

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

**AN ASSESSMENT OF VAT COLLECTION  
PROBLEM IN CASE OF AKAKI KALITY SUB  
CITY REVENUE AGENCY**

**BY**

**BETELHEM ABEBE**

**MIGNOT MITKU**

**HANA YALEW**

**JUNE, 2014**

**SMU**

**ADDIS ABEBA**

**AN ASSESSMENT OF VAT COLLECTION  
PROBLEM IN THE CASE OF AKAKI KALITY  
SUB CITY REVENUE AGENCY**

**A SENIOR ESSAY SUBMITTED TO THE  
DEPARTMENT OF ACCOUNTING**

**BUSINESS FACULTY**

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BACHELOR OF ARTS IN ACCOUNTING**

**BY**

**BETELHEM ABEBE**

**MIGNOT MITKU**

**HANA YALEW**

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**DEPARTMENT OF ACCOUNTING**

**APPROVED BY THE COMMITTEE OF EXAMINERS**

\_\_\_\_\_

**Department Head**

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**Advisor**

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**Internal Examiner**

\_\_\_\_\_

**Signature**

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**External Examiner**

\_\_\_\_\_

**Signature**

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## Acronyms

A.A	Addis Ababa
ERCA	Ethiopian revenue and customs Authority
FIRA	Federal Inland Revenue Authority
A.K.S.C	AkakiKality Sub City
VAT	Value Added Tax
GST	Good and Service Tax
TOT	Turnover Tax

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Value added tax (VAT) is an indirect consumption tax assessed on the value added to a product at each point in the cycle of production and distribution. It is a consumption tax because it is ultimately borne by the consumer, who pays a fixed percentage of the final sale price of a product. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost of the VAT on to the final consumer in the form of price increases. Tax is added to a product's price each time it changes hands until delivery to the customer takes place, when the final tax is paid(Encyclopedia of Management, 2009)

Value-added tax falls under the general category of a consumption tax, meaning taxes are paid on what people buy rather than on their earnings, savings, or investments. VAT has also been referred to as a sort of national sales tax, though it functions very differently. Sales tax is imposed on the total. (Encyclopedia of Management, 2009)

The Federal Democratic republic of Ethiopia (FDRE) has adopted VAT into its tax system in 2003. It has been introduced on January 1, 2003, replacing the former sales tax system. The VAT proclamation NO 285/2002/ (VAT law) has been ratified by the house of peoples Representatives six months before VAT implementation (July, 2002).This VAT proclamation has thirteen sections (13) and sixty-six (66) articles. In December, 2002, the VAT regulation No 79/2002 has also been issued by Council of Minister pursuant to the value add tax

proclamation for the implementation and regulation of VAT. The VAT regulation has three chapters (3) and forty (40) articles.

VAT is introduced in Ethiopia by proclamation NO 285/2002, replacing sales tax with the following objectives:

- To collect tax on the added value whenever a sales transaction is conducted since the former sales tax system already replaced did not allow collection of the tax on the added value created whenever sales transaction is conducted
- To minimize the Damage that may be caused by attempts to avoid and evade the tax and to ascertain the profit obtained by the tax taxpayers
- To enhance saving and investment as it is a consumption tax and does not tax capital and.
- To enhance economic growth and improve the ration relationship between gross Domestic product and gross revenue.

According to the newly implemented VAT law supply of goods and rendition of services in Ethiopia are subject to VAT at a standard rate of 15% except those exempted and zero-rated is supplies determined by the VAT law. The standard rate, 15% is applied only to imports and domestically manufactured goods. (Misrak, 2008,320).

Unlike the sales tax, VAT provides the relief of the tax on all business in puts (taxable supply) including capital goods operating and administrative expenditures. The relief of the tax and zero rating also encourages investment and exports. The VAT system that Ethiopia has implemented also gives exemption to basics and necessities such education medical service electricity water kerosene, basic foods, transportation service fertilizers books and printed

materials the supply of goods or services in the form of humanitarian aid etc. (Misrak, 2008, 320).

Therefore, this paper aims to evaluate assessment of VAT collection problems in akaki kality sub city revenue agency.

## **1.2 Background of the Organization**

According to article 3 of the proclamation No .587/2008, the Ethiopian Revenue and Custom Authority (ERCA) is looked upon as "an autonomous federal agency having its own legal personality". The ERCA came into existence on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and The Federal Inland Revenue Authority who formerly were responsible to raise revenue government for the Federal and to prevent contraband. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex.

Some of those reasons include:

1. To provide the basis for modern tax and customs administrations
2. To cut through the red tape or avoid unnecessary and redundant procedures that results delay and are considered cost-inefficient etc.
3. To be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery
4. To transform the efficiency of the revenue sector to a high level.

A long process of study called "Business Process Re-engineering" had taken place before any steps were taken to effect the merger of the foregoing administrations. The study was undertaken for a year and half beginning from

November 2007 by teams of officials selected from within the administration. The study has looked into the selected key business processes and has come across inefficient organizational structure and unnecessary complicated procedures that permitted insufficient service delivery. The study has also indicated that there was corruption within the administrations and that smuggling and tax evasion were serious problems. These problems have depressed the attempt of the foregoing administrations to be successful in achieving their objectives. Owing to the depressing problems that worked against efficiency, the former administration has failed to deliver efficient service to its customers such as importers, exporters, taxpayers, the federal government, the society etc.

### **Objective of authority**

The ERCA has the following objectives:

1. To establish modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service,
2. To cause taxpayers voluntarily discharge their tax obligations,
3. To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion,
4. To collect timely and effectively tax revenues generated by the economy.

## **1.3 Statement of the problem**

Value added Tax (VAT) is abroad based tax imposed on consumption of goods and services. It is collected at all stage in the production and distribution process. In akakikality sub city finance and economy development office has responsibility to assess and collect revenue in order to achieve the goal of

developing the city economy. The office assesses and collects value added tax by structuring in revenue agency. Since VAT is introduced in recent year, it is not easy and simple to adopt in developing countries like Ethiopia. Problems encountered at Akaki Kality sub city finance and economy development office are lack of skill and knowledge about VAT system, shortage of number of employees, lack of trading.

#### **1.4 Research Question**

- How the AkakiKality sub city revenue agency does is implementing and collecting VAT effectively?
- How does the VAT payer's knowledge and awareness about VAT?
- How does the impact of VAT on accounting and recording of the tax payers?
- What is the attitude of tax payer towards the VAT policy?

### **1.5 Objectives of the study**

#### **General Objective**

The general objective of this study is to review VAT assessment and collection problem in akakikality sub city revenue agency.

#### **Specific objective**

Specifically this study tries to address the following issues:-

- To assess AkakiKality sub city administration is implementing and collecting VAT effectively.
- To assess the VAT payer's knowledge and awareness about VAT
- To evaluate the impact of VAT on accounting and recording of the tax payers.
- To assess the attitude of tax payer towards the VAT policy.

## **Scope of the study**

This study will be conducted on AkakiKality sub city Revenue agency& the study was focus on the assessment of VAT collection problem In AkakiKality sub city revenue agency and this is because the performance report of the year 2006 is not compiled.

## **1.6 Significance of study**

This study was help for the A.K.S.C. in identifying major problems in auditing procedures and day to day practices, which were more susceptible for mistake, errors discrepancies and fraud. In addition, the outcome of the study was show the strength and weakness of the current VAT collection practice, policies procedures, rules and regulations, which was in turn enhance the service giving capacity of A.K.S.C. in efficient and effective way. It was contribute to better decision making and continuous quality improvement and suggest modern approach for risk prevention. Moreover, the study will be significant to the researchers to get good experience on the overall activities of the VAT collection. Finally the study can be used as the reference for the other student who wants to do research in the same area.

## **1.7. Research Methodology**

### **1.7.1 Research Design**

In order to answer the above basic research questions, the researchers was use descriptive research method. Descriptive research method helps to describe the research setting as it is and also allows the use of both quantitative and qualitative approach. According to Malhotra (2007), descriptive research primarily aims at gathering knowledge about

Description and explanation of the objectives of the study. The researcher simply describes the things, events, and data which were collected through questionnaires and interviews.

### **1.7.2 Types of Data collected**

Both primary and secondary data were collected. The primary data was obtained from the customers and employees. The secondary data was collected from the authority annual reports report, ERCA VAT policy, manuals, articles, journals and other document relevant to the study.

### **1.7.3 Methods of data collection**

Primary data was obtained using questionnaires and interview. Both open and close ended questionnaires were distributed to the customers and revenue collection department staffs. Secondary data source such as annual reports, the ERCA VAT policy, manuals, articles, journals and other documents relevant to the study was reviewed and observed.

### **1.7.4 Population & Sampling technique**

The student researchers were used non-probability sampling approach particularly convenient sampling technique. The study was used ten customers from five Weredas totally 50 customers and 8 employees from five Weredas totally 40 employees as representative respondents in order to have sufficient and reliable data.

### **1.7.5 Methods of Data Analysis**

The study was both qualitative and quantitative data analysis techniques. The responses that were collected from questionnaires were analyzed by quantitative approach; tabulation and percentage



were used. Responses that were obtained through interview were narrated qualitatively.

### **1.8 Limitation of the Study**

In research process, there was a problem when the study is conducted to keep the quality of the study. Therefore, in the study a number of limitations were faced in the process. Some of limitations are as follows:

- A. Inadequacy of time to collect relevant and sufficient data for the study.
- B. The respondent who not willing to give some of the information needed for the study. The reason might be due to confidential of the information.

### **1.9. Organization of the Study**

The research paper is organized in such a way that the first chapter introduces the overall purpose of the research and explains why the study is important. Chapter two deals with related literature review on historical perspectives and definition. Chapter three deal with data analysis, interpretation and presentation. The last chapter, which is chapter four, will summarize the major findings, conclusions and recommendations of the research paper.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Definition of Tax**

Tax is contributed without expectation of direct and equivalent return for the contribution made. This means, there is no direct relationship between the compulsory contribution to a government and the amount of the service received from the government for the compulsory contribution made. Rather, the benefits of government expenditures may go to any one irrespective of the taxes paid. (Misrak, 2008,2)

Taxes are broadly classified in to two; these are direct and indirect taxes.

##### **2.1.1 Direct Taxes**

Direct taxes are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on the same person. Such taxes are entirely paid to the government by those persons on whom the taxes are imposed .They cannot be shifted (passed on) to others. Some economists also define direct taxes as taxes whose burden are borne by the persons on whom they are levied. Professor Shirras also define direct taxes as taxes based on income or wealth (property) of persons. Some examples of direct taxes are employment income tax, business income tax, rental income tax, interest income tax, royalty tax, capital gain tax, property tax, agriculture income tax, transfer tax (estate tax ,inheritance tax, gift tax) ,etc (Misrak, 2008,29)

##### **2.1.2 Indirect Taxes**

Indirect Taxes are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on different persons. That is the impact of the tax falls on the person who pays it to the government in the first instance but the incidence of the tax falls on the person who finally bears the burden of tax. For instance

the import duty on vehicles is paid in the first instance by the importer of cars but ultimately the importer transfers the burden of this duty (tax) to the purchaser of the vehicle in the form of price. The importer includes the import duty paid by him in the price of car which is charged from the customer.

In direct taxes can be shifted onto others so that the burden of indirect tax is on ultimate customers. Indirect tax can also be defined as taxes bases on consumption or expenditure of persons some examples of indirect taxes are Value Added Tax (VAT), Turnover tax (TOT), Excise Tax and Custom duty. (Misrak, 2008, 31).

## **2.2 Value Added Tax (VAT)**

VAT is tax on the value added to goods and service by enterprises at each stage of the production and distribution processes. It arises whenever a “taxable person” makes a “supply of goods or services “in the course of his business. Thus in some countries it culled goods and services tax or GST VAT was invented by a French economist in 1994 by Maurice laurel, director of French tax authority VAT was invented because very high sales taxes and tariffs encourage cheating and smuggling

Unlike the turn over tax which is applied to the full value of a product every time the item changes hands in the process of production and distribution the VAT is assessed attach stage on only the increment in value acquired by the product since the last taxable transaction. At the end of the chain the total amount of tax paid on a given commodity is determined only by tax rate and final price of the commodity regardless of the number stages through which it has passed what has been collected in fractional payments is equivalent to a single stage tax on the value of the final product. (Yohannes and sisay, 2009, 66).

The VAT belongs to the family of sales tax. VAT may be defined as a tax to be paid by the manufacturers or traders of goods and services on the basis of value added by them. It is not a tax on the total value of the commodity being sold but on the value added to pay the tax only on the net value added by them in the process of production or distribution.

### **2.3 Types of VAT**

In modern taxation world there are four types of VAT, namely, consumption, production, income and wage VAT.

#### **➤Consumption VAT**

In this type of VAT, the firm is allowed to deduct from the gross value of its product not the non-capital inputs purchased from other firms but also the capital equipment purchased. Thus, in consumption type VAT, tax is based on the difference between gross value and total value of inputs purchased (capital and non capital).

#### **➤Production VAT**

In production type VAT, the value of the inputs purchased by the firm from other firms is not deducted in full. Only the value of non-capital purchase is deducted. Furthermore, no depreciation is permitted on the purchase of capital goods even in subsequent years. Thus, the tax base in production type VAT is equal to gross value less value of non-capital goods purchased. (Misrak, 2008, 309).

#### **➤Income VAT**

According to income type VAT, the firm is allowed to deduct the depreciation on the capital goods (during the year) apart from the full value of its non-capital purchases. Here, firms cannot deduct the entire value of the capital goods purchased during the year but they can deduct the respective amount of depreciation attributable to that year.

### ➤ Wages VAT

In wage VAT, the firm is able to deduct the net earnings from its capital in order to arrive at the tax base. It is unlikely to be used for taxation by any government. (Misrak,2008,310).

## 2.4 Value Added tax terminology

Some of the terms that are in VAT literature are:-

- Input VAT :- the VAT that your business pays over on taxable supplies made (VAT paid on purchase ) and can be recovered only insofar as your business is VAT- registered and makes taxable outputs.
- Output VAT:- the VAT that your business collects over on taxable supplies (VAT paid on sales )
- VAT payable: - this is the net VAT to be paid to the FIRA by taxable person. it is arrived at by the formula:

$$\text{VAT payable} = \text{OUTPUT TAX} - \text{INPUT TAX}$$

- VAT Refundable: - the net VAT that taxable person expected from
- FIRA when Input VAT exceeds Output VAT.

In Ethiopian cases, FIRA does not refund up on declaration date rather taxable person shall carry forward the balance for 5 months until it offset by Output VAT. If taxable person doesn't sell taxable supplies within these 5 months, he/she is entitled for refund.

- Zero Rating: - the supply is charged with VAT at 0% but credit can be taken for VAT paid on purchase used to make the supply.
- Positive rate (Standard rate):- the supply is charged with at the rate of 15%.
- Exemption: - the supply is exempted from VAT. No VAT is charged on the supply and no credit can be taken for VAT paid on purchases used to make the supply. (Gebrie ,2006,173)

- Exempt supplies: supplies, which are not liable to VAT. Exempt supplies are not taxable supplied and do not form part of taxable turnover to VAT purposes. A person making only exempt supplies cannot be registered for VAT.
- Threshold: this is the level of turnover of taxable supplies prescribed by the law at or above which a person must register for VAT.
- Taxable person: is legal entity such as company, partnership, sole proprietor, who is liable to be registered for VAT. It is the person, not the business that is register for VAT.
- Taxable supplies: these are business transactions which are liable to VAT at the zero or standard rate. (Gebrie ,2006,174)

## **2.5 Registration**

In Ethiopia, registration for VAT is categorized in two:

- **Obligatory registration**

Any person conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However, if the taxable turnover of the enterprise, which is gross income for 12 calendar month, exceeds birr 500,000, the person conducting the enterprise must register for VAT with FIRA. Turnover related to exempt supplies are not to be included in the total for deciding if VAT registration is compulsory. (Gebrie, 2006,185)

The term any person for proposes of VAT registration includes:-

- Sole proprietor.
- Company
- Partnership
- Estate of the deceased
- Trust
- Incorporate body or unincorporated body

- Club or Association

A commercial enterprise: - refers to any business of whatever nature and include:

- Ordinary business example shop, contractors, manufacture, wholesaler etc...

- Trades and professions example Builders, Engineers, Accountant, Lawyers etc.

- Activities of non-profit making bodies, example Societies, Association, sporting club etc.

The turnover is calculated on an ongoing basis. Two periods need to be considered- the past 12 calendar months and the next 12 calendar months on a month-by-month basis. There is the need to estimate at the end of each trading calendar month, the total values of taxable goods and services supplied by all the business for the past 12 months. Where the total exceeds birr 500,000 then there is the requirement to register for VAT. (Gebrie,2006,186)

- **Voluntary Registration**

A person, who carried on taxable activity and is not required to be register for VAT, may voluntarily apply to the Authority for such registration, if he/she regularly is supplying or rendering least 75% of his goods and services to registered persons.

### **2.5.1 Benefits of voluntary registration**

Input VAT can be recovered if a person is registered. It will therefore be beneficial to voluntarily register where the person makes mainly zero-rated supplies. In such a case, Input VAT will be recovered, and on VAT will be charged on zero rated Outputs.

### **2.5.2 Registration procedure**

Application for compulsory as well as voluntary registration must be made on application form called “Application for VAT Registration” and the Authority is required to register the person in the VAT register, and issue a certificate of registration within 30 days of the registration

Containing details of :( Gebrie, 2006, 186)

- The full name and other relevant details of the registered person.
- The date of issuance of the certificate;
- The date from which the registration takes effect; and
- The registered person’s taxpayer identification number

If registration is disallowed FIRA will have to notify the applicant and the reasons for the refusal. The tax authority may deny the application for voluntary registration if the person:

- Has no fixed place of residence or business
- Does not keep proper accounting records,
- Has no bank account;
- Has previously been registered for VAT purposes but failed to perform his duties under the VAT law. (Gebrie,2006,187 )

### **2.5.3 Time of application**

A person, who carries on taxable activity and is not registered, is required to file an application for VAT registration. It shall file an application for registration no later than the last day of the month after the end of the period if:

- At the end of any period of 12 calendar months the person made, during that period, taxable transactions with a total value exceeding 500.000 Birr; or the last day of the month of the period if:
- At the beginning of any period of 12 calendar months when there is reasonable grounds to expect that the total value of taxable transaction to be



made by the person during that period will exceed 500,000 birr. (Gebrie, 2006,187)

#### **2.5.4 Time of registration**

Registration takes place on one of the following dates, depending on which date come first:

- In case of obligatory registration, on the first day of the accounting period following the month in which the obligation to apply for registration arose.
- In the case of voluntary registration, on the first day of the accounting period following the month which the person applied for registration, or
- On the date selected by the registered person on his application for a registration.

A registered person who conducts taxable activity in a branch or division shall be registered only in the name of the registered person. However upon application the tax authority may allow the registered person to register one or more of its branches or divisions as separate registered person. The tax authority allow when it is satisfied on such case that divisions or branches maintains an independent accounting system and can be identified by the nature of its activities or location. (Gebrie, 2006, 204)

#### **2.5.5 Cancellation of registration**

VAT registered person can apply for can cancellation of registration:

- If tax payer ceased to make taxable transactions.
- At any time after a period of 3 years of the date of his most recent registration for VAT if the registration persons total taxable transactions in the period of 12 month then beginning reasonable are expected to be not more than 500,000 birr.

The cancellation VAT registration takes effect:

- At the time the registration person ceased to make taxable transaction. For example, if one close down or sale his business. However if one has more than one business and is not closing down or saving them all, he may not be able to cancel it will depend on the level of taxable turnover of remaining businesses.
- If the registered person has not ceased to do so, at the end of the accounting period during which the person applies to the authority for cancellation of VAT registration.

When registered for VAT is canceled, the Authority is required to remove the person's name and all other detail from the VAT register and the person is required back to return back the issued certificate of registration. VAT registered person cannot charge VAT or issue tax invoices for any supplies made and cannot claim a refund of VAT incurred on any goods or services purchased from the date office registration is canceled.(Gebrie, 2006,209)

## **2.6 VAT Invoice**

The registered person is required to issue VAT invoice to the purchaser of goods or services up on the supply or rendering, but not later than 5days after the transaction. However, the ministry of revenue may wave a registered person's obligation to issue receipt or tax invoice for cash sales if the total consideration for the entire supply does not exceed birr 10.

A person who is not registered for VAT does not have the right to issue a tax invoice. VAT invoice is prepared by Ministry of Revenue and shall contain the following information:

- Full name of the registered person and purchaser, and the registered person's trade name, if different from the legal name
- Tax payer identification number of the registered person and the purchaser

- Number and date of the VAT registration certificate
- Name of the goods shipped or services rendered
- Amount of the excise on excisable goods
- Amount of the taxable transaction
- Sum of the VAT due on the given taxable transaction
- The issue date if the VAT invoice, and
- Serial number of the VAT invoice (Gebrie ,2006,190)

A registered person shall keep the following document for minimum of 10 years

- Original tax invoice received by the person
- A copy of all tax invoice issued by the person
- Customs documentation relating to imports and exports by the

person,

- Accounting records; and
- Any other records that may be issued in directions by Ministry of

Revenue. (Gebrie, 2006,2007)

## **2.7 VAT Refund**

1. Article 27, sub- Article (5) (b) of the proclamation provides the Authority is not obliged to refund excess credits if the amount to be refunded is not more than 50 birr .If the amount eligible for refund is 50 birr or less, this amount can be carried forward and credited against tax due in the subsequent accounting period.

2. Where a registered person applying for a tax refund has failed to furnish a required return, the Authority may withhold payment of any amount refundable under Article 27 of the Proclamation until the registered person furnishes such return.

3. If the Authority does not pay the refund in timely manner as provided under Article 27, Sub-Article (6) the Authority shall pay interest calculated from the

date on which the payment of the refund is made (Federal NegaritGazeta, 1988-1995, 1988).

### **Assessment of tax**

The Authority may issue an additional assessment in a variety of circumstances, including the case where:

- A person fails to furnish return as required by article 26 of the Proclamation fails to furnish an import declaration as required by Article 5 of the Regulations ;
- The Authority is not satisfied with a return or of import declaration furnished by a person;
- The Authority has reason to believe that a person has become liable for the payment of an amount for the payment of an amount of tax but has not paid such amount ;
- A person, other than a registered person, supplies goods or services and represents that tax is charged on the supply ;
- A registered person supplied goods or services and the supply is not a taxable transaction or is a taxable transaction charged which tax at the rate of zero per cent and, in either neither case the registered person represents that a positive rate of tax is charged on the transaction ;or
- The Authority has determined the liability of any person in terms of article 60 Sub- Article (2) of the proclamation (Federal NegaritGazeta 1988-1995 ,1989)

## **CHAPTRE THREE**

### **DATA ANALYSIS and Interpretations**

This study tried to cover VAT collection refund system and questionnaires were distributes to VAT officers and interview were conducted head of the wereda revenue and customs office. The data gathered from the questionnaire and interview analyzed in the following manner below. Besides, the data gathered from the questionnaire are qualitative and quantitative in their nature.

Annual reports issued to internal and external users are used as qualitative data for the analysis in order to show their effect on the performance of AkakiKality sub city. And qualitative data are also used in order to know the causes of VAT collection and refund system and this is presented in the first section. In addition to this, quantitative data that are relevant to show the effects on VAT collection and refund system are presented in second section.

The student researchers proceed with questionnaire filled by different VAT taxpayers and AkakiKality Sub City employees to understand the existing collection performance and challenges to create efficiency and effectiveness VAT refund and also interviewed the tax office mangers. In addition to that, we have collected three years data of VAT collection from 2003-2005 E.C.

A Total of 40 questionnaires was distributed to employees and 50 to taxpayers. And, 96% of questionnaires were returned to the student researchers.

### 1.1 Analysis of data gathered from employees:

- Questions asked to A.K.S.C employees that are involved in different departments. The following are their responses presented to the questionnaire and given different responses according to their understanding.

**Table 1.2 Adequacy knowledge**

Particularl y	Type of responde nts	Yes		No		Total	
		%	No	%	No	%	No
Do all of your staff have of adequate knowledg e concernin g VAT?	Officials	60%	24	40%	16	100%	40

**Source: - primary data**

As it shown in the above table, respondents were asked whether the staff have adequate knowledge concerning VAT, and confirmed that about 60% (24)of the respondents do have adequate knowledge concerning VAT and about 40%(16) of the respondents do not have adequacies knowledge about VAT. This indicates that average number of respondents have clear understanding of VAT. This helps A.K.S.C to have strong management

and to get these effectives and efficient activates to be performed by staff members.

**Table 1.3 Experience sharing**

Particulars	Type of respondents	Yes		No		Total	
		%	No	%	No	%	No
Does A.K.S.C share experience with other sub cities? (Regarding VAT collection and refund).	Officials	60%	24	40%	16	100%	40

Source: - primary data

As it is depicted in the above table, 60% (24) of respondents respond that A.K.S.C share experience to other sub cities regarding of VAT collection and refund system and 40%(16) of respondents replied that A.K.S.C do not share experience. From the above information, one can understand that sharing experience with other sub cities contribute to the development of the A.K.S.C in general to the country's development. Regarding sharing an experience, A.K.S.C might get consultancy service from other sub cities.

**Table1.4. VAT reinforcement capacity**

Particulars	Types of respondents	Strong		Weak		Total	
		%	N <sub>o</sub>	%	N <sub>o</sub>	%	N <sub>o</sub>
What do you think the VAT reinforcements capacity of the law?	Officials	90%	36	10%	4	100%	40

Source: - primary data

As indicate in the above table, about 90% (36) of respondents replied that the law is strong enough to reinforce VAT payers and 10% (4) of them replied that the law is weak. And, the officials put three reasons for strong law reinforcement. The reasons for such things to happen is because the tax payers should pay their taxes according to schedules increase in number of tax controller officials from time to time and strong penalty for tax evasion.



**Table1.5. VAT return service**

Particulars	Types of respondents	Organization and facilitated		Not organized facilitated		No comment		Total	
		%	No	%	No	%	No	%	No
Is VAT return service organized and facilitated?	Officials	60%	24	30%	12	10%	4	100%	40

Source: - primary data

As it shown in the above table, respondents were asked whether there is organized and facilitated VAT return service. And, 60%(54) of the respondents confirmed that there is organized and facilitated VAT return service, 30%(27) of them replied that there is no organized and facilitated VAT return service, 10%(9) of them are confirmed form giving response. A.K.S.C applying organized and facilitated VAT return service. Besides, there is no cash refund system rather A.K.S.C use forward system.

**Table1.6. Giving explanation**

Particulars	Types of respondents	Yes		No		Total	
		%	N <sub>o</sub>	%	N <sub>o</sub>	%	N <sub>o</sub>
Does A.K.S.C give continuous clarification for clients about VAT?	Officials	50%	20	50%	20	100%	40

Source: - primary data

As it shown in the table above table, respondents were asked about whether the A.K.S.C is giving continuous clarification for its clients about VAT concepts. And, 50% (20) of the responds replied yes and 50% (20) of the respondents replied no. Thus, this indicates that the A.K.S.C should give much more attention on giving clarification for clients regarding VAT concept.

**Table1.7. Potential registration of VAT payers**

Particulars	Types of respondents	Very good		Good		Additional effort needs		No effort		Total	
		%	No	%	No	%	No	%	No	%	No
What effort is made to register potential VAT payers?	Officials	30%	12	40%	16	20%	8	10%	4	100%	40

**Source: - primary data**

As we can see from the above table, respondents were asked about efforts made to register potential VAT payers. And, 30% (12) of respondents respond that the A.K.S.C's effort to register potential VAT payers is very good, 40%(16) of them repaid good, 10%(4) of them repaid there is no effort made and about 20%(8) of them replied that there should be additional effort to be taken to register potential VAT payers. Thus, majority of the respondents agreed with the efforts made by the departments of A.K.S.C to register potential VAT payers. In general, A.K.S.C is doing well to register potential VAT payers. Thus, A.K.S.C's

revenue source increases from VAT collection as potential VAT payers increase. This might have positive impact on A.K.S.C's and country's development.

**Table1.8. Refund of VAT**

Particulars	Types of respondents	Yes		No		Total	
		%	N <sub>0</sub>	%	N <sub>0</sub>	%	N <sub>0</sub>
Does A.K.S.C refund the excess collection of VAT on time	Official	20%	8	80%	32	100%	40

**Source: - primary data**

As it is indicates in the above table, respondents were asked whether A.K.S.C refund the access collection of VAT on time or not. And, 20% (8) of the respondents respond to yes and about 80% (32) of the respondents replied no. Majority of the respondent, from the above information, do not agree that excess VAT collection pay back on time. Thus, one can understand that A.K.S.C does not refund the excess amount and collection. Besides, refunding is a straight forward in principle; problems arise in practice including opportunities for fraud and corruption, and denial of refunds by A.K.S.C with cash shortage.

**Table1.9. increments in number of VAT registries**

Particulars	Types of respondents	Yes dramatical ly		Yes to some extent		Not at all		Total	
		%	N <sub>0</sub>	%	N <sub>0</sub>	%	No	%	N <sub>0</sub>
Is there any increment in the number from to year?	Officials	50%	20	49%	19	1%	1	100%	40

Source: - primary data

As it is indicated in the above table, 50%(20) of respondents replied that there is dramatically increasing and VAT registered tax payers, 49%(19), of respondents respond to some extent, and 1%(1) of them respond not at all .Majority of respondents, from the above information, confirmed that the VAT register of tax payers are increase in number. This might come from as a result of effort made by A.K.S.C, proper policies and procedures enforced by ERCA in general.

**Table1.10 Trend of VAT collection**

Particulars	Types of respondents	Increases		Decrease		Total	
		%	No	%	No	%	No
What trends A.K.S.C show in VAT collection in the last 3years?	Officials	100%	40	0%	0	100%	40

**Source: - primary data**

As it shown in the above table respondents were asked about the trades of VAT collection for the last 3 years, and 100% (40) of responds confirmed that the trend of VAT collection shows an increasing trend. This might due to A.K.S.C's tax payer customers increase from time to time, government rules and regulations. We have analyzed the last three years VAT collection performance and major challenges faced by A.K.S.C. to collect VAT from registered tax payers. Starting from January 1, 2003 ERCA of other agents of the authorities collect VAT from registered person in different stage. During the last three fiscal years, the total amount collected is Br.807, 241,613.5 (according to the annual report of ERCA). However, when we compare each year collection we understand yearly collection of the authority highly increased from year to year. This happened due to the additional voluntary tax payer's registration including those register by law enforcement.

In addition to this, different tax payers and employees confirm that even more VAT will be collected more than planned but due to different constraints.

- According to the response collected from different tax payers and employees of A.K.S.C, the major challenges faced by A.K.S.C to create efficient and well framed tax collection are listed as follow:
  1. Lack of adequate induction and supervision after registration to the existing and potential tax payers.
  2. Lack of component personal on tax collection department
  3. Lack of well-organized VAT tracing system.

**VAT collection during the last 3 years is presented as follows by using table and bar chart**

Table 1.11. Akaki Kality sub city small tax payer’s revenue and custom Authority Vat collection from year 2003-2005.

Years	NO OF TAX PAYER	VAT collection amount in Birr
2003	5,110	270,038,186.1
2004	7,247	241,900,000
2005	10,821	295,303,427.41

Source the sub city annual report

For the question regarding “how do you see your statues of VAT collection and refund system compared to other sub cities?”, Various officers replied the following: The sub city is better that other sub cities because of the following reasons by giving VAT related information to VAT registered tax payers, monitoring and good treatment etc.

### **Analysis's of interview questions**

In addition to the above questionnaires, the following interview questions were presented to the manager and these interviews were analyzed in the following manner:

#### **What are the problems that you faced when you are diversify the VAT?**

According to the manger's view in relation to the above interview, the tax payers are not willing to give appropriate and correct information to understate their income.

#### **What methods use yours employees in control the problems?**

A.K.S.C takers measure on tax payers who are not interested to issue sales receipt and provide the source documents in further assessments and audit of their sales and purchase.

1. A surprise visit to tax payer's establishment to determine the turn over level for registration.
2. Collecting various economic information using different schemes from third party.
3. Conducting a study of capital requirement.
4. Audit

#### **How many tax payers settle their VAT liabilities at a right amount?**

Based on the interview data we collected from A.K.S.C 90% of the tax payers is not paying the proper amount only 10% of them will be paid the right amount. It indicates additional work will be needed to come up with tax payers to pay the right amount at the right time.



**Is VAT properly implanted and met its objective?**

In all cases, there will be difficulties but it will achieve the objective promisingly .From the information after the coming of the cash registration machines the VAT collection is in a good condition.

**What are the measurement for those individual who do not pay in the correct time and their effectiveness?**

Based on the above interview A.K.S.C takes measure on tax payers who do not pay in the time of 25%. And, also the one who is under fraud activity 10% if the fraud is heavy, it will be prison.

**What condition must be fulfilled to the VAT refund?**

According to the interview result VAT payers should present documents and the documents must be correct, also related to the VAT, activities related to the trade like out flows from the organization, etc.

**How it look like the trend of VAT collection system of AkakiKality sub city?**

As result of the above interview even through there is a problem to the VAT collection system, A.K.S.C will show an increase from year to year .In addition to the measures and control procedures, cash register machine provide better collection and information.

## 2. Analysis of data gathered from Tax payers.

**Table 2.1 Concepts of VAT**

Particular	Types of respondents	Very clear		Somewhat clear		Clear		Not clear		Total	
		%	No	%	No	%	No	%	No	%	No
Does a concept of VAT clear to you?	VAT Payers	75%	37.5	15%	7.5	40%	20	10%	5	100%	50

Source: - primary data

As it shown in the above table, 75%(37.5) of the respondents have good understanding of the concept of VAT, 15%(7.5) of respondents have somewhat clear understanding of VAT concept, and only 10%(5) respondents are do not have clear concept regarding VAT collection .Therefore, the A.K.S.C consider this gap and work to improve this number to 100% by giving additional published material and orientation.

**Table 2.2 Manner of registrants of VAT**

Particular	Types of respondents	Voluntary		By force		By fear of punishment		Total	
		%	No	%	No	%	No	%	No
In what manner you have been registered for VAT?	VAT Payers	45%	22	40%	20	15%	8	100%	50

Source: - primary data

The above table indicates that 45%(22) of the respondents registered for VAT voluntary, 40%(20) of the respondents are registered by force and 15%(8) of them are registered by fear of punishment .It shows unwillingness to pay VAT. As it shown in the above information, majority of respondents fall in to the category of “Un voluntary registration”. This shows that the A.K.S.C should work hard to improve those who fall into the category of “forced tax payers” and Tax payers who are “fear of Punishment “to the category of voluntary registration tax payers.

**Table 2.3. Any orientation and other**

Particular	Types of respondents	Yes		No		Total	
		%	No	%	No	%	No
Is any orientation given?	VAT payers	40%	20	60%	30	100%	50
Is any published material given?		65%	32.5	35%	17.5	100%	50
Does the time given to pay VAT adequate?		60%	30	40%	20	100%	50
Did you get your refund on time?		30%	15	70%	35	100%	50

Source:- primary data

As shown in the table 40% (20) VAT payers get orientation and 60%(30) of the respondents don't get orientation so, the organization should give additional to the VAT payers. 65%(32.5) of respondents get published material and 35%(17.5) of them are orientation not get the published material. A.K.S.C also considers this gap and work to improve this number to 100% by giving additional published material. 30% (30) of the respondents agree with time given to pay VAT is adequate. It shows the tax payers pay their obligation within the schedule. 70% (35) of

respondents don't get refund of VAT on time. This discourages tax payers to pay on time. So, the A.K.S.C, must consider the time to refund of VAT.

**Table 2.4. Treatments given by the A.K.S.C**

Particulars	Types of respondents	Excellent		Very good		Good		Bad		Total	
		%	No	%	No	%	No	%	No	%	No
What kind of treatments did you get?	VAT payers	25%	12.5	25%	12.5	40%	20	10%	5	100%	50

Source primary data

As it shown in the above table, 25%(12.5) of the respondents replied that A.K.S.C provide excellent service and treatments, 25%(12.5) of them respond very good, 40%(20) of them replied good and 10%(5) of them respond bad. This implies that A.K.S.C provides better service and treatments to its tax payers as it is indicate in the above information.

**Table 2.5. VAT liability**

Particulars	Types of respondents	Yes always		Yes most of the time		Yes rarely		No		Total	
		%	No	%	No	%	No	%	No	%	No
Do you always pay VAT liability in the given time?	VAT payers	60%	30	20%	10	10%	5	10%	5	100%	50

Source:-primary data

As it shown in the table above table, 60% (30) of the respondents replied yes always to pay their VAT liability, 20% (10) of them yes most of the time, 10% (5) of them yes rarely, and 10% (5) the respondents say no. Therefore, majority of the respondents yes always and this implies that A.K.S.C is working on the improvement of VAT collection by creating awareness to its tax payers.

**Table2.6. Present VAT collection**

Particular	Types of respondents	Organized		Not organized		No comments		Total	
		%	No	%	No	%	No	%	No
Is present VAT collection is organized?( manual or computerized system)	VAT payers	80%	40	20%	10	0%	0	100%	50

Source: - primary data

- As in the above table, 80% (40) of respondents confirm that A.K.S.C uses computerized system and 20% (10) of them respondents say A.K.S.C is not organized in a form of computerized system. The above information indicate that if A.K.S.C is working with computerized system, A.K.S.C become effective in terms of minimizing frauds, errors and wrong information.

**Table 2.7.enforcement capacity of penalty of law**

Particular	Types of respondents	Strong		Weak		Total	
		%	No	%	No	%	No
What do you think for the enforcement capacity of penalty law?	VAT payers	80%	40	20%	10	100%	50

Source: - primary data

In the above table, majority of the respondents agreed the enforcement capacity of the penalty law is strong. These indicate that A.K.S.C enforces its tax payers to pay their tax obligation.



## **CHAPTER FOUR**

### **SUMMARY, CONCLUSION AND RECOMNDATION**

#### **SUMMARY OF THE MAJOR FINDINGS**

From the data we collected from the officers in A.K.S.C and tax payers the following problems observed

- Even through there was strong tax reinforcement capacity of the low there is implantation problems due to employs capacity.
- There are problems on giving public awareness regarding the meaning of VAT and its contribution to the service are not organized and satisfied to tax payers.
- Even through the tax payers have been registers voluntary, there is a problems with in the by fear of punishment registered.
- Some of the taxes payers do not pay approve tax on sold goods. This vary price of good and affects computation of the market and also to customers.
- Problems aloes raised in treatments given by the A.K.S.C because three are tax payers who are not satisfied by three treatments.
- Lack of knowledge, training, update the technology and manpower increase from most of the respondents.
- Need additional efforts for effectives and efficient implementation of VAT from VAT departments.

## 4.2 Conclusions

VAT is tax imposed at different stage of goods and service from the production up to distribution ultimately passed on to the customers. VAT has a significant role in the revenue system of the Ethiopia government. To sustain VAT's revenue role in the

Finance, it is crucial to ensure that the revenue generate by this tax is resized as efficiently as possible.

The VAT legislation requires business undertaking taxable activates in Ethiopian with an annual a turnover of Ethiopian birr 500, 00 and more to registers for VAT. After the VAT was operational with such registration requirements, the authority devised forced registration schemas. These schemes include selective registration requirements that copal all business engaged in a specific sectors/form of ownership to reigetsre4s for VAT regardless of the level their annual turnover.

In A.K.S.C where the awareness of tax payers, the culture of paying taxes and the capacity of tax administration appears to be poor, using sectors or ownership requirements in sensible. However, caution should be experienced in selecting the sectors that should be exercised in selecting the sectors that should be covered VAT. In additional to the sectors specific (selected) registration requirements client.

The collection of VAT in A.K.S.C has been not an increase in small amounts of recently. As we can see from the graphs the increments In most encouraging. This shows VAT collection and refunds in A.K.S.C has a problem. However, the problems is the effects of number of tax payers in L.S,.C is few, the VAT registration and implementation of VAT officer.

The major limitation is that it does not fully assess all activates involved in the collection ad refund of VT. More specifically issue such as tax intelligence and investigation taxpayer's education and service, organization l set up of administration are not examines. Although, this is the case, it is believed that the finding of the pepper would. Shed light on the major gapes between the taxation and legislation and the problems of collection and refunds of VAT system in the A.K.S.C.

### **4.3 Recommendation**

The following are the possible recommendation given by the researcher regarding to VAT collection and refund based on collected data from both tax payers and officials. While at the time of data collection we observe several good things and face undertake conditions. Especially we are trying to recommend events that analyzed during the preparation of this research paper.

This recommendation mainly focuses on A.K.S.C weakness. It is better that the authority trying to arrange various methods to each business organization which is regarding to the newly immerged tax system.

- A.K.S.C Better work hard to develop the capacity of the employees.
- A.K.S.C may provide additional training and tuition service to tax payers regarding VAT collection and refund.
- The authority has to refund the excess amount paid by clients immediately to encourage these tax payers.
- A.K.S.C should improve the presents VAT collection by organized and well facilitated system.
- A.K.S.C must do additional effort to potential VAT payers.

- A.K.S.C should be expected to decrease their efficient to meet its objectives.

A.K.S.C is advised to use a recent technology that facilitated tax collection and refund system.

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# APPENDIX

**ST'MARY UNIVERSITY**

**FACULTY OF BUSINESS**

**DEPARTMENT OF ACCOUNTING**

**Questioners to be Filled by the Employee**

This particular study is expected to serve AkakiKality Revenue agency as an input to highlight the problem of VAT collection on attitude of tax payers .However, the effect of this study is highly depended up on your cooperation. Therefore, we kindly request your kind cooperation in answering those questions we guarantee you that the entire data gather will be held confidential and will be used only for academic purpose.

N.B Please give your answer on the space provided put thick  Mark on the box corresponding to your answer.

1. Do all of your staff have adequate knowledge concerning VAT?

A. Yes  B. No

2. Does AK.S.C share experience with other sub cities? (Regarding VAT collection and refund).

A. Yes  B. No

3. What do you think the VAT reinforcements capacity of the law?

A. Strong  B. Weak

4. Is VAT return service organized and facilitated?

A. Organization and facilitated

B. Not organized facilitated

C. No comment

5. Does AK.S.C give continuous clarification for clients about VAT?

A. Yes  B. No

6. What effort is made to register potential VAT payers?

A. Very good

B. Good

C. Additional effort needs

7. Does AK.S.C refund the excess collection of VAT on time?

A. Yes  B. No

8. Is there any increment in the number from to year?

A. Yes dramatically

B. Yes to some extent

C. Not at all

9. What trends L.S.C show in VAT collection in the last 3 years?

A. Increase  B. Decrease



## **INTERVIEW CHECK LIST FOR THE EMPLOYEES**

1. What are the problems that you faced when you are inflammatory VAT?
2. What methods use yours employees in control the problems?
3. How many tax payers settle their VAT liabilities at a right amount? Based on the interview
4. Is VAT properly implanted and met its objective?
4. What are the measurement for those individual who do not pay in the correct time and their effectiveness?
5. What condition must be fulfilled to the VAT refund?
6. How it look like the trend of VAT collection system of AkakiKality sub city?

**ST'MARY UNIVERSITY**

**FACULTY OF BUSINESS**

**DEPARTMENT OF ACCOUNTING**

**Questioners for TAX payers**

This particular study is expected to serve AkakiKality Revenue agency as an input to highlight the problem of VAT collection on attitude of tax payers .However, the effectof this study is highly depended up on your cooperation. Therefore, we kindly request your kind cooperation in answering those questions we guarantee you that the entire data gather will be held confidential and will be used only for academic purpose.

N.B Please give your answer on the space provided put thick  Mark on the box corresponding to your answer.

1. Does a concept of VAT clear to you?

A. Yes  B. No

2. In what manner you have been registered for VAT?

A. Voluntary  B. By force

C. By fear of punishment

QUESTIONS	Yes	No
3. Is any orientation given?		
4. Is any published material given?		

5. Does the time given to pay VAT adequate?		
6. Did you get your refund on time?		

7. What kind of treatments did you get?

A. Excellent       B. Very good

C. Good       D. Bad

8. Do you always pay VAT liability in the given time?

A. Yes always

B. Yes most of the time

C. Yes rarely

D. No

9. Is present VAT collection is organized? (manual or computerized system)

A. Organized

B. Not organized

C. No comments

10. What do you think for the enforcement capacity of penalty law?

A. Strong       B. Weak

## DECLARATION

We, The Undersigned, Declare that this senior essay/project our original work, prepared under the guidance of Ato Abdu Ymer. All source of materials used for the manuscript have been dully acknowledged.

NAME Betehlem Abebe

SIGNATURE \_\_\_\_\_

NAME Mignot Mitiku

SIGNATURE \_\_\_\_\_

NAME Hana Yalew

SIGNATURE \_\_\_\_\_

PLACE OF SUBMISSION SMU

DATE OF SUBMISSION JUNE, 2014

## **SUBMISSION APPROVAL SHEET**

This paper has been submitted for examination with my approval as an advisor.

NAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_