

**St. Mary's University College**

**Faculty Business**

**Department of Accounting**

**Category "C" Tax Assessment and Collection**

**Problems; The case of Keble 01/18 of Lideta Sub-city**

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**Category “C” Tax Assessment and Collection  
Problems; The case of Keble 01/18 of Lideta Sub-city**

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# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

Business income, or business profit, includes any income which is derived essentially from business activity or activity recognized as trade. Business profit tax is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity. Taxable business income would 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 standards. Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses the business income tax ranges from 10% - 35% (ECC and EBDSN, 2005).

Currently our government has in practice in implementing poverty reduction and sustainable economic growth strategy of which is supported by world wide fund and also tend to reduce resources expected from foreign assistance and loans. This strategy calls for a great means, which is an increase in tax revenue to take advantage of the gross domestic product. With this aim, the Ethiopian government has placed the sale tax to multi system tax base so as to increase its revenue, to facilitate the overall development of economy and make the tax administration more efficient. According to MisraK (2008) the assessment and collection of tax on category "C" has a lot of problems.

According to Ethiopian context taxes are classified in two direct and indirect taxes.

1. **Direct Taxes:** - are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on the same person. Such taxes are entirely paid to the government by those persons on whom the taxes are imposed. They can not be shifted (passed on) to other. Some examples of direct taxes are employment income tax, business income tax, rental income tax, interest income tax, capital gain tax, property tax, agriculture income tax, transfer taxes(estate tax, gift tax, etc.
2. **Indirect Taxes:-** are those impact (immediate burden) and incidence (ultimate burden) failed on different person. That is, the impact of the tax falls on the person who pays it to the government in the first instance but the incidence of the tax falls on the person who finally bears the burden of tax. Some examples of indirect taxes are value Added tax (VAT), Turnover Tax (TOT), Excise Tax and Custom Duty.

Further more in Ethiopia, business income tax payers are classified in three categories. There are Misrak (2008).

<u>Category</u>	<u>Range of income</u>
A	Above Birr 500,000
B	between Birr 100,000 – 500,000
C	Below Birr 100,000

## **1.2 Statement of the Problem**

For effective implementation of the tax system, the government has established different bureaus at different levels extending from federal to kebele level. Lideta sub city finance and economic development office is one of such government organs which has been given power to asses and collect government revenue from taxpayers under its jurisdiction. The sub city administers different kebeles that are directly responsible for assessing and collecting tax. One of these kebeles is kebele 01/18. Taxpayers and other stakeholders in the kebele have been reporting a number of problems in relation to tax assessment and collection such as on the fairness and equitability, appropriateness the policy etc... The purpose of this study is therefore to elucidate the problems prevailing in tax assessment and collection with special emphasis to category "C" tax payers.

## **1.3 Research Questions**

Based on the foregoing background and problem formulation, this study addresses the issue of tax assessment and collection problems at kebele 01/18 of Lideta sub city by trying to answer the following basic research questions:

1. How is category "C" tax assessment and collection carried out?
2. What are the major problems in the assessment and collection of category "C" tax?
3. What are the major causes of the problems?
4. To what extent do the problems affect the tax assessment and collection process?
5. How could these situations be improved to make the tax assessment and collection effective?

## **1.4 Objectives of the study**

### **1.4.1 General Objective**

The general objective of the study is to explore tax assessment and collection problems in category "C" taxpayers on Lideta sub-city and to suggest applicable solutions to the problems identified.

### **1.4.2 Specific Objectives**

The specific objectives of this study were:

- To explore how category "C" tax assessment and collection is implemented in the kebele.
- To identify the major problems associated with category 'C' tax assessment and collection in Kebele 01/18.
- To identify the root cause of tax assessment and collection problems.
- To determine the extent at which the problems affect the tax assessment and collection process.
- To suggest possible recommendations that could improve the effectiveness of the tax assessment and collection activities.

## **1.5 Significance of the Study**

The study can give an insight to different parties such as organizations, scholars, researchers, and policy makers, interested to make further investigation. Also it can benefit the tax administration personnel to take corrective action related problems in the area.

## **1.6 Scope of the Study**

While studying the tax assessment and collection practices, the present study was limited to the investigation of category "C" tax collection and assessment problems at Kebele 01/18 in Lideta sub-city of the Addis Ababa city administration in during the year 2011.

## **1.7 Limitations of the Study**

Research work requires the allocation of sufficient amount of time, financial and human resources. Since this research was carried out while the researchers are attending classes and fulfilling other demanding commitments, time constraint was one of the factors in meeting the sample size. This even impaired the collection and analysis of more in-depth information that could have improved the findings and inferences. On top of that, respondents' non-response due to work overload, reluctance, and/or other reasons limited the access to sufficient data.



## **1.8 Research Design and Methodology**

### **1.8.1 Research Design**

The design used for the research is survey method. This method helps to gather information by using individual samples so as to learn about a population of interest.

### **1.8.2 Population and Sampling Technique**

The total number of employees working in the tax assessment and collection office of the Kebele was 25 and the total number of category 'C' tax payers was 1000. These constituted the total population for the research.

While all of the personnel that were known to be involved in tax assessment and collection activities of the Kebele were purposively included in the sample, 20% (200) of the category 'C' tax payers were randomly sampled as respondents.

### **1.8.3 Data collection**

The researchers have used both primary and secondary data sources. The primary data were collected through questionnaire. The questionnaire comprised of both closed and open ended questions. Most of the closed ended questions were designed as 'yes' or 'no' questions. The secondary data were generated from tax related policies and guideline documents, reports, Ethiopian Revenues and Customs Authority's (ERCA's) web-site, and other unpublished documents. Secondary data were also collected from the data base of the kebele tax authority. This data includes number of category 'C' taxpayers in the Kebele and their distribution with respect to business type/sector.

## **1.9 Methods of Data Analysis**

Simple arithmetic calculations and descriptive statistics were deployed to analyze and interpret the data. The summaries are presented as counts, and percentages in tables .

## **1.10 Organization of the Paper**

This research report is divided into four sections; the first chapter is on introduction and cuts across a general background to the study and the target organization, problem statement, objective, research question, significance of this study, scope and limitation of the study, and presents organization of the paper. The chapter is finalized by presenting the Methodology where we describe the HOW part of our study including research design and methods of data collection, sampling, analysis, and presentation. Chapter two is on literature review; in this chapter, we provide theoretical foundation to our study by presenting relevant literature on tax and tax assessment and collection. Section three is on empirical findings and analysis. Here, we present the results of our questionnaire survey, interview schedule and document review,

analyze the results, and describe the tax assessment and collection practices of the Kebele. The final section winds up the study by summarizing the findings, drawing conclusions, and providing recommendations.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Definition of Taxation**

Bhatia (1976) asserts that a tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government. Taxes are generally compulsory contributions of wealth levied upon persons, natural or corporate, to defray the expenses incurred in the common interest of all, without reference to the special benefit incurred." On the other hand, Hugh (1977) said "A tax is a compulsory contribution imposed by public authority irrespective of the exact amount of service rendered to the taxpayer in return, not imposed as a penalty for any legal offence." Rumar and Mittal (2002) indicate that taxes may be levied on income of the individuals as well the goods and commodities bought by him.

Taxes are the major source of the public revenues. Government needs financial resources to act as a government and play a role that is expected from it by the public. So what the government gives, it must first take away. The economic resources available to society are limited, so an increase in government expenditure normally means a reduction in private spending. James and Nobes (2000) states that taxation is one method of transferring resources from the private to the public sector. Taxes are also used as an instrument that stabilizes the economy, and reduces private demand so that resources can be released for public sector use.

Throughout history, people have debated on the amount and kinds of taxes that a government should impose, as well as on how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. For instance in Ethiopia there was the Gojjam peasant rebellion, in 1968. The immediate cause of the rebellion was the introduction of a new agricultural income tax, which peasants opposed. In political campaigns candidates views on taxation may partly determine their popularity with voters.

Although countries differ considerably in the amount of taxes they collect, yet the most important source of revenue for modern government remains to be tax. The remainder of government revenue comes from charging fees for services, borrowing and from other related sources.

Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Some economists consider taxation an important tool for maintaining the stability of a country's economy. This is because taxation can redistribute a society wealth by imposing a heavier tax burden on one group in order to fund services for another (Gebrie, 2006)

## **2.2 Types of Taxes**

There are two types of taxes; Direct and indirect taxes

### **2.2.1 Direct taxes**

In the general sense, a direct tax is one paid directly to the government by the persons (juristic or natural) on whom it is imposed. Examples include some income taxes, some corporate taxes, and transfer taxes such as estate (inheritance) tax and gift tax. Some commentators have argued that "a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be."

#### **2.2.1.1 Merits of Direct Taxes**

Following are the important advantages or merits of Direct Taxes :-

- 1. Equity:** There is social justice in the allocation of tax burden in case of direct taxes as they are based on the principle of ability to pay. Persons in a similar economic situation are taxed at the same rate. Persons with different economic standing are taxed at a different rate. Hence, there is both horizontal and vertical equity under direct taxation. Progressive direct taxation can reduce income inequalities and bring about adequate social & economic justice.
- 2. Certainty:** As far as direct taxes are concerned, the tax payer is certain as to how much he is expected to pay, as the tax rates are decided in advance. The Government can also estimate the tax revenue from direct taxes with a fair accuracy. Accordingly, the Government can make adjustments in its income and expenditure.
- 3. Relatively Elastic:** The direct taxes are relatively elastic. With an increase in income and wealth of individuals and companies, the yield from direct taxes will also increase. Elasticity also implies that the government's revenue can be increased by raising the rates of taxation. An increase in tax rates would increase the tax revenue.

4. **Creates Public Consciousness:** They have educative value. In the case of direct taxes, the taxpayers are made to feel directly the burden of taxes and hence take keen interest in how public funds are spent. The taxpayers are likely to be more aware about their rights and responsibilities as citizens of the state.
5. **Economical:** Direct taxes are generally economical to collect. For instances, in the case of personal income tax, the tax can be deducted at source from the income or salaries of the individuals. Therefore, the government does not have to spend much in tax collection as far as personal income tax is concerned. However, in the case of indirect taxes, the government has to set up an elaborate machinery to collect taxes.
6. **Anti-inflationary:** The direct taxes can help to control inflation. During inflationary periods, the government may increase the tax rate. With an increase in tax rate, the consumption demand may decline, which in turn may reduce inflation.

#### 2.2.1.2 Demerits of Direct Taxes

Though direct taxes possess above mentioned merits, the economist have criticized them on the following grounds:-

1. **Tax Evasion:** Tax evasion happens mainly due to High tax rates, documentation and formalities, Poor and corrupt tax administration. It is easier for the businessmen to evade direct taxes. They invariably suppress correct information about their incomes by manipulating their accounts and evade tax on it. In less developed countries, due to high rate of progressive tax evasion & avoidance are extensive and led to rise in black money.
2. **Arbitrary Rates:** The direct taxes tend to be arbitrary. Critics point out that there cannot be any objective basis for determining tax rates of direct taxes. Also, the exemption limits in the case of personal income tax, wealth tax, etc., are determined in an arbitrary manner. A precise degree of progression in taxation is also difficult to achieve. Therefore direct taxes may not always fulfill the canon of equity.
3. **Inconvenient:** Direct taxes are inconvenient in the sense that they involve several procedures and formalities in filing of returns. For most people payment of direct tax is not only inconvenient, it is psychological painful also. When people are required to pay a sizeable part of their income as a tax to the state, they feel very much hurt and their propensity to evade tax remains high. Further every one who is required to pay a direct

tax has to furnish appropriate evidence in support of the statement of his income & wealth & for this he has to maintain his accounts in proper form. Direct tax is considered inconvenient by some people because they have to make few lump sum payments to the governments, whereas their income receipts are distributed over the whole year.

4. **Narrow Coverage:** In some countries like India, there is a narrow coverage of direct taxes. It is estimated that only three percent of the population pay personal income tax. Due to low coverage, the government does not get enough funds for public expenditure. Estate duty & wealth tax are equally narrow based and thus revenue proceeds from these taxes are invariably small.
5. **Affects Capital Formation:** The direct taxes can affect savings and investment. Due to taxes, the net income of the people gets reduced. This in turn reduces savings. Reduction in savings results in low investment. The low investment affects capital formation in the country.
6. **Effect on Willingness and Ability to Work:** Highly progressive direct taxes reduce people's ability and willingness to work and save. This in turn may have a negative impact on investment and productive capacity in the economy. If tax burden is high, people's consumption level gets adversely affected and this has an impact on their ability to work and save. High taxes also discourage people from working harder in order to earn and save more.
7. **Sectoral Imbalance:** In some countries, there is Sectoral imbalance as far as direct taxes are concerned. Certain sectors like the corporate sector is heavily taxed, whereas, the agriculture sector is 100% tax free. Even the large rich farmers are exempted from payment of personal income tax.

### **2.2.2 Indirect taxes**

An indirect or "collected" tax (such as sales tax or value added tax (VAT)) is one in which the burden can be shifted to others. a "collected" tax is one which is collected by intermediaries who turn over the proceeds to the government and file the related tax return. The tax payer is not the tax bearer. The impact and incidence of indirect taxes are on different persons. An indirect tax is levied on and collected from a person who manages to pass it on to some

other person or persons on whom the real burden of tax falls. For e.g. commodity taxes or sales tax, excise duty, custom duties, etc. are indirect taxes.

### 2.2.2.1 Merits of Indirect Taxes

The merits of indirect taxes are briefly explained as follows :-

1. **Convenient:** indirect taxes are convenient to pay. They are paid in small amounts instead of in one lump sum. They are generally included in the price of a commodity and hence the burden of these taxes is not felt very much by the tax-payers. They are convenient from the point of view of the government also. These are collected only when the income of the person is spent, and spending is spread over a long time. Thus indirect taxes are convenient and less unpopular.
2. **Wide coverage:** Unlike direct taxes, the indirect taxes have a wide coverage. Majority of the products or services are subject to indirect taxes. The consumers or users of such products and services have to pay them. Through indirect taxes, every member of the community can be taxed, so that everyone may provide something to the government to finance the services of public utilities. In other words, through indirect taxes, every one contributes towards social benefit.
3. **Difficult to evade:** Indirect taxes have in built safeguards against tax evasion. The indirect taxes are paid by customers, and the sellers have to collect it and remit it to the Government. In the case of many products, the selling price is inclusive of indirect taxes. Therefore, the customer has no option to evade the indirect taxes.
4. **Elastic:** Some of the indirect taxes are elastic in nature. When government feels it necessary to increase its revenues, it increases these taxes. In times of prosperity indirect taxes produce huge revenues to the government.
5. **Universality:** Indirect taxes are paid by all classes of people and so they are broad based. Poor people may be out of the net of the income tax, but they pay indirect taxes while buying goods.
6. **Influence on Pattern of Production:** By imposing taxes on certain commodities or sectors, the government can achieve better allocation of resources. For e.g. By Imposing taxes on luxury goods and making them more expensive, government can divert resources from these sectors to sector producing necessary goods.

7. **May not affect motivation to work and save:** The indirect taxes may not affect the motivation to work and to save. Since, most of the indirect taxes are not progressive in nature, individuals may not mind to pay them. In other words, indirect taxes are generally regressive in nature. Therefore, individuals would not be demotivated to work and to save, which may increase investment.
8. **Social Welfare:** The indirect taxes promote social welfare. The amount collected by way of taxes is utilized by the government for social welfare activities, including education, health and family welfare. Secondly, very high taxes are imposed on the consumption of harmful products such as alcoholic products, tobacco products, and such other products. So it is not only to check their consumption but also enables the state to collect substantial revenue in this manner.
9. **Flexibility and Buoyancy:** The indirect taxes are more flexible and buoyant. Flexibility is the ability of the tax system to generate proportionately higher tax revenue with a change in tax base, and buoyancy is a wider concept, as it involves the ability of the tax system to generate proportionately higher tax revenue with a change in tax base, as well as tax rates.

#### **2.2.2.2 Demerits of Indirect Taxes**

Although indirect taxes have become quite popular in both developed & Under developed countries alike, they suffer from various demerits, of which the following are important.

1. **High Cost of Collection:** Indirect tax fails to satisfy the principle of economy. The government has to set up elaborate machinery to administer indirect taxes. Therefore, cost of tax collection per unit of revenue raised is generally higher in the case of most of the indirect taxes.
2. **Increase income inequalities:** Generally, the indirect taxes are regressive in nature. The rich and the poor have to pay the same rate of indirect taxes on certain commodities of mass consumption. This may further increase income disparities among the rich and the poor.
3. **Affects Consumption:** Indirect taxes affects consumption of certain products. For instance, a high rate of duty on certain products such as consumer durables may restrict the use of such products. Consumers belonging to the middle class group may



delay their purchases, or they may not buy at all. The reduction in consumption affects the investment and production activities, which in turn hampers economic growth.

4. **Lack of Social Consciousness:** Indirect taxes do not create any social consciousness as the taxpayers do not feel the burden of the taxes they pay.
5. **Uncertainty:** Indirect taxes are often rather uncertain. Taxes on commodities with elastic demand are particularly uncertain, since quantity demanded will greatly affect as prices go up due to the imposition of tax. In fact a higher rate of tax on a particular commodity may not bring in more revenue.
6. **Inflationary:** The indirect taxes are inflationary in nature. The tax charged on goods and services increase their prices. Therefore, to reduce inflationary pressure, the government may reduce the tax rates, especially, on essential items.
7. **Possibility of tax evasion:** There is a possibility of evasion of indirect taxes as some customers may not pay indirect taxes with the support of sellers. For instance, individuals may purchase items without a bill, and therefore, may not pay Sales tax or VAT (Value Added Tax), or may obtain the services without a bill, and therefore, may evade the service tax.
8. **Discourage savings:** Indirect taxes discourage savings because they are included in the price of a commodity and people have to spend more on essential commodities. Hence, they discourage savings.

### 2.3 The Base of Tax

The base of a tax is the legal description of the object with reference to which the tax is payable. For example, the base of an excise duty is production, packing or processing of a specific good; the base of an income tax is the income of assesses ; defined and estimated in terms of certain rules laid down for this purpose; a gift may be defined and made a base for levying a gift tax. Note that the base of each tax has to be defined legally and it is to be quantified for the purpose of determining the tax liability of an individual tax payer. Each tax payer is considered a legal entity for this purpose. Accordingly, and individual legal entity may be subjected to more than one tax. It should be noted that a tax base may have a time dimension also. For example, income tax is usually on an annual basis and the law has to decide whether income would be taxed on the basis of accrual or receipt. The authorities, while determining a tax base, are expected to give due consideration to various

questions like those of cost of collection, administration and effect of that tax. The exact coverage of a tax base is sought to be determined by an optimum combination of these considerations. With the passage of time, a tax base under consideration may grow or may shrink. For example, as production of excisable goods increases, the base of excise duties also grows. Relevant provisions, definition and rules of a tax may be changed to extend its coverage or base. (Bhatia, 2002)

## **2.4 Impact, Impact, Incidence, and Shifting of Taxes**

The burden of a tax does not always lie on the person from whom it is collected by government. When a tax is imposed on a person, it is quite possible that it may be transferred by him to a second person, and this tax may be ultimately borne by this second person or transferred to other by whom it is finally borne. Thus, a person who originally pays the tax may not be actually bearing its money burden as such. Hence, it is necessary to know who bears the immediate burden of tax and who bears the ultimate burden of tax.

### **2.4.1 Impact of tax**

Impact of a tax refers to the immediate/initial burden of a tax on the person who pays it in the first instance. In other words, the person who pays it in the tax to the government in the first instance bears its impact. Hence, impact of the tax is always on the person who is responsible by law to pay the tax amount to the government in the first instance.

### **2.4.2 Incidence of tax**

Incidence of a tax refers to the final or ultimate resting place of the burden of the tax payment. It is the place where the tax is finally collected. The person who has the legal obligation to make a tax payment may not be the person whose welfare is reduced by the presence of the tax. If a person who pays the burden of the tax to anybody else, then the incidence as well as the impact of the tax is on the same person. However, if the original or the first taxpayer is able to transfer the tax burden (tax paid by him) to a second person who cannot shift the burden of tax to any other person, then the incidence of the tax rests on the second person (Fullerton and Rogers, 1993).

### **2.4.3 Shifting of tax**

Shifting of tax refers to the process by which the money burden of a tax is transferred from one person to another person. In other words, the person up on whom the tax is imposed not necessarily bears the burden of tax. In this case, the person is given the right to pass on the

tax burden to the buyer of goods. Thus, the process of passing on the tax burden to the buyer of goods by the seller of goods is known as shifting of tax. To sum up, three concepts are involved in the process of taxing:

- A tax may be imposed on a person (impact tax) ;
- The tax may be transferred by the first person to a second (shifting tax);
- The tax may be ultimately borne by the second person (incidence of tax).

## **2.5 Tax Saving**

At tax is a compulsory contribution without quid pro quo, tax saving is one of the important issues of taxpayers be it an individual or a business, new or old, small or big, public or private. Tax saving is a method of minimizing or decreasing taxable income and tax to be paid to the government (tax liability). Some of the methods are legal and some are illegal.

### **2.5.1 Tax Evasion**

Tax evasion is a method of saving tax liability by a tax payer through fraudulent means or by directly violating tax laws. It usually entails tax payers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability. Tax evasion is illegal, unethical, uneconomical and highly risky since it may result in penalty, imprisonment and closing up of business. Hence, taxpayers shall find all the legal ways to avoid paying too many taxes and by no means is tax evasion acceptable to government because it involves criminal activity.

### **2.5.2 Tax avoidance**

Tax avoidance is also method of saving tax liability by taking advantage of loopholes in the tax laws. Unlike tax evasion, tax avoidance is the art of escaping from tax burden without breaking tax laws. Tax evasion provides for short term benefits to taxpayer until corrective actions are taken by the government. Even though tax avoidance is travelling within the framework of law or acting as per the language of the law in form, it is undesirable by government since it result in loss of revenue to the government and increase in the burden of the tax on the other taxpayers who do not resort to such practices. (Misrak, 2008)

## 2.6 Objectives/ Aims of Taxation

The main objectives of taxation are as follows:

1. **Raising public Revenue.** Normally, there is only one objective for the imposition of taxes, that is, to collect revenue for the Government. Today the Government has assumed responsibilities of providing social services, promoting economic development, meeting war expenditure and also showing itself 'up' in the eyes of foreign countries. All these expansions in the scope of economic activities have created necessity of greater funds to be spent by the government. The greater the need of funds, the greater is the resort to taxation. Thus the first and the foremost objective of taxation is to raise public revenue to meet the ever increasing public expenditure.
2. **Regulation and control.** The second main objective of taxation is the regulation and control. The government not only raises public revenue through taxation but also imposes restrictions on the use of certain goods and services in a way desirable and respectable for a healthy state of society. To restrict the consumption of harmful goods excise duty on tobacco, liquor etc. is imposed on the consumption of these harmful goods. On the other hand, there are import and export duties which also raise public revenue but their specific objectives are otherwise. Import duties (tariffs) are levied in order to restrict imports of these goods which may harm the infant industries producing goods in the country. Similarly, luxury goods may be taxed heavily while being imported so as to divert the national funds to some other forms of production necessitated inside the country. In the same way, the second main objective of taxation is to regulate the economy in accordance with the needs of the country.
3. **Reduction of inequalities in income and wealth.** Another main objective of taxation is to reduce the inequality of income and wealth. One of the chief characteristics of background countries is that there is a vast gap between the income of person in the highest income group and of those in the lowest income group. That is why one of the objectives of taxation is to redistribute income and wealth in such a way as to ensure more just and equitable distribution. This is possible by taxing rich people heavily and by conferring benefit on the poorer section. This is the objective of progressive taxes like income tax, death duty, wealth tax, expenditure tax etc.
4. **Bringing Business stability and maintaining full employment condition.** Another main objective of taxation is to bring about business stability and maintain full employment

conditions. Low rate of taxation during a business depression shall accelerate more income to the people and help in raising demand and, thus, revive business activity. On the other hand, high rates of taxes and additional taxes may be useful to check inflationary pressure on prices. Thus, tax policy may be used as a regularity mechanism to achieve price stability check business booms and depression and also maintain full employment.

5. **Promotion capital formation.** Another objective of taxation is promotion of capital formation. With particular reference to underdeveloped and developing countries, one of the main objectives of taxation is to make savings more dynamic and promote capital formation. In underdeveloped countries, the savings can be easily directed towards production and capital formation through the assistance of taxation.
6. **Political objectives.** Particularly in democratic countries taxation is used as a weapon for attaining political objectives. For instance, lower and middle – class voters may be attracted by imposing high taxes on rich people and luxury goods and nominal or no taxes on goods consumed by poor ad middle-class people.
7. **Increase in national income.** Another objective of taxation is to increase the national income. Tax is the main source of the government income. This income is used for productive purposes and there by overall production is increased. This increase in production leads to increase in national income of the country along with increase in per capital income. In underdeveloped countries, major part of the income is spent on economic development programmers which too increases national income as well as per capital income.
8. **Restrict unnecessary consumption.** Another objective of taxation is to restrict the unnecessary consumption particularly of harmful commodities, such as wine, cigarettes etc. when heavy tax is imposed on such commodities the consumption is automatically reduced.
9. **Maintenance of proper standard.** Another objective of taxation is maintenance of proper standard. According to A.P Lerner, "Taxes should not be imposed simply because the government needs money. Economic transaction should be taxed only when it is thought

desirable to discourage these transactions. Individuals should be taxed only to the extent that is desired to make the tax payer proper.

## 2.7 PRINCIPLE OF TAXATION

Adam Smith was the first writer to attempt a general statement of the principles of taxation. He gave four principles or canons which should be incorporated in any sound system of taxation.

1. **Principle of ability:** Smith's first canon of taxation was ability. All citizens should contribute towards the expenses of the government, "as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." The richer a person, the more is his ability to pay towards the running of the government. The ability to pay may be judged on the basis of income or wealth or expenditure. This is the most important or basic principle of taxation which is accepted even by modern economists. Actually, according to Adam Smith, "the subject of every state ought to contribute towards the support of the governments as nearly as possible, in proportion to their respective abilities.
2. **Principle of certainty:** Smith's second canon was certainty: The amount to be paid, the time and the method of payment should all be clear and certain for the tax payer to adjust his income and expenditure accordingly. The state should also be certain as to how much revenue it could expect and when it could get it. The canon of certainty was meant to prevent exploitation of the payer by the tax collector or the state.
3. **Principle of convenience:** in Smith's own words, "every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it." The canon of convenience is quite simple. As a tax imposes a burden on the tax payer, it should be imposed at such a time and in such a manner that the tax payer feels a minimum of inconvenience.
4. **Principle of Economy:** Smith's fourth canon of taxation was economy, by which he meant the minimization in the cost of its collection. In other words, taxes should not be imposed unless the revenue from them was considerable and, at the same time, the collection charges should not be too much and too high a proportion of the total tax revenue. Later writers on public finance have added some more canons or principles.

5. **Principle of simplicity:** Every tax imposed by the government should be simple and easily understood by the taxpayer. Simplicity applies to the tax system also. The tax structure should be simple and easy to understand in the sense that the tax system should be easily comprehensible to the tax payer.
6. **Principle of productivity:** The tax system as whole and individual taxes in particular should conform to the principle of productivity, that is, it should produce adequate revenue. It is not worth imposing a tax burden on the community unless its yield is adequate.
7. **Principle of elasticity:** the tax system should be elastic; that is, the amount of revenue to be procured through them can be increased or decreased with the least inconvenience as the necessity of the state expenditure compels it to be increase or decrease.
8. **Principle of diversity:** there should be diversity in the tax system of a country. The reason is that if the government levies a single tax, it will become easier for the tax payers to evade it. But if the government imposes a large variety of taxes, it will be difficult for the people to evade or avoid them.

## **2.8 Historical Background of Taxation and Tax Administration in Ethiopia**

### **2.8.1 Early taxation**

Ethiopia is believed to have long years of history of states. The different rulers have used different mechanisms to get resources from their citizens in the form of taxes. Though the history of taxation in Ethiopia has a relationship with the government structures of the country, there exist hardly any reliable documentary evidences to justify the relation of emergence of government and taxation, when exactly taxation was introduced. Different stories and evidences point out that Emperor Zereya-Yakob started taxation in Ethiopia during the 15th century. Governments which came to power in Ethiopia at different periods have frequently revised and repealed the statutory bases for various types of taxes providing for tax bases and tax rates, time and mode payment, exemptions and offenses. However, there has been no document produced which compiles tax proclamations issued at different periods.

Because most of the products on which tax was levied were agricultural products, evidences indicate in earlier days taxes were paid in kind (salt, cattle, and agricultural products such as honey, butter, grain and cloth) and in money to governors of the state. However, monetary

payment steadily increased in the 19<sup>th</sup> and 20<sup>th</sup> century because of the circulation of money and changing government policy. Since there was no proper assessment of tax, tax rates were highly variable and often arbitrary, i.e. the amount to pay and the mode of payment depends on the will of the chief tax collector and the kind of resources available in the area.

Taxes during the period 1855-1868 consisted of direct and indirect taxes. Direct included land tax (Gibr), Tithe (Asraat), provincial taxes, tax for appointees and appointment, tax for maintenance, tax on honey, production tax from certain economic activities and land tax was levied for the use of land and tithe (means a tenth part) and was levied on the annual product of land. During periods of war peasants were asked to pay even more than two times a year. Indirect taxes during this period included will taxes, caravan taxes and frida (tax on slaughter cattle).

## **2.8.2 Modern Taxation**

### **2.8.2.1 Taxes during Emperor Haileselassie's Government (1942-1974)**

The kind of traditional tax system stated in the earlier section continued for several centuries smoothly until it was replaced by the modern tax system in the mid 20<sup>th</sup> century. The initial statutory bases for all the tax proclamations was the 1931 Constitution of Ethiopia which was later revised and become Revised Constitution of Ethiopia. During this period taxes were imposed on income from employment, from rent of land and building caused for purposes other than agriculture, from business, vocational occupation, and interest and from exploitation of wood & forest used for lumbering purposes. Though at the beginning, agricultural income was exempted from payment of tax, later it was also subject to tax. Tax rates for various heads of income varied according to the changes in government policies.

Tax rates for employment income ranged from 1.8% to 25% under different proclamation and tax brackets from Birr 30 to Birr 5000. In almost all proclamation the tax-free income was Birr 30. The number of tax brackets was also many in most proclamations. Business profit tax was levied according to different category, or different grades (e.g. grade I, II, III etc). Incorporated bodies were taxed at 15% to 16%. Rental tax ranged from 2% to 16% and tax brackets ranged from birr 360 to Birr 1500. Taxes on agricultural income, though not imposed at the beginning, were levied at rates ranging from 1.5% to 20% incorporated agricultural bodies were taxed at 20%. Other taxes collected during this period included, land tax, education tax (levied on land used for promotion of education), health tax (levied on land used for health activities), road tax (collected on the nature and load capacity of health



activities), cattle tax, tobacco tax, excise tax on alcohol, transaction tax (on import and on goods manufactured locally), stamp duty, custom duty, and export duty (Misrak 2008).

### **2.8.2.2 Taxes during the Derg Regime (1975- 1991)**

Taxes imposed during this period were similar to the previous period except wider tax bases and increased tax rates. Employment income tax rates, during this period, ranged from 10% to 85% of employment income. Tax brackets were reduced and tax-exempt income raised to Birr 50. For business income tax, together with the reduction in the number of tax brackets, the rate for incorporated bodies increased to 50% and that of unincorporated business to 89%. But later it was reduced to 59%. Rental income tax rate was also gone up to 89%. Rural land use fee was first introduced during this time. Agricultural income was also taxed at varying rates (with the highest rate being 89%). It was during this period that urban land rent and urban house tax first came in to being. Rental income tax varied from 1% to 4.5%. Excise tax on tobacco leaf and wooden match boxes were introduced and a very high rate for sugar and soft drinks was imposed during this period (Misrak 2008).

### **2.8.2.3 Taxes from 1991 to 1995**

With the establishment of regional government (pursuant to proclamation No. 7/1992), major changes took place in the policy of the country. Tax brackets and tax rates were modified and new tax bases such as tax on mining activities and on capital gains were introducing in this period. The major modification and introduction were as given below.

Employment income tax:

- Tax rate decreased to 10%-40% range (from 10%-8% range)
- Tax brackets reduced to 5 levels

Business income tax:

- Tax rates were lowered to 19%-40% range
- Tax rates of incorporated bodies reduced to 45% mining income tax (newly introduced):
- Rates for large scale mining fixed at 45% and small scale operation at 35%

Capital gains tax (newly introduced):

- Gains on sale of shares, bonds, and urban houses taxed at 30%
  - Gain of less than Birr 10,000 was exempted from tax
- Rental Income tax:

#### **2.8.2.4 Taxes from 1995 on wards**

The constitution of Ethiopia approved in 1995 gave powers to federal and regional governments to levy and collect taxes from the sources allocated to them. A number changes have been made in the tax policy of the country pursuant to the structural changes. The following are the most relevant changes that are incorporated in the tax law.

- Reduction in the rate of business tax from 40% to 30%
- Equalization of tax rate at 35% for both small-scale and large-scale mining activities .
- Assignment of collection of revenue from agricultural income tax to regional governments.
- Exemption of capital gains from houses used for residential purposes
- Introduction of tax withholding system (At 3% and 2% respectively for import and for certain types of payments)
- Replacement of sales tax by VAT and turn over tax

### **2.9 Business income tax assessment**

Commercial, professional or vocational activity recognize as trade by the commercial code of Ethiopia and caused on by any person for profit. An assessment is basically are view by a tax official of the tax declaration and adjust of the arithmetical and financial accuracy of the declared liability. These methods can be categorized as under.

#### **2.9.1 Estimated tax Assessment**

According to the income tax proclamation No 286/2002 Article 69 indicates that

- i. If no records and books of accounts are maintained by the tax payers.
- ii. The records and books of accounts are unacceptable to the tax authority
- iii. If the tax payers fails to declare his or its income within the time prescribed.

#### **2.9.2 Estimated tax assessment is worked by the following tow methods**

##### **I Based on estimated by daily sales**

- The estimated daily sales will be changed to annual income consider the no of working days ( for days Garage 300 days, for retail business 365).
- Schedule "c" of proclamation no 286/2002 Article 19 it used to calculate the tax liability.

## **II Based on Information**

Information received from Import/Export declaration and banks also play a great role to determination of tax an all importers and exporters.

Case A The information given items of purchase

- i. Change purchase to sale
- ii. Calculate taxable income
- iii. Determine the tax liability using schedule "c" proclamation No 286/2002

Case B The information given in terms of sale

- The tax liability is calculated the taxable income and tax liability using schedule "c" proclamation No 286/2002.

## **III Standard Assessment**

As per proclamation No 286/2002 Article 68(1) and (2), a standard assessment which is affixed amount of tax, Is used to determine the income tax liability of category "c" tax payers. Additionally council of ministers regulation No 78/2002 Article 21 indicates that

- Category "c" tax payers shall pay their tax in accordance with schedule "1" and "2"
- Where a tax payers derives income from more than one business activities and such income hasn't been aggregated, the tax authority shall aggregate the taxable income of each activity indicated in schedule "2" and "3" of these regulations and shall apply the tax rate under which the sum falls.

In the tax assessment system of our country the standard assessment system was applicable in limited economic sector such as transport, flour mills, legal advisors and the like. These business sectors have the following characteristics features to apply the standard assessment system. That is

Transport- according to the seating capacity

Flour mills- based on the No of hopper

Legal advisors- According to there grade

## **2.10 Categories of tax payers**

According to the Constitution of Federal Democratic Republic of Ethiopia, revenue sources are assigned between Federal government and Regional states. Regional states can endorse their income tax proclamation and regulations based on the constitution in conformity with the federal income tax proclamation. According to the current federal income tax proclamation no.286/2002 taxpayers are categorized into three categories, namely category "A", "B", and "C" based on their volume of sales and form of business. Subsequently, the Tax Authority will determine whether the taxpayer shall continue in the same category or should be shifted from one category to the other.

**Category "A"** includes any company incorporated under the tax law of Ethiopia or in or a foreign country and other entities having annual turnover of Birr 500,000 and more. Those who are categorized under "A" have to maintain all records and accounts which will enable them to submit a balance sheet and profit and loss account disclosing the gross profit, general and administrative expenses, depreciation, and provisions and reserves together with supporting vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).

**Category "B"** includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. This category of taxpayers must submit profit and loss statement at the end of the year. The law requires all entries in the records and accounts to be supported by appropriate vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).

**Category "C"** unless already classified in categories 'A' and 'B' include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. On the other hand, standard assessment is used to determine the income tax liability of Category 'C' taxpayers. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. This category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area.

## **2.11 Tax Administration in Ethiopia**

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authority of the federal government and state governments. A good and efficient tax administration has:

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

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

- An explicit and sustained political commitment
- Relevant training for staff (who engages in assessment and estimation;  
Additional resources to the tax administration
- Changes in incentives for both tax payers and tax administrators
- Simplification of the tax procedures
- Decentralization of tax administration
- Development of a good accounting system: etc

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

Tax reform has been on progress since 1999 when studies were conducted on aspects of tax administration comprising taxpayer identification number presumptive taxation, assessment and audit, revenue accounting and receivable management, VAT, taxpayer recruitment, investigation and regional co-operation. The study was subsequently recognized under the following components.

### **2.11.1 Tax Policy and Legislation**

The government has taken a number of measures to encourage investment. The investment code provides privileges and incentives in terms of tax holidays. However, in order to further encourage investment, the Government needs to incur short-term revenue loss by providing additional concessions in the income tax laws. In addition, to ensure consistency and fairness in the administration of the tax increased emphasis should be made on enforcement, particularly with respect to addressing should be made on enforcement, particularly with respect to addressing fraud and deliberate non-compliance with the requirement to pay the

appropriate amount of tax to which the requirement to pay the appropriate amount of tax to which the government is entitled. The Government has overhauled the income tax legislation. For example it has the corporate income tax rate from example it has the corporate income tax rate from 35 percent and business income tax rate applicable to sole proprietors and partnerships, from 40 percent to 35 percent. The new income tax proclamation now provide business income tax expenditure deductions for tax payments for land lease, payments as interest for bank borrowing, insurance premiums and other expenditures which were previously not allowable as deductions. Other measures include loss carry forward provisions and revisions to thresh-holds, capital gains and withholding taxes. A new income proclamation incorporating relevant recommendations of various stakeholders, including provisions for extended dedications, loss carry forward and revisions, tariff rates, capital gains and withholding on payments has already been implemented. A turnover tax was introduced in January of 2003 and will apply to tax payers whose annual turnover is less than the value added tax threshold of Birr500,000 an excise tax proclamation was also introduced in January of 2003.

### **2.11.2 Value Added Tax**

The government introduced the value added tax (VAT) administration in January 2003, to replace the sales tax and reduce reliance on direct taxes. According to Ministry of Revenue sources VAT is intended to (i) broaden the base (ii) achieve an appropriate balance between income and commodity taxes (iii) enhance competitiveness internationally through the relief of VAT on exports and business inputs;; and (iv) encourage investment and economic growth in general. VAT applies to goods and services and provides for a single rate of 15 percent and zero rating for exports. The proclamation contains provisions for exemptions for public transport, education, health, Electricity, water and financial services. It also includes a registration threshold of Birr 500,000. Computerization of a full-fledged VAT system is expected to be in place shortly. In the in term period, a system is being of developed to assist in taxpayer registration, revenue accounting and reporting, taxpayers accounting, refunds management, the identification of tax arrears and non-filers, etc. the system will operate on a Local Area Network in the Addis Ababa VAT Office. Initially, declarations for regional VAT offices will be processed in Addis Ababa until local capacity training to operate the system.

### **2.11.3 Presumptive Taxation**

Broadly speaking a presumptive income tax is a tax based on some measure of economic activity that proxy (represents) for taxable income, rather than on taxable income itself. For instance, it may be assessed on the basis of firm's inventory of output, of some input of the production process or of gross sales over a period of time. In any case, the aim of the tax authority is to estimate the taxable income of the whole economic activity at hand. Its intent is not to tax the particulate measure chosen or to extract any economic rents associated with factors of production. Presumptive taxation is usually used in developing countries where it is difficult to clearly measure income for some businesses.

The government adopted a number of presumptive taxation schemes designed to generate additional revenue, promote fairness and equity in the tax system, encourage record keeping by the business community, reduce opportunities for corruption and lessen the administration burden for the tax base and raise more revenue from the hard-to-tax business group, including the large informal sector, and taxpayers who fail to declare or understate income. It involves the use of simplified and cost-effective techniques designed to capture domestic transactions and sources of income that frequently escape taxation under conventional norms.

Presumptive taxation is a tool to combat limited record keeping by the business community, tax evasion, tax compliance and weak tax administration capacity. Implementation of the standard assessment method applying to small (Category C) taxpayers in regions and city administrations with annual turnover of less than Birr 100,000 was introduced in July of 2001. Schemes adopted include the following:

- Standard assessment, which involves fixed a lump-sum tax on a taxpayer for a fixed period, based on occupation or business activity, and replaced the estimating method previously in practice.
- Withholding tax on imports which represents advance income tax payment by the taxpayer. The tax will be credited against the taxpayer's final declaration provided the taxpayer maintains the required books and records in substantiation.
- Withholding tax on payments to the hard-to-tax groups (contractor's substructures, professionals, lessees of commercial property and equipment, non-resident entertainers, etc) will be collected by larger taxpayers and non-commercial institutions, including non-governmental organizations

## CHAPTER 3

### DATA PRESENTATION, INTERPRETATION, AND ANALYSIS

This chapter deals with the presentation, analysis, and interpretation of data concerning tax assessment and Collection problems in Keble 01/18 of Lideta sub-city with the Addis Ababa City Administration based on primary and secondary data. First, it describes the final sample of the study and characterizes the respondents. Then, it deals with the empirical findings from questionnaire survey.

To a large extent, the primary data were collected through questionnaire distributed to staff involved in tax assessment and collection and also to category "C" tax payers. The questionnaire and interview schedule were developed in such a way that enables the researchers to address the five research questions of this study. A description of the respondents who took part in the study is given hereunder.

#### 3.1 Description of final sample

A total of 25 employees and 200 tax payers were included in the final sample. Out of the 25 and 200 questionnaires distributed to tax office personnel and taxpayer respondents respectively, only 20 personnel and 162 taxpayers gave their response. This is an 80% and 81% response rate for tax office personnel and taxpayer respondents, respectively (Table 1). As this represents greater than 15% of the population, the researchers believe that the non-responses doesn't materially bias the result.

Table 1. Number of questionnaire distributed and returned

	<b>Tax Payer</b>	<b>Tax office employees</b>
No of questionnaire distributed	200	25
No of questionnaire returned	162	20
<b>% Response</b>	<b>81</b>	<b>80</b>



### 3.2 Respondents' Characteristics

Table 2. Distribution of respondents by gender

Category	Description	No. of respondents	% of respondents
Tax office personnel	Female	16	80%
	Male	4	20%
	<b>Total</b>	<b>20</b>	<b>100%</b>
Taxpayers	Female	27	16.7
	Male	135	83.3
	<b>Total</b>	<b>162</b>	<b>100%</b>

According to the data presented in Table 2, while 80% of the tax office employees are female, the rest 20% are male. The table also shows that 83.3% of the tax payer respondents are male and the rest 16.7% are female. On the other hand, Table 3 demonstrate that while 60% of tax office employee respondents are below the age 30, 40% of them are are between 30-40 years old.

Table 3 Distribution of tax office personnel respondents by age

Age Category	No. of respondents	%of respondents
Below 30	12	60
Between 30-40	8	40
Above 40	0	0
<b>Total</b>	<b>20</b>	<b>100</b>

Table 4. Distribution of respondents by qualification

Qualification of Respondents	Tax office personnel		Taxpayers	
	No.	%	No.	%
Below high school	0	0	27	16.7
High school complete	0	0	99	61.1
Vocational Certificate	0	0	9	5.6
Diploma	8	40	27	16.7
Bachelor degree	12	60	0	0
Masters degree	0	0	0	0
<b>Total</b>	<b>20</b>	<b>100</b>	<b>162</b>	<b>100</b>

As it can be observed from Table 4, most (60%) of the tax office employees are Bachelor's degree holders and the rest 40% are diploma holders. This indicates that more than half of the personnel in the tax assessment and collection office are reasonably qualified. With regards to taxpayer respondents, majority (61.1%) of them are high school graduates. Of the remaining 39%, 5.6% have vocational certificate, 16.7% hold diploma, and 16.7% are only below high school. Hence, the tax assessors too are felt to be in need of upgrading. Whereas many entrepreneurs are not up to the level with regard to the current tax legislation, this is also the case with many of those, whose job is to assess and collect the taxes, oversee tax declarations and so on.

According to Income Tax Regulation No. 78/2002, there are 69 categories of business sectors. However, the categories surveyed in this study and their distribution is presented in the table below (Table 5).

Table 5. Distribution of business sectors included in the sample

<b>No.</b>	<b>Business Sector</b>	<b>Frequency</b>	<b>%</b>
1	Barber& beauty salon	18	11.1
2	Cereal & Pulses Trade	7	4.3
3	Construction materials	2	1.2
4	Cosmetics shop	5	3.1
5	Electronics	10	6.2
6	Fabrics & Threads	5	3.1
7	Garage	2	1.2
8	Health care services	2	1.2
9	Hotel	5	3.1
10	Household utensils	3	1.9
11	Music& video shop 1	8	4.9
12	Retail shops	78	48.1
13	Shoe trade	5	3.1
14	Spare parts	2	1.2
15	Stationary	2	1.2
16	Tailoring	5	3.1
17	Wood work	3	1.9
	<b>Total</b>	<b>162</b>	<b>100.0</b>

### 3.3 Analysis of responses from tax officers

The following paragraphs present the responses of the tax office personnel. Table 6 demonstrates that majority (60%) of the tax officers believe that in their office right person is assigned at the right position. The remaining but significant number (40%) of the respondents, nevertheless, do not agree with the claim of assigning the right person at the right post.

Table 6. Response of tax office personnel if the right person is assigned at the right position

Question	Response	Number	% of respondents
Do you think that your office assigned the right persons to the right job position?	Yes	12	60
	No	8	40
	<b>Total</b>	<b>20</b>	<b>100</b>

Table 7. Response of tax office personnel on the adequacy and competence of their staff

Question	Response	Number	% of respondents
Is the number and qualification of the employees at your office sufficient to assess and collect category "C" tax efficiently?	Yes	8	40
	No	12	60
	<b>Total</b>	<b>20</b>	<b>100</b>

Table 7 shows that only 40% of the respondents believe that their office assigned sufficient number of adequately qualified personnel who are able to assess and collect tax efficiently. The majority (60%) of tax officers, however, did not agree with this assertion. This inevitably affects the operations and effectiveness of the tax office. Further, Oldman (1967), the tax authorities can be perceived weak by taxpayers and this could might result in tax evasion.

Respondents who said that their office did not respect the principle of right person at the right position to assess and collect category "C" tax efficiently mentioned the following as reasons for the assignment of less appropriate personnel:-

- as a short term solution to address the shortage of manpower
- assignment by political affiliation
- loose recruitment procedures

Table 8. Response of tax office personnel on the provision of training to them

Question	Response	Number	% of respondents
Did you receive any training relevant to your duties and responsibilities?	Yes	16	80
	No	4	20
	<b>Total</b>	<b>20</b>	<b>100</b>

Table 8 shows that 80% of the tax officers indicate that they get regular training relevant to their duties and responsibilities. The remaining 20% of the respondents indicated that they did not get any training. The respondents who gave an affirmative response were also asked to list the type of training they received. They indicated that they have received short term trainings on:

- Tax audit
- Tax assessment
- Tax regulations and guidelines
- Estimating daily income
- Computer applications and Data encoding
- Other trainings based on respective job position

This undoubtedly enables the tax personnel to develop simple and user friendly tax administrative systems and procedures as well as to have sufficient powers to effectively enforce them.

Table 9. Response of tax office personnel on the availability of tax policy and regulation

Question	Response	Number	% of respondents
Is there a clear policy and regulation for assessment and collection of category "C" tax?	Yes	20	100
	No	0	0
	<b>Total</b>	<b>20</b>	<b>100</b>

Table 9 indicates that tax officer respondents unequivocally (100%) replied that there is a clear policy and regulation for assessment and collection of category "C" tax.

Table 10 shows that majority (60%) of the tax officers believe that category "C" tax payers are paying the proper amount of tax as they should. The remaining but significant proportion (40%) of the respondents, however, are of the view that category "C" tax payers are not paying the right amount they should. Those who said "No" reflected the existence of both overstatement or understatement of tax liability. The reasons for this are said to be:

- Lack of continuous market assessment
- Assessment of tax liabilities based only on daily sales

Table 10. Response of tax office personnel on the tax amount paid by taxpayers

<b>Question</b>	<b>Reply</b>	<b>Number</b>	<b>% of respondents</b>
Do category "C" tax payers pay the proper amount they should?	Yes	12	60
	No	8	40
	<b>Total</b>	<b>20</b>	<b>100</b>

Data presented in Table 11 below depict that 60% of the respondents indicated that category "C" taxpayers pay their tax liability before or on the due date. However, 40% of the respondents stated that taxpayers do not keep up with the schedule. Asked the possible reasons of tax payers for failing to meet deadlines, they listed several reasons; some of which are:

- economic difficulties owing to overstatement of tax
- tradition of rush hour payment

Be it for these or other reasons, according to James and Nobes (2000), though a tax payer might eventually pay his/her full liability, if the payment is late, the taxpayer cannot be considered to have been compliant. Furthermore, rush hour show up of taxpayers result in work overload of tax office personnel on the top of inadequate man power.

Table 11. Response of tax office personnel on taxpayers' promptness in paying their tax liability

<b>Question</b>	<b>Response</b>	<b>Number</b>	<b>% of respondents</b>
Do category "C" tax payer pay their tax on time?	Yes	12	60
	No	8	40
	<b>Total</b>	<b>20</b>	<b>100</b>

Table 12. Response of tax office personnel on the provision regular information to taxpayers

<b>Question</b>	<b>Response</b>	<b>Number</b>	<b>%of respondents</b>
Does your office provide regular information to category "C" taxpayers to create tax awareness?	Yes	12	60
	No	8	40
	<b>Total</b>	<b>20</b>	<b>100</b>

From Table 12 above, we can understand that 60 % of the respondent in the tax office clearly stated that, the tax authority provides regular information to category “C” taxpayers to create tax awareness. This helps to inculcate in taxpayers a sense of responsibility towards tax and ultimately promotes a positive view to voluntary compliance.

Respondents were also provided with a list of options to indicate the methods they use to create awareness among category C taxpayers. Accordingly, the methods they selected were:

- mass media
  - TV
  - Radio
- brochure
- poster (banner)

Table 13. Response of tax office personnel about taxpayers complaint

<b>Question</b>	<b>Reply</b>	<b>Number</b>	<b>% of respondents</b>
To what extent do taxpayers complain about the way the tax is assessed and collected?	Frequently	11	55
	Sometimes	5	25
	Never	4	20
	<b>Total</b>	<b>20</b>	<b>100</b>

Tax officers were asked to indicate the level of complaint raised by the taxpayers about the way the tax is assessed and collected. Table 13 illustrates that while 55% and 25% of the respondents witnessed that tax payers complain frequently and sometimes, respectively. Only 20% of the tax officers indicated that taxpayers have never complained on the way the tax is assessed and collected. Those of the respondents who said 'Frequently' were asked to indicate the major complaints raised by the taxpayers. The complaints were:

- tax overstatement
- tax inequity

Tax overstatement usually results in rates beyond the common businesses ability to pay, which makes it very hard for government as well to enforce payment and leads to the closure of enterprises, which otherwise could have continued to provide income and jobs to the national economy.

Table 14. Response of tax office personnel if they face problems during tax collection

Question	Reply	Number	% of respondents
Have you ever faced any problem during the collection of category "C" tax?	Yes	12	60
	No	8	40
	<b>Total</b>	<b>20</b>	<b>100</b>

Table 14 shows that while 40% of the tax office personnel indicated that they did not face any problem during tax collection, majority (60%) of the respondents reported that they do face problems. Among the problems reported as happened during tax collection were:

- taxpayers lack of awareness on the procedures
- taxpayers failure to present all relevant documents
- presentation of wrong information by the taxpayers
- wastage of time by addressing taxpayers complaint
- work overload due to rush hour appearance of taxpayers
- shortage of man power

When tax office personnel were asked if they think that the tax assessment procedures for category "C" tax have any pitfalls, 40% of the respondents indicated that the procedures does not have any pitfall. An equal proportion (40%) of the respondents, however, believed that the procedure have some flaw. The remaining 20% of the respondents were indifferent on the issue.

Table 15. Response of tax office personnel on pitfalls in the assessment of category "C" tax

Question	Reply	Number	% of respondents
Do you think that the tax assessment procedures for category "C" tax have any pitfalls	Yes	8	40
	No	8	40
	Indifferent	4	20
	<b>Total</b>	<b>20</b>	<b>100</b>

Those of the respondents who believed that the tax assessment procedures for category "C" tax have some pitfalls were asked to mention some of the limitations. The major comments are:

- as the assessments are made based on subjective estimation they lack reliability, entails under- or over- statement, deplete trust, and nurture corruption.
- deficiency of the system to ensure vertical and horizontal equity among taxpayers

Tax officers were also promoted with an open ended question to list the major problems they face in the collection and administration of category "C" tax. Accordingly, some of the problems stated by most of the respondents were:

- since most of the category "C" taxpayers do not have books of account, it is challenging for the tax assessor to determine taxable income rightly
- lack of tax assessors faithfulness in determining taxable amount
- liability to corruption due to lack of standard procedure for category "C" tax assessment
- stock concealment by taxpayers
- lack of automation of the tax assessment and collection system
- difficulty of assessors to locate taxpayers' address

### 3.4 Analysis responses from tax payers

When we categorized the number of respondents by the type of business, 36 people who replied or gave the answer for the questioner are involved in retailer and 60% of the total population. And 24 people are involved in service giving.

Table 16. The view of taxpayers about taxation

Question	Options	Number	% of respondents
How do you view tax?	As a privilege	135	83.3
	As a debt	0	0
	As an obligation	9	5.6
	Indifferent	18	11.1
	<b>Total</b>	<b>162</b>	<b>100</b>

Table 16 indicate that majority (83.3%) of the tax payers view tax as a privilege, i.e. In the anticipation of better public services. Only 5.5% of the tax payers felt that tax is a debt and the rest 11.1% of the respondents view tax as an obligation. This indicates that taxpayers have a positive understanding as to why they pay taxes. This indicates that if successive works are done probably better results can be registered.



Table 17. The view of taxpayers on the provision of sensitization training

Question	Options	Number	% of respondents
Do you receive any briefing on tax assessment and collection from the tax authority?	Yes	126	77.8
	No	36	22.2
	<b>Total</b>	<b>162</b>	<b>100</b>

Table 17 presents the response of the tax payers when they were asked if the tax authority gives them any briefing on tax assessment and collection. While the majority (77.8%) of them indicated that they do receive briefing, 22.2% of them answered the opposite. Since poor tax education practice and lack of consultation sessions between the tax authority and taxpayers result in poor tax collection, the office should strengthen the provision of sufficient education to taxpayers to boost awareness.

Table 18. Response of taxpayers on the availability of book of records

Question	Response	Number	% of respondents
Do you have book of records for your business transactions?	Yes	90	55.6
	No	72	44.4
	<b>Total</b>	<b>162</b>	<b>100</b>

Though it is not obligatory for category "C" taxpayers, maintaining books of accounts and supporting documents in accordance with proper accounting principles and in a manner acceptable to the Tax Authority is a commendable practice. Table 18 depicts the response of category "C" tax payers on having book of records. While 55.6% of them indicated that they have book of records, the remaining 44.4% said they do not have book of records for their financial transactions. This means that a quite a significant proportion of the category "C" tax payers don't have any formal means to control their revenues and expense. Tax payers who do not maintain books of account were asked how they can manage their profit and loss in the absence of any record; their responses were:

- Simply by selling items at a price higher than they were purchased
- based on mere estimation
- by comparing their daily revenue and expense

The fact that many business owners do not keep their books properly invites to general estimations, which are often arbitrary. So training is necessary on the one hand and on the other hand, national standards for bookkeeping, which would be respected in all taxation offices nationwide need to be defined and introduced (ECC and EBDSN, 2005).

Table 19. Response of taxpayers on staffing of the tax office

Question	Response	Number	%of respondents
Do you believe the tax office is staffed with adequate number of sufficiently qualified personnel?	Yes	63	38.8
	No	90	55.6
	Indifferent	9	5.6
	<b>Total</b>	<b>162</b>	<b>100</b>

Table 19 indicate that majority (55.6%) of the tax payers do not believe the tax office is staffed with adequate number of sufficiently qualified personnel. In contrast 38.8% of the tax payers indicated that they do believe the tax office is staffed with adequate number of sufficiently qualified personnel.

When taxpayers were asked if the concept and procedures for the computation of category "C" tax is clear to them, only 16.7% of the tax payers said that it is clear for them. While half (50%) of the tax payers indicated it is somewhat clear, the rest 33.3% indicated the concept is not at all clear for them (Table 20).

Table 20. Awareness of taxpayers on the procedures for the computation of category "C" tax.

Question	Response	% of respondents
Are you clear with the concept and procedures for the computation of category "C" tax?	Clear	16.7
	Somewhat clear	50.0
	Not clear	33.3
	<b>Total</b>	<b>100</b>

A good tax system is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. Taxes must be fair and equitable, i.e., citizens should be taxed in proportion to their abilities to pay and in proportion to the benefit they derive from the government. According to James and Nobes (2000), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way.

Tax payers were asked whether the tax they are paying is based on their ability-to pay or not. Table 21 demonstrate that only about a fifth (22.2%) of the taxpayers believe that the tax assessment is fair. However, the majority (77.8%) of category "C" tax payers are of the view that the tax assessment is not fair and equitable.

Table 21. Response of taxpayers on the fairness of the tax assessment

Question	Response	Number	% of respondents
What is your view on the fairness of the tax assessment procedure?	Is it fair	36	22.2
	It is not fair	126	77.8
	<b>Total</b>	<b>162</b>	<b>100</b>

For voluntary system to work successfully, tax payers must be assured that taxes are levied fairly and that everyone pays his share. If the feeling that the tax system has collection loopholes and evasions becomes widespread, if taxpayers learn their neighbors earning comparable income pay substantially less or enjoy tax-free living, their morale to pay tax declines. Once such attitude prevailed among the public it will be difficult to rectify it and demands authorities huge compliance and collection costs.

Table 22. Response of taxpayers on appropriateness of the tax assessment policy

Question	Response	Number	% of respondents
Do you think that the tax assessment procedure is appropriate?	Yes	63	39.0
	No	99	61.0
	<b>Total</b>	<b>162</b>	<b>100</b>

Asked if they think the tax assessment policy is appropriate, the majority (61%) of the tax payers indicated that it is not appropriate. On the other hand, a significant proportion (39.0%) of the tax payers said that it is appropriate (Table 22). This can be due to the fact that the tax systems are usually not elaborated after proper consultation with the business community and due to the frustration on tax overstatement as an outcome of subjective estimation.

Table 23. View of taxpayers on the way they are treated by tax office personnel

Question	Response	Number	% of respondents
How do you rate the cooperation and treatment of tax office personnel whenever you go to pay your tax liability?	Very satisfactory	9	5.6
	Satisfactory	108	66.7
	Not satisfactory	45	27.8
	<b>Total</b>	<b>162</b>	<b>100</b>

Table 23 shows that, with regard to the cooperation and treatment of tax office personnel, while only 5.6% of the tax payers feel that it is very satisfactory, the majority (66.7%) of them believe it is only satisfactory. The remaining 27.8% of the taxpayers however consider that the service is not satisfactory. Those who felt the service is unsatisfactory pointed out that:

- some tax office personnel consider taxpayers as a subject than a partner
- tax assessors do not declare the taxable amount in proper time
- more time consuming and bureaucratic process

Taxpayers be regarded as partners who contribute their share to the national revenue. Taxpayers who are aware of their rights and expect, and in fact receive, a fair and efficient treatment are more willing to comply. Any irritations as above and such as poorly drafted forms, long waiting lines, bureaucratic hassles, rudeness from officials, cumbersome appeal procedures can repel even the most loyal taxpayers.

Table 24 View of taxpayers on the adequacy of the time given to pay their tax liability

<b>Question</b>	<b>Response</b>	<b>Number</b>	<b>% of respondents</b>
Do you think the time given by the tax authority to pay your tax liability adequate?	Yes	81	50.0
	No	81	50.0
	<b>Total</b>	<b>162</b>	<b>100</b>

Table 24 indicate that whereas 50% of the tax payers do think that the time give by the tax authority to pay their tax liability is adequate, an equal proportion (50%) of them do not.

Table 25. View of taxpayers on paying a fine due to their failure to meet deadlines

<b>Question</b>	<b>Response</b>	<b>Number</b>	<b>% of respondents</b>
Have you ever paid a fine due to your failure to meet the deadlines set for the payment of your tax liability?	Yes	27	16.7
	No	135	83.3
	<b>Total</b>	<b>162</b>	<b>100</b>

Article N0 88 Of the Proclamation No. 286/220 stipulates that a taxpayer who fails to pay tax liability on the due date is subject to:

- A penalty of 5% of the amount of unpaid tax on the first day after the due date has passed; and
- An additional 2% of the amount of tax that remains unpaid on the first day of each month thereafter.

Only 16.7% of the taxpayers indicated that they did pay a fine due to their failure in meeting deadlines to pay their tax liability. The majority (83.3) of them, however, witnessed that they didn't pay any fine so far as they disburse their tax obligation timely (Table 25).

The respondents were given opportunities through some open ended questions to give general comment on the overall tax system. Accordingly, they issued several comments regarding problems. These are categorized and listed below:

- the tax system lacks fairness or equity
- absence of transparency in the overall tax system
- high prevalence of illegal trade (many business operators are not accommodated by the tax system)
- lack of awareness, and poor communication between the tax authority and taxpayers
- lack of adequate provision of social services
- weakness in enforcing the tax regulations
- lack of sufficient qualified personnel
- subjectivity of the tax assessment that frequently results in over-taxation

The respondents were also asked to indicate some possible measures that have to be taken in order to bring about useful change in the tax system and ultimately improve voluntary tax compliance. Their comments are briefly presented below.

- improving relationship of the tax authority with the public
- educating the taxpayers and conducting consultation sessions
- providing necessary information to taxpayers regarding the provision of services and utilization of tax revenues
- reducing tax rates and making the collection procedures simple and transparent
- strengthening legal enforcement and penalties

## CHAPTER 4

### SUMMARY, CONCLUSION, AND RECOMMENDATIONS

#### 4.1 Summary

Based on the analysis and discussion made so far, the main findings of this study concerning problems associated with category “C” tax assessment and collection in Kebele 01/18 of Lideta Sub-city are summarized as follows:

- Sixty percent of the tax office personnel indicated that the tax office lacks sufficient number of adequately qualified personnel.
- Eighty percent of the tax office personnel witnessed that they receive relevant training regularly.
- All of the respondents from the tax office believe that there is a clear policy and regulation for assessment and collection of category “C” tax.
- Though 60% of the tax office personnel believe that taxpayers are paying the proper amount of tax, a significant number of them feel the existence of under- and over-statement of tax.
- Sixty percent of the tax office personnel indicated that category “C” taxpayers disburse their tax liability before or on the due date.
- Sixty percent of the tax office personnel pointed out that the tax authority provides regular information to taxpayers through different ways.
- Fifty five percent of the tax office personnel reported that taxpayers frequently complain about the way the tax is assessed and collected.
- Sixty percent of the tax office personnel stated that they face problems during tax collection and this emanate from taxpayers lack of awareness, dishonesty, and the like.
- Forty percent of the tax office personnel believe that the tax assessment procedures for category “C” taxpayers have drawbacks.
- Majority (83.3%) of the taxpayers have a positive attitude towards tax.
- Majority (77.8%) of the taxpayers asserted that they receive briefing on tax assessment and collection.
- Nearly half (44.4%) of the taxpayers do not maintain books of account.
- A considerable proportion (55.6%) of the taxpayers believe that the tax office is not adequately staffed.
- Thirty-three percent of the taxpayers said that they are not clear with the concept and procedures for the computation of category “C” tax.

- A vast majority (77.8%) of the taxpayers believe that the tax assessment procedure is not fair and equitable.
- Sixty-one percent of the taxpayers feel that the tax assessment policy is not appropriate.
- About seventy percent of the taxpayers indicated that the cooperation and treatment of tax office personnel is satisfactory.
- Fifty percent of the taxpayers believe that the time given by the tax authority to pay their tax liability is no adequate.
- Only seventeen percent of the taxpayers reported that they paid a fine due to their failure to meet tax due dates.

## **4.2 Conclusion**

- Since tax is the main source of public expenditure, the assessment and collection of tax at any category should be effective to generate adequate amount of funds that can cover all the capital that the government needs.
- The study indicated that lack of awareness creation programs for taxpayers, failure of most of the taxpayers to maintain books of account to control their operations, lack of adequately qualified personnel, lack of objective tax estimation procedures and the resultant tax under- and over-statement, lack of taxpayers awareness about tax procedures and calculations are some of the major problems on category "C" tax assessment and collection of we believe this problems will be simplified if not eliminated.

**4.3** The tax system is not as such guided by principles of efficiency, equity and simplicity. The strategy to increase revenue from tax requires a concerted, long-term, coordinated and comprehensive plan.



## **Recommendations**

Based on the study conducted using questionnaire survey and in light of the out comes of the foregoing findings, it would be reasonable to give the following recommendations that may help the tax authority and other policy makers to improve the problems associated with assessment and collection of category "C" tax in general and at Kebele 01/18 of Lideta sub-city in particular. These are:

- The tax authority has to develop targeted strategies which impact on the noncompliant without adversely affecting compliant taxpayers.
- Since taxpayers will be discouraged to the extent that the tax system is believed to be unfair. There is a need to ensure fairness and equity. That is, the tax office should treat equal people in equal circumstances in an equal way; each taxpayer should pay according to his ability- to pay; and take measures to bring capable traders that are not paying tax to the tax system. Furthermore, the tax authority ought to find ways involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers.
- Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently. Hence, to create an efficient tax administration, the tax authority needs to strengthen itself by educating and training its employees, by computerizing its operations, devoting additional resources. In addition to this, efficient service delivery to taxpayers is a key factor against which the strength of the authority is judged.
- The tax office has to deploy reasonably adequate personnel both in terms of number and experience. Furthermore, the provision of appropriate training to these personnel has to be reinforced.
- Functions such as tax assessment, collection, awareness creation, providing information, and enforcement has to performed effectively and efficiently, so that the tax office would stand strong and powerful.
- One of the areas to stress is the development of persuasive communications between the tax authorities and taxpayers. Taxpayers' attitude toward taxation is changed only through sustainable awareness creation programs that be extended to having consultative meetings with taxpayers and other influential individuals.
- An awareness of rights and expectations of a fair and efficient treatment *per se* would not promote a robust tax system; there is also a need to establish clear, simple and user

friendly administrative systems and procedures. In addition to this, the authority should make the tax law and procedures simple, understandable, and transparent.

- Periodically review and update its policy and procedures on tax assessment and exert efforts so as to make the taxpayers own these policies and procedures.
- The tax office has to encourage category "c" taxpayers maintain books of account.
- The tax office needs to operate under sound, well-defined tax assessment criteria that is thoroughly understood by the taxpayers. It is also vital that tax administrators ensure that every tax policy instrument at their disposal is being used as effective as possible.

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**APPENDIX I**

**St. Mary's University College  
Faculty of Business and Economics  
Department of Accounting**

**Category "C" tax Assessment and Collection Problems in the case of Kebele 01/18 of Lideta Sub-city  
(Questionnaire designed to tax office personnel)**

**July 2011**

The purpose of this questionnaire is to collect data useful to elucidate the problems associated with tax assessment and collection practices at Kebele 01/18 of Lideta sub-city. The data will form the basis for the research conducted in Partial Fulfillment of Bachelor of Arts Degree in Accounting. Hence, your participation and swift response in filling out the questionnaire is greatly appreciated. We assure you that all information you provide will be held in strictest confidence and be used only for academic purposes. Finally, the researchers would like to praise your contribution to the successful completion of the research.

**Thank you in advance**

**N.B. Please give your answer on the space provided and put tick (✓) mark in the box corresponding to the response of your choice.**

1. General information

1.1. Sex             Male             Female

1.2. Age             20-30             31-40             41-50             above 50

1.3. Job position \_\_\_\_\_

1.4. Level of education

High school complete             Vocational Certificate             Diploma

2<sup>nd</sup> degree                             Bachelor Degree                             Masters Degree

2. Do you think that your office assigned the right persons to the right job position?

Yes                                     No                                     I don't Know

3. If your answer for question No. 2 is "No", specify the problem

\_\_\_\_\_

\_\_\_\_\_

4. Is the number and qualification of the employees at your office sufficient to assess and collect category "C" tax efficiently?

Yes                                     No                                     I don't Know

5. Did you receive any training relevant to your duties and responsibilities?

Yes                                     No                                     I don't Know

6. If your answer for question No. 5 is "Yes", please specify the types of training you received so far.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

7. Is there a clear policy and regulation for assessment and collection of category "C" tax?

Yes                                     No                                     I don't Know

8. Do category "C" tax payers pay the proper amount they should?

Yes                                     No

9. If your answer to question No. 8 is "No", what do you think are the reasons?

\_\_\_\_\_

\_\_\_\_\_

10. Do category "C" tax payer pay their tax liability on time?

Yes                                     No

11. If your answer to question No. 10 is "No", what do you think are the reasons?

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12. Does your office provide regular information to category "C" taxpayers to create awareness among tax payers?

- Yes                       No                       I don't Know

13. If your answer for question No. 12 is "Yes", which methods do you use?

- Mass media                       Brochure  
 Seminar and workshop                       Poster (banner)  
 Other; specify \_\_\_\_\_

14. To what extent do taxpayers complain about the way the tax is assessed and collected?

- Frequently                       Sometimes                       Never

15. If your answer for question No. 14 is either "Frequently" or "Sometimes", what are the major complaints raised by the taxpayers?

16. Have you ever faced any problem during the collection of category "C" tax?

- Yes                       No

17. If your answer to question No. 16 is "Yes", what are the major problems you face?

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18. Do you think that the tax assessment procedures for category "C" tax have any pitfalls?

- Yes                       No

19. If your answer to question No. 18 is "Yes", can you mention any pitfall?

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**APPENDIX II**

**St. Mary's University College  
Faculty of Business and Economics  
Department of Accounting**

**Category "C" tax Assessment and Collection Problems in the case of Keble 01/18 of Lideta Sub-city  
(Questionnaire designed to taxpayers)**

**July 2011**

The purpose of this questionnaire is to collect data useful to elucidate the problems associated with tax assessment and collection practices at Kebele 01/18 of Lideta sub-city. The data will form the basis for the research conducted in Partial Fulfillment of Bachelor of Arts Degree in Accounting. Hence, your participation and swift response in filling out the questionnaire is greatly appreciated. We assure you that all information you provide will be held in strictest confidence and be used only for academic purposes. Finally, the researchers would like to praise your contribution to the successful completion of the research.

**Thank you in advance**





12. Do you think the time given by the tax authority to pay your tax liability adequate?

Yes  No

13. Have you ever paid a fine due to your failure to meet the deadlines set for the payment of your tax liability?

Yes  No

14. What are the major problems in relation to the assessment and collection of category "C" tax?

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15. What do you suggest to solve the problems you stated in question No. 14?

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### **APPENDIX III**

#### **Financial & Time Plan**

##### **Budget Schedule**

<b>No.</b>	<b>Expenditure Items</b>	<b>Cost</b>
1	Stationary	200.00
2	Purchase of printed materials	50.00
3	Secretarial services	250.00
4	Telephone and Internet	75.00
5	Transportation	150.00
6	Miscellaneous	100.00
	<b>Total</b>	<b>825.00</b>

##### **Time Schedule**

<b>No.</b>	<b>Activities</b>	<b>Time Period</b>	<b>No. of days</b>
1	Preparation of draft Research Proposal	June 1-12, 2011	12
6	Submission draft research proposal and obtaining advisor's feed back	June 13-15, 2011	3
2	Preparation of final research proposal	June 16-30, 2011	15
3	Data collection and literature review	July 1-24, 2011	24
4	Data analysis	July 25-31, 2011	6
5	Preparation of 1 <sup>st</sup> draft write-up	August 1-10, 2011	10
6	Submission of 1 <sup>st</sup> draft and obtaining advisor's feed back	August 11-15, 2011	5
7	Incorporation of advisor's comment and Preparation of final write-up	August 16 – 25, 2011	10
8	Submission of final write-up	August 26, 2011	1

## **DECLARATION**

We declare that this research work has been carried out by us the undersigned with the guidance and supervision of the research adviser. All references and other sources used for the research by us have been appropriately acknowledged in the work. We further declare that this paper is the researchers' own work and has not previously been submitted for the purpose of any academic award, either in its original or similar form, anywhere else.

### **Declared By**

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**Selamawit Wube**

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**Genet Yakob**

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**Tigist Tesfaye**

### **Approved By**

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**Habte Zeberga**

**Addis Ababa, December 2011**

**St. Mary's University College**