

**ST. MARY'S UNIVERSITY
FUCULTY OF BUSINESS
DEPARTEMENT OF ACCOUNTING**

**TAX ASSESSMENT AND COLLECTION PRACTICE OF
CATEGORY "B" TAXPAYERS
/ IN THE CASE OF KIRKOS SUB CITY/**

BY:

**ANTENEH SEYOUM
ASHENAFI AWGCHEW
ISRAEL ABERA**

2014

ADDIS ABABA

**TAX ASSESSMENT AND COLLECTION PRACTICE OF
CATEGORY “B” TAXPAYERS
/ IN THE CASE OF KIRKOS SUB CITY/**

**A SENIOR ESSAY SUBMITTED TO
THE DEPARTMENT OF ACCOUNTING
BUSINESS FACULTY
ST. MARY’S UNIVERSITY**

**IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS FOR
BACHELOR OF ARTS IN ACCOUNTING**

BY

ANTENEH SEYOUM

ASHENAFI AWGCHEW

ISRAEL ABERA

2014

ADDIS ABABA

ST. MARY'S UNIVERSITY

TAX ASSESSMENT AND COLLECTION PRACTICE OF CATEGORY "B"
TAXPAYERS

/ IN THE CASE OF KIRKOS SUB CITY/

BY

ANTENEH SEYOUM

ASHENAFI AWGCHEW

ISRAEL ABERA

FUCULTY OF BUSINESS

DEPARTEMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head

Signature

Advisor

Signature

Internal Examiner

Signature

External Examiner

Signature

ABSTRACT

The purpose of this study is to explore the tax assessment and collection practice of category “B” taxpayers in the case of Kirkos Sub city. Its main objective is to assess and single out the core challenges, problems experienced, and opportunities to be exploited by ERCA related to tax assessment and collection. The study also tried to see whether the ERCA’s tax assessment and collection system is fair enough while assessing the tax base, imposing tax amount, calculating penalty and fines, interest, and practicing assessment policy. The study further tried to explore how deep the coverage reached with respect to business income earners.

While performing this research paper both primary and secondary data were used. The primary data were collected through mixed type (i.e. both close and open ended) questionnaires and unstructured interviews and the secondary data were collected from other relevant material, including former research papers done, proclamations, manuals and guidelines, declarations and policies, books, encyclopedia, and the internet as well.

Low level of awareness of tax payers to VAT and profit tax, resistance against VAT registration, lack of ethics (unwillingness to pay tax, suppression of taxable income, failure to issue invoices during transactions, use of identical invoices, etc), poor audit and enforcement capacity of the tax authority, and other challenges during collecting VAT and profit tax and the appearance of large number of tax payers on the dead lines are the major problems hindering the effective tax assessment and collection practice of the authority. In order to improve these and other identified problems, summary and conclusion together with possible and potential recommendations are given on this study/research paper.

ACKNOWLEDGEMENTS

For all the things he has accomplished and his endless support for us, we at the beginning of our wisdom do like to thank God without any reservation.

Secondly, we honestly would like to express our gratitude to our advisor Mr. Belayneh H/Giorgis for his welcoming greetings and incessant support that helped us along to successfully finish the study.

We are also very grateful to taxpayers and tax officials of Kirkos subcity for the willingness they show and give us sufficient information through questionnaire and unreserved interview.

CHAPTER 1

INTRODUCTION

1.1. Background of the study

As Asamnew G/silassie (2008) described one of the mechanisms in which governments finance their spending is through taxation. A tax (from the Latin tax are: to estimate, which in turn is from tangere: to touch) is be defined as a "a compulsory contribution payable by an economic unit to a government without expectation of direct and equivalent return from the government for the contribution made " (Bhatia, 2003).

Therefore, a tax is the income that is gained by governments through taxation.

Tax assessment and collection plays a vital role, especially, for less developed countries (whose spending is higher than earnings and their tax payers are not much aware of tax). Proper assessment and collection of tax is one of the factors that enable the government to achieve its goals and programs. Besides, it reduces the country's dependability on the foreign loan and donations.

Hence, assessment and collection are the integral parts of the tax administration system to put the countries progress at the safest way. Therefore, a special consideration should be given to the assessment and collection of this tax. Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on disobedient taxpayers,(Kangave, 2005).Tax administration processes also needs consideration as assessment and collection needs effective controlling system.

The tax assessment is done based on the records that tax payers maintain, who are required to maintain financial records, if fails to maintain, estimated assessment will be done, and standard assessment method for those who are not required to do so.(Council of Ministers, 2002, Income tax regulation no. 78/2002).

The general objective of the study is to explore the tax assessment and collection practice of kirkos sub city centrally on business income tax and VAT and specifically to identify the main challenges and problems and their causes in tax assessment and collection system and to look for opportunities for the betterment of the overall system.

1.2. **Statement of the Problem**

The running of our country to be one of the world's middle income level countries is the ultimate goal of the federal government of Ethiopia. Without sufficient funds the government can not possibly meet its core objectives. In order to implement the countries major programs and the various mega and mini projects in it, governments should look for a consistent and reliable source of incomes. As mentioned above one of the major sources is the tax revenue collected from the people. The government uses this tax revenue to construct roads, build dams, open schools and hospitals that provide food and medical care for the poor. Hence tax is the blood vessel of a country for development.

However, the tax collection and assessment practice has different problems that hinder the proper tax administration of the authority. These problems are taxpayer's poor awareness about tax, taxpayers' unethical practice, being resistance to register for VAT, and others. The problems are from both the weakness of the assessment and collection system and various challenges exerted by the tax payers as well. Investments opportunities created by the federal government encourage vast number of new individuals to be emerged in the business continuously. Yet the activity of tax authority in terms of increasing staff numbers, expansion, and training facility is not that much promising to handle the increasing number of the firms.

As tried to describe earlier tax is a blood vessel of a country. So the problems around this tax collection need a close attention. Therefore, the study will focus on singling out what exactly these problems are; what their root causes might be; and how the tax authority is tackling these problems.

1.3. **Research Questions**

The study focuses investigating basic problems experienced by ERCA in general and kirkos sub city in particular for the successful accomplishment of the routine tax collection and assessment practices. Followings are research question identified by the researchers:

- ✓ What are the main reasons of lack of awareness of tax payers?
- ✓ What are the root causes of unethical behaviour of tax payers?
- ✓ Why are income earners resistances to register for VAT? And what are the benefits of being registered for VAT?
- ✓ How are taxpayers assessed for tax? Is the tax assessment fair?
- ✓ What remedies have been taken by the authority to solve the challenges and problems faced? And to utilize opportunities, if any?

1.4. **Objective of the Study**

General objective

The general purpose of this research is to explore the tax assessment and collection practice of kirkos sub city centrally on VAT and business income tax with respect of Category “B” tax payers.

Specifically, the objectives of the study are to:

- Analyze and explain the reasons of lack of awareness of taxpayers
- Find out causes for unethical behaviour of tax payers and their failure to register for vat
- Discuss the benefits of being registered for vat
- Explore how tax assessment is done and examine its fairness and,
- Single out the authority’s executive and operational level practices and remedies taken for proper tax assessment and collection

1.5. Significance of the Study

The output of the study will benefit the management, employees, tax payers, other researchers, and the government. The management of ERCA can use the study to evaluate their operation and tax payers' reaction so that they can make an informed management decision. The employee of ERCA can also get much awareness about what exactly they are doing and how they can maximize their effort. The study will also benefits the vast number of tax payers to create and strength their awareness on paying their tax liability. Besides, it may also be used as an input for other interested researchers for conducting further study and relates their knowledge with the real practice. Furthermore, the government can see the big pictures of the area of problems that need immediate corrective actions and possible area of weakness so that it can examine operational policies and guidelines.

1.6. Delimitation of the Study

As taxes are different types, broadly categorized as direct and indirect, and due to time and cost constrains, the research will centrally focused on the tax assessment and collection practice of category "B" taxpayers regarding business income tax and value added tax. The study was done only on the taxpayers who were active on Megabit 28, 29, & 30, 2006 E.C. While looking the tax assessment and collection practice, the study tried to find out the main issues especially challenges, problems, and opportunities of the ERCA's kirkos sub city tax assessment and collection system.

1.7. Research Design and Methodology

The study attempted to apply the research design and methodology which are suitable for the successful accomplishment of the research.

1.7.1. Research Design

The research method used in the study has qualitative nature. From this qualitative approach, the researchers used survey and questionnaire. The questionnaires are open and closed ended that are distributed to selected seventy category “B” taxpayers and ten tax official of kirkos sub city. The interviews are used on two high tax officials of the sub city to get primary data. The type of research used in doing this study is a descriptive type of research.

1.7.2. Population and Sampling Technique

While collecting primary data the main focus areas are the tax payers and tax officials of kirkos sub city. There are about 1,348 active category “B” taxpayers identified in kirkos sub city by the time the researchers made a visit on Megabit 28, 29, and 30 E.C. However, this figure is not static. According to the information given, the number of taxpayers increases and decreases due to the level of their sales by being active and not active. Moreover vast numbers of taxpayers are transferred to the new office opened around stadium area. The sub city uses a rotation system of assignment of duties of tax officials and there are about 31 tax officials assigned in the tax assessment and collection process at a time. The research used a sample size of a total of 82 respondents. 70 number of respondents from taxpayers and 10 from employees of the sub city tax authority are selected for the questionnaire. In addition to the questionnaire, 2 members of higher officials are identified for further unstructured interview.

1.7.3. Types and Method of Data Collection

As qualitative approaches are basically to understand meanings, look at, describe and understand experience, ideas, beliefs, and values, the study used qualitative approach in gathering the tax assessment and collection practice of category “B” taxpayers. In

addition, by trying to find out the core reasons of problems of the taxpayers unethical behaviour and why they are resistance to register for VAT.

The researchers used probability and non probability sampling method. From the probability sampling, a simple random sampling technique was used to select sample from the tax officials working in the sub city tax assessment division section. Convenient sampling from the non probability was used in selecting the tax payers who are available in the last days of payment period. The reason why we select the last payments dates are because the majority of tax payers have a tendency to declare their tax liability on the dead lines and hence the researchers are able to find enough number of respondents. Again purposive or judgemental sampling technique was applied to interview higher officials of the sub city's concerned administrative bodies.

The data collected are both from primary and secondary sources. While collecting these data the primary data were collected using a mixed type, open and closed ended, questionnaire. Unstructured interviews were also applied to gather sufficient information from the target groups. In addition, the secondary data were collected from different sources that the researchers are capable of finding such as magazines and flyers of ERCA, unpublished materials, proclamations, ERCA's official web site, previous research papers, interview with officers, discussions with the authority employer selected tax payers, reviewing of printed document like books, and the internet.

1.7.4. Data Analysis Method

In this research study, a descriptive method of data analysis is used and the collected data are tried to be filtered, consolidated, tabulated, analyzed, and interpreted. The researchers use different kinds of tools like graphs and tables in analyzing the collected data. After going through the analysis and interpretations, conclusions and possible recommendations are then be given.

1.8. Limitation of the Study

In order for the research to be more effective it is necessary to get adequate, convenient, and reliable data from both the kirkos sub city tax officials and tax payers as well. Hence, while discharging their duty the major challenges that the researchers faced are

- ✓ time and cost constraints
- ✓ Office work load of the researchers own job
- ✓ Inability of finding enough number of business owner respondents

1.9. Organization of the Study

The study is presented in four chapters. The first chapter presents the introduction, background of the study and organization, statement of the problem, research question, hypothesis, objectives of the study, significance of the study, scope of the study, research methodology, and organization of the study, while the second chapter deals with review of related literature, theoretical and empirical. The third chapter depicts and describes data analysis, interpretation, and presentation. And the last chapter includes the summary, conclusions and recommendation. Finally, the list of Bibliography, sample questionnaires and financial statements are attached to the research paper.

CHAPTER 2

2. REVIEW OF RELATED LITERATURE

INTRODUCTION

Various researchers, authors, business and political experts wrote different academics and professional scenarios about taxation in different arena. All have their own contributions towards strengthening in creating tax awareness even if they all argue their own findings and recommendations weigh high position. In order for us not to be in a situation of information overloaded we tried to select and refer only materials which we believe relevant for our study especially with our country context. So a brief review of existing theoretical and empirical literatures of the “tax assessment and collection” is presented in this section. The major differences and gaps that will possibly be narrowed by further studies, of the existing empirical studies have been tried to be identified and summarized at the end.

2.1. Theoretical reviews

2.1.1. Definitions and concepts

What is Taxation?

Taxes are compulsory levy, imposed by government on income, expenditure or capital asset for which the tax payer receives nothing specific or indirect return of goods or services by the government. (Hancock, 1995)

Tax is one of the important sources of government revenues. Stability and continuity of the flow of tax collection play an important role in the government planning's for providing variety of the required public services in different areas. Implementation of the value added tax by more than 120 countries, all over the world, shows the efficiency and acceptability of this new kind of taxation in providing a reliable source of incomes for governments. Implementation of the VAT with a fixed rate makes

the forecast of government incomes possible resulting in possibility of better planning. On the other hand, the short term characteristic of collection of the tax, guarantees the continuity of the flow of income into the government's treasury.

Taxation is a system of raising money to finance government. All government requires payments of money-taxes from people. Governments use revenues to pay soldiers and police to build dams and roads to operate schools and hospitals, to provide food to the poor and medical care to the elderly, and for hundreds of other purposes. Without taxes to fund its activities, government could not exist. (The Encyclopaedia, 1997)

In Ethiopia tax is taken as debt imposed by the government for long period of time. Government of a country levied tax without having aware of the society why tax is collected and what shall be done after collecting tax from the society. They also did not exhibit the activities resulting from the collected tax. Because of this inherited weakness of the prior rules of tax policies, paying tax is considered by the society as a debt imposed by the government without interest of them. However, now the agencies are awarding the society the contribution of tax for the development of the country. (Ageazin Teka, "Saving and Taxation in Ethiopia")

Since taxes are an involuntary payment for government services, taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1999).

2.1.1.1. Purpose of Taxation

The prevalent idea during the nineteenth century (C19th) was that, taxes should mainly serve to finance the government expenditure. Governments since time immemorial have utilized taxation for other than merely fiscal purposes. One useful way to view the purpose of taxation is to look at taxation from the perspectives of American Economic Stability. The stabilization objectives which tax policy share with government expenditure policy (under the rubric of fiscal policy) and monetary policies is the maintenance of high employment and price stability.

The major rationales for imposing taxes in a market economy such as the stems for the government responsibility are listed below;

1. Redistribution of income and wealth

Through the institution of a progressive system, the rich are made to contribute more to the “taxation” fund than the poor. The mechanism for the distribution of wealth by the use to transfer payments and benefits are helpful to those members of society who are employed.

2. Promotion of social and economic welfare

Government often takes on paternalistic role by providing ‘MERIT’ goods e.g. health and education. Merit goods, unlike public goods can be provided privately, but if left completely to market forces, merit goods and services would be under consumed. So are some merits goods and services that should be provided by the state alone to encourage support. These merits goods and include, health equipment, school gadgets, roads and markets, so that people can benefit and also to ensure a healthy and educated society. Taxation is the sources of all development projects in a country.

3. Economic stability

Taxation can be used as a tool to control the level of inflation or deflation. A spiral inflationary situation may be restricted by increasing the incidence of taxation and by decreasing the volume of money in circulation. Government uses taxation as a monetary tool to control inflation and ensure economic stability. When inflation is high the government increases the level of taxation and vice versa. These measures are as a result of taxation in order to avoid high level of inflation and unemployment in the economic stability and sustainable growth.

There are also various purposes taxation has. Some of these are capital accumulation, creation of employment opportunity, and enhancement of standard of living etc.

2.1.1.2. **Essential Characteristics of Taxation**

1. It is an enforced contribution
2. It is generally payable in money
3. It is proportionate in character, usually based on the ability to pay
4. It is levied on persons and property within the jurisdiction of the state
5. It is levied pursuant to legislative authority, the power to tax can only be exercised by the law making body
6. It is levied for public purpose
7. It is commonly required to be paid a regular

2.1.1.3. **Canons/Principles of Taxation**

As Misrak Tesfaye mentioned in his book called "Ethiopian Tax Accounting", Adam Smith, the father of modern economics, has laid down four principles or canons of taxation in his famous book "Wealth of Nations". These principles are still considered to be the starting point of sound public finance. Adam Smith's celebrated canons of taxation are:

(1) Canon of equality or ability, (2) Canon of certainty, (3) Canon of convenience, and (4) Canon of economy.

1. **Canon of equality or ability:** Canon of equality or ability is considered to be a very important canon of taxation. By equality we do not mean that people should pay equal amount by way of taxes to the government. By equality is meant equality of sacrifice that is people should pay taxes in proportion to their incomes. This principle points to progressive taxation. It states that the rate or percentage of taxation should increase with the increase in income and decrease with the decrease in income. In the words of Adam Smith:

"The subject of every state ought to contribute towards the support of the government as early 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".

2. **Canon of certainty:** The Canon of certainty implies that there should be certainty with regard to the amount which taxpayer is called upon to pay during the financial year. If the taxpayer is definite and certain about the amount of the tax and its time of payment, he can adjust his income to his expenditure.

The state also benefits from this principle, because it will be able to know roughly in advance the total amount which it is going to obtain and the time when it will be at its disposal. If there is an element of arbitrariness in a tax, it will then encourage misuse of power and corruption Adam smith in this connection remarks:

"The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid all ought to be clear and plain to the contributor and to every other person".

3. **Canon of convenience:** By this canon, Adam smith means that the tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in instalments after the crop is harvested, it will be very convenient for the agriculturists to pay

it. Similarly, property tax, house tax, income tax, etc., etc., should be realized at a time when the taxpayer is expected to receive income. The manner of payment of tax should also be convenient. If the tax is payable by cheques, the contributor will be saved from much inconvenience. In the Words of Adam Smith:

"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".

4. **Canon of Economy:** The canon of economy implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with administration efficiency. If the government appoints highly salaried, staff and absorbs major portion of the yield, the tax will be considered uneconomical. Tax will also to regarded as uneconomical if it checks the growth of capital or causes it to emigrate to other countries, In the words of Adam Smith:

"Every tax is to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state".

2.1.1.4. **Some Others Canons/Principle of Taxation**

Misrak has also tried to see some canon's principle of taxation on his book. He noted that rather than Adam Smith Some writers on Public Finance have formulated four other important canons/principles of taxation. They, in brief, are as follows:

1. **Canon of productivity:** The canon of productivity indicates that a tax when levied should produce sufficient revenue to the government. If a few taxes imposed yield a sufficient fund for the state, then they should be preferred over a large number of small taxes which produce less revenue and are expensive in collection.

2. **Canon of elasticity:** Canon of elasticity states that the tax system should be fairly elastic so that if at any time the government is in need of more funds, it should increase its financial resources without incurring any additional cost of collection. Income tax, railway fares, postal rates, etc., are very good examples of elastic tax. The government by raising these rates a little can easily meet its rising demand for revenue.
3. **Canon of simplicity:** Canon of simplicity implies that the tax system should be fairly simple, plain and intelligible to the tax payer. If it is complicated and difficult to understand, then it will lead to oppression and corruption.
4. **Canon of diversity:** Canon of diversity says that the system of taxation should include a large number of taxes which are economical. The government should collect revenue from its citizens by levying direct and indirect taxes. Variety in taxation is desirable from the point of view of equity, yield and stability.

2.1.1.5. **Nature of Taxes**

The rate of tax charged determines the nature of that tax

- ✓ **Progressive tax:** A tax is said to be progressive if the rate rises as income rises.
- ✓ **Proportional tax:** A tax is proportional if the same percentage of income is paid in taxes regardless of income. The tax rate for a proportional tax remains constant for all levels of income.
- ✓ **Regressive Tax:** A tax is regressive when tax rate declines as income rises. In other words, a tax is said to be regressive and not progressive if the lower the income, the higher the proportion of income paid in tax.

2.1.1.6. Types of Taxes

Taxes are most commonly classified as either direct or indirect. Direct taxes refer to taxes that can directly reduce the taxpayers' income and that are directly related to the taxpayers' personal circumstances. They are primarily taxed on persons; they are aimed at the individuals' ability to pay as measured by his income or his wealth. It is based on the principles of pay as you Earn (PAYE) and it is directly levied on the income earned or to be received. Direct taxes are therefore money paid out directly to the government based on what the individual earns. Direct taxes are borne wholly by the individual paying it and it is not transferable but progressive. This tax includes income tax, property rate, gift tax profit tax, withholding tax, rental tax, and capital gains tax.

Indirect taxes are indirectly paid by the final consumer of goods and services. The incidence of the tax can be shifted or transferred to another person who is receiving the goods and services or transaction. They are taxes that are paid by an individual through purchase of goods and services and that are not directly related to the personal circumstances of the tax payer. It includes general and selection taxes on sales of consumable goods, value added tax (VAT) on goods in the process of production, taxes on legal transactions, import and export duties.

2.1.1.7. Tax Assessment and Collection

Most taxes are based on the principle that the receiver of taxes has the right to assess the tax liability, and demand the assessed amount from the taxpayer. Tax assessment is a procedure used by government assessors to determine the value of property, or the income of an entity, in order to charge taxes or to levy on the orders of a court. Tax collection on the other hand is the act of gathering tax revenue typically refers to monies as the result of taxes imposed on their citizens.

A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards. The core service responsibilities include:

- preparing annual market value assessments for all properties
- preparing the business assessment valuations for all business premises
- maintaining accurate property information and ownership on all realty accounts
- maintaining accurate business information and ownership on all business accounts
- defending assessments before municipal and provincial assessment tribunals
- responding to inquiries and requests for information related to assessment and taxation
- producing and mailing annual assessment and tax notices to tax payers
- reporting assessment roles and meeting annual audit

2.1.1.8. Tax Administration Challenges

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

Tax administrators face a difficult number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries, like Ethiopia, with economies in transition there is

a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers.

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990).

Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF 2006).

Heavy tax distortions in transition economies come from various sources. First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation. The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. This will mean extending the

VAT to all but a few goods and services (notably export, which should be zero - rated, and banking and insurance services, where it may be difficult to determine the amount of value added to be taxed).

Some of the major challenges while implementing the VAT system are:

- ✓ Eligible taxpayers are reluctant to be registered in the sense of “wait and see” especially with the fear of losing their customers
- ✓ Non-issuance of invoices by the taxpayers during transactions by providing options to their customers to choose sales with VAT invoices or sales without VAT invoices.
- ✓ Usage of identical invoices
- ✓ Non-willingness of consumers to buy goods and services with VAT in the sense that they are charged more due to awareness limitation
- ✓ Non-strengthened tax administration

2.1.1.9. Tax Compliance Theory

Tax compliance means obeying tax laws. Andreoni et al. (1998) stated that compliance with reporting requirements means the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the Internal Revenue Code, regulations, and court decisions applicable at the time the return filed. According to Singh (2003), the definition of tax compliance is an action by a taxpayers filing its Income Tax Form (or usually referred as Returns), declaring all taxable income accurately, and disbursing the payable tax within the stipulated time without getting the tax authority to keep reminding or taking action against those noncompliance taxpayers. Similarly, according to James S. et al (2003), tax compliance expressed in terms of the degree that taxpayers □ comply with tax law and the degree of non-compliance measured in terms of the tax gap. This gap happens by means of both tax avoidance and tax evasion. Similarly, compliance gap also defined in (FIRA, 2002) as the break between the actual, and the potential tax revenue and how that gap varies among the different sectors of taxpaying population.

Noncompliance refers to not abiding the tax laws. The types of noncompliance; Firstly, the case of filing; the noncompliance refers to non filing of returns to the tax authority will lead to tax gap i.e. the amount of unpaid taxes due foregone. Second, the nonpayment compliance refers to untimely taxes paid, that means payment not made in a timely manner to the tax authority. Timely tax payment is important to the tax authority. The dues received now will used for the government's expenditure otherwise, the insufficient fund needs to borrowed and incur additional cost. Thirdly, issue on noncompliance and tax underreporting. This considered a criminal offence that imposes severe penalty. The taxpayer practices no reporting by way of evasion and avoidance; both are same except that the later is legal while the former is illegal. This area of noncompliance poses a serious problem to tax authority because these taxpayers escape tax and their burden pushed to the other complying taxpayers. This is where the fair and equitable tax system is questionable.

2.1.2. VAT

2.1.2.1. Meaning and Definitions

Value added tax is kind of indirect tax on consumption and domestic sales of goods and services; this kind of taxation is a multiphase taxation that in each phase of production cycle until final consumption will be collected according to the value added creation. It is a multiphase sales tax which frees the buyers of intermediate goods and services from tax payment.

Different authors who wrote about the tax have defined value added tax (VAT), According to encyclopaedia Britannica VAT is "A sales tax designed like other sales taxes to tax private consumption by individual of the goods or services subjected to tax" this definition failed to list out other features that distinguishes VAT from other kinds of taxes. One can understand from this definition VAT is a variety of sales tax and the tax is imposed on consumer. Black law dictionary on its parts provides that "VAT is

a tax assessed at each step in the production of a commodity production on cost and its selling price “(Yohanes and Sisay, 2009 pp.66).

It is broad tax based because it is charge in different stage at production and distribution chain rather than on – time imposition. It also affects sectors, that is, import manufactures whole seller and retailer sector. VAT is family at sale tax sales tax is a tax imposed on a sale of goods or services and computed as a percentages of the total tax collected at multiple stage. VAT is a self assessed tax since the VAT liability is calculated and paid by the tax payers (proc, No 285/2002).

2.1.2.2. Nature of VAT

A value-added tax is a multistage sales tax that is collected at each stage or point in the production and distribution process. In a typical business operation, a firm purchases raw materials from its suppliers and produces a product or service by processing, manufacturing, distributing, or otherwise "adding value" to its initial purchases of goods and materials from other firms. While value added may be calculated in various ways, it is easiest to think of it simply as the difference between a firm's sales and its (non-labour) purchases of produced goods.

2.1.2.3. Characteristics Of Value Added Tax

1. VAT is a form of indirect taxation
2. VAT is a broad based tax as it covers the value added to each commodity by a firm during all stages of production and distribution
3. VAT is based on value added principle. Vale added can be obtained either by adding payments to factors of production (i.e. wages+rent+interest+profit) or deducting cost of inputs from sales revenue)
4. VAT is a substitute for sales tax, hotel tax, contract tax, and entertainment tax.

5. VAT is based on self-assessment system and provides the facility of tax credit and tax refund
6. VAT avoids cascading effect existed in sales tax and contains catch-up effect

In a nutshell, VAT is an indirect tax that is imposed on different goods and services on the basis of value added amount in different stages of production and distribution. It is not a genuinely new form of taxation but merely a sales tax administered in different form. Although it is borne by the final consumer, VAT is collected at each stage of production and distribution chain.

2.1.2.4. Input and Output VAT

Input tax means when a company buys goods or services from another supplier, VAT is charged on the purchase price that is known as input tax. Hence, VAT that is paid by a business to other businesses on the supplies that it receives is known as "input. VAT that is charged by a business and paid by its customers is known as "output VAT" (that is, VAT on its output supplies). Therefore, Output tax means when the company sells its own goods or services it charges its customers VAT this is output tax. In general Input VAT is the tax imposed on purchase whereas Output VAT is the tax charged on selling items.

The difference between output tax and input tax is a liability payable to ERCA. If input tax is greater than output tax the company can claim back money from ERCA.

2.1.2.5. Advantages and Disadvantage of VAT

Advantages of VAT

- Income generator for covering the government expenses

Due to the vastness of tax basis of value added tax system which usually includes the majority of goods and services, this kind of taxation called by governments as a "money producing engine".

- As compared to other taxes, there is a less chance of evasion. Vat minimizes tax evasion due to its catch-up effect
- It improves productivity
- In VAT system, a firm has to pay tax even though it goes into loss. The firm cannot claim any exception for loss because it pays taxes on the value produced and not on profits. So, firms will always try to improve their performance and reduce the cost of production. As a result, the overall productivity of the country will be improved (Misrak, 2008, p. 310).
- Interferences in market forces is minimum
- Encourages disciplined trade
- VAT is transparent and has minimum burden to consumers as it is collected in small fragments at various stages of production and distribution
- It improves foreign trade

Exports of goods and services in most countries that implement VAT are liable to VAT. At zero rates this may make exports internationally competitive and thus encourage exports (Misrak 2008, p. 311).

- VAT is simple to administer as compared to other indirect taxes
- VAT is based on value added not on total price. So, price does not increase as a result of VAT
- There is mass participation of taxpayers

Disadvantage of VAT

- VAT is costly to implement as it is based on full billing system, i.e. "VAT system involves high of administration, assessment, verification collection, etc. hence; it is highly uneconomical". (Misrak, 2008, p. 312).
- Regressive in nature. The burden of taxes on low income people is greater than the other groups of income earners even though the principle says a person should be taxed according to his ability to pay, the poor pay more as their percentage of income than the rich here it is regression

- Paper work required increases considerably and it is not as simple as a single point sales tax
- VAT is relatively complex to understand. The calculation of value added in every stage is not an easy task
- VAT requires a good record keeping of invoices at each stage of production and both payers and sellers, therefore, find compliance to VAT to be time consuming.
- To implement the VAT successfully, customers, need to be conscious, otherwise tax evasion will be widespread
- Although VAT system requires proper record keeping of invoices at each stage of production and distribution by both the buyer and seller, it has ream loopholes for tax evasion. This may include the following:
 - ✓ Tax payers could over report sales of zero rated goods.
 - ✓ Tax payers could use invoices they received for personal purchase to claim tax credits.
 - ✓ It enables buyers and sellers to strike secret deals with regards the issuance of receipts.
 - ✓ It could lead to the formulation of forged ponies' recipients to claim tax credit on input VAT, etc (Misrak, 2008, p. 312).

2.1.3. **BUSINESS INCOME TAX**

2.1.3.1. **Meaning and Definition**

Business income tax is an amount which is kept by the company to pay taxes against its profits. It is considered as current liability. Business Income Tax is shall be imposed on the taxable business income. A taxable business income shall be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the Generally Accepted Accounting Standards, subject to the provisions of this Proclamation and the directives issued by the Tax Authority. 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%.

This is tax payable for each year of assessment on the profit of any company, these include profit accruing in, derived from or brought into or received from a trade, business or investment. Policy maker frequently use tax policy to encourage economic activities and to compete with other state to attract new capital. Although researchers have examined the effectiveness of state and local tax policies as an economic stimulus no consensus exists regarding whether and how state company income tax policies affect economies. It is clear that all else equal lower company income tax rates would be expected to increase economic activity because of the reduce cost of such activity to install firms as the potential to attract new activity from out of state firms. However, there is much more to the story than company income tax rates.

Misrak on his book of “Ethiopian Tax Accounting theory and practice” says a lot about business income tax. He described business income tax referring the Ethiopian income tax proclamation no 286/2002 article 17 as business income tax, or business profit tax is the tax imposed on taxable business or profit realized from entrepreneurial activity. It is charged on the profits of business enterprises on their activities arising each accounting period or tax year. At the end of each tax year or accounting period, business income taxpayers submit an income tax return (tax declaration form) to the authority which shall contain full and true information about the income (profit) earned by the business taxpayers.

2.1.3.2. Computation and Tax Rate of Business Income Tax

- A. According to Income Tax Proclamation No. 286/2002, tax is imposed on commercial, professional or vocational activity or any other activity recognized as trade by the commercial code of Ethiopia and carried on by any person for profit.

- B. Taxable business income of bodies (e.g., PLC, Share Company) is taxable at the rate 30%;
- C. Taxable business income of other taxpayers is taxed in accordance with the following Table;

When you are considering what type of business to select, consider how each business type pays income taxes. Following is an article that compares the types of businesses and explains how each type pays its income taxes.

Taxable Business Income /Net Profit/ /per year/		Tax Rate (in %)	Deduction (in Birr)
Over Birr	To Birr		
0	1,800	Exempt threshold	
1,801	7,800	10	180.00
7, 801	16,800	15	570.00
16, 801	28, 200	20	1,410.00
28, 201	42,600	25	2,520.00
42, 601	60,000	30	4,950.00
Over 60, 000		35	7,950.00

Example: Computation of business income/profit tax

-Business Net Profit per year/Taxable Income = Birr 40,500.00

-Business Profit Tax = $(40,500 \times 25\%) - 2,520.00$

= $10,125 - 2,520$

= 7,605.00 Birr

In the determination of business income subject to tax in Ethiopia, deductions would be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer.

The following categories of income would be exempted from payment of business income tax:

- Awards for adopted or suggested innovations and cost saving measures
- Public awards for outstanding performance
- Income specifically exempted from income tax by the law in force in Ethiopia, by international treaty or by an agreement made

Deductible Expenses

In the determination, of business income ,subject to tax in Ethiopia, deductions shall be allowed for ,expenses incurred for the purpose of earning, securing, and maintaining that business income to the extel1t that the expenses can be, proven by the taxpayer and subject to the limitations specified by this Proclamation.

Non-Deductible Expenses

1) The following expenses shall not be deductible:

- a. the cost of the acquisition, improvement, renewal and reconstruction of business assets that are depreciated pursuant to. Article 23.of this Proclamation
- b. an increase of the, share of capital of a company or the basic capital of a registered partnership;
- c. voluntary pension or provident fund contribution over and above 15% of the monthly salary of the employee.
- d. declared dividends and paid-out profit 'shares;
- e. interest in excess of the rate used between the National Bank of Ethiopia and the commercial banks increased by two (2) percentage points.

- f. damages covered by insurance policy;
- g. punitive damages and penalties;
- h. the creation or increase of reserves, provisions and other special, purpose funds unless otherwise allowed by this Proclamation;
- i. Income Tax paid on Schedule C income and recoverable Value Added Tax;
- j. representation expenses over and above 10% of the salary of the employee;
- k. personal consumption expenses;
- l. expenditures exceeding the limits set forth by this Proclamation or Regulations Issued hereunder.
- m. entertainment expenses;
- n. donation or gift.

(Proc, No 286/2002).

2.1.3.3. **Categories of Taxpayers**

Based on the council of Ministers 2002 of income tax regulation No. 78/2002, the law has classified the business income tax payers on business profit on to three major categories with respect to their legal personality and annual turnover as category A, Band C. They are classified as:

Category "A", which shall include the following persons and bodies:

- Any company incorporated under the laws of Ethiopia or in a foreign country, for example Private Limited Companies Share Companies and;
- Any other business having an annual turnover of Birr 500,000 (Five hundred thousand Birr) or more;

Category "B", unless already classified in category "A", any business having an annual turnover of over birr 100,000 (One hundred thousand Birr).

Category "C", unless already classified in Categories "A" and "B", whose annual turnover is estimated by the Tax Authority as being up to Birr 100,000 (One hundred thousand Birr) (Ministers 2002 of income tax regulation No. 78/2002)

2.1.3.4. Concepts of Income Tax Evasion

Tax evasion is a failure of the taxpayer to comply with the provisions of the tax laws. It occurs when one wilfully and consciously fails to notify the taxing authorities of the taxable assets or income activities. Thus it's a deliberate failure to pay tax legally owed or the use of fraud to conceal the existence of taxable income and/or obtain allowances or the repayment of taxes.

Kath Nightingale, in her book, Theory and Practice of Taxation, defined tax evasion as the illegal arrangement of taxpayers' affairs in order to minimize the tax liability. Tax evasion involves the intentional disregard of the legislation in order to escape the liability to tax. It may be achieved by understating income, overstating expenses, the liability to tax. It may be achieved by understating income, overstating expenses, making false claims for allowances or failing to disclose chargeability to tax.

2.1.3.5. Possible Factors that bring about tax evasion

1. Tax payers ignorance of the benefit derived from public revenue
2. Deliberate act to cheat
3. complication in the procedures that a tax payer must follow to pay taxes
4. Ineffective techniques, may happen where tax administrators are burdened with many inadequacies especially with logistics.
5. Improper record keeping by taxpayer's level of confidence built in the tax administrators. when the individuals have the believe that tax collectors do not make proper accounts for whatever they collect to the higher authorities
6. Lack of faith in government's ability to utilize tax collection for social welfare purposes and absence of any visible benefits to the taxpayers

7. Non-compliance opportunity: In the Fischer model, noncompliance opportunity can affect taxpayer compliance directly through income level, income source, and occupation. Almost all the theoretical model indicates that as income rises, tax evasions should increase over most ranges (Andreoni et al., 1998). In other way, the lower income group tends to have a lower proportion of tax compliance by under-reporting income and by over-claiming expenses than their counterparts in the higher income group. Taxpayers vary in terms of the opportunities available to them to overstating expenses and understating incomes.

2.2. EMPIRICAL LITERATURE REVIEW

A research on “Assessment of Income tax administration” done by St. Mary’s 2012 graduate students called Derese Getahun, Mintamir Wubeshet, and Nebyou Zewge discussed on the problems of the tax administration. The research tried to see the problems of taxpayers and found out that viewing tax as an obligation and taxpayer’s lack of understanding and awareness are the major threats for successful tax administration. The study fails to address the very causes of these identified problems. Besides the researchers did not include the empirical literature so that one can easily see something what they want to contribute new to the topic. Moreover, the major sources the researchers relied on is on the taxpayers giving less emphasis to the tax official for that the tax payers’ responses may not be 100% free from bias. But similar to our study the authors argued that the educational level of the taxpayers plays a vital role for their poor awareness. Again similar to our study the high estimation of daily sales and exclusion of the consideration of inflation have dropping its impact to be the major cause of tax evasion as tax payers frequently complain about the unfair tax assessment levied on them

Amsale Ayalew, from Addis Ababa University, in her 2010 research paper on Assessment of VAT Implementation in the case of bole sub city found out different challenges towards the tax administration practice. In her study she criticizes problem of registration for VAT, failure of issuing invoices and keeping book of accounts, fraudulent

filling of credits, and weak auditing and enforcements are the major challenges that hinders the growth of the implementation of tax. Despite of all these problems which we also consider them as main challenges, her study is only limited in recommending to get registered all businesses with threshold of over Br. 500,000 however. Moreover, her findings are basically described using statistical measures like skew of the data. Such description needs a thorough statistical knowhow for that it leaves a wonder that how many tax payers of our country especially on sub city levels are aware of statistical measures. One of the significance of any research must create awareness to the stakeholders that this research paper neglect the taxpayer's capacity to understand skewness and measure of dispersion.

Gemechis Kebede on his Assessment of Vat administration, (A case study on Bishoftu town), 2012, from Jimma University single out the very problems in the administration of VAT and he tried to come up with these problems as the general tax administration problems that can be forwarded to our country. However, as being a small and yet not grown as Addis Ababa City, the case of Bishoftu Town can not be taken as a standard for evaluating the overall situation. Because, in dealing with Tax study the trends and the business areas with regard to number of taxpayers and official, type and nature of businesses, trade competitions and size of business are the things to be considered as these can influence the paying trend of taxes. Again, the author also failed to discuss empirical literatures where he can see his research status.

Ermias Seyoum, Hayat Nuri, and Amsale Tilahun through their study on the assessment of Tax administration practice in ERCA came up with the tax administration faced a problem of lack of knowledge of tax payers, failure to pay tax on time, and fraud. They forwarded solutions like to use modern VAT collecting system and did not mention anything about why the current ERCA's practice not to be considered as not modern. They also commented ERCA to implement a technology without mentioning the current technological weakness and strength of the ERCA especially on the computerized tax collection system by using SIGTAS software.

Different studies have been done during the past years with regard to the topic of tax in general. The reviewed researches we disclosed above have claimed and argued that

lack of awareness, viewing tax as obligation, intention of frauds are their findings to be the major challenges of effective tax administration. Our study tried, as much as possible, not only singles out problems but tries to address all the aforementioned facts that are not physically addressed by different researchers by giving relevant and valuable recommendations concerning the reasons why all these problems exist and how they can at least be minimized.

We believe only identifying the problems do not worth as finding the main causes for those problems. In fact no single research can solve the vast national or universal problems all alone. Problems and challenges can further be emerged and the existing ones are not even exhaustively be addressed due to the purpose of using research depends on the subject matter who need their own specific information. Hence, we believe the gaps that are not addressed by our study are left for further studies that will be performed by other researchers so that it can possibly be narrowed.

CHAPTER 3

3. DATA ANALYSIS AND INTERPRETATION

3.1. Background Information

ERCA performs its duties and responsibilities in different levels of authorities including large and small taxpayers in the country. Kirkos sub city is one of the sub cities that is delegated to collect various types of taxes of the government.

The study focuses on this Kirkos sub city's category "B" tax payers having the mere objective of exploring the tax assessment and collection practice of the sub city. Tax assessments and collections are carried out according to income tax regulation No. 78/2002. Category "B" taxpayers in the sub city includes: importers and/or exporters, hotels, restaurants, wholesalers, retailers, contractors, photo shops, manufacturers, insurance companies, and many others.

3.2. Characteristics of the study population

The research is performed on two types of population: the tax payers and Tax officials. The tax payers are engaged in different kinds of businesses and have also different backgrounds where as the tax officials are almost from the same academic backgrounds that have Bachelor of Arts in Accounting. The study is performed using questionnaire fore both respondents and interviews are also done for high tax officials.

Survey Design

Survey design is basically used to generalize from a sample to a population so that inferences can be made about some characteristic, attitude, or behavior of this population. This design by giving relevant data on trends, attitudes, or opinions of a target population, it ultimately provides sufficient information for the researchers to make inferences and generalize about the target population.

As tried to be described above in chapter two of method of data collection the researchers used probability and non probability sampling method. From the probability sampling, a simple random sampling technique was used to select sample from the tax officials working in the sub city tax assessment division section. Convenient sampling from the non probability was used to select the tax payers and both are practiced using questionnaires. In order for the researcher to collect the primary data from these respondents purposive or judgemental sampling technique was also applied to interview higher officials of the sub city's concerned administrative bodies.

The questionnaire was prepared and distributed for both tax payers and respondents each having its own similar and different kinds of questions. For both respondents, the questionnaire has two parts. The first part is prepared to get much information concerning the respondent's demographic data with regard to gender, age, level of education, qualification, and work experience. The second part is entirely concerned with gathering information from the respondents about tax administration, assessment, and collection practices together with the problems experienced, challenges faced, and opportunities explored.

Summary

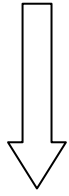
In general the research used open and closed ended questionnaire and unstructured interview to get the required primary data. For the purpose of supporting these primary data, the researchers used secondary data from various sources including flyers of ERCA, unpublished materials, proclamations, ERCA's official web site, previous research papers, interview with officers, discussions with the authority employer, selected tax payers, reviewing of printed document like books, and the internet.

3.3. Analysis of findings of the study

In the second part of the questionnaire both from the taxpayers and tax officials the specific questions which are directly linked to the specific objectives of the study primarily set earlier in the first chapter are depicted below.

Specific objectives

Direct and indirect questions used to obtain these objectives



From Tax Payers q.no:

from Tax Officials q.no:



- | | | |
|---|----------------|-----------|
| 1. Analyze and explain the reasons of lack of awareness of taxpayers | 3,11,12,13 | 5,9,18 |
| 2. Find out causes for unethical behaviour of tax payers and their failure to register for vat | 3,8,9,11,12,13 | 6,9,17,18 |
| 3. Discuss the benefits of being registered for vat | 14,15 | 10,15 |
| 4. Explore how tax assessment is done and examine its fairness | 19,20 | 16 |
| 5. Single out the authority's executive and operational level practices and remedies taken for proper tax assessment and collection | 15,16, | 11,12, |

3.4. Responses from Taxpayers

The mere objective of this study is to explore the tax assessment and collection practice of category “B” tax payers in Kirkos sub city with regard to VAT and business income tax.

Table 3.4.1 Annual Sales turnover

Particulars	Below 100,000	Between 100,001-500,000	Between 500,001-1,000,000	Above 1,000,000	Total
Frequency	-	68	-	-	70
Percentage	-	97%	-	-	100%

97% of respondents have an annual sales turnover of 100,000-500,000 who are category “B” tax payers.

Table 3.4.1. Gender and Age of taxpayer’s respondents

Sex	Age			Total	Gender %age
	18-25	26-35	>35		
Male	2	16	13	31	44.3%
Female	3	27	9	39	55.7%
Total	5	43	22	70	100%

Source: from Taxpayers Survey

Out of 44.3% male respondents 7% are age of 18-25 and more than half male respondents 52% are age of 26-35, and the remaining 41% have an age more than 35. Again the total number of female taxpayer respondents is 39 out of 70 having a ratio of 55.7%. 8% of these female respondents fall between age distributions of 18-25, 70% in 26-35, and 22% are greater than 35. From the total respondents, the age of respondents falling in the age distribution of 18-25 is 8%, where 26-35 holds 62%, and 30% goes to respondents more than the age of 35

Table 3.4.2. Occupational Status in the Company

Particulars	Accountant	Owner	Manager	Other	Total
Frequency	48	16	-	6	70
Percentage	68.6%	22.9%	-	8.5%	100%

The total sample size of the population is 70. Out of these respondents 68.6% of them are accountants, 22.9% owners of businesses, and the rest 8.5% are sales agent, only 2 and other employees of their respected company.

Table 3.4.2.1 Academic background of owners

Particulars	Elementary	High School	Certificate	Diploma	Total
Frequency	9	4	2	1	16
Percentage	56%	25%	13%	6%	100%

From the above table it can be viewed that out of the 16 business owner respondents 56% of them are elementary, 25% are high schools, 13% are certificate, and only 6% are diploma holders.

Tax Related Responses

Table 3.4.3. Beneficiary from Tax

Particulars	Taxpayers	Government	Society	Total
Frequency	3	11	56	70
Percentage	4.3%	15.7%	80%	100%

4.3% of respondents believe that it is the taxpayers who benefit more from paying tax where as 15.7% says the government and 80% of them humbly suggests the society is the ultimate beneficiary

It is discovered from the survey that all the accountants, only 3 of business owners and 5 of other employees said the society.

Table 3.4.4. Manner of Registration for VAT

Particulars	Voluntarily	Forcedly	Fear of Punishment	Peer Influence(Pushing)	Total
Frequency	7	39	16	8	70
Percentages	10%	55.7%	22.9%	11.4%	100%

The majority of taxpayers about 55.7% are registered for VAT forcedly that shows how these taxpayers are resistance to get registered with their own will.

Table 3.4.5. Number of customers and Income Level after being registered for VAT

Particulars	Highly Increased	Averagely Increased	Highly Decreased	Averagely Decreased	No Change	Total
Frequency	18	13	14	16	9	70
Percentages	25.7%	18.6%	20%	22.9%	12.9%	100%

By average, the number of respondents who argue their customer number and income level increases after being registered for VAT is higher than those who say both are decreased. That is the average (25.7% +18.6%) is 22.15% and this is higher than the average of (20%+22.9%) which is 21%. This shows that the number of customers and income level is increasing for registered taxpayers. However 12.9% of the respondents does not know the consequences and are not able to predict the outcomes. Of the 9 respondents who say no change, 5 of them are other employees of the company, 3 are owners, and 1 is an accountant. This implies that those who say no change are not to be totally be relied on as they are not at the position to see customer trends and not actually experts of financial activities to see the big picture at all. However, as 2 or 33.3% of other employees are sales agents, there might be some suspects of the data not being too much deviated from the fact to some extent.

Table 3.4.6. Enough training and awareness creating sessions given by ERCA

Particulars	Yes	No	Not Sufficient	Total
Frequency	37	-	33	70
Percentages	52.9%	-	47.1%	100%

37 numbers of respondents i.e. 52.9% of the total survey believe that the trainings and awareness creating sessions given by ERCA are satisfactory. And this frequency consist only accountants. Hence, out of the 68.6% of the total accountants, 77.1% of them said yes. This might reveal that professionals involving in the tax process are aware of their duties and responsibilities by being actively participated. All Owners and other employees, 47.1% of the total respondents said enough training is not being provided by the authority.

Table 3.4.7. Quality of services provided by the tax authority while declaring your tax duties or requesting any services

Particulars	Very satisfactory	Satisfactory	Very Poor	Poor	Average	Total
Frequency	-	6	34	23	7	70
Percentages	-	8.6%	48.6%	32.8%	10%	100%

The majority of respondents, 48.6%, strongly complained about the quality of services they get from the authority while 32.8% are not happy about the service they rendered. And a least percentage of the survey around 8.6% positively said satisfactory. This shows that the processing of providing service to taxpayers needs a close attention by the concerning body.

Table 3.4.8. Penalty and interest amount

Particulars	High	Average	Low	Total
Frequency	56	14		70
Percentages	80%	20%		100%

Table 3.4.9. Fairness of ERCA's tax assessment

Particulars	Fair	Not Fair	Total
Frequency	14	56	70
Percentages	20%	80%	100%

With reference to table 3.4.8 & 3.4.9 it is shown that 80% of the total survey does not believe the fairness of ERCA's tax assessment. Moreover they tried to justify that they do not have any clue about how these penalty and interest are calculated including their proper rate even if 90% of penalty is exempted.

From the interview it is known that interest is calculated on the tax base by applying the current bank interest rate plus 25%. That is

$$\text{Interest} = \text{Tax base} \times (\text{Bank Interest Rate} + 25\%)$$

3.5. Responses from tax officials

Table 3.5.1 Gender and age

Age Group	Frequency		Total	Percentage
	Male	Female		
18-25	2	1	3	30%
26-35	4	3	7	70%
>35	-	-	-	-
Total	6	4	10	100%
Percentage	60%	40%	100%	

40% of total respondents are female and the rest 60% are male. 30% of the total survey shows age 18-20 while 70% constitute respondents of ages 26-35. Out of the 60% of male respondents of tax officials, 33.3% fall 18-20 where as 66.7% are 26-35 years of age. Again the percentage of female tax officials on the survey reveals that 25% are between the age of 18-25 and 75% is belongs to 26-35 years of age.

2 of the interviewee have an age greater than 35 and both are male.

Table 3.5.2. Educational Background of Taxpayers

Particulars	Frequency	Percentage
Illiterate	-	-
Elementary	6	60%
High School	4	40%
Tertiary	-	-
Total	10	100%

From the 10 surveyed tax officials 60% of them believe most of taxpayers are elementary and the rest 40% assumes these taxpayers are high school drop outs and completes.

Both the interviewee believes that large numbers of tax payers are elementary and most of them are high school drop outs.

Tax Related Responses

Table 3.5.3 Taxpayers understanding

Particulars	Frequency	Percentage
Sufficient	-	-
Not Sufficient	5	50%
Poor	3	30%
No Understanding	2	20%
Total	10	100%

According to the survey result half of the respondents replied that taxpayers understanding about tax are not sufficient enough and this is the basic part of tax administration problem. 30% of tax officials believe Taxpayers have poor understanding about tax where as 20% of them argue these taxpayers have no understanding at all.

From the data collected from the interview both of the interviewee claimed that the understanding of taxpayers towards tax is not totally sufficient.

Table 3.5.4 Timely collection of tax

Is tax being collected timely	Frequency	Percentage
Yes	2	20%
Sometimes	4	40%
No	4	40%
Total	10	100%

From table 3.5.4 it can be seen that 20% of respondents said yes and 40% replied sometimes and the rest 40% believes tax is not being timely collected. Moreover for the answer no, it is tried to be asked what the result may be using an open ended question on the survey. As a result most tax officials assume it is the awareness level of taxpayers that hinders the timely collection of tax.

Table 3.5.5 Taxpayers feeling while registered for VAT

See VAT as	Frequency	Percentage
Obligation	6	60%
Burden	3	30%
Useful	1	10%
Bad	-	
Total	10	100%

The majority of tax officials, 60%, responded that taxpayers perceive VAT as an obligation. And as can be observed from table 3.5.5, 30% of respondents think VAT as a burden where only 10% of them believe VAT is useful.

Both of the high officials who are interviewed in our survey responded that almost all taxpayers feel VAT as an obligation while they are registered for it.

Table 3.5.6 Increment of number of taxpayers

Is there increments	Frequency	Percentage
Yes	8	80%
To Some Extent	2	20%
No	-	
Total	10	100%

The survey result from the above table shows 80% of respondents agreed that the number of taxpayers is increasing from year to year. 20% of them argue there is an increase but the increment is not satisfactory.

Furthermore the survey also tried to single of the major factors that contribute to the increment of the number of taxpayers.

Table 3.5.7 Reason for the increment of the number of taxpayers

Reason for the Increment	Frequency	Percentage
Taxpayers' Willingness	1	10%
Obligation	7	70%
Fear of Penalty	2	20%
Total	10	100%

As a result, 10% of respondents are responded that taxpayers' willingness is the main reason for the increment where 70% of them argue the increment is due to the

obligation exerted by ERCA. 20% of tax officials however believe the main reason for the increment is because of fear of penalty.

Table 3.5.8 Ethics of taxpayers

Particulars	Frequency	Percentage
Ethical	-	-
Few are unethical	2	20%
Mostly unethical	7	70%
Unethical	1	10%
Total	10	100%

With regard to table 3.5.8 concerning tax ethics none of the respondents believe no single taxpayer is ethical. However, 20% of these respondents said few of tax payers are unethical which actual leads to conclude these 20% of respondents believe most of taxpayers actually are ethical. The majority of the survey result 70% shows that taxpayers are mostly unethical having an analogy of only few is ethical and only 1 respondent argues all are unethical.

Again both the interviewee reflected the same idea by answering that taxpayers are mostly unethical.

The survey further tried to study what the reason may be for taxpayer's characteristics to be unethical and most of taxpayers answered it might be due to taxpayers' poor awareness about tax and a deliberate intention of hiding tax liability.

CHAPTER 4

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

The previous section which contains the background information and survey result from both taxpayers and tax official present much information about the current tax assessment and collection practices. The data analysis part focuses on the analysis of the outcome of the survey along with outcome of the unstructured interview made with two of high tax officials and secondary data in the context of the literature review.

As tried to be noted on the first phase lack of awareness of taxpayers, unethical behavior of these taxpayers, being resistance to register for VAT, and the method and fairness of tax assessments are the major problems raised and expected to be addresses on the research. Hence based on the analysis and findings the following summaries and conclusions are identified and then recommendations are forwarded.

4.1. Summary

- From the survey result it is discovered that most of taxpayers have an academic background of elementary and some are high schools and only few have certificate and diploma holders. These can be referred from tables 2.4.2.1, that shows 56% of respondents believe most taxpayers are elementary, and 3.5.2 that constitutes 60%. Both interviewees argue the majority of taxpayers have elementary background while few are high schools.
- Out of the 16 owners respondents 13 of them believe the government is the ultimate beneficiary from tax. Again looking table 3.4.4 of the survey it can be seen that 55.7% of taxpayers are registered for VAT forcedly. And table 3.5.5 depicts that the majority of taxpayers believe tax is an obligation and most of them see tax as a burden.

- Looking table 3.5.4 out of 10 respondents only 2 or 20% said that tax is being collected timely. The rest 40% believes tax is collected on time only on few times and 40% believe it is not totally been collected on time.
- By viewing table 3.4.5 and 3.5.6 the average number of respondents who argue their customer number and income level increases after being registered for VAT is 22.15% and 100% which is higher than the average of those who say both are decreased 21% and 0%.
- From the total of 48 accountants, 16 owners, and 6 other business employees of respondents, 77.1% of accountants agree the tax authority is providing sufficient training and awareness creating sessions. All Owners and other employees, 47.1% of the total respondents criticize enough training and awareness creating sessions is not being provided by the authority. This shows that most of professional accountants involving in the tax process are aware of their duties and responsibilities by being actively participated. And all owners are not being actively participated and showed no effort to know about tax policies and regulation session held in the authority using predefined schedule.
- It is found from the survey that the poor quality of services rendered by tax officials while taxpayers are curious about tax issues are pushing taxpayers not to be actively cooperative in proper tax administration.
- Tables 3.4.8 & 3.4.9 shows that 80% of the total survey does not believe the fairness of ERCA's tax assessment. Moreover they tried to justify that they do not have any clue about how these penalty and interest are calculated including their proper rate even if 90% of penalty is exempted.

4.2. Conclusion

The data collected using the survey and interview shows there are certain problems that create hindrance in the tax administration processes. The problems that are raised on the research questions starts from the understanding of tax concept and implementation of assessment and collection practices. Here are the major conclusion that are derived from the survey analysis:

- The main reasons of lack of awareness of taxpayers are first; most taxpayers especially business owners have low educational background that limits their attitudes to see the big picture why tax is being collected. Secondly; the insufficient training and sustainable awareness creating sessions given by the authority; and lastly the less involvement of owners in the existing training sessions.
- Unethical behavior of taxpayers is raised as one of the major problems that this research likes to solve. The survey showed that the causes of this unethical behavior are due to the fact that owner taxpayers basically believe that they are not the direct beneficial party by paying taxes. They believe they are paying to the government without having any benefit. Due to this poor awareness, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

Moreover because tax is not collected timely and this loose follow up and delayed assessment by the authority open spaces for taxpayers to evade their tax liability. When taxes are not collected in a timely manner the inconveniences created will be much higher especially finding the fraudulent activities done by taxpayers. Hence, most of taxpayers do not timely submit books of record for assessment purpose; taxpayers are not paying their debt as soon as they received assessment notification as well.

- Income earners are mostly resistance to register for VAT. The reasons for their resistance are due to the poor understanding about tax concept and thinking of tax as an obligation and burden.

The benefits of being registered for VAT are the simultaneous increment of number of customers and income level

- The amount of interest taxpayers are charged on their tax base is very high. This assessment of interest is seen as unfair. Beside its unfairness the authority lacks transparency to show how the interests are being calculated.
- It can be asked from the finding that what remedies have been taken by the tax authority to solve the challenges and problems faced. The survey result showed that there are not many remedies taken by the tax authority to solve the existing problems. The insufficient training sessions, the poor quality of service rendered, lack of transparency, lack of follow up, and frequent employee turnover witnessed the authority is not at the position to take corrective measures at the current situation.

4.3. Recommendations

Based on the results found from the survey and interview on tax assessment and collection practice, relevant suggestions that are useful to minimize the sub city problems and may help other concerned bodies are forwarded.

For the Authority

- ☞ The poor awareness about tax is visibly being the major problem which is caused by low educational background and insufficient training session.

Educating taxpayers is the crucial fact to solve the problems from their root. In order for the tax authority to educate and improve the taxpayer's awareness level, it would be very effective to arrange seminars on tax issues prepare and give adequate and sustainable training sessions concerning their obligation, and awareness creating conferences.

The other method of transmitting tax concepts, its related rules and regulations to the society is using the different media as a means to educate taxpayers and change their perceptions about their tax reporting behavior and their overall perceptions of taxation in general.

☞ Because taxpayers believe government is the ultimate party benefiting from tax and they think they have no direct benefit from paying tax, they show little interest to pay their liability. Hence the best remedy to the authority to tackle this misconception is again preparing seminars and training sessions. Besides it would be very wise to the authority if it involves in different social activities so that it can pass its objectives through.

The government at large also needs to be sensitive in addressing where and how the collected taxes are spent using various medias. After having built infrastructures, dams, bridges, and other projects, it would be very essential to the government to give credit to the taxpayers for the contribution they made and that makes them feel they have ownership on the country's growth. This could help the taxpayers to act ethically.

☞ Practical support and consultancy about the business and tax related issues like rules and regulations from the authority can possibly avoid taxpayers' resistance to register for VAT. Showing the taxpayers of the trends of their comparative income level and customer number proves what they can benefit

from being registered for VAT. Hence the authority needs to make such analysis on behalf of the taxpayers who fail to do so.

☞ Tax fairness brings equity and equity means encouraging and protecting honest and loyal society by adopting fair competition and efficient tax administration system. Therefore, we recommend the authority to adopt effective and efficient tax assessment and collection practices, relevant awareness creation methodologies to teach taxpayers, and in fact full disclosure on the tax assessment. As can be seen from the survey tax fairness issues are typically raised by taxpayers who are not much informed and told about how their tax liability is calculated. And therefore the transparency of the tax authority is very essential to create fair tax system conception.

Moreover the researchers found it very reasonable to recheck the interest policy of the tax authority as it is unquestionably inflated leaving the issue of tax fairness in quotation.

☞ Lastly, the authority would achieve its goal if it arranges seminars and sustainable training sessions. Besides, it would be worth taking if the authority be able to build good customer relation while rendering its service to taxpayers like the manner of how they treat taxpayers, their interest to give support, and how they handle issues of the taxpayers.

In order to avoid the problems of tax assessment and collection problems, it would be better if the authority be able to strength its follow-up practices by enriching the human resource of the office and tightening its control system. Moreover transparency and full disclosure of information to the taxpayers plays vital role in minimizing the forwarded problems.

☞ The other thing is the authority should be curious in finding sustainable solution about the network failure that hinders timely declaration of taxes.

For the taxpayers

☞ Expecting direct benefit from paying tax, the perception of government is the ultimate beneficiary from tax, viewing tax as an obligation, and believing government as the only responsible body for the growth of the country are lack of awareness of taxpayers. These can be achieved not only by enriching academic background but also by actively participating in seminars and training sessions and by asking and getting information how and where the government is using the fund collected through tax.

The more involvement on the tax formation system help taxpayers learn more about the rules and regulations concerning the different taxes how and when they are expected to declare.

☞ Again taxpayers rather than being silent and refrain due to the poor services they have been rendered they would be beneficiary if they are keen to consult the authority's concerned officials in any issue related to tax matters and problems they are facing. As they have the obligation to pay their duties they also have the right to get sufficient support from the authority. And this support comes from the communication they create with authority.

👁️ Finally, we recommend all taxpayers needs to have a well understanding of their current and future tax obligation while establishing a business at its early stage.

Bibliography

- Ageazin Teka (2003). Saving and Taxation in Ethiopia. Addis Ababa. Bole P.P.
- Amsale Ayalew (2010). Assessment of VAT Implementation: in the case of bole sub city". Unpublished BA thesis, St. Mary University.
- Asamnew G/silassie (2008). Tax Assessment and Collection Problems of Category "A" Taxpayers: A case of Yeka Sub City. Unpublished Masters Thesis, Addis Ababa University.
- Derese Getahun, Mintamir Wubeshet, and Nebyou Zewge (2012). Assessment of Income tax administration. Unpublished BA thesis. St. Mary University.
- Ermias Seyoum, Hayat Nuri, and Amsale Tilahun (2011). Study on the Assessment of Tax Administration Practice in ERCA. Unpublished BA thesis, St. Mary University.
- Gebrie Worku (2008). Tax Accounting in Ethiopia. (2nd Edition). Addis Ababa: Alem printing Press.
- Gemechis Kebede (2012). Assessment of VAT Administration. A case study on Bishoftu town. Unpublished BA Thesis, Jimma University.
- Misrak Tasfaye (2008). Ethiopian Tax Accounting: theory and practice. Addis Ababa. Ethiopia.
- Negarit Gazeta Federal Government of Ethiopia. VAT and Income Tax Proclamation Number 285/2002, 286/2002. Addis Ababa.
- Yohanes Mesfin and Sisay Bogale (2009). Tax law. Prepared under the sponsorship of the Justice and Legal system Research Institute.

Appendices!

**ቅድስት ማርያም ዩኒቨርሲቲ
የቢዝነስ ፋኩልቲ
የአካውንቲንግ ትምህርት ክፍል**

በኢትዮጵያ ገቢዎችና ጉምሩክ ባለስልጣን ቁርቆስ ክ/ክ ለደረጃ “ለ” ግብር ከፋዮች የተዘጋጀ መጠየቅ

የጥናቱ ርዕስ “በደረጃ ‘ለ’ ግብር ከፋዮች ዙርያ በቁርቆስ ክ/ክ ያለው የታክስ አወሳሰንና አሰባሰብ ተሞክሮ” ሲሆን ጥናቱ የሚከናወነው በቅድስት ማርያም ዩኒቨርሲቲ በአካውንቲንግ የመጀመሪያ ዲግሪ ተመራቂ በሆኑት ተማሪዎች በእነ አቶ አንተነህ ስዩም፣ አሸናፊ አውግቸው፣ እና እስራኤል አበራ ነው።

የጥናቱ መሰረታዊ አላማ በግብርና ግብር ነክ በተለይም በቫትና በትርፍ ግብር ዙሪያ ግብር ከፋዮችና የግብር ሰብሳቢው ጽ/ቤት የሚገጥሟቸውን እክሎችና የግብር ሰብሳቢው ጽ/ቤት ያሉበትን ድክመቶች በማጥናት የታክስ አወሳሰንና አሰባሰቡን ሂደት ቀልጣፋና ዘመናዊ ለማድረግ ጠቃሚ ሃሳቦችን ለመስጠትና የመፍትሔ አቅጣጫዎችን ለመጠቀም ነው።

የቃለ መጠይቁ ውጤት ማንነትምን በማይገልጽ መልኩ ይመዘገባል፤ ግለሰባዊ ምላሽም ምስጢርነቱ ይጠበቃል። ይህንን ጥናት ውጤታማ ለማድረግና የጥናታችንን ውጤት ተአማኒ ለማድረግ የእርስዎ እውነተኛና ፈቃደኛ ምላሽ ትልቁን ድርሻ ስለሚይዝ በተቻለ መጠን ጥያቄዎቹን በጥንቃቄ አንዲመልሱ እየጠየቅን ለሚያደርጉልን ቀና ትብብር ታላቅ አክብሮታችንን እንገልጻለን።



ይህ መጠይቅ ከትምህርታዊ ይዘት ባለፈ ሌላ ምንም ዓይነት ዓላማ የለውም።
እባክዎን በሳጥኑ ውስጥ ይህን “✓” ምልክት ይጠቀሙ፤ ባዶ ቦታዎቹንም ይሙሉ።

ክፍል አንድ፡ አጠቃላይ መረጃ

1. ያታ ወንድ ሴት
2. ዕድሜ 18-25 26-35 ከ35 በላይ
3. የትምህርት ደረጃ
 አንደኛ ደረጃ ሁለተኛ ደረጃ ያጠናቀቀ/ች ሰርቲፊኬት
 ዲፕሎማ ተመራቂ የመጀመሪያ ዲግሪ ተመራቂ ሁለተኛ ዲግሪና ከዚያ በላይ
4. በድርጅቱ ያልዎት የሰራ ኃላፊነት
 የሒሳብ ሰራተኛ የድርጅቱ ባለቤት ሰራ አስኪያጅ ሌላ ከሆነ
 ቢጠቅሱ_____
5. በየዙት የሰራ መደብ ያልዎት ልምድ
 ከአንድ ዓመት በታች 1-5 ዓመት 6-10 ዓመት ከ10 በላይ
6. ድርጅቱ የተሰማራበት የንግድ ዓይነት
 አስመጪና አከፋፋይ አምራች ጅምላና ችርቻሮ አገልግሎት
7. በ2005 የበጀት ዓመት ድርጅትዎ ምን ያህል ሸያጭ ነበረው
 ከብር 100,000 በታች ከብር 100,000- ብር 500,000 ከብር 500,000- ብር 1,000,000
 ከብር 1,000,000 በላይ

ክፍል ሁለት፡ ከግብር ጋር የተያያዙ ጥያቄዎች

8. ግብር በመክፈልዎ ተጠቃሚ ነኝ ብለው ያስባሉ?
 አዎ አላስብም መልስ የለኝም
9. በይበልጥ ከግብር ተጠቃሚ የሚሆነው ማን ነው?
 ግብር ከፋዮች መንግስት ህዝብ
 የመለሱት አካል እንዴት ተጠቃሚ እንደሆነ ቢያብራሩ

10. ድርጅትዎ የቫት ተመዝጋቢ ነው?
 አዎ አይደለም
11. ተመዝጋቢ ከሆኑ እንዴት ሊመዘገቡ ቻሉ
 በፈቃደኝነት በግዴታ ቅጣትን በመፍራት በሰራው ግፊት

12. ተመዝጋቢ ካልሆኑ ምክንያቶችን ቢገልጹ

13. ለቫት ሲመዘገቡ ስለ ግዴታዎና መብትዎ በቂ ግንዛቤ ነበርዎ?

አዎ አልነበረኝም በክፊል ነበረኝ

14. ለቫት ከተመዘገቡ በኋላ የስራ ደንቦችን ቁጥርና የገቢዎ መጠን ምን ይመስላል?

በጣም ጨምሯል በመጠኑ ጨምሯል በጣም ቀንሷል በመጠኑ ቀንሷል
ለውጥ አላሳየም

15. የግብር ሰብሳቢ ጽ/ቤቱ ስለ ግብርና ግብር ነክ ጉዳዮች በቂ መረጃና የግንዛቤ ማስበበጫ ስልጠናዎችን ይሰጣል?

አዎ ይሰጣል አይሰጥም ይሰጣል ግን አጥጋቢ አይደለም

16. ወደ ግብር መክፈያ ጣቢያዎች ሲሄዱ የሚደረግልዎ መስተጋግዶ ምን ይመስላል?

በጣም አጥጋቢ አጥጋቢ በጣም የማያረካ የማያረካ መካከለኛ
ቅሬታ ካልዎት አስፈላጊውን ምክር ቢለግሱ

17. የግብር አሰባሰቡ ሂደት በኮምፒውተር የታገዘ መሆኑን ያውቃሉ?

አዎ አውቃለሁ አላውቅም

18. የግብር አሰባሰቡ ሂደት በኮምፒውተር የታገዘ በመሆኑ ያገኙትን ጠቀሜታና ያለውን ችግር ቢገልጹልን

19. ግብርዎን በወቅቱ ባለማሳወቅ ወይም በሌሎች ምክንያቶች የተቀጡት ቅጣትና ወለድ እንዴት ያዩታል?

ከፍተኛ መካከለኛ አነስተኛ

20. በአገራችን ላይ ያለው አጠቃላይ የታክስ አወሳሰንና አሰባሰብ ፍትህአዊ ነው ብለው ያስባሉ?

አዎ አላስብም

ምክንያቶች

21. በአጠቃላይ ስለ ግብር የልዎት አስተያየት

**ST MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING**

This questioner is about VAT and business income tax of category b tax payers and it is prepared and expected to be answered by ERCA's Tax Officials of Kirkos sub city

This research is conducted by St. Mary's University's prospective Accounting graduate students named Mr. Anteneh Seyoum, Israel Abera, and Ashenafi Awgchew. The title of the research is "Tax Assessment and Collection Practice of Category "B" Taxpayers / In the case of Kirkos Sub City".

The main purpose of the research is to explore the core challenges and obstacles faced by the taxpayers and the tax collector office so as to forward relevant and valuable recommendations to make the tax assessment and collection practice fast and reliable.

The result of the questioner will be recorded without disclosing your identity and your personal answer remains secret. Because your willingness and co-operative to genuinely answer all question plays a vital role in making the study more valuable and dependable, we humbly request to answer all the questions carefully. We would like to thank in advance for your time and consideration, in deed.



We confirm that this study has no other intention except academic.

Please, tick "✓" where appropriate and write responses where necessary.

2014

Part 1. General Information

- 1. Sex: - Male Female
- 2. Age 18-25 26-35 >35
- 3. Education status:
High school complete Certificate Diploma
1st degree Above degree
- 4. How long have you been working in Kirkos Sub city branch office?
Less than 1 year 1-5 years 5-10 years above 10 Years
- 5. What is mostly the educational background of tax payers in your catchment area?
Illiterate Elementary High School Tertiary

Part 2: Tax Related

- 6. How do you rate taxpayers understanding about tax?
Sufficient Not Sufficient Poor No Understanding
- 7. Is tax being collected timely?
Yes Sometimes No
- 8. If no, what do you think is the reason may be?

- 9. How do you evaluate tax payers' feeling while they registered for VAT?
VAT is an obligation VAT is burden VAT is useful
VAT is bad
Other, please specify

- 10. Is there any increment in the number of tax payers from year to year?
Yes To some extent No
- 11. If your answer is yes for the above question , the reason is
Taxpayer's willingness Obligation Fear of penalty

Other, please specify _____

12. What kind of problems do you face during tax assessment and collection? How do you solve it?

13. When do most tax payers come to declare their tax liability?

Early On the middle dates At the end of the month

14. If your answer is at the end of the month
Why do you think is the reason and what kind of inconvenience does it create?

15. What kind of support does your office provide for registered tax payers?

16. What is your professional opinion concerning the fairness of the ERCA's tax assessment and collection?

17. How do you evaluate the behavior of tax payers concerning tax ethics?

Ethical Few are unethical Mostly Unethical

Unethical

18. What do you think the reason may be for the above question, in your opinion?

DECLARATION

We, the undersigned, declare that this senior essay is our original work, prepared under the guidance of Mr. Belayneh H/Georgis. All sources of materials used for the manuscripts have been duly acknowledged.

Declared by:

Name _____ Signature _____ Date _____

Name _____ Signature _____ Date _____

Name _____ Signature _____ Date _____

CONFIRMATION

I, the undersigned advisor, acknowledged and confirmed this study to pass to presentation.

Advisor

Name _____

Signature _____

Date _____