



**TAX ADMINISTRATION CHALLENGES, IN CASE OF
AKAKI KALITY SUB CITY SMALL TAX PAYER BRANCH
OFFICE.**

**A MASTER'S THESIS
BY**

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ADDIS ABABA SCIENCE AND TECHNOLOGY

UNIVERSITY

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A Thesis proposal Submitted for the Partial Fulfillment of the Requirements
for the Degree of Master of Business Administration in Industrial
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To

**DEPARTMENT OF BUSINESS AND MANAGEMENT
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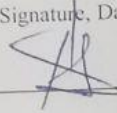
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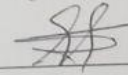


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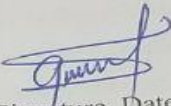
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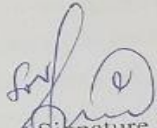
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Abstract

Tax administration is a body responsible for implementing and governing the tax laws and other tax related matter. They are held responsible for assessing, collecting and administering tax processes. The main objective of this paper is to review and examine tax administration challenges, the case of Akaki Kality sub city small tax payer branch office. The study raised major research questions related to tax registration, Tax Education, tax assessment and collection and Audit issues, both quantitative and qualitative research method and Simple random sampling techniques were employed to gather data. The total population of the study was 9077 from tax payers and 364 from tax officials so that 385 samples from tax payers and 195 samples from tax officials were taken. Furthermore, the study analyses and suggests recommendations for the problems highlighted. The problems identified include Poor revenue administration image among tax payers, Bad tax payers attitude towards the government usefulness and effectiveness of public expenditure, lack of facilities, lack professional advice and assistance of tax payers, weakness of tax payer education, shortage of staff competency to assess tax liability, tax payer's attitude towards tax avoidance and tax evasion, Shortage of information held by tax payers and third party,. The findings also shows that insufficient public awareness, lack of training, staff corruption, and shortage of man power are among the issues lead to low tax generation. The study recommends that training should be provided for both tax payers and staff, tax payer education should be improved and enough facilities should be provided tax officials. Also, need to employ competent and qualified staff with background knowledge of accounting and tax discipline.

Key Words: Tax Administration, Tax Audit, Tax Assessment, Tax payer registration

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LIST OF ABBREVIATIONS

AASTU Addis Ababa Science and Technology University

ANOVA Analysis Of variance

EPRDF Ethiopian People’s Revolutionary Democratic Front

ERCA Ethiopian Revenue and Custom Authority

EU European Union

FDI Foreign Direct Investment

GDP Gross Domestic Product

IT Information Technology

LAIFOMS Local Authority Information Financial and Operations Management Systems

OECD Organization for Economic Co – operation and Development

REPOA Research on Poverty Alleviation

TIN Tax Payer Identification Number

VAT Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Different authors have defined tax in different ways. Tax is a compulsory contribution (levy) payable by an economic unit to a government without any expectation of direct and equivalent return from the government for the contribution made (Bhatia, HL, 1976). Tax is the most important source of government income, where country's governments collect a large amount of income through taxation. However tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by government. Tax administration is the identification of tax liability based on the existing tax laws, the assessment of this liability and the collection, prosecution and penalties imposed which covers a wide area of study encompassing aspects such as registration of tax payers, assessment, returns processing, collection and audits. (Kagave, 2005)

Taxation may not sound exciting, but it is central to the development of nations. Currently, taxation has become part and parcel of all economic activities although it fails to meet its intended objectives in numerous developing countries. Developing countries are in difficulty to collect taxes efficiently, because of many serious problems they face as to tax design and administration. They are also in trouble to provide basic social services from taxation (Damme et al. 2008). To reap the proceeds from taxation, developing countries should give great attention to the policy and administration of taxation. Good tax system, apart from generating revenue, minimizes distortion of resource allocation and simplifies its administration (World Trade Organization 2003). Tax administration is a complex and dynamic responsibility. On a regular basis, leaders are faced with new issues, conflicting priorities, taxpayer compliance and emerging commitments (Thomson 2008). As Berhan and Jenkins (2005) noted, governments of developing countries are eager to create modern tax systems although saddled with weak tax administrations, and sometimes have experimented with tax administration mechanisms that inflict higher compliance costs on the private sector. In order to make the multipart tax system relatively successful, it should be approached strategically and

realistically in order to maximize taxpayer participation, create an efficient filing and audit administration, and encourage private sector growth. Tax involves every aspects of income generating activities and consumption items, and requires not only administrative capacity of revenue authority but also the involvement of private sectors through proper accounting and reporting (Tadros 2009).

Any tax in a tax system is vulnerable for evasion and fraud, which has become the concern of many countries. For instance, Carousel Fraud and credit and/or refund abuse in European Union (EU) member countries (Keen and Smith 2007) and abuse of tax credit in Bulgaria (Pashev 2006) and the offence of non-issuance of value added tax (VAT) invoices in Ethiopia (Alemu and Deresse 2009) can be mentioned. Tax fraud is an intentional reduction of the tax liability stemming from real transactions. As Baurer (2005) noted, it is a deliberate misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It typically includes underreporting profits and turnover, overstating deductions, underreporting employee wages, failure to register or file tax declarations, hiding of taxable receipts coming from the production and distribution of real products and services, overvaluing of VAT spent on inputs and abuse of tax return through fictitious transactions and trades.(OECD 2006a). The inspection of the taxpayers' activities indirectly drives voluntary tax compliance, and directly generates additional tax revenue collections. As a result, both (compliance by the taxpayers and the additional tax revenue collected) help tax agencies to reduce the tax gap between the amount due and collected (Barreca and Ramachandran 2004). The objective of this thesis is, therefore, to review and examine tax administration challenges, the case of Akaki Kality sub city small tax payer branch office.

1.2 STATEMENT OF THE PROBLEM

Obviously, a properly designed and administered taxation system is very vital in generating revenue as well as increasing the tax base to the government of developed, developing, and transitional economies. As Bird (2008) noted, it is unquestionable to ensure that the revenue collected from tax should be raised in efficient and effective manner although it is difficult without fear or favor in countries that are politically fragile.

However, the tax base of developing countries adversely affected by administration problems including poorly conceived tax policies and lack of certainty regarding future policy changes. In addition, tax administrations can also create problems for the tax payers as they impose onerous reporting and record keeping requirements, perform excessive inspections and audits, fail to deal with their corrupt employees, and failure to provide transparency in the operations of tax administration (Baurer 2005). In reality, under inadequate tax administration including insufficient and ineffective audit program, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner (Edmiston and Bird 2004).

In Ethiopia, taxation has been used for the purpose of raising as much revenue as possible to meet the ever-expanding public expenditure needs of the government. However, total tax revenue performance has been relatively poor that accounts an average of 10.9 percent of GDP during 1990-94 and 12.9 percent of GDP during 2000-06 (McKinley and Kyrili 2009).

According to (Demirew, 2005) complexity of tax law, regulations and directives to assess and collect, unawareness of taxpayers about benefit of the tax for country development, lack of competent personnel to assess and collect tax, noncompliance of taxpayers, weak tax administration have been reducing tax to be collected and negatively affecting government to achieve its objectives. On contrary, clear and applicable tax rules and regulations, competent tax officers, taxpayers awareness about the benefit of tax, strong tax administration contribute to the government to achieve the objectives specified in the constitution.

Tax administration should be provided with appropriate enforcement tools, including conduct of effective tax payer registration, tax payer awareness and education, tax assessment and collection mechanism and audit. Hence, to create an effective and fair tax administration, it is vital to address the administration problems that affect it.

1.3 RESEARCH QUESTION

Basic Research Questions;

- What is the status of tax payer registration and education?
- What are the major problems/challenges on tax assessment?
- What are the major problems/challenges on tax audit?

1.4 OBJECTIVE OF THE STUDY

1.4.1 General objective

The main objective of the study is to assess tax administration challenges of Akaki Kality sub city small tax payer branch office.

1.4.2 Specific objective

- To assess the status of tax payer registration and education
- To identify the major problems/challenges that hinder tax assessment practice of the branch
- To analyze the major problems/challenges of tax audit practice.

1.5 SCOP OF THE STUDY

This thesis is delimited to the assessment of Tax administration challenges in case of Akaki kality sub city small tax payer branch office. This study is confined to Addis Ababa city, though physically confined to Akaki kality sub city small tax payer branch office and tax payers found in Addis Ababa. The main reason for choosing this problem is that improving tax administration practice is important for the development of the city in particular and country development in general. Thus the study will be delimited to explore the status of Tax administration in case of Akaki kality sub city small tax payer branch office.

1.6 LIMITATION OF THE STUDY

Associated with corona Virus pandemic officials work in shift program. This created work overload on the remained tax officials and poor service delivery to taxpayers so that there was unwillingness from some respondents. To overcome the problem data collectors had to wait for convenient time. This study is confined only to identify Tax administration challenges in case of Akaki Kaliti small tax payers branch office. In addition, the also study unable to consider secondary due to lack of organized and relevant data.

1.7 SIGNIFICANCE OF THE STUDY

The research is expected to identify the main problems of tax administration practice, that affects tax revenue collection and taxpayers' voluntary compliance in the Akaki Kaliti Sub city small tax payer branch and will recommend mechanisms for improvement. Thus, the study will have different significances. First, Akaki Kaliti Sub city small tax payer branch might be able to comprehend the existing tax administration performance, and learn some lessons & build some corrective measures for the weaknesses of tax administration practice based on the recommendations that enhance the performance in the revenue generation process. Second, it may be helpful for the taxpayers and other similar branch offices to have knowledge on tax administration practices. Finally, the study will provide feedback to the Ethiopian government in making policy measures to be undertaken regarding those determinants, and also serve Ethiopian revenue and customs authority in improving its performance in tax collection and in making future policy recommendations. In addition, it is expected to serve as an input for the upcoming researchers to further investigate the points under consideration.

1.8 ORGANIZING THE THESIS

The organization of this study is divided into five chapters. Based on that chapter one stated as introduction, Chapter two explains about review of related literature, chapter three deals with research designs and methodology, chapter four contains data analysis and interpretation and chapter five consisting of summary of findings conclusion and recommendation.

CHAPTER TWO

REVIEW OF RELATED LITRATURE

2.1. THEORETICAL REVIEW

2.1.1 The Meaning and Concept of Tax

A tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. In other words, a tax is a compulsory payment or contribution by the people to the government for which there is no direct return to the taxpayers (Bhatia, 2003). Tax imposes a personal obligation on the people to pay if they are liable to pay it. The general public should be taxed according to their ability to pay, i.e., the people in the same financial position should be taxed in the same way without any discrimination. Thus, tax can be defined as, "an involuntary fee or more precisely, "unrequited payment", paid by individuals or businesses to a government (Richard, 2005).

Tax has been defined by various authors and professionals in various ways. Taxes are the major source of the public revenues. Government needs financial resources to act as a government and play a role that is expected from it by the public. So what the government gives, it must first take away. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (James, S., and Nobes, C. 2000). According to these authors, tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return’. Throughout history, people have debated on the amount and kinds of taxes that a government should impose, as well as on how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. For instance in Ethiopia there was the Gojjam peasant rebellion, in 1968 (Gebru Tareke 1991).The immediate cause of the rebellion was the introduction of a new agricultural income tax, which peasants opposed. In political campaigns candidates’

views on taxation may partly determine their popularity with voters. Although countries differ considerably in the amount of taxes they collect, yet the most important source of revenue for modern government remains to be tax. The remainder of government revenue comes from charging fees for services, borrowing and from other related sources.

Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Some economists consider taxation an important tool for maintaining the stability of a country's economy. This is because taxation can redistribute a society wealth by imposing a heavier tax burden on one group in order to fund services for another (Gebrie, 2006).

2.1.2. Objectives of Taxation

The main objectives of taxation are rising of revenue with which governments can drive human development by providing systems of health, education and social security and the provision of a successful economy through regulation, administration and investment infrastructure. Additionally reduction of poverty and inequality to ensure that benefits for development are felt by all, and appropriate utilization of taxes and subsidies to ensure that all social costs and benefits of production or consumption of a particular good are reflected in the market price, for example, the taxation of tobacco to limit damage to the health of citizens. Moreover strengthen and protection of channels of political representation (Cobham, 2007).

2.1.3. Tax system or structure

The complexity of tax systems, probability of detection and penalties and tax rates affect the effectiveness of a tax system. The more tax laws become complex the lower the compliance levels. Simple, understandable and clear tax rules enhance tax compliance (Chau & Leung, 2009).

The complexity of tax laws makes it difficult for ordinary taxpayers to understand. Although taxes are not part of everyday conversations, people will normally try and make sense of the contributions that they make to the government through the payment of taxes. When trying to makes such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as

taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent tax behavior (Kirchler, 2009).

Complex tax laws are a concern worldwide. Tax laws have become so complex that even experts such as accountants, lawyers and tax officers have difficulty in interpreting many of the legislative provisions. Research conducted on the linguistic analysis of tax laws found that high level abstraction in the written language combined with long and complex sentences resulted in unnecessary complexities, making it difficult for taxpayers to understand the laws. Several countries have attempted to simplify their tax laws but to no avail, for example, New Zealand's tax laws were written in simplified English, but they still faced the same administrative and compliance problems as before the simplification (Kirchler, 2009).

2.1.4. Characteristics of Good Tax System

A good tax system is expected to be rational, fair, unbiased and even non-discriminatory in nature and practice. Therefore, a fair tax system should contain good qualities and attributes that distinguish it from bias and lack of credibility. The following attributes are suggested by national tax policy of Nigeria and others as in Compendium of tax and related laws (FIRS, 2012; Leyira, Chukuma & Asian, 2012 & Ovute and Eyisi 2014) are:

_ **Neutral:** A tax system that is said to be neutral is expected to be free from any bias through economic activities and hence not excessively castigate effort in support of leisure. This may also include tax income set for saving and even investment more deeply than earnings used for consumption.

_ **Visibility:** Taxpayers are always after to see the impact of their taxes to encourage them to continue paying. A reasonable number among the populace are not clearly informed and aware that running public affairs by government costs money, therefore, government needs monies from taxes to cut across the needs. Precautionary measures should be taken while spending collected proceeds from taxes to match its cost and benefit. This is a crucial factor in many developing nations (include Nigeria) where the public consider that tax revenues are not properly being effectively administered.

_ **Fairness:** This simply refers to equity and fairness in the tax system. Every citizen is expected to pay tax according to his earnings unless otherwise stated. It is frequently

identified as the wealthy individuals pay higher share of their income in taxes due to high earnings than the poor people who earn lower. However, sometimes certain amounts of income are exempted from tax and even individuals to shelter the destitute citizens.

_ **Simplicity:** A good tax system have to be simple so that government would easily administered and enforced, and also, less costly from the government side and the taxpayers as well. The eradication of several layers of tax also would provide a simpler tax system that should be ample and relaxed to enforce, comply to and administered.

Jean-Jacque (1998) cited in chinyere (2000) summarized the under listed Characteristic:

- A good tax system should try to accommodate the attitudes and Problem of tax payers.
- It should run in harmony with importance of state objectives.
- A good tax should be flexible enough to move the changing requirement of the state economy.
- Tax system should recognize the basic right of the tax payer.
- It should also yield adequate revenue for the treasury

2.1.5. Prospects of tax collection

Adam smith (1776) identified the following prospects of tax collection:

- The administration of tax collection will be strengthened to ensure more efficient tax collection through training of staff, awareness campaigns and computerizations.
- Government should continue to ensure that tariff policy enables our local industries to competitive.
- Specifically aggressive action should be taken to block revenue leakage on light duty goods and bulk items.
- Government should ensure fair tax administration base on the principle of derivation of tax proceeds; it is recommended that the tax law should be enacted.
- VAT has become a veritable source of revenue earning for government and therefore needs to be strengthened and expanded to broaden the tax base and to bring the VAT administration closer to the tax-payers, new local VAT offices should be established all over the state. .

2.1.6 Problems of tax collection

Lawal (1982) cited in Chinyere (2000) posits that the following are problems of tax collection:

- In adequate staff or manpower to carry out the assignment efficiently and thus has contributed to the low revenue generated for the state.
- Mismanagement of tax collected: taxes collected were not been utilized for the purpose for which it was collected thus makes tax payers not give out their wealth for the state.
- Bribery and corruption: in this day, tax collector personal interest has over ride their official interest in the performance of their duties consequently affects revenue generation for the state.
- Lack of voluntary compliance from tax payers these attitudes of tax payer causes tax avoidance evasion and delinquency.
- Poor accounting records, business traders professional do not keep proper records of their income and expenditure.
- Inadequate facilities: The facilities like motor vehicle, motor cycle to carry out the assignment effectively is inadequate.

2.1.7. Tax compliance

Tax compliance is the willingness of taxpayers' to obey tax laws by true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due (Ahmed and Kedir ,2015). It is therefore an important factor for the collection of tax revenue. Taxpayers make conscious decisions on whether or not to comply with tax laws. An assumption can be made that taxpayers' knowledge and concepts of taxation form the basis of their judgments, evaluations and perceptions of fairness, willingness and ability to comply with the law. Nevertheless, it is important to gain an understanding of taxpayers' behaviors as they will most probably behave in accordance with the subjective knowledge that they have. Subjective knowledge does not focus on whether the knowledge is correct or not, but instead focuses on the knowledge that taxpayers have and how such knowledge is organized to form a meaningful representation (Kirchler, 2009).

The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Ideally any government would want one hundred percent compliance which would mean optimal tax collection. Tax compliance is influenced by the behaviors of taxpayers which are shaped by their attitudes, and such attitudes are influenced by various factors. Understanding taxpayers' behaviors in terms of factors that influence their attitudes towards tax compliance is therefore important in encouraging higher levels of compliance and minimization of noncompliance (Berenson, 2007). It is important for any government and revenue collecting authority to understand the reasons why taxpayers choose not to comply with tax laws as such understanding will have an impact on both the equity and efficiency of the economy (Devos, 2005).

Tax compliance may be seen in terms of tax avoidance and tax evasion (Tulu 2007). 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. In the contrary, tax noncompliance is individual failure to comply with their tax obligation. Tax noncompliance consists of three distinct types:

Filing noncompliance: refers to non-filing of returns to the tax authority which will lead to tax gap i.e. the amount of unpaid taxes due foregone.

Nonpayment compliance: refers to untimely taxes paid, that means payment not made on a timely manner to the tax authority. Timely tax payment is important to the tax authority. The dues received now will be used for the government's expenditure otherwise, the insufficient fund needs to be borrowed and incur additional cost.

Tax underreporting; considered a criminal offence that imposes severe penalty. The taxpayer practices no reporting by way of evasion and avoidance; both are the same except that the latter is legal while the former is illegal. This area of noncompliance poses a serious problem to tax authority because these taxpayers' escape tax and their burden is pushed to the other complying taxpayers'. This is where the fair and equitable tax system is questionable.

According to James et al (2003), the degree of non-compliance measured in terms of the net tax gap (the difference between true individual income tax liability and that finally collected on a voluntary basis or by enforcement action) which happens by means of both tax avoidance and tax evasion. Most tax administrators and taxpayers believed that, the

growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance (Chau and Leung, 2009). Tax noncompliance can reduce revenue, distort labor market and weaken state stability by feeding perception of cheating and fraud (Ahmed and Kedir 2015).

2.1.8. Tax compliance and Tax Avoidance

2.1.8.1. Tax Evasion

Tax evasion is a method of saving tax liability by a tax payer through fraudulent means or by directly violating tax laws. It is illegal and involving the deliberate breaking of the law in order to reduce the amount of taxes due. It usually entails tax payers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability. The author however stresses that it excludes unintentional non-compliance resulting from calculation errors or inadequate knowledge of tax laws. Tax evasion is illegal, unethical, uneconomical and highly risky since it may result in penalty, imprisonment and closing up of business. (Kirchler, 2009).

Tax evasion is a world-wide phenomenon that is prevalent in almost all societies and has been in existence for as long as taxes have been implemented. It is also a concept that is difficult to understand or to combat completely and is a huge challenge to tax authorities and a threat to the tax base of a country. Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion will improve government's revenue. Reduction of tax evasion is generally done through imposing penalties and subjecting taxpayers to tax audits (Kirchler, 2009).

2.1.8.2. Tax Avoidance

Tax avoidance refers to the payment of the least tax possible by taking advantage of the loopholes within the law (Kirchler, 2009). Unlike tax evasion, tax avoidance is the art of escaping from tax burden without breaking tax laws. Tax evasion provides for short term benefits to taxpayer until corrective actions are taken by the government. Even though tax avoidance is travelling within the frame work of law or acting as per the language of the law in form, it is undesirable by government since it result in loss of revenue to the government and increase in the burden of the tax on the other taxpayers who do not resort to such practices (Misrak, 2008). In today's ever changing business environment, tax

authorities cannot cover all the possible scenarios of business structures. Big companies therefore take advantage of loopholes in the law when considering the setup of business structures. As a result, tax authorities will constantly have to close loopholes to avoid the many grey areas in the tax laws. The closing of loopholes is therefore an ongoing process.

2.1.9. Procedures for Tax Collection

It is expected that taxpayer's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income (Damme, L, T. Misrahi and Orel 2008). On the other part of the tax collectors, according to canon of taxation, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Some of the procedures undertaken by tax authority to ensure compliance such as Filing return, return processing of tax, audit and examination, tax collection and tax enforcement.

2.1.9.1. Filing Returns

Taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayers have their file. Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer (James, S. and Nobes, C. 2000).

2.1.9.2. Audit and Examination

The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (James, S. and Nobes, C. 2000).

2.1.9.3. Tax Collection and Enforcement

Tax collection and enforcements another procedure in the tax administration. When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The tax administration may bring

a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences (James, S. and Nobes, C. 2000).

2.1.10. Tax Administration

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on disobedient taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Murphy, K., 2002).

Since taxes are an involuntary payment for government services (Sjursen, I, 2012), taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures.

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of the economy. Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system.(Damme, L, T. Misrahi and Orel 2008).In developing countries, tax administration can be organized respecting the functional principles such as collecting, recording, auditing, and enforcement. These are according to the type of taxpayers, the type of taxes; and type of enterprises in economy.

Tax payment needs to be assessed, collected and recorded more efficiently and periodically. The tax administration should provide impartial and professional courteous service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear, understandable and current tax information and will make this information available to tax payer through various media and provide timely,

accurate written information that one can rely on to questions and requests for tax information (Asian Development Bank 2001).

Education and information programs on specific tax issues should be arranged with taxpayers to enhance their awareness and taxpayers should be allowed to voluntarily disclose their tax situation without incurring a penalty or being prosecuted for tax violations under certain conditions.

2.1.11. Tax Administration Challenges

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

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

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often *ad hoc* taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990). This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance.

Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF 2006).

2.1.12. Improving Tax Administration

Reaping revenues from tax rate changes (whether up or down) requires effective tax administration. Raising revenues through base expansion requires even better administration. New taxpayers must be identified and brought into the tax net and new collection techniques developed. Such changes take time to implement. The best tax policy in the world is worth little if it cannot be implemented effectively. What can be done to a considerable extent inevitably determines what is done. One cannot assume that whatever policy designers can think up can be implemented or that any administrative problems encountered can be easily and quickly remedied. How a tax system is administered affects its yield, its incidence, and its efficiency. Administration that is unfair and capricious may bring the tax system into disrepute and weaken the legitimacy of state actions. Good tax administration is a difficult task even at the best of times and in the best of places. Conditions in few developing countries match these specifications. How revenue is raised, the effect of revenue-generation effort on social capital, equity, the political fortunes of the government, and the level of economic welfare may be more important from many perspectives than how much revenue is raised. The private costs of tax compliance as well as the public costs of tax administration must be taken into account. Assessing the relation between administrative effort and revenue outcome is by no means simple: it is important, for example to distinguish the extent to which revenue is attributable to the active intervention of the administration rather than its relatively

passive role as the recipient of revenues generated by other features of the system. Improving administrative efforts and outcomes is not impossible but it is neither easy nor quick. (Bagchi, Bird, and Das-Gupta, 1995)

Experience around the world demonstrates that the single most important ingredient required for effective tax administration is clear recognition at high political levels of the importance of the task and willingness to support good administrative practices even if political friends are hurt. Few developing countries have been able to leap this initial hurdle. (Bergman, Marcelo, 2003)

Frequently, urged by international agencies or simply desperate to get more revenues, countries have from time to time launched frantic efforts to corral defaulters or to rope in new victims without hurting politically powerful interests and also usually without providing the time, resources and consistent long-term political support needed to do the job. Such efforts are doomed to failure. Collecting taxes efficiently and effectively without fear or favor is especially difficult in countries that are politically fragile. Without such efforts, however, no viable long-term tax system can be created. If the political will exists, the techniques needed for effective tax administration are not secret: have a clear strategy; keep it simple; treat taxpayers as clients; chase down defaulters; keep a tight check on corruption; and use available technology wisely. Sound use of such IT approaches as withholding, information reporting, web-based client focused interfaces with the private sector, and value chain analysis and monitoring all activities going on all the world in both private and, increasingly public sectors can be enormously effective in reducing corruption, curbing evasion and improving revenue yields. To be effective, however, such technological approaches need to be implemented effectively: new technology to some extent may compensate for common human failings but in the end its successful implementation inevitably depends heavily on the effective utilization of human capacities. In practice, to date technological solutions for tax administration problems in developing countries remain more hopes than realities with a few notable exceptions such as Chile and Singapore. Nonetheless, increasingly technology appears to offer potentially promising paths to at least partial solutions in many developing countries (Bird, and Zolt, 2007).

2.1.13. Tax Administration in Ethiopia

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authority of the federal government and state governments. A good and efficient tax administration has Management system through which it carries out its activities, Tax laws or codes that guide tax management system and knowledgeable administration (Misrak, 2008).

In order to be successful and effective in tax administration, the following factors are considered essential. An explicit and sustained political commitment, relevant training for staff (who engages in assessment and estimation; additional resources to the tax administration, changes in incentives for both tax payers and tax administrators, simplification of the tax procedures, decentralization of tax administration, development of a good accounting system etc.

One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditure. In order to attain this objective, a close relationship between tax structure and tax administration and an organized tax collection structure should be maintained (Misrak, 2008).

2.1.13.1. Profit tax administration

If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, ERCA has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his/her income or has submitted a fraudulent declaration, assessment is made by the tax by the Tax Authority.

Every assessment notification should contain the following elements: gross income and deductions applicable; taxable income; rates applicable or percentage; taxes paid and due; any penalty or interest; taxpayer's name, address, and TIN; and brief explanation of the assessment and a statement of the taxpayer's rights.

The category "A" taxpayer shall be liable for a penalty of 20% of the tax assessed if he/she failed to keep proper books of account, records, and other documents regarding a certain tax year. If the Tax Authority finds that a taxpayer has failed for two consecutive years, to keep proper books of account, records, and other documents the licensing authority would suspend the taxpayer's license on notification by the Tax Authority.

If the amount of income tax shown on a tax declaration by a Category “A” taxpayer is less than the amount of income tax required genuinely, the understatement of tax results in the following penalties 10% of the understatement if the understated amount of tax is considered not substantial, or 50% of the understatement if the understated amount is considered substantial. However, there is no any stated parameter to say a certain amount is substantial or not. Therefore, it is up to the perceptions of the individuals, which is very subjective and subjected it to undesired bargaining and complaints that in fact made the administration on such regard very difficult and complicated. (Ethiopian Chamber of Commerce ,2005.)

2.1.13.2. The Present Tax Reform in Ethiopia

The fiscal systems of government should reflect the economic and social conditions of a given period of time. Since such conditions are likely to change overtime, public sector revenues and expenditures are subject to change in reflection of these changing economic and social parameters. The reasons presently being given for Ethiopia tax reform include that the existing tax system was:

1. Old and loose tax legislation
2. Weak administration
3. Tax base principles not in place
4. Operation programmers, reorganization and tax payer’s education

The present’s tax reform is aimed at over having the tax legislation and improving the tax administration (ERCA, 2010).

2.1.14. Overview of Ethiopian Tax System

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. The subsequent discussions briefly present the basic features of each of these taxes.

Income tax proclamation No. 286/ 2002 (as amended) and council of Ministers regulations 78/ 2002 (as amended) provide the legal basis for income taxation in Ethiopia. According to this legislation, there are four schedules of income, namely: income from employment (schedule A), income from rental of buildings (schedule B), business profit (schedule C) and other income (schedule D). A further look at the income tax under schedule C (business profit tax) shows that the tax is imposed on profit obtained from an entrepreneurial activity. It is chargeable at rates ranging from 10 to 35

percent if the taxpayer an individual (unincorporated entity) and 30 percent on profits earned by a body (an incorporated entity).

The income tax legislation classifies businesses into three categories as A, B, and C. Category A businesses are those that have annual turnover of ETB 1,000,000 or above and all incorporated entities; category B includes those that are not already classified as A and have annual turnover of more than ETB 500,000 but less than ETB 1,000,000. Category C taxpayers are those that are not already included in categories A and B and have annual turnover up to ETB 500,000.(proclamation 979/2016)

For categories A and B the tax is assessed based on the profit and loss statement prepared in accordance with the Generally Accepted Accounting Principles (GAAP) subject to the specific rules as provided in the income tax legislation.

On the other hand, the tax from category C taxpayers is levied and collected in a separate regime—the “standard assignment” which uses a classification of businesses into more than 80 business sectors and 19 turnover bands. This regime is based on daily sales estimates, which the government carries out once in a few—years time. Daily sales are estimated by a committee of tax officials by asking the concerned taxpayer questions and also observing the business location and the nature of the business. In practice, the tax is calculated using the annual turnover estimated based on the daily sales estimate and profit margin specified in the regulation (as amended). Category C taxpayers are expected to make an annual declaration of annual sales, but are not required to keep books of account. If category “C” taxpayer maintains book of accounts acceptable to the Tax Authority, the taxpayer may pay the tax on the basis of book of accounts.

Categories A and B are required to file tax returns and pay the tax due in respectively 4 months and 2 months from the end of their accounting year while category C taxpayers pay the tax due in one month from the end of the accounting year. The latter may request to make their tax payments in installments in cases of cash flow difficulties.

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.

Similarly, proclamation 308/2002 (as amended) governs the imposition of TOT. In terms of design VAT is imposed on the supply of goods and services other than exempted supplies (such as bread and milk). VAT is based on the invoice credit method in which taxpayers are given credit for the VAT paid on inputs when it is supported by the relevant

documents. The tax is also based on the destination principle in that imports are taxed but not exports. VAT is chargeable at a standard rate of 15 per cent on all taxable supplies of goods and services other than those zero rated (mainly exports) and exempted. VAT registration is required by businesses that have annual turnover of ETB 1,000,000 and more. In addition to annual turnover 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 accounting and reporting period for VAT is one calendar month regardless of the size and capability of businesses. 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. Very recently, 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.

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 rates are 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.

According to income tax proclamation 979/2016, Category A businesses have accounting period of three month; taxpayers in this category are required to file and pay turnover tax on a quarterly basis. Category B businesses are required to file and pay their TOT on a quarterly basis while category C businesses pay TOT annually.

In addition to business profit tax and VAT/TOT, businesses engaged in the importation and or productions of selected products are liable to excise taxes as provided in excise tax proclamation 307/2002.

Excisable goods include textile and textile products, vehicles, tobacco and tobacco products, drinks (including all types of alcoholic and soft drinks), sugar and salt. The base for computation of excise tax is the cost of production for locally produced goods and cost, insurance and freight (CIF) value and custom duties of imported goods. The tax rate ranges from 10 percent to 100 percent. Generally excise tax is payable on imported goods at the time of clearing the goods from customs area and on goods produced locally, not later than 30 days from the date of production.

In addition to the above domestic taxes affecting businesses, there are duties and taxes imposed on the import and export operations of businesses. Since this report is about tax compliance costs and perceptions towards taxation focusing on domestic taxes, we do not deal with these duties on international trade.

2.2. EMPIRICAL EVIDENCES IN WORLD

Tax knowledge is an essential element in a voluntary compliance, tax system (Kasippilai, 2000), particularly in determining an accurate tax liability (Palil, 2005; Saad et al., 2003). Studies undertaken in Malaysia (Loo, 2006[9] ; Loo et al., 2008 ; 2009) also suggested that tax knowledge to be the most influential factor to determine taxpayers' compliance behavior under the self-assessment system. This is empirically established by several other studies (for example, Kasipillai & Jabbar, 2003 ; Kirchler et al., 2006), which documented that possessing tax knowledge would lead to higher compliance rates. On a similar note, the absence of tax knowledge may lead to noncompliance behavior among taxpayers, either intentionally or unintentionally. This is postulated by McKerchar (1995) who studied small business taxpayers in Australia. She suggested that small business taxpayers are not even aware of their tax knowledge shortfall and this may lead to unintentional non-compliance behavior. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, et al., 2008). In this study, a mixed method design was used by conducting a mail survey, quasi experiment and case study concurrently between November 2005 and July 2005.

In Malaysia, Mustafa (1996), who studied taxpayers' perceptions towards the self-assessment system which was to be introduced (at that time), suggested the presence of tax complexity in Malaysia, particularly in terms of record keeping, too much detail in the tax law and ambiguity. The findings were partly consistent with the six potential causes of complexity labeled as: ambiguity, calculations, changes, details, forms and recordkeeping, identified by Long and Swingen (1987). Such complexity was also present in Australia, where it forces taxpayers to engage tax agents to deal with their tax matters (McKerchar, 2001; 2003). McKerchar (2003) further identified the most common problem faced by taxpayers is to understand the instructions in the Taxpack 2000. This is followed by the problems of understanding the rules, the tax return forms and other relevant written information provided by the tax authority.

The findings from a cross cultural study between Hong Kong and Australia indicated that Australian taxpayers were generally more compliant than the Hong Kong taxpayers (Richardson, 2005). Bobek et al. (2007), on the other hand, used a hypothetical tax scenario in their experimental study to investigate the taxpayers' noncompliance behavior in the US, Australia and Singapore. Results indicated that Singaporean taxpayers had the lowest noncompliance rate of almost 26 percent, while Australian taxpayers had the highest at 45 percent. The findings further suggested that complete compliance was highest in Singapore (54 percent) and lowest in Australia (30 percent). The US was in the middle in terms of both the compliance and noncompliance rates. Belkaoui (2004), in his study of thirty countries, measured the level of tax compliance using the index that varies from 0 to 6, where higher scores indicated higher compliance. In this study, New Zealand was ranked the second most compliant after Singapore. This was followed by Australia, the United Kingdom (UK) and Hong Kong. Malaysia was ranked eighth, after the US, while Italy was considered to be the least compliant. A review of the above-mentioned studies provides useful information to the researcher on the level of compliance behavior across countries. However, studies on compliance behavior would be less meaningful without investigating the potential factors leading to such behavior. Jackson and Milliron (1986), in their earlier review of 43 tax compliance studies undertaken from 1974 to 1985, identified fourteen key variables of compliance behavior, which include: age; gender; education; income level; income source;

occupation; peer influence; ethics; fairness; complexity; tax authority contact; sanctions; probability of detection; and tax rates.

No modern tax administration can perform its tasks efficiently without using modern information technology (IT). Among the areas that may be computerized are: (1) taxpayer records and tax collection; (2) internal management and control over resources; (3) legal structure and procedures; and (4) systems to lower taxpayer compliance costs. Perhaps the ultimate example of an automated, Web-based, IT-driven tax system is one like that introduced by Denmark in 2004. Under the “no touch” system now in place in Denmark, which provides extensively prefilled returns online, most taxpayers— over 90 percent—no longer need to file returns or to have any direct contact with the administration, thus reducing compliance costs and freeing substantial administrative resources to deal with more complex administrative problems such as auditing complex or questionable returns. The future of smart tax administration seems increasingly to lie in this direction. For many poor countries, that future may still lie some distance ahead. However, countries such as the Slovak Republic, Singapore, and Chile have already moved in this direction to a considerable extent, and other middle-income countries may do so in the near future. (Richard Bird 2014).

(Iwarere and Henry, 2015) Examine the effects of tax audit on revenue generation in Federal Inland Revenue Service, Abuja experience. The main objective of this study is to examine the effects of tax audit on revenue generation in Federal Inland Revenue Service. It tries to determine the relationship between the tax audit and revenue generation in Federal Inland Revenue Service. The Data collected through questionnaire and review of several publications that are relevant to the study, was presented using tables and percentages; for the test of hypotheses and analysis of Variance (ANOVA). The study revealed that tax audit has significant effects on revenue generation in Federal Inland Revenue Service. This implies that tax audit ensures arithmetic accuracy of all figures in account and computation in taxpayer’s records; tax audit ensures compliance with tax laws, rules and regulations by the taxpayers. The study also revealed that tax audit has a positive relationship with the revenue generation in Federal Inland Revenue Service. This means that an increase in tax audit increases revenue generation from taxes; an increase in tax audit increases tax bases for the government and an increase in tax audit reduce tax

fraud in the tax system. This is in part in agreement with there is a positive relationship between the audit and the voluntary compliance. Furthermore, the authors suggested that tax audit should be carried out on a routine basis to ensure that actual revenue collected is what the relevant tax authority remits to the government. Tax audit prevents tax evasion by the tax evaders and avoiders. Internal mechanism to check and monitor the staff of the tax audit department should be put in place to minimize the level of corruption and enhance effectiveness of the tax audit.

Kleven et al., (2010), Analyzes a randomized tax enforcement experiment in Denmark, at realistic a stratified and representative sample of individual income tax filers was selected for the experiment. Half of the tax filers were randomly selected to be thoroughly audited, while the rest were deliberately not audited. Micro-simulations as well as laboratory experiments was used, using comprehensive administrative tax data, empirical results remarkably well with the basic AS-model that tax evasion is substantial and responds negatively to an increase in the perceived detection probability coming either from a prior audit or from a threat-of-audit letter. Thus the authors suggests that rigorous tax enforcement is a much more effective tool to combat tax evasion than lowering marginal tax rates. Furthermore, the authors' present findings such as prior audits substantially increase self-reported income, implying that individuals update their beliefs about detection probability based on experiencing an audit.

The study by (Modugu and Anyaduba, 2014)examines the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. The research instrument (questionnaires) is administered on the staff of the State Board of Internal Revenue of the selected states (Lagos- Southwest, Edo-South South, Jos-North Central, Kano- North West and Adamawa – North east) in five geo-political zones and their corresponding Federal Inland Revenue Services. Ordered Logistic Regression technique was employed to analyze the responses. The result showed that there exist positive relationships between tax audit and tax compliance. This means that the compliance rate rises if the tendency of being tax-audited is high. If the taxpayers are informed that their fillings will be closely examined, there is a tendency for the taxpayers behavior to change in response to an increased probability of been tax audited. The result also revealed that

the probability of being audited, perception on government spending, penalties and enforcement, the joint effect of tax audit and penalties have a tendency to significantly influence tax compliance in Nigeria. Therefore, the authors recommend that the relevant authorities should seek more pragmatic and effective means of enhancing the impact of tax audits on corporate tax compliance in Nigeria in order to consolidate on government's revenue.

2.3. EMERICAL EVIDENCE IN ETHIOPIA

In Ethiopia there are some researches done on tax issues with different titles among them some of them are mentioned below:

Anware M. (2014) and Tesfaye A. (2015) on the title Determinants of tax revenue performances in Ethiopia as mini research for Partial Fulfillment of the Requirements for the course Professional Training Program for Economists (a Case Study in Ethiopian Revenues and Customs Authority) the researcher used time series data set that consists of 21 years. For the time period covered 1990/91 to 2010/11 with identifying six variable industry, agriculture, inflation, GDP per capital income, export and import he concluded that structural factors such as exports of goods and services (% of GDP) and import of goods and service (% of GDP) significantly affect tax revenue performance of Ethiopia.

Belay Z. (2015) on the research title determinants of tax revenue performance: in case of Ethiopia federal government. This study so investigated the determinants of tax revenue performance in Ethiopia federal government by using time series data from 1992-2013. The variables used were foreign direct investment, public debt, openness, foreign aid, inflation and gross domestic product. The study has employed both descriptive and time series regression method as well as Eviews software for analysis purpose. The trend of tax collection in Ethiopia is inconsistent, changing up ward and down ward depending up on economic conditions. However, in recent years it shows an incremental in total tax collection but performance of tax collection is decreasing from year to year. As an example, tax revenue was increased starting from 2003, because tax base was added as the form of VAT and also GDP was the main contributor since it has been rapidly increased. The study reveals that growth domestic product, public debt foreign direct investment, and openness, have significant positive relationship with tax revenue performance. But, foreign aid is negatively related to tax revenue performance. The study also provides

recommendations that will solve this problem and added tax revenue performance. Policy implication has been stated in this study for example government should adjust its fiscal policy and investment area should be selected based on their benefit for country.

Delessa D. (2014) on the research title Tax Reforms and Tax Revenues Performance in Ethiopia the purpose of the study was to analyze and compare tax revenues performances of the two governments in power in Ethiopia during the last 39 years. Descriptive analysis is used to compare different categories of tax performance of the Derg and Ethiopian People's Revolutionary Democratic Front (EPRDF) regimes in terms of tax revenues mobilization is tax to GDP ratio. In light of this major tax categories of tax to GDP and total tax revenues ratios over the period of 1974/75 to 1912/13 (39 years) were computed and analyzed. In addition comparison has been made between pre and post-tax reforms to compare tax system flexibility in terms of raising tax revenues during the EPRDF regime. The period after 2002/03 was considered as post comprehensive tax reforms years. The researcher concluded the comparison of two governments' different categories of tax ratios shows a slight increment from an average 3.77 percent to 9.95 during EPRDF period. Comparing pre and post-tax reforms during the period 1991/92 to 2012/13 the ratios of different category tax revenues show insignificant change for post comprehensive tax reform period. Comparing direct versus indirect tax categories, direct tax shows the tendency of declining contrary to the comprehensive tax reform main objective which gave due attention to increase the share of the direct tax to total revenues. The overall analysis of researcher reveals that tax reforms failed to boost total tax revenues and to bring tax structure change from indirect tax to direct tax.

Dasalegn J. (2014) on the title The Role of Value Added Tax on Economic Growth of Ethiopia objective of the researcher was to analyze the role of VAT on economic growth of Ethiopia from 2003 to 2012 based on theoretical and empirical evidences. To meet his objective, he used time series macro-economic data on GDP, VAT, total tax revenue excluding VAT, non-tax revenue and foreign revenue. He employed Descriptive statistics and multiple regressions to analyze the data. The finding of the study reveals that as compared to sales tax, VAT boosts the general economic growth of Ethiopia but the issue of regressively resembling to sales tax still continues. During the periods under review, the growth rate of VAT was 66.27% on average. For the periods of sales tax, the average growth rates of GDP were only 2.53%. However after executions of VAT, such growth

rate reached about 21.9% on average. The analysis also showed as the average ratio of VAT to GDP becomes 2.95%. The finding also reveals that, VAT, total tax revenue and non-tax revenue except foreign revenue were significant at 5% level of significance but all of them positively contributed for economic growth during the periods under review. However, to be effective, it requires strong administrations and cooperation's of the tax payers with taxing authority and the government in general. To summarize, internationally most of studies found the determinants of tax revenue for developed and developing countries by using panel data methodology while in Ethiopia there are some researcher regarding the title but not full fledged study it was as mini research inclusions of some variables and not as such deep analyzed. On connection to tax revenue there are a lot research providing the researcher insight view and key findings for the conclusion.

Tesfaye A. (2015) on the title Determinants of Tax Revenue in Ethiopia: by using a secondary data and multiple variables regression model. The objective of the study was to identify determinants of tax revenue such sectors of economy like agriculture, industry and service, FDI, inflation rate, interest rate, per capita income and trade openness. The research approach adopted in this thesis includes series data set that consists of fifteen years. The time period covered was 1999/00 to 2013/14; this is primarily due to unavailability of organized data before the indicated period. The findings from this research provide evidence that, foreign direct investment to GDP percentage regression result shows negative significant, Industry sector in percentage of GDP positive and significant, Inflation negative but not significant, Per capita income has the positive sign which is significant, and saving interest rate have positive insignificant impact on tax revenue. The main conclusions drawn from this study are, foreign direct investment to GDP, Industry sector in percentage of GDP and Per capita income have significant impact on tax revenue. This paper recommends that inflation rate and saving interest rate are in significant variables affecting tax revenue.

Tilahun A. (2014) on the title Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers with the objective to identify factors that determine tax compliance behavior has been open for empirical investigation. Accordingly the researcher used one-way ANOVA, two samples and one sample T-test, the data was collected using structured questionnaire. The results revealed that perception on government spending; perception on equity and fairness of the tax system; penalties;

personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behavior. However, gender and probability of being audited have no significant impact on tax compliance behavior. Finally, the researcher concluded that older people will comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favorable.

2.4. RESEARCH GAP

From the literature examined, studies show inadequacies in the way provides a theoretical analysis of the hindering factors on failure to achieve full potentiality on tax revenue in Ethiopia. The researcher believes that this study fills some gaps in the area of tax revenue factors not tested in the above study for the coming researchers and current policy recommendations in addition fill the literature and addresses the issue in depth by considering relevant to archive full potentiality on tax revenue performance and follow ups as well as conduct awareness on the alternative recommendations can be made to improve the performance of tax revenue. The researcher also feeling that no adequate study has been carried out on the revenue administration challenges which affect tax revenue in Ethiopia. Therefore a research gap exists that need to be filled by doing a thorough survey on the factors affecting tax revenue in Ethiopia.

CHAPTER THREE

DESIGN AND METHODOLOGY OF THE STUDY

This section deals with the methodology employed for the study and highlights related issues: relevant topics including research design, research methods, data sources and data collection tools, and etc. The purpose of this study is to assess tax administration challenges and prospects in case of Akaki Kality sub city small tax payer branch office.

3.1. Study design

The research employ descriptive types of research with triangulating quantitative and qualitative techniques to assess tax administration challenges and prospects in case of Akaki Kality sub city small tax payer branch office. An appropriate research design is important to any research, as it guides the process for collecting the desired data and the process for analyzing that data. The justification for the quantitative approach is to quantify the data on the issue under study and to provide statistical information about problem (Creswell, 2009). The quantitative research design is cross- sectional design, because the data that gathered through questionnaire were collected once and it is significant to study.

Qualitative research approach explores attitudes, behaviors and experiences through methods such as in-depth interview and/or focus group discussion (Dawson 2002). It uses narrative, phenomenological, ethnographies, grounded theory and case studies. The researcher collects open-ended emerging data with the primary intent of developing themes from the data (Creswell 2007). Qualitative approach attempts to get an in-depth opinion from participants. Apart from this, it facilitates responses, and provides data in-depth with leading respondents (Dawson 2002).

To sum up, in order to achieve the research questions stated in the previous section, the researcher use both qualitative and quantitative approach (mixed approach) in collecting and analyzing data.

3.3. Source of data

The study used only primary data source. It was obtained from the original source of information. The primary data were more reliable and have more confidence level of decision-making with the trusted analysis having direct intact with occurrence of the events. The primary data sources were Akaki Kality sub city tax payers from category “A” and category “B” and Akaki Kality sub city small tax payers branch office employee (management and bottom workers)

3.4. Sample size and Sampling Techniques

3.4.1. Sampling Techniques

The study also employs both probability and non- probability sampling techniques to select participants of the study. Probability sampling techniques were used to select samples from tax payers and employee of the branch office and non- probability sampling techniques were used to select samples from managers, team leaders and coordinators from each department. Under probability sampling simple random sampling and stratified random sampling were used. The stratified random sampling used to select sample from taxpayers who have similar character by categorizing them in to two groups(strata).The two strata are category “A” and category “B” taxpayers. And under non-probability sampling purposive sampling were employed. The reason to use non-probability sampling technique is in order to ensure the representation of respondents from each department and simple random sampling is in order to select employees of the office and tax payers of the office.

3.4.2. Sample size

This study apply a simplified sample size determination formula provided by Yamane (1967) in order to determine the required sample size at 95% confidence with the level of precision 5% (Yamane, Taro, 1967). This sample size determination method is more applicable when the sampling population is known and finite and it is also statistically permutable to commit 0.01 to 0.1 level of bias in study process.

To determine the required sample size the following Yamane formula applied in this study below:-

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

Where,

- n - is the sample size
- N - is the population size
- e - is the level of precision (sampling error)

Akaki kality sub city tax payers from all categories, Akaki kality sub city small tax payer branch office employees taken as the target population of the study. The total number of taxpayers in category “A” and “B” are 4865 and 4212 respectively. The office employees are totally 364. Stratified random sampling were used to select sample from taxpayers who have similar character by categorizing them in to two groups(strata).The two strata are category “A” and category “B” taxpayers.

From Employee

(1) Therefore, the sample size of this study are:

$$n=364 /1+364(5\%)^2 = 195$$

Where

- n - is the sample size, = 195
- N - is the population size, = 364
- e - is the level of precision (sampling error) =5%

From Tax Payers

(1) Therefore, the sample size of this study are:

$$n=9077 /1+9077(5\%)^2 = 385$$

Where

- n - is the sample size, = 385
- N - is the population size, = 9077
- e - is the level of precision (sampling error) =5% .

3.5. Data Collection Instruments

Since, the study focuses on tax administration challenges and prospects in case of Akaki Kality sub city small tax payer branch office; it pays attention on exploring what is going on in the sub city in creating administering tax and what elements hinder or facilitate it. Thus, quantitative and qualitative methods of data collection instruments believed to give rich information about the case under study.

For this paper, three data gathering instruments used these are questionnaire; interview and document reading employed in order to gather the necessary information.

Questionnaire

A mix of close ended and open-ended multi option questionnaire has been used in the study for the quantitative data. Detailed open-ended and close-ended questionnaires related to the background of respondent in line with the objective of the study has been developed and distributed to the sample respondents to generate a primary data.

Interview

It is a face-to-face communication between interviewee and interviewer on certain area of inquiry, and thereby allows the interviewee to speak up freely and more data that are empirical might be directly obtained. Thus, using interview is important in order to support or strengthen the data gathered from the questionnaires.

3.6. Research approach

This part of the paper deals with presentation; analysis and interpretation of data collected through questionnaire, interview, and document. Quantitative analyses have been presented in descriptive manner according to the items in the questionnaires and interview.

The quantitative data gathered through questionnaires and interview has been analyzed and interpreted by using simple descriptive and advanced statistical tools. Collected data also analyzed through descriptive statistics then proper tools and techniques are applied for classification and analysis of data. The main tools that have been applied for classification of data are tables, charts and graphs. In addition to the above, other statistical tools such as ratios and percentage also used for the analysis. Finally the output has been analyzed and interpreted in such a way that plausible answers would be sought for the question raised in the study.

3.7. Ethical consideration

All research participants involved in this study were appropriately informed about the purpose of the study and their willingness and consent were secured before the distribution of questionnaire and commencement of the interviews. In protecting the right

of to privacy of the respondents, researcher maintained the confidentiality and identity of each participant. In all cases names were kept confidential and therefore a collective name such as “respondents” was used. The researcher maintained the confidentiality of all data collected from of about research participants.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter deals with the analysis and interpretation of the collected data. The main aim of this study is to review and examine tax administration challenges and prospects, the case of Akaki Kality sub city small tax payer branch office.. Based on the methodology stated, data were Akaki Kality sub city small tax payer branch office and Akaki Kality sub city small tax payer branch office tax payers. As indicated in the method part, the data were collected using a structured questionnaire arranged under the rating scale with five points. The collected data was analysed using V20SPSS statistical software.

4.1. DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENT

The following parts deal with the characteristics of the respondents who were participated in the study. The details of the characteristics of the respondents are given below.

Table 1 Distribution of questionnaire

No table of figures entries found.o	Institution	Distributed	Returned
1	Akaki Kality sub city small tax payer branch office	195	181
2	Akaki Kality sub city small tax payer branch office tax payers	385	364
	Total	580	545

Source; own survey result 2020

As the above table indicates out of 195 questionnaires distributed to Akaki Kality sub city small tax payer branch office 195 questionnaires were correctly filled and returned. From 385 questionnaires distributed to Akaki Kality sub city small tax payer branch office tax payers 364 were correctly filled and returned. Therefore, the analysis is done based on a total of 545 replied questionnaires.

4.1.1. Sex of Respondents

Table 2 Sex of respondents

		Frequ ency	Percent	Valid Percent	Cumulat ive Percent
Valid	Male	103	56.9	56.9	56.9
	female	78	43.1	43.1	100.0
	Total	181	100.0	100.0	

Source – own survey 2020

From table 2 regarding to sex of respondents we can see that 103(56.9%) of respondents are male and 78(43.1%) of respondents are female. It is clearly indicates that most of respondents are male

4.1.2. Education Background

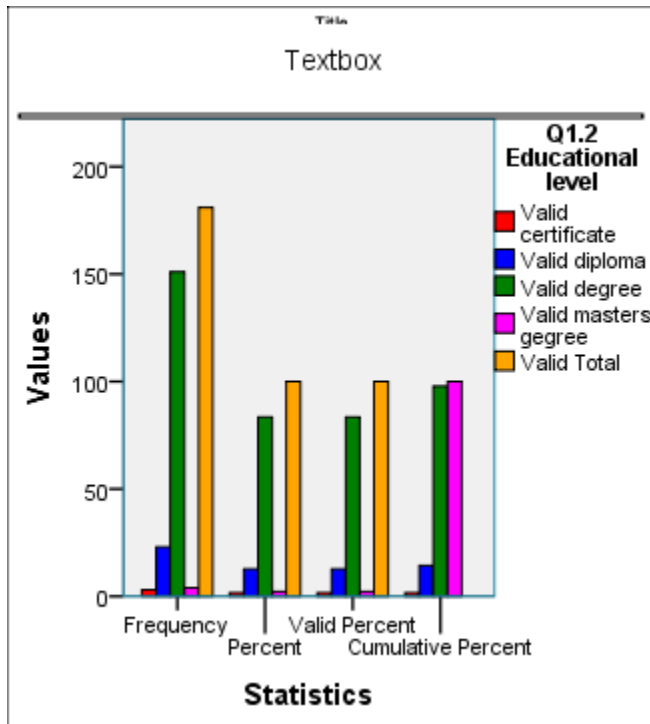
Table 3 Education background

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	certificate	3	1.7	1.7	1.7
	diploma	23	12.7	12.7	14.4
	degree	151	83.4	83.4	97.8

	masters	4	2.2	2.2	100.0
	degree				
	Total	181	100.0	100.0	

Source – own survey 2020

Figure 1 Educational status



4.1.3. Years of Service of Respondents

Table 4 Years of service of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 years	137	75.7	75.7	75.7

	6-10 years	27	14.9	14.9	90.6
	10-20 years	17	9.4	9.4	100.0
	Total	181	100.0	100.0	

Source – own survey 2020

According to table 4 we can see that 137(75.7%) of respondents stay in office for less than 5 years, 27(14.9%) of respondents stay in business for 6 – 10 years, 17(9.4%) of respondents for 10 – 20 years. From the data we can understand that most of respondents stay in office for less than 5 years.

4.2: STATUS OF TAX ADMINISTRATION

4.2.1. Tax payer registration and education

Table 5 Tax payer registration

			Frequency	Percent	Valid Percent	Cumulative Percent
	How do you see tax payer registration in the branch office	very weak	34	18.8	18.8	18.8
		weak	60	33.1	33.1	51.9
		medium	69	38.1	38.1	90.1
		high	18	9.9	9.9	100.0
		Total	181	100.0	100.0	
	Do you think all potential tax payers registered for tax?	yes	96	53.0	53.0	53.0
		no	85	47.0	47.0	100.0
		Total	181	100.0	100.0	
	Which potential tax	Small informal	83	20.3	20.4	20.4

payers belong to hard – to tax sector?	sectors				
	Self – employed person	56	13.7	13.8	34.2
	Small farmers	22	5.4	5.4	39.7
	Brokers	78	19.1	19.2	58.9
	Street traders	100	24.4	24.6	83.5
	Property (house) renters	67	16.4	16.5	100.0
	Total	406	99.3	100.0	

As it can be seen from Table 5 Tax payer registration, it is clearly identified that 34 (18.8%), 60(33.1%), 69(38.1) and 18 (9.9%) of respondents replied that tax payer registration is very week, week, medium and high respectively. Therefore, the result clearly indicates that tax payer registration is at infant stage. Regarding to registration of potential tax payers from the same table 96(53%) of respondents say yes potential tax payers are registered for tax and the other 85(47%) of respondents say no potential tax payers are not registered for tax. From the result we can say that most potential tax payers are registered for tax. The study also tries to identify which potential tax payers are belongs to hard - to tax sector. From table ---- we can see that 83(20.3%) , 56(13.7%) , 22(5.4%) , 78(19.1%) , 100(24.4%) and 67(16.4%) of respondents replied that Small informal sectors , Self – employed person, Small farmers ,Brokers ,Street traders and Property (house) renters are belongs to hard - to tax sector respectively. We can also infer from the result that Street traders, Small informal sectors and Brokers are belongs to hard - to tax sector.

Table 6 Tax payer registration challenges

What are the main challenges that hinder tax payer registration program?	N	Mini mu m	Maxim um	Mean	Std. Deviation	Varia nce
Lack of tax payers awareness about tax	181	1.00	5.00	2.1989	1.46219	2.138
Bad tax payers attitude towards the government usefulness and effectiveness of public expenditure	181	1.00	5.00	3.0276	1.43151	2.049
Weakness of revenue administration to assess and register potential tax payers	181	1.00	5.00	1.7514	1.07448	1.155
Weakness of tax payer education	181	1.00	5.00	2.0000	1.36626	1.867
Poor revenue administration image among tax payers	181	1.00	5.00	3.2210	1.63497	2.673
Tax payers attitude towards tax avoidance and evasion	181	1.00	5.00	1.5525	.87162	.760
Presence of underground economy	181	1.00	5.00	1.9613	.86516	.748
Presence of large numbers of small informal sectors which is hard to tax	181	1.00	5.00	1.8177	.92190	.850

The above table presents the main challenges that hinder tax payer registration program by various possible factors. Accordingly, the higher mean figure ranging from 3.22 to 3.02 representing respondents' strong agreement have been obtained. However, the lower mean score observed ranging from 2.19 to 1.55 to different activities.

It can be deduced from the table that respondents strongly agree on issues of Poor revenue administration image among tax payers and Bad tax payers attitude towards the government usefulness and effectiveness of public expenditure with a mean score of 3.22 to 3.02 respectively.

Running in contrast is with a low mean score for factors such as lack of tax payers awareness about tax, Weakness of tax payer education, Presence of underground economy, Presence of large numbers of small informal sectors which is hard to tax, Weakness of revenue administration to assess and register potential tax payers, Tax payers attitude towards tax avoidance and evasion representing mean of 2.19, 2.00, 2.00, 1.96, 1.81, 1.75 and 1.75 in descending order respectively

The mean result indicates that the main challenges that hinder tax payer registration program are Poor revenue administration image among tax payers and Bad tax payer's attitude towards the government usefulness and effectiveness of public expenditure

Table 7 Tax payer education

			Frequency	Percent	Valid Percent	Cumulative Percent
How do you see professional advice and assistance of tax payers	very weak		101	55.8	55.8	55.8
	weak		33	18.2	18.2	74.0
	medium		31	17.1	17.1	91.2
	high		16	8.8	8.8	100.0
	Total		181	100.0	100.0	
what is the level of understanding of tax payers regarding the substantive and	very weak		87	48.1	48.1	48.1
	weak		38	21.0	21.0	69.1
	medium		45	24.9	24.9	93.9
	high		11	6.1	6.1	100.0
	Total		181	100.0	100.0	

	procedural requirements of tax law and regulation					
	How do you see the perception of tax payers about the risk and cost of being caught in case they do not comply with their tax obligation?	very weak	21	11.6	11.6	11.6
		weak	76	42.0	42.0	53.6
		medium	20	11.0	11.0	64.6
		high	51	28.2	28.2	92.8
		very high	13	7.2	7.2	100.0
		Total	181	100.0	100.0	
	How do you see tax payer's attitude towards the government usefulness and effectiveness of public expenditure?	very weak	46	25.4	25.4	25.4
		weak	83	45.9	45.9	71.3
		medium	30	16.6	16.6	87.8
		high	13	7.2	7.2	95.0
		very high	9	5.0	5.0	100.0
		Total	181	100.0	100.0	
	What is the level of tax payer education in the branch office?	very weak	16	8.8	8.8	8.8
		weak	67	37.0	37.0	45.9
		medium	53	29.3	29.3	75.1
		high	28	15.5	15.5	90.6
		very high	17	9.4	9.4	100.0
		Total	181	100.0	100.0	

The above table 7 presents tax payer education status, as we can see from the table concerning to professional advice and assistance of tax payers, 101 (56.8%), 33(18.2%) and 31(17.1%) of the respondents perceived very weak, weak and medium level of understanding of tax payers respectively. Moreover, the reaming 16 (8.8%) of respondents perceived high. So that the result revealed that there is a lack in professional advice and assistance of tax payers in the branch office.

When we see from table -- above the level of understanding of tax payers regarding the substantive and procedural requirements of tax law and regulation, 87 (48.1%) ,38(21%) and 45(24.9%) of the respondents perceived very weak , weak and medium level of understanding of tax payers respectively. Moreover, the reaming 11 (6.1%) of respondents perceived very high. Hence, the result implies the level of understanding of tax payers regarding the substantive and procedural requirements of tax law and regulation is very low

Regarding to the perception of tax payers about the risk and cost of being caught in case they do not comply with their tax obligation, as we can observe from table --- that, 21 (11.6%) ,76(42%) and 20(11%) of the respondents perceived very weak , weak and medium level of understanding of tax payers respectively. Moreover, the remaining 51 (28.2%) and 13(7.2%) of respondents perceived high and very high respectively. There for, the result implies that tax payers have lower perception about the risk and cost of being caught in case they do not comply with their tax obligation.

When we see tax payer's attitude towards the government usefulness and effectiveness of public expenditure, table --- shows us that, 46 (25.4%), 83(45.9%) and 30(16.6%) of the respondents perceived very weak, weak and medium tax payer's attitude respectively and the remaining 13 (7.2%) and 9(5%) of respondents perceived high and very high respectively. From the result we can say that tax payers have poor attitude towards the government usefulness and effectiveness of public expenditure,

Regarding to tax payer education table ---- show us that, 16 (8.8%), 67(37%) and 53(29.3%) of the respondents replied very weak, weak and medium tax payer's education respectively and the remaining 28 (15.5%) and 17(9.4%) of respondents perceived high and very high respectively. The result tells us that there is shortage of tax payer education program.

4.2 Status of tax assessment and collection.2.

Table 8 tax assessment

			Frequency	Percent	Valid Percent	Cumulative Percent
What type of assessment practiced in your branch office?	only administrative assessment		82	45.3	45.3	45.3
	self assessment		49	27.1	27.1	72.4
	both		50	27.6	27.6	100.0
	Total		181	100.0	100.0	
Do you think tax assessment of the branch office effective and efficient?	yes		63	34.8	34.8	34.8
	no		81	44.8	44.8	79.6
	I don't know		37	20.4	20.4	100.0
	Total		181	100.0	100.0	

Regarding to the type of assessment practiced in the branch office, from the above table 8 we can see that 82(45.3%) of respondents say that only administrative assessment are practiced, 49(27.1%) of respondents reply self assessment and the remaining 50(27.6%) of respondents reply that both administrative and self assessment are practiced. Hence we can see that mostly administrative assessment is practiced in the branch office. In the case of branch tax assessment efficiency and effectiveness, from the same table above we can see 63(34.8%) of respondents say yes, 81(44.8%) of respondents say no and the remaining 37(20.4%) of respondents reply I don't know. There for from the result we can see that tax assessment of the branch office is not effective and efficient.

Table 9 challenges in administrative assessment

The main challenges in administrative Assessment of the branch	N	Minim um	Maxim um	Mean	Std. Deviation	Varia nce
Shortage of man power	181	1.00	4.00	2.1436	1.01725	1.035
Staff corruption	181	1.00	5.00	2.9227	1.28434	1.650
Inadequate information about tax payer revenue and business transaction	181	1.00	5.00	2.6243	1.34671	1.814
Lack of third party information	181	1.00	5.00	2.3646	1.10034	1.211
Shortage of staff competency to assess tax liability	181	1.00	5.00	2.8011	1.28850	1.660
Inadequate facility	181	1.00	4.00	1.7735	.72154	.521

Despite the growing interest of improving tax administration, many barriers to tax administration persist. As it can be seen from the above table the major barriers which hinder administrative Assessment of the branch ranging from a mean score of 2.92 to 2.6 includes staff corruption, shortage of staff competency to assess tax liability and inadequate information about tax payer revenue and business transaction.

In contrary, factors like Lack of third party information, shortage of man power and inadequate facility also barriers which hinder administrative Assessment of the branch with the mean score of 2.36, 2.14 and 1.77 respectively. Therefore, and the result clearly indicated that there are several factors which challenge administrative Assessment at different degree.

Table 10challenges in self assessment

The main challenges in self Assessment of the branch	N	Minimu m	Maximu m	Mean	Std. Deviation	Varianc e
Lack of taxpayers awareness to comply according to the tax law and procedure	181	2.00	5.00	2.8398	1.06550	1.135
Lack of professional advice and assistance available to tax payers	181	1.00	5.00	2.1271	1.09056	1.189
Lack of voluntary compliance from tax payers	181	1.00	4.00	1.9392	.77578	.602
Weakness of tax payer education	181	1.00	5.00	2.7735	1.21955	1.487
Poor accounting records of tax payers	181	1.00	5.00	2.6188	1.29249	1.671

Tax payers attitude towards tax avoidance and tax evasion	181	2.00	5.00	2.9282	.86944	.756
Shortage of awareness creation campaign from the branch office	181	1.00	5.00	2.3867	1.18070	1.394
Valid N (list wise)	181					

The above table 10 summarizes the possible challenges in self assessment of tax liabilities. Accordingly, tax payer's attitude towards tax avoidance and tax evasion, lack of tax payer's awareness to comply according to the tax law and procedure, weakness of tax payer education and poor accounting records of tax payers are challenges self assessment of tax with a mean score above average (2.5).

Moreover, conditions like shortage of awareness creation campaign from the branch office, lack of professional advice and assistance available to tax payers and lack of voluntary compliance from tax payers with the mean score of 2.38, 2.12 and 1.93 respectively. Hence the result shows us that factors like tax payer's attitude towards tax avoidance and tax evasion, lack of tax payer's awareness to comply according to the tax law and procedure, weakness of tax payer education and poor accounting records of tax payers are the major challenges which hinder self assessment of tax liabilities program

4.2.3. Status of tax audit

Table 11 purpose of tax audit

What is the primary purpose of tax audit performed in the	Frequency	Percent	Valid Percent	Cumulative Percent
---	-----------	---------	---------------	--------------------

branch office?					
Valid	To check evasion of tax	71	17.4	17.4	17.4
	To ensure tax payer comply according to the law	136	33.3	33.3	50.6
	To assessment and collection of additional revenue	170	41.6	41.6	92.2
	To educate tax payer	32	7.8	7.8	100.0
	Total	409	100.0	100.0	

Source; own survey 2020

Table 11 shows the primary purpose of tax audit performed in the branch office. Accordingly, 71 (17.4%) of respondents replied that To check evasion of tax. And 163 (33.3%) of respondents agreed that the purpose is to ensure tax payer comply according to the law. Moreover, 170(41.6%) and 32(7.8%) of respondents responded that audit purpose is to assessment and collection of additional revenue and to educate tax payer respectively. Hence, the result revealed that the primary purpose of tax audit performed in the branch office are to assessment and collection of additional revenue, To ensure tax payer comply according to the law and To check evasion of tax

Table 12 main activities of tax audit

What are the main activities that tax auditors, investigators and assessors expected to perform during an audit period	Frequency	Percent	Valid Percent	Cumulative Percent
Detecting non compliance	146	35.7	37.9	37.9

behavior of individual tax payer				
Gathering information on the health of tax system	110	26.9	28.6	66.5
Educating tax payers	80	19.6	20.8	87.3
Interpreting complex tax rules and regulations for tax payers	20	4.9	5.2	92.5
Identify areas of tax law that require clarification and amendments	9	2.2	2.3	94.8
Search for unregistered tax payer	20	4.9	5.2	100.0
Total	385	94.1	100.0	

Source; own survey 2020

As it can be seen from Table 12 the main activities that tax auditors, investigators and assessors expected to perform during an audit period, it is clearly identified that 146 (35.7%), 101(26.9%) , 80 (19.6%) , 20 (4.6.9%) , 9 (2.2%) and 20 (4.9%) of respondents replied that Detecting non compliance behavior of individual tax payer, Gathering information on the health of tax system, Educating tax payers, Interpreting complex tax rules and regulations for tax payers, Identify areas of tax law that require clarification and amendments and Search for unregistered tax payer. There for, the result shows us that the main activities that tax auditors, investigators and assessors expected to perform during an audit period are detecting non compliance behavior of individual tax payer, Gathering information on the health of tax system and educating tax payers. Interpreting complex tax rules and regulations for tax payers, identify areas of tax law that require clarification and amendments and Search for unregistered tax payer also additional activities that performed during tax audit period.

Table 13Formality of economic transaction

Do you agree that most economic transactions are conducted formally, so as to leave an audit trail?		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	21	11.6	11.6	11.6
	neutral	3	1.7	1.7	13.3
	disagree	116	64.1	64.1	77.3
	strongly disagree	41	22.7	22.7	100.0
	Total	181	100.0	100.0	

Source; own survey 2020

Table 13 shows the level of agreement of respondents that whether economic transactions which are conducted formally, so as to leave an audit trail. Accordingly, 21 (11.6%) of respondents agree that most economic transactions are conducted formally, so as to leave an audit trail, 3(1.7%) are neutral, 116(64.1%) of respondents disagree and 41(22%) of respondents strongly disagree. So that the result clearly shows that most economic transactions are not conducted formally, so as to leave an audit trail.

Table 14 Status of training and awareness regarding to tax law and tax audit issues

Does your office provide tutor training and awareness regarding to tax law and	Frequency	Percent	Valid Percent	Cumulative Percent

tax audit issues for auditors and assessors?					
Valid	usually	13	7.2	7.2	7.2
	Sometimes	118	65.2	65.2	72.4
	not at all	50	27.6	27.6	100.0
	Total	181	100.0	100.0	

Source; own survey 2020

As it can be seen from Table 14 the availability of tutor training and awareness regarding to tax law and tax audit issues for auditors and assessors, it is clearly identified that 13 (7.2%) of respondents replied that the office provide tutor training and awareness regarding to tax law and tax audit issues usually and 118(65.2%) of respondents replied that the office provide tutor training and awareness sometimes. However, 50 (27.6%) replied that there is no any tutor training and awareness regarding to tax law and tax audit issues. Therefore, the result clearly indicates that there is tutor training and awareness regarding to tax law and tax audit issues for auditors and assessors not usually but sometimes.

Table 15efficiency and effectiveness of audit program of the branch office

Do you agree that the audit program of the branch office is efficient and	Frequen cy	Percent	Valid Percent	Cumulative Percent

effective?					
Valid	strongly agree	27	14.9	14.9	14.9
	agree	32	17.7	17.7	32.6
	neutral	3	1.7	1.7	34.3
	disagree	119	65.7	65.7	100.0
	Total	181	100.0	100.0	

Source; own survey 2020

From the above table 15 regarding the efficiency and effectiveness of audit program of the branch office, 27 (14.9%) and 32(17.7%) of the respondents strongly agree and agree that the audit program of the branch office is efficient and effective. And 3(1.7%) of respondents are neutral about the issue. Moreover, the remaining 119 (56.7%) of respondents disagree that the audit program of the branch office is efficient and effective. Hence, the result implies audit program of the branch office is not efficient and effective.

Table 16 Factors which affect tax audit activity

For the following question below Please; rate the level of your agreement by marking (√) at the appropriate column.	N	Minim um	Maxim um	Mean	Std. Deviation	Vari ance
Tax auditors and investigators have good access to information held by tax payers and third party	181	2.00	5.00	4.2486	.80902	.655
Tax payers cooperate to give essential information necessary for performing an audit	181	1.00	5.00	3.7017	1.46418	2.144

Tax payers comply with the tax law	181	2.00	5.00	4.0110	.80270	.644
Tax payers are selected based on their associated compliance risk	181	1.00	5.00	2.7514	1.36180	1.855
Tax audit is a side treatment for compliance risk available to the branch office	181	2.00	5.00	3.7956	.70489	.497
The office have adequate facilities for audit program	181	2.00	5.00	3.9503	.76939	.592
The office perform a continues assessment to improve capability and competency of staff resources , auditors , assessors and investigators in particular	181	1.00	5.00	3.7403	1.65462	2.738
Tax payers records of transaction reflect the true nature and amount of transaction	181	2.00	5.00	4.0829	.63139	.399
Auditors , assessors and investigators have adequate capability and competency to perform tax audit	181	1.00	5.00	3.2265	1.20580	1.454
Tax payers have enough awareness in accounting records and audit	181	2.00	5.00	3.4309	.95565	.913
Valid N (list wise)	181					

Source; own survey 2020

The above table 16 presents the main issues which is important for effective audit program manifested by various activities. Accordingly, the higher mean figure ranging from 4.24 to 3.22 representing respondents' strong disagreement have been obtained.

It can be deduced from the table that respondents disagree on issues of tax auditors and investigators have good access to information held by tax payers and third party, tax payers records of transaction reflect the true nature and amount of transaction , Tax

payers comply with the tax law , the office have adequate facilities for audit program, Tax audit is a side treatment for compliance risk available to the branch office, tax payers are selected based on their associated compliance risk, the office perform a continues assessment to improve capability and competency of staff resources , auditors , assessors and investigators in particular, tax payers cooperate to give essential information necessary for performing an audit, tax payers have enough awareness in accounting records and audit, auditors , assessors and investigators have adequate capability and competency to perform tax audit with a mean score of 4.24,4.08,4.01, 3.95, 3.79, 3.75, 3.74, 3.70, 3.43and 3.22 in descending order respectively.

Therefore, the result clearly indicated that Shortage of information held by tax payers and third party, Tax payers false records of transaction, non compliance of tax payers according to the tax law , inadequate facilities for audit program, a side treatment of Tax audit for compliance risk, tax payers selection without their compliance risk, shortage of a continues assessment to improve capability and competency of staff resources , auditors , assessors and investigators in particular, lack of Tax payers cooperation to give essential information necessary for performing an audit, lack of Tax payers awareness in accounting records, and inadequate capability and competency of Auditors , assessors and investigators to perform tax audit are the main factors which challenge audit program in particular and tax administration in general.

4.2.4. Data from Tax Payers

4.2.4.1. Sex of respondents

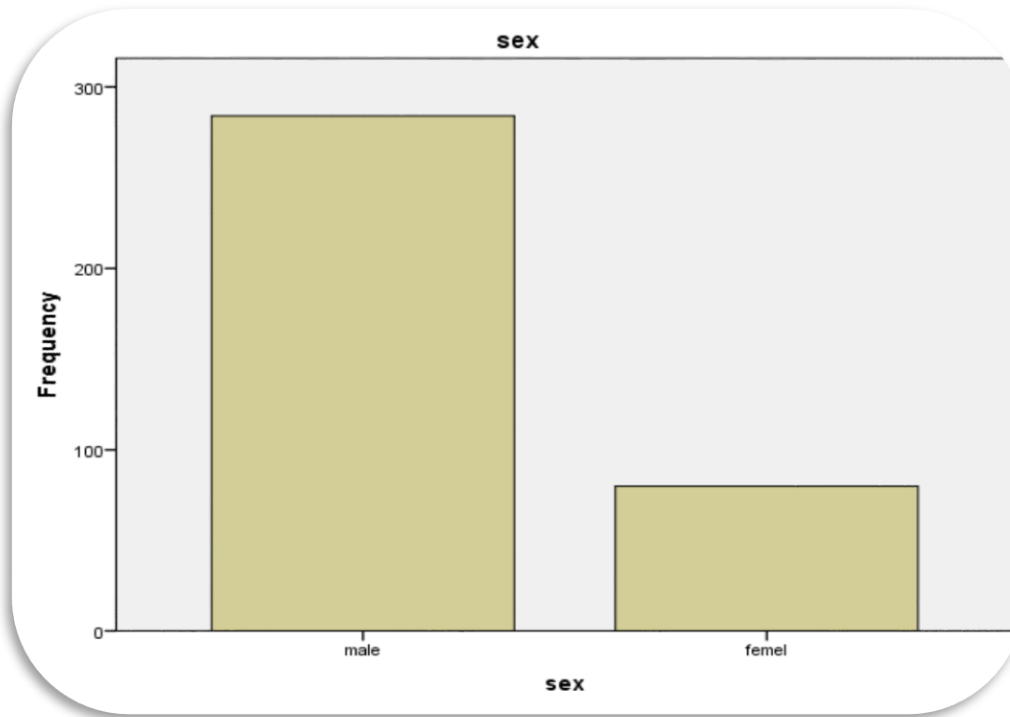
Table 17sex of tax payers

		Frequ ency	Percent	Valid Percent	Cumulativ e Percent
Val id	Male	284	78.0	78.0	78.0
	female	80	22.0	22.0	100.0
	Total	364	100.0	100.0	

Source own survey 2020

From table 17 regarding to sex of respondents we can see that 284(78%) of respondents are male and 80(22%) of respondents are female. It is clearly indicates that most of respondents are male.

Figure 2 Educational status



4.2.4.2. Educational status of respondents

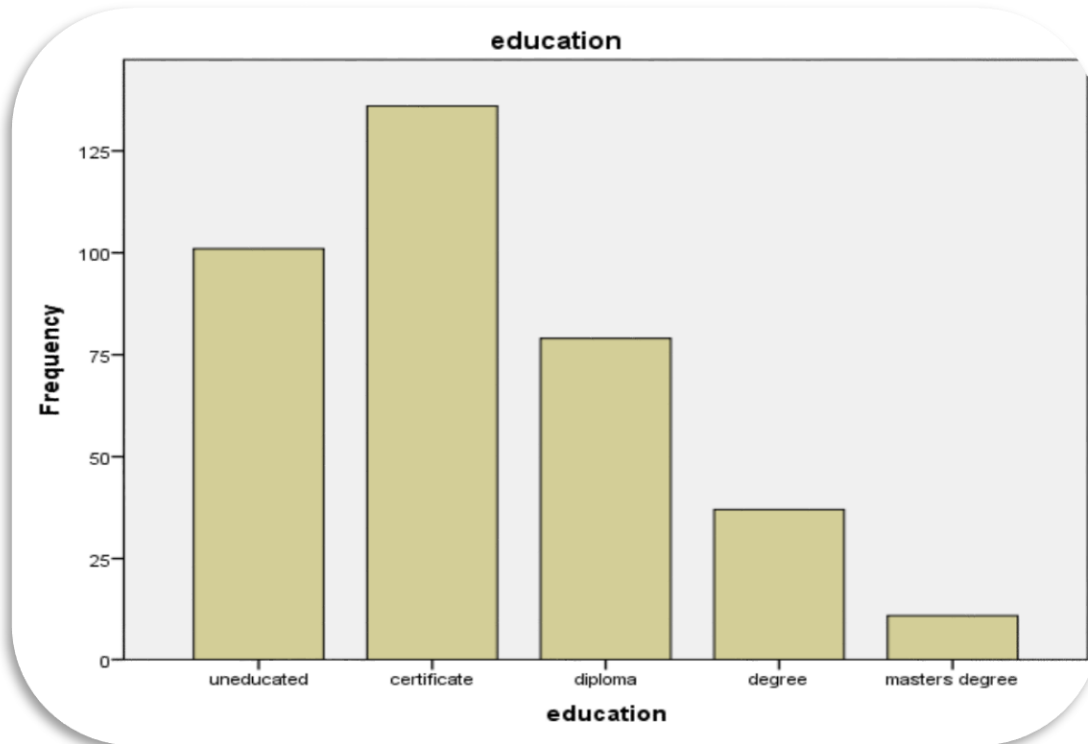
Table 18 Educational status of tax payers

		Freque ncy	Percen t	Valid Percent	Cumulative Percent
Valid	uneducated	101	27.7	27.7	27.7
	certificate	136	37.4	37.4	65.1
	diploma	79	21.7	21.7	86.8
	degree	37	10.2	10.2	97.0
	masters	11	3.0	3.0	100.0

	degree				
	Total	364	100.0	100.0	

Source own survey 2020

Figure 3 Educational statuses of tax payers



Regarding to educational background of respondents, 101(27.7%) of respondents are uneducated, 136(37.4%) of respondents are certificate level, 79(21.7%) of respondents are diploma, 37(10.2%) of respondents are first degree holder and the remaining 11(3%) of respondents are at masters degree level. Hence the result tells us that most of respondents are at certificate and first degree level.

4.2.4.3. Tax payer duration in business

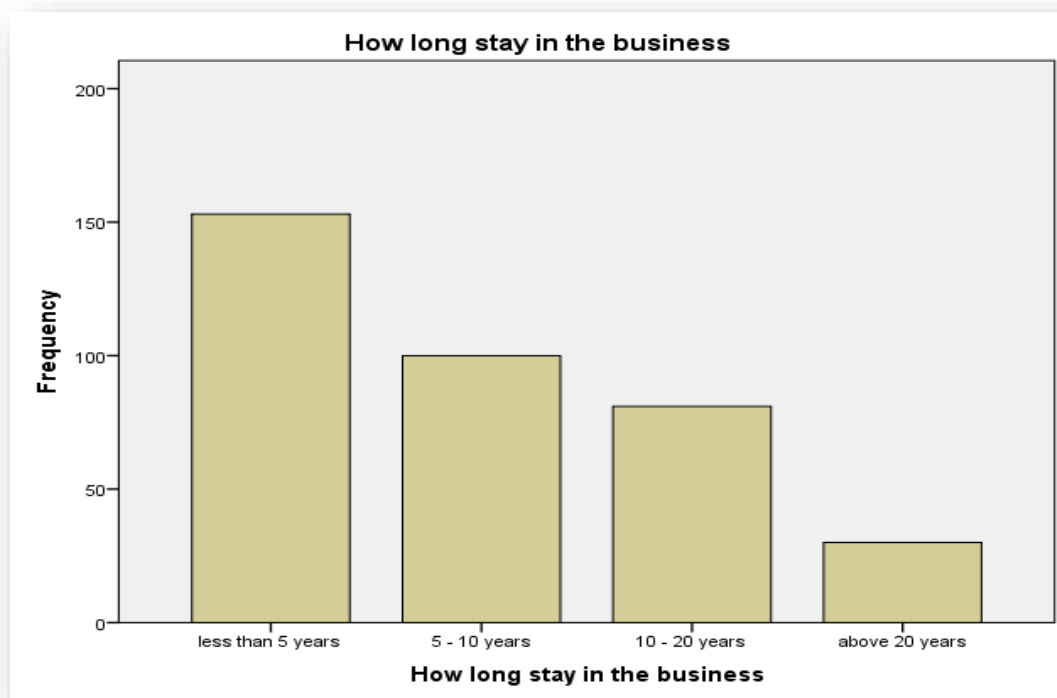
Table 19 duration in business

	Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	less than 5 years	153	42.0	42.0	42.0
	5 - 10 years	100	27.5	27.5	69.5
	10 - 20 years	81	22.3	22.3	91.8
	above 20 years	30	8.2	8.2	100.0
	Total	364	100.0	100.0	

Source own survey 2020

Figure 4 Duration in business



According to table 19 we can see that 153(42%) of respondents stay in business for less than 5 years, 100(27.5%) of respondents stay in business for 5 – 10 years, 81(22.3%) of respondents for 10 – 20 years and the remaining 30(8.2%) of respondents stay in business for above 20 years. From the data we can understand that most of respondents stay in business for less than 5 years.

4.2.4.4. Status of tax administration
Understanding of tax payers about tax

Table 20 Understanding of tax payers about tax

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	As a liability	127	34.9	34.9	34.9
	As a tool for development	134	36.8	36.8	71.7
	As a debt	76	20.9	20.9	92.6
	I don't know	27	7.4	7.4	100.0
	Total	364	100.0	100.0	

Source own survey 2020

From table 20 above us can see that, 127(34.9%) of respondents understand tax as liability, 134(36.8%) of respondents understand tax as, 76(20.9%) of respondents understand tax as a debt and the remaining 27(7.4%) of respondents replay I don't know

Table 21 Tax payer's information access and training

		Frequency	Percent	Valid Percent	Cumulative Percent
Do you have adequate information about tax system, tax law and regulation	yes	108	29.7	29.7	29.7
	no	256	70.3	70.3	100.0
	Total	364	100.0	100.0	
	Very clear and understandable	22	6.0	20.4	20.4

If your answer is yes for above question yes , is the information clear and understandable	Clear and understandable	19	5.2	17.6	38.0
	Medium	27	7.4	25.0	63.0
	Not clear and understandable	40	11.0	37.0	100.0
	Total	108	29.7	100.0	
Does the office provide training, tutor and other awareness creation campaign since you engage in the business?	yes	89	24.5	24.5	24.5
	no	199	54.7	54.7	79.1
	I don't know	76	20.9	20.9	100.0
	Total	364	100.0	100.0	

Source own survey 2020

As we can see from table 21 above that, 108(29.7%) of respondents reply that they have adequate information about tax system, tax law and regulation and the other 256(70.3%) of respondents replied that they don't have adequate information about tax system, tax law and regulation. In the same table 21 from respondents who reply yes, 22(20%) of respondents say the information is Very clear and understandable, 19(17.6%) of respondents replied Clear and understandable, 27(25%) of respondents are medium and the remaining 40(37%) of respondents replied not Clear and understandable. Regarding to provision of training, tutor and awareness creation campain,89(24.5%) of respondents replied yes, 199(54.7%) of respondents say no and the remaining 76(20.9%) of respondents replied I don't know. From the result it is clear that most of respondents have inadequate information about tax system, tax law and regulation. Even the respondents who have information, the information is not clear and understandable by respondents. In addition to that the provision of training, tutor and awareness creation campaign of the branch office is weak.

Table 22challenges of tax payers in revenue administration

The main challenges tax payers face in revenue administration	N	Mini mum	Maxim um	Mean	Std. Deviation	Variance
Lack of understanding regarding substantive and procedural requirements of tax laws and regulation	364	1.00	5.00	2.1566	1.29852	1.686
Onerous reporting and record keeping requirements	364	1.00	5.00	1.7445	1.00582	1.012
Perform excessive inspections and audits	364	1.00	5.00	2.8654	1.42431	2.029
Fail to deal with their corrupt employee	364	1.00	5.00	1.8187	1.14034	1.300
Failure to provide transparency in the operation of tax administration	364	1.00	5.00	3.5220	1.28224	1.644
Complexity of tax law, regulation and directives	364	1.00	5.00	2.1648	1.38480	1.918
Lack of competent personnel to assess tax liability	364	1.00	5.00	2.1071	1.10199	1.214
High tax rate	364	1.00	5.00	1.7308	1.01180	1.024
Lack of training and awareness campaign	364	1.00	5.00	2.8104	1.50107	2.253
High compliance cost	364	1.00	5.00	3.5604	1.27020	1.613
Valid N (list wise)	364					

The above table presents the main challenges tax payers face in revenue administration accordingly, the higher mean figure ranging from 3.56 to 2.81 representing respondents' strong agreement have been obtained. However, the lower mean score observed ranging from 2.15 to 1.73 to different factors.

It can be deduced from the table that respondents strongly agree on issues of high compliance cost, failure to provide transparency in the operation of tax administration, perform excessive inspections and audits and lack of training and awareness campaign with a mean score of 3.56, 3.52, 2.86 and 2.81 respectively.

Running in contrast is with a low mean score for factors like lack of understanding regarding substantive and procedural requirements of tax laws and regulation, lack of competent personnel to assess tax liability, Onerous reporting and record keeping requirements, fail to deal with their corrupt employee, and high tax rate representing mean score of 2.16, 2.15, 2.16, 2.10, 1.81, and 1.31, 1.73 in descending order respectively. There for the result tells us that tax payers face different challenges from revenue administration at different degree.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMENDATION

5.1. SUMMARY OF FINDINGS

- The result of the study shows that, 103(56.9%) of staff respondents are male and 78(43.1%) of staff respondents are female. Moreover, 284(78%) of tax payer respondents are male and 80(22%) of respondents are female.
- Regarding to educational background of respondents, 151(83.4%) of staff respondents are first degree holder and 136(37.4%) of tax payer respondents are at certificate level..
- As we can see from the result major barriers in administrative assessment ranging from a mean score of 2.92 to 2.6, includes staff corruption, shortage of staff competency to assess tax liability and inadequate information about tax payer revenue and business transaction.
- Tax payer's attitude towards tax avoidance and tax evasion,lack of tax payer's awareness to comply according to the tax law and procedure, weakness of tax payer education andpoor accounting records of tax payers are challenges self assessment of tax with a mean score above average (2.5).
- The major barriers having a significant impact on audit program ranging from a mean score of 4.24 to 3.22 have been observed.
- Regarding to provision of training, tutor and awareness creation campaign, 199(54.7%) of respondents say no such provision.

- Main challenges tax payers face in revenue administration with higher mean figure ranging from 3.56 to 2.81 representing respondents' strong agreement have been obtained. However, the lower mean score observed ranging from 2.15 to 1.73 also obtained to different factors. s

5.2. CONCLUSION

- Regarding to tax payer registration of potential tax payers, the study revealed that all potential tax payers are no registered for tax. The main reasons for lower registration are Poor revenue administration image among tax payers and Bad tax payer's attitude towards the government usefulness and effectiveness of public expenditure. In addition to that lack of tax payer's awareness about tax and weakness of tax payer education also barrier for tax payer registration. Among potential tax payers, Small informal sectors, Self
- Based on the survey results, the study found that there exist lacks of tax knowledge by tax payers because of weak tax payer education program. Most of tax payers do not understand substantive and procedural requirements of tax law and regulation. In addition tax payers have no access to professional advice and assistance from the branch office. Most of tax payers have bad attitude towards the government usefulness and effectiveness of public expenditure because of lack provision of training, tutor, awareness creation campaign and tax payer education program.
- In the case of branch tax assessment efficiency and effectiveness, from the study we can see that tax assessment of the branch office is not effective and efficient due to different factors which hinder tax assessment program of the branch.

- The major barriers in administrative assessment, includes staff corruption, shortage of staff competency to assess tax liability and inadequate information about tax payer revenue and business transaction. Tax payer's attitude towards tax avoidance and tax evasion, lack of tax payer's awareness to comply according to the tax law and procedure, weakness of tax payer education and poor accounting records of tax payers are challenges self assessment of tax.
- The provision of tutor training and awareness regarding to tax law and tax audit issues for auditors and assessors is a very important aspects for tax audit effectiveness. Therefore, the result clearly indicates that there is tutor training and awareness regarding to tax law and tax audit issues for auditors and assessors not usually but sometimes.
- For successful tax administration one of the aspects of tax administration which is tax audit must be efficient and effective. In this case, the result implies audit program of the branch office is not efficient and effective because of different factors.
- The result clearly indicated that Shortage of information held by tax payers and third party, Tax payers false records of transaction, non compliance of tax payers according to the tax law , inadequate facilities for audit program, a side treatment of Tax audit for compliance risk, tax payers selection without their compliance risk, shortage of a continues assessment to improve capability and competency of staff resources , auditors , assessors and investigators in particular, lack of Tax payers cooperation to give essential information necessary for performing an audit, lack of Tax payers awareness in accounting records, and inadequate capability and competency of Auditors , assessors and investigators to perform

tax audit are the main factors which challenge audit program in particular and tax administration in general.

5.3. RECOMMENDATION

Tax administration is a very crucial and bases for any economic development of many nations and society over a long period of time. However, this fundamental and basic source of capacity and economic building is related with various problems which need urgent attention by the stakeholders and policy makers. Nonetheless, having well and capable tax policy and tax administration would encourage tax compliance hence curb tax evasion. In respect to this, the paper put forward the following recommendation to tax administration:

- The RA's image amongst taxpayers is poor. This may lead to increased noncompliance and tax evasion. To curb this the branch office must improve the RA's image through improvements tax administration services
- The general attitude of taxpayers towards the government, usefulness and effectiveness of public expenditures and payment of taxes are low. RA also must improve communication with the government and taxpayers. The government should improve public expenditure management to reduce waste and corruption in government spending.
- Tax payers do not properly understand their tax obligations. This may discourage compliance or increase the error rate in returns and payments, creating additional administrative costs for the RA and compliance costs for taxpayers. Therefore the branch office must impose exemplary penalties in serious cases of tax fraud to

create a demonstration effect and design and implement effective taxpayer education programs.

- RA must carry out a skills assessment of staff and managers and match skills to tasks. Address skill deficiencies through training of existing staff or recruitment of qualified new staff.
- Develop and implement operational strategies to improve the RA's knowledge of and ability to check non-compliance and tax evasion for Audit program. For instance:
 - Collecting information on taxable transactions from third parties.
 - Strengthening intelligence operations.
 - Exchanging information with other government departments.
 - Entering into international cooperation and information sharing agreements.
 - Direct verification of compliance through site visits.
- In regarding to professional advice and assistance to taxpayers to help them understand and comply with the tax laws and plan their taxable activities. Provide assistance to taxpayers in dealing with procedural requirements.
- Tax force should be strengthen and empowered with enlightens program to educate people on how to file and pay their taxes. This should be in form of radio broadcast, television airing, bill board and poster and finally face to face interaction. This would serve as a basis for direct and indirect educating and disseminating tax and tax related issues to the public aimed to increase tax voluntary compliance.

- Organizing frequent training program by the administration of board of internal revenue to their tax official (collectors) to improve efficiency and acquainting them with new and improve skills for tax collection and administration
- Employing and assigning qualified and competent personnel for tax collection whose have knowledge of accounting and tax related issues to avoid disappointment and dysfunction in tax assessment and collection exercise.

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ANNEX - 1

ADDIS ABABA SCIENCE AND TECHNOLOGY UNIVERSITY QUESTIONNAIRE TO BE FILLED BY AKAKI KALITY SMALL TAX PAYER BRANCH OFFICE EMPLOYEE

Purpose, the purpose of this questionnaire is to collect basic data for the study entitled “tax administration challenges, the case of Akaki Kality sub city small tax payer branch office.” Your cooperation to offer relevant and honest information is highly important for the success of this study. I would like to assure you that your response will be kept confidential, hence, please feel free to answer all questions frankly and accurately as much as possible. It is not necessary to write your name on the questionnaire.

PART ONE; - GENERAL INFORMATION ABOUT THE RESPONDENTS

N.B please give your answer on the space provided & put tick a mark In the box corresponding to your response.

1.1.Sex Male
 Female

1.2.Educational status

Certificate
Diploma
Degree
Masters
PHD

Pease specify if others -----

1.3.Your position -----

1.4.How long you stay in the office

Less than 5 years
5 – 10 years
10 - 20 years
Above 20 years

PART TWO; - STATUS OF TAX PAYER REGISTRATION AND EDUCATION

2.1. How do you see tax payer registration in the branch office?

Very weak

Weak

Medium

High

Very high

2.2. Do you think all potential tax payers registered for tax?

Yes

No

2.3. If your answer for question number 2.4 above is No. What are the main challenges that hinder tax payer registration program? Please; rate the level of your agreement by marking (√) at the appropriate column. Use the following scales, strongly agree = 1, agree =2, neutral =3, disagree = 4 strongly agree = 5

variables	1	2	3	4	5
Lack of taxpayers awareness about tax					
Bad tax payers attitude towards the government usefulness and effectiveness of public expenditure					
Weakness of revenue administration to assess and register potential tax payers					
Weakness of tax payer education					
Poor revenue administration image amongst tax payers					
Tax payers attitude towards tax avoidance and tax evasion					
Presence of underground economy					
Presence of large number of small informal					

sector which is hard to tax					
Please specify if any other					

2.4. Which potential tax payers belong to hard – to tax sector? Multiple answers is possible.

Small informal sectors

Self – employed person

Small farmers

Brokers

Street traders

Property (house) renters

Please specify if any others-----

2.5. How do you see professional advice and assistance of tax payers to help them understand and comply with the tax law and plan their activities?

Very weak

Weak

Medium

High

Very high

2.6. What is the level of understanding of tax payers regarding the substantive and procedural requirements of tax laws and regulations?

Very weak

Weak

Medium

High

Very high

2.7. How do you see the perception of tax payers about the risk and cost of being caught in case they do not comply with their tax obligation?

Very weak

Weak

Medium

High

Very high

2.8. How do you see tax payer's attitude towards the government usefulness and effectiveness of public expenditure?

Very weak

Weak

Medium

High

Very high

2.9. What is the level of tax payer education in the branch office?

Very weak

Weak

Medium

High

Very high

2.10. If your answer for number – question above is weak what is the main challenges which hinder tax payer education program?

Shortage of resource

Shortage of government budget

Small level of IT infrastructure

Shortage of staff employee

Competency of staff employee

Please specify if any others-----

PART THREE; - STATUS OF TAX ASSESSEMENT AND COLLCTION

3.1. What type of assessment practiced in your branch office?

Only Administrative assessment

Self assessment

Both

3.2. Do you think tax assessment of the branch office effective and efficient?

Yes

No

I Don't Know

3.3. For the following question below Please; rate the level of your agreement by marking (√) at the appropriate column. Use the following scales, strongly agree = 1, agree =2, neutral =3, disagree = 4 strongly agree = 5

The main challenges in administrative	1	2	3	4	5
---------------------------------------	---	---	---	---	---

Assessment of the branch					
Shortage of man power					
Staff corruption					
Inadequate information about tax payer revenue and business transaction					
Lack of third party information					
Shortage of staff competency to assess tax liability					
Inadequate facility					

3.4. For the following question below Please; rate the level of your agreement by marking (√) at the appropriate column. Use the following scales, strongly agree = 1, agree =2, neutral =3, disagree = 4 strongly agree = 5

The main challenges in self Assessment of the branch	1	2	3	4	5
Lack of taxpayers awareness to comply according to the tax law and procedure					
Lack of professional advice and assistance available to tax payers					
Lack of voluntary compliance from tax payers					
Weakness of tax payer education					
Poor accounting records of tax payers					
Tax payers attitude towards tax avoidance and tax evasion					
Shortage of awareness creation campaign from the branch office					
Please specify if any other					

PART FOUR; - STATUS OF TAX AUDIT

4.1. What is the primary purpose of tax audit performed in the branch office? (Multiple answers is possible)

To check evasion of tax

To ensure tax payer comply according to the law

To assessment and collection of additional revenue

To educate tax payer

Please specify if any others-----

4.2. What are the main activities that tax auditors, investigators and assessors expected to perform during an audit period? (Multiple answers is possible)

Detecting non compliance behavior of individual tax payer

Gathering information on the health of tax system

Educating tax payers

Interpreting complex tax rules and regulations for tax payers

Identify areas of tax law that require clarification and amendments

Search for unregistered tax payer

Please specify if any others-----

4.3. Do you agree that most economic transactions are conducted formally, so as to leave an audit trail?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

4.4. Does your office provide tutor training and awareness regarding to tax law and tax audit issues for auditors and assessors?

Yes

Usually

Neutral

Sometimes

Not at all

4.5. Do you agree that the audit program of the branch office is efficient and effective?

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

4.6. For the following question below Please; rate the level of your agreement by marking (√) at the appropriate column. Use the following scales, strongly agree = 1, agree =2, neutral =3, disagree = 4 strongly agree = 5

Items	1	2	3	4	5
Tax auditors and investigators have good access to information held by tax payers and third party					
Tax payers cooperate to give essential information necessary for performing an audit					

Tax payers comply with the tax law					
Tax payers are selected based on their associated compliance risk					
Tax audit is a side treatment for compliance risk available to the branch office					
The office have adequate facilities for audit program					
The office perform a continues assessment to improve capability and competency of staff resources , auditors , assessors and investigators in particular					
Tax payers records of transaction reflect the true nature and amount of transaction					
Auditors , assessors and investigators have adequate capability and competency to perform tax audit					
Tax payers have enough awareness in accounting records and audit					

4.8. What possible solutions do you suggest to improve the efficiency and effectiveness of tax audit program?

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4.9. What has to be done in the office so as to minimize non compliance, tax evasion, and corruption in order to increase tax revenue?

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4.10. Do you have any ideas, opinions, and suggestion that have not been included in
aforementioned questionnaire?

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.....
.....

THANK YOU

ANNEX - 2

ADDIS ABABA SCIENCE AND TECHNOLOGY UNIVERSITY

QUESTIONNAIRE TO BE FILLED BY TAX PAYERS

Purpose, the purpose of this questionnaire is to collect basic data for the study entitled “tax administration challenges, the case of Akaki Kality sub city small tax payer branch office”. Your cooperation to offer relevant and honest information is highly important for the success of this study. I would like to assure you that your response will be kept confidential, hence, please feel free to answer all questions frankly and accurately as much as possible. It is not necessary to write your name on the questionnaire.

PART ONE; - GENERAL INFORMATION ABOUT THE RESPONDENTS

N.B please give your answer on the space provided & put tick a mark In the box corresponding to your response.

1.1.Sex Male
 Female

1.2.Educational status

Certificate
Diploma
Degree
Masters
PHD

Pease specify if others -----

1.3.Business you are running -----

1.4. How long you stay in the business

Less than 5 years
5 – 10 years
10 - 20 years
Above 20 years

PART TWO; - STATUS TAX ADMINISTRATION CHALLENGES AND PROSPECTS

2.1. How do you understand tax?

As a liability

As a tool for development

As a debt

I don't know

Specify if other -----

2.2. Do you have adequate information about tax system, tax law and regulation?

Yes

No

2.3. If your answer is **yes** for above question number 2.2, is the information clear and understandable?

Very clear and understandable

Clear and understandable

Medium

Not clear and understandable

2.4. Does the office provide training, tutor and other awareness creation campaign since you engage in the business?

Yes

No

I don't know

2.5. Do you know that the office will penalize you if you don't comply according to the tax law?

Yes

No

I don't know

2.6. Is there any information technology infrastructure available to you?

Yes

No

2.7.What is your perception about the risk and cost of being seized in case you do not comply with tax obligation?

Very weak

Weak

Medium

High

Very high

2.8.Instruction; - In following table different variables are listed, please; rate the level of your agreement by marking (√) at the appropriate column. Use the following scales, strongly agree = 1, agree =2, neutral =3, disagree = 4 strongly disagree = 5

No	What is the main challenges you face in the revenue office	1	2	3	4	5
1	Lack of understanding regarding substantive and procedural requirements of tax laws and regulation					
2	Onerous reporting and record keeping requirements					
3	Perform excessive inspections and audits					
4	Fail to deal with their corrupt employee					
5	Failure to provide transparency in the operation of tax administration					
6	Complexity of tax law, regulation and directives					
7	Lack of competent personnel to assess tax iability					
8	High tax rate					
9	Lack of training and awareness campaign					
10	High compliance cost					
11	Please specify if other					

10	□□□□□□□□□□□□□□□□					
11	□□□□□□□□□□□□					

□ □ □ □ □ □ □

