ST. MARY’S UNIVERSITY COLLEGE
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

CHALLENGES OF TAX REFORM IN ETHIOPIA
REVENUE AND CUSTOM AUTHORITY
(ERCA)

BY
FELEKU AYENACHEW

FEBRUARY 2012
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ADDIS ABABA
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A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF ACCOUNTING BUSINESS FACULTY ST.MARY’S UNIVERSITY COLLEGE

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STATEMENT OF DECLARATION

We hereby declare that this senior essay is our original work prepared under the guidance of Tenkir seifu. All sources of materials used have been duly acknowledged.

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of Taxation and Tax Reform

The history of taxation is very ancient and passed different stages in different countries of the world. Encyclopedia of taxation the first origin of taxation is from the Bible. In Genesis, chapter 47, verse 24 says when the crop comes in give a fifth of it to Pharaoh. The other four-fifths you may keep as a seed for the fields and as a food for yourselves, your households and your children which Joseph was tolled to the people of Egypt. This tax was paid in kind that was a crop, not of money. (Pointed out in Gebre, 2006)

The taxation system in Ethiopia has along history. Addis Chamber Alliance Professionals it was during Zerayacob time that the first tax system introduced. The tax system was set for those people who engaged in livestock production. This traditional taxation provides for taxes on crops, livestock and livestock products. Hunting taxes imposed, especially, on elephant hunters in the form of ivory taxes. (Indicated in Gebre, 2006)

In Ethiopian taxation history many tax reforms made in different periods up to the current time. ABC of Taxation in Ethiopia pointed out during the period of Haile Selassie Regime (1942-1974) many tax reforms have done. For instance the first income tax low of the country was enacted during this period. This Personal and Business tax proclamation number 60 0f 1944 Reform income taxation, in that it provided a modern structural and legal framework from the disorganized primitive system.(Gebre, 2006)
Taxes during the Derg regime (1975-1991), the political change of 1975 brought the abolition of the feudal land tenure system and revoke of land taxes and the tithe. The taxes imposed on health and education also canceled and the remaining types of taxes extensively amended and restructured by the Derg and used until the Ethiopian Peoples Revolutionary Democratic Front (EPRDF) amends anew tax structure and reform.

The purpose of taxation is to mobilize the revenue required to finance public goods and services. Since taxes have a pervasive influence on economic decisions of individuals and businesses, and on social equity, the tax system should achieve the appropriate level of revenue as efficiently and fairly as possible. Taxation plays a key role to development for any country and governments impose many types of taxes for different economical and social objectives. One of the mechanisms in which countries raise revenue to finance government spending on goods and services that most of us demand is through taxation. Hence to provide public goods and services the government can only be done, if the public pays taxes. The provision of public services and infra structure is a key factor for economic development and growth, but many developing countries fail to raise the tax revenue required to finance their public expenditure.

The history of taxation in developing countries of Africa and Asia it is not less than that of the taxation history of other developed countries of Europe and western countries, but the development of taxation system is far away as an economic development in less developed countries. In 2005, the average tax revenue to GDP ratio in the developed world was estimated an average of 35%, in the developing countries it was equal to 15%, and in the poorest of these countries tax revenue was just 12% of GDP.

Ethiopian Revenue and Customs Authority (ERCA, 2008) website indicated that in many African countries, the ratio of tax revenue to Gross Domestic Product (GDP) exceeds 20% and is higher in developed countries. But in Ethiopia, the current tax to GDP ratio is about below 10%. This implies that in developing countries like Ethiopia
the capacity of generating its own tax revenue potential is very low. For instance World Bank’s Africa data base (2004) cited in Moyi and Ronge (2006) report of taxation and tax modernization in Kenya shows that Kenya’s tax revenue to GDP ratio has reached 18%, which is greater than by more than 8%, when it is compared with Ethiopia’s tax GDP ratio.

As far as taxation in urban local government is concerned now a day’s urbanization in many developing counties has increasing at a higher rate with increasing financial constraints to provide a rapidly growing demand for urban services. Mosha (2004) argued that as a result of rapid urbanization, pressure on urban services and facilities has become a serious problem in many urban centers and job opportunities offered by cities are too few for the large numbers of new urban dwellers. Consequently, the numbers of poor people within urban areas are rapidly increasing and this rapid urbanization is also leading to serious environmental degradation, particularly within and around large cities. Therefore developing countries and countries in transition facing fiscal deficits to finance public expenditure; the consequence of these financial constraints is seriously reflected in urban areas. These problems are also currently reflected in Ethiopia, with rapid urbanization accompanied by high population growth with poor urban service and infrastructure development. Hence to mobilize adequate revenue form tax, tax reform is basically necessitated.

The need for and definition of tax system reform has defined by different authors from different views. Tax Reform is an ongoing process which tax policy makers and tax administrators continually adopting their tax systems to reflect changing economic, social and political situations. The other view Bird (2003), noted that for many developing countries, the immediate reason for Tax reform, has been the need to enhance revenue to meet impending fiscal crisis. Also argued the major concern of Tax Reformers has been the need, to improve the equity of the tax structure, so as to make it comply more nearly with prevailing views of what constitutes a fair distribution of the tax burden and with the
effects of taxation upon the functioning of the economy. Musgrave and Musgrave (1989), Rao (1992)
In Ethiopian context the factors which necessitated the need to tax reform is the same as the scholars’ argument. Described there are two major internal and external factors that necessitated tax reform in Ethiopia. The internal factors are the realization by the Ethiopian Government which is the low yield of revenue, poor tax administration and old outdated tax laws. The external factors are also the influences by the International Monitory Found /IMF/ and World Bank which initiated major tax reform programs in transition and developing countries. Taddesse (2008)

Therefore the government of Ethiopia has started implementing tax reform program beginning from 2002 to modernizing the tax system in the Federal and Regional levels. According to Ethiopia Public Sector Capacity Building Program Support Project PSCAP (2008) the Tax Reform contains six sub programs. These are tax policy & legislation sub-program, Presumptive taxation sub-program, taxpayers identification number sub-program, Value Added Tax sub-program, Operational systems & procedures sub-program and Organization and tax payer’s education sub- programs are the major reform programs which are currently on going.

1.2. Statement of the Problem

The main sustainable revenue source for a government should be its own source of revenue. This is practicable in developed countries because they are raising revenue which is capable for self financing but developing countries are lacking. Ethiopia is one of the many Sub-Saharan African countries found in vicious circle of fiscal deficits and relay on foreign loan and aid, due to poor tax collection system that contributed for inadequate revenue generation from which the country’s economy can produce. This study is significant because domestic tax is the principal and sustainable own source revenue for government. The implementation of government plans and policies depends on the amount of revenue collected. Beyond revenue generating, taxation plays a great
role in a country's economical, social, political aspects and mainly stabilizing fiscal and monetary policy. The development of efficient and effective tax system is a cornerstone in promoting the economic growth of the country.

In the IMF working paper report stated that in developing countries the establishment of effective and efficient tax system faces some formidable challenges, like the structure of the economy that makes it difficult to impose and collect, the limited capacity of tax collections and the poor quality of basic tax data are the main factors. Tanzi and Zee (2000)

To overcome the weak and inefficient tax collections policy and tax laws the Federal Democratic Government of Ethiopia and the Regional governments have designed a tax reform program which is currently going on in the process of implementation, but in the process of implementation; there are challenges that are affecting the reform program in all levels of government collection capacity.

Therefore this study is significant for identifying or examining the challenges that affect tax reform in local levels and contribute some inputs for minimizing these challenges and improve tax administration system to achieve the reform objective. Moreover it may give some highlights as a basis for further nationwide study in this issue.

1.3. Research questions

1. Is the tax reform effectively implemented? What are the internal and external challenges that affect the tax reform implementation in country?

2. How can these challenges be solved?

1.4 Specific Objectives

1. To assess the effectiveness of tax reform implementation in country

2. To verify internal and external challenges affecting the implementation of the reform and

3. To provide possible suggested solutions to the challenges that assist for achievement of reform objectives based on research findings.
1.5 General Objective
The general objective of this study is to assess the challenge of tax reform implementation in country and contribute possible solutions based on the research findings that were assisting for the achievement of Tax Reform objectives. The purpose of this study is to identify the challenges that affect the tax reform implementation program in country and contribute some inputs to overcome these challenges. Hence this study useful for the achievement of the reform objective to enhance revenue for the overall development endeavor of the country.

2. The Research Design Methodology
The type of research design that was applied for the purpose of this study is descriptive method. Because this research is descriptive it identifies or examines the challenges that hinder the implementation and provide suggested solution to achieve the objective of reform based on the research findings. Hence the required data has been collected and analyzed using the methods given below.

2.1 Data Source
The research was depending on both qualitative and Quantitative types of data in order to answer the research questions. The data source for this study was both primary and secondary which are collected through interview and inland Authority archive files respectively. To obtain the primary source of data tax officers and different categories of tax payers used.

The source of secondary data was annual tax revenue report of city administration, empirical data from website, tax reform manuals and other related sources had been used.

2.2 Sampling Techniques
From different sampling methods to make the sample more representative to population the researcher want to use stratified random sampling and purposive sampling techniques because of the nature of groups in the entire population. The tax officers of city
administration and regional tax authority and different categories of taxpayers of the city were taken as population of the study because no one can give reliable and concrete data better than this group for the purpose of this study.

The tax officers of local and tax payers were selected by using random sampling techniques and the respondents can be higher officials and experts to obtain the real problem because they know the nature of research topic better than any other employees of staff. The sampling technique that used to select sample from taxpayers is the stratified random sampling technique by categorizing taxpayers in to two categories of stratum of Category A & B tax payers.

2.3 Methods of Data Collection

The primary data were collected mainly by structured questionnaire, semi structured and personal interviews. The questionnaires that were designed are both closed and open ended. The researcher can use checklist to control the distribution and the collection of data from respondents.

Secondary data sources can be published or unpublished data like annual reports, tax reform manuals, websites and other related documents which can show the objective of the study.

2.4 Methods of Data Analysis

The data which were collected can be classified, tabulated and analyzed using statistical methods such as graphs, percentages and other type of analysis which can be appropriate.

2.5 Scope of the study

The quality of this research result were depend on the genuine responses and were interest of respondents due to suspecting the result of this research as if it affects their business they may not answer what they know and doing, and also they may not found on their business or working compounds. The other limitations were shortage of time and lack of sufficient fund may have its own impact on the quality of the research.

Hence, to overcome the bottlenecks that expected from the respondents the researcher were make his effort to convince them by clarifying the objective of the research and
their responses were be kept confidential. To alleviate the financial constraints costs that incurred were be minimized as much as possible. The study concerns that are category “A” category “B” do not include other revenue sources of the country. The arguments and ideas which were illustrated in the study are based on the data that are collected from Ethiopian revenue and custom authority.
CHAPTER TWO

2. REVIEW OF THE RELATED LITERATURE

2.1. Introduction

The best tax system for any country reflects its economic structure, its capacity to administer taxes and its public service needs. Despite the resulting variety of tax systems and possibilities found in the developing world, however in one very important sense all developing countries do face the same basic tax challenges how to meet public spending needs by raising revenue.

Tax reforms and revenue mobilization in Kenya tax reform measures are mainly undertaken in order to restore buoyancy to revenues, strengthen modern taxes, and drastically reduce the complexity and lack of transparency of the system. The main factors contributing to an improved revenue performance are changes in tax legislation, tax administration, and minimal tax evasion. Muriithi and Moyi (2003)

In case of Ethiopian context which is stated by Ethiopian economic association the tax administration has constrained with a lot of problems like skilled manpower, lack of money to pay good wages to tax officials, modern equipment to computerize the operation and work procedures, lack of sufficiently educated or informed taxpayers, unsatisfactory level of record keeping, lack of reliable tax data and administrative inefficiencies. All these result weak tax assessment, collection; follow up and enforcement; which intern result fail to generate adequate revenue for government expenditure. (EEA, 2005)

Due to these consequences as noted that the government of Ethiopia is modernizing the tax administration by overhauling the legislations and improving administration at all levels of government. The reform measures are intended to encourage trade, investment by broadening the tax base, promoting equity, strengthen the enforcement capacity of the
tax system and increase government revenues to support social programs and alleviate poverty. (EEA, 2005)

2.2 Objective of Taxation
Government imposes taxes of various types through different taxation systems for different social and economic objectives. Government imposes taxes for different social and economical purposes rather than generating revenue for public expenditure. These objective include, removal of inequalities in income and wealth, ensuring economic stability, reduction in regional imbalance, for capital accumulation, for creation of employment opportunities, preventing harmful consumptions, beneficial diversion of resources, encouragement for investment and for enhancement of citizens standard of living.

2.3 Classification of Taxes
Governments impose many types of taxes. In terms of the relationship between the nature of taxes and the reason for payment, taxes can be classified as direct tax and indirect tax.

Direct taxes are those, which are paid entirely by those persons on whom they are imposed and the tax can not be shifted to others. Examples of direct taxes are income tax; capital gain tax property tax etc can be stated.

Indirect taxes are taxes which can be shifted on to others which mean the tax incidence of indirect tax is on ultimate consumer. Examples of indirect taxes are value added tax (VAT), turnover tax (TOT), custom duties etc can be mentioned. Value added tax (VAT) belongs to the family of sales taxes. VAT is a tax not on the total value of goods being sold, but only on the value added to it by the last seller. The seller therefore is liable to pay tax. Today, over 128 countries have the tax. All members of the OECD and all leading economies in the world have a VAT apart from the US.
2.4 The Need for Tax Reform Worldwide Perspective

Many countries in the world have currently undergoing significant tax reform. The motivation varies from country to country but the common objectives emphasized are the need to reduce tax complexity and the need to make the system more conducive to growth. Tax reform is a continuous change from high complex to more simple tax structure and over time the tax structure tends to become complex again because of the consequent declines in tax revenues and cycle of tax reform can therefore take place. Concerning the need to a tax reform, also pointed out in many developing countries, the immediate reason for Tax reform has been the need to enhance revenue to meet impending fiscal crisis. Bird (2003)

The major concern of Tax Reformers has been the need, to improve the equity of the tax structure, so as to make it comply more nearly with prevailing views of what constitutes a fair distribution of the tax burden and with the effects of taxation upon the functioning of the economy. Hence tax reform is important to cope up with the increasing need of public revenue for public services and with dynamic changes of economical, social, political and technological development of the world.

2.5 Tax Reform Objective and Computerization

We live in an information age, where computer technology and the internet are used to bring people and businesses closer. The same technology can be used to enhance the customer service offered by tax departments.

Standards for integrated tax information systems in tax administration of developing countries denoted that computerized and integrated tax information systems represent the central data station, which fuels almost all daily operations of modern Tax Administrations. Like Computerized TIN systems, a reliable taxpayer master file, taxpayer accounts and taxpayer accounting systems. For modernization of tax administrations, design and implementation of computerized linked information systems and networks are indispensable. Economic growth, equitable development, and financing
of an adequate level of social public expenditure for growth are achieved, when computerized information systems and network are used in requirements to reform the developing countries’ tax policies and Tax Administration. Therefore, major tax administration/policy reform objectives are the following:- Broaden the tax base, strengthen the organization and its management, control tax evasion, improve tax collections and Facilitate voluntary compliance for taxpayers.

2.6 Taxpayer compliance in developing countries
Tax and tax system are fundamental components of any attempts to build nations, and a key component of any tax system is the manner in which it is administered. “No tax is better than its administration, so tax administration matters a lot”. Hence an essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their taxation obligations. Bahl and Bird cited in e journal of tax research (2009) tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax rules of its country. The fundamental goal of any revenue authority is to collect taxes and duties payable according to the law. However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. A compliant taxpayer is one who fulfills every aspect of their tax obligations including: registering with the revenue authority as required; filing the required returns on time; accurately reporting tax liability (in the required returns) in accordance with the prevailing legislation, rulings, return instructions and court decisions; paying any outstanding taxes as they fall due; and maintaining all records as required. Sarker in Asia Pacific tax bulletin (2003) A non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses a risk to revenue collection. report the non-compliance may be as a result of a deliberate decision by the taxpayer, or it may be unintentional and compliance outcomes can be driven by a variety of factors such as demographic including age, gender and level of education, personal factors include attitudes, experiences, morale and financial
circumstances and aspects of the tax system itself include; tax rates, penalties, audit probabilities, enforcement strategies, complexity and costs of compliance. Many of these factors are not constant, it is to be expected that compliance behavior can change over time and a compliant taxpayer one year may be non-compliant the next. As e-journal of tax research (2009) Report argued from the perspective of the revenue authority, the ideal is to have all taxpayers fully compliant at all times. The ideal is obviously not attainable, But to be able to work towards this ideal, the revenue authority needs to be able to identify and understand the various types of compliance outcomes and then develop and apply appropriate strategies to modify (reinforce) taxpayers’ behavior accordingly.

2.6.1. Strategies to Improve Taxpayer Compliance Conceptual Framework
Tax compliance in developing countries the strategies are grouped into four broad categories. These include, creating a more effective tax administration; fostering voluntary compliance and enhancing taxpayer morale; strengthening and enforcing compliance; and tackling the shadow economy are the basic strategies that should be followed. The e-journal (2009 volume7, number 2 pp.182-190) report by Mckerhar and Evans

2.6.2. Building positive taxpayer and tax community morale: voluntary compliance can be enhanced where taxpayers feel that they are getting a fair deal from the exchange relationship with the state, where the environment is cooperative and where positive attitudes towards taxation are nourished. Taxpayers, and potential taxpayers, need to be aware of the general concept of taxation and why they should pay taxes. Gill and Fjeldstand tax research journal.

Revenue authorities in many countries have undertaken community awareness campaigns using television; radio programs; competitions to create advertisements displayed on buses; school plays on tax issues; fairy tales spun around tax compliance; and the incorporation of tax themes in school curricula, in collaboration with Ministries of Education. The South African Revenue Service widely advertises, “Your taxes paid for
this road/school/hospital”, while the Australian Taxation Office (“ATO”) used, for a long time, the slogan “Building a Better Australia”.

2.6.3. Strengthening and enforcing compliance:- The overall strategy of a revenue authority should always be to encourage voluntary compliance wherever possible, and to facilitate such compliance by whatever means it can make available. Not all taxpayers are compliant, and many who are compliant some of the time are not compliant at other times. Taxpayers move up and down the compliance pyramid, or adopt different position on the compliance, non-compliance continuum, for a variety of reasons. The revenue authority must therefore also have a range of tools, graduated in severity, to deal with non-compliance such as audit and investigation, a full range of penalties in monetary and imprisonment can be applied.

2.6.4. Tackling the Shadow Economy: -
suggested that tackling the shadow economy is a mechanism by which embracing the hard to tax groups or those engaged in informal economies in to the tax net and making the playing filed comfortable for legal business competition which leads to voluntary compliance.

2.6.5. Conceptual Framework for Voluntary Compliance

![Conceptual Framework for Voluntary Compliance](chart.png)
2.7. The Need for Tax Reform in Ethiopia

Ethiopia shares other developing countries problems in the effort to establish efficient tax system to generate adequate revenue to finance public expenditure. Ethiopian Economic Association (EEA 2005) noted that the need to overhaul tax system reform for the country is complex and outdated tax laws, weak tax administration, failure of the tax system to generate adequate revenue for the government expenditure are the major factors that necessitated tax reform. In addition to the factors that are stated the external factors that is the influence by the International Monitory Found /IMF/ in particular and the World Bank initiated major tax reform programs in Ethiopia like other in transition and developing countries.

Based on these factors in the Federal and Regional levels the tax system reform program was designed and got momentum in 2001 when the revenue board was scaled up to the ministry of revenue.
2.8. Major Tax Reform Programs in Federal Level of Ethiopian Government
The tax reform program has policy, legislation, and administrative reform package. Under tax policy and legislation project the income tax proclamation number 286/2002, introduction of Value Added Tax (VAT) proclamation number 285/2002 with a standard rate of 15% with some exemptions and zero rates for exports, and turnover tax, a TOT was introduced as an equalizing tax for those who do not meet the threshold of registration for VAT i.e. about 500000 Birr, and excise tax proclamation number 149/1999 have been undertaken. To minimize tax evasion, the government has introduced withholding tax in 2000/01 on import goods at the rate of 3% of the cost, insurance and freight (CIF) value and on local transactions 2% of the gross payments at goods over 10000 and on services over birr 500. The tax administration of the country was also reorganized in many respects with a view to enhancing its efficiency. The tax laws have become more modern, more uniform and broader-based and the rationalization of tax and tariff law.

The administration reform includes the modernization and automation of customs, the implementation of the Taxpayer Identification Number System (TIN) every person with an obligation to pay tax is required to obtain a TIN, a ten digit unique number, the introduction of Presumptive Taxation schemes With large informal sectors and independent professionals who escape the tax net, the establishment of Large Taxpayers Office and the implementation and deployment of Standard Integrated Government Tax administration System(SIGTAS) a software that helps the tax authority to process and store information about taxpayers, the amount of tax collected, and to identify filers, late filers and non filers. The software also helps the tax authority to calculate taxes, interest and penalty due for each taxpayer. The implementation of different operational, programs, systems and procedures has been taken place. So far because of the measures taken to rationalize the tax and tariff policy and strengthening revenue administration, revenue generation has shown visible improvement.
However, the tax performance is found to be very low as compared to some African countries such as South Africa 25%, Kenya and Ghana the same as South Africa 25%, Zimbabwe 22%, and Zambia 19%. Ethiopia which is 13% even it is found too low compared to the Sub-Saharan average 16% and the rationally accepted level of tax GDP ratio of higher income countries 40%, middle income countries 25% and that of the low income countries 18% (Ministry of Revenue 2008).

To establish modern tax administration that improve tax revenue generation, service delivery, resource utilization and to form a single powerful organization the Federal Government of Ethiopia has undertaken major tax administration reforms to date have just been reorganized and merged ministry of revenue, customs authority and federal Inland Revenue authority (FIRA) and named Ethiopian Revenue and customs authority (ERCA) a special personnel administration law regulation no. 155\2008 has just been issued, and this new law is intended to help ERCA attract and retain qualified persons and create responsible, accountable and ethical staff (Proclamation-587/2008 ERCA).

2.9. Challenges of Tax Reform in Other Developing Countries and in Ethiopia

Developing countries face numerous tax policy challenges when they attempt to establish efficient tax system. Tanzi and Zee a study of Uganda and tax policy challenges facing developing countries described (in Kayaga 2007), stated that all developing countries have to address four basic challenges facing them. These are mostly dependency of economy on informal sector, which makes it difficult to impose and collect taxes, the limited capacity for tax administration, and the poor quality of basic data and in many developing countries, the fact that the political setup is less amenable to rational tax policy are the main challenges described that tax-compliance surveys in African countries Benin, Cameroun, Ghana, Mali and Mauritania, showed that people often refused to pay tax because they could see it little in return in terms of government service or investment and it is hard to break this non-compliance.

Taxation and tax modernization in also noted the main challenges facing the taxation factors in a low income country like Kenya includes, the larger the size of the informal economy, Limited capacity in tax administration, Poor quality of basic tax data to
estimate optimal taxation and an unfriendly political economy that may prevent significant tax reforms. Moyi and Ronge (2006)

The challenges facing in Ethiopia is also the same as the challenges of other developing countries. In Ethiopian Economic Association noted that the implementation of VAT one of the tax reform sub programs which have serious internal problems like weakness of tax administration and external problems associated with illegal practices of tax payers. (EEA) report by Demirew (2005)

2.9.1 Challenges in VAT implementation

The introduction of VAT can facilitate a substantial improvement in overall tax administration, and the adoption of VAT is seen an opportunity for overall tax modernization. However the functioning of an existing VAT implementation in many developing countries is weak and there is insufficient focus on the specifics of the VAT. A key to success is a sound policy design that is adoption of a single rate, few exemptions and high threshold, simple laws and procedures, an appropriately structured and resourced implementation, and compliance strategies based a balanced mix of education and assistance program, and risk based audit programs are crucial. When all these critical components have been well managed it leads to quicker establishment of the registration base, better understanding by taxpayers of their obligation, lower levels of non-compliance, lower implementation costs, and greater revenue mobilization.

The most common problems in VAT implementation are non-registration of businesses, under reporting of gross receipts, abuse of multiple rates, and non remittance of tax collected to the tax authorities. There are also additional types of evasions arising from the nature of VAT including the use of fake invoices and the claiming of VAT credits from non-creditable purchase.

Advanced implementations have found that a well designed audit program is critical to reducing the extent of VAT fraud and evasion, because potential fraudsters are deterred by the belief that they stand a reasonable chance of detection and punishment.
2.9.2 Audit Performance
The evidence in several of developing countries which adopted the VAT in the last 10-15 years do not yet have effective audit program. The study argued that without effective audits, VAT compliance deteriorates and the credibility of tax administration suffers.

In many developing and transition countries, reasons for the failures to implement effective audit programs include: insufficient numbers of the required highly skilled and appropriately remunerated audit practitioners; lack of an institutional history of sound audit practice; the authorities’ concerns about collusion between taxpayers and auditors; inadequate preparations at the time of VAT implementation, possibly because the consequences of a weak audit program are not immediately perceptible; the lack of clear political support for the tax administration; and the lack of an appropriate legal and judicial environment are the major problems. Therefore strengthening audit is thus a key challenge particularly in developing countries.

2.9.3 Functions of tax administration challenges
The core functions of tax administration are taxpayer registration and services, declaration and assessment, revenue and taxpayer accounting, delinquency control, audit, enforcement and appeal are the core functions (Thompson and Green, 1998).

main tasks of tax administration involve: (1) information and instruction to taxpayers, (2) registration, organizing and processing tax returns (input of data, processing declarations and payments), (3) coercive collection (closely connected with registration, accounting and return processing), (4) control and supervision (discovering lacking and insufficient tax returns and controls of books and papers in tax administration offices or business activities and books of taxpayers, while routine check-ups had already been done in the registration, accounting and return processing department), (5) legal services and complaints taking cases to court, defending tax administration in court, explaining procedures which are or are not in accordance with the law. Tanzi and Pellechio in Tax Administration the case of Croatia occasional paper No.5 1998
2.10. Best Practices of Other Developed and Developing Countries to Challenges Facing Tax Reform

Indonesia’s tax reform experience described the tax reform measures introduced in 1983; emphasized raising revenue through broad-based consumption taxes though the introduction of value added tax and improvement in tax administration systems. This tax reform strategy had achieved a measurable degree of success in meeting its stated objectives by increasing non-oil revenues a share of GDP rose nearly 50%. This success is achieved largely by the introduction of a VAT. Therefore Indonesia’s experience demonstrates that a developing country with the political will to undertake a major overhaul of their tax system can succeed significant economic benefits from such an imitative. report by Javad & Anwar, (1991)

Simplifying tax laws and procedures can facilitate compliance and make tax administration more efficient using improved technological procedures through computerization, creation of master data files, and organizational and managerial changes promote tax revenue. The study concludes that basically to solve tax challenges some actions like taxpayers education, exchange of idea between local authority and people during public meetings and local radio broad casts concerning taxes are important to change the attitude of taxpayers. The World Bank (1991) Lessons Of Tax Reform report.

2.11. Best Practices of Japans Tax Reform Implementation

The level of tax compliance in Japan is very high, and in recent years, the corporate tax compliance has been more than 90%. The main reason for the high tax compliance in Japan is because of the efforts made by the Japanese National Tax Administration (NTA). The measures undertaken by the NTA in order to promote the principles of voluntary compliance are: Public Relations; Tax Education; Tax Consultation; and Guidance and Examinations. These are known as four pillars of tax compliance in Japan. In AISA-Pacific tax bulletin (2003) Sarker
2.11.1 Public Relations
The purpose of public relations is to build a tax conscious environment not only among taxpayers but also among the public including latent taxpayers, and can be categorized as the need to: enhance tax compliance; diffuse and enhance public knowledge of taxation; improve mutual understanding and trust between taxpayers and tax authorities and obtain the understanding and cooperation from mass media for tax administration.
Many of these activities are carried out through the media including regular television and radio programmed/spots that provide current tax information, answering questions called-in by viewers, and reminding the public of tax deadlines, etc. The print media and internet are also widely used. Other than the media, the authorities also conduct an annual ‘Know-Your-Taxes Week’, during which the tax authorities’ set-up for public in order to meet people and provide tax information or answer any questions that they may have.

2.11.2 Tax Education
Tax education is a part of public relation activities, which can play important role in creating tax awareness. The target audience is primarily students, who are recognized as future taxpayers. As the next generation of taxpayers, the students are provided with an understanding of the significance and role of taxes in financing the government budget and also of their duty as citizens to file accurate returns and pay taxes.
In order to coordinate tax education, the NTA has formed a body called the ‘Council for Promotion of Tax Education’ in each major city. This Council consists of the NTA, local tax authorities, and educational organizations. The following are some of the steps taken:
- issuing supplementary textbooks for the purpose of tax education;
- conducting classes on taxes;
- sponsoring High School essay contests on tax topics; and
- conducting seminars on Public Finance and Economy:

2.11.3. Tax Counseling
The Japanese tax administration subscribes to the principle that every tax official is a tax counselor. The objective of tax counseling is to assist taxpayers in matters related to tax and encourage the voluntary submission of accurate tax returns and payment of taxes.
Generally, tax counseling offices provide advice on the interpretation and application of tax laws, procedures for filing returns and applications, etc. In Japan, tax counseling through a formal tax counsel office was first introduced in 1970.

2.11.4. Guidance and Examination
In order to enhance taxpayer compliance so that they voluntarily file tax returns and pay taxes appropriately, the tax administration provides individuals and groups with guidance on how to improve bookkeeping standards and tax returns. The guidance includes assistance to firms who are launching new business, as well as explanatory sessions that are held when laws are amended.

Since the self-assessment system is widely used and taxpayers determine tax liability, the tax audit process plays an important role in securing proper voluntary compliance and payment from taxpayers. In Japan, when it comes to tax audits, emphasis is placed on those taxpayers who are suspected of not reporting large amounts of taxable income.

The experiences with successful reforms of tax administration undertaken in different countries in South America like Bolivia, Chile, Columbia and Uruguay, or in Europe, Spain and Portugal provide encouraging examples. In each case, a new management was instituted with a new organizational structure and a more professional staff. These improvements resulted in the successful implementation of the tax reform program and in a dramatic improvement in tax collection. Such successes show that under the right conditions, the efficiency of the tax administration can be increased in a relatively short period of time. As a study of Bejakovice (n.d) in institute of public finance Zagreb
CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATIONS

As described earlier on the methodology of data collection that had via sampling the populations it would have interpreted for the smooth running of this research to concerned stakeholders like researchers and periodical users the collected data from different source of both parties the tax payers and tax Authority officials including primary that used like open ended and closed ended questionnaires and structured and unstructured interview and secondary sources through investigating different documents like records annual publicity books, journal articles and internet and the data were analyzed through tables and analytical process for the secondary data.

The presentation of these analysis and the method of interpretation shall hierarchal of starting from the back ground of both respondents of tax institution employees and tax payers to grasp as much as reasonable data collection and following detailed questionnaires regarding addressing of the researches’ specific objectives of identifying the determinants of tax reform implementations on both the tax authority employees and business community.
### Table 4-1 Back Ground of employee

<table>
<thead>
<tr>
<th>Position of respondent</th>
<th>Team leader</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Senior auditor</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Auditor</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Junior auditor</td>
<td>4</td>
</tr>
<tr>
<td>Level of education</td>
<td>Diploma</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Master</td>
<td>5</td>
</tr>
<tr>
<td>Experience in</td>
<td>0-2</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>3-5</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>6-10</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>&gt; 10</td>
<td>2</td>
</tr>
<tr>
<td>Sex</td>
<td>Male</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>4</td>
</tr>
</tbody>
</table>

**Source Primary Data**

The table shows the characteristics of the employee of the organization by sex, educational background and work experience it summarized that the total employee by sex character is and their educational background And the data collection from different groups of officers which have well diversified respondent on their position from team leader to junior auditors. Their education background degree and master on accounting and economics. Their experience in tax and related job is from one and half year up to above ten years experience. Another fact of the above table stated that 68%(11 out of 16)
of the respondents’ are degree holders, position of the respondents constituted 50% (8 out of 16) are auditors which is medium level of position, according to the institutions organizational structures, and most of the experience of the respondents had a medium level experience level had laid between 3 up to 5 years. but the level of male to female proportion of the respondents indirectly of the institution employee had too far which are Twelve male and four females in proportionate of 1 to 3. as depicted above the data leads us the tax institution shall have a potential in implementing the reform due to availability of well experienced and educated manpower’s.

Table 4-2 Back Ground of the taxpayer

<table>
<thead>
<tr>
<th>education Level</th>
<th>Diploma</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Master</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Sex</td>
<td>Male</td>
<td>14</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Type of business</td>
<td>Import</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Real state</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Export</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>8</td>
</tr>
<tr>
<td># of years in business</td>
<td>0-2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6-10</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>&gt;10</td>
<td>15</td>
</tr>
<tr>
<td># of years as taxpayer</td>
<td>0-2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-5</td>
<td></td>
</tr>
</tbody>
</table>
The above table stated that, tax payer’s information that makes the information balanced with officer. That also helps to avoid unbalanced information that controls the recommendation and conclusion. The background of the tax payer similar to officer well diversified. They are working more than 10 years in different sectors. Their education background is from diploma to masters’ degree. When we see specific analysis in terms of educational background half of the respondents have a degree holders and the type of the business they carried on is relatively simple in administrating which is import and export type of business due to their duration of doing business experience is greater than 10 years and these parameters indicates that they have expected to know over all the tax matters and business on goings.

**Table 4-3 Questioner analysis of tax officers**

<table>
<thead>
<tr>
<th>Questionnaires</th>
<th>agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax payers pay their tax periodically</td>
<td>87.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Tax arrear presentation</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>paying tax according to the ability to pay</td>
<td>81.25%</td>
<td>18.75%</td>
</tr>
<tr>
<td>Tax payer registration for finger printed tin system</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>VAT registration for concerned</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Effective Defectiveness of tax</td>
<td>43.75%</td>
<td>56.25%</td>
</tr>
<tr>
<td>Equipped skilled man power</td>
<td>37.50%</td>
<td>62.50%</td>
</tr>
<tr>
<td>Motivated remuneration paid to employees</td>
<td>18.75%</td>
<td>81.25%</td>
</tr>
</tbody>
</table>

Source Primary Data
As the above table clearly indicates that 87% of the tax payers (14 out of 16) have declared and paid their tax liabilities periodically as stated on the tax law which is after four months of their ending fiscal years, this indicates that almost all taxpayers respect the periodicity of tax payment, but 75% of the tax payers (12 out of 16) have tax arrears due to inconvenience of the tax payers submitted book of account and the tax authority’s own adjusted book of accounts according to prescribed tax rules and regulations.

Another point is that even though 75% of the tax payers have registered for finger print of tax payers TIN (Tax Identification Number) they don’t pay according to their ability to pay which 81% of the respondents replied as the tax payers are not paying according to their ability. Finally, the even though most of the tax officers have a degree holder they have lack of equipped skills and de motived man powers due to low level of remunerations which constitutes 62% (10 out of 16) and 81% respectively.

Finally, based on secondary data the response disclose most taxpayer who registered and have license presented their tax declaration and pay their tax liability on the given time period. Sometime a few taxpayers didn’t declare their tax liability on given time due to lack of awareness. The initiation of the reform to embrace all tax payers in the tax net but it is not successful as expected due to this reason the tax office use different enforcement mechanism. Taxpayer complains that tax office charges beyond their capacity and liability. The response of the tax office is it is resulted from the lack of awareness. The tax payers didn’t maintain proper books of record to support their cost and expense. Tax payers not registered due to lack of information about their annual income. That is the base of registration for VAT. The threshold of the taxpayer annual income is Br.500, 000.00. The tax office takes serious measure on tax evaders. The research shows only 40% coverage of the office not maintain their worker.
The above data was taken from the tax payers questionnaires and their response were analyzed as, all of the taxpayers have the knowledge of why they are paying tax, but the knowledge if self only could have enough if they are not paying taxes according to their ability to pay. on the point of finger print 62% have registered for finger print which is good due to this is one of the tax implementation schemes, but 75%(12 out of 16 respondents) replied that they have lack of knowledge on the tax authority’s rules and regulations .This leads 75 % of tax payers have no trust on the tax authority’s tax assessments and collection procedures. another point of the taxpayers responses were
most of the tax payers are not doing business without paying tax even though they do not have trust on the tax authority.

The tax payers responded that, (56%), the tax authority potential of execution for the reform implementation were weak this implies that the government’s policies and strategies were not accomplished due to such weak implementation, that is why all of the respondents (100%) replied that the presence of tax payers who are not registered for VAT and this enforced tax payers discouraging action which makes unfair trade competition among tax payers.

Finally, the tax payers responded that 100% of the tax authority’s method of assessing tax is five years delay of government’s tax. But the taxpayers are declared according to their books of account on the deadline of the declaration periods. Thus, due to delays of tax assessments 81% of the tax payers forced to pay back almost of five years penalty and taxes as a weakness of the tax authorities’ weak execution of their employees. This leads the tax payers are forced to pay from their working capitals that generates future potential revenues that enhance the ability of paying taxes.
CHAPTER FOUR
SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1 SUMMARY

Tax is compulsory payment from a person to the government without expectation of any
direct return for the payment. Many urban authorities in developing countries have come
under increasing financial constraints to provide a rapidly growing demand for urban
services and other necessary infrastructure developments. Therefore developing countries
and countries in transition facing fiscal deficits to finance public expenditure, the
consequence of these financial constraints seriously reflected in urban areas because of
rapid urbanization.

To improve revenue mobilization and modernize the tax system in developing countries
tax reform is basically necessitated, and hence many countries in the world have currently
under going significant tax reform to overcome fiscal deficit.

Ethiopian Revenue and Customs Authority, (ERCA 2008) indicated that in many African
countries, the ratio of tax revenue to Gross Domestic Product (GDP) exceeds 20% and is
higher in developed countries. But in Ethiopia, the current tax to GDP ratio is about 13%
which indicates that the capacity of generating its own tax revenue potential is very low
even comp aired with other African countries. Therefore the government of Ethiopia has
started implementing tax reform program beginning from 2002 to modernizing the tax
system in the Federal and Regional levels that consisted of six projects aimed to collect
sufficient revenue that the countries economy can produce and to finance the ever-
expanding public demand for the supply of public goods and services which the market
cannot provide. The Amhara Regional stat has also implementing these tax reform programs in all Regional Local Authorities to achieve this objective in its region. But there are challenges that affect the tax reform implementation in local levels. These are lack of qualified skilled man power, less payment of employee remuneration, absence of computerized taxation system; poor information and data management system, poor enforcement of tax laws, poor delinquency control and tax auditing, weak service delivery reflect the current situation of local tax administration. Non compliance of taxpayers with the existing tax laws of the Regional state is also the main issue of challenge which requires immediate solution

4.2 CONCLUSION

As can be clearly staled from the above collected data’s the background of both the employees and taxpayers the later have good experience and level of education in both male and female with compositions and the same is true for taxpayers background with regards to doing business for many years and educational background.

Even though most taxpayers declared and pay at their prescribed fiscal period, registered for finger print and no delinquency of tax but most tax authority have no skilled man power and not have enough salary or remuneration for the employees with regard to their job load.

According to tax payers interview due to low execution performance of the tax authority the tax payers are not paid tax according to their ability to pay, presence of tax arrears, not registered for VAT which are subject to registered, weak trust on the tax authority on the tax assessments and lack of knowledge on the authority’s tax rules and regulations. And finally due to delay of the tax authority’s tax assessments the tax payers forced to pay back payment of tax inclusively of penalty and interests on the weakness of tax authority execution

31 | P a g e
There for over all of the weakness of the tax authority’s implementation process had affected on the basic principles and vision of the Tax authority that intended on to implement the business Process Re-engineering on ground that leads to collect the budgeted tax by the government.

4.3 RECOMMENDATIOS

The final goal of the overall process of the organization whether doing new business process reengineering is completed with the ways of the power to same how fill the execution or implementation skill gap fulfillments and the final outcome of their paper is to come on with the following proposed recommendations some of thus regarding the tax authority is:- Focus on wildly important jobs because people are naturally wired to focus on only one thing at a time or at best very few with excellence. Create a compelling score board of current target and deadline results. Hold each other accountable all of the time in the most effective teams. Translate lofty goals into specific actions of vast difference b/n the stated strategy and the real strategy. Institutionalizing is a culture of execution /implementation through measurement. Conducting continuous session with taxpayers and its employees with regards to implementation process is necessary.
REFERENCES


Ethiopian Economic Association (EEA), 2005, Proceeding of the Second International Conference on the Ethiopian Economy Volume III.


Annex-1
QUSTIONNAIRE ON CHALLENGES OF TAX REFORM IN ETHIOPIAN REVENUE AND CUSTOM AUTORITY
Dear Respondents,
This study is conducted in partial fulfillment of the requirements for the bachelor of degree in accounting in St.Merry University College. Its main objective is to identify the challenges of tax reform in Ethiopian revenue and custom Authority. The research is going to be carried out on your responses and other relevant data that could support it.
The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of tax reform implementation challenges. It forms a major part of the research and the information you will give enables me to identify the real challenges that affect efficient and effective tax reform implementation and then help to raise adequate revenue for public use. Your cooperation to respond consciously is very important to this study because it represents thousands of others who are not included in the sample. It is for academic purpose I would promise that all information you provide would be strictly confidential.

Thank you very much in advance for your cooperation.
i) QUESTIONS FOR CATAGORY “A” AND“B” TAXPAYERS ON CHALLENGES OF TAX REFORM IMPLEMENTATTION IN ETHIOPIA REVENUE AND CUSTOM AUTORITY (ERCA)
Personal data
Age--------- Sex: male [ ] female [ ]
Level of education: less than12 complete [ ] 12 complete [ ] Diploma [ ] Degree and above [ ]
Type of business
Import [ ] Real state [ ] Export [ ]
Other [ ], please specify___________
For how many years you are in business _______________________
Less than 2 years [ ] 2-5years [ ] 6-10 years [ ] above 10 years [ ]
For how many Years you are known as tax payer_______________________
Less than 2 years [ ] 2-5 years [ ] 6-10 years [ ] above 10 years [ ]

1. Do you know why you pay taxes?

Yes [ ] No [ ]

2. Do you know the tax rules and regulations of your country?

Yes [ ] No [ ]

3. If your answer is yes do you comply the tax rules and obligations?

Always [ ] in most case [ ] some times [ ] not at all [ ]

4. The following questions are related to compliance to tax rules and obligations. Answer them accordingly.

   Yes      No

   You pay your tax on due date [ ] [ ]

   Are you penalized on tax case [ ] [ ]

   Are you keep books of accounts [ ] [ ]

5. Are you registered in fingerprint TIN system?

Yes [ ] No [ ]

6. Is there any retailer or service provider who did not pay tax?

Yes [ ] No [ ]

7. How often you are attending education session about taxation?

   Three times per year [ ] twice per year [ ] Once per year [ ] Not at all [ ]

8. Do you have trust in the tax system assessment and collection procedures?

   Yes [ ] NO [ ]

9. How do you evaluate the strength of the tax authority with respect to the following parameters?
<table>
<thead>
<tr>
<th>Statement</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>poor</th>
<th>Very poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service delivery</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Tax collection efficiency</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Law enforcement</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Awareness creation</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

10. Do you think that the tax you are paying is fair and based on ability to pay?

Yes [ ]  No [ ]

11. If your answer in question number 10 is “No” what is the reason

It is over stated [ ]

It is under stated [ ]

12. In what way of assessment you pay tax? If your answer is “A” go to question number 14
   A. By estimated assessment of tax officials [ ]
   B. may self assessment using books of accounts [ ]

Some other Assessment Method [ ] specify________________

13. When the government assesses your tax?

   When I don’t keep books of accounts [ ]
   When the tax authority rejects my books of accounts [ ]
   When I did not submit the statement on my fiscal period [ ]
   For some other reason [ ] specify________________

14. Did the tax authority penalize you on tax purpose?

   Yes [ ]  No [ ]
If your answer is yes for question number 14 why you penalized?

- Lack of awareness on tax rules and regulations
- Because of negligence
- I am not interested to pay tax
- For some other reason

16. Are you registered for VAT?

- Yes [ ]
- No [ ]

17. If you are registered for VAT how would you look your registration?

- I like it [ ]
- I dislike it [ ]
- It just neutral [ ]

18. How do you declare VAT to tax authority?

- I declare each month tax liability on the next month day1-day10 [ ]
- I declare each month tax liability on the next month day11-day10 [ ]
- I declare each month tax liability on the next month day21-day10 [ ]
- I did not declare each month

19. In your opinion is there any who are required to be registered for VAT not registered currently?

- Yes [ ]
- No [ ]

20. Do you have VAT exempted transaction?

- Yes [ ]
- No [ ]
Annex-2

ii) QUESTINNAIRE ON CHALLENGES OF TAX REFORM FOR TAX AUTHORITY OFFICIALS

This study is conducted in partial fulfillment of the requirements for the bachelor of degree in accounting in St. Merry University College. Its main objective is to identify the challenges of tax reform in Ethiopian revenue and custom Authority. The research is going to be carried out on your responses and other relevant data that could support it.

The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of tax reform implementation challenges. It forms a major part of the research and the information you give enables me to identify the real challenges that affect efficient and effective tax reform implementation and then help to raise adequate revenue for public use. Your cooperation to respond consciously is very important to this study because it represents thousands of others who are not included in the sample. It is for academic purpose I would promise that all information you provide would be strictly confidential.

Thank you very much in advance for your cooperation.

iii. Personal data

1.1 Position of the respondent_____________________

1.2 level of education Diploma [ ] Degree [ ] masters and above [ ]

1.3 special field of study_________________________

Accounting [ ] Management [ ] other [ ] specify__________________

1.4 Experience in tax related jobs__________________

Sex: male [ ] Female [ ]
2. Main questioner

1. Are all tax payers pay their tax liability on the fiscal period permitted by income tax proclamation?  Yes [ ]  No [ ]

2. Are all tax payers included or embraced included in tax next? If your answer is “No” go to the next question.
   Yes [ ]  NO [ ]

3. If your answer is “NO” for question 2 why all tax not embraced in tax net?

4. Is their delinquency of tax which is not collected?
   Yes [ ]  NO [ ]

5. If your answer is “No” justify your reason?

6. Are most tax payers pay tax according to the ability to pay?
   Yes [ ]  NO [ ]

7. Are most tax payers registered for finger printed tin system?
   Yes [ ]  No [ ]

8. Are most those who should be registered for VAT identified and registered?
   Yes [ ]  NO [ ]

9. If your answer is no why?

10. The performance of VAT implementation is poor are you agree on this preposition?
    Strongly agree [ ] agree [ ] neutral [ ] disagree [ ] strongly disagree [ ]

11. If your answer is agree or disagree in question number “10” explain your opinion?

12. Are all tax payers’ tax liability assessed fully?
    Yes [ ]  No [ ]
13. Are all tax payers’ tax liability assessed fully?

14. The statement which is presented by those who keep books of accounts is not fully checked for its accuracy and assessed on time to collect the required tax liability? Agree or disagree

Strongly agree [   ] agree [   ] neutral [   ] disagree [   ] strongly disagree. [   ]

15. The statement which is presented by those who keep books of accounts is not fully checked and assessed on time to collect the required tax liability?

Strongly agree [   ] agree [   ] neutral [   ] disagree [   ] strongly disagree. [   ]

16. Is your organization can detect tax evaders efficiently and effectively? If you answer is yes

Or no go to the next question. Yes [   ] No [   ]

17. If “yes” what measures are taken? If “No” why? ..............................................................................................
.................................................................................................................................................................

18. Is your organization fully equipped by skilled man power?

Yes [   ] No [   ]

19. What is the number of employees in your organization with respect to the work expected?

A. Enough  B. medium  C. very less

20. Is the salary or remuneration paid to employees enough to motivate, attract and retain the employees?

Yes [   ] No [   ]

Please indicate your position or level of agreement or disagreement by using (√) mark on the statement given below.