

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

**AN ASSESSMENT OF VAT COLLECTION**  
**PRACTICE AT KIRKOS SUB CITY**

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**AN ASSESSMENT OF VAT COLLECTION PRACTICE AT  
KIRKOS SUB CITY**

**A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT  
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## **ACRONYMS**

DPPC: Disaster, Prevention and Preparedness commission

INGO: International non government organization

NGO: Non government organization

TIN: Tax identification number

TVET: Technique and vocational education training

VAT: Value added tax



# **CHAPTER ONE**

## **1 INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Value Added Tax “VAT” is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons (i.e., VAT-registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved. (Bekure Herouy, march 2004)

VAT introduced and enforced in Ethiopia on January 1<sup>st</sup>, 2003, until there are different amendment made to fill the gaps. The number of VAT registers customer increase from time to time and applying the cash registered machines. The authority instructs to write and display “Don’t pay without receipt”, the name of the business, TIN number, and address. The receipt also must include the above information and the time, products name prices VAT and total price. (Observation)

However, most of the buyer has no awareness that the seller collects the sales and the VAT amounts from the consumer and reports to the authority. Unless the receipt issues, the VAT amount may not report to the tax authority. Therefore, this study has focused on the problems and makes awareness between the parties.

## **1.2 STATEMENT OF THE PROBLEM**

The designers of the VAT law intended it to be a tax on the final consumer. In other words, a business buying goods or services would generally not suffer VAT because it could pass on the burden of the tax to its customers, either directly by charging them VAT on taxable sales or indirectly by raising its prices to cover the cost of any VAT that it had paid on purchases used to produce goods or services. However, the VAT collection activity is exposed to the following problems due to various reasons.

- Most of the taxpayers not hire the competent person knowing how to use the cash register machine. Intentionally or unintentional most of the tax collector or seller request tax refund.
- Price difference (with VAT and without VAT) and market sharing problem due to the price difference between VATs registered and not registered sellers respectively.
- It is clear that the tax collector pays the net amount (the difference between how mach VAT collected from sales and how mach VAT paid for purchase). If the precede exceed, the difference amount will pay as VAT to the authority. If former exceed, the difference amount will be considered as VAT refund and claimed. There are many mechanisms to report as VAT paid exceeds then VAT collected.
- The taxpayers are not systematic. They try to pay at the end of the day. The tax offices are highly crowded on the last payment days.
- There is no enough competent staff on the tax authority. And also there is highly employee turnover so the authority losses experienced staff.
- Even if the authorized person assigned at the tax authority, due to fear, no one is willing to make a decision and gives solution on

time. Any customer request pushes to another office like bureaucracy.

- consumer pay the VAT but they are careless to collect the receipt and unless the sales register with the tax register system or issues the appropriate tickets the tax authority has no information on the transaction to collect the VAT.

Therefore, the study intends to deeply investigate the existence of the above problems and the degree of the problems. Thus, the study tries to seek answers to the basic research questions indicated below.

### **1.3 RESEARCH QUESTION**

The research question helps us to develop research hypotheses. The possible courses of the problems

- 1 How can improve the competent knowledge of the existing staff of the tax authority and how to reduce the employee's turnover?
- 2 How to reduce the intentional tax refund request?
- 3 Is there any possible solution for taxpayers to pay the VAT declaration on time?
- 4 How can solve the price difference of same products or services between the VAT registered and not register seller?
- 5 How can improve the awareness of the consumers to collect the cash receipt when buying goods and services?
- 6 Is there any control mechanism other than TIN to ensure that the amount of VAT paid reported by the taxpayer is correct or not?

### **1.4 OBJECTIVE OF THE STUDY**

There are two objectives of this study, the General and the specific objective. The two objectives are the following with their details

### **1.4.1 GENERAL OBJECTIVE**

The general objective of this study is to assess the existing problems of VAT collection practice in the Kirkos sub city, identifying and measuring the problems, and gives appropriate recommendation for the problems.

### **1.4.2 SPECIFIC OBJECTIVE**

In order to fulfill the general objective of the project, we are going to perform the following activities:

- 1 To assess the competent knowledge of the existing staff of the tax authority
- 2 To investigate the employee's turnover of the tax authority
- 3 To assess the intentional tax refund request
- 4 To assess the price difference of same products or services between the VAT registered and not register seller
- 5 To review the awareness of the consumers to collect the cash receipt when buying goods and services
- 6 To investigate a control mechanisms other than TIN (tax Identification Number) the amount of VAT paid reported by the taxpayer

### **1.5 SIGNIFICANT OF THE STUDY**

This study document helps to the Kirkos sub city to identify the strength and weakness and to take appropriate action on the tax collection practices. The study enables the Taxpayers to understand the VAT and protect them from unnecessarily penalties. We are also beneficial from this study because the study enables us to learn and gives us the opportunity to convert our theoretical knowledge into a practical one. Moreover, it helps

to other researchers as an input for related works and provides us a learning experience as student's researchers.

## **1.6 SCOPE AND LIMITATION**

The responsibility of the tax authority is too vast. Due to time constraint, however, the scope of the research paper project is limited to the VAT collection practice in Addis Ababa at Kirkos sub city, which is capable of providing the following information.

1. The current VAT collection practice in the sub city.
2. The budget year's existing problems.
3. The competent knowledge of the existing staff.
4. Numbers of taxpayer's registers or cancel in the sub city.
5. Understanding of the taxpayers how calculates the VAT.
6. The awareness of the consumers paying VAT when buying goods and services.
7. Whether the corruption affect the VAT collection in the sub city.

## **1.7 RESEARCH DESIGN AND METHODOLOGY**

Methodology, as defined by Andy Laws, is a collection of procedures, techniques, tools and documentation aids which will help the researchers in their efforts to develop effective projects study. A methodology will consist of phases, themselves consisting of sub-phases, which will guide the researcher in their choice of the techniques that might be appropriate at each stage of the project and also help them plan, manage, control and evaluate the projects.

### **1.7.1 RESEARCH DESIGN**

This study followed descriptive type which tried to assess the main features and characteristics of the VAT collection practice in the Kirkos sub city.

### **1.7.2 POPULATION AND SAMPLING TECHNIQUE**

The population of the study is the customers those buy goods and services, VAT registered seller/services providers and the staff of the tax authority at the sub city. Simple random sampling has been taken in order to have equal chance for all members of the population. The study has included 10 employees at the tax authority staffs, 20 VAT registered goods and/or service providers and 20 customers from the population size of 20 the tax authority employees, 40 VAT registered seller at the sub city and 40 customers who are buying goods and/or services at Kirkos sub city.

### **1.7.3 DATA COLLECTION METHOD**

This study largely depends on both primary and secondary data sources. Among the different information gathering techniques of primary and secondary data collection sources, the following techniques have been chosen.

### **1.7.4 PRIMARY DATA:**

A. **Interview:** Interview was made to the staff at the Sub city on sample base. Interview was selected because of the following advantages as compared to questionnaire:

- Enable the systems analyst to collect facts, opinion and speculation.
- It is more effective in use of time.
- Enable people to hear opinions of others and to agree or disagree.

- Enable to observe body language and emotions.

B. **Observation:** observation was made to understand the flow of the current work system from the beginning to the end. This method is used to supplement the interview technique.

C. **Questioners:** questioners were distributed to different parities; to employees of the sub city for various positions at the tax authority (from clerk up to management level), goods or service providers register as VAT collector, and consumers. Questioner is the most powerful techniques to cover large areas with short period of times.

### **1.7.5 SECONDARY DATA**

Document analysis: the study reviewed documents raised as a result of the operation of the current system and review the manual of the organization, written work procedures, forms, reports, government proclamation and regulation related to VAT. It enables to cover which was not addressed by the above mention techniques.

## **1.8 DATA ANALYSIS METHODS**

The raw data collected from both primary and secondary sources have been carefully and systematically analyzed and transformed in to meaningful information, and ultimately rational conclusions are cultivated.

### **1.8.1 METHODS OF REPORTING**

After properly done of the above data collections and analyzing, we have produced our conclusions and recommendations. The final paper is the reporting method of the study.

## **1.9 ORGANIZATION OF THE PAPER**

The study is organized in to two major phases. This study document deals with phase one which will have two chapters.

In chapter one, we covered the brief description of introduction and background of the study, statement of problems, research questions, objective of the study, significant of the study, scope and limitation, research design and methodology, data analysis method and organization of the study.

In chapter two, we deals with details literature reviews about the VAT and related issues.

The second phase of the study deals with characteristics of the study population and analysis of the finding of the study, summary, conclusion and recommendation into two chapters starting from chapter three.

In chapter three, we are dealing with issues related to analysis data, finding and interpretation of the collection data to meaningful and quantitative measurement to capable for conclusion and recommendation.

The last chapter deals with the summary, conclusion and recommendation given with respect to the final phase of the study.



## **CHAPTER TWO**

### **2 LITERATURE REVIEW**

#### **2.1 INTRODUCTIONS**

The Value -Added Tax (VAT) proclamation No 285/2002 which has rescinded and replaced the sales and excise tax proclamation No. 68/1993 (as amended) and which has come into force as of January 1st, 2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered persons, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia for VAT or any resident legal person by a non resident person who is not registered for VAT in Ethiopia. (Proclamation No 285/2002 Article 7 (1) (a)-(c) and Article 23 (1) and (2))

A taxable transaction is a supply of goods or a rendition of services in Ethiopia in the course or furtherance of a taxable activity other than an exempt supply. (Proclamation No 285/2002 Article 7(3))

A taxable activity is any activity, which is carried on continuously, or regularly by any person in Ethiopia, or partly in Ethiopia, whether or not for a pecuniary profit that involves, in whole or in part, the supply of goods or services to another person for consideration. (Proclamation No 285/2002 Article 6 (1) and (2))

Supply means the sale of goods or rendition of services or both and rendition of services means anything done, which is not a supply of good or money. (Proclamation No 285/2002 Article 2(17) and Art. 4(1))

For the purpose of the VAT proclamation the following are considered as taxpayers on whom the VAT law is applicable. These are: -

- (a) A person who is registered or is required to register for VAT;
- (b) A person carrying out a taxable import of goods to Ethiopia;
- (c) A non-resident person who without registration for VAT renders service in Ethiopia for any person registered in Ethiopia for VAT or any resident legal person (Proclamation No 285/2002 Article 3(1), (a)-(c)-cum Article 23 (1) and (2))

For the purpose of the VAT proclamation “person” means any natural person, sole proprietor, body, joint venture, or association of persons. (Proclamation No 285/2002 Article 2(11))

Proclamation No 285/2002 Article 2 (15) of the Proclamation, which deals with definition, states that “Resident person” shall have the meaning given to it under the Income Tax Proclamation.

The new Income Tax law of Ethiopia Proclamation No 286/2002 defines and/or outlines who and what constitutes a resident in Ethiopia.

Proclamation No 285/2002 Article 5 defines and outlines the principle of residence. Accordingly under Article 5 (1)(a)-(b) an individual shall be resident in Ethiopia. If he:

- a. Has a domicile within Ethiopia;
- b. Has a habitual abode in Ethiopia; and or
- c. Is a citizen of Ethiopia and a consular, diplomatic or similar official of Ethiopia posted abroad?

Pursuant to article 5 (2) an individual, who stays in Ethiopia for more than 183 days in a period of twelve (12) calendar months, either continuously or intermittently, shall be resident for the entire tax period.

With regards to a body, pursuant to Article 5 (3), a body shall be resident in Ethiopia, if it;

- a. Has its principal office in Ethiopia;
- b. Has its place of effective management in Ethiopia and/or
- c. Is registered in the trade register of the Ministry of Trade and Industry

It should be noted that according to Article 5(4) “Resident person” includes a permanent establishment of a non-resident person in Ethiopia.

## **2.2 VAT RATE**

The VAT law contains two VAT rates. One is the standard 15 percent rate and the other is zero-rated.

The following taxable transactions are charged with tax at a rate of zero percent.

- a. The export of goods or services
- b. the rendering of transportation or other services directly connected with international transport of goods or passenger, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights
- c. The supply of gold to the National Bank of Ethiopia; and

d. A supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern. [proclamation No 285/2002 Article 7 (2) (a) - (d)]

There is a basic difference between VAT exemption and zero rate VAT. The difference is that though zero rate transactions do not pay VAT on the goods and services they render under transactions listed in (a) – (d) above, for the purpose of VAT registration they are considered as taxable service thus enabling and making these transactions eligible for collecting tax rebate.

This has the advantage of granting VAT rebate which can help redress input tax paid on purchase of goods and services necessary for the furtherance of the zero rated transactions.

On the other hand, VAT exemptions granted by the VAT law does not allow for the collection or entitlement of VAT rebate for the simple reason that they are assumed not to have paid input tax, therefore disabling exempt categories from registering for VAT and taking advantage of the VAT rebate provisions.

## **2.3 REGISTRATION**

Under the VAT law any person who carries on a taxable activity and at the end of any period of 12 calendar months has made, during that period, taxable transactions the total value of which exceeds 500,000 Birr or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during the period will exceed 500,000 Birr, has the obligation to register for VAT. (proclamation No 285/2002 Article 16(1)(a) and (b))

According to Article 17, a person who carries on taxable activity and is not required to be registered for VAT, may voluntarily apply to the Tax Authority for such registration, if he regularly is supplying or rendering at least 75% of his goods and services to registered persons.

## **2.4 EXEMPTION FOR SPECIFIC CATEGORIES OF GOODS AND SERVICES**

Tax-exempt goods and services are supplies on which VAT, both the standard rate and zero-rate tax, are not paid on.

If a person who is engaged in a taxable activity that fully falls under the tax-exempt category, such a person cannot register for VAT.

If a person is engaged partially in a tax exempt category activity and partially in a taxable activity, such person can not register for VAT and be legible for tax rebate which could be beneficial to redress cost paid for input tax on his taxable transactions.

Under the VAT Law, the following types of supplies of goods (other than by way of export) or rendering of services as well as the following types of imports of goods are also exempt from payment of VAT;

- a. The sales or transfer of a used dwelling, or the lease of a dwelling;
- b. The rendering of financial services;
- c. The supply or import of national or foreign currency, and of securities;
- d. The import of good to be transferred to the National Bank of Ethiopia;
- e. The rendering by religious organizations of religious or church related services;

- f. The import or supply of prescription drugs and the rendering of medical services;
- g. The rendering of educational services provided by educational institutions, as well as child care service for children at pre – school institutions;
- h. The supply of goods and rendering of services in the form of humanitarian aid, as well as import of goods transferred to state agencies of Ethiopia and public organizations for the purpose of rehabilitation after natural disasters, industrial accidents and catastrophes;
- i. The supply of electricity, kerosene, and water;
- j. Goods imported by the government, organizations, institutions or projects exempts from duties and other import taxes to the extent provided by law or by agreement;
- k. Supplies by the post office;
- l. The provision of transport;
- m. Permits and license fees;
- n. The import of goods to the extent provided under schedule two of the customs tariffs regulations;
- o. The supply of goods or services by a workshop employing disabled individuals if more than 60 percent of the employees are disabled; and
- p. The import or supply of books and other printed materials. (Article 8(2) (a)-(p))

By virtue of Article 8(4), the Minister of Finance and Economic Development may by directive exempt other goods and services. In a similar manner Income Tax Proclamation No 286/2002, Article 13 (e) has empowered the Council of Ministers and the Minister of Finance and Economic Development to exempt by regulation any income for economic, administrative or social reasons.

All The aforementioned exemptions have a common feature and that is; they are designed and intended to encourage and enhance the health, education and financial sector of the economy and to protect and promote social and public interest; and the exemptions have been granted for economic, administrative or social reasons.

The Council Ministers for the proper interpretation of the VAT proclamation issued the Value-Added Regulation No 79/2002.

The major areas on which proper and broader interpretation has been rendered include exemptions granted by the VAT proclamation whereby general areas of exemptions have been listed without detailed interpretation and implementation terms and conditions. In this regard, the regulation clearly states what falls under the exempted items and what does not fall under or constitute exemption under the VAT proclamation. These exemptions include inter-alia provision relating to religious or church-related services and provisions relating to supplies of humanitarian aid.

The Regulation provides that generally, services rendered by a religious organization that are integral to the practice of that religion come within the exemption. The donation in kind or money (such as church plate donation) or services is not subject to tax if there is no direct link between

the payment and any benefit received by the donor. (proclamation No 285/2002 Article 23 (1),(2), (4) and (6))

However, the activities of a religious organization that compete with the private sector or that are not integral to the practice of the religion do not come within the exemption. In which case if the value of these taxable supplies exceed the threshold of 500, 000 Birr, the religious organization must register. A religious organization that operates taxable activities through a development commission or similar entity must separately register the commission or the similar entity.

The Regulation also provides that the exemption for supplies of humanitarian aid applies to goods imported or purchased locally by organizations registered as humanitarian organizations for such purpose. (proclamation No 285/2002 Article 26 (1) and (2))

The exemption covers the import of goods or purchase of goods locally with an announcement or declaration of a natural disaster, industrial accidents, or catastrophe by the Disaster and Prevention Commission.

The Regulation contains a provision that deals with import exempt by law or agreement. An exemption by agreement covers tax exemption for certain import of goods only if the agreement is entered into by the government or the agreement is entered into with permission granted by the government. (proclamation No 285/2002 Article 28 (3) and (4))

The exemption by agreement includes exemption provided under;

- a. A technical assistance or humanitarian assistance agreement entered into between a government of any country;
- b. The Diplomatic Immunities and Privileges Convention;



- c. An International Convention having the force of law in Ethiopia; and
- d. Any other multilateral agreement to which Ethiopia is a party.

## **2.5 TAX CREDIT, PROCEDURES FOR FILLING TAX RETURN AND PAYMENT OF VAT AND VAT REFUND OR REBATE**

### **2.5.1 TAX CREDIT**

Under the VAT law the amount of VAT that is creditable is the amount of VAT payable (paid) by a registered person in respect of tax invoices or customs declaration issued to the person for:

- a. Imports of goods that take place during the current accounting period;  
and
- b. Taxable transactions involving the supply of goods or rendering of services that are considered to take place during the current or preceding accounting period.

Where the goods or services are used or are to be used for the purpose of the registered person's taxable transactions. (proclamation No 285/2002 Article 21(1)(a) and (b))

In cases where only a part of the supplies made by a registered person during a tax period are taxable transactions, the amount of tax credit or rebate for that period is determined;

- a. In respect of a supply or import received, which is directly allocable to making of taxable transactions, the full amount of tax payable in respect of the supply or import is allowed as credit or rebate.

- b. In respect of a supply or import received which is directly allocable to the making of exempt transaction, no amount of tax payable in respect of the supply or import shall be allowed as a credit or will be allowed as a credit.
- c. In respect of a supply or import received which is used both for the making of taxable and exempt transactions, the rule of apportionment of the credit will be determined by a directive to be issued by the Ministry of Revenue. (proclamation No 285/2002 Article 21 (2) (a) – (c))

Where VAT indicated in the VAT invoice or customs declaration for a transaction exceeds VAT payable on this transaction, the registered person is allowed a credit for the amount of the excess in the accounting period in which the event referred to occurred.

However if the supply was made to a person who is not a registered person, no credit will be allowed unless the excess tax has been repaid to the recipient of the supply. (proclamation No 285/2002 Article 21(5))

A person who registers for VAT after the introduction of VAT will be entitled to credit in the first accounting period in which the person is registered for VAT paid or payable on goods (including capital goods) that are on hand on the date of registration.

However this will be applicable only to the extent that the purchase or import of the goods occurred not more than six months prior to the date of registration. (proclamation No 285/2002 Article 21(6))

A beneficiary of the duty draw – back scheme under proclamation No. 249/2001 – a proclamation to establish Export Trade Duty Incentive Scheme is not entitled to a refund of VAT paid on imports under the VAT credit system of the VAT law. (proclamation No 285/2002 Article 21(7))

## **2.5.2 PROCEDURES FOR FILING TAX RETURN AND PAYMENT OF VAT**

Under the VAT law every registered person is required to: (a) File a VAT return for each accounting period, whether or not tax is payable in respect of that period; and (b) pay the tax for every accounting period by the deadline for filing the VAT return. The VAT return for every accounting period must be filed not later than the last day of the calendar month following the accounting period. (proclamation No 285/2002 Article 26, 1(a) and (b) and (2))

## **2.5.3 VAT REFUND OR REBATE**

If at least 25 percent of the value of a registered person's taxable transactions for the accounting period is taxed at a zero rate, the tax authority will refund the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amount. (proclamation No 285/2002 Article 27(1))

In the cases of other registered persons, the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period is to be carried forward to the next five accounting periods and credited against payments for these periods, and any unused excess remaining after the end of this five- month period shall be refunded by the tax authority within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amount. (proclamation No 285/2002 Article 27 (2))

Where the tax authority is satisfied that a person who has made an application for refund has overpaid tax, the tax authority shall first apply the amount of the excess in reduction of any tax, levy, interest, or penalty payable by the person under the VAT proclamation, the customs proclamation, the income tax proclamation, or the sales and excise tax proclamation and then repay any amount remaining to the person if the amount to be refunded is more than 50 Birr. (proclamation No 285/2002 Article 27 (5) (1) (a) and (b))

If a registered person is entitled to a refund and the tax authority is satisfied that the person has overpaid tax, than if the tax authority does not pay the refund within the specified two months period, the tax authority will pay the person entitled to the refund, interest set at 25% (twenty five percent) over and above the highest commercial lending interest rate that prevailed during the preceding quarter. (proclamation No 285/2002 Article 27(6))

## **2.6 NON - COMPLIANCE WITH VAT PROCLAMATION**

Non-compliance with VAT Proclamation failure to register for VAT as per VAT registration requirement, failure to issue a tax invoice, failure to maintain recorder such as original tax invoices received and a copy of tax invoices issued and failure to file timely return shall be liable to administrative penalties ranging from a fine 100 percent of the amount of tax payable and a fine of up to 50,000 Birr. (Federal Negarit Gazeta no. 33 p.1860)

In addition to administrative penalties tax offenders such as tax evasion, making false or misleading statement, and failure to notify are all criminal offences under Ethiopian law. Accordingly, tax fraud - making false or misleading statements is punishable with a fine ranging from 1000 Birr to

100,000 Birr and an imprisonment ranging from 3 years to five years where the making of false or misleading statement is made knowingly or recklessly such an offence is punishable by a fine of up to 200,000 Birr of an imprisonment of up to 15 years. (Federal Negarit Gazeta no. 33 p.1860)

## **2.7 THE IMPLICATION OF VAT ON NGOS IN ETHIOPIA**

NGOs are exempt from charging VAT i.e. they are not registered to collect VAT as they are not working for profit. This means that whenever they provide services, they are not expected to include VAT charges.

However, they are expected to pay VAT charges whenever they purchase goods and services locally although they are not working for profit and do not add value to their services. (Bekure Herouy, March 2004)

Nonetheless, NGOs that are directly engaged in relief operations in the country have special privilege that exempts them from paying VAT, given by a directive issued by the DPPC to the VAT Department. These are a list of NGOs identified by DPPC who purchase relief aid and/or services that they buy from local markets. Other NGOs may also have that this kind of exemptions through bi-lateral or multi-lateral agreements or understandings with the government. Please note that these NGOs may implement development programs through food for work such as construction of roads, schools, health clinics etc.

Parallel to this, many other NGOs are expected to pay VAT whenever they purchase materials and services to construct the same schools, health clinics, youth centers that will be handed over to the respective line ministries or, regional bureaus for the use of communities. (NGO Legal Framework)

## **2.8 OTHERS**

### **2.8.1 STAMP DUTIES**

The law on the payment of stamp duties, Stamp Duty Proclamation No 110/98, subjects all associations or NGOs to the payment of stamp duties on their memorandum and articles of associations; on contracts whenever they lease or sub -lease property or when they transfer their lease rights to third parties; and when they register title to their property.

Though payment of stamp duties is law and does not occur on a regular basis as other taxes such as income and VAT for example, exemption in this area is not a critical issue. However the government may grant exemption to NGOs also in this area as a gesture of offering beneficial tax treatment with the view of supporting and encouraging the sector. (NGO Legal Framework)

### **2.8.2 LEASE FREE LAND GRANT**

The lease free land grant to NGOs and churches was a valuable incentive. However, the administrative provisions and their cumbersome requisites and formalities are found to be prohibitive by NGOs.

In practice, NGOs and churches are granted the privilege to acquire lease free land for their religious, humanitarian and development activities.

However, as of late, the issue of land acquisition lease free has become a very difficult task and even in the case of land lease fee, the price is exorbitant and NGOs cannot compete with the private sector and bid for land at every high and exaggerated price and rate.

In light of this development, it is therefore recommended that lease free land grant should be automatic for humanitarian and development work

benefiting communities in need and in cases where this is not possible or feasible, NGOs should be granted lease land at a very low and nominal rate. (NGO Legal Framework)

## **CHAPTER THREE**

### **3 DATA ANALYSIS AND INTERPRETATION**

This chapter mainly deals with tabular data presentation, data analysis and interpretation in the situation of the Kirkos sub city VAT collection practice assessment.

#### **3.1 CHARACTERISTICS OF THE STUDY POPULATION**

As we mention in chapter one, the population of the study has three category.

1. The customers whom buy goods and services,
2. VAT registered seller/services providers and
3. The staff of the tax authority at the sub city.

Simple random sampling was used in order to have equal chance for all members of the population. The study selected as a sample of 10 employees at the tax authority staffs, 20 VAT registered goods and/or service providers and 20 customers who are buying goods and/or services at Kirkos sub city from the population size of the sub city. The questionnaires was prepared and distributed to the above sample and all the total distributed questionnaires were filled and returned by the respondent.

#### **3.2 BACKGROUND INFORMATION OF THE RESPONDENTS**

The questioners are drawn from different gender, age, level of education service, business or work experience and staying in the sub city.



Item	Reponses	Employee		Customer		VAT registered		Total	
		#	%	#	%	#	%	#	%
Sex	Female	2	20	14	70	8	40	24	48
	Male	8	80	6	30	12	60	26	52
	Total	10	100	20	100	20	100	50	100
Age	<25	1	10	8	40	6	30	15	30
	25-35	5	50	9	45	6	30	20	40
	36-45	4	40	3	15	6	30	13	26
	>45		-			2	10	2	4
	Total	10	100	20	100	20	100	50	100
Level of Education	TVET			2	10	6	30	8	16
	Diploma	3	30	6	30	2	10	11	22
	>Firs Degree	7	70	12	60	10	50	29	58
	No respond					2	10	2	4
	Total	10	100	20	100	20	100	50	100
Year	<2 years	5	50	2	10	9	45	16	32
	2-5 years	3	30	2	10	8	40	13	26
	5-8 years	2	20	6	30	1	5	9	18
	>8			10	50	2	10	12	24
	Total	10	100	20	100	20	100	50	100

Table 3.1 background information of the respondent (source questioner)

Form the above table 3.1, the customer respond data shows that about 70% are female and 30% are male. About 40% are below 25 years old, 45% are between 25 and 35 years, and 15% are between 36 and 45 years. About 10% are TVET, 30% are Diploma holder, and 60% are Degree and above.

About 10% are living less than 2 years, 10% are living between 2 and 5 years, 30% are living between 5 and 8 years and 50% are above 8 years.

According to the questioner responds by employees shows on table 3.1 about 20% are female and 80% are male employees. About 10% are below 25 years old, 50% between 25 and 35 years, and 40% are between 36 and 45 years. About 30% are Diploma holder, and 70% are Degree and above. About 50% are less than 2 years working experience, 30% are between 2 and 5 years experience, 20% are between 5 and 8 years experience.

The VAT registered seller/service providers respond data (Table 3.1) shows that about 40% are female and 60% are male. About 30% are below 25 years old, 30% between 25 and 35 years, 30% are between 36 and 45 years and 10% are above 45 years old. About 30% are TVET, 10% are Diploma holder, 50% are Degree and above, and 10% has not specified. About working on the sub city 45% are less than 2 years of business experience, 40% are between 2 and 5 years of experience, 5% are between 5 and 8 years and 10% are above 8 years experience.

### **3.3 CUSTOMERS RESPOND**

The following table 3.2 shows the customer respond data when buying from VAT registered seller.

Item	Reponses	Customer	
		#	%
<b>Buying from VAT register customer</b>	Regularly	14	70
	Very rare	6	30
	Not at all		
	Total	20	100
<b>Received of ticket when buying</b>	Regularly	6	30
	Very rare	14	70
	Not at all		
	Total	20	100
<b>Checking the all content of the receipt</b>	Regularly	4	20
	Very rare	16	80
	Not at all		
	Total	20	100

Table 3.2 customers respond about VAT receipt (source questioner)

From the above table 3.2, the customer respond shows that 70% of the customers are buys goods or services regularly form VAT registered and 30% of the customers are buying rarely from VAT registered seller and 30% of the customers are regularly received the ticket when buying goods and services and 70%of the customers are not received the receipt and only 20% of the customers are regularly checking all the content of the receipt like date, time, TIN, and others.

From the above information, most the customers are not receive the tickets and even if they receive it, they didn't check the content of the ticket except the amount. The word "don't pay without receipt" has shown on the shop in Amharic and English, however the customers have no knowledge of the

effect. More than 60% of customer response indicates that they are Degree and above educational status. However, they didn't care about the VAT payment when they buy goods and services from the VAT registered seller.

Let us see the problem and the effect, the problem is that the customers have no knowledge about the VAT accounting system. The VAT registered seller collects its sales value plus 15% of VAT on behalf of the tax authority. So VAT value is not the seller income, it is payable to the tax authority. When the seller does not issue ticket at the time of sales means that the seller collects VAT without recording the transaction on cash register machine and the tax authority doesn't have knowledge about the transaction. Therefore, the seller may consider the VAT value as its income without posting the transaction. The only one who enforces to record the transaction on cash register is that the customer.

The customer collects the receipt means enforces the seller to post the transaction on cash register machine. If the customer is aware about it, the customer either collects the receipt that generated by the cash register machine or not pays without the receipt or pay only the sells value. However, the later is illegal. The customers are not enforced to collect the ticket by the authority.

More than 82% of the respond said that to solve the price of the same product between VAT registered and not registered seller are the criteria of VAT register must be by the product type and the whole seller must register VAT.

### 3.4 VAT REGISTERED SELLER/SERVICE PROVIDERS RESPOND

The following table 3.3 shows the VAT registered seller or service provider respond data when declaration VAT.

Item	Reponses	VAT Registered seller	
		#	%
<b>Paying the VAT declaration on time</b>	Yes	20	100
	No	-	-
	Total	20	100
<b>What is the reason not Paying the VAT declaration on time</b>	Carelessness	-	-
	Shortage of man power	-	-
	Other	-	-
	Total	-	-
<b>The best VAT declaration time</b>	Monthly (the existing))	14	70
	Yearly	4	20
	Semi annually	2	10
	Quarterly		
	Total	20	100
<b>Bureaucracy on making decision with reason</b>	No	14	70
	Yes, fear	4	20
	Yes, lack of knowledge	2	10
	Other		
	Total	20	100

Table 3.3 VAT registered seller responds (source questioner)

As per table 3.3 above, the seller respond indicates that all of the responds paying the VAT declaration on time. There is no reason for late payment.

The penalty may enforce to pay on time. However, there were crowded at the last payment days from our observation. Regarding the declaration time, 70% of the respond said that continuing with the existing practice (monthly), 20% of the responds said yearly and 10% of the responds said semi annually. About the bureaucracy on decision making, 70 % of the respond said there is no bureaucracy, 20% of the respond said there is bureaucracy due to fear of decision and 10% of the respond said there is bureaucracy due to lack of knowledge.

Finally as per table 3.1 the educational level of the person who handle the VAT declaration reports are about 30% of TVET, 10% of Diploma holder, and 50% of Degree and above and the remaining 10% have not specified.

From our observation, some cosmetics shop, mini markets, retail shop are not registered as VAT registered seller. The consumer prefers to buy goods from those sellers. Therefore, there is a problem of price difference between the VAT register seller and not registered seller. The consumer prefers to buy from the not register seller in order to get the VAT discount. More than 91% of the respond said that to solve the price of the same product between VAT registered and not registered seller are the government must enforce to register the not registered seller.

### **3.5 EMPLOYEES RESPOND**

The following table 3.4 shows the employees responding data on employee turnover, training and VAT deceleration time.

Item	Reponses	Employers	
		#	%
<b>Level of Employee turnover</b>	Very high	8	80
	Very low		
	Normal	2	20
	Total	10	100
<b>Training to improve skill</b>	Yes	8	80
	No	2	20
	Total	10	100
<b>Bureaucracy on making decision and reason</b>	No	7	70
	Yes, fear	2	20
	Yes, lack of knowledge	1	10
	Other		
	Total	10	100
<b>Does the VAT payers declaration on time? What is the reason?</b>	Yes	7	70
	No, Carelessness	2	20
	No, Shortage of man power	1	10
	No, Other		
	Total	10	100
<b>The best VAT declaration time</b>	The existing	7	70
	Yearly	1	10
	Semi annually	1	10
	Quarterly	1	10
	Total	10	100

Table 3.4 employees respond data (source questioner)

As per table 3.4 of the employee respond indicates that about 80% said there is high employee turnover. And according to the employees respond table 3.1 shows, 50% of the employees less than 2 years of working experience and 80% of the respond less than 5 years experience. This seems most of the employees in this organization have been not worked for

many years. Lack of working experience employees can't handle the customer problem on time and not capable to control the fraud on VAT.

About 80% of the respond said there was training to improve skill and 20% of the respond said no training. About 70% of the respondent said VAT declared on time, 20% and 10% of the respondent said due to carelessness and shortage of man power penalized respectively. Regarding the declaration time, 70% of the respond said that continuing with the existing practice (monthly), 10% of the responds said yearly and 10% of the responds said semi annually. About the bureaucracy on decision making, 70 % of the respond said there is no bureaucracy, 20% of the respond said there is bureaucracy due to fear of decision and 10% of the respond said there is bureaucracy due to lack of knowledge.

The sub city historical data shown on table 3.5 indicates that the number VAT register seller and/or service provider are increased from time to time.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
NO. VAT register customer	14*	15	17	18
Amount of VAT collected	25,000*	25,500	26,600	26,700
<b>Analysis of the data</b>				
Additional no. of VAT register		1*	1.6	1.9
Percentage		7.14	10.67	11.45
Additional amount of VAT		400*	300	200
Percentage		1.54	1.14	0.75

\*amount in thousands

Table 3.5 Historical data from the sub city public relation data center and our analysis of the data



From the above table 3.5 shows the amount of tax collected from VAT is increase at a decreasing rate. However, the above data shows that 7.14% of increased on no. of VAT register customer gave 1.54% of increased on VAT amount in year 2011, 10.67% of increased on no. of VAT register customer gave 1.14% of increased on VAT amount in year 2012, and 11.45% of increased on no. of VAT register customer gave .75% of increased on VAT amount in year 2013. Even if there are many factors and may require further study, we can say that there is intentional VAT reduction, VAT refund request or fraud are exist. Because at inflation time, when number of VAT registered seller/service provider increase, the amount of VAT collected from customer must increase at increasing rate.

According to the interview we made with the employees, there are only three ways using to control the VAT collection mechanism.

1. Cash register machine
2. Pre-number cash receipt ticket (invoice)
3. TIN (tax identification number)

Unless the control mechanisms incorporate checking the cash flow statements, the inventory and purchase account movements, and the purpose of cash payment VAT receipt present for refund. Because, the VAT register seller may include personal and unrelated purchase transaction. Just putting its name and TIN on any transaction of purchase is enough to consider as its VAT payment in order to gate VAT refund. Mixing of personal and other business transaction as our transaction event is violation of business entity concept of accounting.

## **CHAPTER FOUR**

### **4 SUMMARY, CONCLUSION AND RECOMMENDATION**

In this chapter based on the basic question raised and conducted interview the findings obtained the following summary, conclusion and recommendations are forwarded.

#### **4.1 SUMMARY**

The following findings are summarized from the data collected from the respondent through questionnaire, interview and observation.

- The questioners were responded by the employee indicates that about 70% of the respondents said VAT declared on time, 20% and 10% of the respondents said due to carelessness and shortage of man power were penalized respectively.
- 80% of the responds said that there is high employee turnover. And according to the employees respond table 3.1 shows, 50% of the employees less than 2 years of working experience and 80% of the respond less than 5 years experience
- About the bureaucracy on decision making, 70% of the respond said there is no bureaucracy, 20% of the respond said there is bureaucracy due to fear of decision and 10% of the respond said there is bureaucracy due to lack of knowledge.
- 70% of the customers are not receiving the receipt and only 20% of the customers are regularly checking all the content of the receipt like date, time, TIN, and the others.

- Cash register machine, Pre-number cash receipt ticket (invoice) and TIN (tax identification number) are mainly use to control the VAT collection mechanism.
- 82% of the respond said that to solve the price of the same product between VAT registered and not registered seller are the criteria of VAT register must be by the product type and the whole seller must register VAT.
- About 85% of the respond said there was training to improve skill and 15% of the respond said no training.

## **4.2 CONCLUSION**

Now a day the VAT collection practice in Ethiopia is more than eleven years old. Until now there are different amendment made to fill the gaps of the collection practice.

This research paper tried to assess the VAT collection practice at Kirkos sub city. As indicted in chapter three based on the interview conducted and questionnaire distributed and observed, VAT registered sellers, customers and the tax authority staff tried to indicate there are some problems that Kirkos sub city faced. Firstly when customers buy goods and service they didn't check the receipt. Some of the problems originate from the tax authority side. The authority didn't set up a solution of the price difference between the VAT registered seller and not registered seller. The VAT registered sellers are not enforced to present the complete financial statement. The sellers are focused on the VAT declaration and may not have any accounting records.

Finally, the researcher concludes that, the sub city has both strong and weak sides. The strong sides are using online cash registered machine. All

sellers have their unique identity of TIN. In case of power off, there is pre-numbered receipt that replaces the cash register machine.

And the weak side of the sub city is lack of handling of those problems mentioned her below:-

- Customers are not enforced to collect and check the content of the receipt generated by the cash register machine
- There is high employees turn over and loss skilled staff.
- Handling by inexperienced staff.
- Weak control mechanism.

Even if the research were made on selected, the conclusion can be applied for the rest of all. Since, they are governed by the same rules and regulation.

### **4.3 RECOMMENDATIONS**

An effort has been made to study the assessment of VAT collection practice at kirkos sub city, it has found that the approach was helpful to properly understand, communicate and document the existing practice and to propose appropriate recommendation.

On the base of our analysis, design and conclusion of the design document, we have forwarded the following recommendations that will improve the performance of the VAT collection practice at the Sub city.

1. To improve the customer knowledge about VAT collection, the authority must gives training and awareness program on various media like TV announcement, drama and other broacher that clarify the transaction and its effects.

2. To reduce the intentional tax refund request and fraud, the authority must request the financial statements and counter checking the cash flows statement, Account receivable, merchandise inventories and sales accounts.
3. The government must enforce to register the not registered seller.
4. In addition to the existing criteria of VAT registration, item of sales or product must include as a criteria to solve the price of the same product between VAT registered and not registered seller.
5. The existing VAT declaration period may contain as it is, because the government gets regular cash flow throughout the budget year.
6. As the proclamation 262/2002 only penalize the VAT register seller but if it include penalty for customer also may highly improve the collection proactive.
7. The authority may design control mechanisms that incorporate checking the cash flow statements, the inventory and purchase account movements, and the purpose of cash payment VAT receipt.

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# **Appendix**



## Appendix 1 Questioner prepares for the tax authority staff

### St. Mary's University Department of Accounting

This questionnaire is designed by the students of St. Mary's University, department of accounting to undertake a research entitled **“An assessment of VAT collection practice at Kirkos sub city”**. The major objective of the study is to assess the existing problems of VAT collection practice in the sub city.

General Instruction:

- 1 Please complete each part of the survey with care, honesty and due attention
- 2 Instruction: Put a tick mark ( ✓ ) in the box.
- 3 Your cooperation has par amount important for the Completion of the study.

This questioner prepares for the tax authority staff at kirkos sub city

1. Sex  
 Male       Female
2. Age  
 <25       25-35       35-45       >45
3. Your education level;  
 TVT level       diploma       degree and above
4. Your work experience in the authority (in years);  
 Less than 2       2 – 5       5 -8       8 and above
5. Is there employee's turnover in the sub city?  
 Yes       No
6. if your answer in Q.5 yes, how do you measure the employee's turnover?  
 Very high       very low       normal

7. Does the authority give training to the staff to improve their skill?  
 Yes       No
8. Is there bureaucracy on making decision?  
 Yes       No
9. if your answer in Q.8 yes, what is the reason?  
 Fear     lack of knowledge       other (specify) \_\_\_\_\_  
\_\_\_\_\_
10. Do the tax payers pay the VAT declaration on time?  
 Yes       No       I have no idea
11. if your answer in Q.10 no, what is the reason?  
 Careless       shortage of man power     other (specify) \_\_\_\_\_  
\_\_\_\_\_
12. Is there any other option of the VAT declaration time rather than the existing?  
 Yes       No
13. if your answer in Q.12 is yes, which one is the best?  
 Yearly       semi annually       quarterly
14. How to reduce the intentional tax refund request? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
15. Is there any mechanism of control other than TIN (tax Identification Number) the amount of VAT paid reported by the taxpayer?  
\_\_\_\_\_  
\_\_\_\_\_
16. How can improve the awareness of the consumers to collect the cash receipt when buying goods and services? \_\_\_\_\_  
\_\_\_\_\_

## Appendix 2 Questioner prepares for the VAT registered seller

### St. Mary's University Department of Accounting

This questionnaire is designed by the students of St. Mary's University, department of accounting to undertake a research entitled "**An assessment of VAT collection practice at Kirkos sub city**". The major objective of the study is to assess the existing problems of VAT collection practice in the sub city.

General Instruction:

- 1 Please complete each part of the survey with care, honesty and due attention
- 2 Instruction: Put a tick mark ( ✓ ) in the box
- 3 Your cooperation has par amount important for the Completion of the study.

This questioner prepares for the VAT registered seller at kirkos sub city

A. Sex

- Male       Female

B. Age

- <25     25-35       35-45     >45

C. Is it your annual sales volume more that birr 500,000.00 ;

- Yes       No       I have no idea

D. Your business experience in the authority (in years);

- Less than 2       2 – 5       5 -8       8 and above

E. What is the educational level of the person who handles your VAT declaration report?

- TVT level     diploma       degree and above

F. Do you pay the VAT declaration on time?

- Yes       No

G. if your answer in Q.F no, what is the reason?

- Careless       shortage of man power       other (specify)\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

H. Is there any other option of the VAT declaration time rather than the existing?

- Yes       No       I have no idea

I. if your answer in H.F is yes, which one is the best?

- Yearly       semi annually       quarterly

J. Is there bureaucracy on making decision?

- Yes       No       I have no idea

K. if your answer in Q.J is yes, what is your reason?

- Fear       lack of knowledge       other (specify)\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

L. How can solve the price difference of same products or services between the VAT registered and not register seller? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

## Appendix 3 Questioner prepares for the customer

### St. Mary's University Department of Accounting

This questionnaire is designed by the students of St. Mary's University, department of accounting to undertake a research entitled "**An assessment of VAT collection practice at Kirkos sub city**". The major objective of the study is to assess the existing problems of VAT collection practice in the sub city.

General Instruction:

- 1 Please complete each part of the survey with care, honesty and due attention
- 2 Instruction: Put a tick mark ( ✓ ) in the box.
- 3 Your cooperation has par amount important for the Completion of the study.

This questioner prepares for the customer/consumer at kirkos sub city

I. Sex

- Male       Female

II. Age

- <25     25-35       35-45     >45

III. How long you stayed in the sub city ;

- Less than 2       2 – 5       5 -8       8 and above

IV. Have you buying goods and service form VAT register customer?

- Regularly       very rare       not at all

V. Do you receive the receipt ticket when you buy goods or service?

- Regularly       very rare       not at all

VI. Have you check the content of the receipt?

- Rengularly       very rare       not at all

VII. How can solve the price difference of same products or services between the VAT registered and not register seller? \_\_\_\_\_

## **Appendix 4 Interview questions**

According to the interview we made with the employees of the Tax authority staffs at kirkos sub city are as follows:

- 1 What are the controls mechanisms of VAT collection set up by the tax authority?
- 2 Is there any control mechanism other than Cash register machine, Pre-number cash receipt ticket (invoice), TIN (tax identification number)?
- 3 Does the authority request the cash flow statements, the inventory and purchase account movements, and the purpose of cash payment VAT receipt present?
- 4 If the VAT register seller may include personal and unrelated purchase transaction, how does the authority control and identify it?
- 5 Is there any Customers are not enforced to collect and check the content of the receipt generated by the cash register machine?
- 6 Is there employees turn over in the authority staff?
- 7 What mechanisms does the authority use to improve the customer awareness about VAT collection?
- 8 Is there any penalty applied regarding the consumer violation of the VAT proclamation?

## **SUBMISSION APPROVAL SHEET**

This senior research paper has been submitted to St. Mary's University for examination with my approval as a university advisor.

Name: Ato AbduYimer

Signature \_\_\_\_\_

Date: June 06, 2014

## **DECLARATION**

We, the undersigned, declare that this senior essay is our original work, prepared under the guidance of Ato Abdu Yimer. All sources of materials used for the manuscript have been duly acknowledged.

Name: Bethalem Lisanework

Signature \_\_\_\_\_

Name: Roza Juhar

Signature \_\_\_\_\_

Name: Sisaynesh Chala

Signature \_\_\_\_\_

Place of submission: Addis Ababa

Date of submission: June 06, 2014