopian Construction Works Corporation
27. Ethiopian Trading Businesses Corporation
28. Ethiopian Agricultural Businesses Corporation
29. Ethiopian Construction Design & Supervision Works Corporation
30. Ethio-Djibouti Standard Gauge Railway Share Comp

The data Collection Methods are based on distributing Questionnaires' for the selected State Owned Enterprises/SOE/ and Large Taxpayers Office officers.

### **3.4. Sample Size**

According to Ethiopian investment report there are 125 State Owned Enterprises which report their taxes in Large Taxpayer Office (Ethiopia Investment Report, 2017). From the total number of 125 State Owned Enterprises/SOE/ in LTO the research has been focusing on 30 (thirty) State Owned Enterprises/SOEs/ by their purpose of their establishments, i.e. from commercial bank

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the only State Owned commercial bank of Ethiopia. From development bank the only Development bank of Ethiopia. From airlines industry the only State Owned airlines Ethiopian Airlines, from shipping lines the only State Owned shipping lines Ethiopian Shipping line and so on.

According to Roscoe (1975), the appropriate sample size for most research has to be greater than 30 and less than 500. Taking this guideline in to consideration, the sample size was decided to be thirty State Owned Enterprises from LTO which represent around 24% and 130 employees from total target group of working directly on Tax Administration.

To get adequate responses through questionnaire, 130 questionnaires for 30 selected State Owned Enterprises/SOE/ to the senior management, finance department and 35 questionnaires for LTO officers in different departments related to Tax Administration issues have been used to conduct this research.

### **3.5.Source of data**

The main task of a research is collection of appropriate data and the analysis of data for finding answers to the research questions. The appropriate performance of this task depends upon the identification of exact data and information required for the study. The clear and accurate statement of the problem, the development of the conceptual model, the definition of the objective of the study, the setting of investigation questions the necessary relevant data needed is collected from primary and secondary data, such as interviews, questionnaires, reports and different tax declaration information.

The method of collecting data for descriptive research can be employed singly or in various combinations, depending on the research questions in use. Among the common data collection methods applied to questions within the relation of descriptive research, the primary tasks of research is collection of appropriate data and the analysis of data for finding answers to the research questions. The proper performance of this task depends upon the identification of exact data and information required for the study.

Collecting primary data during the course of doing experiments in an experimental research but in case we do research of the descriptive type and perform surveys, and then we can obtain primary data either through observation or through direct communication with respondents in

one form or another. Primary data is collected through questionnaires to taxpayers and tax officers, and interviews are conducted to tax assessors, finance managers, auditors, and tax auditor from MOR/Large taxpayers' branch office.

The researcher prefers questionnaires as major source of primary data and it facilitates in collecting data from different taxpayers engaged in different business sectors and experiences. It used gathering objective, qualitative and quantitative data the respondents can complete. The questionnaires comprises of both closed and open ended questions. Most of the closed questions are design on an ordinal level of measurement basis, the others are designed, 'agree' or 'disagree' questions ,and choosing the given alternative values so that the variables can be rank to measure the degree of their strength or the agreement or the disagreement of the respondents.

Relatively questionnaire is considered as the main part of a survey operation. Researcher should note the following with regard to three main aspects of a questionnaire: open ended questions allow respondents to offer an answer that the researcher doesn't include in the questions. The researcher used structured questionnaires. The researcher used mode of sending questionnaires to respondents by personal delivery. The researcher prefers to collect data from different business sectors and for tax office staff different level of experience in relation with subject under study. And also, the secondary data sources include different annual performance report of MOR, report of government departments, books, handouts, and other publications related to research topic. It is ready made and readily available and it is used for benchmark, to verify the findings based on primary data.

### **3.6.Method of Data collection**

For this research, both primary and secondary data are used. The primary data is collected through standard questionnaire and interview. The demographics of the respondents are firstly established in the questionnaire. The questionnaire comprised both closed and open ended questions. Most of the closed ended questions are designed on an ordinal level of measurement basis. The variables can be ranked to measure the degree of their strength or the agreement or the disagreement of the respondents with the variables. Adding open ended questions allows respondent to offer an answer that the researcher didn't include in the questions. The replies of open – ended questions were analyzed by content under different categories. Individuals who have familiarly with the tax administration and who may also familiar with the taxpayers were

selected for the research. Interview is undertaken by the researcher in order to effectively gather relevant information to the study. Secondary data are also collected from the ministry of revenue /MOR/ data base and ministry of finance /MOF/. While collecting and using these data for the study, more considerations were given to the time period, reliability, and relevance.

The researcher used one set of structured questionnaires for which were answered by selected branch officials, process coordinators and team leaders of tax assessment and collection departments.

The primary data sources were collected from the questioners distributed. The questionnaires have two parts: the first part was for Managers of the selected SOE the actual practice of Tax Administration. The second part of the questionnaire on the other hand was about the actual practice of the Tax Administration in Ministry of Revenue /MOR/ officials.

### **3.7.Method of Data Analysis**

The responses' of respondent which were collected using the above design and techniques were organized, analyzed and interpreted. The statically analysis could be conducted based on percentages, table, figures and percentages to summarize the result. In case of descriptive statics, a quantitative method of data analysis was adopted. The data collected were carefully coded and checked for consistency and entered into the statistical package for scientists (SPSS) statistical package. The analysis was performed with a method of SPSS version 20.

The researcher used tabulation, ratios and comparison method to analyze the data. Tabulation is a process of summarizing raw data displaying them on compact statistical tables for further analysis. The responses of the respondents collected using questionnaires methods organized, analyzed, and interpreted.

### **3.8.Measurements of Validity and Reliability**

Reliability and validity are conceptualized as trustworthiness in qualitative standard. It is also through this association that the way to achieve validity and reliability of a research gets affected from the qualitative researches perspectives which are to eliminate bias and increase the

researcher's truthfulness of a proposition about some social phenomenon using triangulation Golasfshani (2003). Reliability, validity and triangulation, if they are to be relevant research concepts, particularly from qualitative point of view, have to be redefined as we have seen in order to reflect the multiple ways of establishing truth. And also most ethical issues in research fall into one of the four categories: protection from harm, informal consent, right to privacy and honesty with professional colleagues Leedy and Ormrod (2005).

### **3.8.1. Validity**

The quality of research design can be defined in terms of validity of measurement instrument used in the research. The major types of validity, external validity, construct validity, statistical conclusion validity are internal validity, external validity; construct validity, statistical conclusion validity Maxwell, 1992.

Validity refers to the degree to which evidence and theory support the interpretation of the test scores entailed by proposed uses of test. That is, validity has to do with both the attributes of the test and the uses to which it is put.

### **3.8.2. Reliability**

Reliability is one of the most important elements of test quality. It has to do with the consistency, or reproducibility, of an examinees performance on the test. A test with poor reliability, on the other hand, might result in very different scores for the examinee across the two test administrations. If a test yields inconsistent scores, it may be unethical to take any substantive action on the basis of the test. There are several methods for computing test reliability including test –retest reliability, parallel forms reliability, decision consistency, internal consistency is often an appropriate choice Golfshani (2003).

Therefore to ensure the reliability of measurement instrument the researcher performed first standardize the instrument, like questioners, interview which is modified to our context, beside, the researcher also believes that this study is reliable since the respondents were selected based on their past experience. Knowledge and their Answers were expected to be credible. The creditability of selected respondents, the same Answers would probably be given to another independent researcher. Furthermore, ambiguous terms were not used in interviews to avoid

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confusion. And also to ascertain the reliability, the secondary data were collected from relevant government organization.

### 3.8.3. Pilot Study

A pilot study was conducted to check the reliability of the instrument. Thirty (5% of the sample) respondents were selected randomly to be participating in the pilot study. The respondents were from seven government owned institutions such as Ethiopian Commercial Bank, Ethiopian Commodity Exchange, Ethiopian Electric Power, Ethiopian Railways Corporation, Ethiopian Sugar Corporation, Ethio-Telecom, Ministry of Revenue.

#### The frequency and percentage of respondents participated in the pilot test

Institution	Frequency	Percent
Ethiopian Commercial Bank	5	15.15
Ethiopian Commodity Exchange	5	15.15
Ethiopian Electric Power	5	15.15
Ethiopian Railways Corporation	4	12.12
Ethiopian Sugar Corporation	4	12.12
Ethio-Telecom	5	15.15
Ministry of Revenue	5	15.15
Total	33	100.0

The 24 items, designed to assess the tax administration, were filled by the respondents. Cronbach alpha inter item reliability test was conducted to test the internal consistency of the in items in the instrument.

#### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.725	.751	24

As shown in the above table, the Cronbach's Alpha score is 0.725 and the Cronbach's Alpha Based on Standardized Items is found to be 0.751. According to the test, 0.7 and above is the best indicator of reliability. That means this instrument is reliable.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

This chapter deals with a data presentation, analysis and interpretation. To describe the main methods and tools used; the data was collected through questionnaires, interviews and document review. While questionnaires were distributed to selected State Owned Enterprises employees related to the tax administration and Ministry Of Revenue Large Taxpayers Office officers. In addition to that, interviews were conducted with the LTO branch team coordinator, process owner and branch managers.

Accordingly, analysis was done using SPSS 20 version soft ware. The tests used for an analysis was mainly descriptive statistics to identify the frequency of the responses for each types of variables. Finally the result was presented in tabular form showing the frequency, percentage, by grouping the SOEs response in one row and Large Taxpayers Office/LTO/ response in the other row using the split file menu bar and inclusion the variable called category of the respondents. Finally the result from SPSS explained in words and conclusion was drawn by referring the percentage value of the scales.

#### **4.1.Secondary Data Analysis**

Under this chapter, the study discusses about Total tax revenue collection in the past nine years from 2009 to 2017 and tax revenue collection from domestic sources. In the below listed tables the researcher presented total tax revenue, total income tax revenue, total VAT revenue, total profit tax revenue were presented. In addition, Ministry of Revenue Large Taxpayers Office total revenue collected and the contribution of State Owned Enterprises income tax revenue, VAT tax revenue, and profit tax revenue are presented. The contributions of SOEs for each tax types to large tax office total revenue are also displayed.

##### **4.1.1. Performance of Income, VAT and Profit Tax Revenues collection in Ethiopia**

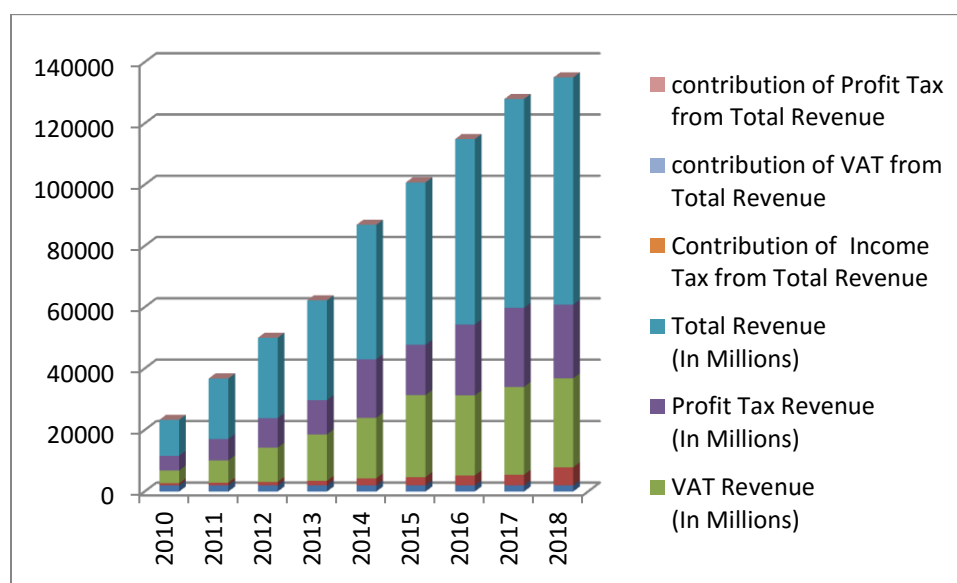
At this time Government of Ethiopia raises revenue mainly through taxation in order to pay its expenditures. According to the proclamation No. 587/2008, the responsibility to collect such revenue for the federal government rests with MOR in Ethiopia. Tax revenue is one of the most important domestic sources of revenue. Taxes are compulsory payments to government without

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expectation of direct return or benefit to tax payers. It imposes a personal obligation on the taxpayers. Taxes received from the taxpayers, may not be incurred for their benefit alone.

**Table 1: Total Revenue, total income tax and total profit tax and the contribution of Income Tax, VAT and Profit Tax to total revenue**

Year	Income Tax Revenue (In Millions)	VAT Revenue (In Millions)	Profit Tax Revenue (In Millions)	Total Revenue (In Millions)	Contribution of Income Tax from Total Revenue	contribution of VAT from Total Revenue	contribution of Profit Tax from Total Revenue
2010	670.78	4,130.02	4,808.76	11,689.58	0.06	0.35	0.41
2011	865.83	7,263.45	6,944.10	19,662.69	0.04	0.37	0.35
2012	1,126.23	11,140.85	9,601.22	26,134.98	0.04	0.43	0.37
2013	1,453.12	15,105.88	11,141.12	32,520.85	0.04	0.46	0.34
2014	2,277.23	19,654.12	19,042.16	43,916.13	0.05	0.45	0.43
2015	2,680.53	26,689.08	16,315.94	53,043.68	0.05	0.50	0.31
2016	3,197.85	26,021.25	23,077.75	60,567.55	0.05	0.43	0.38
2017	3,419.80	28,589.13	25,756.82	68,210.04	0.05	0.42	0.38
2018	5,836.28	28,975.94	23,992.97	74,193.17	0.08	0.39	0.32



Source: LTO annual reports and own computation.

From the above table, one can observe that the total revenues collection increased from 2010 to 2018. And VAT revenue, income tax and profit tax revenue are also increasing from time to time, whereas the contribution of income tax to total revenue is not regular in some years it increases in the other decreases there is no consistence on the trend. And the contribution of

## Tax Administration in State Owned Enterprise in Case of LTO

income tax to total revenue is insignificant, it is not more than 8%. VAT revenue collection are increase but the contributions for revenues are varies, sometimes increase or decrease. The same is true for profit tax.

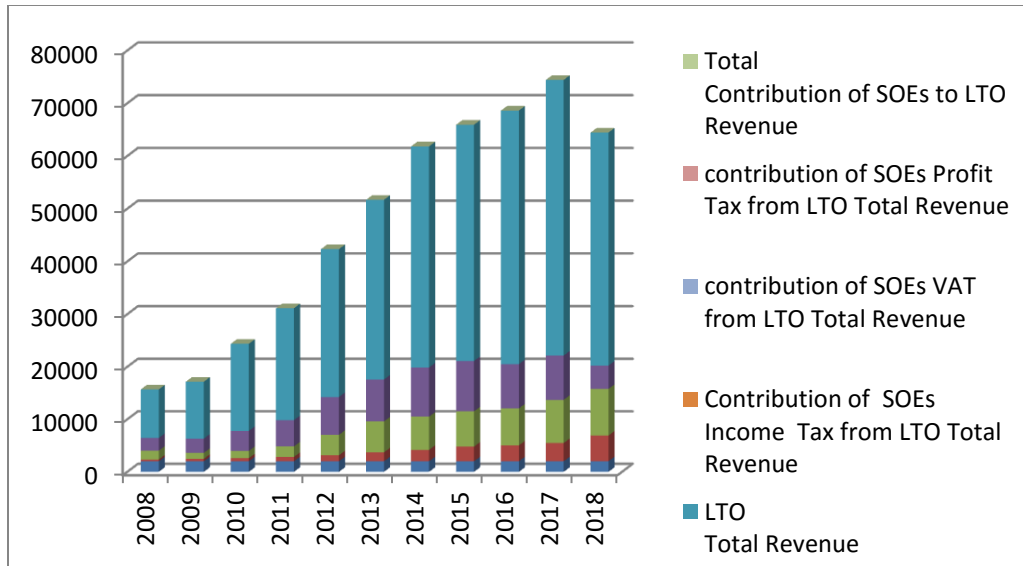
### 4.1.2. Revenue contribution of SOEs to LTO revenue

As part of the Tax reform, the Ethiopian Government introduced Tax withholding plan in 2009. This plan requires government institutions and public enterprises to withhold 100% of the VAT on their purchases, Income Tax deducted from their employees and pay the amount to the MOR branches within 30 days from the end of the month in which the VAT and income tax was withheld.

**Table 2: Total LTO Revenue SOEs Income Tax, VAT, Profit Tax, and its contribution**

Year	SOEs Income Tax Revenue (In Millions)	SOEs VAT Revenue (In Millions)	SOEs Profit Tax Revenue (In Millions)	LTO Total Revenue (In Millions)	Contribution of SOEs Income Tax from LTO Total Revenue	contribution of SOEs VAT from LTO Total Revenue	contribution of SOEs Profit Tax from LTO Total Revenue	Total Contribution of SOEs to LTO Revenue
2008	352.47	1,671.88	2,421.53	9,241.72	0.04	0.18	0.26	0.48
2009	474.36	1,124.07	2,708.01	10,848.48	0.04	0.10	0.25	0.40
2010	602.30	1,374.62	3,815.80	16,592.27	0.04	0.08	0.23	0.35
2011	827.52	1,997.54	4,999.35	21,298.59	0.04	0.09	0.23	0.37
2012	1,142.83	3,895.71	7,205.25	28,084.55	0.04	0.14	0.26	0.44
2013	1,692.28	5,896.72	7,975.25	34,112.01	0.05	0.17	0.23	0.46
2014	2,172.00	6,325.34	9,364.05	41,950.50	0.05	0.15	0.22	0.43
2015	2,786.36	6,715.74	9,608.14	44,812.07	0.06	0.15	0.21	0.43
2016	3,012.60	7,055.17	8,429.34	48,105.10	0.06	0.15	0.18	0.38
2017	3,469.98	8,223.13	8,424.31	52,280.29	0.07	0.16	0.16	0.38
2018	4,895.63	8,889.16	4,432.73	44,208.17	0.11	0.20	0.10	0.41

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Source: LTO annual reports and own computation.

From the above graph from LTO revenue, SOE income tax, VAT and profit tax is also increasing. The overall contribution of SOEs to LTO revenue is less than 50%.

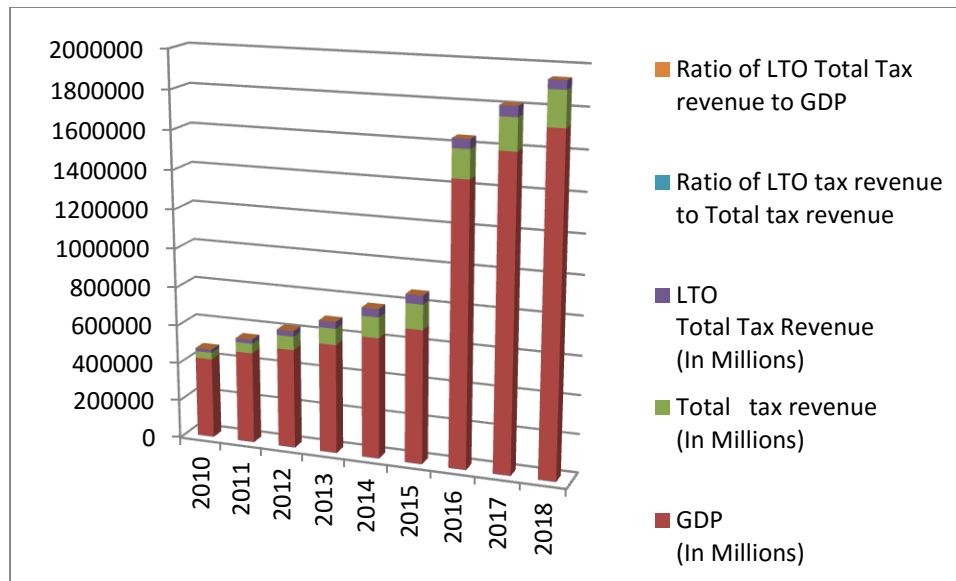
### 4.1.3. Share of SOEs to GDP

In Large Taxpayer Office there are around 125 State Owned Enterprises (Ethiopia Investment Report).

**Table 3: Share of SOEs in GDP**

Years	GDP (In Millions)	Total tax revenue (In Millions)	LTO Total Tax Revenue (In Millions)	Ratio of LTO tax revenue to Total tax revenue	Ratio of LTO Total Tax revenue to GDP
2010	418,946.14	35,252.89	16,592.27	47.07%	3.96%
2011	475,600.00	50,800.00	21,298.59	41.93%	4.48%
2012	517,000.00	70,700.00	28,084.55	39.72%	5.43%
2013	568,000.00	84,400.00	34,112.01	40.42%	6.01%
2014	627,000.00	106,700.00	41,950.50	39.32%	6.69%
2015	692,000.00	128,300.00	44,812.07	34.93%	6.48%
2016	1,449,400.00	144,331.00	48,105.10	33.33%	3.32%
2017	1,596,500.00	160,179.62	52,280.29	32.64%	3.27%
2018	1,719,500.00	176,103.00	44,208.17	25.10%	2.57%

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Source: From NBE, and MOR data, own computation

The graph shows that the share of LTO tax revenue to total tax revenue decline from 47% to 25% from 2010 to 2018. And also, the ratio of LTO total tax revenue to GDP growth has been decreasing from 3.96% in 2010 to 2.57 % in 2018.

### 4.2.Primary Data Analysis

In the following sections data collected as a primary source of data to answer research questions related with Tax administration from two groups of the respondents' which is State Owned Enterprises /SOEs/ and Large Tax payers branch office /LTO/. The sample size for the research was thirty /30/ State Owned Enterprises/SOEs/ and Large Taxpayers Office/LTO/ branch managers and employees. And 130 questioners were distributed to State Owned Enterprises and 35 questioners were distributed to Large Tax payers Office.

From the total 165 questionnaires distributed, 152 carefully filled questionnaires are acceptable for further analysis and from 130 questionnaires distributed to SOEs 121 with care filled and from 35 questioners distributed to LTO branch 31 questionnaires are acceptable for analysis. Accordingly analysis was done using SPSS 20 version soft ware. The tools used for an analysis was mainly descriptive statistics to identify the frequency of the responses for each types of variables.

Finally the result was presented in tabular form showing the frequency, percentage, mean and standard deviation by grouping the SOEs in one column and LTO branches on the other column

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## Tax Administration in State Owned Enterprise in Case of LTO

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using the split file menu bar and inclusion the variable called category of the respondents. Finally the result from SPSS explained in words and conclusion was drawn by referring the percentage value of the scales.

### 4.2.1. Questionnaires distribution and response rate

From the 165 questionnaires distributed 130 number of questionnaires were distributed to State Owned Enterprises tax payers, and 121 (93.08% response rate) cautiously filled questionnaires are acceptable for further analysis and from 35 questionnaires distributed to LTO managers and employees 31 (88.57% response rate) with care filled questionnaires are acceptable for analysis. According to (Mugenda, 1999) a 50% response rate is adequate, 60% good and above 70% is rated very well. This implies that based on these assertions; the response rate for this study is very good.

### 4.2.2. Background Information of the Respondent

To get an imminent information about the respondents back ground, respondents were asked the questions about their gender, age, education, name of the enterprise they are working, position on the enterprise they are working on and their respective work experiences in the enterprise for SOEs managers and employees and LTO branch office managers and employees are presented separately under respective types of questions.

As shown in the table 3, From SOEs 53.7% of the respondents represent male gender and 46.3% of the respondents have female gender from the total number of state owned enterprises respondents. While from LTO branch office 45.2% of the respondents are female respondents and 54.8% are male respondents. From this we can conclude that gender proportion is around half in the case of the two groups of respondents.

**Table 4: Gender of the respondents**

Category		Frequency	Percent
SOEs (n=121)	Male	65	53.7
	Female	56	46.3
	Total	121	100.0
LTO (n=31)	Male	14	45.2
	Female	17	54.8
	Total	31	100.0

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Respondents participated in the study were on different levels of education. 71.9% of SOEs of the respondents had a degree, 21.5% of them, masters and above and diploma holders were 5.8%. Regarding LTO employees, 74.2% of the respondents were degree holders and the rest 25.8% had masters degrees and above. In which both cases indicate that the research respondents have sufficient educational background and knowledge which makes the information obtained from these respondents to have a better quality.

**Table 5: Educational Background of Respondents**

Category		Frequency	Percent
SOEs (n=121)	Below diploma	1	0.8
	Diploma	7	5.8
	Bachelor degree	87	71.9
	Masters degree and above	26	21.5
	Total	121	100.0
LTO (n=31)	Bachelor degree	23	74.2
	Masters degree and above	8	25.8
	Total	31	100.0

In relation to name of the enterprises thirty /30/ State Owned Enterprises and LTO branches participated in the study. In addition from the 30 SOEs, 121 managers and employees and 31 managers and employees from LTO branch were also participants. From each enterprise, 3-14 respondents were involved in the study.

From 121 respondents of SOEs 65.3% of them are accountants, 18.1% of them are working as finance officer. Respondents who are working as auditor and team leader shared 8.3% of each. On the side of LTOs, 45.2% are finance officers, 22.6% tax auditor, 19.4% accountant, and 12.9% team coordinator.

**Table 6: Position of respondents**

Institution		Frequency	Percent
SOEs (n=121)	Accountant	79	65.3
	Auditor	10	8.3
	Finance officer	22	18.1
	Team leader	10	8.3
	Total	121	100
LTO (n=31)	Accountant	6	19.4
	Finance Officer	14	45.2
	Tax Auditor	7	22.6
	Team coordinator	4	12.9
	Total	31	100

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The statistical result of the age of respondents shows that 43.8% of the SOEs respondents' age was from 31 to 40 years, 33.1% of the SOEs respondents' age are from 18 to 30, 19.8% of the SOEs respondents' age was from 41 to 50 years and 3.3% of the SOEs respondents' age was above 51 years. On the other side LTO branch respondents, whose ages were from 31 to 40 and 41 to 50 covered 32.3% of the total respondents each. 25.8% of the respondents' age was from 18 to 30 years, and the rest 9.7% were 51 years old and above.

**Table 7: Age category**

Category		Frequency	Percent
SOEs (n=121)	18-30	40	33.1
	31-40	53	43.8
	41-50	24	19.8
	51 and above	4	3.3
	Total	121	100
LTO (n=31)	18-30	8	25.8
	31-40	10	32.3
	41-50	10	32.3
	51 and above	3	9.7
	Total	31	100

In terms of work experience of SOEs, half (50.4%) of the respondents have experience of 5-10 years, 29.7% has less than 5 years of experience, 19% have 11-20 years and the remaining 0.8% has 21-30 years of experience. On the side of LTO branch office, 45.2% of the respondents have a work experience of 5-10 years, 35.5% have 11-20 years of experience and 19.4% have less than 5 years of work experience.

**Table 8: Work experience in the organization categorial**

Institution grouped		Frequency	Percent
SOEs (n=121)	less than 5 years	36	29.8
	5-10 years	61	50.4
	11-20 years	23	19
	21-30 years	1	0.8
	Total	121	100
LTO (n=31)	less than 5 years	6	19.4
	5-10 years	14	45.2
	11-20 years	11	35.5
	Total	31	100

**4.2.3. Knowledge and Awareness about Tax Proclamation and Regulation**

Respondents of the study were asked whether tax proclamation, regulation and directives are clear, whether their enterprises are familiar with the tax proclamation, regulation and directives. From the table below we can see that 19.8% SOEs respondents strongly disagree with the idea and 47.9% disagree, whereas 20% of SOEs respondents agree tax proclamation, regulation and directives are clear, 4.1% are strongly agree with tax proclamation, regulation and directives are clear.

The mean score for this item was found to be  $2.41 \pm 1.14$  which means, the score results of the respondents disagreed on the statement of that all tax proclamation, regulation and directives are clear. As a result, it's implied that the majority of state owned enterprises reported that all tax proclamations, regulations and directives are not clear.

**Table 9: All Tax proclamation, regulation and directives are clear**

		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	24	19.8	2.41	1.14
	Disagree	58	47.9		
	Do not know	9	7.4		
	Agree	25	20.7		
	Strongly agree	5	4.1		
	Total	121	100		

The interview result on this issue also shows that the clarity of the tax proclamation, regulation and directives is labeled as 'clear' by some interviewees and 'not clear' by majority of them. Those interviewees who label as 'clear' said that even though it is clear, it has a limitation in relation to communication with tax payers, implementation systems and additional information.

On the other hand, majority of the interviewees criticized the tax proclamation, regulations and directives. The main reasons for the complaints are having ambiguous words that are open for interpretation, lack of clarification on some regulations, and having unclear articles. They suggest that majority of the regulations need clarification. In addition some of the respondents said that income tax proclamation is not clear to what types of allowance to deduct income tax.

They said that every manager exercised it according to their understanding. Some of the sayings of the respondents about the clarity of the tax proclamations, regulations and directives are presented as follows:

Interviewee one:

“Income Tax, VAT withholding proclamations, regulations and directives are not clear because there is no stability in tax directives & no sufficient orientation & training”

Interviewee two:

“Sometimes we face vague proclamations & directives & try to request explanation from the tax office but they did not willing to answer”

Interviewee three:

“It is not clear because the tax proclamations are copied from different abroad countries’ tax proclamations.”

Interviewee four:

“The Tax proclamations of Ethiopia are not simple rather it is exposed for manipulation & interpretation.”

Regarding the aspects of the proclamations that has a clarity problem, respondents from both (SOEs and LTO) categories were asked to show which aspect of the proclamation is not clear. One of the employees from SOEs said that ‘there is no simple system to get over payment of taxes.’ The other one also said that there is a serious problem especially on the VAT proclamation. He said that ‘sometimes it needs personal approach to get acceptance’. The other interviewee also said that ‘in every proclamation there is a problem of clarity. To understand the meaning we need regulation & directives but both come too late after the proclamation. When we take income tax law it is not clear which allowance income to tax which allowance income to not tax. ‘Fuel allowance is also one of the problematic areas. Allowance for fuel is tax exempted for some specific jobs but it is not clearly stated. Interviewees said that they have made back payment including penalty and interest for the fuel allowance not taxed before. This is due to

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lack of information, clarification and immediate response about the taxable income from the tax office.

Additionally, corporate income taxes, income tax on employees fringe benefits, proclamation 979/2008 Art. 65/1, Article 37/4 and Art 51/2 are not clearly stated on that situation. Even on the side of LTO employees, they said that there are clarity problems with the scope of application, system of harmonization, aggregation of Income areas cross reference with other laws.

Similarly, they were asked whether ministry of revenue creates awareness about the tax proclamations, regulations and directives in state owned enterprise. From the table below we can see that 17.4% SOEs respondents strongly disagree with the idea and 43.8% disagree, whereas 21.5% of SOEs respondents agree Ministry of Revenue creates awareness about the tax proclamations, regulations and directives in SOEs. According to the measurement of the mean value, respondents from SOEs disagreed ( $M= 2.48 \pm 1.08$ ) on the idea that the ministry of revenue creates awareness about the tax proclamations, regulations and directives in state owned enterprises. This consequently means that there are no awareness creation activities of the ministry of revenue.

**Table 10: Ministry of Revenue creates awareness about the Tax proclamations, regulations and directives in SOEs**

		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	21	17.4	2.48	1.08
	Disagree	53	43.8		
	Do not know	18	14.9		
	Agree	26	21.5		
	Strongly agree	3	2.5		
	Total	121	100.0		

Respondents were also asked to tell about whether their enterprise communicates about the new issued tax proclamations, regulations and directives with the revenue authority. About half of the respondents from SOEs (52.9%), disagree on the idea that their enterprise communicates about the new issued tax proclamations, regulations and directives with the revenue authority (36.4% disagree and 16.5% strongly disagree). Whereas 34.7% (22.3% agree and 12.4% strongly agree)

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of them agreed that there is a communication about the new issued tax proclamation and regulations among the revenue authority and SOEs. The remaining 12.4% does not know about it.

The mean scores of the respondents from state owned enterprises labelled the communication as low ( $M=2.78\pm 1.3$ ). This implies that the communication of their enterprise about the new issued tax proclamations, regulations and directives with the Ministry of Revenue/MOR/ is low.

**Table 11: MOR communicates about the new issued tax proclamations, regulations and directives to SOEs**

		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	20	16.5	2.78	1.30
	Disagree	44	36.4		
	Do not know	15	12.4		
	Agree	27	22.3		
	Strongly agree	15	12.4		
	Total	121	100.0		

Similarly, they were asked whether Ministry of Revenue/MOR creates awareness about the new issued tax proclamations, regulations and directives in state owned enterprise. Among the employees of state owned enterprises participated in the study, 43.8% of them disagree on ministry of revenue creates awareness about the tax proclamations, regulations and directives in state owned enterprise and 17.4% of them 17.4% strongly disagree on it. Whereas, 21.5% of the respondent agreed and 2.5% strongly agreed on the revenue offices practice of awareness creation towards tax proclamation, regulation and directives. The remaining 14.9% reported that they have no idea about it.

In the measurement of the mean value, respondents from SOEs disagreed ( $M= 2.48\pm 1.08$ ) on ministry of revenue creates awareness about the tax proclamations, regulations and directives in state owned enterprise. This implies that the ministry of revenue has not made communication, explanation about new issued tax proclamation and regulations. That means mere giving awareness only for LTO employees is not enough for the better knowledge and implementation of tax related regulations proclamations and directives. Therefore, MOR and branches offices of the ministry should consider giving information and trainings for SOEs and other tax payers.

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**Table 12: SOEs/LTO gets training and awareness creation from MOR about tax administration issues.**

Institution grouped		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	29	24.0	2.39	1.26
	Disagree	58	47.9		
	Do not know	2	1.7		
	Agree	22	18.2		
	Strongly agree	10	8.3		
	Total	121	100.0		
LTO (n= 31)	Strongly disagree	2	6.5	3.74	1.15
	Disagree	4	12.9		
	Do not know	1	3.2		
	Agree	17	54.8		
	Strongly agree	7	22.6		
	Total	31	100.0		

Regarding with the training and awareness creation from MOR/LTO large tax payer's office, LTO staffs are more advantageous than state owned enterprises. As shown in the above table, 54.8% of the LTO agree and 22.6% strongly agree with the statement SOEs/LTO gets training and awareness creation from MOR and the remaining 6.5% said that they strongly disagree and 12.9% disagree with the statement MOR/LTO get trainings and awareness creation. On the other hand, 24% of the SOEs strongly disagree and 47.9% of SOEs disagree with statement that SOEs/LTO gets training and awareness creation from MOR. 18.2% the respondent have agreed and 8.3% strongly agree they got training and awareness from MOR.

Accordingly, the mean score also shows that the state owned enterprises have disagreed on the training and awareness creation For SOE ( $M=2.39\pm 1.26$ ). On the other hand, respondents from LTO agreed on the awareness creation and training activities of large tax payer's office ( $M=3.74\pm 1.15$ ). This implies that mere giving awareness only for LTO employees is not enough for the better knowledge and implementation of tax related regulations proclamations and directives. Therefore, the authorities in the area should consider giving information and trainings for SOEs and other tax payers.

According to survey data responses, both responses from SOEs and LTO branch 93/152(61.18%) were strongly disagree and disagree with the idea of SOEs/LTO gets training and awareness creation from MOR. Whereas, 56/152(36.84%) of the respondents of both SOEs and LTO branch level of agreement were strongly agree and agree. (See table above for details).

## **Tax Administration in State Owned Enterprise in Case of LTO**

This finding is similar with the result obtained through interview. The interviewees believe that the authority does not create awareness about the tax proclamations and regulations. Tax payers come up with different questions & they don't get sufficient answers or explanations. The tax officials give different views and answers so that tax payers get confused. The responses are laid in two reasons; the first one is there is no communication system to disseminate information for tax payers in the ministry of revenue and the second is employee's gap of sufficient skill and knowledge about the tax administration.

### **4.2.4. Implementation of Income Tax, VAT and Profit Tax in SOEs**

Regarding the implementation of tax administration, respondents from large tax payer's office were asked about the general and specific aspects of tax. From the table below we can see that 32.3% of employee respondents from LTO disagree with the effective tax payment of state owned enterprises according to tax proclamations, regulations and directives where as 45.2% of them agree with it and 9.7% strongly agree. The remaining 12.9% are undecided on the issue. The mean score of LTO respondent's response also shows that ( $M= 3.32 \pm 1.04$ ) state owned enterprises pays all the tax according to tax proclamation, regulations and directives. From this we can conclude that large percent of the respondents agree with the state owned enterprise pays all the tax according to tax proclamation, regulations and directives.

From this, we can conclude that the majority of the respondents agree with the statement saying that the enterprise pays all taxes according to tax proclamation, regulations and directives. However, there were a significant number of respondents who believed that the enterprise does not pay all the tax according to tax proclamation, regulations and directives.

**Table 13 SOEs pays all the taxes (Income Tax, VAT & Profit Tax) according to Tax proclamation, regulations and directives**

		Frequency	Percent	Mean	SD
LTO (n= 31)	Strongly disagree	0	-	3.32	1.04
	Disagree	10	32.3		
	Do not know	4	12.9		
	Agree	14	45.2		
	Strongly agree	3	9.7		
	Total	31	100.0		

Regarding the timing of tax payment, 6.5% disagree, 61.3% agree and 6.5% strongly agree that the enterprises have been paying all the tax on time. The remaining 25.8% are not sure about the subject matter.

## **Tax Administration in State Owned Enterprise in Case of LTO**

The mean score ( $M=3.68\pm 0.7$ ) also showed that the timing of tax payment in state owned enterprises is good as agreed by majority of the respondents of LTO branch. This finding is approximately similar with the result presented under the next section and the reason might be correlated with the penalty imposed by the tax authority on late filing of tax.

**Table 14: SOEs has been paying all the tax on time**

		Frequency	Percent	Mean	SD
LTO (n= 31)	Strongly disagree	0	-	3.68	0.70
	Disagree	2	6.5		
	Do not know	8	25.8		
	Agree	19	61.3		
	Strongly agree	2	6.5		
	<b>Total</b>	<b>31</b>	<b>100.0</b>		

On the side of the large taxpayer's office the timing of their response were asked to the respondent of State Owned Enterprises. The result below shows that 24% of the SOEs respondents strongly agree with the large taxpayer's office responds for any tax administration issues on time, 37.2% disagree, 14.9% agree and 9.9% strongly disagree. The remaining 14% are not sure about the issue. Based on the mean score, respondents from SOEs has disagreed ( $M= 2.5\pm 1.27$ ) on the statement large taxpayers office responds for any tax administration issues on time.

**Table 15: LTO responds for any Tax Administration issues on time**

		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	29	24.0	2.5	1.27
	Disagree	45	37.2		
	Do not know	17	14.0		
	Agree	18	14.9		
	Strongly agree	12	9.9		
	<b>Total</b>	<b>121</b>	<b>100.0</b>		

The above findings are similar with the result obtained through open ended questions and interviews. On the side of the SOEs, the interviewees believe all state owned enterprises pay all taxes as per the tax law. For example, one interviewee from LTO said that "as I think SOEs deduct the actual income tax compared to private limited company and they are respectful for the legal tax regulation and proclamations.

But there are many difficulties to pay because of the problems on the side of both SOEs and large tax payer's office. On the side of LTO there are some challenges that hinder the effective implementation of SOEs tax payment on time. The first problem raised by the respondents is that

## **Tax Administration in State Owned Enterprise in Case of LTO**

the actual income tax calculation to deduct from any earning is not clear. Even MOR didn't correct the problem at the time of payment. They forced to pay the unpaid balance they through, the penalty they imposed and interest after so many years, the second problem is that the reporting system takes too much time. The third problem is the enforcement of SOEs to pay according the proclamation as of the private organization do.

The challenges on the side of SOEs are laid in to different reasons. The first reason is that they think as government & paying tax is not their obligation. As they are government owned organizations, they are thinking as if it is normal to not pay the taxes as the regulations. There is a common perception that "paying tax means transferring money from one hand to other hand". So they even don't know they will be penalized if they don't pay tax.

### **4.2.5. Skill of SOEs officials and LTO branch employees**

The perceived skills and experience of tax officials of large taxpayer's office administer tax. As shown in the table below, 13.2% of the respondents from state owned enterprises strongly disagree that tax officials of large taxpayer's office have the required skill and experience to administer tax of state owned enterprise, 30.6% disagree, 39.7% agree and 7.4% strongly agree. The remaining 9.1% are neutral on the issue. The mean value of respondents from state owned enterprises ( $M=3.0\pm 1.24$ ) regarding the skills and experience of tax officials shows that respondents agreed on the statement 'tax officials of large taxpayer's office have required skill and experience to administer tax of state owned enterprise'.

**Table 16: Tax officials of Large Taxpayers Office have required skill and experience administer tax of State Owned Enterprise**

		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	16	13.2	3.0	1.24
	Disagree	37	30.6		
	Do not know	11	9.1		
	Agree	48	39.7		
	Strongly agree	9	7.4		
	<b>Total</b>	<b>121</b>	<b>100.0</b>		

Regarding the skills of SOEs employees, 16.1% of the employee respondents from LTO strongly disagree that state owned enterprises has required skills and experiences, while 12.9% disagree, 45.2% agree and 22.6% strongly agree on the case. That means as majority of employee

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## Tax Administration in State Owned Enterprise in Case of LTO

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respondents believe that state owned enterprises employees has required skill and experience to administer taxes.

Hence, regarding with the mean score, large tax payer's office ( $M=3.45\pm 1.40$ ) respondents agreed on the idea that tax officials in SOEs have the required skill and experience. That means majority of the LTO employee respondents believe that state owned enterprises employees encompass the required skill and experience to administer tax issues. Nevertheless, a significant number of respondents (above one third on both sides) reported that there is a limitation of skill and experience to administer tax on both the officials of large taxpayer's office and State owned enterprise.

**Table 17: Tax Officials of State Owned Enterprises has Required Skill and Experience to Administer Taxes**

Institution grouped		Frequency	Percent	Mean	SD
LTO (n= 31)	Strongly disagree	5	16.1	3.45	1.40
	Disagree	4	12.9		
	Do not know	1	3.2		
	Agree	14	45.2		
	Strongly agree	7	22.6		
	Total	31	100.0		

Based on the interviews and open ended questions, SOEs and LTO branch office have limitations on skills and experiences to administer tax issues. Lack of uniform and complete curriculum in academics has also created knowledge gap in experts involved in tax management. Another issue raised by SOEs was Ministry of Revenue/MOR/ couldn't give tax administration training to the officers what the international tax administration practice is. As a result, most tax auditors are still not capable to review account documents for accuracy and compliance with laws and regulations. Because of their educational background, working experience, the understanding level of the tax office is different from officer to officer and the decision they made is also different to the same issue.

### 4.2.6. Challenges for Tax administration at SOEs and LTO branch's office

One of the major problems in tax administration is making an incorrect return by omitting or understating an income accountable to tax. Respondents from LTO were asked whether the SOEs are excised this type of problem in their enterprises. Accordingly the respondents result shows that 51.6% of LTO respondents are agree, 12.9% strongly agree and 16.1% disagree the

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practice of omitting or understating an income accountable to tax in order to making an incorrect return. In addition the remaining 19.4% of respondents are neutral on subject matter. From the result we can conclude that majority of the respondents believe that SOEs are making an incorrect return by omitting or understating an income accountable to tax.

The mean score of LTO respondents was also found to be  $3.61 \pm 0.91$ . And from the result, we can conclude that the majority of LTO employees believe that there is a making of an incorrect return with omitting or understating an income accountable to tax.

**Table 18: There is making an incorrect return by omitting or understating an income accountable to tax**

Institution grouped		Frequency	Percent	Mean	SD
LTO (n= 31)	Strongly disagree	0	-	3.61	0.92
	Disagree	5	16.1		
	Do not know	6	19.4		
	Agree	16	51.6		
	Strongly agree	4	12.9		
	Total	31	100.0		

Overstating of expenses is also one of the problems the tax administration faced in the case of state owned enterprises. From table below 12.9% of tax payer respondents strongly disagree, 3.2% disagree, 77.4% agree and 6.5% strongly agree with the existence of overstating of expenses so as to reduce taxable profit or income, this will also lead to payment of less tax.

The mean score of  $3.61 \pm 1.11$  of the LTO respondents also indicated that the majority of the respondents agreed on the existence of overstating of expenses so as to reduce taxable profit or income. From the result therefore, we can conclude that majority of the respondents agree with the existence of overstating of expenses so as to reduce taxable profit or income, which as a result will also lead to payment of less tax in state owned enterprises.

**Table 19: There is overstating of expenses so as to reduce taxable profit or income, this will also lead to payment of less tax**

Institution grouped		Frequency	Percent	Mean	SD
LTO (n= 31)	Strongly disagree	4	12.9	3.61	1.11
	Disagree	1	3.2		
	Do not know	0	-		
	Agree	24	77.4		
	Strongly agree	2	6.5		
	Total	31	100.0		

## **Tax Administration in State Owned Enterprise in Case of LTO**

State owned enterprises' practice of understatement of tax was also one of the challenges large tax payer's offices. The table below depicts that 3.2% of LTO respondents said they were strongly disagree with the understatement of taxes, 3.2% disagree, 83.9% agree and 6.5% strongly agree with the existence of understatement of tax. The remaining 3.2% of the respondents are neutral on subject matter.

At the same time, the mean score result also shows the same result in which asserts the existence of practice of tax understatement in the state owned enterprises. According to the results, majority of the respondents ( $M= 3.87\pm 0.71$ ) believe that there is a high practice of tax understatement committed by state owned enterprises.

**Table 20: There is understatement of tax regarding SOEs**

Institution grouped		Frequency	Percent	Mean	SD
LTO (n= 31)	Strongly disagree	1	3.2	3.87	0.71
	Disagree	1	3.2		
	Do not know	1	3.2		
	Agree	26	83.9		
	Strongly agree	2	6.5		
	Total	31	100.0		

In relation to this, respondents were asked if penalty was applied by the large tax payer's offices for understatement of tax. As we can see from the table below, 5.8% of tax payer respondents strongly disagree, 11.6% disagree, 42.1 agree and 22.3% strongly agree with the application of penalty on understatement of tax by the large tax payer's offices. Whereas, the remaining 18.2% of tax payers responded that they are neutral on the subject matter.

Meanwhile, the mean score also shows that both state owned enterprise ( $M= 3.63\pm 1.14$ ) and large taxpayer's office ( $M= 4.06\pm 0.72$ ) respondents agreed on the application of penalty in response to violations of tax laws. In which, it's implied that both parties believe that there is a penalty measurement by the tax payer's office on enterprises that violate the regulation.

While 3.2% of LTO respondents strongly disagree, 74.2% agree and 19.4% strongly agree with the application of penalty on tax understatement. And the remaining 3.2% of employees responded that they are neutral on the subject matter.

Therefore, we can conclude from the results that both the tax payer and employees believe that there is an understatement of tax in state owned enterprises. Which means, even though the two

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parties did not agree on the existence of understatement of tax, the penalty measurement by the tax payer's office on enterprises that violate the regulation is high.

**Table 21: Penalty is applied by the large tax payer's offices for under understatement of tax**

Institution grouped		Frequency	Percent	Mean	SD
SOEs (n=121)	Strongly disagree	7	5.8	3.63	1.14
	Disagree	14	11.6		
	Do not know	22	18.2		
	Agree	51	42.1		
	Strongly agree	27	22.3		
	Total	121	100.0		
LTO (n= 31)	Strongly disagree	1	3.2	4.06	0.72
	Disagree	0	-		
	Do not know	1	3.2		
	Agree	23	74.2		
	Strongly agree	6	19.4		
	Total	31	100.0		

### **4.3. Interview results**

In addition to the information gathered through questionnaire and secondary data sources, interviews were conducted.

The interview with SOEs managers showed that the tax administrator of the country MOR did not update the new issue laws proclamations and directives. In addition the Income tax proclamation has a problem in implementation some of the SOEs taxed from all allowance whereas some of them did not deduct from all allowances.

The interview results also encourage that MOR and LTO officer should educate tax needs to be based on voluntary registration, and should encourage taxpayers to voluntarily discharge their tax obligations in a timely basis according to the law. As a result, the purpose of tax office is primarily to educate taxpayers and improve their payment of all the taxes. The interview respondents further stated that the duty of taxpayers' awareness creation is unquestionable to increase voluntary taxpayer. Consequently, MOR/LTO tried to create tax awareness through electronic media, printed materials, websites (uploading information and accessed to the public). Regarding taxpayers' awareness, the interview with SOEs testified that taxpayers lack awareness regarding tax type to which their business is liable, goods and services exempted from tax and reporting and filing requirements of the tax law. The respondents further stated that taxpayers need compliance education to understand the benefits of being compliant and the consequence of

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## **Tax Administration in State Owned Enterprise in Case of LTO**

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not being compliant. In addition, there is a communication gap between MOR/LTO and SOEs, which leads taxpayers to mistrust. The taxpayers do not have easy access to new rules introduced and amendments in the existing tax law, and do not get any clarification on the complex tax rules and regulations.

Further, the interview with SOEs officials showed that MOR/LTO used tax audit as a compliance enforcement tool to collect unpaid taxes from taxpayers and to ensure the prevention effect (improving future compliance). The interview respondents further stated that MOR/LTO has sufficient powers to enter business premise, seize documents, gather information from third parties such as banks, and generally enforce payment of tax. And also penalized and enforced to pay the evaded tax they thought with penalty and interest so as to maximize their future compliance as well as to educate others to comply by publicizing such enforcement.

Regarding the skill of MOR/LTO officials the interview with SOEs officials revealed that tax administrators, auditors and investigators are employed based on their level of education and cumulative grade point average (CGPA). Currently, MOR/LTO hired a mass of youngest employees from newly graduated students, accounting and finance graduates as a tax officers. In addition, at the time of recruitment, all candidate employees are expected to attend training regarding government policies and strategies, overall objectives and structure of MOR/LTO, tax rules and regulations, and one week basic tax administration training is given. Nevertheless, this is not enough to the task they are carrying on. The interview with SOEs officers showed that tax administrators have not standardized knowledge regarding clarification of unclear tax rules and regulations, and are incoherent in giving information regarding identical tax issues. In addition, tax administrators lack willingness to give advising services to taxpayers rather they simply intimidate them by raising the consequence of not being compliant.

Finally, the respondents were asked to extend their suggestion on tax administration of SOEs.

The following recommendations are forwarded by them:

- Intensive training is needed for state owned enterprise employees & large tax payers office employees on the tax regulations, proclamations and directives.
- MOR/SOEs should create easy & clear communication system.
- Every proclamation, regulation & directive should be clear to the tax payer as much as possible. So, revisions are needed regarding the current tax laws.

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- The staff of all SOEs and LTO branch employees should acquire the required knowledge and skill.
- MOR/LTO should develop the culture of responding any enquires on time.
- The tax administration and handling should be supported by technology.
- If it is possible, it is better to facilitate a physical supervision every quarter or six months if not at least per year and giving the feedback to the enterprise. It may narrow the gap between the practice & law.
- MOR/LTO has to be serious on tax issues like private organizations because the tax laws works not only for private organizations but also for government organization too.

**CHAPTER 5**

**CONCLUSION AND RECOMMENDATIONS**

**5.1. Conclusions**

The main purpose of this research is to assess Tax Administration practice in SOEs in LTO branch. While undertaking the study, the researcher used both qualitative and quantitative data to clearly observe the Tax Administration challenges with respect to the branch office and the SOEs in particular and its performance in the National Economy in general. Therefore, it would be necessary to draw the following conclusion and recommendation from the results obtained.

In the documentary review, the researcher reveals that the revenue collected from large tax payers in 2009 was 10,848.48 (in billion) and after the tax reform, the tax revenue from large tax payers increased to 52,280.29 (billion). Unfortunately, even though the tax revenues have increased, the income tax ratios did not increase accordingly. In addition to that, some of the SOEs respondent stated that because of unclear law of taxable income, income tax computation is not the same in all SOEs. In some of them, all taxable income is taxed and some of them are not. And there is no any correction mechanism on the tax payment date; rather they put penalty and interest after so many years.

On average, income tax contributes above 5.4% to total tax revenue which was collected at large tax payer's share. The maximum income tax to tax revenue ratio was registered in year 2018 having 11 percentages and the minimum was registered in the years 2008-2012 having the value of 4 percent of the large tax payer's contribution. From this, the researcher concluded that income tax contributes least contribution in relation to large tax payers share. The average VAT contributes above 14% to large tax payer's share. The maximum VAT to tax revenue ratio was registered in year 2018 having 20 percentages and the minimum one was registered in year 2010 having the value of 8 percentages of large tax payer's share.

Tax knowledge, tax law complexity and procedures have an effect on tax administration efficiency and that the state owned enterprises are familiar with the tax regulation, directives and proclamations. But there is a lack of clarity with these tax regulations: income tax regulations and proclamations are open to individual interpretations. As the SOEs said some of them deducted income tax from all allowances the others did not and there is no correction action at a time of payment. Since there are no continuous trainings and awareness creations regarding with

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the new tax law concepts, to all SOEs and LTO employees there was not clear and understandable for all SOEs taxpayer and LTO staff employees. As they said State owned enterprises are familiar with the tax proclamations, regulations and directives. The tax proclamations, regulations and directives but there was a lack of clear while half of the employees of the large tax payer's office said that it is clear. Regarding with the training and awareness creation from large tax payer's office, LTO staffs are more advantageous than state owned enterprises: The state owned enterprises do not get training and awareness creation from large taxpayer's office or MOR. But the employees of large tax payer's office get more trainings and awareness creation compared to the SOEs tax payers.

The enterprise communications about the new issued tax proclamations, regulations and directives with the MOR/LTO branch are also found weak. On the other hand, majority of the employee participants (77.4%) agree that at this time that the Ministry of revenue communicate SOEs by assigned employee's when new tax proclamations, regulations and directives are issued.

On the side of the enterprises, the interviewees believe that the Ministry of Revenue does not create awareness about the tax proclamations and regulations. Tax payers come up with different questions & they don't get sufficient answers or explanations. The responses are laid in two reasons; the first one is there is no system to disseminate information for tax payers in the MOR/LTO and the second is employee's gap of sufficient skill and knowledge. However, on the side of employees, there is awareness creation towards tax regulations and proclamations but it is not sufficient.

Tax officials of large taxpayer's office have the required skill and experience to administer tax of state owned enterprises. On the side of LTO employees, it is reported that the officials of large taxpayer's office have required skills and experiences regarding with tax administration.

Regarding the skills of SOEs employees, majority of the respondents from SOEs agree that officers of state owned enterprises has required skills and experience to administer tax. That means the majority of employee and tax payer respondents believe that state owned enterprise employees have the required skill and experience to administer taxes.

## **Tax Administration in State Owned Enterprise in Case of LTO**

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Regarding to the implementation of tax administration, it is concluded that large percent of the respondents under two groups agree that the enterprise pays all the tax according to tax proclamation, regulations and directives. Therefore, the timing of tax payment in state owned enterprises is good as agreed by majority of the respondents. This is may be because of the penalty imposed by the tax authority on late filing of tax.

Related to the large taxpayer's office timing, there is a difference among the tax payers and the employee's perception. Tax payers have a negative evaluation for the tax payer's office responses for any tax administration issues on time. On the other hand, employees of the large tax payer's office believe that the service delivery timing is good.

According to the feedback of SOEs tax payer and LTO branch employee for the enhancement of tax administration, both SOEs and LTO branch employee believe that administration should be enhanced or improved.

From the result, we can conclude that there is a problem of supplying and keeping of required returns, statements and information in the tax administration process. Large number of SOEs tax payer and LTO branch employee respondents also believe that there is a problem of refusing to register with the relevant tax authority.

One of the major problems in tax administration is making an incorrect return by omitting or understating an income accountable to tax. This means that majority of SOEs tax payer and LTO employees believe that there is a making of an incorrect return by omitting or understating an income accountable to tax.

Overstating of expenses is also one of the problems the tax administration faced in the case of SOEs. From the result we can conclude that the majority of both SOEs and LTO branch employee respondents agree with the existence of overstating of expenses so as to reduce taxable profit or income, this will also lead to payment of less tax in state owned enterprises.

Majority (more than half) of the respondents reported that there is time late filing or non-filing tax in state owned enterprises. In relation to late filing and non filing, penalty is applied by the MOR/large tax payer's offices for late filing/non filing of taxes.

There is a difference of the perception between SOEs and LTO branch employees towards the practice of tax understatement in the state owned enterprises. Majority of the respondents from

state owned enterprises believe that there is no understatement of tax in the enterprises. On the other hand, employees from the LTOs believe that there is understatement of tax. Both the tax payer and employees believe that there is understatement of tax in state owned enterprises. That means even though the two parties did not agreed on the existence of understatement of tax, the penalty measurement by the tax payer's office on enterprises that violate the regulation is high.

### 5.2.Recommendation

Thus, from the finding of the research the following recommendations were made to improve the efficiency of tax administration in the case of income tax, profit tax and VAT tax administration.

- ❖ Poor communication, complex and unclear laws and procedures made the tax administration difficult and expensive for taxpayers to comply with their obligations and access their entitlements. Indeed narrow definition of taxes, a number of directive and circular make the tax administration situation more challenging; therefore, to overcome this situation, the Government should update the laws with changes in the business environment and communicate with customers on time. In addition, due to high level of abstraction and technical terms as well as frequent amendment of directives and circular, the MOR, LTO and MOFEC should give multi-faceted trainings to their employees and SOEs about the taxes and how it should be administrated. And also to solve the problem regarding with computation of income tax, VAT and profit taxes and its settlement should be properly described.
- ❖ Self-assessment system which will help tax payers to have full understanding of tax laws should be implemented and Income tax laws should be revised and should be made applicable to all. To support this, the MOR made tax laws available to taxpayers in their /MOR/ website. However, the website is not working properly; since it is necessary to create awareness for the tax payer to use this website or to use it as other means of communication, the ministry of Revenue should fix it.
- ❖ Large tax payer office/LTO/ should make the income tax law and procedures, clear, simple, understandable, transparent and user friendly administrative system.
- ❖ If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair. Taxpayers' attitude toward taxation can be improved through sustainable awareness creation programs. However, large tax payer

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branch does not have skilled manpower to provide education relate to income tax. So, the branch should focus on capacity building to create skillful man power.

- ❖ The time given to close account, declare tax based on draft statement & providing audited statement is not sufficient for large tax payers to pay unnecessary penalty & interest. Thus, the time must be reconsidered depending on the volume of transaction.
- ❖ Intensive training is needed for both large tax payers' office and state owned enterprise employees about the newly issued and functional tax laws, regulations, proclamations and problems in their implementations.

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**APPENDICES**

**Appendix I: Questionnaire**

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

**Questionnaires Designed for State Owned Enterprise Tax Payers and LTO Employees**

Dear respondent, I am MA student in specialization in Accounting and Finance and I am pursuing a research project in title “**Tax Administration on State Owned Enterprise in the case of Large Tax Payers’ Branch Office**”. The main purpose of the study is for the partial fulfillment of the requirements of MSC Degree in Accounting and finance at Addis Ababa University and assesses the actual practice of Tax Administration in State Owned Enterprise, identifying the problems and recommend possible solutions. To achieve this objective and to successfully complete this research the information obtained from your responses to the questionnaire are valuable.

Therefore for the successful accomplishment of the research I politely request your kind cooperation in answering the questions that will be used as a valuable and primary input for the study. Please answer the following open ended questions on the spaces provided following the questions. If the questions need explanation, answer on space provided. I apologize for taking your time and I thank you in advance for your cooperation with the questionnaires.

**NB: You can write your answers in Amharic.**

For any kind of question you have or if need clarification please call me, at cell phone Number **+251 953 88 94 30**

**Part I: Background Information**

1. Gender: (a) Male  (b) Female
2. Age: \_\_\_\_\_
3. Education (a) Below Diploma  (b) Diploma   
(c) Bachelor Degree  (d) Master & above
4. Name of your Enterprise \_\_\_\_\_
5. Status /Position in Your Enterprise \_\_\_\_\_
6. How long have you been working in the Enterprise \_\_\_\_\_

**Open ended Questionnaires for State Owned Enterprise Tax Payers and LTO Employees**

1. Do you think that Ethiopian Ministry of Revenue /Large Taxpayer Office has made sufficient explanation on Tax Administration on State Owned Enterprises? If not why?

\_\_\_\_\_

2. Do you think that Tax proclamations, regulations and directives of State Owned Enterprises are clear?

\_\_\_\_\_

3. If your answer is No, please explain in which aspects of the proclamations is there a clarity problem.\_\_\_\_\_

\_\_\_\_\_

4. How do you evaluate the actual practice of income tax deduction and reporting in State Owned Enterprises?

\_\_\_\_\_

5. How do you evaluate the actual practice of VAT Withholding deductions and reporting in State Owned Enterprises?

\_\_\_\_\_

6. How do you evaluate the application of VAT withholding on revenue performance?

\_\_\_\_\_

7. Do you think that State Owned Enterprises are paying all the taxes according to the Tax Law? And on time? Please explain your answer.

\_\_\_\_\_

8. Do you think that State Owned Enterprises are accountable for their late tax payment? Please explain.

\_\_\_\_\_

9. Do you think that State Owned Enterprises are held accountable for those who do not pay tax on time? Please explain

\_\_\_\_\_

10. How do you evaluate tax officials of Large Taxpayers Office have required skill and experience to administer taxes of State Owned Enterprise?

\_\_\_\_\_

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## Tax Administration in State Owned Enterprise in Case of LTO

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11. Do you agree that there is fair, transparent, equal and accountable treatment of tax administration between private and State Owned Enterprise? Please explain
- \_\_\_\_\_
- \_\_\_\_\_
12. Do you agree that Large Taxpayers Office respond for any Tax Administration issues on time? Please explain
- \_\_\_\_\_
- \_\_\_\_\_
13. Please list down the limitations of tax payment practices on the side of state owned enterprises \_\_\_\_\_
- \_\_\_\_\_
14. Please list down the limitations of tax administration practices on the side of large tax payers offices \_\_\_\_\_
- \_\_\_\_\_
15. What do you recommend on the tax administration of state owned enterprise should be improved?
- \_\_\_\_\_
- \_\_\_\_\_

**Thank you!**

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

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Therefore for the successful accomplishment of the research I politely request your kind cooperation in answering the questions that will be used as a valuable and primary input for the study.

Please tick (√) for the appropriate answer. If the questions need explanation, answer on space provided. I apologize for taking your time and I thank you in advance for your cooperation with the questionnaires.

For any kind of question you have or if need clarification please call me, at cell phone Number **+251 953 88 94 30**

**Part I: Background Information**

7. Gender: (a) Male  (b) Female

8. Age: \_\_\_\_\_

9. Education (a) Below Diploma  (b) Diploma   
(c) Bachelor Degree  (d) Master & above

10. Name of your Enterprise \_\_\_\_\_

11. Status /Position in Your Enterprise \_\_\_\_\_

12. How long have you been working in the Enterprise \_\_\_\_\_

## Tax Administration in State Owned Enterprise in Case of LTO

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### Part II: Attitude questions related to Tax Administration in State Owned Enterprises

Questions	Strongly Disagree (1)	Disagree (2)	Not sure (3)	Agree (4)	Strongly Agree (5)
1. All Tax proclamation, regulation and directives are clear.					
2. Your enterprise is familiar with the Tax proclamations, regulations and directives.					
3. Minster of Revenue of Ethiopia has made sufficient explanation on Tax on State Owned Enterprise.					
4. Ministry of Revenue creates awareness about the Tax proclamations, regulations and directives in State Owned Enterprise.					
5. Your enterprise communicates about the new issued tax proclamations, regulations and directives.					
6. Your enterprise implements income tax proclamation /deduct income tax from all taxable payroll income.					
7. Your enterprise implements VAT Withholding tax directives.					
8. Your enterprise implements tax proclamation on profit tax.					
9. Your enterprise pays all the tax according to Tax proclamation, regulations and directives.					
10. Your enterprise has been paying all the tax on time.					
11. Your enterprise has any internal law of conduct to make accountable for late tax payer employees.					
12. Your enterprise has made accountability on those who does not pay tax on time.					
13. You get training and awareness creation from Large Taxpayers Office.					
14. Tax officials of Large Taxpayers Office have required skill and experience to administer tax of State Owned Enterprise.					

## Tax Administration in State Owned Enterprise in Case of LTO

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Questions	Strongly Disagree (1)	Disagree (2)	Do not Know (3)	Agree (4)	Strongly Agree (5)
15. State Owned Enterprises Taxpayers Office has required skill and experience to administer taxes.					
16. Tax officers have skill to compute fairly.					
17. State Owned Enterprises Taxpayers Office has required strong coordination between Management, Accounting team and Audit department to administer taxes.					
18. There is fair, transparent, equal and accountable treatment of taxes between private and State Owned Enterprise.					
19. Large Taxpayers Office responds for any Tax Administration issues on time.					
20. Tax Administration of State Owned Enterprise should be improved.					
21. There is making an incorrect return by omitting or understating an income accountable to tax.					
22. There is overstating of expenses so as to reduce taxable profit or income, this will also lead to payment of less tax.					
23. There is understatement of tax in your enterprise					
24. There is a clarity on relationship and differences between withholding tax and profit tax					

**Thank you!**

**Appendix II: The samples of State Owned Enterprises**

State Owned Enterprises	Frequency	Percent
Development Bank of Ethiopia	5	4.1
Ethiopian Insurance Corporation	6	5.0
Ethiopian Tourist Trading Enterprise	5	4.1
Ethiopian Industrial Inputs Development Enterprise	4	3.3
Ethiopian Airlines Group	14	11.6
National Alcohol and Liquor Factory	4	3.3
Ethiopian Shipping & Logistics Services Enterprise	4	3.3
Ethiopian Management Institute	3	2.5
Branna Printing Enterprise	5	4.1
BerhanenaSelam Printing Enterprise	6	5.0
Ethiopian Trading Businesses Corporation	5	4.1
Ethiopian Agricultural Businesses Corporation	4	3.3
Ethiopian Construction Design & Supervision Works Corporation	5	4.1
Defense Construction Enterprise	6	5.0
Ethiopian Construction Works Corporation	4	3.3
Ethiopian Electric Utility	4	3.3
Ethiopian Petroleum Supply Enterprise	3	2.5
Ethiopian Industrial Inputs Development Enterprise	5	4.1
Ethiopian Management Institute	5	4.1
Educational Materials Production & Distribution Enterprise	4	3.3
Ethiopian Petroleum Supply Enterprise	5	4.1
Ethio-Djibouti Standard Gauge Railway Share Comp	3	2.5
Chemical Industry Corporation	4	3.3
Ghion Hotels Enterprise	5	4.1
SPA Service Enterprise	3	2.5
Total	121	100.0
MOR/LTO	31	100.0
Grand total	152	100