

ST. MARY’S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

TAX ASSESSMENT AND COLLECTION PROBLEMS OF
CATEGORY “A” TAXPAYERS
IN KOLFE KERANYO SUB CITY

BY

FEKADU BEKELE

HELMENSH ASHAGRE

MESERET ENDALE

February 2014

ADDIS ABABA

TAX ASSESSMENT AND COLLECTION PROBLEMS OF

CATEGORY “A” TAXPAYERS

IN KOLFE KERANYO SUB CITY

A SENIOR RESEARCH SUBMITTED

TO THE DEPARTMENT OF ACCOUNTING

BUSINESS FACULTY

ST. MARY UNIVERISTY

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF BACHELOR OF ARTS IN

ACCOUNTING

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**FACULTY OF BUSINESS
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List of Abbreviations

ERCA:	Ethiopian Revenue and Customs Authority
VAT:	Value Added Tax
IMF:	International Monetary Fund
TIN:	Tax Identification Number
SIRM:	Standard Integrated Revenue Management
SIGRTAS:	Standard Integrated Government Tax Administration System

ACKNOWLEDGEMENTS

First, we would like to praise Ato Tesfaye N. (MSC) our advisor for his priceless and unreserved support through his continuous advice.

Secondly, greatly indebted to those, who are employees of Kolfe Keranyo sub city small taxpayer's branch office and Category "A" taxpayers found in Kolfe Keranyo sub city for their invaluable cooperation.

DECLARATION

Advisee's Declaration

We, the undersigned, declare that this senior project is my original work, prepared under the guidance of Ato Tesfaye N. (MSC). All source of materials used for the manuscript have been duly acknowledged.

Name: _____

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Signature: _____

Advisor's Declaration

The paper has been submitted for examination with my approval as the University advisor.

Name: _____

Signature: _____

Date: _____

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The revenue of the Ethiopian government comes from different sources like tax, transfer payment, borrowing, fines, sales of services or assets and some others. This generated revenue from various sources is used to finance government expenditures. These expenditures are helping to bring better life opportunity for the society; which leads the country to economic stability and eradication of poverty.

In Ethiopia, ERCA (Ethiopian Revenue and Customs Authority) is the responsible body to collect taxes, develop policies and monitor related activities. Ethiopian Revenue and Customs Authority organized their offices through regions and at Federal level on sub city level works its above mentioned activities.

Taxes levied by central and regional government consist of direct and indirect taxes. When we say direct taxes are taxes including employment income taxes, business income tax, and taxes on royalties and chance winnings while indirect taxes are mainly composed of value added tax (VAT), excise taxes, and custom duties. Hence, proper assessment and collection of tax is one of the factors that enable the government to achieve its goals and problems. Besides, it reduces the country's dependability on the foreign loan and donations.

The law classified the business income tax payers on business profit on to three major categories with respect to their legal personality and annual turnover as category A, B and C. Category "A" which shall include the following persons and bodies:

- Any company incorporated under the laws of Ethiopia or in a foreign country.

- Any other business having an annual turnover of Birr 500,000 or more.

Category “B” unless already classified in category “A” and “B” , whose annual turnover is estimated by Tax Authority as being up to Birr 100,000 (one hundred thousand Birr) (Council of Ministers, 2002).

There are ten sub cities in Addis Ababa that are engaged in administering taxes from Category “A” and Category “B” taxpayers. The different wereda’s found in each sub city are dealing with taxes collected from category “C” taxpayers.

For sake of our study, we focused on one of the sub city of Addis Ababa which is known as Kolfe Keranyo Sub City Category “A” tax payers. This category tax payers is mandatory maintain accurate and proper books of account records and necessary documents for tax calculation purpose as per income tax regulation.

This study is planned to explore the challenges and barriers in tax administration on tax collection from category “A” taxpayers found in Kolfe Keranyo sub city.

1.2. Statement of the Problem

A government basic source for its expenditures are the money which acquired from tax collection; however, in most developing countries, like Ethiopia is normal to notice serious problems in tax systems that will be root cause for shortcoming finance for a given country.

If we take overall Ethiopian economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collected significant amount of revenue including grants, which could not fully finance the total expenditure counts too much. Of the external grant that constitute part of

government revenue, almost half comes in the form of grants in kind (or earmarked) and the remaining comes in the form of united cash (IMF, 2006).

Furthermore, due to the great encouragement and conducive environments like investment opportunities created by the Ethiopian government, new firms are emerging surprisingly; however, the amount of tax revenue is not increasing proportionally.

The government doing a lot to create convincing infrastructure atmosphere for newly emerged investor, which accordingly increase the expenditure of the government. To balance its revenue and expenditure government forced for external borrowing. This external borrowing leads to dependency for foreign borrower interest.

The main task of government is to improve internal revenue generating activities and minimize dependency on foreign funding. For achieving high internal revenue, the main source of internal revenue is tax; therefore government must have to work corrective measures on problems of tax administration mechanisms.

In order to raise adequate revenue; ERCA established its offices in each sub cities and this offices working on tax assessment, periodic declaration, records and books of accounts to be maintained and submitted by tax payers. Each sub city ERCA offices conduct pre audit assessment by the time these documents are submitted to perform timely collection. Even if ERCA decentralized their offices through sub cities to address easily and make shorter the collection time for the tax payers; there are number of problems on the way of tax collection procedures. Those and other technical problems are the main and basic problem for low revenue yield.

This low revenue yield of taxation can be attributed to the fact that tax provisions are not properly enforced either on account of the inability of

administration to cope with them or on account of straight forward collusion between the tax administrations and taxpayers.

Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country.

Identifying the problems on tax assessment and collection at each tax office and taking corrective measure need attention since they have adverse effects on the overall revenue of the government. Accordingly, this study tries to identify the problems on tax assessment and collection activities of the Kolfe Keranyo sub city revenue administration.

1.3. Research Questions

- What are the main problems for Kolfe Keranyo sub city small taxpayer's branch office, which hinder to give smooth service for their clients?
- What are identified tax assessment and collection problems?
- What action taken to resolve those problems by branch office?
- What mechanisms put on for assessment of tax payers book of account?
- What application use for tax assessment and collection activities?

1.4. Objective of the Study

The overall objective of this research is to investigate tax assessment and collection problems in respect of category "A" tax payers found in Kolfe Keranyo sub city faced by both tax payers and tax authority.

The specific objective of this study is to:

- Identify the main problem and the causes in tax assessment relating to category “A” tax payers faced by the different parties.
- Identify the challenges faced in the tax collection system.
- Identify the tax assessment and collection system.
- Identify mechanisms for assessment of tax payer’s book of account.
- Identify tax assessment and collection problems.

1.5. Significance of the Study

The discovery of this study answered the major problem on tax assessment and a collection activity, which helps to increase tax revenue of the sub city, at the same time, responded major problems of tax assessment that leads the responsible body to sort out things and thus, the government able to adopt a comprehensive strategy, and minimize the observed tax administration problems to increase tax revenue.

1.6. Scope of the Study

The research carried out a detail examination, especially on tax assessment and collection process regarding to profit tax, value added tax and rental income tax in respect of category “A” taxpayers required by law to pay their taxes for Kolfe Keranyo sub city to identify influence on tax revenue.

1.7. Research Design and Methodology

1.7.1. Research Design

The method, which used in doing this study, has descriptive in nature and the sampling design for this population is clustering nature. The purpose of the design is to generalize from a sample to a population so that inferences can be made about some characteristic, attitude, or behavior of this population.

1.7.2 Population and Sampling Technique

The participants are category “A” tax payers in Kolfe Keranyo sub city. Under this category, there are a total 5946 tax payers as of October 2013. Those taxpayers are classified for this study under five main sectors importer, exporters, whole sellers and retailers, manufacturer and service providers.

Therefore, we determined our population size for this study a total of 50 categories “A” taxpayers, and subdivided this total population into five main sectors. From each sector we selected 10 taxpayers and distributed self-administered semi structured questionnaires.

From qualitative approach, the researchers were made in depth interview with 10 tax officers of Ethiopian Revenue and Custom Authority of Kolfe Keranyo sub city small taxpayers branch office employees. The nature of this research is explanatory and open ended.

1.7.3. Types of Data to be collected

To obtain sufficient and appropriate information, both primary and secondary data have been used.

1.7.4. Methods of Data Collection

The method, which used in doing this study primary and secondary data collection. From primary approach, the study uses self-administered interview and questionnaires. In the other hand different studies from different authors are taken as secondary data to make the research feasible and effective to show the problematic area of the researcher point of view and recommend the solution of the problems.

The data are collected on an instrument that measures attitudes, and the information collected is analyzed using statistical procedures and hypothesis testing.

From qualitative approach, the researchers was made in depth interview with 10 tax officers of Ethiopian Revenue and Custom Authority Kolfe Keranyo sub city small taxpayers branch office employees. The nature of this research is explanatory and open ended.

1.7.5. Data Analysis Methods

The research considers both primary and secondary relevant data collected that made the research applicable. The raw data that collected through the above methods analyzed and presented through table and percentage to interpreted and forward recommendation of the research findings.

1.8. Limitation of the Study

Major limitation we faced:

- Time limitation
- Some tax office officers unwillingness to give interview
- Taxpayers, frightened to fill their real feeling on questioners

1.9. Organization of the Study

This study organized in to four chapters. The first chapter presents the introduction, the second chapter covers literature review, the third chapter covers the data analysis and interpretation, and finally, the fourth chapter presents summary, conclusion and recommendations of the study respectively.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This section presents a brief review of existing speculative and empirical literature of tax administration. At the end of the review, an attempt is made to summarize the major drawbacks of the existing empirical studies and to identify the knowledge gap to be filled in by further investigation.

2.1. Speculative Review of Tax Administration

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on disobedient taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspect such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave, 2005).

The low revenue yield of taxation can only be attributed to the fact that tax provision are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers.

Since taxes are an involuntary payment for government services, taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1991)

2.1.1. Legal Structure for Effective Tax Administration

The legal rules required for effective tax administration might be categorized under four basic broad headings:

- Rules for the establishment of an individual's tax liability;
- Rules establishing a system of appeals from the initial assessment of tax;
- Rules for the collection of taxes that have been established to be owing; and

The importance of a sound legal structure for effective tax administration and the importance of incorporating principles that will further tax compliance in the design of that legal structure. Since each stage of the administration process is dependent upon the other, to achieve a significant improvement in the overall effectiveness of the tax administration each element of the legal structure needs to be designed for maximum effectiveness (Asian Development Bank, 2001).

In addition to the legal structure for tax administration, obviously the organizational structure to tax administration is also crucial importance. Accordingly to the Asian Development Bank 2001, the range of issues that must be resolved, in this regard, include

- Agreement of autonomy from the executive branch
- Accountability to legislative assembly
- Relationship to the Ministry responsible for the tax legislation
- Type of organization structure in relation to taxes administered
- Decentralization
- Personnel policy
- Policies for internal audits
- Mission statement and strategies plan

2.1.2. Importance of Tax Administration

According to Asian Development Bank, 2001, tax administration dictates tax policy. Indeed tax administration and compliance issues determine the broad evolution of tax system. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population. In recent years, the shift away from these taxes-corporate income and progressive individual income tax – and toward tax system that rely more on broad-based consumption taxes such as the value added tax, flatter rate structures, and the adoption of “dual income taxes,” in which a progressive tax on labor income is accompanied with a low flat-rate tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Asian Development Bank, 2001).

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994).

Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explained by changes and differences in the environment, resources and technologies available to the country’s tax administrators (Asian Development Bank, 2001).

Aside from the role of tax compliance and administrative issues on the evolution and general features of tax system, there is no question that administrative considerations influence, and often impose decisive limits, on

particular tax laws. Most obviously, the failure to tax all sources of economic power, such as the imputed rental value of homes or accruing capital gains, are often justified by reference to practical concerns of administer ability. It is futile to design a complex and sophisticated response to a tax policy problem if the rules to implement the regime cannot be administered (Asian Development Bank, 2001).

Ensuring that taxes are collected from those who owed them has always been an elusive challenge for tax departments. It has never been easy to collect taxes from lawyers who take cash for a Saturday office visit; waiters who receive most of their income as tips; landlords who collect rent in cash; small business people who skim part of their profit or hire people off the books; cash-only window cleaners, roofers and painters; or large corporations that contract out to smugglers, hit men and hit women, and those who make their living defrauding and extorting their clients. The underground economy has always been diverse and even faster than these examples suggest (Asian Development Bank, 2001).

However, as if these traditional forms of tax evasion were not challenge enough, the combined effects of information technology and globalization is now alleged to allow those who have been able to hide in the shadow economy to evade paying their fair share of tax to disappear altogether. Many individuals are no longer tied to one national jurisdiction; those that are increasingly receive payments from work and investment abroad; anyone can have access to an over sea's bank; anyone with access to a computer can transact business anywhere in the world; property is becoming increasingly intangible and consumption difficult to locate; and, capital is becoming increasingly fungible and can be shifted relatively easily between jurisdictions. These and other developments are said to call into question government's continued ability to levy taxes in a world in which companies, assets and people are infinitely mobile (Asian Development Bank, 2001).

Tax administrators face a formidable number of challenges in every country. According to Asian Development Bank, (2001), in many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Moreover, there is the need to establish the legitimacy of tax collection. In all countries tax administrators face the challenge of modernizing the tax administration so that it can operate effectively in an increasingly global economy.

In spite of these challenges, several countries recent experiences in improving the effectiveness of their tax administration have shown that fundamental reform is possible. In recent years, there has been a considerable amount of study on the steps that should be taken to improve tax administration and reform. Fundamental importance to all reform efforts, to improve the effectiveness of tax administration have to be identified, and there has to be well-designed strategies for addressing them (Asian Development Bank, 2001).

A preliminary step to developing a successful strategy for the reform of a revenue agency, the “Tax policy and administration thematic group” of the World Bank has developed a useful diagnostic framework for revenue administration. It includes a description of quantitative indicators and indicator of effectiveness and efficiency that might be used to get a general idea of the physical dimensions of the revenue administration and how effectively and efficiently it is currently performing its functions and where performing problems might be acute. It also provides a framework and checklist of questions relating to all aspects of revenue departments operations, environment, resources, history, organization and management functions and informal culture that can be used to assess its operations and diagnose its failings (Asian Development Bank, 2001).

2.1.3. Tax Administration Challenges

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

Tax administration faces a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of growing market economy and the resulting increase in the number of taxpayers.

Human resources is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure.

During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes. In more than 15 countries, traditional tax departments have been granted the status of semiautonomous revenue authorities, which are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Yins, 2003)

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap.

Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called “patches” in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990)

This situation would lead to a permanent need for new taxes, change in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizen in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

Heavy tax distortions in transition economies come from various sources. First base rates are often high. In transition economies with many fledgling small enterprise and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation. The key precondition for efficient tax administration is tax structure in tax treatment of particular parts of economy. This will mean extending the VAT to all but a few goods and service (notably export, which should be zero-rated, and banking and insurance service, where it may be difficult to determine the amount of value added to be taxed).

2.1.4. Procedure for Tax Collection

It is expected that people's tax payment should be in line with their income and they are required to pay a tax in proportion to their level of income. On the other part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries (Belay, 2003).

The procedures undertaken by tax authority to ensure compliance are discussed as follows.

2.1.4.1. Identification and Registration of Taxpayers

Tax Identification Number (TIN) is used to identify taxpayer has unique TIN, which he or she is supposed to use in all his or her correspondence with the tax authority, and no taxpayer should have more than one TIN (Kangave, 2005).

2.1.4.2. Filing Returns

Taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayer has their file.

2.1.4.3. Returns Processing

Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed. Whether tax has been properly computed, and whether there are any penalties to be made by the taxpayer. The officer then allocates an assessment number to

the return and issues the taxpayer with a bank payment Advice Form, stating the tax payable.

2.2. Empirical Literature Review

Jenkins (1991) emphasized that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. The researcher also warned that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration and almost daily improvements in methods of its management, it is impossible to expect that tax reforms could be realized successfully.

The removal of exemptions, loopholes, and concessions can simply administration and reduce evasion. Taking a systematic view of the tax system, rationalization, simplification, and removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of “tax handles”, however, while influencing tax policy, should not be allowed to dictate it. Concentrating on just a few handles can lead to highly distortion structures (Burgess R, 1993).

The following part will be discussing the empirical review specific to Ethiopia related to tax administration in the country.

Study by (Mulat, 1979) also tried to see tax elasticity in Ethiopia. The author used built-in elasticity method to examine the revenue effectiveness of the Ethiopia’s coffee export taxes. His empirical findings show that revenue elasticity with respect to change in volume and value of exports is unity i.e. the revenue was price inelastic. He thus concluded that the present coffee tax formula requires constant revision of tax laws whenever significant changes in the price and/ or volume of coffee exports occur.

The other study by (Wegene, 1983), showed that for the period 1975-1981 tax reforms had enabled an increase in tax collection. This study employed the constant rate of adjustment method to estimate elasticity of the tax system. Likewise, the study by Eshetu compared tax productivity in the pre revolution, post revolution periods of Ethiopia, and found out that there was certain improvement in the tax collective of the government in post revolution Ethiopia.

(Team, 1985) Studied the overall productivity of the tax system for the period 1968-83 and found out that the system had buoyancy greater than unity but an elasticity which is less than one from which the conclusion was that the tax system was unstable and inflexible. This study employed the CRS and DV techniques of estimating tax elasticity.

(Zelalem, 1999), studied the productivity of the Ethiopian tax system for the period 1961-1998. The elasticity of the overall tax categories pushing the method of division index. The results of this study showed that the Ethiopian system was inefficient for most of the coefficient were found to be less than one. The explanation given for the low productivity of the tax system was that the system suffered from the problems of weak administration and extensive tax evasion.

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little at the potential challenges faced by taxpayers and the tax authorities in administrating different tax activities such as tax assessment and collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country includes primarily the assessment and collection activities. There for this research will not only identify the problems of the Kolfe Keranyo sub city small tax branch office administration and tax payers, but also the cause of these problems. Because the researchers believe that identifying the root cause

of the problems is the best ground to provide appropriate solution for the related problems.

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

The previous chapter presented detail of the research design adopted in the study. Based upon the methods mentioned in the research design, this section, the data obtained from category “A” taxpayers and the tax officers of the Kolfe Keranyo sub city.

This chapter deals with an attempt to identify category “A” taxpayer’s tax assessment and collection problems and factors that caused the problems. This part has two sections. The first part presents the characteristics of the study; and lastly presents the analysis of the finding data.

3.1. Characteristics of the Study Population

The objective of this study is to investigate and resolve tax assessment and collection problems in respect of category “A” taxpayers under Kolfe Keranyo sub city. In order to achieve this objective, fifty self-administered semi structured questionnaires were distributed to the selected taxpayers.

Table 3.1 Response Rate

Sector	Questionnaire Distributed	Responded	Not Responded	Percentage
Importer	10	5	5	50%
Exporter	10	9	1	90%
Merchandise	10	10	0	100%
Manufacturer	10	10	0	100%
Service	10	9	1	90%
Total	50	43	7	86%

Source: Taxpayers survey

From the 50 questionnaires distributed, 86% of them returned the questionnaires, whereas the remaining did not (table 3.1).

Table 3.2: Gender of Respondents

Gender	Frequency	Percentage
Female	20	47%
Male	23	53%
Total	43	100

Source: Taxpayers survey

From total population studied 47% of female and the remaining 53% male.

Table 3.3: Respondents average annual revenue in Ethiopian Birr

Average annual revenue range (Et. Birr)	Frequency	Percentage
500,000-1,000,000	13	30%
1,000,000-5,000,000	10	23%
5,000,000-10,000,000	9	21%
Over 10,000,000	11	26%
Total	43	100%

Source: Taxpayers survey

As can be observed from table 3.3, 30% of the respondents generate annual revenue ranging from Birr 500,000 to Birr 1,000,000; 23% of them ranging from 1,000,000 to 5,000,000; 21% are from Birr 5,000,000 to 10,000,000; and the remaining 26% are earning over 10,000,000.

Table 3.4: Respondents service satisfaction

Particulars	Frequency	Percentage
Satisfied	17	39%
Unsatisfied	23	54%
No opinion	3	7%
Total	43	100%

Source: Taxpayers survey

Accordingly, from the total respondents, around 54% of them are not satisfied with the service provided by the tax offices of Kolfe Keranyo (Table 3.4).

Table 3.5: Survey Respondents' Tax Knowledge

Knowledge of tax laws	Frequency	percentage
Sufficient knowledge	30	70%
Not much Knowledge	11	25%
No opinion	2	5%
Total	43	100%

Source: Taxpayers survey

Out of total sample population only 70% of respondents have sufficient knowledge, whereas, the remaining 25% have not sufficient knowledge on tax, and the other 5% prefer not to give their opinion.

Table 3.6: Usage of Cash Register Mmachine

Particulars	Frequency	Percentage
Use cash register machine	41	95%
Do not use cash register	2	5%
Total	43	100%

Source: Taxpayers survey

From respondents, 95% of them are use cash register machine, whereas, the remaining 5% are not use cash register machine (Table 3.6).

Moreover, the survey also discovered whether those taxpayers using the cash register machine got adequate training regarding the use of the machine.

Table 3.7: The Level of Training Regarding the use of Cash Register Machine

Particulars	Frequency	Percentage
Adequate training got	25	58%
Adequate training not given	18	42%
Total	43	100%

Source: Taxpayers survey

Out of 43 respondents, 58% who use cash register machine are trained by tax office and comfortable in using the machine. But 42% of respondents have not

taken training by the tax office and that lead them for number of errors (Table 3.7).

Table 3.8: Problems when using Cash Register Machine

Faced problems when using cash register	Frequency	Percentage
Yes	19	46%
No	22	54%
Total	41	100%

Source: Taxpayers survey

Out of the respondents, who used cash register machine, 46% of them faced problem while using the cash register machine (Table 3.8).

In addition, the survey investigated whether the taxpayers got quick and adequate support from the tax authority while they are facing technical problems in using the cash register machine.

Table 3.9: Level of Support from the Tax Authority

Adequate support from the tax office	Frequency	percentage
Yes	12	35%
Not often	13	39%
No	9	26%
Total	34	100%

Source: Taxpayers survey

When there were problems regarding the cash register machine, almost 35% of them received quick and adequate support from the tax authority for the problems they faced, whereas, 39% of get help but not often, the other 26% are replied as they do not get quick response or support for the problems they faced (Table 3.9).

Table 3.10: Place of Tax Declaration and Payment Convenience for Them

Tax Declaration and Payment time is convinient	Frequency	Percentage
Yes	31	94%
No	2	6%
Total	33	100%

Source: Taxpayers survey

As per 94% of the survey respondent tax declaration and payment is convenient for them, while the remaining 6% of respondent feels not convenient (Table 3.10).

3.2. Analysis of the Findings of the Study

The previous section presented the background information and the outcome of the survey result. The next part focus on the analysis of the outcome of survey along with outcome of the in depth interview with tax officers and secondary data in the context of the literature review. The analysis is made on three sections. Accordingly, section 3.2.1 presents the analysis on profit tax; section 3.2.2 presents the analysis on VAT; and finally section 3.2.3 presents the analysis on rental income tax.

3.2.1. Profit Tax Assessment and Collection Problems

The following table has been organized in order to support the analysis to identify where and what are some of the assessment and collection problems and causes.

Table 3.11 Category “A” Book of Record Assessment within Five Consecutive Years

Year	Total number of assessed tax payers	Category "A"			
		Number of taxpayer	assessed amount (Br.)	Collected amount (Br.)	Percentage change
2008/2009	2015	1546	112,532,033	88,695,675	78.82
2009/2010	2010	1723	185,600,000	155,675,489.08	83.88%
2010/2011	3041	2578	206,690,000	104,375,912	50.50%
2011/2012	3078	2841	434,519,206	422,136,626	97.20%
2012/2013	4520	3967	589,806,857	464,926,018	79%

Source: Ethiopian Revenue and Custom Authority Kolfe Keranyo sub city small tax branch office report

The assessment and collection are done from Hamle 1st to Tekemt 30. In this period, assessing all books of records by 12 men and 6 women auditors are very time killer and boring and that leads tax payers and tax office personnel to unnecessary communication. The other point rose related to this accuracy, accountability, responsibility and commitment are questionable, because of the burden of the job.

In general when we observed in, there are few employees as compared to the high number of tax payers in this sub city. Moreover to this there is no such job related training given to those personnel, because of difficulty of the task turnover of employees are very high, this points are rose while our interview session held.

The other big problems are raised on our interview disruption of computerized system, which they call it SIRM and SIGTAS software which are used for tax assessment collection purpose. SIGTAS is faster and high speed software whereas, because of connection and power interruption tax payers may force to stay longer than estimated time to finalize their obligation timely manner.

The other big point raised undesired communication of tax auditors with taxpayers was the major challenge that the tax administration is facing. Some other tax office employees even working part time on the tax payer business as an accountant and that leads to prejudiced to falsify the book of account.

On the other hand the tax officers are facing challenges due to the absence of any stated parameter to say a certain understated amount as substantial or not. Therefore, this created a loophole for some undesired bargaining and behavior between taxpayers and tax officer. Besides, mostly assessment is done manually, so lacks accuracy, efficiency, and effectiveness observed.

Furthermore, most taxpayers do not timely submit books of record for assessment purpose, in addition to not paying their debt when they received assessment notification.

It also observed that taxpayers prepare their financial statement showing low profit for the sake of paying reduced corporate profit tax and even there is no willingness to submit complete financial documents for audit. Book of accounts prepared by unqualified individual also are factors to affect the income tax administration.

The main causes for the abovementioned challenges or problems on profit tax administration are:

- Unwillingness to give timely and clear information by taxpayers
- Confusion due to frequent change of policies
- Complexity in understanding tax laws
- High employee turnover
- Poor understanding about tax proclamation , rules and regulation by taxpayers
- Delayed tax assessment process by the tax office
- Electric power interruption

3.2.2. VAT Assessment and Collection Problems

On article 21 and 26 of value added tax proclamation No. 286/2002 and article 11 of regulation of tax no. 78/2002, every taxpayer who has registered is obliged to declare and pay tax.

The observed problem under this as mentioned earlier in the case of income tax, here also the prevalence of poorly trained employees accompanied by perceived low remuneration packages and corruption have affected the VAT administration.

The other point observed under this section the decision making process within the core process show that it is not participatory. This may force the subordinates not to take part in the core process activities and lack of willingness to implement decision. It also creates conflict within the core process, which hinders the effectiveness of the core process. The office also gives less attention on employee training, personal development and motivation like awards and bonus.

VAT registered business organization are required to issue VAT invoices to customers when dealing transactions, however, there prepare forgery invoice and/or non-issuance of VAT invoice by business organization are commonly seen.

The training given regarding the use of cash register machine is not adequate, due to this tax payers are facing unnecessary problems in respect of the way how to use the machine. The other problem related to the machine is electrical power frequent interruption, when power interrupt taxpayers are obligated to inform or call to the tax office while, calling telephone connection also not working properly, due to this they are exposed to high compliance cost.

Alongside this when the taxpayers face problems regarding of the cash register machine, they are supposed to get support from the suppliers of the machine,

unfortunately, and they are not getting quick and efficient support from the supplier.

The other main complain raised by taxpayers is rejection of their purchase VAT invoice when submitted VAT returns to the tax office.

The summarized assessment and collection problems are as follows:

- Lack of sufficient, competent and motivated tax officers
- Electric power interruption
- Considering all taxpayers as not faithful by tax office personnel's
- Lack of adequate skills by both parties
- Complexity of the tax laws
- Ineffectiveness of cash register machine technicians and suppliers
- Network interruption

3.2.3. Rental Income Tax Assessment and Collection Problems

Major problem observed here, the taxpayers submitted unreliable signed document to the tax authority. They produce two documents signed by the lessor and lessee and submit the one with the reduced amount of agreement.

Summarized causes for rental income tax assessment and collection problems are as follows:

- Insufficient number of tax officers
- Poor tax attitude by tax payers

Based on the above data presented and analyzed, we put our summary, conclusion and recommendation in the last fourth chapter.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The objective of this study is to investigate tax assessment and collection problems in respect to category “A” taxpayers found in Kolfe Keranyo sub city. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

4.1. Summary

Generally, the study used in-depth interviews and self-administered semi structured questionnaires to get primary data from tax officers of Kolfe Keranyo sub city small tax branch office and category “A” taxpayers. In addition to primary data, the study used secondary data to support the finding of this study.

As per our finding Kolfe keranyo sub city small tax payers branch office have different problems. The main glitches come from tax payer’s side submitting unreliable document to avoid tax, in addition to that not giving appropriate training for their employees and that lead them for an error. The other big point rose from tax payer’s side being late to submit their book of account that can be cause for unnecessary fine at the same time burden on tax office.

From Tax office side the main problems seen through this research untrained man power, even the trained one are unmotivated and that cause for corruption. The other big problems mentioned from tax office side small tax office employees compare to tax payer’s size, not giving an appropriate training how to use cash registering machine and also how to handle their book of account, in the other hand power interruption problem can be mentioned, related to this power interruption network disturbance are one of big problems to use effectively the new software installed by sub city tax office.

To resolve these glitches, we assessed every issue case by case and come to our conclusion and recommendations to resolve such raised issues.

4.2. Conclusions

The results of the in-depth interview carried out showed that the Kolfe Keranyo tax office has faced different financial, operational and administrative problems and challenges to handle the taxpayers. It may be consider as the implemented tax collection and assessment system is not successful. There exist inefficient and insufficient number of tax assessment and collection officers in Kolfe Keranyo sub city small scale tax office.

Tax office personnel's lack of customer relation and managerial training are one of the main problems, what we found for the gap between the officers and taxpayers. Moreover, the tax authority failed of announcing sustainable promotion and training to create tax awareness by taxpayers.

The other main problems are most of taxpayers not submitted their books of account timely manner, and making overloaded few tax office personals, that lead them to commit mistakes.

Generally, taxpayers and tax offices have numerous administrative problems in different nature. The following section presents optional recommendations to minimize observed tax administration problems.

4.3. Recommendations

The core process should establish appropriate procedures and system of tax collection and assessment procedure and assigning relatively best and capable professionals. Different motivate action must be taken by the management to build team spirit between the staffs. Give periodical training for their employees, especially on customer handling.

Proper tax administration is required by setting clear and transparent rule and regulation. Beside all these, tax offices should be equipped with new technology and adequate skilled human resources. Adequate management system development will lead to get taxpayers to receive clear, concise and updated information about their responsibility.

Taxpayer's complaints in respect of cash register machine should have to be solved quickly. In addition to this the tax office if assigned technician who support for mechanical problems of cash register machine instead of forwarding it to the supplier.

Extensive work should be done by the tax office auditors to identify taxpayers, who present under invoicing, commit sale without invoice, inflated credit declaration and similar activities which back warding the revenue of the country.

Tax office should have to prepare sustainable awareness creation forum with the tax payers, legal bodies and direct and indirect contributors for the implementation of the tax.

Generally, in order to increase tax compliance, government must adopt a comprehensive strategy, beginning with the writing of the tax laws in easy and understandable terms and participate the society on developing of strategies and policy of tax enforcement.

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የግብር ከፋዮች መጠይቅ

የጥናቱ ርዕስ " በኮልሬ ቀራንዮ ክ/ከተማ ደረጃ ሀ ግብር ከፋዮች የግብር አገማመት አወሳሰንና አሰባሰብ ዙሪያ ያሉ መሠናክሎች " ሲሆን ጥናቱን የያከናወኑት አቶ ፍቃዱ በቀለ፣ ወ/ሮ ህልምነሽ አሻግራና ወ/ት መሰረት እንዳለ ሲሆኑ የቅድስት ማርያም ዩኒቨርሲቲ ተመራቂ ተማሪዎች ሲሆኑ ይህ የጥናት ወረቀት ለመመረቂያ ማሟያ የሚሆን ነው።

የመጠይቁ ዋና አላማ በግብር ነክ ዙሪያ ግብር ከፋዮች የሚገጥሟቸው ችግሮች በማጥናት የግብር አስተዳደሩ ሒደት እንዲሻሻልና ግብር ከፋዩ በራሱ ተነሳሽነትና ተሳትፎ በማድረግ በሀገራዊ ግዴታው ላይ እንዲሰራና ቀልጣፋ የሆነ የግብር አሰባሰብ ስርዓት ለመፍጠር ነው።

ይህ የመጠይቅ ተሳትፎዎ በሙሉ ፈቃደኝነትዎ ላይ የተመሰረተ ነው የመጠይቆቹ ወጤቶች ማንነቱን በማይገልፅ ምክ-ል ይመዘገባሉ በሚስጥርም ይያዛሉ።

ለበለጠ መረጃ አጥኚዎቹን ለማግኘት በሚከተለው አድራሻ ማግኘት ይችላሉ።

ስልክ:- 09 30 00 41 36
9011 55 47 04
0912 12 33 12

➤ አጠቃላይ መረጃ

1. ስም	ወንድ	<input type="text"/>	ሴት	<input type="text"/>
2. ዕድሜ	18-25	<input type="text"/>	26-35	<input type="text"/>
	36-46	<input type="text"/>	46 በላይ	<input type="text"/>
3. የትምህርት ደረጃ				
	ከሁለተኛ ደረጃ በታች	<input type="text"/>		
	ከሁለተኛ ደረጃ ያጠናቀቀ	<input type="text"/>		
	ዲግሎማ	<input type="text"/>		
	የመጀመሪያ ድግሪ	<input type="text"/>		
	ማስተርስና ከዚያ በላይ	<input type="text"/>		
4. የስራ ድርሻወዎ				
	የሒሳብ ሰራተኛ	<input type="text"/>	ወኪል	<input type="text"/>
	ስራ አስኪያጅ	<input type="text"/>	ባለቤት	<input type="text"/>

ሌለ ከሆነ ይጥቀሱት -----

5. ድርጅቶቻቸው በየትኛው የንግድ አይነት የተሠመሩ ነው?

አምራች

ችርቻሮና ጅምላ ንግድ

አገልግሎት ሰጪ

6. አማካኝ አመታዊ ገቢዎን ቢጠቅሱልን

500,000.00 500,000 - 1,000,000

1,000,000 - 10,000,000 10,000,000 በላይ

➤ የግብር ሒደት ጥያቄዎች

7. ግብር ለመክፈት ተጠቃሚ ነዎትን ?

አዎ አይደለሁም መልስ የለኝም

8. ለግብርጉደቶች ወደ ግብር መክፈያ ቢሮ ሲሄዱ የሚያገኙት መስተንግዶ

ያሚያራካ መልካም በጣም ጥሩ

መልስ የለኝም

የሚያራካ ከሆነ መስተከከል ያለበት ቢጠቁሙን

9. በግብር መክፈያው ቢሮ ያሚፈልጉትን ምላሽ በተቀለጠፉ መንገድ ያገኛሉ ?

አለገኝም አገኛለሁ መልስ የለኝም

ከሌሎች ለምን ይመስላቸዋል

10. ስለ ግብር አከፋፋሎ በቂ መረጃ አሎት ግዴታዎን በደንብ ያወቁታል ?

በከፊል በደንብ መልስ የለኝም

በቂ መረጃው ከሌለዎት ለምን ይመስሎታል

11. ለግብር ክፍያዎት ሄደው በመክፋያ ጣቢያው የምፈጅብዎት ጊዜ

በቀነት በሰዓታት በደቂቃዎች

ሌለ ከላ ቢጠቀስ -----

12. የሒሳብ መመዘጋቢያ (cash register) ይጠቀማሉ?

አዎ አይ

አይ ካሉ ለምን -----

13. የሚጠቀሙ ከሆነ በሰለጠነ በለሙያ ነው የምገለገሉበት ?

አዎ አይደለም

14. በግብር አስፈጻሚው ቢሮ ስለመሸኑ ስልጣና አግኝታዎል?

አዎ አለገኘሁም

ከለገኙ ለምን ?

15. በሒሳብ መሸኑ ሲጠቀሙ ችግር አገጥሞዎታል ?

አዎ አለገጠማኝም

ችግር ከገጠምዎት ቢያብሩልን

16. በሐሳብ መሽኑ ለደራሱ ችግር ቢሮው ፋጣን እገዛ ያደርግዎሎታል ?

አዎ አልፎአልፎ አያደርግልኝ

እገዛ ከለገኙ ወይም በቂ ክልሆን ቢስተካክል ያሚሉት ሃሳብ ከላ

17. የጣት አሽራ ለግብር ከፋይነት መለያ ሰጥታዋል ?

አዎ አልሰጠሁም

ከልሰጡ ምክኒያቶን ቢገልፁልን

18. ድርጅቶቻቸው የሚከፍለውን የግብር አይነቶች ቢገልፁልን

19. ስለ ሚክሩሎ-ዋቻው የግብር አይነቶች በቂ የሆነ የግብር ስሌት መረጃ አልዎት?

አዎ በመጠኑ የለኝም

ከሌልዎት ለምን እንደሌልዎት ቢጠቅሱልን

20. የግብር መክፋያና መሰዋቅያ ጊዜው ለድርጅትም ስራ የተመቻ ነው ቢለው ያምናሉ?

አዎ አይመኝም

ሀ) የማይመች ከሆነ ምክንያቱን ቢገልፁልን

ለ) እንዴት ቢሆን ይሻለል ቢለዉ ያስበሉ

21. በማንኛውም ግብር ነክ ጉዳይ ላይ ያሉትን ቅሬታና አስተያየት ከሎዎ ቢገልፁልን ?

- 22.
- 23.

- 24.
- 25.