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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

**FACTORS AFFECTING TAX COLLECTION IN CASE OF
GULLELE SUB CITY CATEGORY 'C' TAX PAYERS**

BY
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A Thesis Submitted to the Department of Accounting and Finance for
the partial fulfillment of the requirements of Master of Science in
Accounting and Finance of Addis Ababa University

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ADDIS ABABA, ETHIOPIA

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DECLARATION

I hereby declare that the academic study report on the title; “factors affecting tax administration and collection in case of Gullele Sub City Category 'C' Tax Payers” is my original work and has not been presented in any other University or College for examination purpose. All sources that I have used or quoted in this research report have been indicated and acknowledged by means of complete references.

ALEMAYEW GAREDEW

APPROVAL SHEET

This is to certify that the thesis prepared by **Alemayehu Garede** entitled; “factors affecting tax administration and collection in case of Gullele Sub City Category 'C' Tax Payers “submitted in partial fulfillment for the Degree of Masters of Department of Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to the originality and quality.

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ACRONYMS

NBE	National Bank of Ethiopia
MOR	Ethiopian Ministry of Revenue
IRS	International Revenue Service
HMRS	Her Majesty's Revenue and Customs
UK	United Kingdom
VAT	Value Add Tax
TIN	Tax Identification Number
AACA	Addis Ababa City Administration
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
SME	Small and micro enterprise
ANOVA	ANALYSIS OF VARIATION
SSA	SUB SAHARA AFRICA
IRS	Revenue Canada, the Internal Revenue Service
HMRC	Her Majesty's Revenue and Customs

ABSTRACT

The main objective of the study was conducted to examine the effects of tax service dimensions on tax collection in case of C category tax payers of Gulale Sub city, SMEs. The study used both descriptive and explanatory research design with quantitative approach. The sample size was 277 and stratified sampling techniques were employed. SPSS software was employed in the study for organizing, summarizing and presenting collected data. The finding of the study indicates that customers of C category tax payers were highly satisfied by the four service dimensions. Specifically, most of them were satisfied with capacity of technological infrastructure of tax administration and collection service quality. However, customers were less satisfied with human resource, capital & time aspects of C category tax payers. All the service quality dimensions contribute to 83.9% of the variations in the dependent tax collection. The model was shown to be significant (sig.0.000) in an ANOVA test of the three variables' combined overall and 0.05 significance level significance. A large F statistic of 229.611 and a p value that was lower than the usual significance limit of 0.05 supported this. These findings indicated that all independent variables are reliable indicators of how effectively Gulele Sub City collects tax. Qualitative findings also indicate, increasing skills and knowledge of employees to develop human, capital and time resource, Generally, as the tax collection service dimensions represent 83.9% of the variation in tax administering and collecting, the C category tax payer's administration should work on all the service quality dimensions to improve and maintain its tax collection in selected Gulele Sub city administration.

Keywords: tax, collection, factors, revenues, procedures etc.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of Study

Government revenue, also known as national revenue, is the sum of money that the government receives from taxes and other levies in order to finance its operations and the construction of public infrastructure. Taxes, public borrowing, sales of government property, transfer payments, and other revenue streams are only a few of the ways that the Ethiopian government is able to finance itself (Nebile &Getahun, 2012).

The main purpose of generating revenue from these various sources is to finance government expenditure. These public expenditures are meant for public goods and services that are very essential for the development and wellbeing of the society.

The Ethiopian Ministry of Revenue (hereinafter MOR) is responsible to collecting money for the Federal Government in that country. In addition to collecting taxes, the authority's responsibilities include facilitating the lawful border crossings of persons and goods. The Authority concentrates on both individuals and vehicles that could be utilized for smuggling. Bringing or removing commodities from the country that have unpaid taxes and customs duties, as well as those whose importation or exportation is prohibited by law (Lemessa, 2007).

Eleven of Addis Ababa's sub cities are in responsible to collecting tax from category " A " and category " B " tax payers. Taxes gathered from Category "C" taxpayers are handled by the several Woredas located in each sub city. Standard assessment is used to calculate Category "C" taxpayers' income tax obligations. Due to the assessment committee's estimation of their daily income and the taxpayers' limited ability to voice their opinions, there is much conflict in this area. (Lemessa, 2007).

The target demographic for this study will be taxpayers who base their tax payments on an estimate of their tax burden, or category "C" taxpayers. In light of this, they will be questioned about any issues they may have encountered with the conventional tax assessment process when their taxes were calculated. End result, of this research is to study how tax assessment affects tax collection from category " C " taxpayers in Gulele sub-city administration.

Nebile &Getahun (2012) the main barrier to tax collection is the tax payers' lack of understanding and awareness, according to a study on the assessment of tax collection problems. The research, which generally attempts to comprehend the issue of tax payers, made this discovery. These researches fell short of addressing the issues' root causes.

Various researches on the subject of business income tax in general have been conducted in recent years. The analysed studies contend that the main obstacles to the system of collecting business income taxes are a lack of awareness, the perception of tax as a duty, and the goal of fraud. Based on the foregoing context, this research is being conducted to analyse difficulties in tax administration and the methods used to collect taxes from taxpayers in the Gulelle sub-city.

1.2 Statement of the Problem

Ethiopia has undergone significant tax modifications in order to civilize its tax system, increase its competence, and civilize justice (ERCA, 2010). Additionally, a disorderly tax management system that draws taxpayers who are ready to avoid paying taxes, a negative perception of public administration, a lack of public integrity, and other issues necessitated the reform in order to increase citizen satisfaction with the return from municipal benefits (ERCA, 2011 Statistical Annual Bulletin). Tax evasion lowers the amount of money owing to governments or the amount of taxes that can be collected. Additionally, it forbids the tax administration from performing tasks that are expressly assigned to the minister of revenue. Due to an inadequate tax administration framework, taxes in developing nations are not collected in a formal and impartial manner (Edmiston and Bird, 2004).

The minimal tax consequence of fiscal policy in the context of a rapidly growing state economy can be linked to a variety of tax assessment, enforcement, and collection issues.

The tax administration needs employs as diversity of registration, assessment, and collection methods to make sure that the laws are being obeyed. Depending on how the economy's actual tax base is structured, a government may be able to prevent taxpayers from engaging in these activities and successfully prevent tax evasion. As a result, tax administration should endeavor to enhance the laws controlling registration, assessment, revenue collection, and making the most of a nation's taxation potential (Messy, 2019).

Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures.

A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (Messay, 2019).

(Kangave, 2005) identifies corruption, tax evasion, a lack of resources for tax administration, poor audit quality, and a lack of support for tax management. (2005) as problems to tax administration, which have a detrimental influence on the capacity to meet required tax revenue goals.

According to Fjeldstad (2004), the survey data reveals that bad public services are the most major descriptive factor behind low tax compliance. Merima(2013) also discovered that tax knowledge and awareness are positively connected to tax compliance attitudes.

Messay (2019) is a research paper on tax assessment and collection issues. The most of taxpayers were lacked of tax knowledge, insufficient manpower, and insufficient skill, according to the data. Self-assessment compliance is influenced by a number of important factors, including tax equity, the tax office's institutional stability, taxpayer awareness, cultural norms, and government provision of public services. (Tulu, 2007). To the most of the researcher's knowledge, no research has been conducted in case of Gulele Sub City Administration that addresses all of the issues that could be causing tax assessment and collection enforcement issues.

1.3 Objective of the Study

Therefore, it is essential to identify the issues with tax assessment and collection at each tax office and take corrective action as they have a negative impact on the government's overall revenue. Determining the problems with the tax assessment and collection procedures at the Gulele Sub City Revenue Office is the objective of the study,

1.3.1 General Objective

Overall Objective of the study was to assess factors affecting Tax Administration and Collection in the Case of Gullele Sub City Category 'C' Tax Payers.

1.3.2 Specific Objective of the Study

1. To identify effects of policies, laws and procedures on effectiveness of tax collection
2. To investigate the extent to which human, capital and time resource affect the implementation of tax collection

3. To access the impacts of the capacity of technological infrastructure on effectiveness of tax collection
4. To investigate the level of tax payers awareness on effectiveness of tax collection.

1.3.3 Specific Research Questions

1. What are the effects of policies, laws and procedures on effectiveness of tax collection?
2. To what extent the human, capital and time resource affects effectiveness of tax collections?
3. What are the impacts of the capacity of technological infrastructure on effectiveness of tax collection?
4. What is the level of public awareness on effectiveness of tax collection?

1.4 Significance of the Study

This study, according to the researcher, would have significant for the following reasons. To meet society's socioeconomic needs, effective and efficient tax collection is required to raise government revenues. Tax efficiency can only be achieved if taxpayers are well-informed on the tax system's rules and regulations. The findings of this study could aid in increasing tax income for the selected sub city and the government as a whole by exposing the key issues with tax assessment and collection systems, allowing them to focus their efforts on resolving the issues.

1.5 Scope of the Study

To make the study manageable, the scope was restricted in terms of geography, concepts, and methodology. The survey was conducted factors affecting tax collection in case of Gullele Sub City Category 'C' Tax Payers. It excluded other SMEs tax payers out of the capital city intentionally as the study participants were almost homogeneous throughout the country. Thus, geographically the scope was limited for the fact that it is economical and representative of the targeted study population.

The study may not conduct in all sub cities of which are scattered at different Corners. This study is delimited to only Gulale Sub City Administration as representative of the rest.

The study focussed on tax collection in selected areas. The study employed explanatory study research designs with quantitative research approach.

1.6 Organization of the Study

The paper was divided into five chapters in terms of structure. The study's background, statement of the problem, research questions, purpose of the investigation, significance of the study, scope of the study, and limitation of the study were all covered in the first chapter. The review of linked literatures was offered in the second chapter. The third part would cover research technique, while the fourth chapter includes data analysis and discussion. Finally, the study's summary, conclusion, and suggestions were discussed in the fifth chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Concepts of Tax and Taxation

Taxes are a significant basis of revenue for the government. A portion of our income must go to the government in order for there to be widespread consumption of products and services. Public goods including power, roads, community services, and other public infrastructure are beneficial to many households, businesses, industries, and the general public.

Because of they are not competitors and cannot be excluded, public goods are typically provided by government entities. The nature of public good consumption is such that one person's consumption does not affect consumption for others. Furthermore, an agent's consumption of the public cannot exclude others from doing the same. Because of the nature of community goods, private producers are unable to sell them at market pricing like other commodities.

As a result, Unavoidable government involvement in the delivery of public goods is only possible if the general populace contributes tax revenue to support the production and distribution of such items. Tax systems are not always transparent to taxpayers, especially for less educated business owners. This is true even if people are compelled to pay taxes based on vertical and horizontal equity principles.

Tax payers believe that because the tax assessment technique is based on subjective estimation, they are routinely overtaxed. Due to business owners' lack of access to and understanding of tax laws, the practicality of the regulations is negatively impacted by their ignorance of tax rules and regulations.

2.2 Brief Concept of Tax

Taxes are financial burdens that the government imposes on individuals or businesses in order to fund public works projects that result in the finest possible infrastructure and services. Other government initiatives are then funded using the money raised. A heavy penalty will be imposed in accordance with the predetermined law if taxes are not paid or contributions are declined. A subnational organization could also impose taxes. Taxes can be paid in cash or in kind, and they can be direct or indirect.

In order to raise funds for public works projects that create the best infrastructure and services, governments impose financial burdens on individuals and businesses called taxes. After that, further government projects are funded with the money. According to the predetermined law, there would be severe repercussions for failing to pay taxes or refusing to contribute.

Taxes could also be collected by a subnational body. Taxes can be paid directly or indirectly, and they can also be paid in kind or cash. The way taxes are collected and how the government uses the money collected in taxes are regularly discussed in politics and economics.

The reason for the low tax revenue return is the inadequate enforcement of tax rules, either as a consequence of the administration's inability to handle them or as a result of direct collaboration between the tax administration and taxpayers. The fact that taxes must be paid in order for the government to function creates a strong incentive for people to pursue legal or criminal ways to reduce their tax liabilities.

The tax administration must use a range of registration, assessment, and collection methods to guarantee that the laws are obeyed. Whether a government is successful in discouraging taxpayers from engaging in these activities and so preventing tax evasion depends on the structure of the economy's actual tax base. In order to properly utilize a nation's taxing potential, tax administration should work to strengthen the laws controlling registration, assessment, revenue collection, and other related issues (World Bank, 1999).

2.3 Theoretical Review

Research on tax elements and tax systems for various eras and regimes has been conducted in Ethiopia. Wogene (1983) trying to investigate how taxes work. He claimed that socialism's material cornerstones were constructed through the system and taxes. He assessed the buoyancy and inherent elasticity of total tax revenue as well as the difference between the two in order to show how tax revisions affected revenue between 1975 and 1981.

Teshome (1979) carried out research on taxes elasticity in Ethiopia. The built-in elasticity approach was used by the author to assess the revenue efficacy of Ethiopia's coffee export tariffs. According to his empirical results, revenue is price inelastic since it has a revenue elasticity of one when compared to changes in export volume and value.

He came to the conclusion that the existing coffee tax formula requires continuing tax legislation revisions whenever Major modifications are made to the pricing and/or volume of exported coffee. Tax revisions allowed for an increase in revenue collection between 1975 and 1981, according to Wegene (1983). In this investigation, the tax system's elasticity was calculated using the constant rate of adjustment method.

Similarly, Eshetu's study contrasted tax productivity in pre-revolutionary and post-revolutionary Ethiopia, and discovered that the government's tax collection improved significantly in post-revolutionary Ethiopia.

Teshome (1979) found that Ethiopian coffee export taxes were inelastic, although Kifle's research on agricultural tax share in capital formation found that revenue collected from this category was relatively little.

Teame (1985) investigated the entire output of the tax system from 1968 to 1983 and discovered that it was inflexible and unstable, with an elasticity of less than one and a buoyancy of larger than one. For determining tax elasticity, this study used the CRS and DV approaches.

Zelalem (1999) examined the effectiveness of Ethiopia's tax system from 1961 to 1998. He determined the buoyancy and elasticity of the broad and significant individual tax categories using the division index approach. The investigation's findings demonstrated the inefficiency of the Ethiopian system, with most coefficients being less than one. The tax system was blamed for having low efficiency because to issues including bad administration and widespread tax fraud.

2.4 Procedures for tax collection

People are required to pay taxes according on their income level, and it is anticipated that they will do so. On the other hand, tax collectors should be prompt and straightforward in their efforts to collect taxes, and they shouldn't impose astronomical fees that can scare off clients. Instead, the ideal tax system for emerging countries would raise the required funds without the need for excessive government borrowing, discouragement of corporate investment, or excessive departure from other countries' tax systems (Tanzi, 2001). The following are the procedures used by the tax authority to assure compliance.

2.5 Tax Administration Challenges

In addition to having the right legislative restrictions in place, a tax system's efficacy is also based on how well-run and honest the tax administration is. Small amounts of public funds collected can be explained in many nations, especially in developing nations, by either the tax administration's failure to perform its responsibilities.

Tax regulations cannot completely eliminate disagreement between tax administration and taxpayers, no matter how precisely they are worded. The state's "tax potential" can only be realized if there is an effective and ethical tax administration in place. It is common knowledge that tax administration determines how effective tax rules and regulations are (Kaldor, 1980).

Every country has the challenge of handling taxes. To ensure macroeconomic stability, many emerging nations must improve their tax administration. Building a tax system that can adjust to the demands of a developing market economy & the ensuing growth in taxpayers is crucial for transitional nations. Human resources play a crucial part in the administration of taxes.

Due to a lack of trained people in these countries, the majority of developing countries are constrained to arrange their operations inside the current tax administration framework.

2.6 Efficiency of Tax Administration

Effective tax administration requires a minimally distorting tax structure, strict tax exemptions, and the elimination of disparities in the tax treatment of various economic sectors. With a few exceptions (particularly exports, which should be zero-rated, and banking and insurance services, where determining the amount of value added to be taxed may be difficult), the VAT will be expanded to encompass all goods and services. (Hesse, 1993).

The operation of the tax administration is significantly made more difficult by poorly planned or too complex tax structures, but a simple and transparent tax system may have the opposite impact. As a result, the tax system's simplification may be largely responsible for the improved efficiency of the tax administration. Tax administration can suggest needed changes to laws that would improve tax structure and/or make the law easier to apply, but it cannot rewrite legislation to do so (Mansfield, 1990).

2.7 Improve Tax Administration

Since tax management and tax system are intertwined and must both be improved concurrently in tax reforms, the importance of tax structure is amply illustrated by tax administration reform (World Bank, 1991). A successful tax system is necessary to profit from changes in tax rates, whether they be raised or lowered. Expanding the base to increase revenue requires even more control.

More people must be included in the tax system, and a new method of collection must be implemented. Such modifications take time to implement. The best tax strategy in the world is useless if it cannot be implemented successfully. To a large extent, what is done always depends on what can be done. It is dangerous to believe that whatever the policymakers decide will be implemented or that any administrative issues would be easily and swiftly resolved.

How a tax system is applied affects its yield, incidence, and effectiveness. The tax administration must provide neutral, professional, and pleasant service while maintaining the privacy and secrecy of individual taxpayer information.

It must also give taxpayers access to current, understandable, and clear tax information through a variety of media and respond to their questions and requests for tax information in writing as soon as possible (Asian Development Bank, 2001).

Taxpayers should be permitted to attend education and information programs on specific tax topics to raise their awareness and should be allowed to disclose their tax situation openly without incurring penalties or facing criminal prosecution. (Asian Development Bank, 2001)

2.7.1 Identification and registration of taxpayers

The Ethiopian Ministry of Revenues Authority issues a taxpayer with a Tax Identification Number (TIN), which is a unique identification. There is a tax requirement. "Every person who has a tax obligation is obligated to receive a tax payer identity number," according to Ethiopia's Income Tax Proclamation Number 286/2002. This explains the TIN requirement, according to which each taxpayer has a special TIN that must be used in all communications with the IRS and that no taxpayer should have more than one TIN.

2.7.2 Returns processing

Upon receiving a taxpayer's return, tax authority staffs review it for correctness, determining if the return was correctly filled out, whether the tax was calculated correctly, and whether the taxpayer is subject to any penalties. The officer then issues the return a number of assessments and sends the taxpayer a Bank Payment Advice Form together with the amount of tax due.

2.7.3 Payment of taxes

Taxes are due on the due date of the self-assessment returns' filing. The Bank Payment Advice Form should be used to pay the tax to an authorized bank.

2.7.4 Audit and examination

Tax audits and inspections are conducted to make sure that taxpayers' information to the IRS is accurate. Simple field audits, desk audits, and comprehensive audits are all options are available.

2.7.5 Collection and enforcement

The tax authority has numerous alternatives for ensuring payment when a taxpayer doesn't pay by the deadline and doesn't contest the tax assessed.

The Commissioner may file a lawsuit against the taxpayer, demand that someone holding money owed to the taxpayer pay it by a certain date, or launch a distress action against the taxpayer's moveable property. The term "enforcement" is used in a more general sense to describe both the penalties for taxpayers who violate the law and the offenses themselves.

2.8 Presumptive Income Tax Assessment

At their most basic level, presumptive taxes aim to calculate a certain taxpayer's burden using indirect methods that are different from the customary laws based on taxpayer accounts. Presumptive taxation is used by several nations to simplify the regulations for businesses and people who consistently evade paying taxes.

In Ethiopia, assuming taxation is a straightforward way to collect money from small unregistered enterprises. In order to administer its presumed tax, the Ethiopian Ministry of Revenue (MOR) employs an assessment process to identify the income made by small unregistered firms.

A presumptive assessment based on "turnover" or "indicator" is applied to "Category C" taxpayers, who are those with an anticipated annual turnover of less than 500,000 birr. The annual tax bills for Category C taxpayers are then determined using their assessed income. MOR is required to revise its presumed assessments every three years under current rules. According to Revenue Authority data, 52 per cent of all reassessed Category C taxpayers lodged formal complaints about the process. ERCA, on the other hand, maintains that all required policies and procedures were followed, and that the reassessment process was properly implemented.

2.9 The Process of Income Tax Assessment

Tax assessment involves identifying taxpayers, having taxpayers file returns, having tax authority's process returns, and conducting audits and examinations. The following phrases give a succinct description of these components, which are applicable to the Revenue Tax Proclamation and are found in all legal systems. Many times, after the conclusion of their tax accounting year, taxpayers are expected to submit reports to tax authorities outlining their income for the tax year and any taxes owed (FDRE, 2002).

The structure and content of returns are governed by tax regulations, which are codified in the form of rules issued by the tax authority (FDRE, 2002). The returns are usually made to contain enough information to determine the taxpayer's tax due. These detail the taxpayer's earnings and expenses, as well as any approved deductions and the total amount of net taxes owed.

The taxpayer should naturally have kept accurate financial records at this point in the tax assessment process, but the law may impose a standard or estimation-based assessment in the absence of such records (FDRE, 2002).

When the tax authority receives the returns, the accuracy of their content and formatting is double-checked. The tax authorities may look to other sources of pertinent information in addition to the information provided by the taxpayer when processing the returns. The tax authorities will inform the taxpayer to make payment if the returns were properly filed (FDRE, 2002). If there are any differences, the tax office has the power to demand a new assessment.

The next step is audit and examination, which is a process of verification in which the tax office checks to see if the information that taxpayers have provided is accurate.

Typically, a screening procedure is used to compare returns produced by taxpayers with similar profiles or returns submitted by the same taxpayer over earlier periods.

A specific person or group of taxpayers may be the subject of future audits by the tax authority if this process or evidence from other sources, such as informants, points to tax evasion or other compliance issues. In other circumstances, the techniques could range from simple field trips to in-depth assessments. Additionally, tax inspectors conduct sporadic returns audits. The tax assessment notification is the process's end result (FDRE, 2002).

2.10 Tax administration

The formation of semi-autonomous revenue agencies is a recent organizational issue that has gotten a lot of attention. Administration of taxation Boards of revenue and autonomy. These appear to have worked successfully in a number of industrialized and developing countries, with variable results, in boosting administrative efficiency and effectiveness.

An example of this combination is the creation of a Large Taxpayer Unit in tax administrations set up along functional lines. The second significant problem is the regional structure of the company, which includes the scope, function, and duties of regional and local offices as well as the control of those offices by the corporate headquarters.

Even though the factors that contribute to its success—and failure in some cases—have not been well investigated, local governments interference with regional and local tax offices' ability to collect national and local taxes has led to significant issues in a number of nations. In spite of being a part of the larger field of government accounting, internal accounting conventions for tax administration are crucial because they have an impact on the accuracy with which administrative costs are determined and allocated to different administrative units, as well as measured effectiveness, for instance through conventions for recognizing tax collection arrears.

2.10.1 Tax Administration Management and Functions

Along with actually collecting taxes or enforcing penalties for noncompliance, a tax administration's main responsibilities when dealing with taxpayers often include acquiring or processing information. The 1st information-related task is to identify taxpayers. Next, they must register as taxpayers, and for the majority of substantial taxes, taxpayer identity numbers are then issued.

The basic responsibilities of a tax administration when dealing with taxpayers often include information gathering or processing, in addition to actually collecting taxes or penalizing noncompliance.

Identification of taxpayers is the first information-related task, followed by their registration as taxpayers and, the issuance of taxpayer identification numbers (Tins) for the majority of significant taxes.

Valuation and tax audit are two of the most common assessment procedures, with the latter constituting the most crucial duty of tax administrations in terms of resource consumption. Some Countries carry out significant valuation and tax audits, the latter being the most important function for tax administrations in terms of resource utilization.

To prove tax evasion or make it easier to find non-filers additionally required research and inspection. If there is a strong case for noncompliance, tax evaders may need to pay fines and face legal action. The two basic elements of actual tax collection are late tax collection and mechanical tax collection from willing and on-time payers. The completion of tasks unrelated to taxes, such as the collection of levies and user fees for other government agencies. Consumes a significant portion of the capacity for tax administration in some countries.

The tax administration should examine these kinds of requirements so that it can concentrate on its main task. For a variety of causes, amnesties have been declared in numerous nations. Amnesties must, of course, be used rather than just declared. The third function of tax administrations addressed here is international tax collaboration with other administrations, which is primarily information-related and becoming more and more relevant.

2.11 The Role of Good Governance in Taxation and Tax Reform

The three pillars of good governance that are most closely related to the tax system are equity, fairness, and participation. At the level of the tax administration itself, additional principles such as responsibility and transparency, as well as involvement in decision-making within the tax administration system, come into play.

Bad tax design cannot be compensated for by better tax management. Taxation that is excessive and arbitrary is a serious impediment to economic and social development (Fjeldstad, 2004). As a result, heavy taxes slow growth and encourage tax cheating.

The expansion of the revenue base and fiscal sustainability are also being postponed. As a result, improving the tax structure should come before reforming the tax administration, as there is little use in making a flawed tax system work better.

Tax administration reforms in Tanzania and Uganda in the 1990s included the creation of well-funded, semi-autonomous revenue authorities, which led to immediate increases in income. But long-term maintenance of these successes has proven challenging. After the initial success, revenue as a percentage of GDP drops, while it seems that fiscal corruption is increasing.

2.12 Tax Administration in Ethiopia

Tax administration is the methodical arrangement and organization of elements by the federal and state tax authorities for the purpose of tax collection and other associated tasks. Good and effective tax administration is influenced by a competent administration, a management system that guides its operations, and tax laws or rules that serve as guidelines.

The following elements are regarded as necessary for efficient and effective tax administration. A steadfast and on-going political commitment, appropriate training for those in estimation and assessment, increased funding for tax administration, calls for incentives for both tax payers and tax administrators, simplification of tax procedures, decentralization of tax administration, and creation of an effective accounting system.

The purpose of taxation is to generate enough revenue for the government to cover its costs. To accomplish this, a well-organized tax collection structure and close coordination between tax administration and Maintaining structure is necessary (Misrak, 2008).

Since studies on various facets of tax administration, including presumptive taxation based on taxpayer identification numbers, assessment and audit, revenue accounting and receivable management, VAT, taxpayer recruitment, investigation, and regional cooperation were conducted in 1999, tax reform has advanced significantly. After that, the study received appreciation for the following factors. Since studies on various facets of tax administration, including presumptive taxation based on taxpayer identification numbers, assessment and audit, revenue accounting and receivable management, VAT, taxpayer recruitment, investigation, and regional cooperation were conducted in 1999, tax reform has advanced significantly. After that, the study received appreciation for the following factors.

2.12.1 Tax Policy and Legislation

The federal government has made a variety of various efforts to promote investment. Along with other benefits, the investment law offers tax savings. However, the government must forgo a near-term advantage by implementing new income tax code concessions in order to further encourage investment. Increased enforcement efforts should concentrate on preventing fraud and willful non-compliance with the requirement to pay the exact amount of tax to which the government is entitled in order to ensure uniformity and justice in the administration of the tax, among other reasons. Laws governing income taxes have been modified by government officials. For example it has the corporate income tax rate to 35% and the sole proprietorship and partnership company income tax rate from 40% to 35%.

The new proclamation on income taxes allows previously prohibited charges including insurance premiums, interest payments on bank loans, and other expenses to be deducted from corporate income taxes. Additional measures include the provisions for loss carryover and adjustments to the capital gains and withholding tax thresholds. The rules for prolonged commitments, loss carrying over and adjustments, capital gains, Tariff rates and with-holding on payments have all been included in new income proclamation that has already gone into force. It also integrates significant comments from several stakeholders. Taxpayers whose annual sales volume is under Birr 500,000 would be subject to a turnover tax, which was enacted in January 2003. In January 2003, a proclamation that established an excise tax was also passed.

2.13 Presumptive Taxation

In general, a presumptive income tax is an assessment that uses an indication of economic activity as a representation for taxable income rather than real taxable income. For example, it might be assessed based on the company's output inventory, a specific input used during production, or cumulative gross sales over time. In any case, the tax administration wants to figure out how much of the current economic activity is taxed overall. There will be no taxes levied on the selected particle measure, and no economic rents derived from inputs used in production will be collected. When it is challenging to accurately assess revenues for some enterprises, presumed taxes are frequently utilized in developing nations.

In order to increase income, stimulate fairness and equity in the tax system, inspire business community Record keeping, lessen the administrative burden for the tax base, The government introduced a number of presumptive taxing tactics to reduce the likelihood of fraud and gather more money from difficult-to-tax business groupings, such as the sizable informal sector and taxpayers who fail to disclose or understate their income. It comprises the use of simple, low-cost strategies designed to seize local businesses and sources of revenue that typically escape taxation under conventional norms.

A method for battling poor record-keeping practices among businesses, tax evasion, tax compliance, and ineffective tax administration is presumed taxation. In July 2001, the standard assessment technique was put into effect for small (Category C) taxpayers in local governments with an annual revenue of under 500,000 Birr.

Schemes adopted include the following:

Standard assessment, which took the place of the previous estimating method, involves establishing a lump-sum tax on a taxpayer for a given period of time depending on their employment or line of business. The tax will be subtracted from the final declaration of the taxpayer if they maintain the required records and paperwork as proof.

Larger taxpayers and non-commercial organizations, including non-governmental organizations, will be in charge of collecting the withholding tax on repayments given to the difficult-to-tax groups (contractor's substructures, experts, lessees of commercial assets and machines, non-resident performers, etc.).

2.14 Categories of tax payers

The Federal Democratic Republic of Ethiopia's Constitution lays out the revenue distribution between the national government and its regional states. If regional states' income tax laws and proclamations are founded on the constitution, they may enact them in conformity with the federal income tax proclamation. According to present federal tax on income proclamation no. 286/2002, taxpayers are classified into three divisions, namely category "A," category "B," and category "C," depending on their volume of revenue and type of business. The Tax Authority will then decide whether the taxpayer should stay in the same category or be moved to a different category.

Any business organized in accordance with Ethiopian tax law or the tax laws of another nation, as well as other organizations with a yearly revenue of Birr 1,000,000 or more, fall under category "A". Those who come under category "A" shall maintain the relevant records and accounts in order to prepare a balance sheet and profit and loss account which contains supporting vouchers and shows the gross profit, general and administrative expenses, depreciation, provisions, and reserves. (Article 18, Sub article 2, Council of Ministers Regulation No. 78/2002).

Businesses that earn more than 500,000 but less than 1,000,000 Birr annually fall under category "B." This category of taxpayers is required to provide a profit and loss statement at the conclusion of the tax year. Every record and account entry is required by law to be supported by the appropriate vouchers. (Article 18, Sub article 2, Council of Ministers Regulation No. 78/2002).

Taxpayers who fall under category "C" are those whose annual revenue is estimated by the Tax Authority to be Birr 500,000 or less, if they have already been placed under categories "A" and "B." On the other hand, standard assessment is used to determine the income tax burden for Category "C" taxpayers. In this type of assessment, the tax is determined as a fixed sum in accordance with the Schedules specified by the Council of Ministers Regulation. This particular category of taxpayers is regarded as the most hard and difficult to tax.

This is due to the fact that these individuals pay fixed rates of tax on the income that the income tax authority calculates for them, as opposed to disclosing their own income.

2.15 Empirical Reviews

2.15.1 Determinants of Tax Compliances/Efforts

Numerous factors, such as justice or equity, the overall effectiveness of the tax authority, awareness, cultural characteristics, social concerns, and attitude toward the government, all have an impact on taxpayers' voluntary compliance with the law (Daba, 2017). Manchilot (2018) made similar discoveries, finding that the equity of the tax system, penalties, rates of taxation, how taxpayers evaluated government spending, and the cost of compliance were important factors influencing taxpayers' voluntary compliance.

Additionally, research by Loo (2006), Pail (2010), Kichler (2007), and other scholars revealed that the factors affecting taxpayers' attitudes about tax compliance can be grouped into five major groups. Other demographics determinants include age, gender, family size, social variables, education, sense of the equity and fairness of the tax system, personal financial restrictions, tax knowledge, and monetary variables such as tax rate, income/expenditure level, tax audit, and impression of government expenditures and institutional; adjustments to laws, rules, and other aspects of the government.

A deficient tax administration will alter how taxes effect legislative policy goals like macroeconomic stabilization, allocation of resources, and income redistribution, Tanzi and Pellechio (1995) observed in Mikesell (2007). The lacklustre performance of taxes is probably due to problems with tax administration in developing nations. (i.e. the administration's inability to actually enact the tax).

Contrary to wealthy countries, emerging and transitional nations appear to have fragmented economies, significant informal sectors, inadequate tax compliance rates, widespread tax evasion, and full mistrust between tax collectors and taxpayers, according to Bird and Gendron (2005). By just duplicating the design features of a successful VAT from wealthy nations, the tax would not be practical in these countries. The socioeconomic circumstances of the relevant developing nation, as well as the issue of tax administration, should be considered in the design. Nigeria's tax administration has a negative influence on government revenue, which has led to the discovery of a seriously flawed organizational structure and leadership approach.

These shortcomings may be ascribed to the use of mediocre tools, insufficient staffing of the tax collection agency, a constrained budget, bad routes of access to the interior of rural areas, subpar education, a lack of job comprehending, and irregular training. As a result of these actions, tax officials delivered subpar work (James and Abiola , 2012).

Using panel data from 46 different countries, Botlhole (2010) performed research on the elements that affected tax collection in sub-Saharan Africa between 1990 and 2007.

The percentage of agricultural output, openness, and per-capita GDP were the main variables influencing tax collection. The drivers of tax revenue in Sub-Saharan Africa were researched by Addison and Levin (2008) using panel data. They discovered that greater tax to GDP ratios were associated with economies' degree of openness, the size of their agricultural sectors, and political and economic stability. A study on the factors that influence tax collection in Sub-Saharan African (SSA) nations was undertaken by Drummond et al. (2011) in UNDP (2016) using panel data from 28 low-income countries.

The findings were there were significant and positive correlation between quality of institutions and revenue mobilizations.

2.16 Empirical Reviews in Ethiopia

Any nation's tax authority has contributed significantly to tax management procedures, and Ethiopia is no exception. The tax authority was in responsibility of determining and collecting the city's taxes, according to Ayele et al. (2017). The amount of money collected directly depends on the effectiveness and efficiency of the authority.

The majority of tax payers are unaware of their duty and responsibility for tax collection, according to Ayele's (2017) research. Consequently, they did not carry out their responsibilities related to tax collection operations, and even governmental entities did not pay the required tax.

According to Araya (2011), the survey result shows that the governmental administration's tax authority lacks efficiency and effectiveness in a number of areas, including enhancing the tax assessment and collection system, raising public knowledge, upholding the tax code, offering services, and disseminating tax-related information. Using time series data, Bayu (2015) analyzes tax buoyancy and its causes in Ethiopia.

The results show that domestic indirect and direct tax collections are not buoyant over the long and short terms.

The impact of the percentage of official development aid to GDP is negative, although the amount of imports, the share of the service sector's value added, and the overall government budget deficits all had a positive impact on tax buoyancy.

Mulualem E (2017) analysed applying the ideas of tax buoyancy and elasticity, we can examine the revenue productivity of Ethiopia's tax system from 1981 to 2016. For the tax system and its constituent parts, the elasticity and buoyancy were estimated using the Ordinary Least Square (OLS) method.

According to the findings, the tax system and its constituent parts were income inelastic, which meant that the rate of increase in total tax revenue fell beyond that of economic growth. The buoyancy calculations showed that the tax reform measures were effective in raising more money and that they contributed more to tax revenue collection than natural increases in tax revenue.

To maximize tax revenue collections, tax reform initiatives such improving the effectiveness of the tax department in tax assessment, tax law enforcement, and control of tax evasion have been recommended.

Ayele (2017) carried out a study utilizing both quantitative and qualitative/econometric models, however nothing was revealed about the latter. The study's findings indicated that the tax authority's operations were inefficient, opaque, and difficult for taxpayers to understand, necessitating a review of operational procedures and the promotion of openness to increase taxpayer confidence.

Research from Daniel & Shaik in 2017 found that the biggest barrier to voluntary compliance for category C taxpayers was ignorance. While social and cultural variables can have a positive or negative impact on taxpayer attitudes, effective and efficient actions on the part of the tax authority in improving the tax assessment and collection procedures, spreading awareness, and upholding tax law have positive effects on taxpayers' willingness to pay. However, political factors had little impact on taxpayers' perceptions in the study area. The approach utilized in the research is confined to frequency distributions, which makes it possible that the results' accuracy may be subpar because of restrictions like various tests and others.

Using quantitative methods, such as descriptive statistics, the correlation test, and multiple regressions,

Daba (2017) carried out a study. The primary variables impacting non-residential house rental income tax payers' voluntary compliance were financial constraints, tax payer awareness, and perception of tax fairness, understatements of income, educational attainment, and absence of government motivations, faith in the tax assessment and collection process, and rental tax audit. OLS was used in the study, despite the fact that it is an excessively biased and poor estimate technique when the variable being studied is a discrete condition or categorical (either dummy or ordinal values).

Dinku and Alamirew (2018) conducted a study using multiple linear regression models along with quantitative, descriptive, and other models. The findings of the Pearson correlation and multiple regression analysis revealed a substantial relationship between audit productivity, tax investigation, and penalty and the degree of voluntary tax compliance.

Mesele (2018) used a multiple linear regression model (ordered logit) in conjunction with descriptive statistics to study the variables that affect tax compliance. The risk of an audit, financial constraints, and changes in governmental policy, per the data, are the three factors that have the biggest impacts on tax compliance. Equal treatment for all those who pay taxes, tax payer participation, and employee capacity enhancement are among the recommendations. Heteroscedasticity, multi-collinearity, and other problems with the cross section data, as well as how to fix them, were not taken into account in the study.

Using ordered logit model and descriptive statistics, Abdu Mohammed A. and Wondimu S. (2019) did their research. Tax payers' tax knowledge and awareness, the system's simplicity, their attitudes toward taxes, government spending, and reward programs for devoted taxpayers all have a substantial (positive) impact on tax compliance.

The report made two recommendations: public tax education and the building of sustainable awareness. Heteroscedasticity, multi-collinearity, and other phenomena, as well as their procedures for correction, were not discussed in the paper.

Both a descriptive model and a binary logistic econometrics model were used by Abera (2019). The findings demonstrated that the presumption of income tax collections was significantly correlated with the impartiality and equity of the tax system, tax official corruption, the organizational capacity of the tax authority, collaborative tax system, knowledge of tax laws and regulations by the general public, and general attitudes of the general public toward government. The notion of tax evasion, the technique of paying taxes, and social norms, on the other hand, all had positive but little benefits.

The study skips over the notorious cross-section data issues such as heteroscedasticity, multicollinearity, and others, as well as how to fix them.

Netsanet S. and Biniam T. (2020) employed both primary and secondary data in a mixed-approach study. Based on the regression results (ordered logit), factors such as age, education, tax knowledge, financial constraints, a lack of fairness, the role of the tax authority, complexity of the tax system, a lack of tax audits, and government spending all had a substantial impact on tax payer compliance. Among the recommendations are that those who pay taxes receive ongoing tax education and training, that tax systems be simplified, that devoted taxpayers be recognized, and that tax rates be decreased. Heteroscedasticity and methods for addressing it are not covered.

According to Wogene's 1983 analysis, tax reforms were able to enhance revenue collection between 1975 and 1981. The constant rate of adjustment method was used in this study to calculate the tax system's elasticity.

Similarly, Eshetu's study contrasted tax productivity in Ethiopia during the pre- and post-revolutionary periods and discovered that there had been some improvement in the government's ability to collect taxes during this time. Zelalem (1999) investigated the effectiveness of Ethiopia's tax system from 1961 to 1998. Using the approach of division index, it was calculated how elastic and buoyant the main individual tax categories and the overall tax system are.

The findings of this study demonstrated the inefficiency of the Ethiopian system, with the majority of the coefficients being less than one. The reason provided for the tax system's low productivity was that it had issues with poor administration and widespread tax cheating.

In summary, it is clear that the empirical research done so far for developing countries, particularly Ethiopia, showed little to no concern for the potential challenges that taxpayers and tax authorities would face when carrying out various tax-related tasks like tax assessment and collection.

The efficient operation of the handling of taxes will have an impact on a nation's capacity to generate revenue because it largely entails assessment and collecting activities.

2.17 Factors that Contribute to Effectiveness of Tax Administration

According to Richard M. Bird and Milka Casanegra de Jantscher (1992), the most effective tax collection methods go beyond merely maximizing income. When taxes are not effectively administered, it may be feasible for groups that are simple to tax, like wage employees, to make enormous quantities of money without paying taxes to businesses and professions.

The amount collected therefore provides a rough indicator of the efficiency of tax administration. This means that efficiency in tax administration extends beyond just the amount of revenue collected and includes efficiency in all other aspects of tax administration. Some of these characteristics include the effectiveness of taxpayer recognition and registration, auditing, and implementation, as well as the effectiveness of tax payer education.

2.17.1 Tax Payers' Education

Education is one of the main duties of tax administration that may have an effect on consumers' compliance with taxes and the associated collection of tax revenues. In order to optimize taxpayers' choice of compliance and, as a result, raise tax revenue, Bird and Casanegra de Jantscher (1992) also stated that nearly everywhere, tax administration places a strong focus on giving aid, information, and education to taxpayers. If taxpayer knowledge and awareness improvement do not receive the required attention from any tax management, complex tax laws, various duties put on taxpayers, and a perplexing administration system may result in compliance challenges. (2007) Mikesell and Birskyte (Referenced in Tessema Abuye, 2013).

This issue with compliance could demonstrate the inefficiency of the tax authorities. Similar to this, Mohd (2010) asserts that the public needs to be made more knowledgeable about tax laws, how taxes affect national growth, and most significantly, where and on what terms the government spends tax revenue.

Additionally, this shows that a lack of tax knowledge may prevent people from understanding how and where their money is spent as well as from having the motivation to pay taxes. Additionally, Brand (1996) asserts that voluntarily complying is more cost-effective for tax collection than enforcement. This suggests that boosting tax compliance and hence generating the potential tax income depend greatly on taxpayer education and knowledge.

2.17.2 Taxpayer Identification and Registration

According to OECD, (2009) in most nations, extensive systems of taxpayer registration and numbering are a crucial component of tax administration arrangements. These systems underpin all return filing, assessment, and collection activities in addition to supporting various tax administration functions. Tax administration includes correctly identifying and registering people, determining taxable income, and promptly collecting the tax that has been levied.

2.17.3 Taxpayer's Audit and Enforcement

One of the earliest methods of tax administration is tax audit. Thomson (2008), referenced in Getaneh (2011), claims that the tax audit program gives the compliance and enforcement department of the tax administration visibility.

An appropriate audit plan should be put into place in order to reduce the difference between the tax reported by the taxpayers and the statutory tax (Tait, 1991).

Lack of a stable and effective tax audit program could make tax administration less effective and lead to a sizable tax deficit. The outcome of the tax audit therefore has extra ramifications for efficient administration of taxes.

Instead than focusing on the audit's direct revenue yield or the total amount of additional taxes imposed, it is important to assess how much it helps ensure better tax compliance. It is analogous to comparing traffic enforcement with the number of penalties that are collected from violators to compare the efficiency of an audit to the sum of additional taxes imposed. As a result, the audit effort should be assessed in relation to the volume and caliber of audits performed as well as the volume of "voluntary" collections produced (Ibid). The administration of taxes must also be effective in terms of both tax collection and penalties. The likelihood of detection and the punishment are theoretically inversely related to underreporting of income. This indicates that individuals may tend to underreport their income if they believe there is a low likelihood of discovery and a low penalty percentage when tax evasion is discovered. (Bisrat, 2010) cites Hennemann from 1996.

According to Tait, (1991), Even if there is a little chance of receiving a penalty, the taxpayer will take the risk, and the opposite is true if the penalty is likely to be severe.

According to the economic deterrence theory, which Tessema (2013) cites Allingham and Sandmo's (1972) work, taxpayer behavior is impacted by variables impacting the advantages and costs of tax evasion, such as the rate of taxation, the probability of detection, and fraud penalty.

A few individuals will escape taxes if they are likely to be found, the penalties are severe, and the anticipated tax income will be collected, but tax avoidance and evasion cannot be controlled if tax enforcement and penalties are badly handled.

2.17.4 Fairness and Quality of Service Delivery of the Tax Administration

According to Kirchler and Hoelzl (2006), cited in Siahaan (2012), fair treatment of taxpayers and the confidence of the tax authorities would encourage voluntary compliance and serve as indicators of the effectiveness of the tax administration. Contrarily, when taxpayers see unfairness in tax administration, they would make an effort to forgo paying taxes as required by law (Siahaan 2012). The way the tax administration communicates with its clients also has an impact on how well it performs.

Taxpayers must receive better service from the tax authorities. Theoretically, it is widely accepted that dissatisfaction with the tax authorities is one of the factors influencing tax compliance.

For instance, Elffers (1991) and Wallschutzky (1984), mentioned in Bisrat (2010), believed it to be one of the motivations for avoidance.

Therefore, all of the above tasks must be accomplished in order for tax administration to be successful. Even under the best situations and locales, Bird (2008) claims that good administration of taxes is a difficult task.

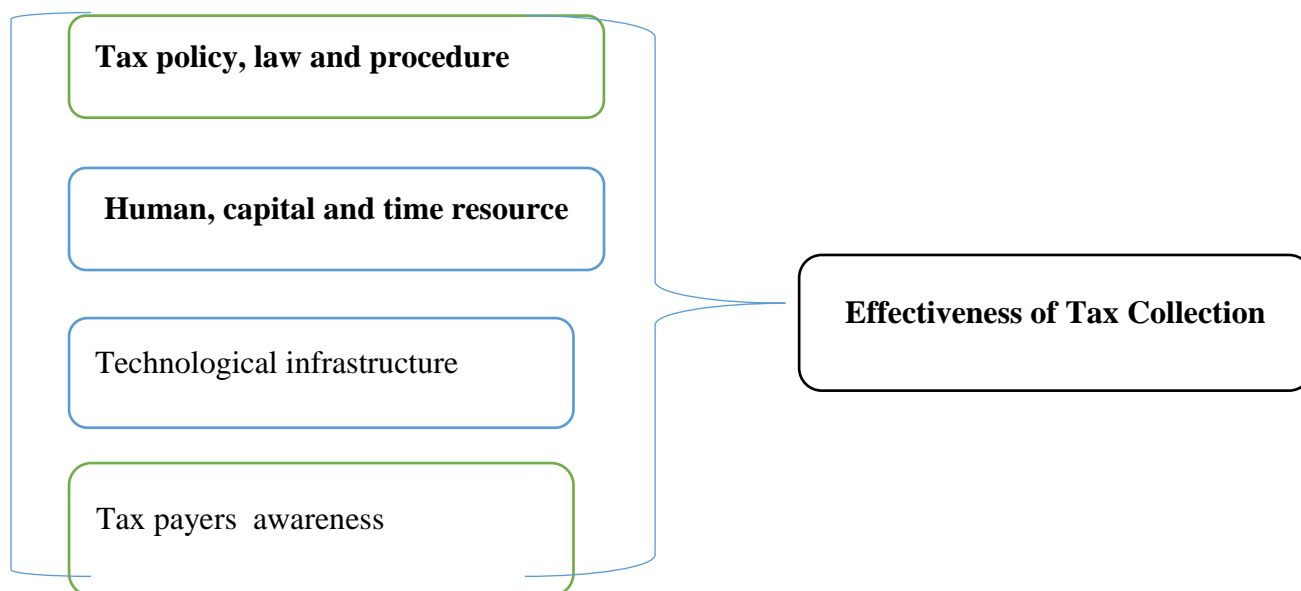
However, if there is political will, the methods required for efficient tax administration are known: Have a clear plan, keep it simple, treat taxpayers as clients, find defaulters, keep corruption under strict control, and use technology properly.

2.18 Conclusion and Research Gap

In conclusion, the aforementioned study focused on VAT and specific tax administration tasks in order to analyze the efficiency of tax administration. For instance, Tesema (2013), Teklu (2011), Yesegat (2008), and Alemayehu (2010) all focused on Ethiopia's VAT system.

Asamnew (2009) and Yayira (2011), on the other hand, concentrated on tax collection, a facet of tax administration. Furthermore, Zelalem (2008) concentrated on the tax administration's tax education component while Mesfine (2008) concentrated on Ethiopia's tax audit techniques. The majority of the aforementioned studies narrowly focus on specific VAT tax administration while ignoring considerable turnover tax category "C" taxpayers, failing to examine the tax administration from a variety of perspectives. Due to this study gap, the researcher is also inspired to perform a thorough assessment of the efficiency of tax administration in Gulele Sub City, Revenue Office.

2.19 Conceptual Framework of the study



Source: Mc Lannan B. (1997), Aizenman, J. and Jinjarak, Y. (2005), Doherty, P. (1999), Vlassenko, (2001) and Yesegat, W.A. (2008)

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The techniques used to carry out the study's objectives are covered in this chapter. The chapter is structured according to the study methodology chosen to examine the issues with tax collection, target population, and sample size, sampling, and Data source, data collection techniques, data analysis strategy, and data validity and dependability.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Kothari, 1990). A research design is also a plan for a study that provides a specification of procedures to be followed by the researcher in order to achieve the research objective as well as, to test the hypothesis (McDaniel and Gates, 2006).

In this study explanatory research design was employed. According to Zikmund, (2012), explanatory research design is prepared to identify the extent and nature of cause and effect relationships. Causal designs enable to analyse a situation or a specific problem to explain the patterns of relationships between variables. Accordingly, this research design was used in this study to showed that the mean of all independent variables with respect to dependent variable According to Creswell (2009), there are three basic research approach; quantitative, qualitative, and mixed approaches.

A quantitative approach is an approach in which the researcher determines what to study asks the respondent close-ended questions and gathers numeric data from the respondent and analyses these numbers using statistics. In order to achieve the study objectives, this research undertook quantitative research approach to analyse data collected from the respondents.

3.3 Population, Sampling and sample size

The target population include all SMEs tax payers “C” in Gulele Sub city administration from out of 11 sub cities in Addis Ababa using lottery methods. Out of the total population because of time and budget constraint to survey all the aforementioned sub cities, a representative sample for the category 'C' payers in the sub city were selected purposefully. Accordingly, Gulele Sub City is assumed to be a representative sample for other sub cities in category 'C' payers.

3.3.1 Sampling Techniques

Sampling is a way of picking specific individuals or a subset of the population in order to draw statistical conclusions from them and determine the characteristics of the entire population. Based on the sorts of data, several sampling techniques can be used to gather useful insights. Stratified sampling methodology from probability sampling will be used in this investigation. As a result, category C tax payers are divided into business sectors, and a proportional sample size is taken from each. As a result, this study's selection parameter gives all "C" Category tax payers in 2022 an equal chance to be involved in the sample.

3.3.2 Sample Size Determination

The research was carried out with a 5% margin of error, a 95% confidence range, and a 5% non-response rate. Based on this assumption, the actual sample size of the study was designed using (from Yemane sample size determination 1967) the formula methods of sample size determination on sample size calculation so as to get the required sample size. The motive behind using this formula is that it provides the appropriate sample size by clearly applying the possible variation that exists among project in the study areas.

Table 1: Distribution of business sectors included in the sample

Category C Tax Payers	Target(owners)	Sample Size(Proportional)
Metal and wood works	226	69
Garment and textiles	336	102
Whole service and retailers	100	31
Service providers	243	75
Total	905	277

Source: ERCA, Gulele Sub city Revenue Office (2022)

Total C category tax payers in Gulele Sub-city Administration are (N=905), and Assuming a 95% confidence level and a 5% margin of error, a total number of samples must be drawn. Based on this, the researcher chose to use the maximum population size in order to obtain a more representative sample size. Next, the total sample size (n) is determined using the formula below.

n = the sample size N = the size of the population

e = the margin of error or the maximum error and for this study is 5% with confidence level (95%). By using this formula the sample of the study are.

N	905	
$1+N(e^2)$	$1+905(0.0025)$	277

Whereas N = Total Population, n = sample size and e = level of confidence

Therefore, the sample size of this study was 277 considered fairly representative of the target population in the study area, the rest concerned bodies participants will be selected purposely for interview.

3.4 Types and Sources of Data

The primary data sources were the taxpayers who are administered in each Woredas (i.e. Category C). Closed ended questionnaires was prepared for the respondents in English and then, translated to Amharic, for those who cannot read, understand and write in English.

Secondary source of data were documents and files belong to Gulele Sub City revenue office. Among the secondary data, to analyse the tax collection trends, seven years revenue reports and other relevant unpublished documents was collected from the main Office. Moreover, different tax related rules and regulations, manuals, literatures, World Bank Reports, and websites was used with reliability and relevance considerations.

3.5 Data Collection Methods

For Data were gathered for this study's success utilising questionnaires and interviews from both primary and secondary data sources.

3.5.1 Questionnaires

One specific form of survey research that requests responses to a series of questions is the questionnaire. The questionnaire was used as the primary tool for gathering data because it provides better protection for factual data. Additionally, using a questionnaire makes it possible to quickly and efficiently gather a wide range of opinions from a large size of population (Dawson, 2002). Closed ended sets of questionnaires were distributed to the respondents based on their permission.

3.5.2 Secondary Data

In addition to these primary data sources, secondary data was also be gathered from both published and unpublished data sources to make the study more scientific and reliable and to justify the collected data from primary sources.

3.6 Method of Data Analysis

The data collected from primary sources was documented, organized, summarized and presented using SPSS software, then, analyzed as per research questions. The quantitative data obtained from questionnaires was edited, categorized and tabulated made ready for analysis. After this, the data was analyzed and interpreted using statistical tools like percentage, mean and inferential analyses methods, correlation and multiple regressions.

In this study, Spearman's rho Pearson's correlation coefficient was used to determine the relationships between tax collection dimensions and effectiveness of tax administration. Multiple regression analysis was used to investigate the effect of tax collection dimensions on it effectiveness in the study area. The equation of multiple regressions on this study is generally built around two sets of variable, namely dependent variables and independent variables. The basic objective of using regression equation on this study is to make the researcher more effective at describing, understanding, predicting, and controlling the stated variables

$$Y = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \beta_5(X_5) + e$$

Where,

Y is the response or dependant variable-effectiveness of tax administration

X1=Policy, laws and procedures,

X2=Human, capital and time resource,

X3=Technological infrastructure,

X4=Tax payers report quality

X5=Public awareness , whereas, **β_0** is the intercept term- constant which would be equal to the mean if all slope coefficients are 0. β_1 , β_2 , β_3 , β_4 and β_5 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

By running the multiple linear regression model above the relationship between independent and dependent variables was analysed

3.7 Validity and Reliability of the study

Reliability refers to how consistently a method measures something. The measurement is regarded as reliable if the same outcome can be consistently obtained by applying the same procedures under the same conditions.

A method's validity refers to how closely or accurately it truly represents the data it is supposed to represent. When the results of a study precisely reflect the traits, nuances, and nuances of the real world or the social environment, this is referred to as having high validity. (Eden, 2017).

Therefore, Cronbach's alpha values for the items in each construct were used to measure reliability. Accordingly, reliabilities less than 0.60 will be deemed bad, those between 0.70 and 0.80, acceptable, and reliabilities beyond 0.80, good.

Validity considers if the research component is meaningful. To ensure the validity of the research, appropriate questions were designed utilizing pilot tests.

3.8 Ethical Issues

It is important to plan, evaluate, and conduct research that is of the highest integrity and caliber. The primary ethical concern with conducting research is informed consent.

Because this investigation needed the engagement of human responders, particularly human resource specialists, several ethical issues were addressed. To protect the participants' privacy and safety, it is essential to take these ethical considerations into account. Two crucial ethical factors that will be taken into account during the research process are consent and confidentiality.

The researcher disclosed all pertinent information about the research, including its goal and objective, to get the informed approval of the chosen participants. The respondents will be able to comprehend the significance of their role in the completion of the research by being informed of these crucial details. Additionally, the respondents will be informed that they can stop participating in the study at any time. As a result, the subjects won't be coerced into taking part in the study. By withholding the participants' names or other private information from the research, the confidentiality of the participants is also protected. Only pertinent information that assisted in addressing the study questions was provided.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND DUSCUSSION

4.1 Introduction

The issues affecting tax administration and collection in the case of category 'C' tax payers in the Gullele Sub City were presented in this section. Different pieces of information that were acquired using primary and secondary data gathering methods make up this data analysis and interpretation section. Self-administered questionnaires based on some assumptions that are thought to effect tax administration and collections were used to collect the primary data.

4.2 Response Rate

According to Fowler (2014), the response rate measures how many sample subjects are included in the final data set. It is calculated by dividing the number of interviewees by the total sample size, which includes those who declined to participate and those who were unavailable, and multiplying the result by 100.

Table 4.2.1: Statistical Summary of Response Rate of the Study

Response rate	Frequency	Percentage
Returned	227	81.94
Unreturned	50	18.06
Total	277	100

Source: Field Survey (2022)

Table 4.2.1 above presents a summary of response rate. 227 of the 277 questionnaires were returned, resulting in an 81.94% response rate. However, 50 questions were excluded because they were not complete. A response rate of 81.94 out of 277 questionnaires used for data analysis is satisfactory and sufficient to run the required statistical tests. This is a result of the challenges in reaching clients, particularly during distributing and collecting questionnaires.

Table 4.2.2: Reliability and Validity of the study

Table 4.2: Reliability Statistics				
SERVQUAL	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items	Remark
RQ1	.810	.809	5	Good
RQ2	.893	.896	4	Good
RQ3	.799	.800	3	Good
RQ4	.725	.723	3	Accepted
Average	.81	80	19	Good

Source: Field Survey (2022)

Cronbach's alpha, is a measure of internal consistency, identifies how closely related a set of objects are to one another. The average Cronbach's alpha, which is good and indicates that the instruments were appropriate for measurement, is 0.81, according to the results in Table 4.2.2 above. Since the accuracy coefficient above the recommended level of 0.7, the validity of the measuring instrument was considered as reliable.

4.3 Back Ground Information of the Study

The background characteristics of the respondents selected from the sampling Customers are profiled in the initial data analysis. In this section, the study group's demographics features, including sex, age, educational background, level of education, positions held, and respondent experiences, were investigated based on the responses provided by those who participated.

Table 4.3.1: SEX OF RESPONDENTS

Category	Frequency	Percent
Male	154	67.8
Female	73	32.2
Total	227	100.0

Source: Field Survey (2022)

Based on the above table 4.3.1 the sample contained 154(67.8%) of Male and 73(32.2%) of female respondents. This indicated that majority of respondents were male in gender and there is dominant groups.

Table 4.3.2: age of respondents

Category	Frequency	Percent
18-25	161	70.9
26-30	56	24.7
31 -35 years	9	4.0
36 -40 years	1	.4
Total	227	100.0

Source: Field Survey (2022)

Most of the employees were mature enough to provide concrete ideas regarding the issues under study as there were 161(70.9%) were in between 18-25 years, 56(24.7%) were in between 26-30,9(4.0%) were in between 31-35 years, whereas, only 1(0.4%) were 36 and above years old in order descending.

Table 4.3.3: Educational Status

Category	Frequency	Percent
Diploma Holder	117	51.5
Degree	105	46.3
Masters And Above	2	.9
Certificates	3	1.3
Total	227	100.0

Source: Field Survey (2022)

Respondents were asked their educational level completed. Accordingly, 117(51.5%) were completed Diploma Holder, 105(46.3%), Degree 2 (0.9%) completed were master degree holders and the rest, 3(1.3%) have certificate.

Table 4.3.4: Type of Business

Category	Frequency	Percent
Garment and textile	44	19.4
Metal and wood works	99	43.6
Service Providers	46	20.3
Whole sale Retailors	14	6.2
Others	24	10.6
Total	227	100.0

Source: Field Survey (2022)

Respondents were asked their types of business they run. Accordingly, 99(43.6%) were from metal and wood works, 46(20.3%) were service providers, 44 (19.4%) were from garment and textiles, 14(6.2%) were from Retailers while the rest 24(10.6%) were from others.

4.4 Descriptive Statistics of the study

The four independent variables—human, capital, and time resources; tax policies, regulations, and processes; Tax payers awareness; and technological infrastructure capability—are each given a brief summary of descriptive data in this section. Tax collections are also covered, as well as the descriptive statistic of the dependent variable.

Table 4.4.1: Descriptive Statistics of Tax Policies, Laws and Procedures

ITEMS	N	M	SD
How people Pay tax as per the policies, laws and procedures	227	3.67	.59
I think that the criterion required by the office to collect tax is reasonable	227	3.74	.71
The tax policy is fair, uniform and comprehensive which treats all tax payers similarly	227	3.92	.49
There is no complexity in tax laws and multiplicity of requirements	227	3.98	.68
Tax laws, proclamations, regulations and directives is Clear and easy to follow	227	4.37	.50

Source: Field Survey (2022)

The above Table 4.4.1 indicates that C category tax payers perceived that they Pay tax as per the policies, laws and procedures, $M = 3.67(SD=0.59)$ the least practice and evident to a considerable extent and considered as high; next C category tax payers think that the criterion required by the office to collect tax is reasonable with the higher mean

value i.e. $M = 3.74(SD=0.71)$ and practiced high, followed by C category tax payers perceive that the tax policy is fair, uniform and comprehensive which treats all tax payers similarly $M=3.92(SD=0.49)$, There is no complexity in tax laws and multiplicity of requirements $M=3.98(SD=0.68)$ and Tax laws, proclamations, regulations and directives is clear and easy to follow, $M=4.37(SD=0.50)$ the highest scored among the independent variable.

As we can see in the table the highest mean score was for Tax laws, proclamations, regulations and directives is Clear and easy to follow and least score is for they pay tax as per the policies, laws and procedures and indicating the office did not well practice.

Table 4.4.2: Descriptive Statistics for Human, Capital and Time Resource

ITEMS	N	Mean	SD
Employees deliver quality and timely services to tax payers	227	3.68	.58
Employees' treatment and their service quality is high	227	3.69	.56
Satisfied with tax collection process by employees	227	3.94	.71
Employees are effective in taxpayer identification and registration	227	3.94	.67

Source: Field Survey (2022)

In the above Table 4.4.2 indicates that SMEs owners of C category tax payers perceived employees deliver quality and timely services to tax payers $M = 3.68(SD=0.58)$ the least of service delivery and evident to a considerable extent and considered as high; next employees' treatment and their service quality is high with the higher mean value i.e. $M = 3.69(SD=0.56)$ and practiced high. The C category tax payers were satisfied with tax collection process by employees $M=3.94(SD=0.71)$, C category tax payers perceived employees are effective in taxpayer identification and registration, $M=3.94(SD=0.67)$.

As we can see in the table the highest mean score was for C category tax payers Employees are effective in taxpayer identification and registration $=3.94(SD=0.67)$.and least score is for Employees provide timely, high-quality services to taxpayers, demonstrating that the taxpayers did not properly practice it.

Table 4.4.3: Descriptive Statistics for Capacity of Technological Infrastructure

Descriptive Statistics			
ITEMS	N	M	SD
E filing system is constrained by internet connectivity	227	3.99	.68
E filing system makes it easier to pay tax.	227	4.31	.52
The Authority utilizing modern technology to easy tax matters	227	4.35	.47

Source: Field Survey (2022)

In the above Table 4.4.3 indicates that C category tax payers' clients Internet connectivity limits the use of the e-filing system; $M = 3.99(SD=0.68)$ is the lowest service delivery measure, is highly visible, and is next in line for tax payers in the C group. E-filing simplifies the tax payment process. The Authority is using current technology to make tax problems easier, with a higher mean value of $M = 4.31(SD=0.52)$ and a high prevalence of C category tax payers. $M=4.35(SD=0.47)$.

As we can see in the table the highest mean score was for C category tax payers their authority utilizing modern technology to easy tax matters and least score is for C category tax payers E filing system is constrained by internet connectivity and indicating that the tax payers did not well practices it.

Table 4.4.4: Descriptive Statistics for Public Awareness on the Significance of Tax Administration

ITEMS	N	M	SD
The education and awareness creation program through television, brochures, magazines, newspapers and others is sufficient	227	3.69	.56
Tax knowledge acquired helps taxpayer to comply with tax laws	227	4.04	.69
You have positive perception about paying tax	227	4.35	.47

Source: Field Survey (2022)

In the above Table 4.4.4 indicates that customers of tax payers The program to raise awareness and promote education using media including television, pamphlets, magazines, newspapers, and others is sufficient to, $M = 3.69(SD=0.56)$ the least of service delivery and evident to a considerable extent and considered as High; next Tax knowledge acquired helps taxpayer to comply with tax laws with the higher mean value i.e. $M = 4.04(SD=0.69)$ and practiced high in the C category tax payers followed by they have positive perception about paying tax $M=4.35(SD=0.47)$.

As we can see in the table the highest mean score was for the C category tax payers, they have positive perception about paying tax and least score is for the education and awareness creation program through television, brochures, magazines, newspapers and others is sufficient to and indicating that the tax payers were not satisfied well.

4.5 Overall Statistics of All Independent Variables

Table 4.5 1: Overall Statistics of All Independent Variable

Variables	N	M	SD
Human, capital and time resource	227	3.81	.55
Report quality of the collected tax	227	3.92	.52
Tax policies, laws and procedures	227	3.94	.45
Tax payers awareness on the significance of tax administration	227	4.03	.44
Technology Infrastructures	227	4.22	.47
Effectiveness of tax collection	227	3.99	.71

Source: Field Survey (2022)

According to 4.5.1 above, the independent variable "human, capital, and time resource" validates a high result with a weighted mean of 3.81 and a standard deviation of 0.55. Tax policies, rules, and processes are an independent variable with a weighted mean of 3.94 and a standard deviation of 0.45,

Tax payers awareness on the significance of tax administration, $m=4.03(SD=.44)$, and capacity of technological infrastructure, $m=4.22(SD=.47)$ both confirms high mean scores. Overall mean of items indicating effectiveness of tax collection in c category tax payers was 3.99 with standard deviations of 0.71 lied on high interval.

4.6 Correlation Analysis

Table 4.6.1: Bivariate Correlations

VARIABLES		1	2	3	4	5	6
Public Policies And Laws	Pearson Correlation	1					
	Sig. (2-tailed)						
HUMAN CAPITAL	Pearson Correlation	.711**	1				
	Sig. (2-tailed)	.000					
TECHNOLOGY	Pearson Correlation	.595**	.638**	1			
	Sig. (2-tailed)	.000	.000				
TAX PAYERS AWARENESS	Pearson Correlation	.703**	.862**	.814*	1		
	Sig. (2-tailed)	.000	.000	.000			
TAX COLLECTION	Pearson Correlation	.705**	.830**	.647*	.789*	.899**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey (2022)

The highest correlation was existed between effectiveness tax administration and collection and human capital, resources and time ($r=0.830$, $p=.000<.05$), followed by public awareness ($r=0.789$, $p=.000<.05$), public law, policies and procedures ($r=0.705$, $p=.000<.05$), and technological infrastructures ($r=0.647$, $p=.000<.05$). This indicated there positive and significant relation between dependent and independent variables in selected C category tax payers.

The highest inter correlation is between human capital, resources and time and public awareness ($r=0.862$), followed by tax payers awareness and technology ($r=0.814$), policies, law and procedures ($r=0.742$), human capital, resources and time and tax policies, laws and procedures ($r=0.711$), tax awareness and tax policies, laws and procedures ($r=0.703$), technologies and tax policies, laws and procedures ($r=0.595$) in order of descending.

A change in one of the independent factors will likely induce changes in the other determinant variables of tax collection, as shown by the positive and significant ($P=.000$) inter-correlation between independent variables.

4.7 Analysis of Variance (ANOVA)

This was evaluated to determine whether the model was enough or not, or more specifically, to determine whether X1, X2, X3, X4, and X5 together have an impact on Y (tax management and collection). The results of the analysis of variance (ANOVA) are presented in Table 4.7.1 to clarify if the factors have an overall impact on the administration of taxes and collection.

Table 4.7.1: ANOVA Analysis of the study

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	95.605	5	19.121	229.611	.000 ^b
	Residual	18.404	221	.083		
	Total	114.009	226			
a. Dependent Variable: OVER						
b. Predictors: (Constant), Technology infrastructures, Policies, Law, & Procedures, Human Resource, capital and time, and public Awareness						

Source: Field Survey (2022)

When tax collection is measured by the factors identified through factor analysis, it helps to determine if there are statistically significant differences in the feelings of tax collection by tax payers when examined in four variables. The ANOVA testing sought to determine if the mean factor scores differed among variables.

In statistics significance testing the p-value indicates the level of relation of the independent variable (four dimensions) to the dependent variable (tax collection). If the significance number found is less than the critical value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Accordingly, this model is significantly explaining relationship between predictor's variables and dependent variable tax administration and collection in selected C category tax payers since the p-value is 0.000 which is less than 0.05.

Table 4.7.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.916 ^a	.839	.835	.28858	.839	229.611	5	221	.000	2.146
a. Predictors: (Constant), Report quality, Technology, Policies, Law & Procedures, Human Capital & Resources, and Public Awareness										
b. Dependent Variable: effectiveness of tax administration										

Source: Field Survey (2022)

As shown in the above table the overall bundle of the independent variables explains 83.9 % (R² = 0.839) of the dependent variable (tax collection). This suggests that the model or the predictor variables have accounted for 83.9 % of the variance in the criterion variable (tax collection), while the remaining 16.1 % is determined by other unaccounted factors in this study. The reason R square is large enough as it indicated in the analysis from table 4.7.2, bundle of the independent variables all four independent variables were given attention. This implies that all independent variables play a role in tax administration and collection in tax payers.

4.8 Normality Test of Variables

According to Myoung's (2008) recommendation, the skewness and kurtosis statistics were used to assess the study's degree of normalcy. An absolute skewness value of more than 2 and an absolute kurtosis value of more than 7 are considered to be significant departures from normality.

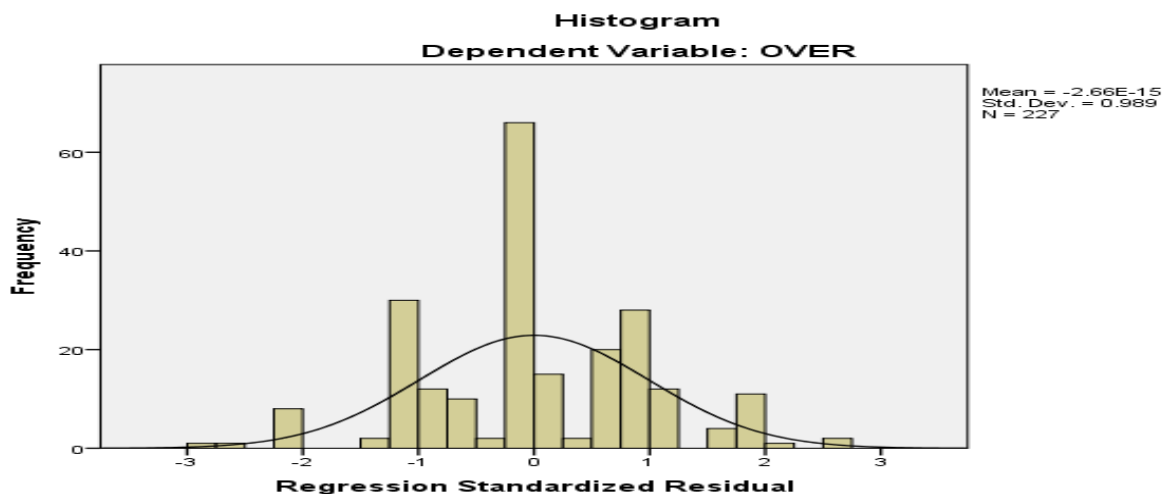


Figure 4.1: Normality (Histogram)

According to figure 4.1 above, residuals are regularly distributed. The normal curve produced by a histogram of sample data is flawless. The assumption of normalcy is satisfied if the data is roughly regularly distributed, has a peak in the middle, and is substantially symmetric.

4.9 Linearity Test

The linearity of the relationship between the dependent and independent variables was used to represent how closely the change in the dependent variable is related to the change in the variable that is independent (Hair et al., 1998). Simple linear equations, which predict values falling on a straight line, have a constant unit change (slope) of the dependent variable for a constant unit change of the independent variable. Conventional regression analysis will understate the relationship when nonlinear relationships exist; particularly, R^2 understates the total variance explained and betas understate the importance of the nonlinear relationship's contributing elements.

In this study, Visual inspection was done on the scatter plot of the fitted values for the regression models versus the standardized residuals. The graphs showed no systematic trend, supporting the linear connection that was required.

Accordingly the plot below is a check on linearity; the plotted points should follow the straight line. Serious departures would suggest that linearity assumption is not met. Here we have no major cause for concern, which shows that no violation of linearity, so the assumption is met.

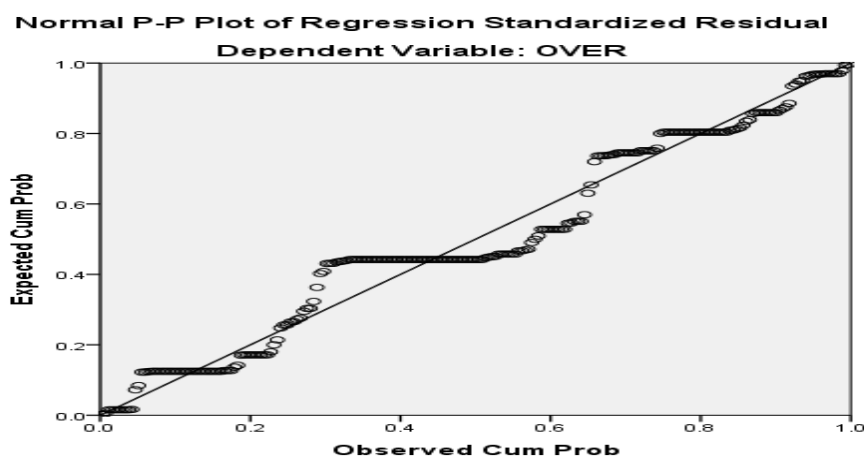


Figure 4.2: Sketch of Linearity Test

Table 4.9.1: Collinearity Statistics of the Stud

VARAIBLES	Tolerance	VIF
Tax Policies, Laws and Procedures	.406	2.465
human, capital and time resource	.201	4.984
capacity of technological infrastructure	.315	3.174
Tax payers awareness on the significance of tax administration	.126	7.923
a. Dependent Variable: Effectiveness Tax Collections		

Source: Field Survey (2022)

The tolerance for tax policies, laws, and procedures is .406; for human, capital, and time resources, .201; for the technical infrastructure's capability; for the tax payers awareness of the significance of tax administration; one can draw these conclusions from the above table 4.9.1. It proved linearity in this case. Statistics revealed that there was no problem with multi-collinearity because the tolerance of all variables was less than 1.

In terms of VIF, 2.465 was given for tax laws, 4.984 was given for human, capital, and time resources, 3.174 was given for technological infrastructure capacity, 7.923 was given for tax payers awareness of the significance of tax administration, of the collected tax. The result indicated that there is existence of no serious association between the variables, because all variables have VIF less than 10, and therefore, variables were included in the model.

4.10 Overall Regression Analysis

Regression is a method that projects the value of a dependent variable using one or more independent variables (Albaum, 1997). Regression analysis is a statistical method for evaluating the connections between variables.

In order to ascertain the causal influence of one variable upon another, researchers collect data on the underlying factors of the causal variables affecting the variable that they influence. Researchers frequently evaluate the statistical significance of the estimated correlations, or the level of confidence that the true relationship is similar to the calculated association (Malhotra, 2007).

Table 4.10.1: Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.142	.198		-5.781	.000
Tax policies, laws and procedures	.016	.066	.010	.246	.806
Human, capital and time resource	.396	.077	.309	5.127	.000
Capacity of technological infrastructure	.205	.072	.136	2.823	.003
Tax payers awareness on the significance of tax administration	-.236	.122	-.147	-1.931	.055
a. Dependent Variable: Effectiveness of tax administration					

Source: Field Survey (2022)

B-Standardized Coefficients

From the above table 4.10.1 one can infer that; it can easily compare the relative contribution of each of the different variables by taking the beta value under the standardized coefficients. The higher the beta value, the strongest its contribution becomes.

In line to this;

Human, capital and time resource (Beta=.396) with $p=0.000$) makes the medium contribution to explaining the dependent variable in which the results revealed that, a one-unit positive change in Human, capital and time resource would lead to a .396 unit positive changes on tax administration and collection.

Further, Capacity of technological infrastructure (Beta=.205 with $p=0.003$) makes also the medium and positive contribution to explaining the dependent variable in which the results revealed that, a one-unit change in Capacity of technological infrastructure would lead to a 0.205 unit positive changes on tax administration and collection.

The rest Tax policies, laws and procedures (Beta=.016, $p=0.806$, $p>0.05$) indicating insignificant relation and but, a one-unit positive change in Tax policies, laws and procedures would lead to only a 0.016 unit positive changes on tax administration and collection.

Public awareness on the significance of tax administration (Beta=-0.236, $p=.055$ with $p>0.05$) indicated insignificant and a one-unit negative change in Public awareness on the significance

of tax administration would lead to a -0.236 unit negative changes on tax administration and collection.

In general, as table above clearly shows, among the five factors, multiple linear regressions (unstandardized Beta coefficients) analysis revealed that, report quality of C category tax office is relatively as compared to others, the most significant factor affects tax administration and collection followed by the rest four variables in order of descending.

GENERALLY, THE REGRESSION MODEL IS;

$$Y (\text{Tax administration and collection}) = -1.142 + 0.016 x_1 + 0.396 x_2 + .205x_3 - 0.236x_4 + e$$

CHAPTER FIVE

4. SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

In this section, in the case of C category tax payers, the total impact of tax collection dimensions effectiveness of administration and collecting Gulale SMEs in the sub-city were outlined. Various pieces of information that were acquired using the primary data collection method make up this data analysis and interpretation section. Self-administered questionnaires with variables were used to gather the main data. A self-administered survey requesting responses from 227 tax payers was used to analyze quantitative data.

5.2 Summary of Major Findings

The study will intended to investigate the effects of tax service dimensions on tax administration and collection C category tax payers based on the questionnaire consisting of 227 randomly selected customers Gulale Sub city, SMEs

Out of 277 set of questionnaires, 227 were returned, yielding 81.94% of response rate. The number of questionnaires for data analysis was 227 representing a response rate of 81.94% which is acceptable and enough for conducting the necessary statistical tests.

In this study, the sample contained 154(67.8%) of Male and 73(32.2%) of female respondents were participated. This indicated that majority of respondents were male in gender and there is dominant groups

Respondents were asked their types of business they run. Accordingly, 99(43.6%) were from manufacturers, 46(20.3%) were service providers, 44 (19.4%) were from import and export, 14(6.2%) were from whole sale and retailers while the rest 24(10.6%) were from others.

As far as main research objectives were concerned

Using mean values of independent variables, customers were less satisfied with human, capital and time resource and report quality of the collected tax and most satisfied with capacity of technological infrastructure tax administration and collection.

Tax collection was the dependent variable, and those four aspects of the quality of the tax collection service are the independent variables. The correlation between the variables is indicated by the "***" sign.

As a result, the significance level is 0.01 (P, 0.01) and sample size (n) 227 were used in the Pearson correlation analysis that was performed using the variables in the correlation tables above.

The highest correlation was existed between effectiveness tax administration and collection and human capital, resources and time ($r=830$, $p=.000<.05$), followed by tax awareness($r=789$, $p=.000<.05$), public law, policies and procures ($r=705$, $p=.000<.05$), and technological infrastructures ($r=0.647$, $p=.000<0.05$). This indicated there positive and significant relation between dependent and independent variables in selected C category tax payers. Generally, the result indicated that there is positive and significant relation between dependent and independent variables in selected C category tax payers.

The highest inter correlation is between human capital, resources and time and tax payers awareness ($r=.862$), and the least and insignificant relationship is between technologies and tax policies, laws and procedures ($r=.595$) in order of descending.

In summery from all these tests, the study confirmed that the four service dimensions have positive relationship with tax collection, therefore, the result reflects that tax collection is affected by all dimensions variables.

All independent variables together explained 83.9% of the variance in the management of taxes and collection, according to the overall findings ($R^2 = 0.839$). Thus, the five service dimensions can account for 83.9% of the variation in tax collection, while other unstudied factors may account for the remaining 16.1% of the variation.

Moreover, using linear regression analysis, researcher found out that all of the service dimensions have positive effects on tax administration and collection except tax payer's awareness. This is because; Beta-value is positive and p values were less than 0.05 on tax collection. Whereas, tax awareness have negative but insignificant effects on effectiveness of tax collection (i.e., Beta value is negative and P value is greater than 0.05). The results of this study further indicate that human capital, resource and time is the most important factor to have a positive and significant effect on tax collection in Gulele Sub city administration.

5.3 Conclusion

The study was conducted to examine the effects of tax collection service dimensions on tax collection effectiveness in case of C category tax payers in case of Gulale Sub city, SMEs. The finding of the study indicates that SMEs tax payers of C category tax payers were highly satisfied by the four service dimensions.

The finding of the study also indicates that, SMEs taxpayers were most satisfied with most satisfied with capacity of technological infrastructure tax administration and collection dimensions. However, tax payers were less satisfied with human resource, capital and time dimensions of service. The study also revealed that there was significant relationship between the independent variables since all the p-values were less than 0.05. In the study, a multiple linear regression found out that the overall independent variables- tax administration and collection model was satisfactory as it is supported by coefficient of determination (also known as the R-square) of 0.839. This means that all the service quality dimensions contribute to 83.9% of the variations in the dependent tax collection. The study established that there is almost a strong, positive and significant effect on effectiveness of tax administration and collection. Test of overall, significance of the four variables jointly, using ANOVA, at 0.05significance found the model to be significant (sig.0.000). This was supported by large an F statistic of 229.611and the p value was less than, the conventional probability of 0.05 significance level. These results suggested that the all independent variables are good predictors of effectiveness of tax administration and collection in Gulele Sub city, SMEs.

5.4 Recommendation

The researcher forwards the following recommendations to the management of the C category tax collection based on the study's results and conclusions.

- ❖ Human, capital and time resource was considered as one of the most important factors influencing tax administration and collection in Gulele Sub city, SMEs. However, the mean values indicated that the customers of the C category tax payers were found less satisfied in terms of it service dimensions.
- ❖ As we can see in the table the highest mean score was for C category tax payers office give prompt support service to tax payers and least score is for C category tax payers office are never too busy to respond to tax payers at times they are required and indicating that the Gulale Sub city, SMEs did not well practice it.

- ❖ The satisfaction level result showed that of the respondents are satisfied with high level with the service provided by Tax collection. Therefore the C category tax payer's administration should exert its maximum effort to change this result for tax payers are key drivers of its performance.
- ❖ As the tax collection service dimensions represent 83.9% of the variation in tax collection the C category tax payer's administration should focus on all the service quality dimensions to progress and maintain its tax administration and collection in selected Gulele Sub city administration.

5.5 Suggestions for Further Study

This study assessed the effects of tax collection dimensions on tax collection in Gulele sub city, SMEs. However, it is difficult to say SMEs owners of C Category tax payers office are satisfied or dissatisfied based on this study because this study does not include all SMEs tax payers in C Category tax payers and all types of service provide by the office.

Furthermore, this study is limited to SMEs tax payers in Gulele sub city administration. Therefore, further research can be done to determine other variables of tax collection dimensions and tax administration not covered by the research. Any future researcher should reflect on the effect of intervening variables by using other tax collection measurements. The researcher could also include other companies, industries, organization or services and others to use more respondents to make the research more significant.

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ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

APPENDIX A: QUESTIONNAIRES

Dear respondents, the objective of this questionnaire is to gather first-hand information that will help to assessment factors affecting tax administration and collection in case of Gullele Sub City category 'C' tax payers. This study is undertaken as a partial requirement for the completion of the degree of Masters of accounting and finance. All data and information that will be gathered through this questionnaire will be used for the research purpose only and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, honesty and to the best of your knowledge.

PART I. General Profile

Requiring your exact answer and for the rest of questions put \surd or X that best represents you in the selected box)

1. Gender:

Male

Female

2. Age:

20-30

31-40

41-50

51 and above

3. Educational Status

College Diploma

University First Degree

Master's Degree

Other _____

PART II: Questionnaires related assessment factors affecting tax collection problems in case of Gullele Sub City Category 'C' tax payers as per mentioned research question.

General Instruction: Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from “strongly agree” to strongly disagree. Each choice is identified by numbers ranged from 1 to 5.

1=very disagree, 2=disagree, 3=medium, 4=agree, and 5= very agree

1= በጣም አልስማማም 2=አልስማማም 3=መካከለኛ 4=እስማማለሁ 5=በጣም እስማማለሁ

S.No(ተ.ቁ)	Statements(ሀረፍት ነገሮች)
Tax Policies, Laws and Procedures (የመንግስት የግብር ህግ፣ ፖሊሲና አሰራሮች)	
1	Tax laws, proclamations, regulations and directives is Clear and easy to follow (የመንግስት የግብር ህግ፣ አዋጆች፣ ደንቦችና አቅጣጫዎች ግልፅና በቀላል መረዳ ይቻላል)
2	There is complexity in tax laws and multiplicity of requirements (የግብር ህግ ማስፈራራት የበዛበት ነው)
3	Pay tax as per the policies, laws and procedures (እኔ ግብር የሚከፍለው በህግ፣ ፖሊሲና አሰራር መሰረት ነው)
4	The criterion required by the office to collect tax is reasonable ግብር ከፋዮች የሚጠቀሙት የግብር መስፈርቶች ምክንያታዊ ናቸው
5	The tax policy is fair, uniform and comprehensive which treats all tax payers similarly (የግብር ህግ እኩል፣ ተመሳሳይና ሁሉም አቀፍ ሁሉም ግብር ከፋዮች ያማከለ ነው)
human, capital and time resource (የሰው ሀይል፣ ካፒታል፣ ጊዜና ሀብት)	
1	Satisfied with tax collection process by employees (እኔ በግብር ሰብሳቢ ሰራተኞች ረክቻለሁ)
2	Employees deliver quality and timely services to tax payers (ሰራተኞች ጥራት ያለው አገልግሎት ለግብር ከፋዮች ይሰጣሉ)
3	Employees are effective in taxpayer identification and Registration (ሰራተኞች የግብር ከፋዮች መለያ ነደ ምዘገባ በትክክል ይይዛሉ)
4	Employees' treatment and their service quality is high (የሰራተኞች እንክብካቤና አገልግሎት ጥራት ከፍተኛ ነው)
5	There is frequent discussion with revenue office and tax payers concerning various problems (የግብር ከፋይ ሰራተኞች ከግብር ከፋዮች/ደንበኞች ጋር ተከታታይ ያለው ውይይት ያደርጋሉ)

the capacity of technological infrastructure (የቴክኖሎጂ መሰረት ልማት አቅም)	
1	The Authority utilizing modern technology to easy tax matters (ባለስልጣኑ ዘመናዊ ቴክኖሎጂዎች የግብር ክፍያ ሁኔታ ለማቃለል ይጠቀማሉ)
2	E filing system is constrained by internet connectivity (የኔትዎርክ መቆራረጥ የፋይል መሙላት ላይ ተፅዕኖ አለው)
3	E filing system makes it easier to pay tax (የኢንተርኔት የፋይል አሞላልን ቀላል ያደርጋል)
Tax payers Awareness (የግንዛቤ ማስጨበጫ)	
1	People have positive perception about paying tax (እኔ ስለ ግብር አካፋይ አወንታዊ እይታ አለኝ)
2	Tax knowledge acquired helps taxpayer to comply with tax laws (የግብር ሁኔታ ማወቅ የግብር ክፋዮች በህጉ እንዲገዙ ያደርጋል)
3	The education and awareness creation program through television, brochures, magazines, newspapers and others is sufficient (በቴሌቪዥን፣ በብሮሽሪ፣ በጋዜጣ፣ በመጻሕፍት የሚደረገው ትምህርትና ግንዛቤ በቂ ነው)
Effectiveness of tax collection (የግብር መሰብሰብና ማስተዳደር ውጤታማነት)	
1	I am satisfied with tax collection process (እኔ በግብር መሰብሰቢያ አሰራር ረክቻለሁ)
2	High degree of voluntary tax compliance (እኔ ግብር የምክፍለው በከፍተኛ ፊላንት ነው)