ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

PERCEPTION ON FACTOR AFFECTING THE EFFICIENCY OF INCOME TAX ADMINISTRATION IN LARGE TAX PAYERBRANCH OFFICE OF ETHIOPIA REVENUE AND CUSTOM AUTHORITY

By

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February, 2017

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

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FEBRARY 2018

CERTIFICATION

We certify that this research work titled "perception on factor affecting the efficiency of income administration'' was undertaken and completed by Mintwab Moges Demeke and that the research work was supervised by us and submitted to the department of accounting and finance, school of Business And Economics, Addis Ababa University, Ethiopia.

_____	_____
Chairperson (Graduate Committee)	Signature
_____	_____
Advisor	Signature
_____	_____
Examiner	Signature
_____	_____
Examiner	Signature

STATEMENT OFDECLARTION

I, Mintwab Moges Demeke, hereby declare that this work is as result of my independent investigation except where acknowledged. I also declare that to the best of my knowledge this work has never been submitted anywhere else for any award.

Candidate: ---------- ----------

Mintwab Moges Demeke---------- Date

This work has been submitted with the approval of my supervisors

Supervisor: …… …… ……

Alem Hagos (PhD) Date

Acknowledgement

The completion of this paper involved kindly contribution, support and encouragement of many people. I am indebted to all who encouraged me in the process and gave me the courage when I was really in need. First, I would like to thank God, and then I am greatly indebted to my advisor DRALEM HAGOS, for all his guidance, insightful comments, patience, and encouragement throughout the process of the paper. ERCA-Large Tax Payers Branch Office staffs and taxpayers, I would like to thank you all for your co-operation and kindness in providing access to information. Last but not least I warmly acknowledged the contribution of my friend's Kitaw Getachew and Baris Garmwu for their support for the completion of this study.

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Acronyms

ETA: efficiency of tax administration

T: technology

TLCP: tax law complexity and procedures

CR: compliance rate

TK: tax knowledge

SPSS: Statistical package for social science

VIF: Variance inflation factor

LTO: large tax payer's office

ERCA: Ethiopian revenue and customs authority

GDP: gross domestic product

IMF: international Monterey fund

OECD: organization for economic corporation and development

Abstract

The goal of this research is to study on perception on factor affecting the efficiency of income tax administration in large tax payer branch office of ERCA. Employees, managers and tax payers of large tax payer's branch office were the target population of the study. The total population of this study is 1156 tax payer and 53assessment, enforcement, collection, customer service officers and 50 auditors. To achieve this objective, the researcher used primary and secondary sources of data. In order to get primary information, questionnaire and interview was taken. As important as the primary data, the researcher also collected essential data from secondary sources .Data that obtained through review of such documents help to address the research objectives of the study and also the researcher used non-probability sampling techniques. Data collect from document review and interview interpreted qualitatively. The data collected and analyzed presented by using the following data presentation tools: Tables, histogram along with sufficient interpretations. Data also analyzed on quantitative basis using Pearson's correlation, multiple linear regression analysis and descriptive statistics. The researcher undertakes the diagnostic tests for the assumption of classical linear regression model (CLRM). Based on the analysis and discussion of the research, it can be concluded that the tax knowledge, income tax law complexity and procedures and compliance rate has a significant effect on tax administration efficiency. The researcher conclude that the new income tax law clear, simple and understandable than the previous law. The branch has fewer arrears of income tax and the compliance rate also shows that there is tax gap. To improve this continuous follow up should be made to collect the tax due and enforce the tax payer to comply with the tax law. In addition, after the income tax reform implemented the income tax revenues have increased significantly. However, the income tax ratios do not increase accordingly.

Key words:
Tax Payers, perception, large tax payer branch, Income tax, Efficiency, Tax knowledge, Tax law complexity, Technology, Compliance rate, multiple linear Regressions.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago. Tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return' . Adam Smith in his book *The Wealth of Nations'* which was published in 1776 suggested that a tax system is based on certain basic principles, namely equity, certainty, convenience and efficiency.

An income tax is one of the main sources for Federal and Regional Governments' revenues. Ethiopia used income taxes as one of the principal sources of domestic government revenue since the beginning of modern taxation in the 1940s. The Ethiopian income tax system is "scheduler" in structure and orientation, the computation, assessment and collection of income taxes based on some identified sources of income, like income from employment, income from rental of property and income from business. The modern income tax system of Ethiopia began in full earnest in 1944 when the first income tax law was issued to levy tax on income of individuals and businesses. The first income tax law was scheduler in approach as have successive income tax laws issued over the years. Ethiopia issued its first income tax law at a time when it had special political relationships with Great Britain, and its scheduler income tax structure was borrowed from the British tradition of taxing income by schedules or sources. The contents of the "schedules" of Ethiopian income tax have changed through successive income tax reforms in Ethiopia. Some of the original schedules have either completely disappeared or been replaced by others, while some of the schedules have retained their original contents. The Ethiopian income tax system has gone through a series of tax reforms through the years. Many of these tax reforms were spawned by the changes in government and the resultant changes in public policy in general and tax policy in particular. (Tadesse Lencho Gemechu).

Ethiopia has experienced double –digit economic growth, verging 11%since 2005.in consensual of these development, it has become necessary to introduce modern and efficient tax system that

supports the economic development. Also it is found essential to make the tax system fair and bring income that there are so far not subject to tax into the tax net. The old income tax proclamation 286/2002 is amended to federal income tax proclamation 979/2016.The proclamation provides for the taxation of income in according with the schedules: schedule A income from employment, schedule B income from rental of building, schedule C income from business, schedule D other income and schedule E exempt income.(Federal income tax Proclamation No, 979/2016).

1.2 Background of the organization

According to article 3 of the proclamation no 587/2008, the authority is looked upon as an autonomous federal agency having its own legal personality .the authority came into existence on 14 July 2008, by merger of the ministry of revenue ,Ethiopian customs authority and the federal inland revenue authority who formerly were responsible to raise revenue for the federal government and to prevent contraband reason for the merge of the foregoing administrations into a single autonomous authority are varied and complex. The Ethiopia revenue and custom authority is the body responsible for collecting revenue from customs duties and domestic taxes .in addition to raising revenue, The ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles Involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. According to 'the domestic tax audit manual of May, 2014 head quarter of Ethiopian revenue and customs authority (ERCA) segmented its tax payers into large tax payer's office (LTO), medium tax payer's office (MTO), small tax payer's office (STO).The research will be conduct at branch level Ethiopian revenue and customs authority large tax payer's branch office. The main purpose for the establishment of LTO is to control and provide services to those tax payers who collectively account for between 60-75 %of the governments overall tax revenue each year.

On the year January, 2016 Annual sales turnover greater than 35million this is an increase from the previous 27 million birr annual sales cut-off point medium and large tax payers. Companies engaged in the mining ,petroleum exploration, banking and insurance sector are included in the large tax payers categories regardless of the annual sales turnover .first grade contractors are also included in this categories , which only includes private limited and share companies and not individual businessmen. ERCA set a policy to revise its tax segmentation bracket every

couple of years to factor in the change or growth of taxpaying businesses in 2010.The bar of tax payer's segmentation is different from time to time. The authority categorizes large tax payers by annual sales turn over. First grade contractors are also included in this category, which only included private limited and share companies and All sister companies located in Addis Ababa after this circular they get all services from LTO, for comfortable situation on audit of sister companies. Though previously 3 star and above hotels were immediately as large tax payers, not only those earning above35millionBR was considered. The large taxpayer's branch office is located in Addis Ababa in Kirkos sub city in the place commonly known as 'Beklobet 'Debrezeit Road. This branch administer 1,156tax payer in June 2017. (Data source, customer service large tax payer branch office).

1.3 Statement of the Problem

Well-designed economic policies and economic management are the preconditions for effective economic performance in any country. The success of any government is largely measured in terms of the public service that it provides for its people. No government can plan its economic development completely relying on foreign aid and other external sources of finance. Good economic governance, which is the prerequisite for the economic development can be nourished only when the country is a position to generate sufficient revenue for its various operation. The center to the revenue system in any country is taxation which provides the country with the lion share of its revenue. Mobilizing adequate resource from taxation is the key sources of revenue for the government, and making it available for designing and implementing developmental programs in the country requires an impeccable revenue management system.

One of the measures of a country's tax system is GDP at current market price or tax/GDP ratio. The performance of the Ethiopian tax system has not improved quite considerably over the last decade.in 2015 shows that, the tax-to-GDP ratio has been far lower than even the Sub-Saharan average. Ethiopian current tax-to-GDP ratio of 11% is far lower than the average for developed tax systems (25-35%), developing countries (18-25%) and even of the Sub-Saharan average (16%). (World Bank, 2015)

Table 1 Revenue collection performance from 2000-2008

year	Amount of direct tax in million	GDP at current market in million	Direct tax Revenue (In % of GDP)	Growth rate
2000	3783.61	245,836	1.54	0
2001	5396.26	332,060	1.63	22.32
2002	8693.44	379,135	2.29	51.41
2003	13,149.87	515,078.54	2.55	42.31
2004	17,076.23	747,326.50	2.28	39.22
2005	20,211.71	866,921.08	2.33	19.32
2006	27,,711.02	1,060,825.38	2.61	26.52
2007	32596.41	1,297,961.44	2.51	20.15
2008	38597.73	1,528,044.23	2.53	12.49

Source: ERCA research and development department 2010

Direct tax collection efficiency data indicates that the country's GDP has been rising yearly showing it has appreciating trend. In contrary to this, however, direct tax revenue to GDP ratio is declining and its growth rate shows a decreasing rate from year to year. This shows the tax system become incapable of rising adequate revenue for the government thereby makes the economic development of the country crawling. The government always strives to improve the level of tax imposed on the taxpayers and quality of the tax administration. However, this imposition of tax couldn't still bring the required result and the actual amount of tax couldn't be collected properly. Therefore it is very important to study factors that affect income tax administration in order to increase government revenue and assure economic stability. This research paper focuses on ERCA. Large Tax Payers branch office, especially emphasis on the efficiency of income tax administration.

1.4 Objective of the Study

1.4.1 General Objectives

The major objective of this study is to examine the factors affecting the efficiency income tax administration large tax payer office.

1.4.2. Specific Objectives

The specific objectives of the research are:-

- To determine the effect of tax knowledge on tax administration efficiency.
- To determine the effect of complexity of income tax law on tax administration efficiency.
- To determine the effect of using e filling service on tax administration efficiency.
- To determine the effect of collection procedure implemented by the authority on tax administration efficiency
- To determine the effect of filing the required returns on time on tax administration efficiency.
- To determine the effect of accurately reporting tax liability on tax administration efficiency.

1.5 Research Hypothesis

H1: Quality of the tax laws and procedure has positive influence of the tax administration.

H2: Quality of technology has positive influence of the tax administration. .

H3: Tax knowledge has positive influence on the tax administration.

H4: compliance level has positive influence on the tax administration.

1.6 Significance of the study

Taxes are fundamentals to the existence and give government power to allocate resources; to enable government to provide/support social development; to stabilize the economy; to constitute and define the market place; and to encourage optimal economic growth. Improved tax system improves the revenues available for supporting public service without increasing the current tax burden on compliant tax payers. Moreover, improved tax system bolsters citizen's satisfaction by increasing their faith in the system and promoting the perception that everyone pays its legal share. Understanding the problem face the tax administration system is the major factor that contributes to the success of the overall tax system unless the problem are pointed out and

addressed properly, it may be difficult to design a sufficient and effective tax system that helps to narrow the existing tax administration gap.

1.7 Scope of the Study

The study focused on discussing the perception on factor affecting the efficiency of tax administration special emphasis on income tax in Large Tax Payers Branch Office. Because of time and cost constraint it is difficult to obtain information regarding the efficiency income tax administration from all branch offices of Ethiopia revenue and custom authority and also it is difficult to discuss all tax type with limited time. Because of this the research addressed different issues regarding perception on factor affecting the efficiency of income tax administration in Large Tax Payers Branch Office.

1.8 Limitation of the Study

Research work requires the allocation of sufficient amount of time, financial and human resources. In the process of conducting this research, various problems and constraints was encountered. Since this research was carried out while the researcher are working, time constraint was one of the factors in meeting the sample size. Limited Responsiveness by the tax payers and staff employee and Limited access to sufficient data also considered as a limitation to get the required information.

1.9 Organization of the paper

This paper has five chapters. That included in chapter one Background of the study, background of the organization, Statement of The Problem, Objectives of the Study, research hypothesis and Significance of the Study, Scope of the Study, and Limitation of the study. Then, in chapter two reviewed of the related literature with the study. Then, Research design and Methodology included in chapter three. Chapter four include Data Presentation and Analysis. Lastly; chapter five included the Research Conclusion and Recommendation that the ERCA- Large Tax Brach Office has better followed.

CHAPTER TWO: LITERATURE REVIEW

2.1 Theoretical Issue

Being an ancient practice, taxation is a source of generating revenue by community or society that form a state to shoulder the public expenditure and improve economic, social and standard of living of the taxpayer's. Taxation is a financial charge on income levied by the Government on citizen, corporate entities, businesses or possessions that yield revenue. Similarly it is mean by the compulsory proportional donations from individuals and property possession, imposed by the Government by the virtue of its power for the funding of Government administration and general public necessities. Taxes are imposed on individuals and corporate income directly or indirectly. Tax that are levied on personal or corporate income of taxpayers are known as direct tax while tax that are impose on sales of good (tangible) and services (intangible) or trade which involve profit/loss is term as indirect tax.

2.1.1 Tax Administration

Since all countries need revenues, all countries have revenue administrations. For developing countries to benefit from the opportunities afforded by globalization - or to rebound from the blows it may deal out - they must be able to mobilize adequate fiscal revenues. Money alone is not enough; but it is necessary for any state to function, and the most reliable way to get it is with an effective tax administration. How countries tax affects the allocation and distribution of resources and the rate of economic growth. In addition, however, the tax system constitutes one of the major interfaces between citizens and state in any country so how taxes are administered may affect not only the political future of the government of the day but also, more fundamentally, public trust in government. Tax administration may thus play a critical role not only in shaping economic development but in developing an effective state. The tax administration is the department of the government responsible for the management of tax obligations specified by the tax law. Its primary task is to ensure that the right amount of tax is paid by the right taxpayer at the right time, providing the government with the needed revenue to deliver goods and services as planned

A good and efficient tax administration has:

- ✓ Management system through which it carries out its activities
- ✓ Tax laws or codes that guide that tax management system and knowledgeable administration.

In order to be successful and effective in tax administration, the following factors are considered essential.

- ✓ An explicit and sustained political commitment
- ✓ Relevant training for staff
- ✓ resources to the tax administration
- ✓ Simplification of the tax procedures
- ✓ Decentralization of tax administration
- ✓ Development of a good accounting system: etc

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

2.1.2 Efficient Tax Systems

The tax system in developing countries imposes high expenses on the society. Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources are some of the features of such systems.

Efficiency means that tax should be collected at low cost as possible which includes all costs that incurred by both taxpayers and tax agencies. Smith (1776) mentioned that "Every tax ought to be so contrived, as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state." Similarly, Stiglitz (1999) emphasize that a sound tax system should have low costs of administration and compliance. It is widely believed that the simpler a tax system is, the lower the administrative or compliance costs.

Furthermore, in collecting tax, convenience should be put into consideration. Smith (1776) mentions tax should be imposed at the time or in the manner, in which it is most likely to be convenient for taxpayers to pay it. Among many kind of taxes, payroll tax may be an example of tax that is imposed in convenience time; taxes are withheld when taxpayers are receiving their salaries. These points of time are considered as the most appropriate times to collect taxes. It is better than such as at the end of tax year when there is a possibility that the money have been disbursed or changed to another form of assets. Furthermore, it is important to improve convenience tax environment because it influences the taxpayers' voluntary compliance. It could be understood that a taxpayer who really want to pay taxes voluntary but because of inconvenience in tax payment will make him/her reluctant to pay it. For instance, a taxpayer from remote area faces difficulties in paying taxes because, in order to do so, he/she has to take a long trip to a closer city where the bank or post office as the tax recipient institutions located. Surely this situation will hinder the voluntary compliance.

2.1.2.1 Compliance Costs

The compliance costs of taxation comprise both economic and non-economic costs. The economic costs, which may be estimated, consist of the monetary and time costs in dealing with the requirements of the tax authorities. For individuals, this includes the cost of time spent by a taxpayer on record-keeping and completing the tax form or in preparing information for a tax agent or accountant; the fees paid to a professional adviser, such as a tax agent; and miscellaneous costs, such as postage, phone calls, taxation guides, and, increasingly, computer software. For business taxation the costs include the monetary costs spent on the professional fees of tax agents, accountants, lawyers and any other advisers; and the time costs of internal staff on maintaining tax information throughout the year; completing the tax returns themselves or in preparing information for professional advisers; dealing with the tax authorities. Non-economic costs include the psychological costs of stress and anxiety arising from complying with a specific tax or from a tax-related activity, such as a tax authority audit. The existence of such non-economic costs is recognized. Although usually ignored. In taxpayers' side, compliance costs cover expenses such as stationery, printing, copying, stamp, transportation, and non-monetary aspects such as time spent, anxiety, opportunity costs.

2.1.2.2 Administrative Costs

The administrative costs of taxation, often referred to as collection costs, are incurred by the tax authority in administering an existing tax code. Administrative costs added to compliance costs comprise the operating costs of taxation. Of particular importance is the relationship of administrative costs and compliance costs. They may be complementary or competitive to each other. In the former case, tax simplification measures may lead to reductions in both administrative and compliance costs. In the latter case, some tasks may be transferred from the tax authority (public sector) to the taxpayer or third party (private sector). Administrative costs would then be relatively lower and compliance costs relatively higher. In tax offices' side, administration costs covers all costs and expenses for running in tax offices such as facilities, employees' expenses, utility expenses, compliance checking expenses, and other expenses. The tax collection cost efficiency can be improved by reducing costs that incurred in taxpayers' side, in tax offices' side or the both sides

2.1.2.3 Excess Burden:

A third measures of tax systems efficiency taxes in to account the fact that when the government levies a tax on goods it distorts consumers behavior people buy less of a taxed goods and more of other goods. Instead of choosing what goods to buy solely on the basis of their intrinsic merits, consumers are influenced by taxes. tax system should be neutral to ensure that investment decisions take into account the best location from an economic perspective, Stiglitz (1999).Efficient systems ensure that the cost of paying and collecting tax is minimized as much as possible. This is in line with the Canon of Economy in Taxation.

2.1.3 Classical Taxation Theory

Classical taxation theory has for a long time been of great significance in tax administration. According to this theory, the most important role of taxation is that of providing state revenues. The classical theory was founded by Adam Smith. In his book, ―An inquiry into the Nature and Causes of the Wealth of Nations‖ Adam Smith defined the taxation system, specifying the major circumstances for its foundation and proposing four main taxation principles namely: Equity, determination, convenience and thrift of taxation administration. D. Ricardo and J Mills later on advanced his work. Proponents of the classical theory of taxation argued that the realization of taxation's main role of provision of state revenue could only be achieved on the basis of the

principles of equity and justice. However, as economic relations became a bit complicated prompting the need for stringent state‘s regulation, classical theory views on the role of taxation changed in the course of many decades (Haakonssen, 2006).

2.1.3.1 Canon of Taxation

The government should follow canon of taxation propounded by various economists for efficient economic administration. By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. In fact canons of taxation are related to the administrative part of a tax.

Canon of Equity

It implies that the tax should be levied on citizen on the basis of equality. The sacrifice of all citizens must be equal. In the words of Adam smith the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities, that is, in proportion to their revenue which they respectively enjoy under the protection of the state. In other words, these cannon of taxation maintains, that every person should pay to the state as tax according to liability to pay. It implies taxing the people on the rate of taxation.

Canon of Certainty

This canon of taxation suggests that the tax which an individual has to pay, should be certain and not arbitrary. It should be certain to the taxpayer how much tax he has to pay, to whom and by what time the tax is to be paid. The place and other procedural information should also be clear. It would protect the taxpayer from the exploitation of the tax authority in any way. It will enable the tax payer to manage his income and expenditure the government will also benefited by this principle.

Canon of Convenience or Ease

Every tax should be levied in such a manner and at such a time that it afford to the maximum of convenience to the tax payer. According to Adam smith, a good taxation policy must be convenient for the taxpayer. The reason is that the taxpayer for goes his purchasing power and

makes a sacrifice at the time of payment of tax hence the government should see that the taxpayer suffers no inconvenience.

Canon of Economy

This principle suggests that the cost of collecting tax should be the minimum so that a major part of collections may bring to the government treasury. If the administration expense in the collection of taxes consume major portion of the tax revenue collected .it cannot be said to be a good tax system.

Beside the above four canon of taxation suggested by Adam smith, some other economists have also propound certain other canon of taxation. The important among them are-

Canon of Productivity

The theory was expounded by professor bastable .the tax should be of such a nature as to yield sufficient income to the government to run the administration efficiency and to work for the welfare of the people. Tax yield is important and every finance minister considers the yield before proposing any new tax .if a tax yield poor income, it cannot be said to be a good and productive tax. It is very often suggested that a few productive taxes are better than to go for a large number of unproductive taxes on the people.

Canon of Elasticity

The tax system of the government should be elastic so that the tax burden may be increased or reduced from time to time as and when tile demand for revenue changes. The tax system should have the capacity to respond quickly to the changes in demand for revenue. If the tax system is inelastic .the government cannot be able to meet various exigencies a raise to time to time.

Canon of Simplicity

The tax should not be complicated in its nature. It should be so simple that the taxpayer can understand its complications without the help of any expert. It would safeguard the taxpayer against the exploitation of the tax authority and experts it would also reduce the chance of the tax evasion. If the tax is complicated, it will harass the tax payer and instigate him to evade tax .it would also add to legal complications.

Canon of Diversity

It refers to diversifying the tax source in order to be more prudent and flexible .being heavily dependent on a single tax source can be detrimental for the economy .canon of diversity states that is better to collect tax from multiple sources rather than concertinaing on a single tax source. Otherwise, the economy is more likely to be confined, and hence, its growth will be limited as well.

Canon of Flexibility

It means that the entire tax system should be flexible enough that the taxes can easily be increased and lowered, in accordance with the government needs. This flexibility insured that whenever the government requires additional revenue, it can be generated without much hassle. Similarly, when the economy is not booming, lowering a tax should not a problem either.

2.1.4 Measurement of Tax Administration Efficiency

Tax administration has to perform in an efficient and effective manner in order to ensure an equitable and economically efficient taxation system exists. The importance of an efficient and effective tax administration is supported by Gill(2000)who stated that 'while the tax policy and tax laws create potential for raising tax revenues, the actual amount of taxes flowing into the government Treasury, to a large extent, depends on the efficiency and effectiveness of the revenue administration'. Gill (2000)further added that weaknesses in revenue administration lead to inadequate tax collections, hence shrinking the budgetary resource envelope, and affecting the government's ability to implement its policies and programs and provide public services. Despite the importance of having a successful revenue administration, there are no general, agreed upon measures which provide for the comparative assessment of a tax administration's performance. Klun (1990) also reflected that the literature does not offer a Common definition for performance measurement of a tax administration system. In fact, there is no one set of widely accepted performance measures or indicators for measuring the revenue performance or the overall performance of a tax administration system.

In establishing indicators for performance measurement and comparing them with performance norms, it is proposed that benchmarking is an appropriate tool for evaluating the performance of

a tax administration. Gallagher (2005)for example, uses performance indicators to assess a tax system of a country and then compare it with international benchmarks. Benchmarking is a means of comparing a set of specific indicators that capture the fundamental nature of almost any tax system to either international best or probably most relevant practices. It is used by some to refer to goals and outcome measures which are linked to a strategic plan or vision. The benchmarking system also allows the tax authority to establish goals and specific targets for tax collection process improvement and modernization. Specific benchmarks can be tracked over time and can show how reform or modernization efforts are being implemented and even how they contribute to the tax administration's performance. The use of benchmarking is also proposed by the accounting profession when the American Institute of CPAs (AICPA)declared that benchmarking is the new performance measurement tool which compares costs, staffing, productivity, quality, service, value added, technology and organizational structure; identifies areas that offer the greatest opportunities for efficiency improvement; helps sell the need for change internally; and provides access to the best practices of world-class performers. Benchmarking, therefore, can be used to evaluate the tasks performed by a tax administration.

2.4.1.1 The performance indicators used by tax administrations

Most performance indicators used by government organizations cover economy, effectiveness and efficiency. Economy is about keeping the cost low, efficiency is about getting the most or best output from available resources and effectiveness is about achieving the stipulated aims or objectives. OECD reports and the research commissioned from RAND Europe revealed that the performance indicators used by tax administrations can be grouped into three main categories - compliance, cost and quality and service.

Compliance

'Compliance' will essentially relate to the extent to which a taxpayer meets their obligations. While the exact obligations placed on a taxpayer are going to vary from one taxation role to another and from one jurisdiction to the next, there are broad categories of obligation that are likely to exist for almost all taxpayers, irrespective of jurisdiction. The OECD defines these as:

- Registration in the system
- Timely filing or lodgments of requisite taxation information

- Reporting of complete and accurate information (incorporating good record keeping)
- Payment of taxation obligations on time.

If taxpayers fail to meet any of the above obligations then they may be considered to be non-compliant. However, the OECD stresses that there are clearly different degrees of non-compliance.

On voluntary compliance

I Filing - Timely filing or lodgments of requisite taxation information

Ii Payment on time of taxes debited - One type of indicator reflecting this category could be indicators on delay charges / interest on late payments or alternatively, indicators on the share of taxes paid on time

On interventions by the tax administration

Tax gap - This term define generally the difference between the amount of tax that is possible to charge according to fiscal law (theoretical tax) and the amount that is actually debited. The tax gap may in turn be divided into two sub-terms: the Assessment gap being the difference between the theoretical tax and the taxes assessed and the Collection gap being the difference between taxes assessed and taxes debited. To reduce the tax gap, the tax administration needs to be able to measure its size and composition. Estimations and indicators of the tax gap may be based on bottom-up models or top-down estimates or a combination of both models. Bottom-up models are based on source data from samples of specific surveys or of individual tax records and tribunal or court cases and extrapolated across the relevant population. Top-down estimates use macroeconomic data from national accounts to calculate the total tax revenue the tax administration should collect (the theoretical tax). Actual tax revenues are subtracted from such calculations to provide an estimate of the tax gap.

Debt collection (tax arrears and collection losses) - Taxes not paid on time result in tax arrears. If a tax remains unpaid after a reminder, the tax administration normally applies a procedure of enforced debt collection. In some countries, taxes demanded but not paid within a certain period of time (for example five years) are normally written off. These amounts could be referred to as

collection losses. According to the OECD, a number of debt management powers are fairly universal across tax administrations. These may include powers to:

- grant extensions of time to pay;
- formulate payment arrangements;
- collect tax debts through specific third parties who owe money to a taxpayer or hold money on their account;
- offset taxpayers' tax debts against credits arising under other taxes;
- initiate (or arrange for) seizure action; and
- Initiate bankruptcy/ liquidation action.

Compliance checks (including tax audits or inspections) – These are intended to prevent and remedy errors and fraud so that the state receives the expected revenue. The definition of a tax audit varies between countries, for example both desk audits and field audits (outside the premises of the tax administration) could be classified under audit. This illustrates how differences in definitions of indicators can make comparisons difficult.

Intervention of jurisdiction – Assessment decisions by tax authorities are not final but are subject to challenge before the courts. The level of successful challenges against the tax authority's assessment decision could be a useful indicator for the quality of a tax authority's assessment function.

Cost

The cost to the taxpayer could also be used as an objective and clear indicator of quality and service as it can be actually and measurably perceived by taxpayers.

INTOSAI guidelines define efficiency as making the most of available resources. Applied to the cost, the question could be whether the tax administration is getting the most output – in terms of quantity and quality – from its inputs and actions. For benchmarking purposes the most useful sub-groups of efficiency indicators could be:

- Costs over time and cost ratios (e.g. administrative costs to collection)
- Productivity (e.g. number of staff per taxpayer, number of staff per return)

However these measures need careful interpretation as the OECD report also observed that cost of collection ratios (the ratio of tax administration costs to tax revenue collection) and relative staffing levels can vary substantially, due in part to factors unrelated to efficiency and effectiveness such as the scope of the taxes and non-tax related activities.

Quality and Service

A number of tax administrations have increasingly developed indicators to measure the overall quality of the tax administrations and the quality of service provided to taxpayers. Some of the indicators could also be used to assess compliance, as tax administrations' quality and service have an indirect effect on compliance. An indicator in this category could be either a 'way and means' indicator (for example, measuring the number of minutes a customer waits on the phone) or a final indicator (for example, measuring customer satisfaction with how their call has been dealt with).

2.1.5 Tax Administration Improvements

In fact, improvement in the tax administration system is a never ending process. As the kelkar report rightly out, the fundamental role of tax administration is to render quality service, to encourage voluntary compliance of tax laws and detect and penalize noncompliance. Efficiency in tax administration is very important and it involves simplification wherever feasible, but it sometimes requires more complex procedures in order to secure even enforcement. The aim of this is to eliminate unnecessary burden on the taxpayer and the tax officials and to secure a more equitable and effective application of the tax laws. Thereby, the morale and cooperation of the taxpayer as well as the tax official will be improved and better revenue structure obtained. An increase in resource devoted to tax administration should also be contemplated. There is a need for the use of presumptive rules in assessing tax on certain hard-to-tax groups in order to generate the needed tax revenue (Richard & Oliver, 1975).A society's willingness to be taxed will depend on a large extent its belief about what the tax revenue is being used for. Increased tax effort may be difficult when government expenditure patterns do not give rise to substantial acceleration of national income and when tax sacrifices as well as developmental gains are not equitably distributed among the population. It is therefore clear that tax efficiency is an administrative issue (Asamnew, 2012). The key precondition for efficient tax administration is

tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy.

Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. Tax administration should develop around activities (such as recording or auditing). More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source.

2.2 Empirical Review

Zakariy (2015) discussed tax administration in Nigeria context. It then discussed there is no enough staff for tax assessment and collection through the entire state, Lack of proper training and knowledge of computer among the staff Poor working condition and un conducive atmosphere for effective tax collection, Poor remuneration scale for tax officials, Lack of incentive and motivation reward for hard working .Problems of misappropriation and often misconduct among the tax official in under computation of due taxes which result in bribery and corruption.

Kangave (2005) discussed tax administration in Uganda's context. It then discussed Uganda's tax structure, the problems faced in administering taxes. The author, in his research, identified corruption, tax evasion, and inadequate resources for tax administration, poor quality of audits and inadequate support for tax administration as problems or challenges of tax administration that have weakened the ability to achieve desired revenue targets.

Jenkins (1991) emphasized that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. The researcher also warned that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration

and almost daily improvements in methods of its management, it is impossible to expect that tax reforms could be realized successfully.

Asamnew (2012) discussed about tax administration of category "A" taxpayers found in YEKA sub city. the results of the in-depth interview carried out showed that there exist inefficient and insufficient number of tax assessment and collection officers, there are corrupted tax officers, Training is considered an overhead activity, which does not justify much attention or there are few or no training professionals on staff. The emphasis of staff training is on teaching the contents of tax laws as opposed to applying the laws. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training. Based on the survey results, the study found that there exit lack of tax knowledge by tax payers. Most of them do not know the rules and regulations of different types of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. In addition, the newly implemented system of using cash register machine is causing challenges to the tax payers. Power failure is the major problem mentioned that caused this problem. Besides, taxpayers do not record their book timely and do not submit their book of records timely for assessment. Furthermore, taxpayers do not pay their taxes on time due to negligence and the prevalence of unfair competition has led to less voluntary compliance.

Abeba (2013) discussed about tax administration of Nifas Silk Lafto Sub City Small Taxpayers Branch Office. It then discussed that Due to inefficient and insufficient number of tax assessment and collection officers in the sub city including weak management one can conclude that, the amount of tax revenue that should be collected is not registered. One-to- five team evaluation conducted every day at present should strengthen the team spirit, relationship and should improve weak sides among workers. It was observed that the sub city administration especially ERCA should find a solution as to why a large number of employees resign work which results in over burden on remaining few tax officers. Category "C" tax payer's income and tax liability who were not required to maintain books and records is assessed/ estimated by tax workers. This system relied heavily on the judgment of the tax officers, which creates inconsistencies in the treatment of the taxpayers and creates a loophole for corruption; but the sub city administration tries to solve this problem by sending officers in groups and is also the income is revised each year. Survey also showed that, most tax payers do not know the rules and regulations of different

types of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by tax payers as solution to escape from payment of taxes. More over taxpayers do not record their book timely and do not submit their book of records timely for assessment.

*Ndemo Alfonce Mosomi(2015)*discusses about determinants of Tax Efficiency Perceptions by Domestic Taxpayers in Kenya.It was established that digitization had a positive effect on tax efficiency. Organizational restructuring by increasing the number of offices and agents for collecting tax would make it easy and convenient for the taxpayers to pay tax thus encouraging them to pay tax. Electronic methods of paying tax would improve convenience of paying tax and thus promote tax efficiency. An integrated tax system would streamline tax collection by bringing all taxes and taxpayers in one platform thus making it easy to monitor revenue generation in a more transparent manner leading to improved efficiency.

Amin abdella and john Clifford (2010) discussed the impact of tax reform on private sector development in Ethiopia. The results shows that The tax laws are too complex, The tax system is neither fair nor equitable and it lacks transparency, The tax system does not minimize noncompliance, it increases compliance costs, and in cases of dispute the appeal process is excessively long, The tax base is too narrow and the burden of taxation falls excessively on larger, formal businesses, Tax administration is inefficient, arbitrary and relies heavily on coercion, penalties and imprisonment; penalties for minor transgressions are disproportionately high, The tax administration is not effective in collection, has not developed a strategy for collecting taxes and has shifted the costs of collection onto the private sector.

Nevila Kiri (2016) discussed efficiency of tax administration in Shkodra Tax Directorate of Albania. The results of the study indicated that employee treatment and taxpayer culture have a positive significant impact on efficiency of tax administration in Shkodra Tax Directorate. Information system has not significant impact on efficiency of tax administration. The efficiency of tax administration in Shkodra Tax Directorate is low.

Lemessa Tulu (2007) determinants of taxpayers' voluntary compliance with taxation in Dire Dawa City. From this study it is concluded that the tax rate undoubtedly is a lot higher than what most taxpayers would like it to be. The survey data has shown that majority of the taxpayers know why they pay taxes but they have no detail knowledge about taxation. the result also

showed the tax authority of the city administration is not efficient and effective in various aspects such as improving the tax assessment and collection procedures, creating awareness, enforcing the tax law, providing services, and information regarding tax.

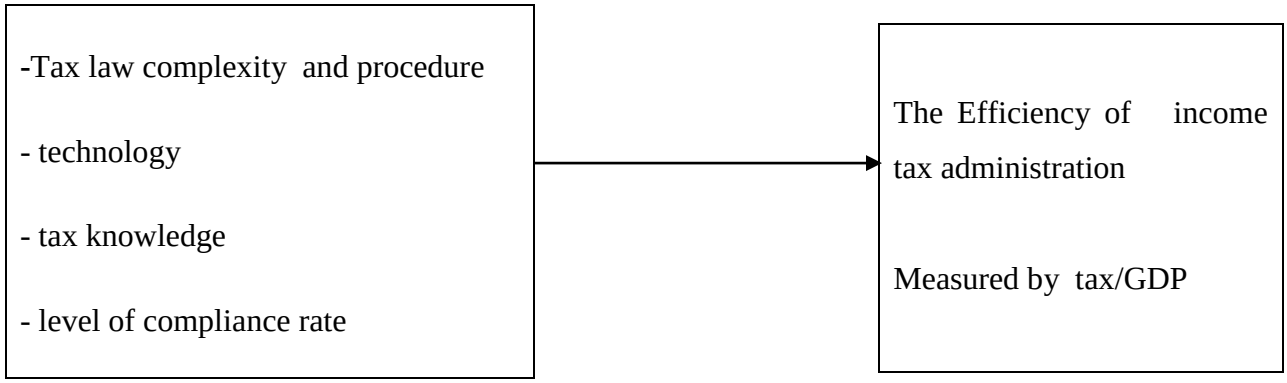
Theobald Francis kipilimba (2017) impact of tax administration towards government revenue in Tanzania. The results of the study indicated Tax design and tax policies and laws strongly influence government revenue. There is a significant relationship between tax collection methods and tax administration structure, with adequate revenue in Tanzania.

2.3 Importance of the Research

The empirical studies taken from different periods and the research collected from Ethiopia and other developing countries. The research conducted on large tax payer branch office of Ethiopia revenue and custom authority on the issue of efficiency of income tax administration. The main reason for selection of such category of taxpayers the branch has large tax revenue potential and also is highly influential in investment and other economic activities.

2.4 Conceptual Framework

A Conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. Efficiency of income tax administration is dependent on quality of Tax law and procedure, quality of technology, tax knowledge and, tax compliance rate of tax payers.



CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

Explanatory research design was used in line with the objective of the study. For this study, the researcher applied quantitative (questioner) and qualitative (interview and document analysis).*In the quantitative approach,* data collected through a systematic empirical study and the results also quantified with the help of statistics and mathematics (Kothari, 2004). *Qualitative approach* to research is concerned with subjective assessment of attitudes, opinions and behavior. The researcher distributes the questioners to the 297 tax payers and 99 staff employee of large tax payer office. The data was processed on by using SPSSv17.0.

3.2 Research Methodologies

The research methodology is a way to systematically solve the research problem. This includes the research design, sampling design and technique, data collection method, data analysis method and other aspects of the research.

3.2.1 Sampling Design and Sampling Techniques

Sample design is a definite plan for obtaining a sample from a given population. Employees, managers and tax payers of large tax payer's branch office were the target population of the study. The total population of this study is 1156 tax payer and 53 assessment, enforcement, collection, customer service officers, and 50 auditors. It is impossible to collect from the whole population because the numbers are not manageable so, the required data collected from the sample respondent of staff employees and tax payers of large tax payer branch office. Purposive Sampling method was used to take sample from staff employee whose work is related to the research. Also Convenience Sampling method is used because of their convenient accessibility and proximity to the researcher. This method used to take sample from the tax payers.

3.2.2 Sample Size

To design the sample, setting the size of the population and the target population for the research purpose is essential. Accordingly, it is clearly indicated in the above sections that the target population is the number of tax payers and those employees of the branch. But, the question here is how many of these are enough to justify or respond so that the research questions are

adequately answered. It is known that samples should be representative so that the conclusion to be reached can be free of any hasty generalizations and biased nesses. Therefore, an appropriate formula has to be taken to minimize the risk of the above sampling unit. Accordingly, Yamane (1967) has introduced a formula in which sample can be determined from a finite population. In addition, researchers have selected the degree of precision and level of confidence that would be preferred. And as a result the researcher would like to be confident about 95% and that tolerated sampling error should be only 5%.

Here, it must be clear that though the target population for this study is two different groups-tax authority staff and tax payers-. The sample size determined only for tax payers However, for the tax authority staffs all tax collection, enforcement, assessment, customer service tax officer and tax auditor taken as sample. To ensure the validity of the findings, the study used adequate sample size. The researcher determined to accept at 5% sampling error and wanted to be at 95% level of confidence with the findings of this study.

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

n =sample

N =population size

e=an error

Then the sample is $\frac{1156}{1+1156(0.05*0.05)} = 297$

N.B here the error is assume to be 5%

The researcher use a sampling size determination formula developed by (Yamane, 1967)

Therefore the researcher had taken 297 samples of companies from the branch.

3.2.3 Source of Data

The researchers used primary and secondary sources of data.

Primary Data sources

The primary data sources were large tax payer, the tax officials, and managers in large tax branch office. Questioners were used to collect primary data form tax payer and staff employee.

Questionnaires distributed to the selected respondents to get primary data on the efficiency of income tax administration.

Also interview was done to explore the data that is unclear for the researcher on its questioners and to get information that have not been collected through questioner.

Secondary Data sources

As important as the primary data, the researcher also collected essential data from secondary sources. To analyze the income tax collection trends, four years (2006 to 2009) data were taken from large tax payer branch office annual reports and Nine years (2000 to 2008) data were collected from Ethiopia Revenue and Customs Authority Revenue collection reports.

3.3 Methods of Data Analysis and Interpretations

It is thus a study of functional relationships existing between two or more variables. This analysis can be termed as regression analysis. If one variable depends upon or is a consequence of the other variable, it is termed as a **dependent variable**, and the variable that is antecedent to the dependent variable is termed as an **independent variable.**

The study tried to specify the variables and models used under this study. Accordingly, the study identifies a total of five (5) variables including one dependent, and four independent variables. In this research, raw data changed into a data structure that enables to generate meaningful and useful bits of information. The data collected and analyzed presented by using the following data presentation tools: Tables, histogram along with sufficient interpretations. Data also analyzed on quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. The researcher also undertake the diagnostic tests for the assumption of classical linear regression model (CLRM)

Therefore, the formula used for the model is:

$Y= \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4\ X4 + Є$

$TAE = \beta 0 + \beta 1\ (T)) + \beta 2\ (TK) + \beta 3\ (TC) + \beta 4\ (TLCP) + Є$

Where:

TAE = tax administration efficiency

T = technology

TK =tax knowledge

TC =Tax compliance rate

TLP=tax laws complexity and procedures

Administrative Efficiency – The method of imposing and collecting taxes essentially be administratively effective, efficient, economical and transparent without any ambiguity or distortion. Failure to administer in an efficient manner would course the collection and enforcement of taxes to be more expensive.

Technology

E-filing helps tax payers to file their income tax information through internet. It is the new effective method of filing income tax information through online. Large taxpayers are benefiting from savings on their time, energy, cost wasted in higher paper works, low prone to error from manual computation, need to travel ERCA office for tax filing, bearing the stress on month end long queues.

Compliance rate

Tax compliance is filing all required tax declaration at the proper time and accurately report tax liability in accordance with the tax law.

Tax knowledge

Tax payer should have knowledge and understand tax law in order to meet tax obligations.

Tax law complexity and procedures

When a Tax laws is complex to understand and allowed room for different understandings as well as interpretations when come to practices. Good tax system have to be simple so that government would easily administered and enforced, and also, less costly from the government side and the taxpayers as well

Where Y stands for the mean values of the income tax administration whereas β0, X1, X2, X3, X4 and Є denote the intercept of the equation, mean values of technology, mean value of the tax knowledge , mean value of tax compliance rate, and mean value of tax laws complexity and

procedures and error term of the equation respectively. In addition, β1, β2, β3, and β4 are the parameters of the equation.

Descriptive statistics used to describe patterns of behavior or relevant aspects of phenomena and detailed information about each variable. Thus, it showed the average and standard deviation of the different variables of interest in the study and processed using SPSS V17.0.

3.4 Validity and Reliability

The design of the measuring instrument must be valid so that the collected data lead to sound conclusions. *Validity* is the extent to which the measuring instrument (e.g., a questionnaire) we are using essentially measures the characteristic or dimension we intend to measure (Leedy & Ormrod, 2001). *Reliability*, as defined by Cohen, et al. (2007), is the consistency and dependability of the measuring instrument over time, and with the same respondents. The researcher conducted validity and reliability analysis to measure the instrument.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

This chapter deals with a data presentation analysis and interpretation. The data was collected through questionnaires, interviews and document review. Questionnaires were distributed to authority's staffs and tax payer's .In addition interviews were conducted with the authority's team coordinator, process owner and branch managers.

4.1. Questionnaires distribution and response rate

From the Total of 297sample of companies taken 249 usable questionnaires were retrieved representing approximately 83.5% response rate and from 103 staff employee 99 usable questioners were retrieved approximately96% response rate 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.

Respondent profile

The respondent profile could help us understand their background and behavior in drawing conclusions about efficiency of income tax administration.

Table 2 background information of tax employee

description		No of respondent	percentage
age	Below 25	6	6.1
	26-35	70	71.4
	36-45	17	17.3
	Above45	5	5.1
	total	98	100
gender	male	43	43.9
	female	55	56.1
	total	98	100
education	diploma	-	-
	degree	75	76.5
	Masters and above	23	23.5
	total	98	100
department	Collection and enforcement	18	18.4
	audit	39	39.8
	assessment	19	19.4
	others	22	22.4
	total	98	100
experience	0-5	45	45.9
	6-10	34	34.7
	11-15	14	14.3
	More than 15 years	5	5.1
	total	98	100
position	manger	3	3.1
	supervisor	17	17.3
	officer	51	52.0
	auditor	27	27.6
	total	98	100
knowledge	beginner	20	20.4
	expert	50	51.
	Advanced knowledge	28	28.6
	Total	98	100

As you observe from table 4.1 above there are 6.1% (6) respondents in the age category of below 25 years, 71.4% (70) are between 26-35 years, 17.3% (17) are between 36-45 years, and the remaining respondents are 5.1% (5) above 45 years. This result shows that most of the respondents are between 26-35 years. If we see the gender composition of the respondents 43.9% (43) are male and the remaining 56.1% (55) are female. Therefore, from the table it shows that respondents is dominated by the number of females.

Respondents participated in the study were of different level of education. 76.5% (75) respondents has degree and the remaining 17.44% (23) of them has masters and above. In terms of work experience, 45.9% (45) of respondent has experience of 0-5, 34.7 %(34) has 6-10 years, 14.3% (14) has 11-15 years and the remaining 5.1% (5) has more than 15 years of experience. This indicates the research respondent has sufficient educational background and working experience which makes the information obtained from these respondents to have a better quality. Regarding department , 18.4% (18) respondents working in the collection and enforcement, 39.8% (39) of them in audit section, 19.4 %(19) are in assessment and the remaining respondents are from others departments.

Based on the level of knowledge 20.4 %(20)are beginner, 51% (50) are experts and the remaining has advanced level knowledge. In regarding position, 3.1% (3) respondents are a manger position, 17.3 %(17) are supervisor, 51% (51) are officer and the remaining 27.6 %(27) are auditors. Therefore, majority of respondents have tax knowledge.

Table 3 background information of tax payer

Description		**No of respondent**	**percentage**
age	Below 30	111	44.6
	31-39	99	39.8
	40-49	27	10.8
	50-59	6	2.4
	60 and Above	6	2.4
	total	249	100
gender	male	138	55.4
	female	111	44.6
	total	249	100
education	diploma	48	19.3
	degree	192	77.1
	Masters and above	9	3.6
	total	249	100
Level of knowledge	Almost all	120	48.2
	partially	123	49.4
	I don't know	6	2.4
	others	22	22.4
	total	249	100
Type of business	Import and export	42	16.9
	Service providers	54	21.7
	manufacturing	78	31.3
	Whole sale and resale	12	4.8
	Financial institution	18	7.2
	constriction	42	16.9
	others	3	1.2
	total	249	100

From the table 3 above there are 44.6% (111) respondents in the age category of below 30 years, 39.8% (99) are between 31-39 years, 10.8% (27) are between 40-49 years,2.4% (6) are between 50-59 years and the remaining respondents are 6% (2.4) 60and above years. This result shows that most of the respondents are below30 years. If we see the gender composition of the respondents 55.4% (138) are male and the remaining 44.6% (111) are female. Therefore, from the table it shows that respondents is dominated by the number of males.

Regarding education,19.3% (48) respondents has diploma, 77.1% (192) has degree and the remaining 3.6% (9) of them has masters and above and Based on level of knowledge 48.2 %(120) respondent of said they now about tax law almost all, 49.4% (123) said partially now tax law and the remaining.2.4% (6) respondents are a does not now about tax This indicates the research respondent has sufficient educational background and knowledge which makes the information obtained from these respondents to have a better quality.

In relation to type of business 16.9% (42) of respondents are engaged in Import and export, 21.7% (54) are service provider, 31.3 %(78) are manufacturing, 4.8 %(12) are wholesaler and retailer, 7.2 %(18) are financial institution, 16.9 %(42) are construction and the remaining 1.2% (3) are in others type of business. Most respondent engage in manufacturing business.

4.2 Descriptive Statistics Results

Descriptive statistics are summery statistics that quantitively describe or summarize features of collection information. We simply state what the data shows. It helps us understand the data set in detail and tell us everything we need to put the data in perspective It was employed to investigate and present an overview of both dependent (ETA) and independent variables (TLCP, T, TK, and CR) used in the study. Table 4.3 and table 4.4shows the descriptive statistical results of corresponding348 total observations of each Variable in the study.

Their interpretation is presented as follows.

Table.4: Descriptive statistics output based on tax office employee point of view

variable	Observation	Mean	Standard deviation
efficiency of income tax administration	99	2.5657	1.38624
Tax law complexity and procedures	99	3.5960	1.44221
Technology	99	3.8788	1.31919
Tax knowledge	99	3.7172	1.27007
Compliance rate	99	3.7677	1.45566

Tax law complexity and procedures

Most respondents with the mean value of greater than 3 and standard deviation of 1.4221. This means that majority of the staff employees believe income tax law is clear to implement and agree that tax authority has effective procedures.

Technology

Most respondents with a mean value of greater than 3 and standard deviation of 1.31919. This means that majority of the staff employees were agree that electronic filing system facilitates tax collection system and the branch has adequate preparedness to provide e filing service. However, not all tax payer use e filing service.

Tax knowledge

Most respondents with mean value of greater than 3 and standard deviation of 1.27007.This means that majority of the staff employees believe that the awareness creation program provide by lto has influence on tax payer compliance behavior.

Compliance rate

Most respondents with mean value of greater than 3 and standard deviation of 1.45566.This means that majority of the employees were agree that large tax payer audit system sufficiently promote voluntary compliance and most tax payer pay tax liability on time. However the respondent believes that some tax payer do not pay the proper amount of tax and the authority does not take immediate action on non-filers.

Efficiency of tax administration

The mean distribution of the dependent variable (ETA) of the study is 2.565 and standard deviation statistics for ETA is 1.38624. In view of the respondents lto has fewer amount of uncollectable tax.

Table 5: Descriptive statistics output based on taxpayer point of view

Variable	**Observation**	**Mean**	**Standard deviation**
efficiency of income tax administration	249	3.3012	1.23198
Tax law complexity and procedures	249	3.4458	1.15269
Technology	249	3.4578	1.22772
Tax knowledge	249	3.2169	1.11132
Compliance rate	249	3.7108	.96966

Tax law complexity and procedures

Most respondents were with mean value of greater than 3 and standard deviation of 1.15269. This means that majority of the taxpayer agree that the concept and procedures for computation of tax is clear and the tax authority issue assessment notice with reasonable time and they have the opportunity to complain.

Technology

In regarding technological infrastructure most respondents were also indifferent, with a mean value of greater than 3 and standard deviation of 1.22772. This means that majority of the tax payer were agree that electronic filing system make it easier to pay tax. However the service is constrained by internet dis connectivity.

Tax knowledge

Most respondents were with mean value of greater than 3 and standard deviation of 1.11132.This means that majority of the tax payer agree that the education awareness creation program provide by media help them to be complaint.

Compliance rate

Compliance rate with mean value of greater than 3 and standard deviation of .96966.This means that majority of the tax payer agree that they declare their tax liabilities timely and accurately, they also believe that the tax knowledge acquired help them to comply .in addition to this, tax law should be available to them and explain clearly to their understanding to effectively comply.

Efficiency of tax administration

The mean distribution of the dependent variable (ETA) of the study is greater than 3 and standard deviation statistics for ETA is 1.23198. This means that majority of the tax payer agree that they satisfied with the collection process of the authority.

4.3. Correlation Analysis and Discussion

Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. The degree of association measured by Correlation coefficient .The correlation coefficient, which always lays between -1 and+1, was used to measure the strength and magnitude or degree of linear association between two variables. A correlation coefficient of +1 shows a strong and positive linear relationship between two variables. On the contrary, a correlation coefficient of -1 indicates a strong and negative linear association between two series. A correlation coefficient of 0 shows that there no linear relationship between two variables. The result of correlation analysis is discussed in detail as follows:

Table 6 correlation analysis based on tax office employee's point of view

	efficiency of income tax administration	Tax law complexity and procedures	Technology	taxpayer awareness	Compliance rate
efficiency of income tax administration Pearson Correlation	1	.470**	.078	.034	.242**
Sig. (1- tailed)		.000	0.222	.370	.008
N		99	99	99	99
Tax law complexity and procedures Pearson Correlation	.470**	1	.251**	.116	.358**
Sig. (1- tailed)	.000		.006	.127	.000
N	99	99	99	99	99
Technology Pearson Correlation	0.78	.251**	1	.348**	.305**
Sig. (1- tailed)	.222	.006		.000	.001
N	99	99	99	99	99
Tax knowledge Pearson Correlation	.034	.116	.348**	1	.343**
Sig. (1- tailed)	.370	.127	.000		0.00
N	99	99	99	99	99
Compliance rate Pearson Correlation	.242**	.358**	.305**	.343**	1
Sig. (1- tailed)	.008	.000	.001	.000	
N	99	99	99	99	99

**. Correlation is significant at the 0.01 level (1-tailed).

*. Correlation is significant at the 0.05 level (1-tailed).

Source: Output of SPSS 17

Table 7 C**orrelation analysis based on tax payer point of view**

	efficiency of income tax administration	**Tax law complexity and procedures**	**Technology**	**Taxpayer awareness**	**Compliance rate**
efficiency of income tax administration Pearson Correlation	1	.358**.	439**	518**	.390**.
Sig. (1- tailed)		.000	.000	.000	.000
N	249	249	249	249	249
Tax law complexity and procedures Pearson Correlation	.358**.	1	358**	.438**	.468**
Sig. (1- tailed)	.000		.000	.000	.000
N	249	249	249	249	249
Technology Pearson Correlation	439**	358**	1	.518**	.556**
Sig. (1- tailed)	.000	.000		.000	.000
N	249	249	249	249	249
Tax knowledge Pearson Correlation	518**	.438**	.518**	1	.467**
Sig. (1- tailed)	.000	.000	.000		.000
N	249	249	249	249	249
Compliance rate Pearson Correlation	.390**	.468**	.556**	.467**	1
Sig. (1- tailed)	.000	.000	.000	.000	.000
N	249	249	249	249	249

**. Correlation is significant at the 0.01 level (1-tailed).

*. Correlation is significant at the 0.05 level (1-tailed)

Source: Output of SPSS 17

As you see from table 6 the output shows that efficiency of income tax administration is positively related to quality of tax laws complexity and procedures and compliance rate, with a coefficient of r = .470 and r=.242which is significant at p < .01.Technology and tax knowledge with a coefficient of r=.078 and r=.034 which is significant at p<.05.From the above correlation matrix the relationship of all of the predictors with Efficiency of tax administration, tax knowledge correlates best with the outcome (r=.470, p<.01) and so it is likely that this variable will best predict Efficiency of tax administration.

As you see from table 7 the output shows that efficiency of income tax administration is positively related to quality of tax laws complexity and procedures, Technology, tax knowledge and compliance rate, with a coefficient of r = .358, r=.439 ,r=.518 and r =.390 which is significant at p < .01.From the above correlation matrix the relationship of all of the predictors with Efficiency of tax administration, tax knowledge correlates best with the outcome (r=.518, p<.01) and so it is likely that this variable will best predict Efficient of tax administration.

4.4 Multiple Regression Analysis

Regression analysis is a way of predicting an outcome variable from one predictor variable (simple regression) or several predictor variables (multiple regression).

The econometrics model employed in this study was the following

$$ETA = \beta 0 + \beta 1\ (T)) + \beta 2\ (TLCP) + \beta 3\ (TC) + \beta 4\ (TK) + Є$$

Table 8:-Model summary based on tax office employee point of view

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.523[a]	.273	.181	1.25445

a. Predictors: (Constant), T,TK ,TL,TC and TLCP

b. Dependent variable, ETA

An R Squared of .273, means that around 27.3% of the variation in efficiency of tax administration can be explained by tax law complexity and procedures, technology , tax knowledge and compliance rate variable. This means that 72.7% of the variation in dependent cannot be explained by independent. Therefore, there must be other variables that have an influence also.

Table 9:- Anova based on tax office employee point of view

Linear relationship among variable in regression examine by the analysis of variance (ANOVA) table.

Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	51.417	11	4.674	2.970	.002[a]
	Residual	136.907	87	1.574		
	Total	188.323	98			

a. Predictors: (Constant),

b. Dependent Variable: ETA

The null hypothesis of F-statistic (the overall test of significance) 2.970 was rejected at 1% significance level. F-value of 0.002 shows strong statistical significance.

Table 10:-coefficient of linear regression based on tax office employee view

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(constant)	.346	.709		.489	.626
TLCP	.397	.095	.426	4.195	.000
T	.002	.101	.002	.017	.987
TK	-.065	.113	-.060	-.578	.565
CR	.124	.113	.123	1.099	.275

Dependent Variable: EETA

After running this equation using SPSS 17, the regression model was as follows ETA = 0.346 +0.397 TLCP + 0.002 T -0.65TK + 0.124 CR

Table 4.9 shows that tax law and procedures, technological infrastructure and compliance rate had positive coefficients. The positive coefficient indicates that there was direct relationship between those variables and ETA. Tax knowledge had negative coefficients with no significant impact on tax efficiency of income tax administration of large tax payers. The negative coefficient indicates that there was an inverse relationship between tax knowledge and ETA

Table 11 model summery based tax payer point of view

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620[a]	.384	.353	.99105

a. Predictors: (Constant).

An R2 of .384means that around 38.4.3% of the variation in efficiency of tax administration can be explained by tax law complexity and procedures, technology, tax knowledge and compliance rate. This means that 61.6 % of the variation in dependent cannot be explained by independent. Therefore, there must be other variables that have an influence also.

Table 12 Anova for tax payer

Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	144.616	12	12.051	12.270	.000[a]
	Residual	231.794	236	.982		
	Total	376.410	248			

a. Predictors: (Constant), T,TK,TC and TLCP

b. Dependent Variable: ETA

The null hypothesis of F-statistic (the overall test of significance) 12.270 was rejected at 1% significance level. F-value of 0.000 shows strong statistical significance.

Table 13:-Coefficient of linear regression for taxpayer

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(constant)	.383	.353		1.084	.279
TLCP	.072	.070	.140	1.775	.077
T	.134	.075	.140	1.775	.077
TPA	.356	.074	.321	4.788	.000
CR	.218	.091	.172	2.408	.017

Dependent Variable: EETA

After running this equation using SPSS 17, the regression model was as follows ETA = 0.383+.072 TLCP + .134 T +.356TK + 0.218CR.

The tax law complexity and procedures, technology and compliance rate and tax knowledge had positive coefficients. The positive coefficient indicates that there was direct relationship between those variables and ETA.

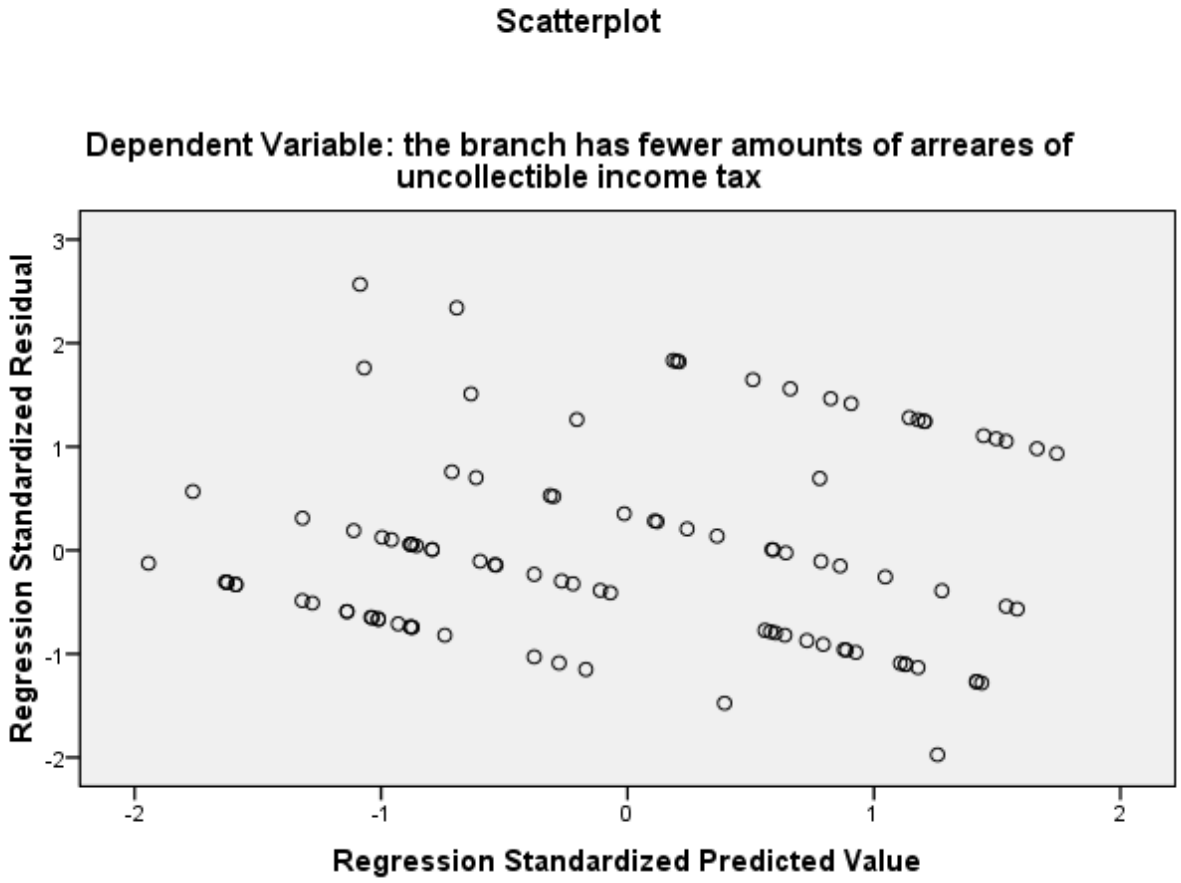
4.5 Results for test of classical linear regression model (CLRM) assumptions

Diagnostic test is made to make sure that the classical linear regression model assumption violated or not. In this study an attempt is made to test Heteroscedastic, Autocorrelation, normality and Multi-collinearity the result of which are presented and discussed as follows.

1) Test for no heteroscedasticity (homoscedasticity) {var (ut) = σ2 <∞}

It has been assumed thus far that the variance of the errors is constant, σ2 – this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be Heteroscedastic. If the error term ui do not have constant variance its said to be there is Heteroscedasticity problem. Heteroscedasticity makes your parameter estimates no longer BLUE – they are still unbiased, but no longer have a minimum variance. If there is no heteroscedasticity, the plot should look random. If u see a pattern, such as a funnel shape or a

curve, this indicates heteroscedasticity. A curve shape, in particular, could indicate some non-linearity in the relation that you failed to take into account.



Based tax employee point of view

Based on tax payer point of view

As we can see from the above two plot the residuals have a random pattern, which signifies that there is no sign of heteroscedasticity

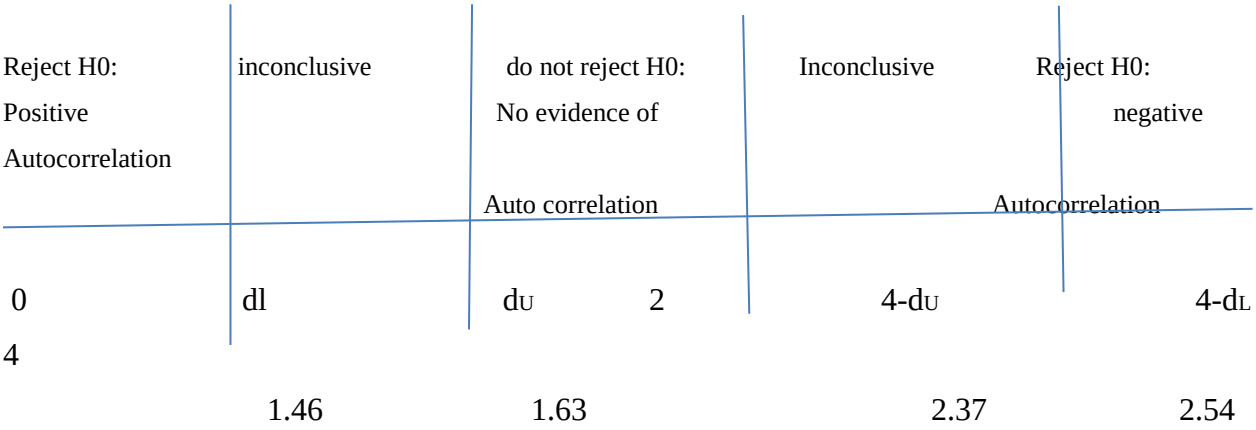
2) Test for assumption of no autocorrelation {cov (ui, uj) = 0 for i ≠ j}

The diagnostic test for CLRM assumption of no autocorrelation was tested by this study. The covariance between the error terms over time (or cross-section ally, for that type of data) is zero.

In other words, it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are 'auto correlated' or that they are 'serially correlated'. This assumption was tested by Durbin Watson (DW) test of

autocorrelation. Durbin--Watson (DW) is a test for first order autocorrelation -- i.e. it tests for a relationship between an error and its immediate previous value.

DW has 2 critical values: an upper critical value (dU) and a lower critical value (dL), and there is Also an intermediate region where the null hypothesis of no autocorrelation can neither be rejected nor not rejected. So, to reiterate, the null hypothesis is rejected and the existence of positive autocorrelation presumed if *DW* is less than the lower critical value; the null hypothesis is rejected and the existence of negative autocorrelation presumed if *DW* is greater than 4 minus the lower critical value; the null hypothesis is not rejected and no significant residual autocorrelation is presumed if *DW* is between the upper and 4 minus the upper limits.



Rejection, non-rejection, and inconclusive regions for DW test

	DW test statistics
Result	1.703

The DW test statistic value for the model was 1.703for a total observation of 99 responders with 4regresses. Thus the decision values for the test are dl= 1.46, du= 1.63, 4-dU = 2.37 and 4-dL = 2.54.The DW test statistics for the model is 1.703 which is clearly in between the no autocorrelation area. So, the null hypothesis of no autocorrelation is within the inconclusive region. Therefore, there is no evidence of autocorrelation in the study.

	DW test statistics
Result	2.253

The DW test statistics for tax payer the model is 2.253 for total observation of 249 Respondent. As the conservative rule I suggested that values less than 1 or greater than 3 should definitely raise alarm bells. The closer 2 that the value is, the better, and for these data the value is 2.253, which is so close to 2 that the assumption has almost certainly been met. Therefore, there is no evidence of autocorrelation in the study.

3) Test for absence of multi-collinearity assumption

The other CLRM assumption tested in this study was the absence of multi collinearity assumption. According to Brooks (2008) the absence of multi collinearity assumption says that the explanatory variables are not correlated with one another. If there is no relationship between the explanatory variables, they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change. A small degree of association between explanatory variables will almost always occur but will not cause too much loss of precision. However, a problem occurs when the explanatory variables are very highly correlated with each other, and this problem is known as multi collinearity. It presence can adversely affect regression result.

Luckily, SPSS produces various collinearity diagnostics, one of which is the variance inflation factor (VIF). VIF detects multicollinearity in regression analysis. It indicates whether a predictor has a strong linear relationship with the other predictor(s). VIF range from 1 upwards. What is known is that the more your VIF increases, the less reliable your regression result are going to be. In general, a vif above 10 indicates high correlation. Related to the VIF is the tolerance statistic, which is its reciprocal (1/VIF). If the value of tolerance is less than 0.2 or 0.1, then the multicollinearity is problematic. As you see from Table 13 and 14 a vif is less than 10 and tolerance is greater than 0.2.it shows no multi collinearity is observed in this model.

Table 14 C**ollinearity statistics from staff employee point of view**

Coefficients							
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Co linearity Statistics**	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	0.346	0.709	0.489	0.626			
TLCP	0.397	0.095	0.426	4.195	0	0.811	1.233
T	0.002	0.101	0.002	0.017	0.987	0.909	1.1
TK	-0.065	0.113	-0.06	-0.578	0.565	0.775	1.291
CR	0.124	0.113	0.123	1.099	0.275	0.667	1.449

Table 15 C**ollinearity statistics from taxpayer point of view**

Coefficients							
Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
(Constant)	.383	.353		1.084	.279		
TLCP	.072	.070	.064	1.030	.304	.684	1.463
T	.134	.075	.140	1.775	.077	.417	2.398
PK	.356	.074	.321	4.768	.000	.581	1.720
CR	.218	.091	.172	2.408	.017	.514	1.94

4) Test of normality assumption {ut, N (0, σ2)}

The last diagnostic test for CLRM assumption of normality assumption was tested by this study.

The assumption says that disturbances are normally distributed. Normality assumption ($ut \sim N(0, \sigma 2)$) is required in order to conduct single or joint hypothesis tests about the model parameters. Frequency distributions come in many different shapes and sizes. It is quite important, therefore, to have some general descriptions for common types of distributions. In an ideal world our data would be distributed symmetrically around the center of all scores. As such, if we drew a vertical

line through the center of the distribution then it should look the same on both sides. This is known as a normal distribution and is characterized by the bell-shaped curve. This shape basically implies that the majority of scores lie around the center of the distribution (so the largest bars on the histogram are all around the central value).Normality assumption (*ut* ∼N (0, σ2)) is required in order to conduct single or joint hypothesis tests about the model parameters.

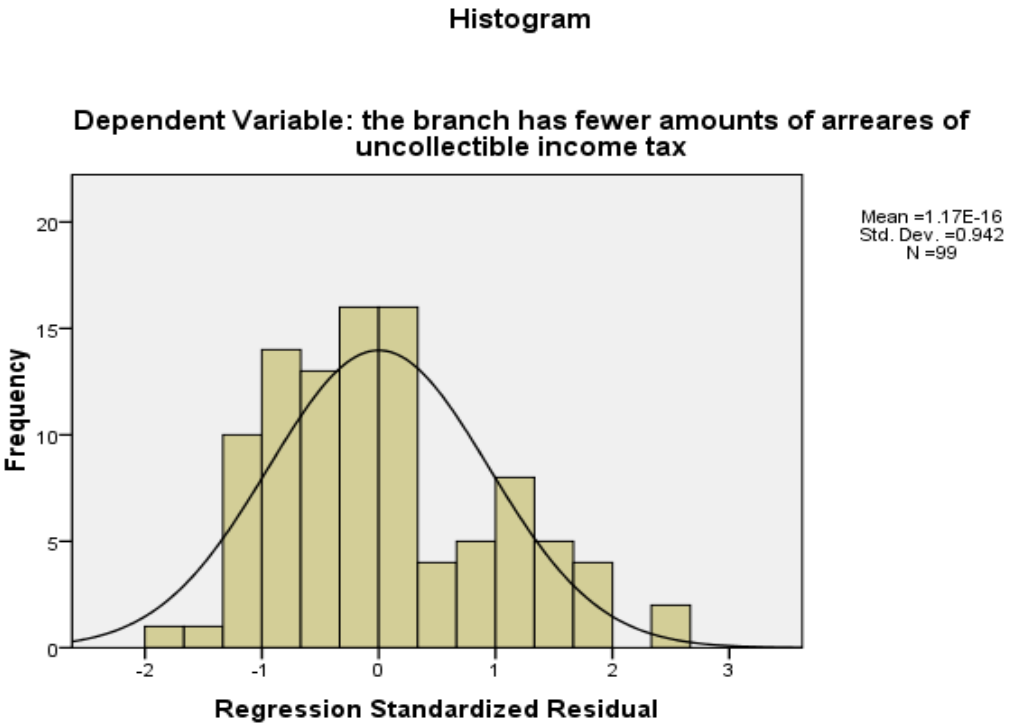
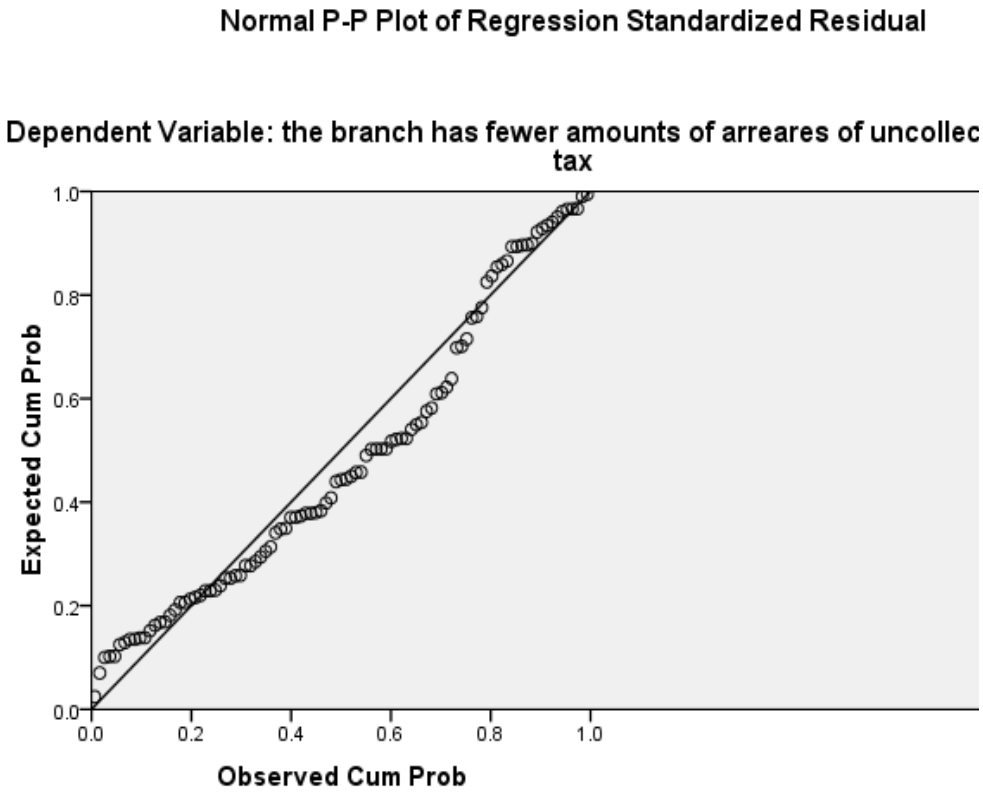


Table 16 Residuals Statistics from tax office employee view

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.1576	3.8276	2.5657	.72433	99
Residual	-2.47694	3.22044	.00000	1.18195	99
Std. Predicted Value	-1.944	1.742	.000	1.000	99
Std. Residual	-1.975	2.567	.000	.942	99

a. Dependent Variable: EETA



From staff employee point of view

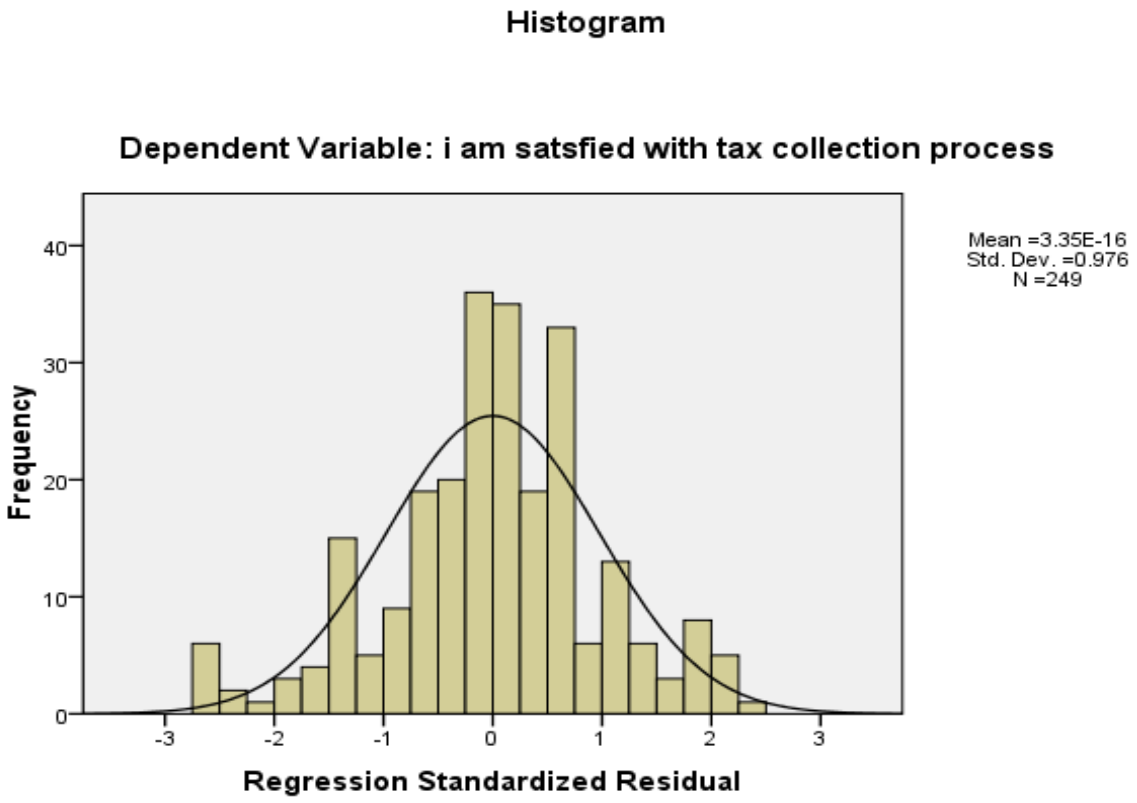
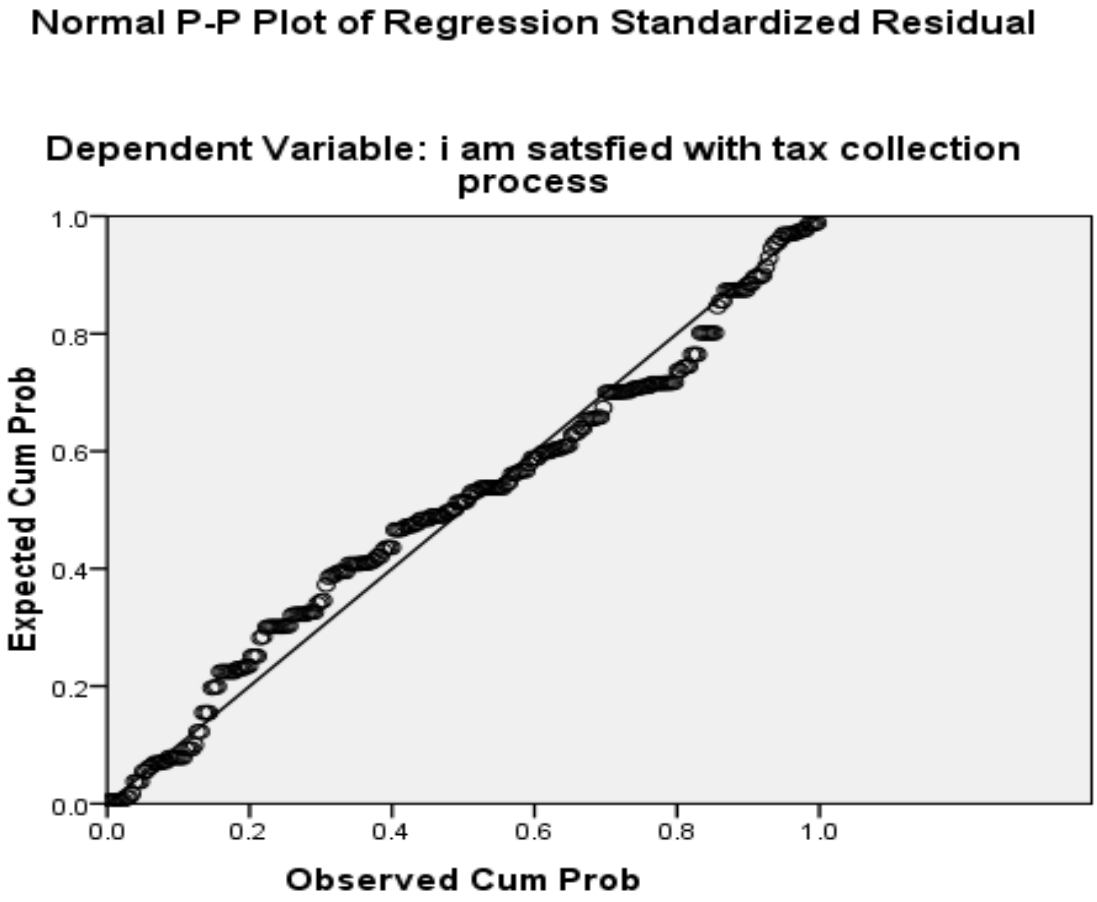


Table 17 Residuals Statistics from tax payer point of view

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.2639	4.7637	3.3012	.76363	249
Residual	-2.56595	2.26455	.00000	.96677	249
Std. Predicted Value	-2.668	1.915	.000	1.000	249
Std. Residual	-2.589	2.285	.000	.976	249

a. Dependent Variable: i am satisfied with tax collection process



From taxpayer point of view

Histogram graphs in the above are resulted from normality test of data. The two graphs show normal curve which indicate normal distribution of data. Normality test required to check whether the disturbances are normally distributed or not. As it can be seen from the figure data are approximately normally distributed

4.6 Validity and Reliability analysis

Table 18 reliability analysis

variables	No of items	cronbach's alpha
Efficiency of tax administration	13	.858
tax law complexity and procedures	3	.523
technology	3	.760
Tax knowledge	2	.618
Compliance level	4	.684

Cronbach alpha was computed for each of the four main independent variables, and for the one dependent variable (the entire questionnaire). As suggested by McMillan and Schumacher (2010:182), reliability values are highly dependent on the number of items, so alpha values of 0.5 and 0.66 are acceptable for most research purposes.

4.7 Testing of Hypotheses

The hypotheses testing based on regression model output is discussed below as it is shown from table

H0: *There is no positive and significant relationship between the tax laws complexity and procedure and tax administration*.

Tax law complexity and procedures is statistically significant at 1 percent significance level form staff employee view because the p-value of was 0.000 which is less than 1% significance level. This finding is consistence with the study of Amin abdella and john Clifford (2010), Abeba (2013), Asamnew Gebreselassie (2012), Lemessa Tulu (2007) and Theobald Francis kipilimba (2017).

H0: *There is no positive and significant relationship between Qualities of technology and tax administration***.**

Technology is not statistically significant at 5 percent significant level for both tax payer and staff employee because the p-value of which is higher than 5%. This implies Technology did not have significant effect on the efficiency of tax administration in LTO. Therefore, the null hypothesis was accepted in the study. This finding is consistence with the study of (Nevila Kiri 2016*),* inconsistent with the study of Zakariy (2015*) and Ndemo Alfonce Mosomi*(2015).

H0: *There is no positive and significant relationship between tax knowledge and the tax administration.*

Tax payer knowledge statistically significant at 1percent significant level from taxpayer point view because the p-value of was 0.000 which is less than1%. This finding is consistence with the study Abeba (2013), Asamnew Gebreselassie (2012) and Lemessa Tulu (2007).

H0: *There is no positive and significant relationship between compliance rate and the tax administration.*

But statistically significant at 5 percent significant level from tax payer point of view because the p-value of was 0.017which is less than5%. This finding is consistence with the study Kangave (2005), Abeba (2013),Asamnew Gebreselassie (2012) and Amin abdella and john Clifford (2010*).*

4.8 Discussion Document Review Results

One of the main objectives of the Ethiopian tax reforms was to generate adequate tax revenues to finance ever increasing public expenditure on poverty alleviation and development projects. Empirically there are different tools to measure tax revenues yield following tax reforms .In public finance important measures that have been used to assess the responsiveness of a tax system in terms of tax revenues mobilization is tax to GDP ratio.

Table 19 Revenue collection of income tax

year	Salary and wage tax	Rent income tax	Corporate income tax	Dividend and lottery	Capital gain	royalty	Imported goods withholding tax	Interest income tax	windfall	total	GDP at current market In million	Income tax revenue (in% of GDP)
2003	865.64		6948.87	157.40		0.92	1103.99	118.18	1610.31	10,805.50	515,078.54	2.09
2004	1062.30		9731.96	355.39		3.66	1444.56	150.94		12,748.81	747,326.50	1.71
2005	1452.79		11140.32	609.60	60.98	3.27	1665.26	203.21		15,135.44	866,921.08	1.75
2006	2277.23	1.20	15817.97	757.78	36.78	3.28	2135.05	308.86		21,338.13	1,060,825.38	2.01
2007	2680.53	5.89	16315.94	779.94	123.24	5.53	2422.49	388.02		22,721.58	1,297,961.44	1.75
2008	3197.85		22966.86	981.67	51.59	7.44	2746.13	518.58		30,470.11	1,528,044.23	1.99
2009	3419.80		25727.15	1553.13	96.56	9.25	2796.90	660.29		34,443.09	1,806,656	1.91

The income tax ratio measures the income tax system's ability to generate revenues relative to gross domestic product. From table 19 the researcher discuss that ratio of income tax to GDP and the total income tax revenues results reveals that in 2008 the revenue from income tax was 30,470.11 and after the tax reform income tax revenue increase to 34,443.09 .However income tax revenue ratio is decline from 1.99 to 1.91 in 2009. Therefore, even though the tax revenues have increased significantly, the income tax ratios do not increase accordingly.

Table 20 Tax collected from employment income tax for the last 4 years

year	**tax collected from self-assessment**	**tax collected from Arrears in birr**	**Total revenue collected**	**% coverage of tax collected from arrears**
2006	19,462,371,492.19	1,858,274,174.93	21,320,645,667.12	8.7
2007	19,390,150,506.47	3.347,627,174.87	22,737,777,680.34	14.7
2008	27,457,386,441.03	3,111,608,632.58	30,568,995,073.61	10.2
2009	31,579,925,756.66	2,872,094,466.82	34,452,020,223.48	8.3

Source: annual report of large tax branch office of ERCA

In addition, in 2009 the branch made Employment income tax assessment on 4 Government Company the result shows br 2,947,037,731.02 is not paid on time.

From the table 20 the researcher observe that from the percentage coverage of tax collected from arrears and the amount of tax assessed data shows that large tax payer office employment income tax compliance rate is not effective.

Table 21 Tax collected from business income tax for the last 4 years

year	tax collected from self-assessment	tax collected from Arrears in birr	Total revenue collected	% coverage of tax collected from arrears
2006	10,777,427,104.35	1,325,211,001.41	12,102,638,105.76	10.9
2007	9,240,347,100.29	2,686,283,837.80	11,926,630,938.09	22.5
2008	15,736,787,288.08	2,112,681,617.76	17,849,468,905.84	11.8
2009	18,671,359,815.41	1,885,080,521.30	20,556,440,336.71	9.2

Source: annual report of large tax branch office of ERCA

From the table 21 the researcher observe that the percentage coverage of tax collected from arrears revels that large tax payer office income tax payer compliance rate is not effective.

4.9 Discussion of Interview Results

This section presents the discussion of information taken from interview. Structured interview was made with team coordinator and process owners of the large tax payer office. It includes 4 structured questions for the variables; tax laws complexity and procedures, compliance rate, technological infrastructure and tax payer awareness.

Compliance rate and Efficiency of tax administration

Tax non-compliance is a serious challenge slackening income tax administration and tax revenue performance in Ethiopia. In the interview, the domestic tax affairs deputy manager said that few tax payers dose not file required tax returns at the proper time and also not accurately report tax liability in accordance with the tax law.

Complexity of income tax law and Efficiency of tax administration

The assessment team coordinator said that as compared to the previous income tax proclamation and regulation the new income tax law relatively simple to understand.

Technology and Efficiency of tax administration

The e filing and e payment user team coordinator said that, in 2010 the branch establish a department to manage the system effectively. He believe that E filing system support the collection process. However, the service delivery is not as expected. The reason are follows:

- ✓ Network interruption
- ✓ Some taxpayers are not willing to use e- filing system.
- ✓ Instability of trained tax payer employees and
- ✓ Tax payers declare their tax by using e-filing system but they do not pay the tax payable on time.

Procedure sand Efficiency of tax administration

Tax assessment and collection process owner said that Ethiopia revenue and customs authority has domestic tax collection manual. This manual set procedure that will help ensure that collection missions are carried out efficiently and effectively. This procedures support the collection process However, in large tax payer branch the amount of arrears is high .this is because of:-

- ✓ The branch has few amount of arrears of tax debt
- ✓ Lack of continuous follow-up to collect the tax debt.
- ✓ Does not take immediate action non-filers.
- ✓ Many tax payers declare loss continuously but the assessment is not done at proper time.
- ✓ upon assessment of tax due the branch is not issue notice and demand for payment on time,
- ✓ At time of seizure of properties location of some taxpayers and their assets is unknown, and also when you request information from third parties does not cooperate as needed.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions

Based on the analysis and discussion of the research, it can be concluded that the tax knowledge, income tax law complexity and procedures and compliance rate has a significant effect on tax administration efficiency. From the interview the researcher conclude that the new income tax law concept is clear and understandable for taxpayer and staff employee. Electronic filing system facilitates income tax collection process .however, internet dis connectivity is a major challenge faced by tax payer. The researcher also observe that the branch does not take immediate action on those not compliance with income tax law. The branch has enforcement procedures but has fewer amount of uncollectable income tax. Some of the reason are: upon assessment of tax due the branch is not issue notice and demand for payment on time, at time of seizure of properties, location of some taxpayers and their assets is unknown also when you request information from third parties does not cooperate as needed. This shows the enforcement procedures used by the branch is ineffective. From the documentary review the researcher reveals that in 2008 the revenue collected from income tax was 30,470.11(in billion) and after the tax reform income tax revenue increase to 34,443.09 (billion).However income tax revenue ratio is decline from 1.99 to 1.91 in 2009. Therefore, even though the tax revenues have increased, the income tax ratios do not increase accordingly.

5.2Recommendation

Thus, from the finding of the research the following recommendations were made to improve the efficiency of the income tax administration.

- ✓ Self-assessment system requires tax payers to have full understanding of income tax laws. To support this the tax authority make tax laws available to taxpayers in ERCA website. However, some tax payer does not know this website exist. It is necessary to create awareness for the tax payer to use this website.

- ✓ Large tax payer office should make the income tax law and procedures, clear, simple, understandable, transparent and user friendly administrative system. Also explain clearly to their understanding for effective compliance.

- ✓ If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair. Taxpayers' attitude toward taxation is improved through sustainable awareness creation programs. However, large tax payer branch does not have skilled manpower to provide education relate to income tax. The branch should focus on capacity building to create skillful man power.

- ✓ E filing and E payment system facilitate filing and paying of taxes by using internet service. Most tax payer of the branch submit declaration to the tax authority by using online service. However, all tax payer make payment by coming to the branch office .so the large tax payer branch should start to provide e payment service.

- ✓ Large tax payer office has fewer amount of income tax revenue. In an effort to increase income tax revenue, continuous follow-up should be done to collect the tax arrears.

- ✓ When a tax payer continuously fill loss, the large tax payer office should make immediate assessment. Large tax payer office should enforce the taxpayer to comply with income tax law.

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Addis Ababa University

Faculty of Business & Economics

Graduate Program (MSC) in Accounting and Finance

Questionnaires foremployees

The aim of this questionnaire is to assess information needed for the research report to be produced under the title perception on factor on efficiencyof income tax administration: The case of Ethiopian revenue and customs authority large tax payer branch office. The information you provide is believed to have a great value for the success of this research. The information you provide is to be used for academic purpose and will be strictly kept confidential.

Kindly requesting you to give genuine response to all the questions hereunder, I am grateful to your cooperation.

Section I: Please put a circle for your choices.

1. Age

A: Below 25

B: Between 26 and 35

C: Between 36 and 45

D: Above 45

2. Gender

A: Male

B: Female

3. Level of Education

A: diploma

B: degree

C: masters and above

4 You're Department:

A; collection and enforcement

B: audit

C: assessment

D: others

5 How long have you been working in ERCA?

A: 0 - 5 Years

B: 6 - 10 Years

C: 11 – 15 Years

D: More than 15 Years

6. You're Position in large tax payer office

A: Manager

B: Supervisor

C: officers

D: auditor

7. Level of knowledge about tax law.

A: beginner

B: expert

C: advanced knowledge

Section II: Please provide your responses by marking a tick (√) in one of the alternatives mentioned by saying:-strongly agree, agree, Neutral, disagree, and strongly disagree, to the statements.

	Statements	**Strongly disagree**	**disagree**	**Neutral**	**Strongly agree**	**Agree**
Tax law complexity and procedures	Income tax proclamation, regulation and directives is clear and easy to implement.					
	The office has effective enforcement procedures about income tax.					
technology	Almost all tax payers use electronic tax system.					
	LTO branch office has adequate preparedness (organizationally, legally and technologically) to provide e filing system service					
	Electronic tax system facilitates income tax collection process					
Tax knowledge	The awareness creation program organized by LTO improves income tax compliance of tax payer.					

Compliance rate	The authority takes immediate action on non-filers					
	The authority takes action on tax payers who are late filers.					
	Large tax payer's office audit system is sufficiently promoting voluntary compliance tax payers.					
	Large tax payers pay the proper amount of income tax					
	Tax payer pays their income tax liability on time.					
Efficiency of tax administration	The branch has fewer amounts of arrears of uncollectable income tax.					

Addis Ababa University

Faculty of Business & Economics

Graduate Program (MSC) in Accounting and Finance

Questionnaires fortaxpayers

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Kindly requesting you to give genuine response to all the questions hereunder, I am grateful to your cooperation.

Section I: Please put a circle for your choices or write on provided blank spaces

1 Age:

A. Less than 30 D. 50 to 59

B. 30 to 39 E. 60 years or above

C. 40 to 49

2 Genders: A. Male

B. Female

3 Educational statuses:

A. Illiterate

B. Secondary school

C. Certificate

D. Diploma

E. Degree

F. Master's degree and above

G. If other specify----------

4 Type of Business:

A. Import and export

B. Service providers

C. Manufacturing

D. Real estate developer

E. Wholesaler and retailers

F. financial institution

G. Constriction

H. If other specify----------

5 For how many years you are in this business?_____

6. Level of knowledge about income tax?

A. almost all B. partially c I don't know

Section II: Please provide your responses by marking a tick (√) in one of the alternatives mentioned by saying: - strongly agree, agree,neutral, Dis agrees and strongly disagree statements.

Variable	**Statement**	**Strongly disagree**	**disagree**	**neutral**	**Agree**	**Strongly agree**
Tax law complexity and procedure	The concept and procedures for the computation of income tax is clear.					
	Tax authority issues income tax assessment notice in reasonable time.					
	Have enough opportunity to complain about income tax assessment					
Compliance rate	Whenever tax payer go to pay income tax liability, tax office personnel cooperate and treat them well					
	Tax laws should be made available to taxpayers and explain clearly to their understanding for effective compliance.					
	Tax authority makes people aware about interest and penalty for noncompliance					
	Always Submit income tax declaration timely and accurately.					
Technology	The Authority utilizing modern technology to easy tax matters					
	E filing system is constrained by internet connectivity					
	E filing system makes it easier to pay tax.					
Tax knowledge	The education and awareness creation program through television,					

	brochures, magazines, newspapers and others is sufficient to improve Tax compliance related to income tax.					
	Tax knowledge acquired helps taxpayer to comply with income tax laws					
Efficiency of tax administration	I am satisfied with tax collection process.					