



**THE EVALUATION OF TAX ADMINISTRATION  
IN CATAGORY “C” TAX PAYERS**

**A CASE OF STUDY IN WOLAITA SODDO (SODDO CITY)  
ADMINSTRATION REVENUE AUTHORIC BRANCH  
OFFICE**

**A SINOR ESSAY SUBMITTED TO THE DEPARTMENT OF  
ACCOUNTING IN APARTIAL FULLFILMENT OF THE  
REQUIRMENT FOR BACHLER OF ARTS (BA) IN  
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**[http:www. Blurity. Com q491531.html](http://www.Blurity.Com/q491531.html)** cannons of taxation

# APPENDIX

## Questionnaires

This questionnaires is prepared by 4<sup>th</sup> year accounting student St. mary's university, college of business. The objective is to collect information concerning the evaluation tax administration system in categories "c" tax payers. You are kindly requested to complete this questionnaires sincerely and honestly. All information prepare by will be kept with strict for academic purpose and will not be used for other purpose rather than intended purpose.

**Thanks you in advance for your polite!!!**

1. Educational status

10<sup>th</sup> completed

Diploma

12<sup>th</sup> completed

Degree

Certificate

2. Work experience

1-4 years

8-12 years

4-8 years

12 and above

3. Have you ever get any training or information about the uses and payments of tax from the tax administration?

Yes

No

4. Is there any challenge you faced at time of payment?

Yes

No

5. Have you ever asked to pay tax again for the pried that you already paid before?

Yes

No

6. Is the amount that you pay is similar with other people who have the same standard with you?

Yes

No

7. Do you know in advance how much and when you pay tax ?

Yes

No

8. Do you incur any cost that related to taxes?

Yes

No

**Interview questionnaire for tax administration office**

1. Do you have clear and understandably rule and regulation?

-----  
-----

2. Do you think that the tax payers clearly understandably rule and regulation?

-----  
-----

3. If the tax payers do not understandably rule and regulation what methods you follow to improve this issue?

-----  
-----

4. What measurement do you take for those who do not comply with rules and regulation?

-----  
-----

5. How much cost you spend per annual for revenue generating capacity?

-----  
-----

6. Do you think that all cost you incur is much with your revenue generating capacity?

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# **CHAPTER ONE**

## **1. INTRODUCTION**

### **1.1 Background of the organization**

Soddo City revenue Authoric branch office was established on July 1/1998 The study was conducted in Soddo city revenue authoric branch office. Soddo city revenue authoric branch office is one of the public sectors in the city revenue office providing.

Tax administration serves the public toward achieving the central objective the tax administration system. Soddo city revenue organizations service delivering process and the satisfaction of its service user (business tax payers) are the main concerns of the tax authority. As a general principles, it is believed that there should be a frame work in which each tier of government can levy or generate its own finance being a confluent between them.

Towards. achieving its mission and objectives the revenue office is currently accomplishing the overall tax administration issues in systematic organization and arrangement of elements for tax levy and collection. The revenue assessment and collection process is responsible to carry out the activities to assess, collect, follow up and execute legally specified taxes by the government. Tax education and public relation process is responsible to create tax payers awareness and increase knowledge in to the exercise of rights and fulfillment of the obligations.

Tax audit and enforcement process is also under taking the inspection of tax payer's documents where necessary for the execution of tax laws and enforcement action against diligent or non compliant. Tax payers pay their tax liabilities on the basis of tax legislation. Tax payers, compliant and appeal handing and redressing, records management, employee management and other related activities are currently also being under taken by the revenue office. Dissatisfying functions in service delivering system which lead tax payers to tax evasion, tax avoidance, diligenge or non compliance and failure by government, goals to raise sufficient revenue to finance its activities in the provision of public goods and service



## **1.2 Background of study**

Tax can be defined as compulsory contribution (levy) payable by an economic unit to a government without expectation of direct and equivalent return from the government contribution made. Its principal objectives is to provide revenue for the government activities because revenue is persuasive element of economic life around the world. (Gebere Worku, Tax accounting in Ethiopia context, 1<sup>st</sup> edition).

The kind of the traditional tax system continued for several centuries smoothly until it was replaced by modern tax system. To the mid 20<sup>th</sup> century also taxes were paid in kind include various form such as salt, honey, butter and grain live stock, etc. horse, mule and clothe on the 3<sup>rd</sup> quarter of 19<sup>th</sup> century. At that time the city administration state was not established in modern way. Today's world tax system was modernized and collected on cash from individuals and corporate based on their income.

Tax payers are categorized in to three based on their income, such as category A,B and C category "A" tax payers are expected to pay from their income which is greater than 500,000 birr. Category "B" tax payers between 100,000 and 500,000 birr category "C" tax payers less than 100,000 birr. (Gebere worku, Tax accounting in Ethiopia context, 1st edition).

To correct this traditional taxation the tax administration plays a great role in determining the correct amount that the payery must pay based on their income the tax administration classified (categorized) the tax payers based on their income. Category "C" tax payers, unlike category "A" and to prepare financial statements. To determine the income tax liability of such tax payers, standard assessment or presumptive method shall be used (Misrak Tesfaye, Ethiopian tax accounting theory and practice, 1<sup>st</sup> edition (2008))

### **1.3 Statement of the Problem**

Taxes are the most important and common method of financing activities and play crucial role in mobilizing public revenue to meet the level of funds needed by the government to cover socio-economic expenditure of the country. Also it is important for the development of city socio-economic and infrastructure. So tax collection system must be properly administered, since revenue play most important role in charging the city's economic development.

In addition to the above critical point which is played by taxes levied in weak tax administration system which affect the revenue generation capacity of the city or the nation which would relatively affect the development of social infrastructure and achievement of national objectives.

Therefore, in line to the above point if the tax administration is weak it can create problem in fair tax collection system and it can also result in delay for payment which affects the city's economy in large.

### **1.4 Objectives of the study**

#### **General objectives**

The general objectives of the study is to evaluate the tax administration system in category "C" tax payers.

#### **Specific objectives**

- To check the attitude of tax payers in relation to its fairness.
- To assess whether the tax system fulfils certainty principle or not.
- To determine the efficiency of the system.
- Evaluating the revenue generating capacity of the city.

## **1.5 Research question**

- What are the factors affecting the fairness of the tax system on tax payers?
- How to assess the certain of tax system?
- How to apply the efficiency of tax system?

## **1.6 Significance of the study**

Revenue plays the greatest role in improving the living standard of the society and reducing poverty of the country. The main significance of this paper is:-

- It gives useful ideas to the reader about tax administration system.
- It serves as reference material for further study to evaluate the tax with its actual performance.
- It provides information regarding the weakness and strength in tax collection system which helps managers to evaluate their performance and to make improvement.

## **1.7 Scope of the study**

The scope of the study was limited in Soddo city administration revenue and tax authority branch office. It only covers tax administration for category “C” tax payers.

## **1.8 Limitation of the study**

Every study has its own limitation. No study can be perfect and carried out as planned including from the beginning up to ending of the study. Since the study was conducted in short period of time, this limitation forced the researchers to conduct the study on category “C” tax payers.

Shortage of capital is also other limitation.

## **1.9 Research methodology**

### **1.9.1 Source of data and Techniques for collection**

The study of this paper was conducted based on primary source of data. Primary data was collected by preparing questionnaires and interviewing the tax collectors.

### **1.9.2 Simple size and sampling techniques**

The researchers selected 20 employees and 10 tax payers out of the total 100 population as sample size for this study which preferable due to time limitation.

The sampling techniques that the researchers used were non-random sampling techniques, judgmental method. Because to obtain data by using questionnaires and interview from tax authority staff and customers who have enough experience regarding collection and determination.

### **1.9.3 Data analysis and presentation**

After the data was collection from primary source the collection data was analyzed and presented by using qualitative data analyzing method in order to reflect the set of objective. To analyze the data the researchers used percentage tabulation method.

## **1.10 Organization of the paper**

The research was organized of four chapters and the first chapter deals with:-

- Introduction W/C consists of Background of the study
- Statement of the problem
- Significance
- Objective

- Limitation
- Scope Research questions and Methodology of the study (source of data sampling techniques)
- Data collection method
- Data presentation and analysis).

The second chapter deals about review of related literature and the third chapter concerns about data presentation and analysis. Finally the last chapter states the conclusion of the paper and recommendations on it.

## **CHAPTER TWO**

### **2. LITRATURE REVIEW**

#### **2.1 Definition of tax**

H:L Bhatia (1995) argues that tax is a compulsory on and those who have taxed to pay the sums irrespective of corresponding return of services or goods by the government. Form the above tax definition I understand that tax is an important source of revenue for government to provide goods and service for the society. Tax is levied on individual tax payers without direct receipt of definite and equivalent amount of goods and services from the government. This means that the tax payers do not receive goods and services necessary on the ground that they are paying a tax.

First it is a compulsory contribution imposed by the government on the people presiding in the country since it is the compulsory payment who refuses to pay a tax is liable to punishment. But, a tax is to be paid only by those who come under its jurisdiction. Similarly, a person who buys a commodity which carries a tax unit pays the tax while others do not.

Second data tax is not levied in turns for any specific service rendered by the government to the tax payer. An individual cannot ask for any special benefit from the state in return for the tax paid by him.

#### **2.2 Basic characteristics of taxation**

In general taxation is characterized by the following basic features:-

1. Tax is a compulsory levy to a person who is allegeable for tax payment on the basis of the prescribed tax criteria. Those people on whom the taxes the imposed have no other choice than paying. Refusal to pay tax can lead to punishment by law. If tax were not a compulsory contribution, no one would probably be willing to pay it.

2. Tax is levied only by the government. In modern taxation system, no one has a legal right to impose tax except the government (federal, regional). It's only the government that has a legal right to impose and collect tax. Of course, there are withholding agents who are required by law to collect tax. On behalf of the governments.
3. Tax is not based on condition. Tax is not conditional; this implies that tax is not mean what is paid by tax payers if they get benefit from the government and what is abandoned if they don't get any return from the government. There is not direct give and take relationship between the tax paid and the benefit received from the government.
4. Common benefit at all. Tax collected by the government is spent for the common benefit of government in case expenditure for defense maintenance of laws, contribution of schools, hospitals and other public services.
5. No direct benefit. The government collects all types of taxes and does not give any direct benefit to tax payers, for tax paid; tax payers connote demand direct benefit from the government for the amount they have paid.
6. Attitude of the payers is important factors in determining the contents of a good tax system. The attitude of the tax payers are influenced by other factor such as educational level, political, social and economical situation of the country.
7. Certain taxes levied for specific objectives. Though taxes are imposed to achieve specific objectives for collecting revenue for the government to meet its expenditure, certain taxes are imposed to achieve specific objectives.
8. Good tax system should run harmony with important objective. It should try to address and accommodate the attitude and problems of tax payers. It should also generate adequate revenue for the government while addressing the attitude of tax payers should be

flexible enough to cope with changing, the economy of the country adopted.

9. Tax system recognizes basic rights of tax payers. A good tax system considers basic rights of tax payers. Of course tax payers aware of the benefit of paying tax and pay on time, but, it shouldn't be with harassment of tax collector. To keep the basic rights of tax payers there must be a tax law which is simple in language and understandable, tax liability, what expected from each payers has to be determined the full certainty. (Gebre Worku (Msc) 2006).

### **2.3 Role of taxation**

Taxation depends on the socio-economic and political power structure of a particular country who ever come to a power to survive; it has to introduce tax to raise revenue to cover the expenditure for running the different institutions in the system. At the same time when government takes money away from the tax payers by the way of taxation the individual economic behavior is affected and will definitely respond. So tax designed to attain certain objectives has to follow certain rules because taxation in addition to transferring resources from tax payers to government. It is also an incentive to produce consumers and factors owners.

According to Joseph E. Stiglitz, it is issued to judge any equation concerned with taxation or tax system as a whole from the point of view of five desirable characteristics. They are economic efficiency, administrative simplicity, flexibility, political responsibility and fairness. However, the two most important and the basic ones are the efficiency and the equity (fairness) criterion. The relationship between the two principles is very contentious. If taxes increase it affects efficiency on deficits decreased distribution is neglected.



## **2.4 Classification of tax**

Government impose many types of fees in most developed countries individuals pay income taxes when they are earn many consumption taxes when they spend it, property taxes they own home or land and in some cases estate taxes when they die.

Different economists have differently classified taxes. This does not mean that one classification contradicts the others. The classification has been made on different bases and naturally the result have also been made on different bases which have been adopted by the economist to classify taxes are the forms, nature, aims and methods of taxation.

In general, in terms of the relationship between the nature of taxes and the reason for payment tax are classified as direct and indirect taxes.

### **2.4.1 Direct taxes**

According to Dalton, a direct taxes really paid by person on which it is legally imposed. Direct taxes are those taxes which cannot be shifted to others.

Indirect taxes are in which the burden may not necessarily be swallowed by assesses. Which means indirect taxes can be shifted on to others persons.

General, the tax incidence of indirect taxes is unlimited consumer however, same times seller might absorb such indirect tax be competitive in the market.

An indirect tax is paid partly wholly by another owing to a consequential change in terms of the sum of contract as barging between them. According to glad stone, direct and indirect taxes were like the two attractive sisters between whom he was perfectly impartial without one being superior to the other.

The main issue in the comparison of direct and indirect taxes however relates to the issues as to which one of these two taxes is less burdensome for the tax payers. Thus income and property taxes are direct taxes, while custom and excise duties are indirect.

1. In the case of direct taxes the impact or immediate burden and the incidence or the ultimate burden are on one and the same persons while the incidence are on different persons, and this tax is indirect tax. Thus a direct tax is one which cannot be passed on, but indirect tax is which can be shifted or property would be direct taxes on the purchase as also of proper like stamp duties would be indirect tax. (Gebre Worku (Msc) 2006)

#### **2.4.1.1 Demerits of Direct taxes**

Direct taxes are not free from certain disadvantages

- A. Direct taxes can be easily evaded:- There is always a possibility of tax evasion in the case of direct taxes since direct taxes are certain and tax payers may now show their correct incomes to the authorities.
- B. Direct taxes are unpopular:- Direct taxes are unpopular because they are directly imposed on assess themselves and are required to be paid in one lump sum which is inconvenient to the payers.

#### **2.4.1.2 Merits of Direct taxes are**

The following are some of the main advantages of Direct taxes

- A. **Direct taxes reduce inequality income and wealth:-** as direct taxes are progressive in nature governments frequently use them as a means of reducing the glaring income and wealth inequalities in the community.

- B. **Direct taxes are certain:-** the tax payers know how much they have to pay and on what bases they are going to pay the tax to the government.
- C. **Direct taxes are economical:-** They are economical the sense that the cost of collecting these taxes for the government is relatively low as taxes are usually collected at source.

## 2.4.2 Indirect taxes

Indirect taxes are those taxes impact and incidence fall on different persons. That is the impact on the tax falls on the person who pays in to the government in the first instance but the incidence tax falls on the person who finally bears the burden of tax.

### 2.4.2.1 Merits of indirect tax

- A. **Indirect taxes are convenient and more popular:-** One more important merits of indirect tax is that they are less convenient and less burdens same than the direct taxes.
- B. **Indirect taxes cannot be evaded:-** It is difficult to evade the payment of indirect taxes because they are included in the price of commodities and are collected in the form of higher prices go goods sold to the buyers in the market.
- C. **Indirect taxes have wide coverage:-** Through indirect taxes every member of the community can be taxed so taxes so that everyone may provide something to the government to finance the services of public utilities.
- D. **Indirect taxes can be elastic:-** Governments can increase the revenues from Indirect taxes by imposing taxes on those commodities which are demand in elastic such as salt, sugar, textile etc.
- E. **Indirect taxes help production and investment:-** They serve as a powerful tool in molding the production and investment activities in the economy.

**F. Indirect taxes can be progressive:-** Indirect taxes can be made progressive by imposing heavy taxes on luxury and harmful products and by exempting basic and necessity products.

#### **2.4.2.2 Demerits indirect taxes**

##### **Indirect taxes suffer the following weaknesses:-**

- A. **Indirect taxes are uncertain:-** Indirect taxes are not satisfying the principle of certainty since the revenue accruing to the government from indirect taxes cannot be estimated accurately.
- B. **Indirect taxes are regressive in effect:-** By their nature indirect taxes spread over to cover the items which are purchased generally by the poor (on commonly consumed products, the demand for which is elastic).
- C. **Indirect taxes promote inflation:-** Another defect of indirect taxes is that they feel inflationary force. Direct taxes have the effect of reducing demand and prices.
- D. **Indirect taxes result in high administrative costs:-** Because indirect taxes are collected from large number of people in small amounts, tax authorities are expected to hire a number of personnel such as tax experts who check records of manufacturers and sellers, tax collectors, auditors to inspect questionable returns.
- E. **Indirect taxes discourage savings:-** One feature of indirect taxes is that they are included in the price of commodities thereby increase the price of the commodities.
- F. **Indirect taxes do not create civic consciousness:-** Indirect taxes are paid only in terms of price of goods when the people buy the goods. Therefore, tax payers do not feel an extra burden of tax and, consequently, they are not conscious about them and fail to keep a watch on the financial irregularities committed by the authorities.

## **2.5 Tax system**

Tax system is a system in which tax liability is computed. There are two types of tax system in the world. These are:- Global tax system and scheduler tax system.

### **A. Global tax system**

Global tax system is a system in which tax liability is computed on aggregate at all incomes and losses derived by a tax payer from different sources in the world. That means, if a tax payer has two or more business the losses incurred in one business can be affect with the income earned in another business and tax is computed on the final balance.

### **B. Scheduler tax system**

Scheduler tax system is a system in which tax liability is computed on separate schedules. This mean, if a tax payer has two or more business the losses incurred in the business is not offset with the income in another business unless the same schedule. In scheduler system income is classified for income tax purpose according to its nature and source.

Classification based on their effect on distribution of income.

This classification mainly deals about the three types of taxes:- these are proportional, progressive and regressive. i.e. different tax forms affect the taxable income differently.

### **A. Proportional taxes**

It is a tax with all tax payers pays the same percentage of their income or wealth with a proportional tax. The percentage of income paid in tax remain constant as the percentage of income increase/decrease. This is a situation where the proportion of income tax in tax stays the same thus a constant marginal rate of tax, which equals the effective or average rate.

Therefore, the evil of not to respond the change in tax base since the tax rate is fixed. The implication of this tax is that, it doesn't relevant to narrow the difference in the income of extreme levels. I.e. that of the poor and rich, since it doesn't levy higher tax rate on the rich.

According to Balit (2003) proportional tax do not change the relevant position of different tax payers. They all lose the same purchasing power and therefore a proportion tax is neutral in terms of the allocation of recourse. It also doesn't affect the relative demand and supply position. These types of taxes are advantageous for their administrative capacity and simplicity. It is claimed that proportional taxation is easily decided and enforced especially because complicated rate of schedules and degree of progression in each tax is not there. Proportional taxes however, are no longer economically because it treats every tax payers, even part of family by same rate.

## **B. Progressive Tax**

Progressive tax is the tax which varies with the change in income of the individual. It is large as percentage for those larger income. It is usually applied in reference to income taxes where people with more income pay higher percentage of its income tax. The progressive refers to the way the rate progress from level high. The rate of taxation increases as the tax base increase. A tax is progressive when which the increasing income the tax liability not only increases is an absolute term. But it also increases as proportion of the income.

The rate of tax gradual becomes higher for the increasing income and lower to lower income. It does not provide for fixed(uniform) percentage for all the income level. According to the amount of tax paid will increase of higher rate than the increase the tax bases.

### **C. Regressive Tax**

In regressive tax the higher income of tax pays as smaller is promotion of his income which he contribute to the government in terms of tax.

This means the poor section of the society are taxed at higher rate than the rich section often it is a fixed tax even person has to pay the same amount of money, such as a pull tax that means each person's pays the same amount of money it is a lower proportion for peoples with the higher income, this violets the principle of equality and social justice.

### **D. Digressive Tax**

This tax can called amazed progressive tax; this means it is a blend of progressive and proportional taxation. The rate of tax use up to certain limit & beyond that a uniform rate is charge, so that the rate of progression is not as the same proportion as the income.

It can yield advantageous and avoid unfairness in the dissention of the burden of taxation by means of graduation, differentiation and others service. These are however three services offsets to such single tax.

It would be difficult and expressive to collect particularly in relation to small income.

It would score no special contribution from inheritors of wealth.

It would check saving more than other tax would do.

## **2.6 Principles of Taxation**

Principles of taxation refer to the appropriate criteria to be employed in developing (devising) and evaluating good tax structures of cannons.

1. **Equitable/fairness principle**:- equal treatment of similar situation tax payers.

**Horizontal equity:-** all purchasers of the same equity pay the same tax

**Vertical equity:-** unequal situated tax payers being taxed on their ability to pay as per progressive taxation philosophy.

2. **Convenience principle:-** a tax that can be readily & easily affected, collected and administered.

Certain the consistency and stability in the prediction of tax payer bills and the amount of revenue collected over time.

### **3. Simplicity principle**

Simplicity principle states that as complex tax system may result in error (due to failure to understand the tax laws), tax evasion (violation of tax laws) and disrespect for system, tax laws should be simple and clear to understand by the taxpayers and they should not be confronted with accounting administrative or other difficulties.

### **4. Efficiency/economy of collection principle**

Efficiency principle states that the costs to collect taxes should be kept as minimum as possible for both the government and tax payers. Government incur administrative costs as for hiring tax collectors to gather tax revenues, data entry clerks to process tax returns, auditors to inspect questionable returns, lawyers to handle disputes, and accountants to comply with the tax systems such as costs to workers (accountants, tax lawyers, tax payers), costs for record keeping, and non-compliance costs for tax appeal. Therefore, efficiency theory implies that government administrative costs and tax payers cost of taxation should as low as possible.



## **5. Economic growth/buoyancy principle**

The principle of economic growth states that a tax system should not impede or reduce the productive capacity of the economic system by over-taxing. For instance, a tax system should not significantly affect international competitiveness, investment, and production like labor supply. Viewing the concept from the other single, a tax system should be in line with the economic growth policy of a country and should have an inherent tendency to increase along with an increase in National income. A tax system should not work against the economic goals and policies of the government. Economic growth highly reflects the theory of neutrality.

## **6. Transparency and visibility**

This principle implies that tax payers should know that a tax exists, why exists, and how tax is imposed on them. When tax payers are aware of a tax and changes in their liabilities that result from specific transactions or events, they compute the true cost of the transaction and identify who ultimately pay the tax. In addition, it is the responsibility of the governments to let citizens know that the government must have resources so as to perform essential services, and one means to acquire those resources is through the collection of tax revenue.

## **7. Appropriate government revenue principle**

The appropriate government revenue principle implies that taxes should be predictable by the government, meaning, a tax system should enable a government to predict (determine) how much tax revenues will likely be collected and when so as when to undertake its budgeting and appropriation process accurately.

## 8. Minimum tax gap principle

According to minimum tax gap principle, a tax system should be structured to minimize tax gap/non-compliance. Tax gap is the actual tax owed (tax imposed) is not the same as the tax paid voluntarily by the tax payers. Mathematically, it is expressed as follows:

Tax gap = tax actually owed (imposed) – tax voluntarily paid (or)

Tax gap = tax that should have been paid – tax already paid

Tax gap may occur due to,

- i. **International errors** such as over statement of expenses, understatement of taxable revenue, omission of taxable transactions, no declaring total taxable revenues, etc.
- ii. **Unintentional errors** such as mathematical mistakes, failure to understanding tax laws (rules and regulations), errors in tax assessment, etc.

In order to avoid or at least minimize tax gap, a tax system should be certain, simple, neutral and transparent; clear penalties or refund be set in the tax laws if tax gap exists.

The common of the equity arises from the following idea.

The subject of every state ought to contribute toward the support of the governmental as nearly as possible in proportion to their respectively enjoy under the proportion of the state. This canon embodies the principle of equity or justice and lays down the moral foundation of the tax system. It is not unreasonable that the rich should contribute to the public expense not only in proportion to their revenue, but something more than that proportion to the ability to pay.

The canon of certainty is highlight in the following statement by smith. “the tax which each individual is bound to pay ought to be certain and not quantity to be paid ought all to be clear and plain to the contributor and to every other person. Where it is otherwise, every person subject to tax is put, more or less, in the power of tax- gatherer, who can either by the terror of each aggravation, some persons or perquisites to himself.” Certainty is needed not only them the point of view of the tax payer also but from that of state.

The cannon of convenience states that, every tax ought to be levied of the time or in the manner in which it is most likely to be convenient for the contributor to pay it.

Finally the cannon of economy dictates that every tax ought to be contrived as both to take out and to keep out of the pocket of the people as possible, over and above what it brings into the public treasury of the state. ([http://www. Blurtit.Com/qruqls31.html](http://www.Blurtit.Com/qruqls31.html)).

## **2.7 Meaning of business income/profit or schedule “C” income**

Business income, or profit, includes any income which is derived essentially from business activity or activity recognized as trade. It is the income derived by a trader from activities performed to its customers subject to certain deductions of business expenditures.

## **2.8 Meaning of taxable business income/profit**

Taxable business income/profit is the amount of income or profit from business activity which is subject to business income or profit tax. Taxable business income shall be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the Generally Accepted Accounting principles (GAAP),

subject to the provisions of income tax proclamation, regulation and directives issued by the tax Authority. Presumptive method may also be used to determine taxable business income.

## **2.9 Business income tax**

Business income tax, or business profit tax, is the tax imposed on taxable business income profit realized from enters prenatal activity. It is charged on the profits of business enterprises on their activities a rising each accounting period or tax year.

At the end of the each tax year or accounting period, business income tax payers submit an income tax return (tax declaration form) to the authority which shall contain full and true information about the income (profit) earned the business tax payers.

## **2.10 Business Income Tax Rates**

In Ethiopia income from business activities are chargeable to tax based on the rates specified under article 19 of proclamation No 286/2002. According to this articles.

- i. Taxable business income of “ bodies” is taxed at the flat rate of “30”
- ii. Taxable business income of “other tax payers” is taxed based on progressive tax rates stated in schedule “c” proc. No 286/2002

## **Schedule “c”**

Business income in Birr (per year)	<b>Additional payer income</b>	Tax rate	Adjustment/deduction Birr
0-1800	1800	Exempted	0
1801-7800	6000	10%	180.00
7801-16800	9000	15%	570.00
16801-28200	11400	20%	1450.00
28201-42600	14400	25%	2825.00
42601-60000	17400	30%	4950.00
Over 60000	--	35%	7950.00

### **2.11 Categories of tax payers**

For purposes of business income tax payment, Federal Inland Authority (FIRA) has classified tax payer on business profit into three major categories.

These are category “A”. category “B”, category “C” tax payers.

FIRA has used their legal personality and annual turnover (sales revenue amount) as basis for categorization.

#### **2.11.1 Categories “A” taxpayers**

##### **Category “A”, taxpayers include:-**

- Business that have separate legal personality (share company, public enterprise and public financial agency) regarding of their annual sales revenues.
- Other business having annual sales revenue of birr 500.000 or more
- Category “A”, tax payers are required to maintain proper books of accounts and other document

- Category “A”, tax payers are also required to register with the tax authority the type and quantity of vouchers they use before having such vouchers printed. Moreover. Any printing press before printing vouchers of taxpayers shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.
- Category “A” tax payers must prepare and submit to the Tax Authority, at the end of the tax year, a balance sheet and an income statement (profit and loss statement).
- Category “A”, tax payers shall declare their incomes in a form prescribed by the tax authority (income Tax Return) and pay their taxes within four (4) months starting from the end the “payers’ tax year”. For instance, if the tax year ends on Sene 30, the taxpayer shall declare and pay its business profit tax from Hamle 1 to Tikimt 30.

### **2.11.2 Category “B” tax payers**

Category “B”, tax payers includes, unless already classified in category “A” business with no legal personality and whose annual sales revenue is between birr 100,000 and birr 500.000 (i.e birr 100,000<sale<birr 500,000).

Category “B”, tax payers, like category “A”, shall maintain proper books of accounts and shall use the type and quantity of vouchers registered and approved by the Tax Authority. Moreover, they are required to submit income statement (balance sheet is not mandatory) to the Tax Authority and also they must declare and pay their taxes within two months starting from the end of the Ethiopian fiscal year/tax year/budget year, i.e from Hamle 1 to pagume 5(6).

### **2.11.3 Tax payers “C” tax payers**

category “C”, tax payers include any other business which are not classified under category “A” or category “B” that if unless already classified in category “A” or category “B” business having no legal personality and whose

annual sales revenue is estimated up to Birr 100,000 i.e. sales = Birr 100,000.

Category "C" tax payers unlike category "A" and "B" tax payers are not required (not mandatory) to maintain books of amounts and to prepare financial statements.

To determine the income tax liability such tax payers standard assessment or presumptive tax shall be used.

Standard assessment or presumptive tax is a fixed amount of tax determined by estimation (best judgment) prescribed in schedule "1" and "2" of income regulation No 78/2002 for example, for fruit and vegetable trade estimated annual sales revenue up to Br 6000 is exempted up to Br 100000 the presumptive tax is Br 80 per year from Br 1001 to Br 15000 the presumptive tax is Br 1800 etc. however Category "C" tax payers maintain book of accounts acceptable to the tax authority, they show pay their taxes on basis of such book accounts.

Category "A" tax payers must pay their taxes within one (1) month starting from the end of the Ethiopian tax year/budget year, i.e. from Hamle 1 to 3.

If a tax payer fails to declare his or its income within the time prescribed by the income tax proclamation No 286/2002. The Tax Authority may assess the tax by estimation. Moreover, a tax payer who derives income from different sources subject to the same schedule shall be assessed on the aggregate of such income for instance; if an individual has barberry and cassette shop business the incomes of two businesses are aggregated.

If a non-resident person operates his business activity through an agent (1) then the non-resident person and the agent (s) shall be jointly, responsible for submitting the declaration of income and payment of the tax therein. Article 23 of regulation No 78/2002 also states that if a resident tax payer is engaged in more than one business activities he shall declare his income

(profits) to the tax authority at the place where the head office of the business is situated.

On the other hand are a non-resident tax payers who has different sources shall declare his income (profit) to the tax authority at the place where the drives most of his income.

## **2.12 Tax administration in Ethiopia**

Meaning of tax Administration

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authorities of the federal government and sales government. A good and efficient tax administration has;

- ✓ Management system though which it carries out its activates?
- ✓ Tax laws or codes that guide the tax management system and
- ✓ Knowledge administration

In order to be successful and effective in tax administration. The following factors considered essentially.

- ✓ Explicit and sustained political equipment
- ✓ Relevant training for the staff (who engages in assessment and estimation)
- ✓ Additional resources to the tax administration
- ✓ Chants in tensutesus for both tax payers and tax administration
- ✓ Simplification of for the tax procedures
- ✓ Decentralization of for the tax administration system etc.

One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditures. In order to attain this obsature abuse relationship between tax structured and tax administration and an organized tax collection structure should be maintained. Used (Misrak Tesfaye, Ethiopian tax accounting theory and practice, 1<sup>st</sup> edition (2008))



## CHAPTER THREE

### 3. DATA PRESENTATION & ANALYSIS

#### 3.1 ANALYSIS OF QUESTIONARIES

The study was conducted in Belie City Administration Revenue and Tax Authority branch office. In order to help the reader to get a clear image about the framework of the paper, the researchers analyzed and presented the data by using qualitative data analysis method.

The data presentation, analysis, and interpretation of the data are depending upon the information from questionnaires and interviews.

**Table 3.1 Background of the respondent**

Item	Quantity	Percentage
1. Educational status		
10 <sup>th</sup> complete	4	40%
12 <sup>th</sup> complete	1	10%
Certificate	1	10%
Diploma	2	20%
Degree	2	20%
<b>Total</b>	10	100%
2. Work experience		
1-4 year	2	20%
4-8 year	2	20%
8-12 year	4	40%
12 and above	2	20%
<b>Total</b>	10	100%

When we look at educational status, most of the respondents are 10<sup>th</sup> complete. This shows that most of the taxpayers can write and read. Consequently, the taxpayers can get information about tax from journals and tax rules and regulations. So, that the respondents are in a good

position to know more about tax. Similarly the work status shows that the respondents are familiar with tax and tax benefit. Most of the respondents have a work experience of 4-8 years. It shows that they are experienced for paying tax and at least they know about the rules and regulation of tax.

**Table 3.2 awareness**

<b>Question</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Have you ever get any training or information about the uses and payments of tax from the tax administration ?			
	Yes	4	40%
	No	6	60%
	<b>Total</b>	<b>10</b>	<b>100%</b>

The above table reveals that, most of the respondents do not get information from the administration office. This shows the organization do not prepare written document, journal, orientation to the tax payer according to the respondents replay (answer). But few of the respondents replay that they get information about tax from the administration office.

Table 3.3 challenge of payment

<b>Question</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Is there any challenge that you faced at a time of payment?			
	Yes	3	30%
	Yes, sometime	6	60%
	No	1	10%
	<b>Total</b>	<b>10</b>	<b>100%</b>

The above table shows that about 60% of the respondents face challenge at the time of payment. This shows the organization has some problems at the time of payment. On the side of serving the tax payers the organization has not yet implements BPR and modernization tax collection system.

**Table 3.4 paying tax**

<b>Question</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Have you ever asked to pay tax again for the period that you already paid before?	Yes	1	10%
	No	9	90%
	<b>Total</b>	<b>10</b>	<b>100%</b>

The above table indicates that about 9(90%) of respondents did not asked again to pay tax that once already paid before. This indicates the organization has a good record keeping. May be this is the fact that the use of computer to keep the payers file safe. Therefore, this is good because, using computer is essential or necessary.

**Table 3.5 fairness of tax**

<b>Question</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Is the amount of tax that you pay is similar with other people who have the same income standard with you?	Yes	3	30%
	No	7	70%
	<b>Total</b>	<b>10</b>	<b>100%</b>

As sown in the above table that few of the respondents are agreed that they pay similar amount of tax no variation.

On the other hand, according to the above table most of the respondents' replay that they do not pay same amount of tax liability with each other. This shows that the respondents do not think that the tax system is fair.

**Table 3.6 certainty of tax**

<b>Question</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Do you know in advance how much and when you pay tax?			
	Yes	8	80%
	No	2	20%
	<b>Total</b>	<b>10</b>	<b>100%</b>

As shown in table 3.6 above 8(80%) of the respondents said that they know the amount and when they pay tax in advance. This shows most of the tax payers have knowledge about the amount they should to pay in advance. It helps the organization that the tax collection system to be facilitated. But according to the above table some other respondents do not know how much they should pay in advance.

**Table 3.7 cost of tax payers**

<b>Question</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Do you incur any costs that related to taxes?			
	Yes	8	80%
	No	2	20%
	<b>Total</b>	<b>10</b>	<b>100%</b>

The above table reveals that 8(80%) of the respondents said that they incur costs related to taxes such as, cost to accountants, to executives, and photocopy and the like. They shows most of the tax payers incur different type of costs relate to tax. But few of the respondents said that they do not incur any cost.

### **3.2 ANALYSIS OF INTERVIEW QUESTION**

#### **1. Do you have a clear and understandable rules and regulation?**

There can be no debate that rules and regulations of taxes are needed, because it is essential. According to the respondents the organizations have their own rules and regulations to administer tax collectors, tax payers, and etc. generally, it is important for one organization to administrate their own employees and tax payers.

#### **2. Do you think that the tax payers clearly understand the rules and regulation?**

The respondents say that the tax payers does not clearly understand the rules and regulation. This indicates that there must be created a good relationship between tax payers and tax administration office.

#### **3. If the tax payers do not understand the rules and regulation what method you follow to improve this issue?**

According to the respondents replay the organization takes different types of improvement. Such as, giving work shop, seminars/orientation, and providing some short notes about tax and giving education through mass media. This indicates the organization tries to aware the tax payers.

#### **4. What measurement do you take, for those who don't comply with rules and regulation?**

As the tax authority rewards tax payers and tax officers for outstanding performance and discharge of duties, the authority also penalize tax payers who fail to company with the tax laws. Accordingly, the respondents say that the organization takes different measurements like penalize money up to 2,000 birr for failure to pay even restrict/cancel from the business. And also the organization can heritage their properly and etc.

**5. How much cost you spend per annum for revenue generating capacity?**

According to the above question the respondent said that the organization incurs costs/spend money at different time form year to year. Such as payment for tax collectors and for accountants. Accordingly the organization incurs costs for the year 2002 and 2003 is 206,200.00 birr and 343,449,00 birr respectively. This sows the organization spend money for different years.

**6. Do you think that all costs you incur are much with your revenue generating capacity?**

The respondents reply that costs they incur are less than form revenue collection. According to the respondents said that the collection for the year 2003 & 2004 is birr 4,392,365.51 and 5,86,686.43 birr respectively. This shows that the organization revenue generating capacity relatively increases from year to year.

## **CHAPTER FOUR**

### **4. Conclusion and recommendation**

#### **4.1 Summary and conclusion**

To sum up my senior essay, the collected data have been analyzed and discussed within the boundary of the objective. So the issue addressed in this study in relation to the evaluation of tax administration and category "C" tax payers in Soddo town is briefly concluded and summarized in the following paragraphs.

When I look the respondents' educational status, work experience, most of the tax payers are in good position to know more about tax rules and regulations. This shows that the respondents can get information from different sources like, written documents, journals and annual report of revenue authority.

Regarding to getting information from administration office, most of the respondents say that they do not get enough information from the administration. On the other hand, the organization replies that they provide different types of information for tax payers. This shows there is a weak relationship between them because, both of their responses are revealing each others.

Regarding to fairness of the tax payers they do not think that the tax system is fair. But some of the tax payers think that the system is fair. According to the attitude of the respondents the organization collect and levy taxes based on their own estimation, in addition to this the payers pay tax based on presumptive assumption.

When I look whether or not tax payers pay again the amount they already paid before. The payers say that they did not pay such kind of payment. This shows the administration use computer to record the tax payers; files because it helps them to identify who did not pay from those who paid.

Regarding to the rules and regulation the organization has clear rules and regulation. But most of the tax payers do not understand the rules and regulations. The organization tries to improve this by using different methods; however, according to the tax administration most of the tax payers are not interested to learn such kind of improvement.

From the fact that the researchers conclude that most of the tax payers have lack of awareness about tax.

## **4.2 Recommendation**

Based on the findings of the study the researchers forward the following recommendations which help the tax administration office to minimize problems that occur between tax payers and tax administration office.

- To reduce the problem of attitude variation between tax payers, the organization should use standard assessment/presumption method (best judgment/estimation).
- Regarding to revenue generating capacity, the organization has good revenue generators capacity relatively year so that, the organization should continue this way and should strive for betterment.
- Regarding to certainty the organization seems to have good certainty so that the organization should continue in this way.
- To negotiate the revelry responses between the organization and tax payers, the administration should try to find the different points between them.

Finally the researchers want to infer that the tax administration office should work cooperative with other public sectors considering the recommendation points. This will help the office to be strong in the administration system.