



**ST.MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**VALUE ADDED TAX REFUND PRACTICES AND REVENUE  
PERFORMANCE: THE CASE OF MINISTRY OF REVENUE (MOR)  
LARGE TAX PAYER'S OFFICE**

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ASMAMAW GETIE (Ass.Prof.)**

**JUNE, 2021  
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO SAINT MARY'S UNIVERSITY SCHOOL  
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## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of the thesis advisor Asmamaw Getie (Ass. prof.) All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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## LETTER OF CERTIFICATION

This is to certify that Addisalem Sisay has carried out the research work entitle:-VAT refund practice and revenue performance the case of Ministry of Revenue Large tax payer’s office under my guidance and supervision. Accordingly, I assure that his work is appropriate and standard enough for the submission in partial fulfillment of the requirement for the award of Masters of Business Administration in general management.

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## **Abstract**

*The main objective of the study is to assess VAT refund practices and revenue performance: the case of Ministry of Revenue (MOR) Large Tax Payers Office. In doing so, the paper further assesses the VAT revenue performance in the targeted study area. The study used both qualitative and quantitative research methods to collect and analyze both primary and secondary data. Questionnaire was used to collect primary data from employees and VAT registered respectively. Secondary data was collected from Ministry of Revenue (MOR) Large Tax Payers Office. The Statistical Package for Social Sciences (SPSS) version 20 was the method used for data analysis. The study revealed that the procedures for VAT refund employed in processing and refunding excess VAT credits in MOR large tax payers' office was not effective; the taxpayers' were not well aware of the procedures and requirements for VAT refund; the major challenges faced by MOR large tax payers' office with regard to VAT administration were: VAT fraud, Tax evasion, non-compliance with the law, not using Invoices for selling goods/services, not declaring the collected VAT on time, among others; the level of VAT revenue performance in MOR large tax payers' office was high comparing the contribution or share of other income sources. The study recommends that MOR large tax payers' office should create awareness to its taxpayers on the topics of VAT refund, ethics of tax declaration etc.... should follow up and supervise to trace and make the necessary corrective actions of VAT un-invoicing (selling without receipts) with the help of its officers and MOR intelligence experts; additional researches have to be conducted on the topic of VAT administration and VAT refund challenges encountered at MoR large tax payers' office.*

**Keywords:** Value Added Tax, Tax Administration, VAT Refund, VAT Revenue Performance

## **ACRONYMS**

**AACA** - Addis Ababa City Administration

**AACRA** - Addis Ababa City Revenue Authority

**ASICUDA**- Automated System for Customs Data Administration

**BOFED** – Bureau of Finance and Economic development

**CSA** - Central Statistical Authority

**CE** - C-Efficiency

**ERCA** - Ethiopian Revenue and Customs Authority

**FIRA** - Federal Inland Revenue Authority

**IMF** - International Monetary Fund

**ITD** – International Tax Dialogue

**MOFED** – Ministry of Finance and Economic development

**MOFEC** – Ministry of Finance and Economic Cooperation

**MOR** – Ministry of Revenue

**SIGTAS**- Standard Integrated Government Tax Administration System

**SPSS**-Statistical Package for Social Science

**VAT**-Value Added Tax

**VP** – VAT Productivity



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# **CHAPTER ONE**

## **INTRODUCTION**

This chapter presents the introductory part of the research. It basically includes background of the study, statement of the problem, research questions and objectives of the study. It also includes significance of the study, scope (delimitation) of the study, limitations of the study, and organizations of the study.

### *1.1. BACKGROUND OF THE STUDY*

Value Added Tax (VAT) becomes a major worldwide tax instrument which enhances economic growth. Being a tax levied on the final consumption of goods and services, VAT is collected at each stage of production and distributions when value is added up on them. VAT is up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs-except perhaps on capital goods-against that due on outputs (Ebrill, L. 2001).

Value Added Tax (VAT) is a percentage tax on a value added applied at each stage of production. It is a type of indirect tax, nowadays found in more than 130 countries and has become the principal source of revenue for many countries (Krever, 2008).

Ethiopia has implemented the Value Added Tax primarily to raise more revenue, modernizing its tax administration and encourage investment and trades. Ethiopian Government has a strong belief and commitment to eradicate poverty and assure sustainable development; and it is impossible to achieve such a goal without generating sufficient revenue that can cover at least the budget of the government. To narrow the gap, VAT was introduced and is showing dramatic changes in generating government revenue (F.D.R.E., 2016).

Sales tax has been operated for more than four decades in the history of Ethiopian taxing system. But it does not contribute what the government required from it to meet with the recently provoked expenditures. So the Ethiopian government replaced the outdated sales tax with VAT by proclamation No 285/2002 that has been effective by January 1st 2003 (Yemisrach Chane, 2014).

A good VAT administration is critical in fully implementing the design attributes of the tax and reducing gaps between the effective taxation and what it is purported to be in the legislation. More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objectives of a government (Eric, 2008).

Today, Value Added Taxes (VAT) exists in more than 160 countries, including in many developing countries that have modernized their tax systems in the past decades. Eighty percent of countries in sub-Saharan Africa have adopted the VAT, and it is now responsible for typically raising around one-quarter of all tax revenue (MoFEC, 2016).

In Ethiopia the implementation of VAT requires more effort to achieve the desired objectives effectively. This is so because: the society is less conscious about VAT rules and contribution of VAT to the country's growth and development, tax administration system of the authority is weak, the way and methods of fraudulent activities and tax evasions on VAT by taxpayers are increasing from time to time and the attitude of the business community towards VAT is still negative (Simon, T. 2013).

In many under developed countries like Ethiopia, the low revenue yield of taxation can only be attributed to the fact that the tax provisions are not properly enforced, either on account of the inability to collect VAT , or on account of straightforward corruption. Despite its name, the VAT is not generally intended to be a tax on value added as such: rather it is usually intended as a tax on consumption. Its essence is that it is charged at all stages of production, but with the provision of some mechanisms enabling firms to offset the tax they have paid on their own purchases of goods and services against the tax they charge on their sales of goods and services (Wellela A., 2008).

One of the challenges for developing economies is striking a balance between Value Added Tax (VAT) incentives and ballooning VAT refunds. The economic policies of various countries witnessed the importance of VAT refund. Yet, in many developing and transitional countries, refund performance is reported as a weak feature of tax administration, irrespective of whether other aspects are working well (Harrison, G. and R. Krelove, 2005).

According to Gemechis K., (2012), managing VAT refunds is one of the challenges of VAT administration in developing countries particularly in Ethiopia. VAT is a tax on consumption that requires both timely and accurate refund for business firm who have excess credit. That brings relaxed trade operation for business entity as well as tax authority to collect more tax over a period.

VAT has a significant role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible. Nevertheless, in Ethiopia revenues generated by VAT are usually gathered at the expense of a concession in its salient features. This is usually caused by factors including weaknesses in the administration, that is, the incapacity of the administration to put the attributes of VAT in practice (Desalegn, M. 2014).

The purpose of this study was to assess the VAT refund practices and revenue performance in the case of Ministry of Revenue Large Tax Payer's Office.

## **1.2. STATEMENT OF THE PROBLEM**

According to Yesegat, W. (2008), VAT collection in Ethiopia faces diverse factors internal and external tax administration challenges and issues. Ethiopian Revenue and Customs Authority (ERCA) have recorded significant gaps between VAT revenue targets and the actual amount collected. This means that ERCA has not been achieving an acceptable degree of tax compliance from a fast growing taxpayer population.

Furthermore, despite the efforts taken by government, there has been poor tax revenue collection, tax compliance has still remained a problem and the taxpayers continued to complain about the behavior of the ERCA staff, poor handling taxpayer queries and complaints on tax matters, lengthy bureaucratic tax administrative procedures coupled with the nature of physical facilities in keeping and processing taxpayer information (<https://ww.erca.gov.et>, assessed in May 2021).

Several studies were conducted on various aspects of value added tax (VAT) in Ethiopia during the last two decades. For instance; a research was done by Taresse K. (2011) which analyzed VAT administration problems in the case of ERCA, Gondar branch. The researcher tries to assess effectiveness of VAT for revenue generation and VAT revenue performance in the authority. The other research was also conducted by Dheressa, K. (2015), on the challenges of value added tax (VAT) administration: the case of East Wollega Zone. Furthermore, Mamo (2011); Gebreegziabher (2010); Yemisrach (2014); Tesfaye (2005); and Belete, B. (2015) has conducted researches focusing on various aspects of VAT particularly focusing on identifying and assessing the problems with regard to VAT administration, factors affecting effectiveness of VAT collection, practices and challenges of VAT in Ethiopia, VAT administration problems, contributions of VAT for economic growth and GDP, and challenges of VAT Administration regarding small tax payers in ERCA.

The major gaps observed on previous studies were that those studies could not assess the VAT refund practices and revenue performance of MOR in the case of large tax payer's office. To the researcher best knowledge, there was no recent study conducted considering large tax payer's office.

This study is believed to fill the gaps by assessing the current practices of VAT refund performance and the recent revenue performance trend of MOR. Therefore, this study aims to assess the VAT refund practices and revenue performance in the case of Ministry of Revenue (MOR) Large Tax Payer's Office.

### **1.3. RESEARCH QUESTIONS**

To achieve the stated problems this study attempted to answer the following basic research questions:

- 1) What are the procedures for VAT refund employed in processing and refunding excess VAT credits in MOR large tax payers' office?
- 2) What are the major challenges faced by MOR large tax payers' office in administrating VAT?
- 3) What are the challenges faced by MOR large tax payer's office and the tax payers in relation to VAT refunds?
- 4) What is the level of VAT revenue performance in MOR large tax payers' office?

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

#### **1.4.1 General Objective of the Study**

The general objective of the study was to assess the Value Added Tax (VAT) refund practices and revenue performance in Ethiopia: the case of Ministry of Revenue (MOR) large tax payers' office.

#### **1.4.2 Specific Objectives of the Study**

The specific objectives of the study were listed below:

1. To assess the procedures for VAT refund employed in processing and refunding excess VAT credits in MOR large tax payers' office.
2. To investigate the major challenges faced by MOR large tax payers' office with regard to VAT administration.

3. To examine the challenges faced by MOR large tax payer's office and the tax payers in relation to VAT refunds.
4. To determine the level of VAT revenue performance in MOR large tax payers' office.

### **1.5. SIGNIFICANCE OF THE STUDY**

The study has significance to MOR higher officials for decision making because it would encourage them to embrace new insights and strategies in relation to VAT refund practices and revenue performance. More specifically, it would notably reveal the way of intervention to MOR and policy makers to fill on the gaps found and improve its performance related to VAT administration and collection practice in future.

In addition, the findings of the study would assist tax officials, tax payers, policy makers and other stakeholders in understanding the nature of VAT, the concepts behind VAT refund, mechanisms to increase VAT revenue performance, VAT administration, challenges associated with VAT administration, VAT refund, tax compliance problems of tax payers and improve the tax laws and procedures etc. so that they could to contribute their own share for the development of the country.

The researcher firmly believes that the study would also be used as a base line for other similar as well as related studies and help policy makers, government officials and academicians in the area of research under study.

### **1.6. SCOPE OF THE STUDY**

VAT Administration practices of Revenue Authorities were a vast topic that could not be exhaustively studied in this study. However the scope of the study was conceptually delimited only to the assessment of VAT refund practices and revenue performance. Therefore, conceptually the research did not consider other areas of VAT Administration practices as it was beyond the scope of the study.

Due to time and financial constraints, the study was conducted in MOR Large Taxpayer's Office (LTO) in Addis Ababa, excluding regional government's tax offices. Geographically, the study was delimited to the MOR large tax payers' office, which is located in Addis Ababa, Ethiopia. Hence, other regions and cities outside Addis Ababa were not considered for this study.



Methodologically, the study was delimited to collection of research data using primary data gathering instruments such as questionnaire and interview only. Thus, other data collection methods were not covered under this study.

Finally, the study period covered from 2014/15 to 2019/20 for both issues of VAT refund and VAT revenue performance.

### **1.7. LIMITATIONS OF THE STUDY**

The researcher faced some challenges while conducting this study. Some of the respondents' were negligence in filling the questionnaire. Others could not give values to the questionnaire and even some others not returned the questionnaire totally. In addition, some of the respondents have been in a tight work, while some others were not as such willing to fill the questionnaires.

The other big Challenge at the time of data collection was Corona Virus (COVID-19) that made the respondents felt uncomfortable to take the questionnaire.

In addition to this, absence of related documents in the study area, financial problem, and shortage of time were the constraints of the study.

However, the data collection through questionnaires and interview was successful due to the researcher's unreserved effort and communication technique.

### **1.8. ORGANIZATION OF THE RESEARCH**

The research paper is organized into five chapters. The first chapter introduces the background information, statement of the problem, general and specific objectives and significance of the study along with the research questions, scope, limitations and the organization of the research paper. Chapter two introduces review of relevant literature on the research problems under question. Chapter three discusses the research methodology adopted for the research and outlines the methodology for carrying out primary and secondary data collections.

Chapter four presents the findings of the research, VAT refund practices and revenue performance in the case of MOR Large Tax Payer's Office. Chapter five covers the discussion of summary of the findings, conclusions and recommendations.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

This chapter deals with brief review of literature in the area of VAT refund practices and revenue performance. The chapter is organized in three sections. The first section presents theoretical review of literature related to VAT refund and revenue performance, while the second section reviews the empirical evidence on the study area and related issues. At the end, a summary of the major drawbacks of the existing empirical studies is made and the knowledge gap is identified.

#### **I. THEORETICAL LITERATURE**

##### ***2.1. VALUE ADDED TAX (VAT): OVERVIEW AND CONCEPTS***

VAT is defined as a broad-based tax levied at multiple stages of production and distribution on commodity sales at up to and including at least the manufacturing stage, with critically systematic offsetting of input tax against output tax (Ebrill et al, 2001). As the name suggests, it is meant to tax value addition that is created in each stage of manufacturing or distribution hence there should not be any cascading and the tax burden should ultimately fall on final consumption of goods and services. If the tax falls on intermediate transactions, it distorts allocation of factor inputs by firms and consequently reduces production efficiency hence competitiveness of a country (Gupta, S. 2007). It arises whenever a —taxable person‖ makes a —supply of goods or services‖ in the course of his business. Thus in some countries it is called —good and services tax‖ or GST VAT was invented by French economist in 1954 by Maurice lour director of the French tax authority VAT was invented because very high sales taxes and tariffs encourage cheating and smuggling (Bird, R.M 2005).

Despite its name, the VAT is not generally intended to be a tax on value added as such: rather it is usually intended as a tax on consumption. Its essence is that it is charged at all stages of production, but with the provision of some mechanisms enabling firms to offset the tax they have paid on their own purchases of goods and services against the tax they charge on their sales of goods and services (Gupta, S. et al. 2007).

Although this characteristic feature is very clear-cut, the VATs observed in practice show considerable diversity as regards, among other things, the range of inputs for which tax offsetting is available and the range of economic activity to which the tax applies (that is, the base of the tax). Some major countries (such as china) currently do not grant credits for taxes on capital

goods purchases; moreover, of those that allow credits in respect of such purchases, some do not refund excess credits (any excess of tax paid on inputs over tax chargeable on outputs). Most countries exclude exports from the VAT, in the sense that tax is not charged on sales for export but tax paid on inputs is recoverable, although some (in the BRO region, the Baltic countries, Russia, and other countries of the former Soviet Union, at least until recently) have systematically levied VAT on some exports. Some countries extend the VAT only to the manufacturing stage; others do not levy it on services. Practices also vary in how tax offsetting is implemented: by far the most common method is through the use of invoices, but the same effect can be achieved on the basis of books of account (Ebeke, C. and H. Ehrhart, 2011).

VAT is a tax levied on the increase in value of commodity that has been created by the taxpayer's stage of the production or distribution cycle. It is a sales tax based on the increase in value or price of the product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer (Harrison and Krelove, et al. 2005).

Proclamation 1157/2019 made changes to the amount of VAT that must be withheld in certain circumstances. Before the proclamation came into force, when VAT was withheld by the buyer per the previous proclamation, the buyer withheld the full amount of the 15% VAT payable. In return, the buyer provided the seller with a voucher related to the VAT withheld. Now, per Proclamation 1157/2019, a buyer need only withhold half (50%) of the 15% VAT payable from the seller; the buyer provides a voucher for the amount so withheld and the buyer pays the balance of the VAT in cash to the seller. Proclamation 1157/2019 also made a change to the VAT reporting period. Before the changes, all VAT-registered entities had to file on a monthly basis. Now companies with annual turnover of ETB 70M (about USD 2.035M) or more must file monthly and companies with annual turnover less than ETB 70M must file a VAT return every three months (<https://www.mor.gov.et>, assessed in May 2021).

In Ethiopia VAT law contains two VAT rates. One is the standard fifteen percent rate and the other is zero rated:

### **a. Zero rating**

The following taxable transactions are charged with tax at a rate of zero percent. The export of goods or services, the rendering of transportation or other services directly connected with international transport of goods or passenger, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights.

Zero rating is the mechanism under a VAT system by which the tax can be completely removed from a particular product or service or from a particular transaction. Under a credit-invoice VAT, a seller of a zero-rated item does not charge VAT on the sale. The sale is classified as a taxable sale subject to a zero rate. As such, the seller is entitled to recover as input credit the tax included in the cost of taxable purchases attributable to that sale. Since zero-rating increases the number of VAT refunds, most developing countries wisely have limited it to exports. Under a sales-subtraction VAT, zero rating is accomplished by excluding the designated sales from gross receipts and allowing the business to deduct taxed purchases attributable to these zero-rated sales (<https://www.mor.gov.et>, assessed in May 2021).

### **b. Exemption of goods and Services**

Exemption means that no VAT is charged on the supply and no credit can be taken for VAT paid on purchases used to make the supply. If particular enterprises are exempted, the tax applies to their purchases and they received no credit for or refund of this tax since they are not taxpayers.

In Ethiopia under the VAT Law, the following types of supplies of goods or rendering of services as well as the following types of imports of goods are also exempt from payment of The sales or transfer of a used dwelling, or the lease of a dwelling, The rendering of financial services, The supply or import of national or foreign currency, and of securities, The import of good to be transferred to the National Bank of Ethiopia, The rendering by religious organizations of religious or church related services, The import or supply of prescription drugs and the rendering of medical services, the rendering of educational services provided by educational institutions, as well as childcare service for children at pre-school institutions, The supply of goods and rendering of services in the form of humanitarian aid. The supply of electricity, kerosene, and water; Goods imported by the government, organizations, institutions or projects exempts from duties and other taxes to the extent provided by law Supplies by the post office; The provision of transport, Permits and license fees, The import of goods to the extent provided

under schedule two of the customs tariffs regulations, The supply of goods or services by a workshop employing disabled individuals if more than 60 percent of the employees are disabled and The import or supply of books and other printed materials (<https://www.mor.gov.et>, assessed in May 2021)..

## **2.2. BENEFITS AND DRAWBACKS OF VAT**

### **2.2.1 BENEFITS OF VAT**

The following are some of the main Advantages of VAT: (Misrak T. 2008).

*i. VAT avoids cascading effect of tax (tax on tax)*

VAT works on the principle of that when raw material passes through various manufacturing stages and manufactured products passes through various distribution stage, tax should be levied on the incremental value at each stage and not on the gross sale price. This insures that some commodity does not get taxed again and again and this, there is no cascading effect. Putting the concept in simple terms, in vat system, each input is taxed only once.

*ii. VAT is major comprehensive and equitable tax system.*

Even though the ultimate burden of VAT full on the final customer, VAT is collected by the government from all sectors, that is from import manufacturing, whole sale and retail sectors. Therefore, it is a more compressive and equitable taxes system on the contrary; sales tax is normally levied at one stage of the whole marketing.

*iii. VAT reduces the possibility of tax erosion*

In the case of VAT, the taxes are divided in to several parts depending on the number of stage of production and sales. In each stage every transaction is made using VAT invoice approved by tax authority. In addition each VAT registered person (supplier) has to maintain appropriate records on their sale and purchase transaction. Those obligations make tax evasion difficult.

*iv. VAT has less Tax burden*

Under VAT system, the tax is collected is small fragments at different stage of production and sale. Hence, the vat payers feel the burden of the tax less.

*v. VAT is neutral*

Regardless of the number of stage of production and distribution, VAT is collected in each stage, therefore; VAT is expected to be perfectly neutral in the location of resources in the form of production and commercialization.

*vi. VAT improves Productivity*

In VAT system, a firm has to pay tax even though it goes in to loss. The firm cannot claim any exception for loss because it pays taxes on the value produced and not on profits. So, firms will always try to improve their performance and reduce the cost of production. As a result, the overall productivity of the country will be improved.

*vii. VAT promotes capital investment and saving*

VAT is a consumption tax since one pays VAT on its expenditure and has the option to opt out so as not to be taxed. Furthermore, relief from tax on capital goods may encourage investment. Potential investors also consider tax legislation as one of the factors in making investment decision.

*viii. VAT enhances exports*

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

### **2.2.2 DRAWBACKS OF VAT**

The following are some of the main disadvantages of VAT: (Misrak T., et al. 2008).

*i. VAT is regressive in nature*

A Straight forward single rate VAT with few exemptions would tax lower income groups (the poor) more heavily than the higher income groups (the rich). It is, thus incongruent with the basic.

Principles of taxation which states that reason should be taxed according to his ability to pay. This makes VAT regressive tax system. In order to compensate for its regressive effect a number of countries have exempted basic goods particularly food items from VAT.

*ii. VAT require advanced economic structure*

The proper implementation of VAT system required organization and advanced financial and economic structure as it complicated system. VAT system also requires proper record keeping of invoice at each stage of production and sale by both the seller and buyer. Hence, it becomes, difficult to implement the system in all types of economy.

*iii. VAT put additional burden to tax authority.*

In VAT system, the manufacturers, wholesalers and retailers have to fulfill various legal formalities in the form of manufacturers various records, accounts, books, etc. the verification of those formalities put additional burden to the tax enforcing authorities.

*iv. VAT is uneconomical*

VAT system involves high of administration, assessment, verification collection, etc, hence, it is highly un economical.

*v. VAT has reams loopholes for tax evasion*

Although VAT system requires proper record keeping of invoices at each stage of production and distribution by both the buyer and seller, it has ream loopholes for tax evasion.

### **2.3. VAT DEVELOPMENT IN ETHIOPIA**

The Ethiopian government has introduced VAT as part of the overall tax reform program. The tax reform program is preceded by establishment of a new Ministry of Revenue as a first step to improve tax collections and to combat fiscal fraud. Various activities have been conducted subsequent to this : the increase in the sales tax and the removal of import duty surcharge in 2000; a new legislation on presumptive taxation and a 5 percent withholding tax on imports became effective in February 2001; legislation was approved in March 2001 to introduce the TIN system to reinforce the collection powers of revenue agencies, and a tax reform implementation task force was established; a large taxpayer was made operational in July 2001; in October 2001, a draft VAT legislation was submitted to parliament and this is approved and implemented beginning January 1, 2003. A revised income tax law has been approved and made operational. This revised law includes enhanced enforcement procedures and an improved penalty regime, with a view to increasing the efficiency of income tax collection, and ensuring the recovery of income tax arrears (Tesfaye, A. 2005).

Prior to the introduction of VAT, the Ethiopian government has initiated a number of processes. These include the design and computerization of the taxpayer registration process; the operational development of taxpayer services activities, return process and debit and audit activities; publicity campaign and taxpayer education. These measures are expected to improve the government's revenue position (Misrak T. et al. 2008).

### **2.4. VAT INCENTIVES**

Tax incentives are those special exclusions, exemptions, deductions or credits that provide special credits and preferential tax treatment or deferral of tax liability. They are measures providing for more favorable tax treatment of certain activities or sectors, compared to what is granted to the general industry. Tax rate reductions, VAT zero rating and VAT exemptions are also classified as tax incentives (Edmiston and Bird, 2004).

Tax incentives are used to attract either local or foreign direct investment to certain economic activities. This is usually the case when the capital stock is considered too low and the tax system has been identified as the main obstacle (Bird, R.M, et al 2005).

There are three types of incentives from a VAT point of view. These VAT incentives include zero rating, VAT deferment and VAT exemptions (Bird, R.M, et al 2005).

A zero-rated supply is a taxable supply and registered operators making zero-rated supplies may claim full input tax credit in respect of goods or services acquired to make zero rated supply. Zero rating applies primarily to exports and to some other types of transactions which should not bear VAT for social and economic reasons (Bird, R.M, et al 2005).

There is also VAT deferment on importation of capital equipment, if the taxpayer elects so. Deferment of VAT is an officially sanctioned temporary postponement of paying VAT on importation of specified goods of a capital nature (Bird, R.M, et al 2005).

Exempt supplies are those supplies on which no VAT is chargeable. A trader of exempt supplies is not required to register for VAT even though he meets the threshold. VAT paid on the purchase of inputs used in the production of exempt supplies is not claimable. Where a supplier deals in both exempt and taxable supplies he can register for VAT if taxable supplies meet the threshold or he voluntarily opts for registration. This also raises the issue of apportionment, on claiming input tax credit. The Registered Operator has to prorate his input tax credit claim. Exemptions also apply on imports. The list of VAT exemptions has been growing from year to year in Zimbabwe. However, this is against the principles of best practice VAT which should be broad based with a single uniform rate and very few exemptions, perhaps for foodstuffs (Bird, R.M, et al 2005).

## **2.5. VALUE ADDED TAX (VAT) FEATURES AND ADMINISTRATION**

In developing countries the poor performance of taxes is likely to be due to weak tax administration (that is, the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. The major activities in VAT administration are identifying taxpayers, processing returns, controlling collections, making refunds, auditing taxpayers and levying penalties. On the part of administration, preparation of a single master file, based on unique tax identification number (TIN) is crucial and this ensures that each taxpayer's account contains all the relevant tax and payment data for that taxpayer alone. On account of requirements of VAT, the even



functioning of VAT would depend upon tax payers keeping careful and complete records (Bird, R.M, et al 2005).

VAT execution is also part of VAT administration. This includes identifying tax payers and tax evaders as well as the registered and unregistered tax payers among the business community. It follows that the concerned tax authorities would take legal measures against people who do not comply with the VAT law. It is not only the authorities should be responsible in assessment of execution of VAT but the consumers themselves have a key role to play (Eric, et al. 2008).

### **2.5.1 MAJOR ACTIVITIES IN VAT ADMINISTRATION**

As Bird, R.M et al. (2005) noted that the basic tasks of tax administration consist of three distinct activities, i.e. identification, assessment and collection.

According to the author, a very important precondition for effective work of tax administration is canceling all additional duties out of the process of taxation. Besides, in some countries in transition, tax administration also performs many analyses and realizations of forecasting, which are in completely inconsistent with its duties in countries with ground economies.

According to (Bird, R.M, et al 2005)., the real tax system facing people and businesses in most developing countries is not how the tax law is designed but rather the outcome from how that system is actually put into practice and very importantly how the tax administration and its role impacts the tax reform. During the process of deciding whether to introduce a VAT, the tax administration's weakness should be a concern, but not an overriding factor. If such weaknesses are a real problem, they will have to be tackled under any scenario. Since preparation for VAT introduction takes approximately two years; this time could and should be used to strengthen tax administration. In fact, some countries have used the VAT introduction to set up a new, more modern tax administration. With the correct perspective and commitment, this process can naturally lead to a strengthening of the tax administration.

Accordingly, the —best" tax administration is not simply that collects the most revenues; tax administration depends on private and public actions (and reactions), various environmental factors, substantive and procedural tax law and the outcome of a given administrative effort. All this makes tax administration a complex matter (Alex Cobham, 2005).

According to Gupta S., et al (2007), Maximizing revenue for a given administrative outlay is only one dimension of the task of tax administration. Revenue outcomes may not always be the most appropriate basis for assessing administrative performance. How the revenue is raised - the

effect of revenue generation effort on equity, the political fortunes of the government, and the level of economic welfare - may be equally or more important in some contexts. Similarly, private as well as public costs of tax administration must be taken into account and due attention given to the extent to which revenue is attributable to "enforcement" (the active intervention of the administration) rather than "compliance" (the relatively passive role of the administration as the recipient of revenues generated by other features of the system). Assessing the relation between administrative effort and revenue outcome is thus not a simple task.

The major activities in VAT administration are identifying taxpayers, processing returns, controlling collections, making refunds, auditing taxpayers and levying penalties. On the part of administration, preparation of a single master file, based on unique tax identification number (TIN) is crucial and this ensures that each taxpayer's account contains all the relevant tax and payment data for that taxpayer alone. On account of requirements of VAT, the even functioning of VAT would depend upon tax payers keeping careful and complete records. To minimize the likely amount of high compliance costs, however, sellers are expected to maintain sufficient details to have information on the following aspects. These are particulars of invoices giving details of tax on sales and credit on purchases, detail of accounts giving information of all purchases and sales and interaction between invoices, purchases and sales account with the tax return form. VAT execution is also part of VAT administration. This includes identifying tax payers and tax evaders as well as the registered and unregistered tax payers among the business community. It follows that the concerned tax authorities would take legal measures against people who do not comply with the VAT law. It is not only the authorities should be responsible in assessment of execution of VAT but the consumers themselves have a key role to play (Bird, R.M, et al 2005).

As Krever, R. et al (2008) noted the main tasks of VAT administration involve: (1) information and instruction to taxpayers, (2) registration, organizing and processing tax returns (input of data, processing declarations and payments), (3) coercive collection (closely connected with registration, accounting and return processing), (4) control and supervision (discovering lacking and insufficient tax returns and controls of books and papers in tax administration offices or business activities and books of taxpayers, while routine check-ups had already been done in the registration, accounting and return processing department), (5) legal services and complaints(taking cases to court, defending tax administration in court, explaining procedures which are or are not in accordance with the law).

According to Bird, R.M, et al (2005), transition countries most definitely need changes in VAT administration, and its adjustment to modern accounting, control, assessment, collection, coercive collection, compliant procedures and the growing number of individual taxpayers.

VAT is administered and managed by the FIRS, a federal agency responsible for the administration of federal taxes with power to do such things as may be deemed necessary and expedient for the assessment and collection of the tax due. At the planning stage, some reservations were expressed about the competence and desirability of the FIRS to effectively administer VAT. The Federal Government rejected the recommendation that a fully independent and self-sustaining Commission should be established to administer (Ebeke,C. and H. Ehrhart, et al. 2011).

The VAT has compliance advantages over a retail sales tax, which is intended to collect all revenue at the point of sale from a business to a household. Since revenue collection for the VAT is spread across stages of production, with producers receiving a credit against taxes paid as an incentive for compliance, the VAT in practice is less likely to be evaded.

## **2.6. VALUE ADDED TAX ADMINISTRATION IN ETHIOPIA**

A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large. VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. These responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Perhaps peripherally, VAT administration is also concerned with issues of who should administer the tax, what organizational setup to use and what resources are available (Bird, R.M, et al 2005).

Poor tax administration would change the manner in which taxation affects government's policy objectives, namely economic stabilization, resource allocation and redistribution of income. In developing countries the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). Developing and transitional countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. In these countries, thus, simply adopting a successful VAT's design attributes of

developed countries would not make the tax successful. The design ought to consider the tax administration dimension and the socio-economic realities of the developing country in question (Eric, M. et al, 2008).

VAT is characterized as most sensitive to the attitudes of the people paying their VAT. The attitude of tax payers highly determine the level to which tax is effectively collected. This - attitude of tax payers - in turn is highly determined by the level of strength and effectiveness of the administration of tax authorities. A tax payer is more receptive to comply with his responsibilities to the extent that he receives a reasonable degree of service from revenue administration. Poorly drafted forms, long waiting lines and even charges for acquiring them, bureaucratic hassle in processing the case, rudeness from the officials, cumbersome appeal procedures, and the like, can repel even the most loyal taxpayers (Asamnew, G. 2008).

Harrison and Krelove et al. (2005) provide a useful discussion of such methods. In particular, it is by no means clear that the public support needed to improve the administration of VAT really exists in many DTE. including relatively few large formal-sector firms who currently account for most of the revenues-while of course supportive of measures to extend the weight of the tax to their relatively untaxed competitors in the informal sector—are understandably likely to react adversely to any measures tightening up the system as it applies to them.

VAT is relatively more advantageous than the alternatives, indirect tax. First, the VAT is generally more broad-based (it is extended to cover both goods and services). Second, it is less risky in terms of revenue leakage (the invoice-based credit mechanism in administering the VAT facilitates collection and enforcement; even if revenues are missed in one stage, they are still collected in other stages). The VAT has, therefore, greater revenue potential than its alternatives. (Bird, R.M, et al 2005).

VAT is a Part of Indirect taxes which generate a substantial part of tax revenue in many developed and developing countries. In developing countries VAT would become a major sources of revenue it has an important contribution to total government tax revenue). It also a major source of tax revenue for every industrialized country in the world except the United States (Bird, R.M, et al 2005).

As Ebrill et al. (2001), demonstrate in detail, good VAT design makes good VAT administration easier and that bad design may make good administration almost impossible. Similarly, it is now well understood that VAT, like all modern taxes, requires both taxpayers and tax officials to behave properly if it is to work correctly. There is no-magic formula to creating public support for better tax administration. However, there are many established and workable ways to do this critical and difficult job better that are currently in use all around the world.

To this Ebrill et al. (2001) recognize, the successful implementation of such a tax requires the prior satisfaction of a number of conditions. Including: Simple, clear, stable tax laws, adequate service and support to taxpayers in complying with tax Obligations, Simple procedures for registration, filing, payment and refund, Effective collection enforcement, Reasonable audit coverage, Strict application of penalties and Provision for independent review.

#### 2.6.1 Recent Amendments in VAT

In 2017, the MoF revised the compulsory VAT registration annual turnover threshold from ETB 0.5 million to ETB 1 million (Circular T/K/Q/5/161). This came into effect in 2018.

In 2019, the Ministry introduced an amendment to the VAT Proclamation (Proclamation No. 1157/2019), changing the required filing frequency for firms with turnover below ETB 70 million from monthly to quarterly (while for firms with turnover above that threshold, filing frequency remained monthly). The amendment to the VAT Proclamation also lowered the VAT withholding rate to 50% (from 100%).

Proclamation No. 1157/2019 also made three changes to the VAT refund policy. First, VAT paid before VAT registration was made creditable in the first accounting period after registration. Second, refunds for VAT paid on capital goods over a certain period were fast-tracked where the value of such transactions exceeded ETB 100 million in a fiscal year. Third, the tax authority now refunds the remaining amount of VAT paid on capital goods in excess of the amount credited in the accounting period within the coming month (<https://www.mor.gov.et>, assessed in May 2021).

## **2.7. MAJOR DESIGN FEATURES AND ADMINISTRATIVE ORGANS OF VAT IN ETHIOPIA**

In terms of design VAT is imposed on the supply of goods and services other than exempted supplies (such as bread and milk). VAT is based on the invoice credit method in which taxpayers are given credit for the VAT paid on inputs when it is supported by the relevant documents. The tax is also based on the destination principle in that imports are taxed but not exports. VAT is chargeable at a standard rate of 15 per cent on all taxable supplies of goods and services other than those zero rated (mainly exports). VAT registration<sup>9</sup> is required by businesses that have annual turnover of Ethiopian Birr (ETB) 1,000,000 and more. The VAT legislation allows refunds to be made to mainly exporters within two months from the time applications are lodged. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed (at least in the legislation) to be refunded within two months from the time of lodging applications (<https://www.mor.gov.et>, assessed in May 2021).

VAT is administered by the EFIRA, ECA 11 and the Regional Government's Finance Bureaux 12. The ECA administers VAT on imports into the country. The EFIRA with its VAT department, large taxpayers' office and branch offices (Addis Ababa branch and regional branch offices) administers federal and joint VAT on domestic transactions, while regional governments' finance bureaus administer their own VAT revenues. With this overview of the design and administration of VAT in Ethiopia the following sections present how the tax authorities perform their responsibilities with respect to the major VAT administration tasks, including taxpayer identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refunds (<https://www.mor.gov.et>, assessed in May 2021).

### **2.8. VAT REFUND**

The VAT refund is an integral component of a modern VAT system. In principle, the statutory incidence of VAT is on the final consumer, not on businesses. Mechanisms should be in place for relieving businesses from the burden of VAT they pay when they acquire goods and services. This mechanism involves the re-funding of excess input tax (VAT refunds). (Bird, R.M, et al 2005).

The prevalence of fraudulent claims is often cited by tax officials as a major reason for delaying payment of refunds. Often, less advanced tax administrations pursue time-consuming and labor-intensive processes to verify claims before approving refunds, resulting in backlogs of refund requests and considerable disquiet among business taxpayers who have been deprived of their working capital. In contrast, the most effective and efficient tax administrations tackle refund-related fraud as part of a broader VAT compliance strategy based on risk management principles, and generally limit pre-refund verification checks to perceived high-risk claims (Harrison, G. and R. Krellove, et al 2005).

On the ideal level of VAT refunds, the authors assert that VAT refunds can be substantial, averaging 30% or more of gross VAT collections. In some economies, it is no common for VAT refund levels to be as high as 50% of gross VAT collections. VAT refund levels are generally low in Africa. They are higher in countries with more open and faster growing economies, as well as in countries with modern systems of tax administration. Tax administrators should have a sense of the level of refunds they might reasonably expect to pay as a warning signal of attempted fraud (Ebrill et al., 2001).

The refund issue is tackled differently in different countries. Most cap the amount of refunds of the VAT on intermediate inputs and capital items at the level of the VAT on output in each tax period and allow for the remaining balance to carry forward over the following period(s). Managing VAT refunds is one of the challenges of VAT administrations in developing countries. In managing refunds and combating refund frauds, different countries use schemes including Value Added Tax Refund Practices and Revenue Performance in Ethiopia denial of refund claims (except to exporters), carrying forward of refund claims, demanding a third party certification of the claim, demanding guarantee, requiring taxpayers to have separate VAT bank accounts, zero rating of supplies to exporters and remission of input VAT on certain goods (mainly capital goods) (Bird, R.M, et al 2005).

The correct treatment for VAT refunds is simply to pay legitimate claims promptly and not to pay fraudulent claims at all. The problem, of course, is how to distinguish the good from the bad, is to be found not so much in special treatment of refund claims as in better administration of all aspects of the VAT system (Bird, R.M, et al 2005). According to the author, in principle, when input VAT exceeds output VAT the amount should be paid as a refund to a registered business within the time period stipulated in the legislation. When tax authorities deny payment of

legitimate refund claims, the VAT ceases to be a tax only on domestic consumption-it becomes, in part, a tax on production. Intermediate goods transactions are distorted; the competitiveness of the export sector is harmed; and the competitive edge is tilted against new firms with large start-up costs. In addition, compliance is seriously jeopardized if businesses lose faith in the VAT system and are motivated to operate outside the law and engage in tax fraud and evasion.

The Ministry of Revenues issued a new directive (Directive No. 148/2019) in 2019 which aims at making it quicker for taxpayers to obtain VAT refunds if the deduction for VAT paid on inputs exceeds the VAT due on outputs. The directive allows for refunds in the following circumstances:

- Companies engaged in the mining sector (in oil and mineral exploration) where exploration is not successful provided that the companies could provide sufficient evidence from the Ministry of Mines and Petroleum;
- Businesses engaged in the export sector that are beneficiaries of the Export Trade Duty Incentive Scheme under Proclamation No. 768/2012 are allowed a refund of the input VAT, even prior to exports taking place;
- For input VAT paid on goods and services used in condominium housing projects and Defense Foundation construction projects;
- Any VAT paid on goods and services to be distributed by NGOs for emergency relief and related activities;
- Those who have a National Bank of Ethiopia permit/license to provide capital goods on lease financing can get a refund on any VAT paid on the capital good (while purchasing the good from local manufacturers or importers);
- Businesses that have paid input VAT and have an output invoice from a VAT Withholding Agent.

VAT collected from capital goods transactions will also be refunded immediately.

## **2.9. CHALLENGES RELATED TO VAT ADMINISTRATION AND PERFORMANCE**

Some of the challenges identified related to administration and performance especially in developing countries are evasions and fraud, poor administration, increase in administrative expenditure and compliance costs, miss understanding of taxpaying community, poor technology



management; especially Electronic Tax Register (ETR) (Yasegat, W. et al . 2008). Empirical studies further reveal challenges related to consumers` awareness, taxpayers misunderstanding and evasion act, tax authority commitment and organizational inefficiency, unfair competition due to unregistered but fall in the domain of the criteria (Dheressa, K. et al. 2015).

### **2.9.1 CHALLENGES ON VAT ADMINISTRATION**

According to Dheressa, K. et al (2015), VAT administration challenges adversely impact on the salient features of the tax and government`s policy objectives as a whole. The author noted that poor tax administration would change the manner in which taxation affects government`s policy objectives, namely economic stabilization, resource allocation and redistribution of income. Challenges rise from the following facts taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties are challenges. In developing countries the poor performance of taxes is likely is to be due to weak tax administration (that is, the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration.

There are many challenges have, Such challenges include: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax Countries which have adopted the VAT system enjoy much more stable tax revenue than other countries. VAT is, therefore, less vulnerable to evasion than a retail sales tax, for which collection occurs during the final stage of production. The VAT has also proved vulnerable to high profile criminal attack: carousel fraud,|| for example, which exploits arrangements for the taxation of intra-community trade within the European Union, has amounted to around 1.5 – 2.5 percent of net revenue, or more, in the United Kingdom (Bird, R.M, et al 2005).

According to Harrison and Krelove et al. (2005) large amount of VAT revenue is lost as a result of VAT refund abuse. Registered taxpayers may not pay the correct amount of VAT for a number Value Added Tax Refund Practices and Revenue Performance in Ethiopia of reasons including error, deliberately understating their VAT liabilities, or through systematic attacks on the VAT refund system.

The level of refunds is largely dependent on external factors such as the degree of development and openness of the economy, a review of the refund practices in Africa shows that there is room for significant improvement in most countries. The most frequent short comings in these countries are the following: – lengthy refund procedures. Refunds are sometimes delayed by more than a year; – unnecessarily complex procedures, including, the requirement to attach copies of previous VAT returns, purchase and sales invoices, and import declarations to the refund application form; – lack of basic tools and methods to assess the risks, beginning with a basic distinction between refund claims made by legitimate exporters with a good compliance history and other claims; and – due to the lack of basic risk analysis, These leads all VAT refund claims are systematically subject to audit (Bird, R.M, et al 2005).

The nature of VAT fraud and evasion is similar across countries, but the methods used to tackle it may differ (Harrison and Krelove, 2005). According to the authors, countries employ a range of methods to address refund abuse and VAT evasion. As study experience Some countries (e.g., Hungary, New Zealand, and the United Kingdom) apply methods grounded in risk management principles, while others (e.g. Azerbaijan, Bulgaria, China, and Korea) seek to influence or control taxpayer behavior through more intrusive systems and regulations applied to all VAT taxpayers, good and poor compliers similar. Tax administrations maintain their focus on the longer-term strategic goal of creating sustainable tax systems based on voluntary compliance, using self-assessment and risk-management principles. There is a risk that most of these quick-fix, ad hoc solutions are incompatible with these strategic directions, as well as with the fundamentals of the VAT.

## *2.10. VAT REVENUE PERFORMANCE AND MEASUREMENT SCHEMES*

### *2.10.1. VAT REVENUE PERFORMANCE*

Fundamentally, two variables determine the tax revenue collected: the size of the tax base to which the tax applies, and the tax rate that is applied to this base (<https://www.mor.gov.et>, assessed in May 2021).

The tax base is a function of a number of factors, including: the way this base is defined in tax legislation; the scale of any discretionary tax exemptions and incentives; administration factors, such as compliance and enforcement; and the size and structure of different sectors of the economy. This means that, in practice, it is extremely difficult to compare the tax base in a

robust way across different countries. However, it is worth highlighting three key issues that affect the size of the tax base in Ethiopia:

- Like most developing countries, Ethiopia has a large informal sector, comprising around 38.6% of the economy (IMF, 2013). Bringing this sector into the tax net is incredibly challenging due to a relative absence of formal record keeping.

There is also a concern that the potential tax revenue collections would be fairly modest relative to the cost of collecting these revenues. Informality contributes to low tax collections, but the extent to which it explains differences with peer countries is unclear.

- Related to this, Ethiopia has been identified to have a fairly weak tax administration system with notable capacity constraints. This lowers collection efficiency and increases the compliance cost for taxpayers – with the latter potentially leading to a higher degree of tax evasion and avoidance.

- The Ethiopian government also grants an array of tax incentives for foreign investors in order to attract foreign investment, despite limited empirical evidence to support the idea that tax incentives stimulate foreign investment. Overall, the above factors contribute to the low level of revenue collections in Ethiopia. However, it is difficult to say to what extent these factors contribute to Ethiopia's revenues being lower than its peers'. It is true to say that Ethiopia relies on a fairly narrow tax base to raise the necessary government revenue partly because of these factors. The second variable that determines tax revenues is the tax rate applied to the relevant tax base. Although tax rates for a given tax base may vary by individual taxpayer, tax rates are undoubtedly easier to compare across countries than tax bases. This is particularly true for taxes such as CIT and VAT, which are typically characterized by a statutory rate that applies to the majority of the tax base. Comparing Ethiopian tax rates and revenue collections with those of other countries provides suggestive evidence on whether tax policy (and tax rates specifically) can rationalize Ethiopia's relatively low tax revenue yield (<https://www.mor.gov.et>, assessed in May 2021).

VAT is increasingly being used throughout the world, including many African countries to raise government revenue with less administration and economic costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. On the other hand VAT is collected on all sales of commodities at every stage of production and distribution with threshold on the annual turnover (Bird, R.M, et al 2005).

Most taxable transactions will appear on two tax returns (that is the buyer's and the seller's) so that tax authorities will have two opportunities to detect evasion. Further, because sellers provide the tax administration a record of their purchases by claiming input credits, tax administrations are more able to estimate what sales and therefore VAT due should be and thereby can detect evasion more easily in a VAT than in a retail sales tax. Under the VAT the amounts of tax liability at risk in most transactions is only a fraction of the total tax assessed on the sales of the good or service to a consumer. This is because the VAT is collected in smaller pieces at each stage of production, while the entire retail sales tax is collected on a final consumer sale. The lower effective tax rate on each transaction may reduce the intensive to evade the VAT. It is argued that VAT avoids cost-cascading effect. A conventional sales tax leads to compounding of the tax liability, while VAT does not (Bird, R.M, et al 2005).

Between 2009/10 and 2014/15, tax revenue growth slightly outpaced nominal GDP growth. However, in recent years, tax revenue performance has begun to deteriorate. While Ethiopia has still seen year-on-year increases in its tax collections in nominal terms, revenues have grown more slowly than the economy since 2015/16. This is illustrated in Figure 4.1, which plots how tax revenues developed between 2009/10 and 2018/19. Tax revenues grew by an average of 31% per year between 2009/10 and 2014/15 compared with average annual nominal GDP growth of 28%. In contrast, between 2015/16 and 2018/19, tax revenues grew at an average rate of only 13% per year – notably lower than the average annual nominal GDP growth rate of 20%. In fact, by 2018/19, while the economy was 7.0 times larger than it had been in 2009/10, tax revenues were only 6.2 times larger. This explains the fall in the tax-to-GDP ratio from 10.9% to 10.0% over the period. On the other hand, the contribution of domestic indirect taxes (including VAT) has slightly increased from 25% in 2009/10 to around 29% in 2018/19 (<https://www.mor.gov.et>, et al. assessed in May 2021).

Ethiopia's tax revenues are lower than those of its regional peer countries. This is illustrated in Figure 5.1, which compares tax revenues measured as a proportion of GDP in Ethiopia with those of other countries in sub-Saharan Africa (SSA) and other lower-income countries in 2018.<sup>23</sup> In order to make comparisons with other low-income countries, this section uses harmonized data collected in the ICTD/UNU-WIDER Government Revenue Dataset (GRD). These data cover calendar rather than fiscal years and use somewhat different definitions of tax types, so figures differ slightly from those used elsewhere in this report, but overall patterns and

trends are very similar. The GRD data show that Ethiopia lags notably behind most countries in both groups in terms of tax revenue mobilization. Out of a sample of 36 countries, from sub-Saharan Africa with available data in the GRD, Ethiopia ranks 29th in 2018 in terms of tax-to-GDP ratio. Among lower-income countries, it ranks 13th out of 17 low-income countries where data are available.<sup>24</sup> With a tax-to-GDP ratio of 10.7%, Ethiopia is also significantly below levels seen in more developed low- to middle-income countries (LMICs), such as South Africa (with a tax-to-GDP ratio of 29.2%), or advanced economies elsewhere in the world (e.g. the average tax-to-GDP ratio in OECD countries is estimated at 33.9 % for 2018 (<https://www.mor.gov.et>, assessed in May 2021)).

Theory of a recent review by Ebeke, C. and H. Ehrhart et al. (2011), suggests that rate differentiation can play significant role in simplification distortions to market participation and (especially where better targeted instruments are weak) pursuing distributional objectives. In practice, however, it is hard to identify desirable forms of differentiation (beyond those handled by excises), while differentiation is costly to administer and comply with, and opens the door to special pleading.

Multiple rates of taxation made the tax management complex and discretionary powers of the officers were frequently misused. As example Bangladesh VAT has nine reduced rates along with one standard 15 percent rate and one zero rate. In this way, there are a total of 11 rates and this has invited a series of considerations for improvement. A central claim made by advocates of the VAT is that it is a particularly efficient form of taxation that actually proved of revenue. One way of testing for this is to ask whether, all else equal, countries with a VAT raise more revenue, overall, than does that without. In many countries, revenue from the value-added tax (VAT) is a major source of government revenue, making it important to understand the yearly performance of VAT revenues (Bird, R.M, et al 2005).

#### **2.10.2. MEASUREMENT SCHEMES FOR VAT**

There are fairly developed measures to compare VAT systems and better understand a VAT system i.e. C-efficiency ratio and VAT productivity ratio. These measures are however limited in not considering the VAT capacity of a country. These measures have been used in many studies to investigate compliance and enforcement issues. They have been used as instruments for:

- (i) Understanding the cross-country determinants of VAT compliance
- (ii) Comparing VAT compliance across countries;

- (iii) Comparing country-specific VAT compliance over time;
- (iv). Determining the optimum VAT rate
- (v).evaluating the effect of VAT reform models on VAT evasion instrument.

However, the responsiveness of the C-efficiency ratio and VAT revenues to the state of the business cycles can reflect several factors, and the magnitude of the effect can vary over time and across countries. Therefore, to diagnose the VAT revenue performance appropriately for a specific country, it is critical to look closely at its particular past experience and that of countries with similar characteristics (Ebeke, C.and H. Ehrhart et al., 2011).

According to Ebeke, C.and H. Ehrhart et al. (2011), there are two measures of VAT revenue collection efficacy most commonly used are: cross-country and cross-time studies, such as VAT productivity (VP) and VAT collection efficiency (CE). These measures used to investigate VAT characteristics and compliance deviations from one country to other or from time to time in one country. The measures are often interpreted as a measure of non-compliance due to tax evasion, tax fraud and administrative inefficiency or laxity.

#### **2.10.2.1. Collection Efficiency (C-efficiency)**

The Collection Efficiency (C-efficiency) ratio is the most commonly used indicator for evaluating the revenue performance and overall efficiency of the VAT system. It is simply the ratio of actual revenues to theoretical revenues from a perfectly enforced tax levied at a uniform rate on all consumption (Ebeke, C.and H. Ehrhart et al., 2011).

VAT efficiency<sub>=</sub>-sometimes called C-efficiency-has come to be used as a more reliable indicator of comparative VAT performance. This figure is calculated as the ratio of VAT revenues as a percentage of (usually private) consumption divided by the standard rate, so it has a unit value for a uniform tax on all consumption. The idea of C-efficiency has proved very attractive to applied policy analysts: calculating it, and making comparisons with other countries, is a core element in much of the advice commonly given to developing countries, and is now routinely reported for its members by the OECD. One practical merit is that the data requirements for putting some number on C-efficiency are relatively modest. And these numbers can provide a vivid first assessment and expression of the potential revenue gain from base-broadening (Ebeke, C.and H. Ehrhart et al., 2011).

There are, however, both the conceptual and practical issues to be faced in using C-efficiency to assess VAT systems. Conceptually there is no deep welfare basis for the use of C-efficiency in

assessing a VAT. Reforms that bring a VAT closer to the benchmark of 100 percent C-efficiency do not necessarily mean a better VAT. C-efficiency can be increased, for example, by denying VAT refunds to exporters, or by introducing exemptions for intermediate goods; there may or may not be other good reasons to do so, but the effect is in each case to undermine the intended role of the VAT as a tax on domestic consumption. One implication is that a base-broadening reform that increases C-efficiency without changing the standard rate must reduce deadweight loss by more than it reduces welfare. But that is not a very powerful observation (Ebeke, C. and H. Ehrhart et al., 2011).

Advantages of VAT efficiency measure are: easy to calculate, comparative basis within and between countries, fairly good approximation of VAT base and identify good and bad VATs. While its limitation includes: bias for importing countries, some poor practices can increase c-efficiency, some good practices can decrease c-efficiency and does not identify what is driving VAT gap (Ebeke, C. and H. Ehrhart et al., 2011).

#### **2.10.2.2. VAT Productivity**

VAT productivity is simply the ratio of VAT revenue to GDP divided by standard rate of the VAT. The computation indicates a per cent of GDP at each percentage point of the standard VAT rate collects. It is a crude measurement of VAT efficiency, but nevertheless indicates the percentage of GDP collected by each percentage point of the standard VAT rate. In general, higher ratios indicate better the performance of the VAT. However, this measure may be quite misleading in an important sense since in principle VAT usually taxes consumption, not production, and GDP measures production, not consumption (Ebeke, C. and H. Ehrhart et al., 2011).

Advantages of VAT productivity measure is easy to calculate and Comparative basis within country. While its limitation includes: VAT is not a tax on production, GDP does not capture the Value Added Tax Refund Practices and Revenue Performance in Ethiopia VAT base, VAT rate influence measure greatly and does not identify good and bad VATs i.e. Controlling for the rate will improve measure.

$VP = \text{VAT revenue} / (\text{GDP} \times \text{standard rate}).$

The VAT compliance literature identifies a number of limitations to both VP and CE measures. One limitation, easily corrected, is that the VP and CE indices do not exclude the VAT itself from their final consumption base. Another obvious shortcoming of all two measures (CE and

VP) is that in calculating potential revenue, they use only one standard VAT rate. This is despite many countries having multiple rates, and with these rates often varying considerably (Ebeke, C. and H. Ehrhart et al., 2011).

Ebeke, C. and H. Ehrhart et al., (2011) also points out that volatility in the C-efficiency ratio have been more influential than the changes in the standard rate and final consumption ratio to GDP for the evolution of overall VAT revenues in many countries. The C-efficiency ratio measures VAT in terms of consumption and is calculated by taking the proportion of VAT as a share of consumption divided by the standard VAT rate. This statistic is a more reliable measure of VAT performance than the VAT efficiency ratio as it is based on consumption rather than GDP. Since VAT is a tax on consumption.

## **II. EMPIRICAL LITERATURE**

This section of the study presents a summary of various empirical studies which were conducted in Ethiopia and in other countries of the world on similar as well as related topics.

Muhammad et.al (2011) studied the determinants of tax revenue by comparing the direct and indirect taxes of Pakistan and India. The data was collected through the samples from direct and indirect taxes of both the countries from 2000 to 2009. The study revealed that Pakistan has approximately half sub categories of taxes in both direct and indirect taxes as compared to India. Researchers analyzed the data by comparing the two regression equations and standardized betas. The findings showed that the two types of fiscal policies can be different. The more the indirect taxes in country, the more increasing gap between rich and poor, thus the more will be the exploitation of labour class.

Olatunji (2013) examined the impact of VAT on revenue generation in Nigeria and citizen's perception on VAT and inflation. The researcher had adopted the descriptive research approach for the study. The primary data were collected through oral interviews and secondary data obtained from annual reports of Federal Inland Revenue Service and other published reports of Nigeria. Descriptive statistics of mean and standard deviation were computed on the response from the questionnaire. The results revealed that there is no significant effect between VAT revenue and the perception of the citizens and the standard deviation of VAT (4.93) was higher than the standard deviation of revenue (3.01). Researcher suggested that VAT rates should be reviewed upward in order to meet the needs of nation.



Suleiman (2008) studied the relevance and problems of Value Added Tax (VAT) in Nigeria. The survey of Vatable Nigerian organizations, Federal Inland Revenue Service (FIRS) staff and public was conducted to gain insights into the way of VAT is administered , its revenue generation, savings and consumption of consumers and problems hindering its efficiency. The findings indicated that a majority of FIRS staff perceive that they are not adequately equipped technically and administratively to handle the VAT operations. Vatable organizations have inappropriate knowledge of VAT operations. The government of Nigeria has raised substantial revenue from VAT but it was underutilized due to high rate of tax evasion, lack of record keeping business enterprises by using unqualified FIRS staff and low VAT education found among the Vatable organizations and public. The study suggested that the administrative machinery of FIRS staff should be improved to eliminate the weaknesses and internal lapses in assessment and collection of VAT.

A study Edmiston and Bird (2004) in countries like Ukraine argued that many of the problems with VAT arise from the refund system. In 2004, for example, new refund claims in Ukraine amounted to 41% of collections. A recent study of 28 countries of refund levels for the 1998-2001 period found that nine countries had ratios in excess of 40%, with an average for the seven transition economies included in the study of 36.8%, so Ukraine's ratio does not seem out of line (Harrison and Krelove, et al.2005).

A study of VAT refund in developed and developing countries by Bird and Gendron, 2005 resulting, tax refunds are not only legitimate in the sense of being related to legitimate business inputs but also the taxes for which reimbursement is being claimed have actually been paid even in a countries with well-established and experienced tax administrations such as Germany so much fraud has been uncovered in the form of illegitimate invoices that it has recently been proposed that refunds should not be paid unless satisfactory proof that the input taxes claimed have been received by government.

Krelove and Harrison (2005) noted that, most developed countries, including New Zealand, Japan, Canada, and EU countries, allow for complete refund of all excess tax credit, while developing countries often embark upon a hybrid system of refunds and carry-forward arrangement of the excess credit). One proven approach to administration of VAT refunds is to establish categorizing items in which refund claimants are grouped into items and —others categories. The criteria for the grouping must be simple and transparent, through related to the

claimant's history of exports, book keeping, tax compliance, and audit of records by tax officials. Those classified in item categories are granted with such privileges as fast, and without pre-approval audit refunds. The scheme helps tax administrations focus on checking and auditing high-risk refund claimants.

Recent studies provide information on the level of VAT refunds and practices in the area (including refund procedures, processing delays, approaches developed to deal with the risks of fraud.) have resulted in a classification of the VAT systems of certain regions and countries. The studies confirm the difficulties faced by most African tax administrations in making refunds of excess input VAT to legitimate exporters. The level of refunds (as compared to total gross VAT receipts) was less than 10% in Africa in 1998-2001, against 35% in the OECD countries and 17% in Latin America in the same period (Ebeke, C. and H. Ehrhart et al., 2011).

Harrison and Krever (2008) assert that a large amount of revenue is lost as a result of VAT refund abuse. Even in countries with well-established and experienced tax administrations such as Germany, so much fraud has been uncovered in the form of illegitimate invoices that it has been proposed that refunds should not be paid unless satisfactory proof is provided that the input taxes claimed have been received by government.

Yesegat et al. (2008) examined VAT administration in Ethiopia. Ethiopia introduced VAT in 2003 as a replacement to sales tax. Study conducted to examine the VAT administration practices in Ethiopia and identify the main problems in administration. Data obtained through interviews with tax officials. Specifically, in-depth interviews were held with tax officials at different times. The tax officials were interviewed independently and with no interaction among each other. The outcomes of the survey showed a paucity of tax awareness among the society and strong education programs as well as lack of trust between the tax payers and administration as major challenges to VAT system in the country. The outcome of the study revealed that there is a need to strengthen the administrative capacity in general and tax audit programmes in particular.

A study of VAT Administration and Revenue Performance: Challenges and Opportunities in the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA) by Gebre-Egziabher Value Added Tax Refund Practices and Revenue Performance in Ethiopia (2010) conclude that in the process of VAT administration and revenue generation, different problems were observed, the main ones being attitudinal problem of the tax payers and implementation capacity of the

government employees. Changing the attitude of the taxpayers and building the implementation capacity of the employees of the branch office are some of the important recommendations made by the study.

However, from these studies, it is not been possible to inquiry the details of the VAT refund practice and revenue performance within a particular country. In the context of Ethiopia, there appears to be limited evidence on VAT refund practice and VAT revenue performance. This study hence intended to fill this knowledge gap in the literature.

In Ethiopia, the two exceptions regarding VAT refund and revenue performance issues are the study by Yesegat (2008) and (2016) and Gebre-Egziabher (2010) which have been reviewed in the preceding section. Even these studies did not assess exhaustively all VAT refund activities in Ethiopia. The study by Yesegat (2008 and 2016) was VAT administrative capability and Value Added Tax withholding issues respectively in Ethiopia which is specific to refund claim types. The study by Gebre-Egziabher (2010) was specific to Makele branch of ERCA on VAT Administration and Revenue Performance that mainly focused on the overall VAT administrative issues and way of increasing government revenue.

To the knowledge of the researcher there appear to be limited evidence on VAT refunds and revenue performance. So this study is more specific and concentrates on the essence of VAT refund practice and revenue performance in the case of large tax payer's . Both of the study studies did not comprehensively examine issues regarding problems on VAT refund operations, in respect of the appropriateness of document verification and time to refund pay, type of refund claims and its legal framework, cause for VAT refund, trends of VAT refund and revenue performance in Ethiopia focusing on federal government and overall VAT refund practice and revenue performance and compliance improvement by considering issues such as refund fraud investigations, and its suitability, appropriate case selection approaches.

A study made by Wollela (2008) examines VAT administration in Ethiopia and identifies key problems including lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing and filing requirements. The study suggests that in Ethiopia attempting to implement what is legislated in the main areas (such as refunds) deserves the government's due attention. The study also emphasizes the need to strengthen the administration capacity in general and the tax audit program in particular. Furthermore, the study assesses the assignment of VAT revenue to regional governments and the decentralization of its

administration. This paper examined how VAT administrators“ in Ethiopia perform their duties and how the effective taxation requirements differ from the legislation (focusing on the key administration tasks). The research gap in the study was that, the researcher was not account specific area of the tax administration and specific area of tax payers so that it was difficult to conclude specifically, by identifying the specific problem of the payers and administrative office. A research was also conducted by Alemu, D. (2011) which has focused on addressing issues relating VAT administration factors affecting VAT revenue performance. The study has been conducted on analysis of VAT administration effectiveness in Arada sub city of Addis Ababa city administration. The study raised major research questions related to VAT registration, assessment, collection, investigation, refund and Tax payers Service Delivery. However, one of the major gaps argued in this research were the sample respondents considered on the study were only employee of the office and they were very few (only 15 employee participant of the study). Therefore, it is difficult only considering those representative and reach at some conclusion. Thus to fill the gap observed in this study attempts will be tried to include respondents both from office employee as well as tax payers considering their proportion.

Yemisrach C. (2014) has also conducted a research on challenges of VAT Administration Regarding number one tax payers in ERCA, in this study attempts were tried to indicate challenges of tax administration at City level and the study were again consider employee of the Head Office. Therefore, one of the major gaps observed on previous studies will be addressed in this proposed study, such as, considering small tax payers view, which is not addressed by previous studies including employee of the sub – city.

According to Arega, H. (2004), a study focused on —Assessment of Income tax administration|, the problems of taxpayers and found out that viewing tax as an obligation and tax payer“ slack of understanding and awareness are the major threats for successful tax administration. The study fails to address the very causes of these identified problems. Besides, the researchers did not include the empirical literature so that one can easily see something what they want to contribute new to the topic. Moreover, the major sources the researchers relied on is on the taxpayers giving less emphasis to the tax official for that the tax payers“ responses may not be 100% free from bias.

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

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

This chapter deals with the research design and methodology to conduct the study. It also includes the research approaches, sources of data, sampling techniques and sample size, data gathering instruments and data analysis methods.

#### **3.1 RESEARCH DESIGN AND APPROACHES**

The research designs employed under this study were descriptive. The main purpose of descriptive research design is to describe the state of affairs as they exist. In this context, the state of affairs indicates the vat Refund Practices in the case of MoR Large tax payers office & VAT Revenue Performance in the case of MoR LTO.

According to Kothari CR., et al (2004), —There are two basic approaches to research: quantitative approach and the qualitative approach. On the other hand, Creswell et al. (2009) stated that there are four main approaches namely quantitative, qualitative, mixed and participatory approaches to the research. According to Creswell et al. (2004), mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. Hence, the researcher employed both quantitative and qualitative research approaches to conduct this research which has been practiced, as recommended by Creswell et al. (2004). This approach was believed to be appropriate since it facilitates towards gathering of reliable data describing the VAT refund practices and revenue performance in MoR Large Taxpayers' Office.

#### **3.2. POPULATION, SAMPLE SIZE AND SAMPLING TECHNIQUES**

##### **3.2.1 RESEARCH POPULATION**

The target population was made up of all VAT registered business firms and employees of MoR LTO, who are highly connected the collection of VAT and are responsible to give reliable information regarding the study topic.

In MoR Large tax payer’s office, there are 1,150 large scale VAT registrant payers as of January 2013 E.C, and 64 employees in tax asesement, customer service, audit & law enforement departments who provide the following services for large tax payers such as facilitate tax assesement service, organize awareness creation programme and giving business related training.

The study considered six years data (2014/15 to 2019/20) annual report of the tax center to analyze the recent trend of VAT administration and revenue performance of the office.

### 3.2.2 SAMPLE SIZE

Based on Yemane (1967:886) sample size determination formula, the researcher convinced that it was better to determine the sample size of the study at 95% confidence level and 0.05 level of precision as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where n: is number of respondents

N: is total population

E: sampling error/level of precision

The total sample size of respondents based on the above sample size determination formula was 296 VAT registrants from large tax payers and 55 Tax officers from MOR Large tax payers office.

**Table 3.1: Large Tax Payers & Employees in MORs – Sample Size Determination**

No.	Sector	Total Numbers (Population)	Sample Size
1	VAT Registrants from Large Tax Payers Office, MOR	1,150	296
2	Tax Officers of MOR LTO	64	55
	<b>Total</b>	<b>1,214</b>	<b>351</b>

**Source:** (<https://www.mor.gov.et>, 2021)

### **3.2.3 SAMPLING TECHNIQUES**

The researcher employed both convenience and purposive sampling techniques to conduct the study. Regarding the sample size of employees, the study used purposive sampling technique due to the fact that it enables to include employees working at different positions; such as tax assessors, collectors, tax refund, audit and inspections work units. In addition, the study also used convenience sampling techniques for traders from the branch office who have experience with the VAT refund system.

### **3.3. SOURCES OF DATA**

The researcher used both primary and secondary data sources for the study. The primary data was collected through the use of questionnaires and interview with large tax payers and employees (tax officers) of MOR LTO.

On the other hand, secondary data was obtained from MOR reports that could provide useful information with regard to the topic under study.

### **3.4. DATA GATHERING INSTRUMENTS**

The researcher used questionnaire and interview as instruments for gathering data. Structured questionnaire was used to collect reliable data from Large tax payers and employees (tax officers) using a Likert scale. The Likert scale was divided into five categories: Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree for different statements that might show the knowledge, feelings, or practice components of the respondents.

Basically, the instruments were developed based on the objectives of the study and research questions. The questionnaire was prepared in simple and clear language by avoiding the use of too long statements and use of appropriate punctuations. The instruments were also designed in the way that can strengthen the viability of the study. Interview was also used as an Instrument for data gathering for the study. The tax officers/experts of the MOR LTO, was interviewed so as to get relevant data in the area of the study. Secondary data was also collected by reviewing various websites, reports, books, published and/or unpublished government documents.



### **3.5. PROCEDURES OF DATA COLLECTION**

Firstly, the questionnaires were designed in English and then translated to Amharic language as this could make the tool simple for respondents to understand. Then, convenience and purposive sampling techniques were used to draw a sample from large tax payers and employees. Structured interview was also conducted with selected tax officers/experts of MOR LTO, to triangulate the survey result collected through the structured questionnaires.

The process that was strictly followed by the researcher to gather the required data required for this study was as follows:

- i) Data collection instruments were structured questionnaires and interview check lists.
- ii) The questionnaire developed was pilot tested on to 20 large tax payers to check clarity and validity.
- iii) Necessary correction was made based on the feedback obtained from the sampled respondents through pilot testing.
- iv) The revised structured questionnaire was then delivered by hand to the respondents at their duty stations during working hours and collected by the researcher.
- v) Interview session was conducted with the tax officers/experts of MOR Large Taxpayers Office and the information obtained was then compiled..

### **3.6. METHOD OF DATA ANALYSIS**

After gathering the required data using the distributed questionnaires both from tax officials and VAT registrants, they were edited and coded for proper analysis. Then after the study were analyzed in to two parts. The first part of analysis was done for questions asked for VAT registrants; the second part of analysis deals with questions asked for tax officials. It was then mixed with annual reports of the tax office. Accordingly, in both parts of the analysis the study used tables & percentage and the whole process of the analysis was done using SPSS software Version 20.

### **3.7. ETHICAL CONSIDERATIONS**

Firstly, the researcher has assured that the sampled participants have right to participate or withdraw at any time from the study. Hence, informed consent was orally obtained from the sample participants before they are enrolled in to the study.

Respondents then were requested to listen the consent statement carefully and by doing so they would be given clear options on voluntary participation. Secondly, it was also made clear that they could refuse to answer any questions and terminate it whenever they desire and fill to do so. Thirdly, confidentiality of information was ensured by removing personal identifiers from the survey questionnaires. Lastly, respondents were also protected against any possible adverse consequences from participating in the survey research

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

This chapter deals with the analysis, interpretation and discussion part of the research. In particular it includes the general information of the respondents, descriptive statistics on the VAT refund practices and VAT revenue performance of MoR large tax payers' office. Finally, findings of the study were presented along with discussions on the results of the study.

#### 4.1 .RESPONSE RATE

For this study, a total of 351 questionnaires were distributed for the sample respondents of 296 VAT registrant tax payers and 55 tax officers at MOR. However, only 305 questionnaires filled and returned with complete answers for further analysis with a response success rate of 87% which was sufficient to make analysis and make conclusions for the topic under study.

*Table 4.1. Response Rate*

<b>Respondents</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	VAT Registered Tax payers	257	84.3	84.3	84.3
	Tax officers at MOR	48	15.7	15.7	100
	<b>Total</b>	<b>305</b>	<b>100.0</b>	<b>100.0</b>	

Source: Researcher's own survey, 2021

Table 4.1 above shows that out of the 296 distributed questionnaires of VAT registered tax payers, only 257 was filled appropriately and used for analysis; whereas 48 out of 55 distributed questionnaires was also filled appropriately from employees (tax officers) at MOR Large Taxpayers' Office.

#### 4.2. DEMOGRAPHIC PROFILE OF RESPONDENTS

The following table presents the demographic characteristics of respondents; specifically Age, gender, educational qualifications, level of position and length of service of respondents. The results of this survey processed using SPSS (Statistical Package for the Social Sciences (version 20) software is presented as follows:

*Table 4.2: Gender of the Respondents*

Variable	Categories	Frequency	Percent
Gender	Male	178	58.4
	Female	127	41.6
	Total	305	100.0

Source: Researcher's own survey, 2021

As it can be seen from the above table 4.2, 58.4% of the respondents from VAT registrant tax payers' and tax officers were male, whereas 41.6% of the respondents were female.

*Table 4.3: Age of Respondents*

Variable	Categories	Frequency	Percent
Age group	18-25	46	15.08
	26-35	109	35.74
	36-45	73	23.93
	46-55	41	13.44
	56 and above	36	11.80
	Total	305	100.0

Source: Researcher's own survey, 2021

As indicated on the above table 4.3 of the age of respondents, 15.08% of the respondents were within the age range of 18-25 whereas 35.74% of the respondents were between 26-35 age group. In addition, out of the total respondents, 23.93% of the respondents were in the age group of 36-45; followed by 13.44% and 11% which was in the age group range of 46-55 and above 56 years respectively. This implies that, most of the respondents were in the age group range of below 45 years and can be considered productive in their business undertakings and service delivery.

*Table 4.4: Educational Background of Respondents*

Variable	Categories	Frequency	Percent
Educational Background	High School	147	48.20
	Diploma	108	35.41
	First Degree	47	15.41
	Masters' Degree	3	0.98
	PhD	-	
	Total	305	100

Source: Researcher's own survey, 2021

Table 4.4 above shows that out of the total respondents, 48.2% were high school complete, whereas 35.4% were diploma holders. On the other hand, 15.4% of respondents were first degree holders while only 0.98% of them have Masters' degree. However, there was no respondent who have PhD. This implies that majority of the respondents were qualified enough to easily understand and respond the questionnaire correctly.

*Table 4.5: Position of Tax Officers*

Variable	Categories	Frequency	Percent
Position of Tax Officers	Lower level Management	10	20.83
	Mid-Level Management	31	64.58
	Top Level Management	7	14.58
	Total	48	100

Source: Researcher's own survey, 2021

As shown in the above table 4.5, 20.83% of respondents belong to the job position of lower level management whereas 64.58% of the respondents were in the mid-level management position. Only 14.58% of the respondents were belong to top level management position. This shows that the questionnaires were distributed and filled to the right persons having the necessary job position.

*Table 4.6: Work Experience of Tax Officers*

Variable	Categories	Frequency	Percent
Work Experience	1-5	10	20.83
	6-10	20	41.67
	11-15	10	20.83
	16-20	5	10.42
	20 years and above	3	7.08
	Total	48	100.0

Source: Researcher's own survey, 2021

The above table 4.6 the work experience profile of the sampled tax payers. 20.83% of the respondents have 1-5 years of work experience whereas 41.67% of them have work experience between 6-10 years. On the other hand, 20.83% and 10.42% of the respondents have 11-15 and 16-20 years of work experience. Respondents having 20 years and more experience are accounted for 7.08%.

This implies that majority of the respondents have more than 5 years of experience who are capable of detecting VAT fraud and can play a great role in the VAT administration capacity of tax officers in MOR large taxpayers office.

In what business are you engaged in?

Table 4.7: Type of Business VAT Registrants Engaged In

Variable	Categories	Frequency	Percent
Type of Business	Manufacturing	45	17.51
	Construction	62	24.12
	Hotel, Café and Restaurant	38	14.79
	Import	31	12.06
	Export	17	6.61
	Retail Business	54	21.01
	Others	10	3.89
	Total	257	100.0

Source: Researcher’s own survey, 2021

As shown on the table 4.7 above, 17.51% of the respondents were engaged in manufacturing business. Whereas, 24.12%, 14.79% and 12.06% of the sampled respondents from VAT registrant taxpayers were engaged in the construction; hotel, café, restaurant and import businesses respectively. On the other hand, 6.61%, 21.01% and 3.89% of the respondents were engaged in export, retail business and other uncategorized businesses respectively. This indicates that majority of the respondents were engaged in retail businesses, construction, hotel, café and restaurant and manufacturing businesses in the MOR as large taxpayers.

Table 4.8: Experience of VAT Registrants in MOR Large Taxpayers

Variable	Categories	Frequency	Percent
Work Experience	1-5	66	25.68
	6-10	141	54.86
	11-15	43	16.73
	16-20	7	2.72
	20 years and above		
	Total	257	100.0

Source: Researcher’s own survey, 2021

Table 4.8 above shows that 25.68% of the respondents have 1-5 years of experience in MOR as large taxpayers. On the other hand, 54.86%, 16.73% and 2.72% of the respondents from VAT registrant taxpayers have 6-10, 11-15 and 16-20 years of experience in their businesses

respectively. This shows that majority of the respondents were having more than 5 years of experience in their respective businesses as large tax payers which also shows that they are aware of the business undertakings.

### 4.3 DESCRIPTIVE ANALYSIS

#### 4.3.1 DESCRIPTIVE ANALYSIS OF VAT REGISTRANT TAX PAYER'S RESPONSES

Table 4.9: Vat Registrant Tax Payer's Responses

Variables-VAT Administration	Responses by VAT Registrant Taxpayers				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Freq/%	Freq/%	Freq/%	Freq/%	Freq/%
There is good procedure for VAT refund	75/29.18	103/40.08	11/4.28	42/16.34	26/10.12
MoR has a good procedure for penalizing unlawful tax payers	69/26.85	94/36.58	7/2.72	67/26.07	20/7.78
MoR has sufficient office facilities for VAT refund administration	75/29.18	108/42.02	6/2.33	30/11.67	38/14.79
MoR has awareness creation program for VAT registrants	88/34.24	36/14.01	28/10.89	70/27.24	35/13.62
The customer service in MoR is fast and excellent with regard to VAT administration	78/30.35	96/37.35	15/5.84	51/19.84	17/6.61
The tax assessment is effective in MoR	82/31.91	89/34.63	12/4.67	48/18.68	26/10.12
MoR has effective VAT collection system	73/28.40	101/39.30	10/3.89	39/15.18	34/13.23
MoR large tax payers office contacts regularly with VAT registrants for any changes and updates	91/35.41	83/32.30	14/5.45	47/18.29	22/8.56
Sufficient information is given by MoR officials whenever requested by its customers	71/27.63	92/35.80	7/2.72	52/20.23	35/13.62
MoR has effective Auditing procedure with regard to VAT	89/34.63	80/31.13	10/3.89	45/17.51	33/12.84
There is effective procedure for monitoring and evaluation in MoR	65/25.29	104/40.47	12/4.67	59/22.96	17/6.61
MoR large tax payers office attempts to make VAT registrants to comply with the law	59/22.96	76/29.57	24/9.34	61/23.74	37/14.40

Sources: Researcher's Own Survey, 2021

As shown on the Table 4.9 above, 69.26% of the respondents from VAT registrant taxpayers were disagreed with the idea that there is good procedure for VAT refund in MOR large taxpayers' office. On the other hand, 63.42% of the respondents were disagreed with the statement that MoR has a good procedure for penalizing unlawful tax payers.

The table also shows that 61.09% of the sampled respondents were disagreed with the idea that tax officials have skills and activities to register traders that should register. Whereas 71.21% of the respondents were disagreed with the statement that MoR has sufficient office facilities for VAT refund administration.

Table 4.9 above shows that, though 48.25% of the respondents were disagreed with the idea that MoR has awareness creation program for VAT registrants, 40% of the respondents gave positive reply to the question. 10.89% of them were neutral. This shows MOR has awareness creation program for VAT registrants though not sufficient for all of its taxpayers.

On the other hand 67.70% of the sampled respondents from MOR large taxpayers were disagreed with the statement that the customer service in MoR is fast and excellent with regard to VAT administration. Whereas, 66.54% of the respondents were disagreed with the idea that tax assessment is effective in MoR.

As shown on the table 4.9 above, 67.70% of the sampled respondents were disagreed with the statement that MoR has effective VAT collection system; whereas 67.70% of the respondents disagreed with the idea that MoR large tax payers office contacts regularly with VAT registrants for any changes and updates.

As it can be seen from the table above, 63.42% of the sampled respondents disagreed with the statement that sufficient information is given by MoR officials whenever requested by its customers whereas 65.76% of the respondents replied that they did not agree with the idea that MoR has effective Auditing procedure with regard to VAT.

On the other hand, 65.76% of the sampled respondents from MOR large taxpayers disagreed with the statement that there is effective procedure for monitoring and evaluation in MoR. However, 52.53% of the respondents said that MoR large tax payers office attempts to make VAT registrants to comply with the law though 38.13% of them replied that they agreed with the statement.



The interview responses provided by the VAT registrant taxpayers shows that —the service they get from MoR tax administration and VAT refund offices especially with regard to clarifying instructions, providing easy-to-use formats, and any other related services was not sufficient. It also shows that —they have faced a challenge when applying for VAT refund in MoR large tax payers office. On the other hand, the sampled respondents replied for the interview question that —they have experienced with tax officials practicing unethical and illegal ways with regard to tax administration and VAT refund. The respondents also told that —they are not well aware on the VAT refund procedures and practices in MoR large taxpayers.

#### 4.3.2 DESCRIPTIVE ANALYSIS OF MOR TAX OFFICER'S RESPONSES

Table 4.10: MOR Tax Officer's Responses on Procedures of VAT Refund

Variables	Responses by MOR Tax Officers				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Freq/%	Freq/%	Freq/%	Freq/%	Freq/%
<b>(PROCEDURES FOR VAT REFUND)</b>					
MoR update its employees with VAT refund claim and procedures	5/10.42	8/16.67	-	31/64.58	4/8.33
MoR's employees have sufficient knowledge about VAT Withholding refund claim	6/12.50	5/10.42	1/2.08	27/56.25	9/18.75
MoR create opportunities to its employees to know about classification of VAT refund claims	1/2.08	2/4.17	-	34/70.83	11/22.92
There is a lack of awareness among employees of MoR about Zero-rate business	20/41.67	17/35.42	-	7/14.58	4/8.33
MoR continuously build the capacity of employees on refund claim of authorized economic operator (AEO)	2/4.17	-	3/6.25	30/62.50	13/27.08
Employees of MoR Lack Knowledge about Refund claim on purchase of capital goods	6/12.50	31/64.58	1/2.08	4/8.33	6/12.50

Sources: Researcher's Own Survey, 2021

As shown on the Table 4.10 above, 72.92% of the respondents from MOR tax officers agreed with the statement that MoR update its employees with VAT refund claim and procedures whereas 755 of the sampled respondents agreed with the idea that MoR's employees have sufficient knowledge about VAT Withholding refund claim.

Table 4.10 above also shows that 93.75% of the respondents agreed with the statement that MoR create opportunities to its employees to know about classification of VAT refund claim. However, 77.08% of the respondents disagreed with the idea that there is a lack of awareness among employees of MoR about Zero-rate business. Similarly, 77.08% of the respondents were disagreed that employees of MoR Lack Knowledge about Refund claim on purchase of capital goods.

As shown on table 4.10 above, 89.58% Of the sampled respondents agreed with the idea that MoR continuously build the capacity of employees on refund claim of authorized economic operator (AEO).

*Table 4.11: Tax officer's responses with regard to VAT Refund challenges faced by MOR*

Variables  (CHALLENGES FACED BY MoR WITH REGARD TO VAT REFUND)	Responses by MOR Tax Officers				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Freq/%	Freq/%	Freq/%	Freq/%	Freq/%
MoR faced insufficient budget challenge to refund VAT	3/6.25	6/12.50	-	29/60.42	10/20.83
MoR faced a challenge of corruption on the process of VAT refund	18/37.50	22/45.83	-	4/8.33	4/8.33
MoR's IT system, SIGTAS, does not properly support the refund process of VAT claim	27/56.25	15/31.25	-	2/4.17	4/8.33
The process VAT refund in MoR takes a long Time	2/4.17	10/20.83	5/10.42	24/50	7/14.58
The procedure of VAT refund in MoR is Complex	3/6.25	16.7/22.92	-	27/56.25	10/20.83
There is a lack of risk based analysis in MoR	9/18.75	43.8/62.9	1/2.08	6/12.5	11/22.92

*Sources: Researcher's Own Survey, 2021*

As shown on the Table 4.11 above, 81.25% of the respondents from MOR tax officers agreed with the statement that MoR faced insufficient budget challenge to refund VAT. On the other hand, 83.33% of the respondents disagreed with the idea that MoR faced a challenge of corruption on the process of VAT refund.

Table 4.11 above also shows that 87.5% of the sampled respondents disagreed with the statement that MoR's IT system, SIGTAS, does not properly support the refund process of VAT claim. On the other hand, 64.58% of the respondents replied positively to the question the process VAT refund in MoR takes a long time.

As it can be seen from the table above, 77.08% of the sampled respondents agreed with the statement that the procedure of VAT refund in MoR is complex whereas 62.5% of the respondents from MOR large taxpayers office disagreed with the idea that there is a lack of risk based analysis in MoR.

*Table 4.12: Tax officer's responses with regard to VAT Administration challenges faced by MOR*

<b>Variables (CHALLENGES FACED BY MoR REGARDING VAT ADMINISTRATION)</b>	<b>Responses by MOR Tax Officers</b>				
	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
	<b>Freq/%</b>	<b>Freq/%</b>	<b>Freq/%</b>	<b>Freq/%</b>	<b>Freq/%</b>
There are efficient and large number of employees in MoR	1/2.08	3/6.25	12/25	23/47.94	9/18.75
VAT Payers lack good behavior regarding ethics of tax	5/10.42	11/22.92	1/2.08	25/52.08	6/12.50
There is a lack of efficient Automated System to manage tax payers	3/6.25	27/56.25	3/6.25	7/14.58	8/16.67
MoR Lacks equipment facilities for tax administration and VAT claim	5/10.42	10/20.83	-	29/60.42	4/8.33
MoR lacks administrative cost for tax administration and VAT refund	8/16.67	8/16.67	1/2.08	23/47.92	8/16.67

*Sources: Researcher's Own Survey, 2021*

As shown on the Table 4.12 above, 66.67% of the respondents from MOR tax officers agreed with the idea that there is efficient and large number of employees in MoR. On the other hand, 64.58% of the sampled respondents replied that they agree with the statement that VAT Payers lack good behavior regarding ethics of tax.

The above table also shows that 62.50% of the sampled respondents disagreed with the idea that there is a lack of efficient Automated System to manage tax payers, whereas 68.75% of the sampled respondents agreed that MoR lacks equipment facilities for tax administration and VAT claim.

On the other hand, 64.58% of the respondents from MOR large tax payers' office agreed with the statement that MoR lacks administrative cost for tax administration and VAT refund.

For the interview question requesting the reasons for VAT refund fraud which is practiced by some businesses and tax officials together the level of such frauds in the office. The responses show that the reasons were lack of awareness, fraud, and level of enforcement from the government, incremental on the price of goods and services and the MOR's poor VAT administrative capacity, among other reasons. MOR has planned to minimize such unethical and illegal activities by taking measures like increasing awareness of tax payers, strengthen the level of enforcement and VAT administration capacity.

For the interview question which stated —do you believe that taxpayer's are aware of the procedures to apply for VAT refund claim in MoR large tax payers office? Could you tell me some of the tasks being performed by your office to create and increase awareness of the tax payers in this regard, the responses show that MOR believes that taxpayers are aware of the procedures to apply for VAT refund claim as there was awareness creation programs through different means including orientation, brochures and weekly TV programs.

The responses provided for the interview question requesting the level of VAT revenue performance at MOR and the strategies followed to increase VAT revenue performance, show that VAT revenue has been increased from time to time though not reached to the level of expectation and capacity. The strategies were expanding the VAT tax base by including goods and services that was not previously generated revenue and also by strengthening the law enforcement with regard to VAT collection and declaration to MOR.

## **4.2. VAT REVENUE PERFORMANCES ANALYSIS**

### **4.2.1 VAT REVENUE AS A PERCENTAGE OF TOTAL TAX REVENUE**

This section presents VAT Revenue as a percentage of Total tax revenue for large taxpayers in MOR for the period covering 2014/15 to 2019/20.

*Table 13: VAT Revenue to Total Tax Revenue ratio of MOR LTO, 2014/15 to 2019/20*

<b>Budget Years</b>	<b>Total Tax Revenue</b>	<b>VAT Revenue</b>	<b>%age of VAT revenue To Tax Revenue</b>
2014/15	43,916,189,616.79	19,654,222,056.72	44.75
2015/16	49,411,204,548.42	26,689,251,473.02	54.01
2016/17	56,590,244,384.04	26,021,249,310.43	45.98
2017/18	68,091,089,782.04	28,619,601,981.60	42.03
2018/19	84,045,351,258.29	35,304,529,263.22	42.01
2019/20	98,422,269,825.12	42,477,467,459.36	43.16
TOTAL	400,476,349,414.70	178,766,321,544.35	45.32
Average			44.64

*Source: MOR Large Tax payers Branch Office (LTO) Annual Reports*

As table 13 above shows that, the percentage of VAT revenue to Tax revenue was 44.75% in the year 2014/15 and 54.01% in the year 2015/16. On the other hand, the percentage of VAT revenue to total tax revenue was 45.98%, 42.03%, 42.01%, 43.16% and 45.32% in the year 2016/17, 2017/18, 2018/19 and 2019/20.

On the other hand, the table shows that percentage of VAT revenue to total tax revenue was not consistent which exhibit increasing trend in some of the years and other years‘ exhibit decreasing and even constant.

However, the table above shows that the contribution of VAT revenue to total tax revenue was very high in MOR large tax payer's office. In addition, it can be seen from the table 4.13 above VAT revenue covers the highest percentage of the total revenue than other indirect & direct taxes. Hence, MOR and other concerned government organs should give great emphasis to collect the high potential revenue from VAT by minimizing the challenges of VAT administration and improving the overall tax administration.

#### **4.2.2 C-EFFICIENCY RATIO (CE)**

The researcher used overall consumption approaches in estimating the C-Efficiency ratio a more reliable measure of VAT performance than the VAT productivity ratio as it is based on production (GDP) rather than consumption. C-efficiency ratio measures VAT in terms of consumption and is calculated by taking the proportion of VAT as a share of total consumption divided by the standard VAT rate.

*Table 4.14: VAT Productivity and C-efficiency in MOR*

Fiscal Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average
CE(C-Efficiency)	22%	24%	20%	22%	24%	28%	23%
VP(VAT Productivity)	17%	18%	16%	17%	18%	20%	18%

*Source: MOR Large Tax payers Branch Office (LTO) Annual Reports, and Own Computation* As shown on the above table, CE(C-efficiency ratio) in MOR LTO in the year between 20014/15 to 2019/20 is 23%. On the other hand, average VAT productivity in the same period is 18%. This shows that overall trend of VAT is increased from time to time with taking measures of C-efficiency and VAT Productivity ratio.

#### **4.3. DISCUSSION**

This part of the research discusses on the major findings of the study with regard to the VAT refund administration and revenue performance of MOR large taxpayers’ office the case of the VAT registrants.

MOR large taxpayers’ office did not have a good procedure for VAT refund as indicated on the responses provided by majority of the sampled respondents. On the other hand, MOR has a good procedure for penalizing tax payers that made unlawful acts in their business undertakings. With regard to the capabilities and skills of the tax officials, they did not have the necessary skills and activities to register traders and has no office facilities sufficient for administration of VAT refund.

Ministry of Revenue Large Tax Payers’ office was in a good position to create awareness programs for VAT registrants though it should be improved a lot and cover all of its taxpayers. With regard to the customer service and tax assessment, MOR large tax payers’ office was not fast and excellent in customer services of VAT administration and the assessment of tax was also not effective in the selected branch office of MoR.

In addition, there was no good VAT collection system in the office. The MoR large tax payers’ office did not have regular contacts VAT registrants when there is any kind of changes and updates. Moreover, MoR officials could not provide sufficient information to its customers and also the monitoring and evaluation procedure was not effective.

The service provided by MoR tax administration and VAT refund offices was not sufficient enough to clarify instructions, provide easy-to-use formats, and any other related services. In addition, taxpayers' have faced challenges during the application process for VAT refunds in MoR large tax payers office. In addition, MoR large taxpayers are not well aware on the procedures of VAT refunds.

However, MoR has done a lot to provide updates its employees with regard to VAT refund claim and procedures. Consequently, employees have sufficient knowledge about VAT Withholding refund claim. In addition, MoR builds the capacity of its employees on a continuous basis especially in connection to refund claim of authorized economic operator (AEO).

On the other hand, MoR has been challenged by budget constraints to refund VAT claims. Corruption was also another challenge faced by MoR large tax payers' office in the areas of processing VAT refund. The time taken to process the VAT refund was also too long and complicated though there are large number of employees in MoR who are efficient to the services provided by the office.

The office has efficient Automated System to manage tax payers and have sufficient equipment facilities and administrative cost to administer the tax system and claims of VAT refunds.

Some of the reasons for VAT refund fraud were lack of awareness, fraud, and level of enforcement from the government, incremental on the price of goods and services and the MOR's poor VAT administrative capacity. In addition, MOR believes that taxpayers are aware of the procedures to apply for VAT refund claim as there were awareness creation programs through different means including orientation, brochures and TV programs in a weekly basis. Revenue from VAT has been increased from time to time which was achieved by expanding the tax base for VAT and also by strengthening enforcement of the law.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter deals with the summary of findings, conclusion drawn based on the major findings of the study and researcher's recommendations based on the conclusions.

#### **5.1. SUMMARY OF FINDINGS**

The results of the study revealed that there was no good procedure for VAT refund in MoR large taxpayers' office. However, it shows that MoR has a good procedure for penalizing unlawful tax payers. MoR has no sufficient office facilities for VAT refund administration.

The study revealed that MoR has awareness creation program for VAT registrants though not sufficient for all of its taxpayers. However, based on the findings of the study the customer service in MoR was not fast and excellent with regard to VAT administration and the tax assessment was not effective in MoR.

The findings of the study shows the office did not contacts regularly with VAT registrants for any changes and updates, and sufficient information was not given by MoR officials whenever requested by its customers.

On the other hand, the study revealed that there was no proper monitoring and evaluation in MoR, the service they get from MoR tax administration and VAT refund offices especially with regard to clarifying instructions, providing easy-to-use formats, and any other related services was not sufficient.

According to the findings of the study, taxpayers' have faced a challenge when applying for VAT refund in MoR large tax payers office. Moreover, the data indicates that they are not well aware on the VAT refund procedures and practices in MoR large taxpayers. However, MoR update its employees with VAT refund claim and procedures and the its employees have sufficient knowledge about VAT Withholding refund claim.

Based on the study, MoR faced insufficient budget challenge to refund VAT and it has faced a challenge of corruption on the process of VAT refund. The VAT refund process in MoR takes a long time and the procedure of VAT refund in MoR was not complex.



According to the research, the reasons for VAT refund fraud were lack of awareness, fraud, and level of enforcement from the government, incremental on the price of goods and services and the MOR's poor VAT administrative capacity, among other reasons. The findings of the study from the secondary data shows that the contribution of VAT revenue to total tax revenue was high in MOR large tax payer's office not consistent which exhibit increasing trend in some of the years and other years' exhibit decreasing and even constant.

## **5.2 CONCLUSIONS**

The study examines the VAT refund practices and revenue performance of MOR large tax payer's branch office (LTO). The specific objectives of the study were: to assess the procedures for VAT refund employed in processing and refunding excess VAT credits in MOR large tax payers' office, to investigate the major challenges faced by MOR large tax payers' office with regard to VAT administration, to examine the challenges faced by MOR large tax payer's office and the tax payers in relation to VAT refunds, to determine the level of VAT revenue performance in MOR large tax payers' office.

Therefore, the following conclusion is drawn based on the specific objective of the study:

The researcher concluded that there was no good VAT refund procedure to process and refund excess VAT credits in MOR large tax payers' office. In addition, the procedures and requirements for VAT refund was not properly communicated to the tax payers to increase their awareness.

On the other hand, conclusion was also drawn that the major challenges faced by MOR large tax payers' office with regard to VAT administration were: VAT fraud, Tax Invasion, Incompliance with the law, not using Invoices for selling goods/services, not declaring the collected VAT on time, among others.

The study also concluded that there were challenges faced by MOR large tax payer's office and the tax payers in relation to VAT refunds.

Lastly, the researcher concluded that the level of VAT revenue performance in MOR large tax payers' office was high comparing the contribution or share of other income sources. However, the VAT revenue was not increasing from time to time as there are potential areas. In addition, its performance fluctuates from year to year due to many factors and circumstances.

## **5.2 RECOMMENDATIONS**

Based on the major findings and conclusions of the study, the researcher suggested the following recommendations:-

- 1) MOR large tax payers' office should create awareness to its taxpayers on the topics of VAT refund, ethics of tax declaration etc... by using various printed and electronics media of communication systems.
- 2) There should be strong follow up and supervision to trace and make the necessary corrective actions of VAT un-invoicing (selling without receipts) with the help of its officers and MOR intelligence experts.
- 3) Additional researches have to be conducted on the topic of VAT administration and VAT refund challenges, taking in to consideration the results of this study.

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# APPENDICES

## **Appendix I:**

### **Structured Questionnaire for Employees**

#### **St. Mary's University, School of Graduate Studies Department of Business Administration**

Dear participant,

This questionnaire is designed to investigate the **Value Added Tax Refund Practices and Revenue Performance in Ethiopia: The Case of Ministry of Revenue (MoR) Large Tax Payers Office**. The study is to be conducted in partial fulfillment of the requirements of Masters of Business Administration. Please answer all questions. The information obtained through the questionnaire will be treated as confidential and will only be used strictly for academic purposes. Your participation will be highly appreciated.

Thank you in advance for all your cooperation and kind consideration.

Best regards,

*Addisalem Sisay*

**Directions: -**

- Make only a tick mark (  ) on the space provided to show your answer.
- Please don't write your name in this questionnaire.

**PART I - BASIC PERSONAL DATA**

1. Age (in Years)

- A.18–25                       B.26–35                       C.36–45                       D. 46 – 55                       E. 56 and above

2. Gender                      Male                       Female

2. Educational Background

- A. High School                       B. Diploma                       C. First Degree   
 D. Masters Degree                       E. PhD

4. Your level of Position in MoR

- A. Lower Level Management                       B. Mid level Management   
 C. Top Level Management

5. Length of Service in MoR

- A. 1 – 5 yrs                       B. 6 – 10 yrs                       C. 11 – 15 yrs   
 D. 16-20 yrs                       E. 20 yrs and above

**PART II** – Please indicate your response regarding Procedures for VAT Refund, Challenges faced by MoR with regard to VAT Refund, and Challenges faced by MoR regarding Tax Administration.

Please indicate your level of agreement on the items listed below.

The scale is underscored as follows:

Strongly agree=5    Agree =4    Neutral =3    Disagree = 2    strongly Disagree =1

S/N	ITEMS	5	4	3	2	1
<b>PROCEDURES FOR VAT REFUND</b>						
1	MoR update its employees with VAT refund claim and procedures					
2	MoR's employees have sufficient knowledge about VAT Withholding refund claim					
3	MoR create opportunities to its employees to know about classification of VAT refund claims					



4	There is a lack of awareness among employees of MoR about Zero-rate business					
5	MoR continuously build the capacity of employees on refund claim of authorized economic operator (AEO)					
6	Employees of MoR Lack Knowledge about Refund claim on purchase of capital goods					
<b>CHALLENGES FACED BY MoR WITH REGARD TO VAT REFUND</b>						
1	MoR faced insufficient budget challenge to refund VAT					
2	MoR faced a challenge of corruption on the process of VAT refund					
3	MoR's IT system, SIGTAS, does not properly support the refund process of VAT claim					
4	The process VAT refund in MoR takes a long time					
5	The procedure of VAT refund in MoR is complex					
6	There is a lack of risk based analysis in MoR					
<b>CHALLENGES FACED BY MoR WITH REGARD TO TAX ADMINISTRATION</b>						
1	There are efficient and large number of employees in MoR					
2	VAT Payers lack good behavior regarding ethics of tax					
3	There is a lack of efficient Automated System to manage tax payers					
4	MoR Lacks equipment facilities for tax administration and VAT claim					
5	MoR lacks administrative cost for tax administration and VAT refund					

*Thanks You Very Much!!*

## **Appendix II:**

**Structured Questionnaire for VAT Registrants**  
**St. Mary's University, School of Graduate Studies**  
**Department of Business Administration**

Dear participant,

This questionnaire is designed to investigate the **Value Added Tax Refund Practices and Revenue Performance in Ethiopia: The Case of Ministry of Revenue (MoR) Large Tax Payers Office**. The study is to be conducted in partial fulfillment of the requirements of Masters of Business Administration. Please answer all questions. The information obtained through the questionnaire will be treated as confidential and will only be used strictly for academic purposes. Your participation will be highly appreciated.

Thank you in advance for all your cooperation and kind consideration.

Best regards,

*Addisalem Sisay*

**Directions: -**

- *Make only a tick mark (  ) on the space provided to show your answer.*
- *Please don't write your name in this questionnaire.*

**PART I - BASIC PERSONAL DATA**

1. Age (in Years)

- A. 18–25       B. 26–35       C. 36–45       D. 46 – 55       E. 56 and above

2. Gender                      Male                       Female

2. Educational Background

- A. High School                          B. Diploma                          C. First Degree   
D. Masters Degree                       E. PhD

4. In what business are you engaged in?

\_\_\_\_\_

5. How many years have you been as a VAT registrants in MoR?

\_\_\_\_\_

**PART II** – Please indicate your response regarding the Parameters listed in the following table:

Please indicate your level of agreement on the items listed below.

The scale is underscored as follows:

Strongly agree=5    Agree =4    Neutral =3    Disagree = 2    strongly Disagree =1

S/N	ITEMS	5	4	3	2	1
1	There is good procedure for VAT refund					
2	MoR has a good procedure for penalizing unlawful tax Payers					
3	MoR has sufficient office facilities for VAT refund Administration					
4	MoR has awareness creation program for VAT Registrants					
5	The customer service in MoR is fast and excellent with regard to VAT administration					
6	The tax assessment is effective in MoR					
7	MoR has effective VAT collection system					
8	MoR large tax payers office contacts regularly with VAT registrants for any changes and updates					
9	Sufficient information is given by MoR officials whenever requested by its customers					
10	MoR has effective Auditing procedure with regard to VAT					
11	There is effective procedure for monitoring and evaluation in MoR					
12	MoR large tax payers office attempts to make VAT registrants to comply with the law					

**Thank You!!**

## **Appendix III:**

### **Interview Questions for VAT Registrants**

- 1) How do you describe the service you get from MoR tax administration and VAT refund offices especially with regard to clarifying instructions, providing easy-to-use formats, and any other related services?
- 2) Have you faced a challenge when applying for VAT refund in MoR large tax payers office? If yes, please explain
- 3) Have you experienced with tax officials practicing unethical and illegal ways with regard to tax administration and VAT refund? Could you please explain it
- 4) Do you think that you are well aware on the VAT refund procedures and practices in MoR large tax payers office?

## **Appendix IV:**

### **Interview Questions for MoR Large Tax Payers Officials**

- 1) Please tell me in detail the legal procedures to be followed with regard to VAT Refund application in MoR large tax payers office?
- 2) What do you think are the reasons for VAT refund fraud which is practiced by some businesses and tax officials? What is the level of such frauds in the office? And what measures are taken by the organization to minimize such unethical and illegal activities?
- 3) Do you believe that taxpayer's are aware of the procedures to apply for VAT refund claim in MoR large tax payers office? Could you tell me some of the tasks being performed by your office to create and increase awareness of the tax payers in this regard?
- 4) Could you please tell me the level of VAT revenue performance at your office? What strategies are followed to increase VAT revenue performance?