

Assessing the Challenges and Experiences of Tax Collection System in Harari regional state



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Haramaya University

Research Project on

Assessing the Challenges and Experiences of Tax Collection System in Harari regional state

In Collaboration with

Harari Regional Chambers of Commerce and Sectoral Associations

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Abstract

Tax revenue is one of the major sources of income for governments in financing public services as well as stimulating the economic growth. The business community complains that the tax assessment method is based on rough estimation as a result; they are frequently charged to pay over tax. Therefore, it is important to study the challenges and experiences of tax collection system in case of Harari Regional State. To achieve this study, the researchers used in-depth interview with selected tax officers and distributed self-administered semi structured questionnaires to 97 sample taxpayers in the region. The analysis of the study witnessed that there is weak tax officer's competency and inapplicability of the tax principles. Most taxpayers lack knowledge about taxing procedures and they do not certainly know how much they are expected to pay. Due to this factors, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. The authority has to provide training and regular capacity building works to tax collectors about tax rules and regulations, customer handling and documentation; and to the tax payers about tax rules and regulations, how to maintain books of accounts, preparation of financial statements and other tax related issues. Therefore, the authority has to obey principles and enforce the regulations to prevent and control the act of tax evasion through enabling the office, incentivize the loyal customers and punish evaders persistently

Key words: *Challenges, Experiences, Harari Region, Tax System*

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List of abbreviations

CIF	Cost, Insurance and Freight
EC	Ethiopian Calendar
EBDSN	Ethiopian Business Development Services Network
ECC	Ethiopian Chamber of Commerce
FDRE	Federal Democracy Republic of Ethiopia
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian Birr
HRCCSA	Harari Regional Chambers of Commerce & Sectoral Associations
GC	Gregorian calendar
GAAP	Generally Accepted Accounting Principles
HPNRS	Harari People's National Regional State
ID	Identification
IMF	International Monetary Fund
NGOs	Non-Government Organizations
OECD	Organization Economic Corporation and Development
PSD	Private Sector Development
TIN	Tax Identification Number
TOR	Tax on Royalty
TOT	Turn Over Tax
UN	United Nations
VAT	Value Added Tax
WB	World Bank



Chapter One

Background of the Study

1.1. Introduction

Tax is one of the most important sources of public revenue and necessary for the functioning of government. Fund collected through tax is utilized for the provision of infrastructure or facilities including social security protection and services of public utilities like electricity, water supply and roads to the taxpayer; which might have fortunate results on many individuals, families, organizations, industries and the general public as a whole; however benefits of such public expenditure is enjoyed even those people who are not liable to pay taxes (NBAA, 2014).

Even though tax is a compulsory payment of a country's resident, there are two contradicting motives in the field of taxation; the first motive is that government always, through its tax authority, strive to collect enough revenue from taxpayers; while the second aspect is that taxpayers motive attempt to reduce their tax liability through different methods (Ketema T. 2013). "Wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying them" (Gudrun B. 2010).

Despite the fact in Ethiopia tax to GDP ratio never surpass the sub-Saharan average of 20 per cent, it contributes a lot. To enhance the total revenue, government has broadly levy tax on two major types, they are based on their nature to be collected, namely direct and indirect tax. The components of direct-tax have a nature to be collected directly from the income earner/receiver; like the income tax. While indirect tax is collected from the final user of the product through the pricing mechanism. These types of taxes are like Value Added Tax (VAT), Turn over Tax (TOT) and excise tax.

In developing countries personal savings are usually low, because the per capita income of the population is very low. Moreover, the population in these countries is so they demand governments to spend much of their limited revenues on public goods. Thus, governments in these countries normally have to look into various sources of finance, so as to cover their expenditure on provision of public goods and services which in turn positively affect the economic development and income distribution among the citizens (ECC and EBDSN, 2005).

1.2. Description of the Study Area

The Harari People's National Regional State (HPNRS) is one of the regional states constituting the Federal Republic of Ethiopia. It is the historical city in the Eastern part of Ethiopia and about 526 km road distance from the capital, Addis Ababa. The total numbers of kebeles of the city are nineteen. The region is bordered by district of the East Hararghe zone of the Oromia National Regional State.

Harari regional state administration fiscal power emanates from the regional charter, proclamation No 361/2003 Article 52. According to the proclamation, the city administration has given power to assess and collect tax on income from employments, profit, excise and turnover taxes from individual business trading in the region.

1.3. Context and problem analysis

As it has stated above one of the financing sources of government expenditure is revenue from tax. It is well known that tax is collected by government and must have a tax law authorize the power and responsibility. In connection with this, tax administration bureau has the responsibility to administer, assess and collect revenue in order to achieve development goals. Despite there are countries whose tax to GDP ratio is so low there are some who fund their needs from taxes (Hancock, 1998).

The central aim of the tax system in Ethiopia, like any other country in the world is to collect revenue and finance the administrative machinery of the government as well as to finance the fulfillment of public goods and services, beside regulating the fiscal policy and income distribution (ECC and EBDSN, 2005). The Ethiopian Revenue and Customs Authority also do have a vision to see the prevalence of fair and modern tax administration system whereby citizens discharges their tax obligation on a voluntary compliance bases (Proclamation No 361/2003).

The Harari regional state is known for being the commercial center in the eastern part of the country, and the regional state is showing a rapid growth in all economic sectors. For this endeavor, policy measures introduced by the regional administration and location proximity for trade with the boarder take the major contribution. This can be considered as the best opportunity

to attract investors to flow their capital in the region. However, according to the regional chambers of commerce, those taxpayers are not free from challenges; the taxation problem is one and the most difficult to get in to the root (Harari Regional Chambers of Commerce and sectoral associations, 2018). To overcome those and related problems tax system must be levied with great care and rationality. In order to practice this rationality and care, the taxing agency must follow certain code of conduct, as the principles of taxation, while determining the type, mode and amount of tax (Seid H & Taddele M, 2007).

The business owners complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to overtax. Since tax payers do not have simplified access and clarification on the tax laws, they lack awareness on tax rules and regulations and their implementation. An additional problem is that many business owners do not keep their financial recording properly, which invited to general estimations, which are often arbitrary (ECC and EBDSN, 2005).

In Ethiopia literatures shows that there are plenty of problems both from taxpayer and collectors sides. Such as lack of competent employees, lack of awareness about the tax laws, lack of exercising right and obeying obligations, dishonesty in providing the relevant and accurate information concerning their business operation and employees of the revenue office and also tax payers do not comply with the tax rules and regulations. As Harari region is one of the regional states of the country, it shares those problems. Hence assessing the stated problems and forwarding potential solutions is the objective of this project.

1.4. Research questions

From the context and problem analysis, the researchers addressed the following major research questions.

- What are the prevailing tax collection problems and how these adversely affect tax payers and lead to compliance in the region?
- Do the tax collectors clearly implement principles of taxation set by the proclamation while determining the type, mode and amount of tax in the region?
- How are the attitude, awareness and understanding of tax payers regarding the rules and regulations of tax system in the region?
- Why taxpayers fall into tax arrears/tax debt?
- What are the causes of tax evasion?
- Does the tax authority audit the tax payers?
- Do the tax payers prepare and maintain financial reports?
- What are the causes and consequences of tax compliance in the region?

1.5. Objective of the study

The general objective of the study is to assess the challenges and experiences of tax collection system in Harari regional state. Following this general objectives, specific objectives are derived as follows:

- Identify the prevailing tax collection problems and address its adverse effect on tax payers and lead to compliance in the region.
- Understand whether the tax authorities of the region follow principles of taxation set by the proclamation while determining the type, mode and amount of tax and giving awareness.
- Understand taxpayers' attitude and awareness about tax rules, regulations and procedure.
- Identify causes for why taxpayers fall into tax arrears/tax debt and recommend ways to improve the process for both taxpayers and collectors.
- Investigate the various causes of tax evasion.
- Identify whether tax payers being audited or not.
- Identify those taxpayers who do not keep their books properly and lead to general estimations, thus this study also aimed at giving the necessary training to identified taxpayers who faced problems in bookkeeping and accounting.

- ➡ To identify the causes and consequences of tax compliance in the region.

1.6. Scope and Delimitation of the Study

The study is focused on assessing the challenges and experiences of tax collection system in all categories of tax payer who were registered by Chamber of commerce at Harari regional state. Hence, respondents who are not member of the chamber of the commerce were not included in the population of this study.

1.7. Limitation of the Study

- Due to the small sample size used for this study, results may not be generalized beyond the specific population from which the sample was drawn.
- Sampled respondents may not have answered all questions with sincerity, and therefore the results of this research based on the opinions of the sampled group might not accurately reflect the opinions of all members of the included population. This is more so because, people generally feel reluctant to divulge correct information about their tax positions (Coskun and Savasan, 2009).

1.8. Ethical Considerations

The researchers avoided any biases like consciously hiding and consciously magnifying their responses. In order to make respondents feel confident, the researchers assured the confidentiality of their response.

1.9. Organization of the Paper

The paper is organized in five chapters. The first chapter consist the introduction part of the study which described the background of the study, problem and context analysis, objective, research questions, scope, limitation, and ethical considerations. The second chapter reviewed the related empirical literatures. The third chapter described the methodologies employed in the study. The fourth chapter presents the analysis and discussions. Finally, the fifthchapter address the conclusions and recommendations.

Chapter Two

2. Literature Reviews

2.1. Introduction

Taxation provides governments with the funds needed to invest in development, relieve poverty and deliver public services. It offers an antidote to aid dependence in developing countries and provides fiscal reliance and sustainability that is needed to promote growth. Tax system design is also closely linked to domestic and international investment decisions, in terms of transparency and fairness. Strengthening domestic resource mobilization is not just a question of raising revenue: it is also about -designing a tax system that promotes inclusiveness, encourages good governance, matches society's views on appropriate income and wealth inequalities and promotes social justice. Taxation is integral to strengthening the effective functioning of the state and to the social contract between governments and citizens. By encouraging dialogue between states and their citizens, the taxation process is central to more effective and accountable states. Reforms which begin in tax administration may spread to other parts of the public sector (IMF, OECD, UN and WB report, 2011).

The existence of collective consumption of goods and services demands putting some of our income into governments' hand. As we all know construction of public goods like of roads, power, and other public infrastructures have positive results to the citizens, business enterprises, industries and the general public as a whole. Public goods are normally supplied by public agencies due to their natures of non-rivalry and non-excludability. Such nature of public goods therefore makes them impossible for private suppliers to provide at market prices like other private commodities. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes (Bailey and Stephan J, 1995).

Even though people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for tax payers especially for less literate business operators. Tax systems are usually not elaborated after proper consultation with the business community. The business owners complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. Since the business owners do not have simplified access to and

clarification on information of the tax laws, they lack awareness on tax rules and regulations and this has an impact on the practicability of the regulations (Ethiopian Chamber of Commerce and Business Development Services Network, 2005).

2.2. General Features of Tax system and Tax Accounting under Ethiopian tax law

2.2.1. Overview of Taxation System in Ethiopia

The 1995 Constitution of the Federal Democratic Republic of Ethiopia (FDRE) classifies taxation power into three: as those assigned exclusively to the federal government, regional states, and concurrently to both regional and federal governments. As per the constitution, regional states have the power to levy and collect taxes from sources assigned to them.

Federal government revenues include:

- Income tax on employees of the federal government and international organizations;
- Income, profit, sales and excise taxes on enterprises owned by the federal government;
- Tax on income of air, rail and sea transport services;

Regional states revenues include:

- Income tax on employees of the state and of private enterprises;
- Taxes on the income of private farmers and farmers incorporated in cooperative associations;
- Profit and sales taxes on individual traders carrying out a business within their territory;
- Profit, sales, excise and personal income taxes on income of enterprises owned by the states;

Joint federal and regional states revenues:

- Profit, sales, excise and personal income taxes on enterprises they jointly establish;
- Taxes on the profits of companies and on dividends due to shareholders; and
- Taxes on incomes derived from large scale mining and all petroleum and gas operations, and royalties on such operations

Following the assignment of revenues, tax administration organs are ERCA and regional revenue authorities. ERCA is responsible for administration of revenues that belong exclusively to the

federal government and those concurrently owned by both. Regional revenue authorities are entrusted with the responsibility of administering taxes assigned to them. The principal taxes that affect businesses in Ethiopia are income taxes, value added tax (VAT), turnover tax (TOT) and excise taxes.

2.2.2. Major Types of Taxes in Ethiopia

According to proclamation No 286/94 any person whose permanent residence is in Ethiopian, has to pay tax from the income that he/she gets within Ethiopia or abroad. If the person is not resident of Ethiopia gets his income which has its source in Ethiopia also should pay tax. This is direct tax, which a person pays from any income he/she gets.

Indirect tax is a kind of tax which the tax payers collect it from the customers indirectly and not from his/her own income. This means, the tax money comes from the customers. The tax payer adds selling price on the service or product he/she renders, so that the customers may pay the tax indirectly and bear the burden.

2.2.3. Categories of Taxpayer

According to Proclamation No. 979/2016, the income tax legislation classifies businesses into three categories as A, B, and C based on their level of annual gross income.

- A) Category ‘A’ taxpayer being a body ; or any other person having an annual gross income of Birr 1,000,000 or more;
- B) Category ‘B’ taxpayer being a person, other than a body , having an annual gross income of Birr 500,000 or more but less than 1,000,000;
- C) Category ‘C’ taxpayer being a person other than a body, having an annual gross income of less than Birr 500,000

The Authority may, on the basis of tax declarations filed by a taxpayer or any other information available to the Authority, determine whether the taxpayer’s category has changed for a tax year.

The Minister shall, after ascertaining by economic analysis, change at least within five years the annual gross income thresholds in sub-Article (1) of this Article for the classification of a taxpayer as a category ‘A’ taxpayer category ‘B’ taxpayer or category ‘C’ taxpayer.

2.2.4. Schedules of Income tax

Proclamation No. 979/2016 provides for the taxation of income in accordance with the following schedules:

- a) Schedule 'A', income from employment;
- b) Schedule 'B', income from rental of buildings;
- c) Schedule 'C', income from business;
- d) Schedule 'D', other income;
- e) Schedule 'E', exempt income.

Subject to Article 64(2) of this Proclamation, a taxpayer that derives income from different sources subject to tax under the same schedule for a tax year shall be taxable under the schedule on the total income for the year.

2.2.5. Financial Record-keeping

Category 'A' tax payers liable for business income tax shall keep books of account prepared in accordance with the financial accounting report standards and, in particular shall keep the following:

- a. A record of the business assets and liabilities of the taxpayer, including a register of fixed assets showing the acquisition date, the cost of acquisition, any costs of improvement in relation to the asset, and the current net book value of the asset;
- b. A record of all daily income and expenditures related to the taxpayer's business;
- c. A record of all purchases and sales of trading stock, and services provided and received by the taxpayer showing the following:
 - i) The particular trading stock sold or received and services supplied or received;
 - ii) The name and TIN (if any) of the purchasers from, and suppliers to, the taxpayer of trading stock or services;
 - iii) Pre-numbered invoices containing the supplier's TIN;
- d. A record of trading stock on hand at the end of the taxpayer's tax year, including the type, quantity, and cost of the stock, and the method of valuation used.
- e. Any other document relevant in determining the tax liability of the taxpayer.

Category 'B' taxpayers liable for business income tax shall keep the following:

- a. A record of daily income and expenditures;
- b. A record of all purchases and sales of trading stock;
- c. A salary and wages register
- d. Any other document relevant in determining the tax liability of the taxpayer.

Category 'C' taxpayers may keep a record of gross income and shall keep such other records as may be specified in the Regulations (Proclamation No. 979/2016).

2.2.6. Tax Declarations

A Category 'A' or Category 'B' taxpayer shall file a tax declaration for a tax year within:

- a. For Category A taxpayers, 4 months from the end of the tax year; or
- b. For Category 'B' taxpayers, 2 months from the end of the tax year.

A tax declaration for a tax year shall be accompanied by:

- a) For a Category 'A' taxpayer, the taxpayer's profit and loss statement and balance sheet for the year; or
- b) For a Category 'B' taxpayer, the taxpayer's profit and loss statement for the year.

Category 'C' taxpayer shall file a tax declaration within the period specified in Article 84(4) "A category C tax payer shall pay tax on the 7th day of July to the 6th day of August each fiscal year" (Proclamation No. 979/2016).

2.2.7. Imposition of Business Income Tax

Subject to provisions of this Part, business income tax shall be imposed for each tax year at the rate or rates specified in Article 19 of Proclamation No. 979/2016 on a person conducting business that has taxable income for the year.

The business income tax payable by a taxpayer for a tax year shall be calculated by applying the rate or rates of tax applicable to the taxpayer under Article 19 of Proclamation No. 979/2016 "The rate of business income tax applicable to a body is (30 %), and the rates of business income tax applicable to an individual are from 0 to 35 %".

2.2.8. Value Added and Turnover Tax (VAT & TOT)

Proclamation 285/2002 and Council of Ministers' regulation 79/2002 (as amended) provide the legal basis for the imposition and collection 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). Similarly, proclamation 308/2002 (as amended) governs the imposition of TOT.

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 (Worku, 2008). 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) and exempted. VAT registration is required by businesses that have annual gross income of ETB 1,000,000 and more per year. In addition to annual gross income as a basis for registration of taxpayers, Ethiopia uses sector specific registration schemes, in that those engaged in such sectors as plastic and plastic products manufacturing, shoes manufacturing, computer and accessories suppliers and gold smiths are required to register for VAT regardless of their annual turnover.

The VAT legislation allows refunds to be made to mainly exporters within two months from the time refund application is filed. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods (five months); if there are still unused excess credits it is allowed to be refunded within two months from the time of lodging application for refund. The government has introduced VAT withholding scheme where federal government institutions are required to withhold the VAT on their purchases and remit the amount to the tax authority (Wollela A., 2016).

Businesses supplying taxable goods and services and not required to register for VAT are expected to pay TOT on their supplies of goods and services. TOT is considered as an equalization tax between VAT registered and unregistered businesses. The applicable rate is 2 percent on goods supplied domestically and on contractors, grain mills, tractors and combine-harvesters; and 10 percent on all other services (e.g., barbers/hairdressers, car mechanic, etc.). Certain services are exempt, including financial services, the supply of electricity, water and kerosene, the provision of transport; educational institutions, child-care). Estimation of sales for

category C taxpayers follow the same procedure as for income tax, but must also take into account an estimate of the split of income between goods and services.

2.3. Challenges and experience of taxation

Significant progress has been made by many developing countries, however, tax officer competency, implementation of tax canons, VAT collection, tax arrears, and tax evasion remain as challenges.

2.3.1. Tax officer competency

Competency is a fundamental standard of skill, knowledge, ability or behavioral characteristics that some individual needs to perform his/her work successfully. It is a combination of several factors like motives, traits, self-concepts, attitudes or values, skills and abilities all of which are required from an individual to function properly and satisfy the needs and interest of customers (tax payers) to achieve organizational objectives (Potluri and Zeleke, 2009). Competency is behaviors, knowledge and motivations that is required to be effective in a job (Summers, 2004). Competency is an integration of skills, abilities, knowledge and capabilities. Understanding and developing marketing competencies is necessary to enable the organization to exploit the opportunities they provide (Prahalad and Hamel, 1994).

A competency refers to an organization's unique abilities to gain knowledge about customers and provide benefits sought by customers (Woodside et al., 1999). Customer/client service competencies are defined as the capabilities and processes designed to apply the collective knowledge, skills and resources of the firm to its market related needs (Wang et al., 2004). These also competencies are skills that help place a firm in close proximity to its customers/clients (Prahalad and Hamel, 1994). The important elements of competencies are customer/clients knowledge, customer access and competitor knowledge (Fowler et al., 2000).

Importance of Assessing Tax officers Competency

Assessing the level of employees' competency helps organizations to communicate desired behaviors, control costs, and increase customer satisfaction. It can also serve as the foundation to hire, train, and develop employees. It's necessary to continually assess the competency level of employee. To ensure that employees in a particular job/occupation have the necessary skills,

abilities and attitude to perform the needed activities and achieve organizational objectives. Assessing the competency level of employees helps management to identify and close gaps in individual's capabilities for better customers' service. To identify current skill levels and the needs of training and development to meet skill requirements of a particular position and to make necessary changes in the training curriculum based on the gap (Potluri and Zeleke, 2009).

Frontline employees are the first lines of contact in the organization and they are the main players to create the first /lasting impression of the organization and project a positive image within the minds of clients/customers. They are also capable of creating awareness, understanding, and need among customers to use the organization's programs, products, and services effectively to generate revenue (Lovelock and Wirtz, 2004).

According to the study conducted by common wealth of Virginia, 2007, the following six most important core competencies (Understanding of the Business, Results focus/orientations, Customer Service, Teamwork and Co-operation, Interpersonal Communication and Personal effectiveness) to be possessed by the tax officer to provide quality service to satisfy customers.

A. Business Understanding

For successful business performance, it needs to build employees' competency around a sound strategic understating of an organization's business to enable them know how to deliver timely, relevant, complete, accurate, and useful services to the customers in line with the organization's services and priorities. Frontline employees/tax officers should understand the organization's mission, objectives, goals and its service quality standards the services provided to customer/clients. It is also these frontline employees who can identify customers' problems within their work environment and bring forth immediate solutions. However, when they faced with challenging work problems that cannot be resolved on their own, they should be able to consult their supervisors and others for better methods of solving the problems. Customers do not want to do business with staffs that do not know the answers to their questions or handle their requests and problems un-empathetically (Zolkiewski et.al, 2007).

B. Result Orientation

Competent employees carry out their activities with effective management of time and resources to meet/exceed expected results within time budget and quality standards. They focus action and resources on the achievement of strategic goals and priorities of the organization. This can be successfully achieved when all employees in the organization have a result-oriented culture with the attitude of focusing on excellence and achievement of results. Results orientation is a concern for surpassing standard of excellence. The standard is one's own performance (striving for improvement), an objective measure (results orientation), challenging goals one has set or even improving or surpassing what has already been done (continuous improvements) (BC Public Service, 2002).

C. Customer Service Skills

Competent tax officers have both technical capabilities and behavioral competencies to understand and respond to customers' needs timely, accurately and in a respectful manner. The first elements technical competencies are predominately about acquired knowledge and technical abilities and skills about the service they provide. It is a specialized requirement of an occupation. These competencies are often easier to see, train, and develop. The second element is behavioral competencies, which is deep-seated qualities of an individual (attitudes, traits, and approaches) to communicate effectively and work cooperatively with team members and the ability to understand and help customers' needs and interests (Common Wealth of Virginia,2007). The quality of service delivered by an organization not only related to technical and operational knowledge of employees but also their awareness of customers' satisfaction as extremely important part and top goal of the job. According to Lovelock and Wirtz (2004), the quality of service delivered by an organization related to its frontline employee's competencies (reliability, responsiveness, assurance and empathy).

D. Teamwork and Co-operation Skills

Team work and Co-operation Skills are the abilities of employees to work together cooperatively within diverse teams, workgroups and across the organization to achieve group and organizational goals (BC Public Service, 2002). No one seems to know what is going on outside his or her own immediate responsibilities and start to say, I don't know- it is not my Job. This

leads to a harsh atmosphere of the service delivery environment that results in poor customers' service (Macaulay and Cook, 1995).

E. Interpersonal Communication Skills

The service delivery activities at front desk involve a high interaction of employees and customers each day in which effective communication and problem-solving skills at frontline employees are critical. It is enough to know services policies or the job responsibilities to deliver quality services but it is also necessary to communicate openly and honestly with co-workers and customers. Besides, they should treat each other with respect and resolve any conflicts in a positive way to create harmony at the work environment (U.S. Department of Labor, 2006). Customers assume that all elements in the processes may frustrate when the system breaks down due to lack of employee communication with each other about the customers problems and lack of ability to compare kind the complete service process (Lovelock & Wirtz, 2004).

F. Personal Effectiveness

Employees are required to be effective and efficient in utilizing organizational resources and effective in delivering the service to achieve organizational mission and objectives. Frontline employees should be personally effective in achieving results, solving problems; planning and managing their own time and works (Common Wealth of Virginia, 2007). Employees working at the front desk should prepare themselves for potential problems before they occur, accept new ideas and new ways of doing activities with a positive attitude; organize and prioritize their own work / activities to stay on track toward and implementing decisions and solve problems at the right time and in the right way (Lovelock and Wirtz ,2004).

2.3.2. Cannons of taxation

Principles of taxation are the guidelines that the government should use when formulating a taxation system. Of the canons of taxation four of them (canon of equity, certainty, convenience and economy) are enumerated by Adam Smith and the rest are contributed by other economists.

Canon of Equality: It is one of the most important principles of taxation. It states that the tax system should be framed depending on the ability of the people to pay tax that is the richer

sections or the high- income group should be subjected to higher tax while relatively less tax should be imposed on the low income group.

Canon of Certainty:the canon of certainty implies that the tax-payer should be well informed about the timing of payment, the amount to be paid and the procedure for payment. It means that tax that each tax payer is required to pay should be certain and there should be no element of ambiguity in the taxation provisions as this may lead to corruption.

Here, not only taxpayers but also government must be certain of the amount which it derives from a particular tax. Thus, this canon is equally important both for the individual and the state.

Tax rules should be clear and simple to understand, so that taxpayers know where they stand. A simple tax system makes it easier for individuals and businesses to understand their obligations and entitlements. As a result, businesses are more likely to make optimal decisions and respond to intended policy choices.

The tax system should be easily understandable; meaning that the calculation and payment of a tax should be easy for a taxpayer to understand. Otherwise, the amount of taxes remitted may be incorrect (<https://www.accountingtools.com/articles/taxation-principles.html>).

Canon of Convenience:the third canon of Adam smith is that of convenience. According to Adam smith, “every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.” In other words, taxes should be imposed in such a manner and at the time which is most convenient for the tax-payer, i.e. the best time for the collection of land revenue is the time of harvest. Similarly, taxes on rent of houses should be collected when it is most convenient for the contributor to pay.

Neutrality: Taxation should seek to be neutral and equitable between forms of business activities. A neutral tax will contribute to efficiency by ensuring that optimal allocation of the means of production is achieved. A distortion, and the corresponding deadweight loss, will occur when changes in price trigger different changes in supply and demand than would occur in the absence of tax. In this sense, neutrality also entails that the tax system raises revenue while minimizing discrimination in favor of, or against, any particular economic choice. This implies that the same principles of taxation should apply to all forms of business, while addressing

specific features that may otherwise undermine an equal and neutral application of those principles (*OECD, 2014*)

Effectiveness and fairness: Taxation should produce the right amount of tax at the right time, while avoiding both double taxation and unintentional non-taxation. In addition, the potential for evasion and avoidance should be minimized. If there is a class of taxpayers that are technically subject to a tax but are never required to pay the tax due to inability to enforce it, then the taxpaying public may view the tax as unfair and ineffective. As a result, the practical enforceability of tax rules is an important consideration for policy makers. In addition, because it influences the collectability and the administer ability of taxes, enforceability is crucial to ensure efficiency of the tax system(*OECD 2014*). The type of tax imposed should present an equal burden on all taxpayers in the same economic condition. Further, the tax should not favor one group over another, so that one group receives a tax benefit at the expense of another group(<https://www.accountingtools.com/articles/taxation-principles.html>).

Flexibility: Taxation systems of a country should be flexible and dynamic enough to ensure they keep pace with technological and commercial developments. It is important that a tax system is dynamic and flexible enough to meet the current revenue needs of governments while adapting to changing needs on an ongoing basis. This means that the structural features of the system should be durable in a changing policy context, yet flexible and dynamic enough to allow governments to respond as required to keep pace with technological and commercial developments, taking into account that future developments will often be difficult to predict.

Equity is also an important consideration within a tax policy framework. Equity has two main elements; horizontal equity and vertical equity. Horizontal equity suggests that taxpayers in similar circumstances should bear a similar tax burden. Vertical equity is a normative concept, whose definition can differ from one user to another (*OECD, 2014*).

2.3.3. Tax Arrears/Tax debt

Tax in arrear is the government's legal claim against the tax payer when the tax payer neglect or fail to pay a tax debt. Tax arrears are those liabilities that have been legally assessed through: Self-assessment, an administrative action based on objective criteria or an audit of the taxpayer's records but are not paid by the legal deadline. Arrears include outstanding tax liability, penalties,

interest accrued, and also other legally imposed amounts. Interest is usually charged from the date the balance owing is due and extends until the date the amount is paid. The accrual of interest is a matter of statute and is a form of compensation to the government for the cost of using funds to which the government is legally entitled (Crawford, 2013).

Where tax liability is not paid on time, the tax administration usually issues a series of warning letters that escalate in severity and normally applies a procedure of enforced arrears collection. A number of debt management powers are typical across tax administrations, including powers to Grant extensions of time to pay, offset taxpayers' tax debts against credits arising under other taxes, and also formulating payment arrangements. The efficiency of tax debt collection is affected by a number of factors. Among them there are the administrative procedures of tax declaration, payment and enforcement. As far as the procedures of tax enforcement are concerned, a significant role is played by the means used to secure tax liabilities and recover tax debt (Magdalena, 2015).

Taxpayers do not always wind up with a tax debt because they do not pay their taxes on time. In certain instances, a tax debt comes as a surprise. Here are some of the common causes of tax debt.

2.3.3.1. Non-payment of Taxes

A common cause of tax debt is not paying what is owed before the filing deadline. If a taxpayer does not pay their entire tax bill during the filing period, the tax collecting agencies will consider the unpaid amount as a tax debt.

2.3.3.2. Inability to Pay Taxes

Taxpayers are sometimes financially unable to pay their tax bill. Even when taxpayers cannot pay their entire tax debt, they should pay as much as they can up front to avoid paying more in penalties and interest. At the very least, an appropriate payment plan should be chosen to resolve back taxes.

2.3.3.3. Misinformation

This occurs when bad financial advice or misinformation often leads to errors on tax returns, which can result in a tax debt (<http://www.taxassistancegroup.org>)

2.3.4. Tax evasion

A person who evades the declaration or payment of tax, or a person who, with the intention to defraud the government; applies for a refund that is not entitled to commit an offence. So, if a person does this may be prosecuted and on conviction be subject to a term of imprisonment of not less than five years, (proclamation No.285/2002, Art.49).

Proclamation No. 983/2016, Art, 125 indicates whosoever, with the intention to evade tax, conceals his income or fails to file a tax declaration or pay tax by the due date shall be punishable with a fine of birr 100,000 (One Hundred Thousand Birr) to 200,000 (Two Hundred Thousand Birr) and rigorous imprisonment for a term of three to five years.

According to Ameyaw, B. and Dzaka, D. (2016) factors which determine the tax evasion, the found taxation and fiscal, administrative, economic, demographic and educational level were all statistically significant with p-values < 0.005 and have positive relationship between tax evasion.

Razieh T. etal (2013), tried to identify the causes of tax evasion, the results showed that one of the main causes of tax evasion is tax burden and in addition tax evasion is also caused by the size of the government and intensity of regulations. As the size of the government increases, so do the number of government regulations. The government, however, might have difficulty in effectively controlling and managing each of the sectors, which tends to lead to an increase in tax evasion. On the other hand, an increase in the size of the government and intensity of regulation leads to an increase of activities in informal economies, such as underground markets and shadow markets, and greater levels of tax evasion. In addition to this, inflation rate have positive effects on tax evasion.

Tax evasion affects various sectors of an economy and heaps adverse effect on an economy as a whole. Evasion of taxes tempers on the accuracy of microeconomic statistics thus leading to the misallocation of resources needed to stimulate the growth of an economy Alm, J. (2013). Several countries have experienced loss in tax revenues due to tax evasion. The United Kingdom estimates loss in tax revenues to be \$21 billion per year Adams, D. (2013). Greece estimates showed loss in tax revenues to be \$30 billion per year Daley, S. (2010). In developing countries,

overall tax revenues loss due to tax evasion is estimated to \$285 billion per year Cobham, A. (2005).

2.3.5. Tax Compliance

The definitions of tax compliance frequently use in the literature may be considered to be too simplistic. As cited by James et al (2000). The most common previous approach has been to conceptualize compliance in terms of the '*tax gap*.' This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance, though there are some variations. According to James, tax compliance is expressed in terms of degree to which taxpayers comply with tax law, and the degree of noncompliance is measured in terms of the tax gap, which is defined as (Adams, 1991) the difference between the taxes that the law seeks to collect and those in fact collected. This gap happens by means of both tax avoidance and tax evasion. Similarly, compliance gap is also defined as the break between the actual and the potential tax revenue and how that gap varies among the different sectors of the taxpaying population.

A more recent definition consists of three distinct types: payment compliance, filing compliance and reporting compliance. However, these basic concepts of the 'tax gap' of non-compliance seem to be far too simplistic for practical policy purposes. Successful tax administration requires taxpayers to co-operate in the operation of a tax, rather than be forced to undertake every aspect of their obligations unwillingly. Tax law cannot cope with every eventuality and has to be supplemented with administrative procedures and decisions and, just as importantly, in order to work it has to have a reasonable degree of willing compliance on the part of the taxpayers themselves (Ibid).

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. James (2000) describes tax avoidance as the legal manipulation of an individual's affairs in order to reduce tax. However, if taxpayers go to inordinate lengths to reduce their tax liability, this could hardly be considered 'compliance', even if it were within the letter of the law.

Tax evasion is an extreme form of non-compliance. However, if law-abiding taxpayers go to inordinate lengths to reduce their liability this could hardly be considered to be 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate, rather than fulfill their obligations as citizens - hardly an example of 'compliance.' Even if such activities are within the letter of the law, they are clearly not within the spirit of the law.

Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law. The 'tax gap' approach overlooks the possibility that some taxpayers pay more than their legal obligation. Not all taxpayers seek out every possible method of reducing their tax liability and an unknown number do not claim their full entitlement to allowable deductions.

A better definition of compliance might therefore include actions which are consistent with the spirit as well as the letter of the law. On the other hand a definition of non-compliance might be the failure of taxpayers to act in accordance with the statutory requirements or intentions of the tax law and administration without the application of enforcement activity. In all the expressions compliance can be understood as acting in accordance with the law and noncompliance is deviation from the law. Based on the above expressions the definition of tax compliance can be shortly refined as the desire or willingness of the taxpayers to act.

2.3.5.1. Factors Determining Tax Compliance Behavior

The problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of tax non-compliance, and ultimately finding ways to reduce it, are of obvious importance to nations around the world (Andreoni, 1998).

The attitudes of the taxpayers (Bhatia, 1976) in this regard are influenced by a host of other factors like the political situation, natural calamities, economic situations, socio cultural and so on. He also state that a person's preference for a tax may be influenced if the tax- or an increase in it- is tied directly to the expenditures he strongly favors.

Generally, attitudes toward choice of taxes and tax structures are greatly influenced by violation of widely accepted criteria of taxation.

A. Fairness/Equity

As stated in Bhatia (1976), a good tax system, in order to achieve various objectives, chooses and adheres to certain principles which become its characteristics. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty.

According to James (2000), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. No scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society.

The problem of unfairness is that a tax system allows taxes to be shifted from dishonest to honest taxpayers. The fairness of a tax system may also be perceived in different ways by the taxpayers and tax authorities. What is fair in the eye of the tax authorities may not have the same image in the mind of the taxpayers. According to Bhatia (1976), the attitude of taxpayers is an important variable determining the contents of a good tax system. It may be assumed that each taxpayer would like to be exempted from taxpaying, while he would not mind if others bear that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. If this is not so, he will feel exploited.

To sum, regardless of this inherent problem ensuring the fairness or equity of a tax system is second to nothing. To put it differently, it is essential that a good tax system should appear equitable to the tax payers.

B. Organizational Strength of Tax Authorities

According to Bird and Oldman (1967), no tax will work effectively, unless its administrators maintain an aggressive attitude with respect to the correctness of the taxpayers' actions. Some taxpayers will fail to file or make mistakes through ignorance or neglect; others will deliberately cheat. A passive attitude by the authorities towards these errors and falsifications will soon undermine the entire structure, since the diligent and honest taxpayers will almost in self-defense

be forced to the level of the careless and dishonest. A tax administration which seeks compliance must protect those who comply or else compliance will not be forthcoming.

Bird and Oldman had further state that the sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of taxpayer respect for the tax system. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite. These writers argue that in large part the solution for the large delinquency lies in providing the bite. In this sense effective tax collection is a facet of the larger problem of providing adequate penalties, to which reference will later made. In other words tax is evaded to the extent that tax authorities are perceived as weak by taxpayers. A tax system does not function in a vacuum. Its relationship with at every turn are with the public, and since the combination of taxes reaches nearly every individual in one way or another, the administration finds itself dealing with the nation as a whole. Hence, inevitably its operations and effectiveness are affected by the attitudes of the nation towards the tax system.

But while tax administration is thus affected by these national attitudes it is equally true that the attitudes can in turn be affected by tax administration. Rational and efficient procedures, higher personnel standards, better management, improvement in relation with the public and in the daily contacts between tax official and taxpayer, can operate to increase the public respect for the tax administration.

Moreover, once the tax administration has been placed on a sound basis, it is in a position to assert that compliance must be forthcoming. Such an assertion would hardly be tolerated or even taken seriously, as long as tax officials were themselves inefficient and corrupt. But if the administration has brought stability and honesty to its own operations, the self-respect thus achieved can form the foundation for its demand of respect and compliance from the taxpayer. To encourage compliance it is equally important that tax authorities administer the law fairly. This implies both an absence of arbitrary or corrupt behavior on the part of the officials, and “normative standards” to ensure that the same laws are applied and administered in a standard fashion across the board.

On the other hand the ways in which revenue authorities interact with taxpayers and their own employees have an impact on public perception of the tax system and the degree of voluntary

compliance. Taxpayers who are aware of their rights and expect, and in fact receive, a fair and efficient treatment are more willing to comply. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and “user friendly” administrative systems and procedures. Voluntary compliance is enhanced when it is easier for taxpayer to do so.

C. Awareness

James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such tax payers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons. On other side, other writers argue that tax noncompliance is an intentional behavior. In countries like Ethiopia where most of the business community have no access to information, lack of awareness cannot simply be overlooked rather it can be assumed as a major determinant of tax compliance behavior.

D. Culture

According to Fjeldstad and Ranker (2003), increased efficiency of the tax administration, however, is not enough. Many observers conclude that a lack of tax paying ‘culture’ is the largest obstacle to building a firm long-term revenue base. The opposite may, however, also be the case: as long as the tax administration culture is perceived to be influenced by sectarianism, nepotism, and corruption, it is unlikely to contribute to the fostering of a more conducive tax paying culture.

Gaining a better understanding of why people do and do not accurately report and fully pay the taxes they owe is obviously interesting to policy makers (Smith and Kinsey, 1987). In Ethiopia where the system of government has evolved from feudal (where taxes were used by individuals in government) to current one, it is obvious that negative attitude towards tax has been developed

in the society. In this sense it is difficult to conclude that there is a culture in the country that appreciates voluntary compliance.

E. Honesty of the taxpayers

It is pointed out by Adams (1991) that the success of income tax rests primarily upon the honesty of taxpayers. Adams further states that one of the factors that contribute to the dishonesty of the taxpayers is the complexity of the tax system, as it may lead to administrative failures. This can be viewed as it has relation with the tax culture of the society. Practically it is difficult to obtain genuine information from taxpayers regarding their income. Hence, tax gap is created to the extent the taxpayers hide information regarding their business activity.

F. Lack of ability to pay

Some observers (Fjeldstad and Ranker, 2003;p166) argue that in African countries like Namibia and South Africa, the nonpayment is due to poverty or inability to pay. This issue holds true in Ethiopia also where several small business operators (category 'c' taxpayers) are accumulating their annual tax obligations due to lack of ability to pay. Generally when taxpayers have no enough disposable income and they used to consume the return from sales, it is clear that tax evasion is inevitable and leads to tax arrears.

G. Social Factors

The issue of (non-) compliance is not only a question of state-society relationships but also a question of relationship between citizens and/ or groups of citizens within local communities. There is an existing social bond between the society and this bond influences the members of the society in complying with the tax law. That is taxpayers may be influenced by their peer groups to comply or not to comply with the tax law.

As cited by (Fjeldstad and Ranker, 2003;p133), the dimension of trust that seem to affect compliance is trust in other citizens to pay their share of service charges. In particular, trust in other citizens to pay their share seems to be important. The larger the fraction of the local population that is observed not paying, the lower perceived risk of being prosecuted. This has impacts on the individual taxpayer's perception of the credibility and trustworthiness of the revenue administration.



In other way, there are also two broad approaches to the problem of tax compliance that is the one developed from economic rationality, using the economic analysis, while the second is concerned with behavioral issues and draws heavily on concepts and researches from other disciplines, such as psychology and sociology. Economic and behavioral approaches are sometimes regarded as competing explanations (Valeria, 2004). The economic approach identifies economic factors that affect the tax compliance behavior as follows: financial burden, cost of compliance, incentives, individual differences (gender, age, and education level), perceived inequity, perception of minimal risks and risk taking.

Chapter Three

3. Research Methodology

3.1. Introduction

This chapter focuses on research methodology that was used in the study. It provides detail descriptions of the research approach adopted, data sources, data type and data collection techniques, population and sampling design, sample size determinations and method of data analysis used were presented in subsequent sections.

3.2. Data source, data type and data collection techniques

The study used both primary and secondary sources of data. The secondary data was used from sources including books, journal articles, previous studies of researchers and/or scholars in the sector, reports and manuals of the tax authority, and other internet sources as well, as they provide detailed and latest findings on the field of study. On the other hand, the primary data were collected from taxpayers who were engaged in different sectors of business in the region.

The study used structured questionnaire so as to gather data from large number of respondents in short period of time. The questions included in the questionnaire were both open ended and close ended questions. And additional data that may be required from the tax authorities of the region has collected via interview with tax officers of the region.

3.3. Population and sampling design

The total populations of this study are members of the chambers, who are estimated about 5,258 tax payers in the regional state. In order to collect data, the study tried to use micro, small, medium and large taxpayers who are working in different sectors in the region. The study population was identified based on sectors that are service sector, manufacturing sector (industry), construction sectors and, urban agricultural sectors of the region. Thus, sample of the whole population were taken in order to collect data.

The study employed simple random sampling design because each element in the population has equal and independent chance of being selected in the sample. And when drawing the sample, the way of selecting a sample was without replacement. From the random sampling design the study were used stratified random sampling designs, because the study planned to stratify the

population in different sectors as mentioned above. This is because the populations within the strata are homogeneous with respect to the characteristics on the basis of which it is being stratified.

3.4. Sample size determination

In this study the researchers considered a sample of 99 respondents out of total population of 5,258 tax payers who were members of Harari Chambers of Commerce. The sample size for the study calculated using to the formula recommended by **Yamane (1973)** as cited by (Wickramasinghe, 2007).

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

Where,

- n is sample size
- N is total population
- e² is probability of error

Therefore the sample size for this study is:

$$n = \frac{5,258}{1 + 5,258(0.10)^2}$$
$$n = \underline{\underline{99}}$$

This sample size includes all the three categories of tax payers by the stratified cluster. The researchers also assumed the presence of homogeneity character within the cluster.

3.5. Data Analysis Techniques

In order to analyze the data that are collected through different sources first, it was edited so as to identify and minimize, as far as possible errors, incompleteness and gaps in the information obtained from respondents. The data was then coded; this procedure helped to convert the edited raw data into numbers or symbols. Finally, the data was tabulated to count the number of samples falling into various categories. After the data are ready for analyses, descriptive statistical tools were employed to analyze the data.

Chapter Four

4. Data Presentation, Analysis and Interpretation

4.1. Introduction

The aim of the study is assessing the challenges and experiences of tax collection in Harari Regional State. This chapter deals with the primary data analysis and interpretation of the result. The primary data were collected through survey questionnaire and analyzed by using descriptive statistical tools including various tables, figures, and simple percentages. To collect the required data from respondents a total of 99 questionnaires were distributed and a total of 97 questionnaires were returned. Hence, the analysis is made only based on the 97 respondent's response.

4.2. Demographic characteristics of respondents

Gender:

As table 4.1 indicates the gender disparity exists between of the respondents. From the total sample size we took 84.50 % were male while the female participation is only 15.50 %. This figure tells the male dominancy of the business ownership and operations in the region.

Table 4.1 Respondent's Sex

Variables	Frequency	Percent
Male	82	84.5
Female	15	15.5
Total	97	100.0

Source: Survey, 2018

Age:

Table 4.2 shows that 40.20 % of the respondents' age falls between 30 to 40 years, which is followed by the 34 % of the respondents' age is from 41 to 50. Study respondents who were aged above 50 years old were accounted for 13.40 % while, 12.40 % were youngsters, age group less than 30 years old. The result from survey show that majority of the respondents were aged 31 to 50 which accounts 74.20 %. This indicates the majority of the respondents are under economically active and productive age category.

Table 4.2 Respondent's Age

Age	Frequency	Percent
Less than 30	12	12.4
31 to 40	39	40.2
41 to 50	33	34.0
Above 50	13	13.4
Total	97	100.0

Source: Survey, 2018

Level of Education:

As indicated on table 4.3 from the total respondents 48.50 % of the respondents were high school completed, which is followed by 19.60 % of degree holders and 12.40 % were diploma. Whereas, 11.30 % of the respondents have vocational certificate while, only 1 % of the total respondents is master holder and 7.20 % of the respondents were not attended formal education. The analysis shows almost half of the respondents/business owners are high school completed with limited educational qualification to run their business with challenges.

Table 4.3 Level of Education

	Frequency	Percent
High School completed	47	48.5
Vocational certificate	11	11.3
Diploma	12	12.4
Bachelor Degree	19	19.6
Masters	1	1.0
Not Attended formal education	7	7.2
Total	97	100.0

Source: Survey, 2018

Business Sector

As we can see from table 4.4 below, majority of the respondents which is around 60.80 % were from merchandising business followed by service sector 25.80 % and the remaining 9.30 % and 4.10 % of the respondents were manufacturing and construction sectors respectively. From the finding one can observe that how the merchandising sub sector is a back bone activity in the study area.

Table 4.4 Business sector

	Frequency	Percent
Manufacturing	9	9.3
Service	25	25.8
Merchandising	59	60.8
Construction	4	4.1
Total	97	100.0

Source: Survey, 2018

Position in the sector:

Of the total respondents 94.79 % of them were found owners of the business while, 3.13 % are employed accountants of the business as shown on the table below. Here we can conclude that, most of the business in the study area managed by owners themselves instead of other hired managers.

Table 4.5 Position in the sector

	Frequency	Percent
Owner	91	94.79
Accountant	3	3.13
Others	2	2.08
Total	96	100

Source: Survey, 2018

Experience in business:

As the study result indicates on table 4.6, about 63.90 % of the sample respondents have over six years' service experience in the business. Whereas from the total respondents 15.50 % are less than 3 years and the same percentage also have 3 to 6 years of experiences. The remaining 5.20 % of the respondents are new entrants to the business, have less than one year of experiences. This implies that the respondents do have experience which is enough to tell the facts on the ground.

Therefore, we can conclude that, even though the respondents do have fewer years of schooling they have enough experience to run their business and at least it helps them to prepare all the necessary documents for the purpose of determining their own tax liability and so forth.

Table 4.6 Experience in business

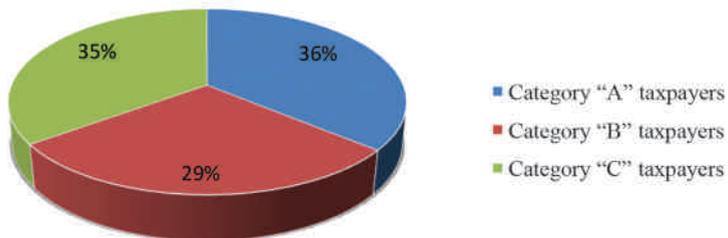
	Frequency	Percent
Less than one year	5	5.2
1 to 3 years	15	15.5
3 to 6 Years	15	15.5
Over six years	62	63.9
Total	97	100.0

Source: Survey, 2018

Categories of taxpayer

According to the income tax proclamation in Ethiopia, tax payers are categorized in to three categories based on their income, saying category A, B and C. Accordingly, the survey result indicates in chart 4.1, from the sample respondents, Category A, B and C are represented 36.10 %, 28.90 % and 35.10 % respectively. This shows all categories are fairly distributed in the sample.

Chart 4.1: Categories of taxpayers



Source: Survey, 2018

4.3. Analysis about challenges and experience of taxation

4.3.1. Tax payers awareness about Ethiopia tax system

4.3.1.1. Tax payers' knowledge about taxation

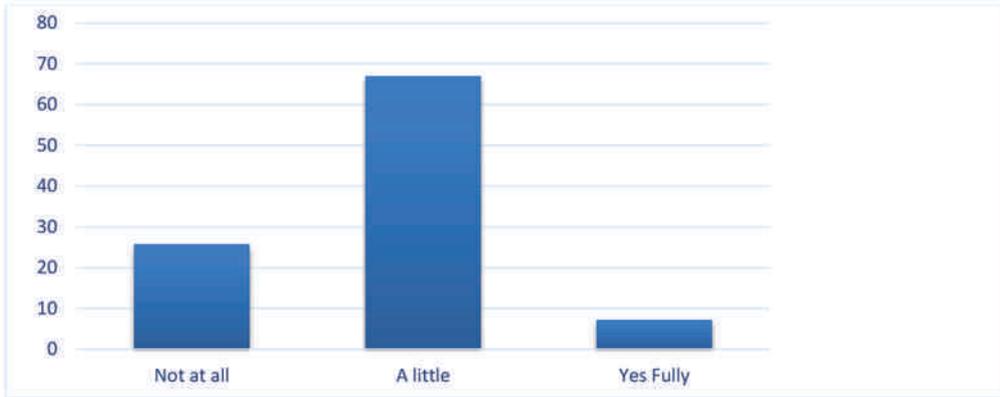
For a taxpayer, knowledge of Ethiopian tax system is important to know how, for whom, how much and when he/she is paying tax. Once they know the tax system, the amount of tax to be paid will be easily determined.

To understand their level of knowledge on the tax system, taxpayers were asked whether they do have enough knowledge or not. As a result indicated on chart 4.2 only 7.20 % of the sample respondents have enough knowledge and the remaining 92.80 % of the sample respondents do not have enough knowledge on the matter or have got very little information that cannot make the respondents confident.

This is basically due to two major reasons, from the tax payer side there is limited educational qualification and less motive for expedition of new information. The other one is due to little effort from the revenue authority to capacitate and filling the information gaps presented on table 4.3 and chart 4.3 respectively.

Because of having such little or no information/knowledge about the tax system payers may feel that the money they paid is beyond the required, may also trigger them to complain for every single charge, they also perceive they are treated differently, and reduce the willingness of tax payers to execute their liability. Furthermore, this problem is pertinent to evade the tax liability unknowingly.

Chart 4.2: Level of awareness on taxation system



Source: Survey, 2018

In line with this, researchers requested respondent's yearning to fill the information gap, table 4.7, shows almost all (96.67 %) of the respondents are in need of training about Ethiopian taxation system. This may help the payers to easily and certainly determine their taxable income and calculate their tax liability. Such a huge demand for training should initiate the authority to facilitate conduct on the matters.

Table 4.7 Training needs

	Frequency	Percent
YES	87	96.67
No	3	3.33
Total	90	100.0

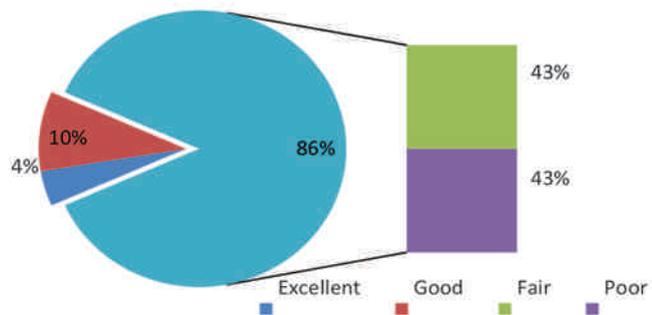
Source: Survey, 2018

4.3.1.2. Awareness creation

Respondents were also asked to rate the effort of tax authority on awareness creation regard to tax and related issues. As we can see from the chart below only 4.10 % and 9.30 % of sample respondents graded it is excellent and good respectively. However, the remaining 43.30 % of the sample respondents said it is fair and the other 43.30 % also said the effort of tax authority to create awareness regarding tax and tax related issues is poor.

Therefore, awareness creation works has to be done by the tax authority though proper dissemination of information via media, brochures, organize seminar or workshop to discuss on practices and research findings, arranging tax day or week, and so forth. This may help not only the tax payer but also simplify the collection process to the tax administrative office.

Chart 4.3: Awareness creation effort by the authority



Source: Survey, 2018

4.3.2. Tax officer Competency

4.3.2.1. Respecting tax payer

One of the measurements of respecting tax payer is the tax officer competency; these competencies can be measured in terms of business understanding, result orientation, customer services skill, team work and cooperation skills, communication skills and effectiveness. To see these tax officer competencies, respondents were requested whether the tax officers treat them with due respect while going there for payment of tax or not. As we can see from table 4.8, below 60.40 % of the sample respondents replied that the officers do not treat obediently. Such incompetence from the official's side may dishearten taxpayer to pay their liability and may also frustrate the payer to claim any extra services like consultancy. Hence the authority has to work on improving the service delivery system.

This finding has been also supported by the respondent's reflection on issues that ill-treatment by the tax officials thought missing their documents, wasting time, frequent appointment to get services and also gives unattainable promises. Respondents were strongly raised the issue of missing documents. This is basically due to improper documentation facilities from the office, high staff turnover, and obsolete techniques of sorting and searching documents. Due to this problem customers get fed-up with the ups and downs for finding documents, it takes their precious time and if it is missed they will be charged extra payment and so forth.

Table 4.8 Respecting tax payer

	Frequency	Percent	Valid Percent
Yes	38	39.2	39.6
No	58	59.8	60.4
Total	96	99.0	100.0
Missing System	1	1.0	
Total	97	100.0	

Source: Survey, 2018

4.3.3. Canons of taxation

4.3.3.1. Certainty in time, amount, and provision of tax

One of the principles of taxation is the principle of certainty which states that each tax payer is required to pay should be certain and there should be no ambiguity. The amount to be paid, timing of payment, procedure for payment should all be certain and known to the tax payer. There should be no element of ambiguity in the taxation provisions as this may lead to corruption (if any element of taxation can be controlled by the will of the government authorities). To see the case certainty, tax payers were asked different questions to measure the principle of certainty are implemented or not.

To begin with certainty in timing of payment tax payers were asked whether they are clearly certain about the timing of payment or not. As we can see from table 4.9 depicted here below around 93.80 % of the sample respondents are certain about the timing of payment which supports the principle of certainty, which states that the taxpayer should certain about the timing of payment, and the remaining 6.20 % of the sample respondents do not know when to pay tax.

Table 4.9 Certainty in time of payment

	Frequency	Percent
Yes	91	93.8
No	6	6.2
Total	97	100.0

Source: Survey, 2018

Even though, the tax payers do know the time of payment certainly they have a limitation on paying the tax liability on time. As shown form the table4.10, 39.4 percent of the tax payers execute their liability at the eleventh hour. Such a delay will causes a distortion of the services provided.

Table 4.10 Delay on tax payment

	Frequency	Percent
Early after date of announcement	22.3	22.3
Sometime later from the date of announcement	30.9	53.2
Lately after date of announcement	39.4	92.6
Within the extension time without penalty	7.4	100
Total	100	

4.3.3.2.Reasons for delaying tax payment

The respondents were asked to rate the reasons that they may think the factors that hinder taxpayers not to respond the payment of tax liability on time. As a result the finding from the survey indicates the very major factors listed by their significance in the following order: attitudes of income tax departments (37.11 %), inadequate information as to purpose of tax revenue (36.08), it is unfair/ beyond my ability/High rates of taxation (34.02 %), complexity of tax laws (34.02 %) and lack of awareness (33 %) respectively. In addition respondents were also asked to suggest possible solutions used to alleviate the above listed reasons and they responded the following as a means of reducing not to respond the payment of tax liability on time, taxpayer education and similar services, reducing tax rate and offering electronic filing and payments.

Table 4.11 Reasons for delay payment

S.N	Item/reasons	Not at all %	Least %	Medium %	High %	Very High %
1	Attitudes of income tax departments	9.28	4.12	11.34	38.1	37.1
2	Inadequate information as to the purpose of tax revenue	6.19	11.3	23.71	22.7	36.1
3	Complexity of tax laws	5.15	5.15	28.87	26.8	34
4	It is unfair/ beyond my ability/High rates of taxation	9.28	5.15	28.87	22.7	34
5	Lack of awareness	9.28	3.09	32.99	21.7	33
6	The mode of payment is not convenient	10.31	5.15	26.8	32	25.8
7	Poor collection procedure	13.4	8.25	28.87	26.8	22.7
8	Ineffective tax enforcement	13.4	15.5	29.9	26.8	14.4
9	The time of payment is not convenient	36.08	12.4	26.8	12.4	12.4
10	Low level of penalty	47.42	13.4	22.68	11.3	5.15
11	Intentional /Moral/ psychological factors	32.99	18.6	22.68	21.7	4.12
12	Carelessness	42.27	17.5	25.77	11.3	3.09

Source: Survey, 2018

In addition to the above, respondents were also asked whether the provision of tax is clearly specified without any ambiguity or not. As we can see from the table 4.12 below around 76.0 % of the sample respondents said the provision of tax is not clearly specified. But according to the principle of certainty, there should be no element of ambiguity in the taxation provisions as this

may lead to corruption. This result tells us that the principle of certainty in this context is not implemented in Harari regional state.

Table 4.12 Certainty in provision of tax

Do you think that, the provision of tax is clearly specified without any ambiguity?		Frequency	Percent	Valid Percent
Valid	Yes	23	23.7	24.0
	No	73	75.3	76.0
	Total	96	99.0	100.0
Missing	System	1	1.0	
Total		97	100.0	

Source: Survey, 2018

The amount of tax that each tax payer is required to pay should be certain but according to the survey result seen from table 4.13, around 61.90 % of the respondents do not know the amount they are required pay and the procedures for payment too which is also against the principle of certainty.

Table 4.13 Certainty in amount to be paid and procedures for payment

Are you clearly certain about the amount to be paid and the procedure for payment?	Frequency	Percent
Yes	37	38.1
No	60	61.9
Total	97	100.0

Source: Survey, 2018

4.3.3.3. Fairness of the tax system

the other principle of tax is the principle of equity that states the tax system should be framed depending on the ability of the people to pay tax (i.e. the richer sections or the high- income group should be subjected to higher tax while relatively less tax should be imposed on the low income group).

To see this, respondents were asked whether the tax they pay is depending on the ability to pay or not. As we can see from table 4.14, around 69.10 % of the respondents said the tax system is not fair. as the respondents reflect the amount of tax is levied without an economic parameters,

such as ability to pay. Instead they are charged differently on the base of ethnicity, religion, and other social factors.

Table 4.14 Fairness of tax system

Do you think that the tax system is fair (depending on the ability of the people to pay tax)?	Frequency	Percent
Yes	30	30.9
No	67	69.1
Total	97	100.0

Source: Survey, 2018

4.3.3.4. Convenience of the time and mode of payment

Another principle of tax is the convenience principle which states every tax ought to be levied at the time or in the manner in which it is most likely to be convenient enough for the contributor to pay it. In other words, taxes should be imposed in such a manner and at the time which is most convenient for the tax-payer. As we can see from table 4.15 that majority of them around 66 % of the sample respondents said the time of payment is convenient to pay tax.

Table 4.15 Convenience in time

Is the time of payment convenient for you to pay tax?	Frequency	Percent
Yes	66	68.0
No	31	32.0
Total	97	100.0

Source: Survey, 2018

4.3.3.5. Simplicity of the tax system

One of the principles of tax is the principle of simplicity that states a tax should easily be understood by the tax-payer i.e., its nature, aims, time of payment, method and basics of estimation should be easily followed by each tax-payer. In other words, the tax imposed should be so simple in that the tax-payers. They, as a result, do not confront any accounting, administrative or any other difficulties. To see simplicity of tax respondents were asked whether the method and basics of tax estimation is easily followed by the tax payer or not. As we can see from table 4.16 that only 30.90 % of the sample respondents said the method of tax estimation is

easily followed but majority of them around 69.10 % of the sample respondents said that the method of tax estimation is not easily followed by the tax payer which is against the principle of simplicity.

Table 4.16Simplicity

Do you think that the method and basics of tax estimation is easily followed by the tax payer?	Frequency	Percent
Yes	30	30.9
No	67	69.1
Total	97	100.0

Source: Survey, 2018

4.3.4. VAT collection and Withholding VAT

On an ordinary sales tax, the tax on the goods is paid once, when the item is sold. But with VAT, every time an item is sold - from the manufacturer to the wholesaler, from the wholesaler to the retailer, from the retailer to the consumer, VAT is paid and collected. In the end, though, only the end consumer pays because businesses along the chain can reclaim the VAT they pay from the government in the course of doing business.

VAT withholding is a mechanism to account for and pay VAT on the supply of goods and services by the person making the payment. It is the application of the reverse charge mechanism on transactions carried out within a given tax jurisdiction. This system obliges typical bodies and large taxable persons to withhold VAT charged to them by their suppliers. Instead of paying the VAT to their suppliers, VAT withholding agents are required to remit the VAT directly to the concerned tax authority. Taxpayers are allowed to offset VAT withholding against VAT payable in a period. If the withholding VAT and the input VAT exceed the VAT payable on sales, the excess is claimable as refund.

According to the finding of this study, the researchers try to investigate whether taxpayers have know-how about withholding VAT or not. As illustrated on table 4.17 below about 63.30 % of the respondents indicates they do not have knowledge about the matter, whereas it is only 36.70 % of which have sufficient knowledge.

This may be because of tax payer's information gap and educational background. Hence, it is challenging for the tax payers to exercise their rights and claim reimbursement. This implies that the authority has to devote itself in creating awareness and serve its customers according to the procedures. This can create trust worthiness between the two parties.

Beside the information gap observed the researchers has also informed from the office through arranged interview that there are some businessmen who are eligible but not included in the VAT registrars list. In contrary to this scenario there are also business organs that are not qualified but forced to collect VAT. It causes unbalanced competition between taxpayers in the market.

Table 4.17 Withholding VAT

		Frequency	Percent	Valid Percent
Valid	Yes	33	34.0	36.7
	No	57	58.8	63.3
	Total	90	92.8	100.0
Missing	System	7	7.2	
Total		97	100.0	

Source: Survey, 2018

4.3.5. Analysis of Accounting Treatments

4.3.5.1. Financial record keeping

In a this world everyone who is doing business need to keep financial records periodically, and as per our countries regulation Category "A", tax payers are legally obliged to maintain proper books of accounts and other document. They must prepare and submit to the tax authority, at the end of the tax year (accounting period), a balance sheet and an income statement. In line with the legislation most of (97.10 %) of Category "A", tax payers prepare financial records periodically as seenon table 4.18.

Category "B", tax payers, like category "A", shall maintain proper books of accounts and shall use the type and quantity of vouchers registered and approved by the tax authority. Moreover, they are required to submit only income statement (balance sheet is not mandatory) to the tax authority. From Category "B" taxpayers, around 64.30 % of the sample respondents prepare financial records periodically, but the remaining 35.70 % of the sample respondents do not prepare financial records periodically.

Whereas, unlike category “A” and “B” category “C” tax payers are not required (not mandatory) to maintain books of accounts and to prepare financial statement. To determine the income tax liability such tax payer’s standard assessment or presumptive tax this is fixed amount of tax determined by estimation. As we can see from table 4.18 that 76.5 % of Category “C” tax payers do not prepare financial records periodically but the remaining 23.50 % of Category “C” tax payers prepare financial statements periodically, these tax payers are expected to pay their taxes on basis of such book accounts not by estimation.

Though it is noted that genuine financial statement makes both taxpayer and collectors beneficial, like to control the economic progress the business and the country at large. The tax regulation itself also enforces category A and B taxpayers to prepare and keep financial records. However as the survey indicates one third of category B taxpayers do not keep financial records accordingly due to the following reasons; absence of knowledge about the role of financial record keeping due to less literacy (see table 4.3), unacceptance (less trustworthiness) of financial reports by tax officials, this may affect tax payers’ morale to prepare financial statements, and they do not also invite professional accountants like consultant firms in preparation of the reports.

This may adversely affect the business in a ways that the owners will fail to monitor and evaluate the progress, wrong judgment or unjustifiable decision making by the manager which will affect profitability of the business and future plan, causes a difficulty during conducting tax audit, a business who is not preparing financial records periodically does not even know its income and expenses, and unless the company records its revenues and expenses immediately at the time of sales or service delivery, it is difficult to remember as time goes and it leads tax collectors to estimate firms’ tax liability which in turn leads to compliance in the region. Furthermore, it will be challenging to clearly identify the sources of its income whether they are taxable or not. At the same time government may not get the fair share of tax revenue due to a subjective rough estimation.

Table 4.18 Financial Record keeping in different categories of tax payers

		Do you keep financial records/books periodically?		Total
		Yes	No	
Category “A” taxpayers	Count	33	1	34
	Percentage	97.1%	2.9%	100.0%
Category “B” taxpayers	Count	18	10	28
	Percentage	64.3%	35.7%	100.0%
Category “C” taxpayers	Count	8	26	34
	Percentage	23.5%	76.5%	100.0%
Total	Count	59	37	96
	Percentage	61.5%	38.5%	100.0%

Source: Survey, 2018

4.3.5.2. Declaring taxable income

It is fact that to improve the tax system of a country a good understanding of taxpayers’ knowledge in declaring their taxable income to the revenue authority is important. Thus to see this respondents were also asked whether they know that they need to declare their taxable income to the Revenue authority or not. As we can see from table 4.19 below, around 85.60 % of the sample respondents clearly know that they need to declare their taxable income to the revenue authority and the remaining 14.40 % of the sample respondents do not even know that they need to declare their taxable income to the revenue authority.

Table 4.19 Declaring taxable income

		Frequency	Percent
Valid	Yes	83	85.6
	No	14	14.4
	Total	97	100.0

Source: Survey, 2018

4.3.5.3. Tax Audit

As we have stated above that the tax payers are obliged to keep financial records which enables the tax auditor’s easily and independently investigate whether a taxpayer has properly reported its tax liability in compliance with the regulations or not. In addition to this it helps tax payers to strengthen the business operation by taking lessons from the findings. Therefore to assess the tax audit practice in the region, respondents were asked whether they have been audited by the

revenue authority or not. As the result indicated on the table 4.20 below around 56.30 % of the sample respondents replied as they never been audited by the revenue authority.

An interview held with the authority has support the findings from the tax payers and they have explained the reasons. Basically, the major challenge observed is that the offices do not have enough capacity to address all tax payers every year. In addition to this the tax payers also do not prepare financial reports to supplement the process of tax audit.

Thus, absence of intensive tax auditing makes either the payer or collector suffer from inappropriate decision. Government may not detect errors and fraud in preparation of the financial reports, they also face continuous complain which is not easily address in absence of such reliable information, government may also fail to collect the expected tax revenue as payers may evade their true income and expenses, this may discourage the payers to prepare financial reports periodically. Whereas, from the payer’s side they may be conceded unfair burden as there is no independent cross check, this may also cause payers to bear a tax arrears.

Table 4.20 Tax Audit

Have you ever been audited by the revenue authority or any other auditor		Frequency	Percent	Valid Percent
Valid	Yes	42	43.3	43.8
	No	54	55.7	56.3
	Total	96	99.0	100.0
Missing	System	1	1.0	
Total		97	100.0	

Source: Survey, 2018

4.3.5.4. Tax in arrears/tax debt

As we can see from table 4.21 below that indicates about 65.70 % of category “A” taxpayers faced problem of tax in arrears, around 47.37 of category “B” taxpayers were also faced the same and 44.12 % of category “C” taxpayers were also faced the problem from their respective categories. As respondents reflected the major reasons for facing such problem is that the tax authority charge the tax payers based on rough estimation instead of using the tax payers’ report which has been unconsidered (dumped) by the authority. Beside these, the information gap and

wrong guidance by their colleagues leads them to be indebted. Due to the incidence of the tax arrears, payers will be forcibly claimed to pay unintended expenses, and they are also subjected to be penalized.

Table 4.21 Tax arrears/tax debt

			Category "A" taxpayers	Category "B" taxpayers	Category "C" taxpayers	
Have you ever faced the problem of tax in arrears?	Yes	Count	23	9	15	47
		%	65.70 %	47.37 %	44.12 %	48.45 %
	No	Count	12	19	19	50
		%	34.30 %	52.63 %	55.88 %	51.55 %
Total			35	28	34	97

Source: Survey, 2018

4.3.6 Tax compliance

4.3.6.1 Problems of revenue authority

Respondents were also asked whether they faced any problem in the revenue authority or not. As we can see from table 4.22 that majority of them around 58.10 % faced problem in the authority. In addition those respondents who faced problems were also asked to tell us the problems they face including the tax offices will not address complaints on time, absence of documents even from computer, enforcing to purchase VAT machine, forcing to pay extra money because of the tax officers' carelessness in handling necessary documents.

Table 4.22 Problems in revenue authority

		Frequency	Percent	Valid Percent
Valid	Yes	54	55.7	58.1
	No	39	40.2	41.9
	Total	93	95.9	100.0
Missing	System	4	4.1	
Total		97	100.0	

Source: Survey, 2018

4.3.6.2 Compliance

As we can see from table 4.23 respondents were asked whether they complained about the tax procedure or not and the result indicates about 54.60 % of sample respondents complained to grievance redressing office of Harari regional revenue authority.

The fundamental reason for their complaints is overcharge of tax which is beyond the capacity. To the same extent unfair treatment was also the case for complains. This unfair treatment has explained by the respondents on the basis of ethnicity, religion and other social factors too. In addition some of the respondents replied missing of documents caused the tax payers to pay unexpected amount of tax which was imposed based on authority's estimation. Of which only 38.10 % of the complaint application has addressed while the remaining 61.90 % of the complaints were not addressed by the authority.

Table 4.23 Tax payer Compliance

		Frequency	Percent	Valid Percent
Valid	Yes	53	54.6	55.2
	No	43	44.3	44.8
	Total	96	99.0	100.0
Missing	System	1	1.0	
Total		97	100.0	

Source: Survey, 2018

4.3.7 Tax Evasion

As we interviewed the tax officials the regional tax payers have continuously attempt to hide the actual income to understate the real liable amount. This evasion is a crime in almost all countries including our country. However, the root causes of tax evasion vary from person to person, from business to business and sector to sector, and so forth. This study's finding indicates that evasion made in the region basically for two major factors; those are understatement of income and exaggeration of expenses. This occurs by tax payers incorporate their personal expenses like school fee, personal fuel bill, and other home utility charges into the entity expense. In line with this, some of tax payers also do not issue sales invoice to their customers. This is a means to reduce their actual earnings and potential tax liability to the authority.

5. Conclusions and Recommendations

5.1. Conclusions

Based on the results from survey analysis and findings on the research from chapter four, we can conclude the following:

- Under this survey, the demographic features of the respondents were assessed and the result indicates as male dominant, economically active labor force, less educated, highly involve on merchandising business and long service years of experience.
- The researchers found that the time of payment is convenient to taxpayers and they also clearly know when to pay their tax liability but the amount of tax liability is not predetermined by the taxpayers. On the other hand the survey result shows the unfairness of the tax system. This implies tax payers are not paying by the ability to pay which is against the principle of equity. Instead of levying tax by their ability, the office determined on the base of ethnicity, religion and social relationship. Furthermore, in the study area the method of tax estimation is not easily understood due to the fact that there is limited education, fewer motives for expedition of new information, little effort from the revenue authority to capacitate and filling the information gap.
- Category “A”, tax payers are legally obliged to prepare financial books of accounts. In line with this legislation most of category “A” taxpayers prepares financial records periodically. Most of Category “B”, tax payers also prepare financial records periodically, but some of category “B” tax payers do not prepare financial records periodically. But, category “C” tax payers unlike category “A” and “B” are not required (not mandatory) to maintain books of accounts and to prepare financial statements. To determine the income tax liability such tax payers use standard assessment or presumptive tax. In general, most of the taxpayers do not prepare and keep financial records periodically. This is due to due to less literacy, un-acceptance (less trustworthiness) of financial reports by tax officials, lack of tax payers’ interest to prepare financial statements as it will be dropped by officials, and they do not also invite professional accountants like consultant firms in preparation of the reports. This may adversely affect the business in a ways that the owners will fail to monitor and evaluate the

progress, wrong judgment or unjustifiable decision making by the manager which will affect profitability of the business and future plan, causes a difficulty during conducting tax audit, and also leads to compliance in the region, thus, the office is forced to levy tax based on rough estimation.

- ▶ The office has failed to organize and offer awareness creation on the taxation system. Even though the correct procedures are needed to be followed for effective administration, there are some unnecessary bureaucracies were also observed which takes time and effort of tax payers. In addition to these, the finding indicates category 'A' tax payers has strongly complained as the office will not refund their VAT reimbursement on time.
- ▶ The result from the analysis indicates that Category "A", "B" and "C" taxpayers faced the problem of Tax arrears/tax debt. The reason for facing tax arrears is identified as tax authority charges tax payers based on rough estimation instead of using the tax payers' financial report. Due to the incidence of the tax arrears, tax payers will be forcibly claimed to pay unintended expenses, they are also subjected to be penalized.
- ▶ The researchers investigated that the office of tax authority, who was supposed to follow and audit tax payers in a regular manner but the result of the survey indicates majority of the business operators were not audited by the time. This is because, the office does not have enough capacity to address all tax payers every year, tax payers also do not prepare financial reports to supplement the process of tax audit. The effect of being unaudited leads government not to detect errors and fraud in preparation of the financial reports, they also face continuous complain which is not easily address in absence of such reliable information, government may also fail to collect the expected tax revenue as payers may evade their true income and expenses, and also discourage the payers to prepare financial reports periodically. Whereas, from the payer's side they may be conceded unfair burden as there is no independent cross check, this may also cause payers to bear a tax arrears.
- ▶ This study's finding indicates that evasion made in the region basically for two major factors; those are understatement of income and exaggeration of expenses.

5.2.Recommendations

By taking into consideration the facts discussed in the analysis part and major findings, the researchers forwarded the following recommendations:

- The Harari regional state tax authority has to exercise the tax principles for an effective taxation system. This can be through strengthening office by recruiting new staffs, educating and training its employees about impartiality on estimating the tax liability, treating customers as a king, creating conducive environment like office arrangements, to induce tax payer's interest.
- The office has to give multiple alternative ways of payment mechanisms like electronic payment systems and modernize their service delivery through integrating the process in a computerized way. In addition to the mode of payment the office has to also automate the customers profile and the documentation archive. This will simplify and assure the quality of the service to find individuals file as required.
- The tax officials are expected to treat tax payers objectively without any prejudice. As long as all customers are equal in the eyes of the office, all payers have to be entertained regardless of any differences.
- The tax office has to facilitate events to work in collaboration with tax payers and the chamber office. So that misunderstanding and wrong doings will be solved on the spot.
- The authority has to provide an intensive training and regular capacity building works to the business community about tax rules and regulations, how to maintain books of accounts, preparation of financial statements and other tax related issues. The researchers recommend the office to maintain adequate management information system. So that, taxpayers must receive clear, concise and up-to-date information on describing what is to be taxable, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay tax. To effect this intervention the office has to disseminate information through mass media, pamphlets, organize regular panel discussion and dedicate a tax week or day as convenient; to create awareness about the system.
- Based on the finding researchers recommend the office to rescreen the potential lists of VAT registration based on an objective criteria's. Such as based on the settled threshold or volunteer registration of taxpayers considering their customers. This will create an equal opportunity for competition in the market and minimize the intensity of their engagement in

illegal trade. On the same matter the office has to equip taxpayer's awareness about withholding VAT to exercise their right. Furthermore, the office has to prepare and implement means to control any mischiefs like non issuance of receipts and smuggling goods by the tax payers, like random assessment and action.

- To address the problem of tax debt the office has to conduct regular audit in collaboration with concerned offices like bureau of finance, bureau of trade and industry, and audit firms. On the other hand a taxpayer has to also prepare and submit quality report on time to preserve any unintended claim latter. If the incidence of arrears occurred the office has to manage the case through arranging an installments payment to reduce the accumulated tax burden.
- On the bases of the finding regarding to the tax audit researchers recommend the office to strengthen its capacity in terms of human capital, facilities and communication means, recognize the success stories and teach others how to minimize the key findings/regular errors/; in addition to this the office has to randomly select sample taxpayers based on certain criteria's like the business size, experience, tax liable volume, and other to execute the audit.
- The authority has to set regulations to prevent and control the act of tax evasion through enabling the office to incentivize the loyal customers and punish evaders persistently.
- Finally, the researchers strongly recommend tax payers to obey the rules and regulations of taxation to alleviate the problems of ambiguity. In addition, they have to also keep financial records and properly employ the VAT machines. Along with this, the tax office has to also enforce the regulations like through reimbursing the refundable tax.

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