ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE CONTRIBUTION OF VALUE ADDED TAX (VAT) TO TOTAL TAX REVENUE AND ETHIOPIAN ECONOMY

BY: ABAY JEMAL

March, 2015

ADDIS ABABA, ETHIOPIA

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DECLARATION

I, the undersigned, declare that this thesis (The contribution of Value Added Tax (VAT) to Total Tax Revenue and Ethiopian Economy) is my original work, prepared under the guidance of Alem Hagos (PHD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in full or part to other higher learning institution for the purpose of earning any degree.

Abay Jemal

March, 2015

ENDORSEMENT

This Thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

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Advisor Signature & Date

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ACRONMY AND ABBREVIATIONS

TR-Total Revenue

TTR-Total Tax Revenue

PITR-Personal Income Tax Revenue

BITR-Business Income Tax Revenue

RITR-Rental Income Tax Revenue

VATR-Value Added Tax Revenue

GDP-Gross Domestic Product

MoFED -Ministry of Finance and Economy Development

ERCA-Ethiopian Revenue and Customs Authority

OECD- Organization for Economic Co-operation and Development

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ABSTRACT

Tax revenue is one of the major revenue for the federal government in Ethiopia. It helps the government for financing its major expenditures.Taxes revenue can be direct or indirect. Currently, among the indirect tax Value added tax (VAT) is the major sources of revenue for Ethiopia Government in supporting the country economy. The study tried to see the contribution VAT to Total Tax Revenue and Ethiopian economy with the measurement of Gross Domestic Product by comparing with other Taxes revenue likePersonal income tax (PIT), and Business income tax (BIT), Rental income tax (RIT), the Refund practice and the performance of the government in collecting the budgeted VAT.

The study, therefore,attempts to see the contribution of VAT on Ethiopian economy in general andemphases whether VATtax has significant economic contribution than other taxes in particular.It also tried to examine government's endeavor to collect VAT as plannedsuccessful or notaccordingly, the study collected secondary data of taxes revenue. These data was collected from the Ministry of finance and Economic Development (MoFED), Ethiopian revenue and customs Authority (ERCA), World Bank (WB), and refer written material in the area of tax revenues. The study had thirty three (33) years of Total tax revenue (TTR), Non tax revenue (NTR), Personal income tax (PIT), Business income tax (BIT), Rental income tax (RIT) and real Gross Domestic Product (GDP) except value added tax (VAT). But, because of the recent introduction of VAT to Ethiopia, and to be realistic, the study used twelve (12) years of data of major taxes since 2002/03(introduction year of VAT) to 2013/14. In addition to the secondary data, an interview was employed for collecting the refund practices in Ethiopia. Thestudy analyzed the collected data using descriptive statistics. The finding of the study reveals that as comparedwith other taxes, Value added tax (VAT) has great contribution to the Total tax revenue and enhanced Ethiopian economy. The analysis also showed as the average ratio of VAT to Total Tax Revenue and GDP was 30.45% and 2.95% respectively. The finding also discloses that the VAT refund practice for articles 7.1 is done well but for the articles 7.2 is not done in according to the theory. The performance of the government in collecting it VAT budget was good for the reviewed period. However, in order to collect additional VAT and other Tax Revenue and see their effect to the Ethiopia Economy, it needs creates good tax awareness to the tax payers, create self-declaration systemand encouraging individuals to receive a receipt, continue of discussion with tax payers about the tax system and have required number and well trained employees who can implement the tax policies properly.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Every Country government finances its budget through different sources of income like aid, grant, and taxes. Taxes and non-taxes revenues that are collected from its citizen or public are major sources of revenue for the government to finance its different plan like roads and dams, power, hospital, municipal services and other public infrastructures. Taxes are usually classified as Direct and Indirect. Direct taxes are paid entirely by business or persons that are imposed and cannot be shift to other business or persons. Employee income tax, Business profit tax, Rental income tax, Interest Income tax, Dividend Income tax,Income from Royalties, Income from Games of Chance, Gains of Transfer of Certain Investment Property, Income from Rental of Property, Rendering of Technical Services Outside Ethiopia, Agricultural Income, and Land Use tax are example of direct tax. Indirect taxes are levied on locally produced and imported goods and services rendered. The burden of these taxes is shifted to other business or persons i.e. the final consumers are swallows the tax burden.

In Ethiopia, the government has given due attention to indirect taxes. The main reason for the shift in emphasis is that about 75% of the Federal Government revenue is collected from indirect tax (ERCA, 2011). Turnover Tax, Excise tax, Stamp duty, Customs Duty, taxes on exported goods, withholding tax and Value Added Tax (VAT) are examples of indirect tax.

Non-tax revenue is another source of income or revenue for the government. Aid from abroad, Aid from another level of government (intergovernmental aid), loan or borrowing from other government, revenue from state owned enterprises, sales of state assets, state investment, fines, fees, user fees from different service, and donation and voluntary contributions are example of non- tax revenue. In our country non- tax revenues includes incomes collected from higher education cost sharing scheme, seized contraband and abandoned goods, warehouse rent and sales of declaration and miscellaneous incomes. Accordingly Ethiopia collects on average about Birr 208.15 million (1%) annuallyfrom the non-tax (ERCA, 2011), these taxes will serve as amajor source of income for the government in order to improve its national economy. But all taxes don't have equal contribution for the economic growth of the country. Economic growth can be exist/ happens in a country by efficient use of the available resources and by improving the capacity of the major area of the economic sector that they produce and render to the markets.

Growth domestic product is the market value of all final goods and services produced in a country in a given time period. In a given country, government may collect different taxes from the goods and service that are available in the market. If the market values efficient for different sectors, the government may collect the expected taxes revenue from the market. Taxes have impact or roll in calculating the GDP rate change for the given time.

Value Added Tax (VAT), arises whenever a taxable business or person makes a supply of taxable goods or services to other business or person. VAT imposed on importers, producers and distributors of products and services at each stage of production and distribution process on the new value created; hence, it solves the double taxation problem of the previous sale tax and reduces tax.

When we look back to the history back ground of VAT,we discover that VAT was originally invented in France in 1948 by Maurice Laure, Director of the French Tax Authority. By 1969 only eight countries adopted VAT, Out of which Coted'voire is the first country in Africa to introduced VAT. But, today out of 193 countries of the world, 160 countries have introduced VAT, from which the Africa's share amounts to 33.

In Ethiopia VAT was introduced on Jan 1, 2003 by replacing sales tax for the following reasons:-

- Government collects more tax, because VAT is calculated in every taxable transaction.
- It encourages saving and investment because VAT that are paid on capital transaction is returned.
- It encourages export because VAT is calculated on zero rates. This means, a taxable person charges VAT at 0% on its sales.

- Due to introduction VAT, the government gets any kind of resource from foreigner in the form of loan and other form.

In Ethiopia Value added tax (VAT) is levied at Zero (0%) and 15% rates. Zero rates are tax rate of nil. Therefore, tax is levied on supplies at zero rates. Exports of good or service, supply of gold to National Bank of Ethiopia and rendering of transportation services internationally are included under zero rates Supplies. 15% is levied on the value of every taxable transaction excluding zero rate supplies by a registered person.

VAT is only collected by VAT registered business or persons and it can be deducted from their VAT liabilities. If the VAT amount on the taxable goods and supplies are more on the VAT amount of value of total inputs, they have paid to the government and this net VAT would be national income for the given year and used in order to build major social benefits which leads to the economic development. Since the introduction time, VAT is the major revenue for Ethiopian government in using as major sources in developing the country economy.To this end; the study was focuses on the contribution of value added tax (VAT) to total tax revenue and its impact to Ethiopian Economy.

1.2 Statement of the problem

Ethiopian government basically generates its revenue from Domestic, External Assistance, External and Domestic Loan. The Domestic revenue includes Tax Revenues and non-tax revenue. The tax revenues, generally divided in Direct and Indirect tax. These taxes are the major sources of revenue for the government and play a great roll for the development of the Ethiopian economy. In Ethiopia, the government has given due attention to indirect taxes. The main reason for the shift in emphasis is that about 75% of the Federal Government revenue is collected from indirect tax (ERCA, 2011). Among these indirecttax revenues, VAT is one of the major domestic sources oftax revenues for the government. Therefore, the studyevaluates the contribution of VAT to Total Tax Revenue and The Ethiopian Economy.

1.3 Objective of the study

1.3.1 General Objective

The general objective is to evaluate the contribution of VAT to Total Tax Revenue andEthiopian economy.

1.3.2 Specific objective

Under this part the study istried to see the refund practice and performance of the government on collecting the budgeted value added tax (VAT).

1.4 Significant of the study

Government must get sufficient amount of money/ revenues in order to achieve the socio-economic needs of its society and some basic infrastructures for investors. In our country government tries to collect more money from business/ individuals through taxes. Among taxes VAT is playing a major role in supporting government Revenue. These money /revenue is collected only through VAT registered business /individuals whenever they make sales or rendering services and thistax collection has its own impact on the Total Tax Revenue and Economy unless the government have strong tax policy, working positively with tax payer and creating awareness about the tax to its citizen, the gov't may not collect the required tax revenue. This study helps to know the gap of the government for not collecting the proper tax and it can be used by other researchers as a base for further study.

1.5 Scope of the study

It is difficult to assess the whole concept of taxes and their contribution to the Economy. But the study focuses only on the contribution of Value Added Tax (VAT)to Total Tax Revenue and Ethiopian Economy Comparing with other major Taxes only for the twelve years since the introduction of VAT using descriptive analysis method.

1.6Organization of the Paper

The research paper is divided in to five chapters. Chapter one presents the introduction part, which contain back ground of the study, statement of the problems, objectives of the study, scope of the study, limitations and significance of the research paper. Chapter two cover and focuses onthe review of related literature and it is included the theoretical part aspect of VAT and the contribution of VAT to economic growth. Chapter three includes research methodology /design, data collection method and sources, sampling technique and methods of data analysis and presentation. Chapter four depicts the research findings and discussion. The final chapter, chapter five includes, summarizes the findings, conclusion and forward some recommendation.

1.7 Limitation of the study

Any research is supposed to take due professional care so as to evaluate different variables and to gather reliable data. In the process of undertaking a research, although its size and consequences are different according to the nature of research and circumstance of its population and sample, every researcher may face some difficulties or limitation. Limitations are those conditions beyond the control of the researcher that may place restriction on the conclusion of the study and their application to other situation. (Best and Kahin 1993).While conducting this paper the study is faced problems. These limitations are getting the relevant information, Time, Lack of research experience, having shortage of knowledge related to the paper and absence of well-organized related literatures.

CHAPTER TWO

RELATED REVIEW LITERATURE

2.1 Introduction

Any government needs some sources of resources or revenue forits countries expenditure. Government may mainly collect revenue by imposing different types of taxes on its citizens. This tax can be divided as direct and indirect taxes. Among the indirect tax, Value added tax (VAT) is the major sources of revenue for the governments and collected in every stage of the production and distribution process not solely at the stage where a product is sold to the customer.

When we study the historical part of VAT, itwas invented in 1954 by a French economist Maurice Laurie in replacing the existing sales tax. VAT imposed on importers, producers and distributors of products and services at each stage of production and distribution process on the new value created. In Ethiopia VAT was adopted on January 1, 2003 in place of sales tax with the aim of collecting more tax revenue, encouraging export and investment and saving. The standard rate of VAT in Ethiopia is 15%. VAT tax revenue helps Ethiopian government to collect additional tax revenue which helps the government to finance its expenditure. VAT currently becomes helping countries in enhancing economic growth.

2.2 History of VAT

Tax is one of basic source of income for a given country and it may be direct or indirect. Among the indirect one, VAT is one the basic source of revenue for governments. “The concept of VAT was propounded first by American experts by 1920s. But at that time, Americans failed to implement it. It is from France that other countries took lessons about VAT and introduced in their legal systems. In France, it was introduced to satisfy high demand of revenue on the part of the government in order to rebuild France from the civics of WWII’’. (Yohannes and Sisay, 2009).VAT was invented in 1954 by a French economist Maurice Laurie who was joint director of the French Tax Authority. France was the first country to introduce VAT effective from April 10, 1954. “Manufacturing-level VATs were introduced shortly thereafter in Côte d’Ivoire and Senegal in the 1960s, around the time that these former French colonies became independent.

Brazil, by the fiscal reform of 1965, introduced a traditional VAT that applied at all stages of production. The VAT's expansion was limited to less than 10 countries in the late 1960s. In 1965, VAT was not yet a worldwide success, almost general consumption taxes in the OECD were retail sales taxes. By 1989, however, 48 countries, primarily located in Western Europe and Latin America but also including a handful of developing countries, had adopted a VAT. The spread of the VAT in Europe was driven by the fact that it is a prerequisite for membership of the European Union (previously the European Economic Community). Its spread has accelerated since, with strong support from the IMF, as it has now been implemented in more than 140 countries, where it often accounts for one-fifth of the total tax revenue. In most countries it has been used to increase revenues, but in a few it has also enabled reductions in income taxes and excises. Revenues generated by general consumption taxes (that is, VAT or goods and services tax) represented 18.6 percent of the total tax revenues of OECD countries in 2007 (compared with 13.5 percent in 1970) and up to 19.8 percent of the total tax revenues of European OECD countries (compared with 15.2 percent in 1970). The part of general consumption taxes as a percentage of GDP almost doubled between 1970 and 2007 (3.3 percent in 1970 compared with 6.7 percent in 2007 for OECD countries and 3.7 percent compared with 7.5 percent for European OECD countries). Thirty-two of the 33 OECD countries have adopted the VAT (Alain Charlet and Jeffrey Owens, 2010). Currently, 160 countries in the world adopted and implemented VAT. Out of this 152 countries are member of the UN states.VAT has been adopted in Ethiopia on January 1, 2003 replacing sales tax, with VAT proclamation No.285/2002.

2.3 Definition of VAT

VAT is one of indirect tax which is charged when taxable business or individual make any taxable transactions. VAT is a tax not on the total value of goods sold or services rendered but only on the incremental value or newly created value by the last seller. The incremental value is the difference between sales proceeds and purchases of intermediate goods or services (excluding the preceding VAT).

2.4 Types of VAT

In the Value Added System (VAT) a given government imposes and collects VAT from every taxable transaction based on the value added to the taxable transaction at each of stage of production and distribution process. The value added on every transaction used as a base to determine VAT and VAT liabilities. The value added tax (VAT) that are charge by the government may vary based on the form of the tax base and the tax base also differ depending on the items added on the tax base. According to Misrak Tesfaye Abate, 2014, in modern taxation theory, there are four types of VAT based on the determination of the ingredients of the value added by supplier.

2.4.1 Consumption Type

To arrive at the value added by a firm (VAT base) based on consumption type of VAT, the firm is allowed to deduct from the gross value of its product not only the non-capital inputs purchased from other firms but also the capital assets purchased. Thus, the tax base, in consumption type VAT, is the difference between gross value of product and total value of inputs purchase (capital and non- capital). A consumption type value added tax is neutral between methods of production a substituting capital for labor or vice- versa would not affect a firm's total taxes.

VAT Base= Sales Value- Total Value of inputs (capital and non-capital) purchases

2.4.2 Production type

To arrive at the value added by the firm by a firm based on production type of VAT, the value of the inputs purchased by the firm from other firm is not deducted in full. Only the value of non-capital purchase is deducted. Furthermore, no depreciation is permuted on the purchase of capital goods even in subsequent year. Thus, the tax base in production type is equal to gross value less value of materials other than non- capital goods purchased. Production VAT militates against the use of capital goods and retards economic growth.

VAT Base = Sales Value-Total Value of Non-capital inputs purchase

2.4.3 Income Type

To arrive at the value added by a firm in accordance with income type VAT, the firm is allowed to deduct the depreciation on the capital goods (during the year) a part from the full value of its non-capital purchase. Here, the firm cannot deduct the entire value of the capital goods purchased the year but they can deduct the respective amount of depreciation attributable to that year. In others words, the tax base income type VAT is sales minus materials and depreciation on capital goods purchased.

VAT Base= Sales Value- Total Value of non- capital purchases +depreciation on capital Goods

2.4.4 Wage Type

In wage type VAT, a firm is able to deduct the net earnings from its capital in order to arrive at the tax base. It is unlikely to be used for taxation by any government.

VAT Base= Capital- Net Earnings

2.5 Principal components of VAT

There are two principal components of VAT. These are **input** VAT and **output** VAT.

2.5.1 Input VAT

Input VAT is the VAT payable by a taxable person on goods and services supplied to him and on goods which he imports for the purposes of a business carried on by him and for which registered for VAT. For a VAT registered person (taxable person) input VAT is not a component of the cost of purchase /import rather the registered person is entitled to take input VAT deduction against the VAT charge on sales or is recoverable from the tax authority. Hence, input VAT is a receivable for a registered person (Misrak Tesfaye, 2008)

2.5.2 Output VAT

Output VAT is the VAT collectible by a taxable person at the time of sale of taxable goods and services (supply). It is the VAT chargeable on sales of taxable gods and services whenever a taxable person supplies taxable goods or services to other person. VAT must be included in the price charged from those taxable goods or services. This is the output VAT for the supplier.

Output VAT is not a component of the sales price rather it is a liability to the taxable business or person which is collected on behalf of the Tax Authority.

2.6 Ratesof VAT

The VAT rates applicable to taxable goods and services differ from country to country. Some countries have adopted VAT with a single rate and others with a multiple rate (more than one rate). Some countries also use VAT inclusive price and some others countries adopt VAT exclusive rate. In general, there are two types of VAT rate to charge taxable supplies.

2.6.1 Standard (positive) Rate

Standard rate is a positive VAT rate (>0%) set by a country's tax laws to charge VAT on taxable goods and services.

2.6.2 Zero – Rate

Zero -rate is a VAT rate of zero. This means, a taxable person charges VAT at 0% on its sales. Hence, the taxable suppler does not have tax liability on its sales but is allowed the credit (refund) for tax paid on its purchase to provide the supply. (Misrak Tesfaye Abate, 2008). In Ethiopia this rate is applicable for export type business for encouraging these sectors.

2.7 VAT implementation process in Ethiopia

VAT has been introduced effectively in Ethiopia on January 1, 2003 replacing sales tax, six months after the VAT proclamation No.285/2002 has been ratified by the parliament. The council of Ministers also issued VAT regulation No. 79/2002 pursuant to the value added tax proclamation for the implementation. In other words, VAT implementation in Ethiopia is based up on the proclamation a regulation cited above and also government amend the VAT proclamation in 2008 with VAT proclamation No.609//2008.

2.8 VATRegistration

Under the VAT law, any person (natural person, sole proprietor, body, joint venture or association of persons) conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However, similar to most other countries adopting VAT, VAT registration in Ethiopia has its own legal provisions and procedures. The base for VAT registration in Ethiopia is the gross annual sales value (turnover) of taxable supplies made by a person during a year. Turnover related to exempt supplies as listed in the VAT law is not to be included in the gross sales value.

2.8.1 Types of Registration in Ethiopia

The VAT proclamation of Ethiopia under article 16 and 17provides two types of VATregistration: mandatory or obligatory and voluntary registration.

A. Obligatory Registration

1) A person who carries on taxable activity and is not registered is required to file an application for VAT registration with the Authority if

(a) at the end of any period of 12 calendar months the person made, during that period, taxable transactions the total value of which exceeded 500,000 Birr; or

(b) At the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 Birr.

2) The Minister of Finance and Economic Development may by directive increase or decrease the threshold provided for under Sub-Article 1.

3) A person required to register shall file an application for registration no later than the last day of the month after the end of the period in Sub-Article (1) (a), or the last day of the month of the period in Sub-Article (1) (b).

4) Subject to Sub-Article (5), a registered person who conducts taxable activity in a branch or division shall be registered only in the name of the registered person.

5) Notwithstanding Sub-Article (4), the Authority may, upon application in writing by a registered person operating in corporate form, authorize the registered person to register one or more of its branches or divisions as separate registered persons where the Authority is satisfied that the branch or division maintains an independent accounting system and can be separately identified by the nature of its activities or location.

6) The registration of a branch or division under Sub Article (5) is subject to such conditions and restrictions as the Minister of Revenue may deem fit.

7)In determining whether a person has an obligation to register under Sub-Article1

(a) The authority may aggregate the value of taxable transactions made by one person with the value of taxable transitions made by the other person where both persons are related persons; and

(b) The value of the person's taxable transactions is determined under Article 12.

B. Voluntary Registration

A person, who carried on taxable activity and is not required to be registered for VAT, may voluntarily apply to the Authority for such registration, if he regularly is supplying or rendering at least 75% of his goods and services to registered persons.

2.9 Why adopt The VAT

Today almost above 160 countries in the world introduce VAT with their own different reasons. According to Alan A. Tait, 1998 he has mentioned countries introduce VAT because they are dissatisfied with their current tax structured and this dissatisfaction can be classified in four:

1. The existing sales taxes are unsatisfactory.
2. A customs union requires a discriminatory border taxes to be abolished.
3. A reduction in other taxation is sought.
4. The evolution of the tax system has not kept pace with the development of the economy.

2.10. Effects of VAT on the Economy

The effect of Value added tax (VAT) to the economy can be classified in to two:

1. The Macroeconomic effects which include the economic growth, level of prices, investments, government income, and consumption.
2. The Micro economic effects which includes the effects on efficiency, and social equity.

2.11 GDP (Gross Domestics Product)

It is the value of product and service within the country or measure total economic output of goods and services in the country. The equation used to calculate GDP is as follows:

GDP = Consumption + Government Expenditures +Investment + Exports – Imports (NX)

Consumption is the value of all goods and service purchased by household.

Investment is the value of all goods and services purchased by business for the purpose of using in their business.

Government expenditure is the value of all goods and services purchased by the government.

Exports – Imports (NX) is the value of all goods and services produced in the country and shipped to other countries minus the value of the goods and services imported from other countries.

GDP change basically depends on the above component. Under consumption part if the households consume more government in the meantime collect more tax. This means or indicates GDP will also increase simultaneously. Related to investment, business needs goods and service which help them in producing their output so in having this input government also collect resources. Most governments are consumed goods and service produced by the market in order to change the life of its peoples and attract potential investors. When a given country exports more goods and services, the government has got more revenue from this exported goods and services. In the other hand if the government imported more goods and service from abroad, so the net difference between this affect the GDP growth of the country.

2.12 Economic Growth

According to Gillis et al (1987), Economic growth refers to rise in national or per- capital income and product. If the production of goods and services in a nation rise by whatever means, one can speak of that rise as economic growth. This means the government sources of revenue also increase. Therefore, this paper tried to see the contribution of different tax to Ethiopian economy using Gross Domestic Product (GDP) as standard measure of economic progress. According World Bank yearly economic growth rate information, since 2000 Ethiopia has scored average growth rate 20.2% per year.

2.13 Empirical Literature Review

Under this part the paper tried to see and summarized empirical and journal studies conducted in different countries related to the study.

1. “THE ROLE OF VALUE ADDED TAX ON ECONOMIC GROWTH OF ETHIOPIA.”

This journal was written by Dasalegn Mosissa Jalata,March 2014. The objective of the journal was the role Value Added Tax (VAT) on economics growth of Ethiopia from 2003 to 2012 based on theoretical and empirical evidences. The study used secondary data which is collected on economics variables of Gross Domestic product (GDP), Value Added Tax (VAT), Total Tax Revenue, Non- Tax Revenue and Foreign Revenue from Ethiopia Revenue and Custom Authority (ERCA), Ministry of Finance and Economic Development (MOFED), Ethiopian and Economic Association. In addition the study also collected data from various documents, annual reports, financial statement and other published and unpublished statistical data for Ten (10) years. Time series information was used for statistical computation the relationship among variables.

The study used descriptive statistics and multiple regression statistical methods of both SPSS statistical were employed. In addition descriptive analysis techniques such as percentages and ratios methods of data analysis were used to see the relation among the above variables.

By using descriptive analyses, the study concludes that: government revenue increased since 2003 because of Value Added Tax (VAT)adoption, the average ratio VAT revenue to the government revenue since 2003 to 2012 was 22.27%, for the period between 2003 to 2012 the average ratio of VAT growth was 66.27% and there was huge fluctuation of growth rate of VAT as well, theaverage total government revenue for the study period was 22.82% and this indicate that there was Economic growth for the under study period, for year 2003 to 2012 the average ratio VAT to total tax revenue was 26.75%, even though the contribution of VAT to the total tax revenue reduced VAT revenue had still economic contribution, on the other hand the average growth rate of total tax revenue was 27.44% this indicate that there was growth of tax revenue and economic contribution for the study period, during the reviewed period the average ratio of VAT revenue to Gross Domestic Product (GDP) was 2.95% and this indicate that VAT has contribution for the economy of the country. During the sales tax period the average growth of GDP was 2.53% and this was very low when we compare the average growth rates of GDP with VAT, 21.9% and this clearly indicate that VAT had great contribution to the country economy growth and finally the VAT system in Ethiopia have only single or one standard rate and makes the taxing system to be regressive and this force the poor to pay the amount with rich and this have negative general impact on the economy growth of countries.

When we see the empirical result of the inferential data which are analyzed by multiple regressions Model showed that all variables of VAT, TTR and NTR except the FR, were significant as 5% level of significance, though, all variables including FR were positively contributed for the economic growth during the reviewed periods. For the reviewed period there was positive correlation between VAT and economic growth indicator of GDP and based on the data under the study claimed that taxes on consumption are better for growth, and the economy of Ethiopia is highly supported by VAT. In general, the finding of the study discloses that VAT enhances the country's economic growth during the reviewed period and government and tax authority should create strong cooperation with tax payers for creation of the continuity contribution of VAT to the country's economic growth.

2. **"EMPIRICAL EVALUATION OF CONTRIBUTION OF VALUE ADDED TAX (VAT) TO TOTAL REVENUE GENERATION AND GROSS DOMESTIC PRODUCT (GDP) IN NIGERIA".**

The above empirical study was published September 2013 by Muhibat A.O, Abdul Azeez O.A and Top Lawal O. the objective of the study was to examine the contribution of Value added tax (VAT) to revenue generation and Gross Domestic Product (GDP) in Nigeria since 1994. The study used Hypotheses in order to see the VAT revenue influences the revenue generation and the growth of the Nigerian economy (GDP). They collected and used secondary data of 18 years of VAT revenue and GDP data from the publication of the central bank of Nigeria (CBN) and Federal Inland Revenue Service (FIRS). In Nigeria VAT reduced the dependency of the government on oil revenue. Nigerian federal in land revenue service (FIRS) is administered value added tax (VAT) and VAT is distributed among the three-tiers of the government in a particular ratio but the jurisdiction of VAT lies with the federal Government of Nigeria. According to IMF 2002 countries following the VAT system did have higher general government revenue and grants to GDP and VAT contributes 20% of the total revenue. The study used regression analysis method and found that a positive and significant correlation exist between VAT revenue and the growth of the economy using GDP as measurement because revenue is the major components of VAT.

CHAPTER THREE

RESEARCH DESIGN AND METHODS

The studyhas discussed about the research design, population and sample size, source and type of data, data collection instrument and method of data analysis and interpretation under this chapter. In a nutshell, this sectionpresents and gives insight on how and from where the data are collected and interpreted.

3.1 Research Design

Tax revenue is one of major sources of any government income which help the given government in financing its major government expenditure. Among those main taxes, VAT is one of the major sources of revenue and has significant economic contribution for Ethiopia since 2002/03.This is the main reason that motivated the study to select this topic and conduct the research. The research design employed in this study is descriptive and quantitative. Thestudy also involves surveying different documentsthat defines and explains what are tax revenue and its element. It tries to express each of their contribution to Total tax Revenue and Economics growth.

3.2 Population and Sampling Technique

Purposive sampling method or technique is employed to do this study. Purposive sampling is selected based on the knowledge of a population and purpose of the study. Thestudy had thirty three (33) years ofTotal tax revenue (TTR), Personal income tax (PIT), Business income tax (BIT), Rental income tax (RIT) and real GDP except value added tax (VAT). But, because of the recent introduction of VAT to Ethiopia, and to be realistic, the study usedtwelve (12) years of data of major taxes since 2002/03(introduction year of VAT) to 2013/14. And all major and supportive data are drawn from Ministry of finance and Economic Development (MoFED), Ethiopian revenue and customs Authority (ERCA) and World Bank (WB). The study believed that this data may represent the targeted population for the studied period.

3.3Source and Type of Data

Data is an essential resource in conducting research. In research “Data collection” refers to gathering specific information aimed at providing or refuting some fact. In data collection, the researchers must have a clear understanding of what and how they obtain the relevant data. In data collection, the researcher must have a clear vision of the instruments to be used, the respondents and the selected area. Data collection is important in research as it allows for dissemination of accurate information and development of meaningful programmers. (Donald Kisilu Kombo and Delno L.A Tromp, 2005). Majorly there are two type of data collection. These are primary and secondary data sources. In targeting the main objective, providing possible recommendation, to get detailed information regarding other taxes and VAT and their contribution to Ethiopian economy using economic measurement of GDP, the refund practice and other related relevant secondary information, the paper used primary and secondary data sources. The primary and secondary data is collected from the Ministry of finance and Economic Development (MoFED), Ethiopian revenue and customs Authority (ERCA), tax payer of ERCA, World Bank (WB) and other books and bullets.

3.4 Procedures of Data Collection

All important taxes information Data for the study was collected from the Ministry of finance and Economic Development (MoFED), Ethiopian revenue and customs Authority (ERCA), tax payer and World Bank (WB). The study has had thirty three years of tax collection revenue data, butusedonly twelve years (2002/03 to 2013/2014) of Total tax revenue, Personal Income Tax Revenue, Business Income Tax Revenue, Rental Income Tax Revenue, Value Added Tax Revenue, and Real GDP.

3.5 Data presentation and Data Analysis

As it was mentioned in section 3.4 above, thestudy collected and used twelve years oftime series data of Personal Income Tax Revenue, Business Income Tax Revenue, Rental Income Tax Revenue, Value Added Tax Revenue, Total Tax Revenue and Real Gross Domestic Product (GDP). Having this information at hand the study tried to see when was the maximum, minimum and taxes of revenue wascollected, evaluatedthe contribution of each year's tax revenue to the Total Tax Revenue and Ethiopian economy using GDP.

In order to meet the objective of the study, thestudy analyzed thecollected data usingdescriptive statistics analyses of percentages and ratios using tables and graphs.

CHAPTER FOUR

RESULT AND DISCUSSION

Under this part, the study entertained about Total tax revenue (TTR), Personal Income Tax (PIT), Business Income Tax (BIT), Rental Income Tax (RIT) and Value Added Tax (VAT) and there contribution toTotalTax Revenue, and how these taxes affect the economy with the measurement of Gross Domestic product (GDP) under the reviewed period. The study also tried to compare the impact of Personal Income Tax Revenue, Business Tax Revenue, Rental Tax Revenue to the Total Tax Revenue, and the economy impact with Value Added Tax (VAT).In addition, the study tried to show the change that happened to the economy after the introduction of Value Added Tax (VAT), (2002/03) onward, the performance of the government in collecting the Budgeted VAT and VAT refund practice. All information of Value Added Tax (VAT) and other taxes as of 2002/03 budget year are very supportive for the study and these data is collected from the Ministry of Finance and Economy Development (MoFED) and Ethiopian Revenue and Customs Authority (ERCA).

4.1 TotalTax Revenue (TTR)

Tax revenue is one of the most important domestic sources of revenue. Taxes are compulsory payments to government without expectation of direct return or benefit to tax payers. It imposes a personal obligation on the taxpayer. Taxes received from the taxpayers, may not be incurred for their benefit alone. In Ethiopia, government collect various types of taxes revenue: income and expenditure (income tax, corporate tax etc.), taxes on property and capital transactions (estate duty, tax on wealth, gift tax etch) and(taxes on commodities and services, covers excise duties, customs duties, withholding tax ,VAT etc.)The aforementioned taxes types can be reclassified into direct and indirect taxes. The first two types of taxes belong to the category of direct taxes and the later one falls under indirect taxes.From the table one below, the study concludes that the Total Tax Revenue was increased from time to timeand Ethiopia government collects birr 44,734.83 million per year on average from tax revenue and these taxes have a contribution of 78.79% for the Total Revenue and also have average contribution 9.08% to GDP for the studied period.

Table 1: Total Tax Revenue, Total Revenue, ContributionTTR toTR and GDP

GCY	Total Tax Revenue (in Millions of ETB)	Total Revenue (in Millions of ETB)	Real GDP (in Millions of ETB)	Ratio of TTR To TR (%)	Ratio of TTR To GDP (%)
2002/03	8,194.30	11,736.47	197,331.46	69.82	4.15
2003/04	10,770.99	13,674.17	220,477.15	78.77	4.89
2004/05	12,036.99	15,486.87	248,354.75	77.72	4.85
2005/06	13,911.84	19,275.80	277,013.34	72.17	5.02
2006/07	16,289.77	20,801.90	309,686.77	78.31	5.26
2007/08	22,649.06	30,149.38	344,331.93	75.12	6.58
2008/09	28,092.16	40,006.21	378,907.38	70.22	7.41
2009/10	38,818.00	49,359.50	418,946.95	78.64	9.27
2010/11	58,980.00	69,084.14	466,648.14	85.37	12.64
2011/12	85,739.00	102,968.07	506,533.27	83.27	16.93
2012/13	108,217.80	127,407.50	562,251.93	84.94	19.25
2013/14	133,118.00	146,173.00	1,047,393.00	91.07	12.71
Average	**44,734.83**	**53,843.58**	**414,823.01**	**78.79**	**9.08**

Source: MoFED and ERCA

In table one above the tax revenue collection for the reviewed period was increase from year to year,this indicate that the collection effectiveness of the government was good, the awareness of the tax payer and registering of new or additional tax payer was increased. This tax has an average contribution of 78.79% to the Total Revenue this indicate that much of Ethiopian government revenue is collectedfrom tax Revenue and the economic contribution of this tax also increased from year to year and it had about an average of 9.08% contribution to the GDP.When we see the above table one the contribution of Tax revenue to total revenue for the reviewed period was fluctuating this happened because the tax authority had tax administration problem of tax collection and the entrance and leaving of tax payers and this tax collection affected the contribution of tax revenue to GDP in every year.

4.2Personal/Employment Income tax

Employment income tax is an income tax that an employee pays on a monthly bias from the payment he/she receives in connection with his employment activities (i.e. monthly employment income) in accordance with the prevailing income tax law of the nation (Misrak Tesfay, 2014) or It is also directs tax which is collected from employees for the benefit they have received from their employer. In Ethiopia this tax also called as schedule “A” income tax, personal income tax or income tax from employment income. The tax rate for the employment income is dependent on the amount of payment to the employees. According to proclamation No.286/2002, the tax rate for schedule “A” starts from 10% and ends with 35% .both federal and state government collect the employment income from the employees under their territories and use this revenue for themselves, but as per house of federation the revenue sharing arrangement between the federal and the regional governments for employment income tax is 50% each from the jointly established enterprises (Misrak Tesfay, 2014). As per MoFED since 2002/2003to 2013/14, in average 4,809.29 million birr is collected from this tax and this tax also 10.83% and 0.98% average contributionfor Total Tax Revenue and GDP respectively. In tabletwo the study is discussed about personal income and its relation to total taxrevenue and GDP and in addition the study also showed the yearly movement of the PIT.

Table 2*:* PITR, Total Tax Revenue, Real GDP, Ratio of PIT to TTR & GDP

GCY	Personal income tax Revenue (in Millions of ETB)	Total Tax Revenue (in Millions of ETB)	Real GDP (in Millions of ETB)	Ratio of PIT to Total Tax Revenue (TTR) (%)	Ratio of PIT To GDP (%)
2002/03	868.50	8,194.30	197,331.46	10.60	0.44
2003/04	957.10	10,770.99	220,477.15	8.89	0.43
2004/05	1,178.62	12,036.99	248,354.75	9.79	0.47
2005/06	1,539.93	13,911.84	277,013.34	11.07	0.56
2006/07	1,816.66	16,289.77	309,686.77	11.15	0.59
2007/08	2,909.72	22,649.06	344,331.93	12.85	0.85
2008/09	3,585.42	28,092.16	378,907.38	12.76	0.95
2009/10	4,391.00	38,818.00	418,946.95	11.31	1.05
2010/11	5,733.00	58,980.00	466,648.14	9.72	1.23
2011/12	8,900.00	85,739.00	506,533.27	10.38	1.76
2012/13	12,035.20	108,217.80	562,251.93	11.12	2.14
2013/14	13,796.30	133,118.00	1,047,393.00	10.36	1.32
Average	**4,809.29**	**44,734.83**	**414,823.01**	**10.83**	**0.98**

Source: MoFED and ERCA

The above table two shows that the personal income tax revenue under the reviewed period has been increasing from time to time and this happen because of the new business interning in to the market and. The minimum birr collected was 868.50 and the maximum was 13,796.30 millionbirr. From the personal income tax under the reviewed time, the government was collected birr 4,809.29 million on average. The ratio of personal income tax contribution to Total Tax Revenue was fluctuating under the studied period. The maximum contribution of Personal income tax to the Tax Revenue was 12.85%.On the other hand, the minimum contribution was 8.89% for the reviewed period. Theaverage of personal income tax contribution to total tax revenue was 10.83%.Even if personal income tax showed increasing during the period, the contribution to the Total Tax Revenue and Gross Domestic Product (GDP) was unstable. When the personal income tax to Gross Domestic Product (GDP) was considered for the reviewed period, its average contribution becomes 0.98%. The highest of personal income tax that contributes to GDPwas 2.14% at the year of 2006/07 and 0.43% was the lowest of the personal income tax that contributes to the GDP for the reviewed period. So from this tax, we can conclude that personal income tax had very low economic contribution for the reviewed period comparing to VAT but forcing the existing and new business for pension pave the way to the government to collect personal income tax.

4.3Business (Profit) tax

Business (profit) tax is a direct tax which is levied and collected form annual profit of business. This tax also called Schedule C Income. According to income tax proclamation no.286/2002, unincorporated or individual businesses are required to pay taxes ranging from 10% to 35% but for the incorporated business they expected to pay tax of fixed rate of 30%. As per house of federation the revenue sharing arrangement between the federal government and the regional governments has shred the revenue from the Business income tax as per the capital share they contribute, 50% for each for the jointly Established enterprises, private companies and mineral and petroleum respectively. (Misrak Tesfay, 2014).Both business prepared their accepted financial statement to the tax authority annually and pays their tax liabilities. In Ethiopia since 2002/03 the government has collected7, 975.74 million birr per year on average as of 2002/03. The average contribution of this tax for Total Tax Revenue and the GDP was 15.93and 1.54% respectively. Tablethreehas showed how Business Income Revenue affects TotalTax Revenue and its Contribution to the Economy.

Table 3: BTR, Total Tax Revenue, Real GDP, Ratio of BTR to TTR, &GDP

GCY	Business tax Revenue (in Millions of ETB)	Total Tax Revenue (in Millions of ETB)	Real GDP (in Millions of ETB)	Ratio of BT to Total Tax Revenue (TTR) (%)	Ratio of BT To GDP (%)
2002/03	1,479.04	8,194.30	197,331.46	18.05	0.75
2003/04	1,481.23	10,770.99	220,477.15	13.75	0.67
2004/05	1,580.53	12,036.99	248,354.75	13.13	0.64
2005/06	1,641.30	13,911.84	277,013.34	11.80	0.59
2006/07	2,042.25	16,289.77	309,686.77	12.54	0.66
2007/08	3,015.22	22,649.06	344,331.93	13.31	0.88
2008/09	4,335.80	28,092.16	378,907.38	15.43	1.14
2009/10	7,391.00	38,818.00	418,946.95	19.04	1.76
2010/11	10,055.00	58,980.00	466,648.14	17.05	2.15
2011/12	15,540.00	85,739.00	506,533.27	18.12	3.07
2012/13	20,237.60	108,217.80	562,251.93	18.70	3.60
2013/14	26,909.90	133,118.00	1,047,393.00	20.22	2.57
Average	**7,975.74**	**44,734.83**	**414,823.01**	**15.93**	**1.54**

Source: MoFED and ERCA

In table three above the business tax revenue showed that there is an increasing collection of the tax from year to year for the reviewed period. From the data under the period, the maximum business income revenue that the government collected was birr 26,909.90 million and the minimum was, birr 1,479.04 million and the average was birr 7,975.74 million. When we see the contribution of business tax to the Total Tax Revenue averagely it was 15.93% for the reviewed period. This tax contribution for the total tax revenue showed ups and downs. The average ratio of business tax contribution to the Gross Domestic Product (GDP) was 1.54%. The maximum ratio of business tax contribution to the GDP was 3.60 % and its minimum ratio of the business tax to the GDP was 0.59% for the studied period. Even though for the reviewed period, business tax increased time to time but this tax contribution to the Ethiopian economy was unstable. The investment policy with the government motivation factors has given the local and foreigners to invest are the main reasons of increasing the business income tax.

4.5 Rental Income

This tax is categorized under schedule B. Ethiopian Government collect or earned this income from business of renting of Building. According to the proclamation no 286, 2002 the income from the rental of buildings is to be computed based on the procedures, requirements and modalities set forth by Article 16 of the Proclamation. Accordingly, the principle that tax has to be paid on income from rental of buildings remaining as it is, a taxpayer who leases furnished quarters is liable to pay tax on the income that he/she receives from the lease of the furniture and equipment in the leased quarters. According to the proclamation no 286, 2002 In calculating taxable income under Schedule B, gross income shall include all payments in cash and all benefits in kind received by the lessor from the lessee; all payments made by the lessee on behalf of the lessor according to the contract of lease; as well as the value of any renovation or improvement made under the contract of lease to the land or building, where the cost of such renovation or improvement was borne by the lessee in addition to rent payable to the lessor. According to MoFED Ethiopia has collected averagely birr 214.39 million per year for the last twelve years since 2002/03 and this tax has averagely 0.43% contributions for TTR and 0.04 to GDP for the twelve years. The rental tax contribution for Total Tax revenue and GDP is discussed below in table Four.

Table 4:RTR, Total Tax Revenue, Real GDP, Ratio of RTR to TTR & GDP

GCY	Rental tax Revenue (in Millions of ETB)	Total Tax Revenue (in Millions of ETB)	Real GDP (in Millions of ETB)	Ratio of RT to Total Tax Revenue (TTR) (%)	Ratio of RT To GDP (%)
2002/03	72.36	8,194.30	197,331.46	0.88	0.04
2003/04	33.21	10,770.99	220,477.15	0.31	0.02
2004/05	63.86	12,036.99	248,354.75	0.53	0.03
2005/06	25.84	13,911.84	277,013.34	0.19	0.01
2006/07	32.32	16,289.77	309,686.77	0.20	0.01
2007/08	58.86	22,649.06	344,331.93	0.26	0.02
2008/09	87.58	28,092.16	378,907.38	0.31	0.02
2009/10	142.00	38,818.00	418,946.95	0.37	0.03
2010/11	277.00	58,980.00	466,648.14	0.47	0.06
2011/12	393.00	85,739.00	506,533.27	0.46	0.08
2012/13	631.00	108,217.80	562,251.93	0.58	0.11
2013/14	755.60	133,118.00	1,047,393.00	0.57	0.07
Average	**214.39**	**44,734.83**	**414,823.01**	**0.43**	**0.04**

Source: MoFED and ERCA

As per table four the rental tax revenue collection for the reviewed period collection was ffluctuated from year 2002/03 to year 2005/06 but it showed increment since 2006/07. Government collected maximum of birr 755.60 million in year 2013/14 and a minimum of birr 25.84 million at 2005/06 budget year. For the under taken time the government averagely was collected birr 214.39 million. When we look of rental tax contribution to total tax revenue averagely this tax contribution was 0.43%.The highest of rental tax revenue contribution was 0.88% on the year of 2002/03 at the same time the least contribution was 0.19% in the year of 2005/06. When we see the GDP contribution, it fluctuated for the studied period. The average contribution of rental tax for the GDP was 0.04%.For the studied year rental revenue maximum contribution for the GDP was 0.11%. On the other hand, the minimum contribution within this period was 0.01%, and this rate showed rental revenue had very little economic contribution. Generally the main reasons of collecting the rental income tax was the government create tax awareness in the building rent business and forcing individuals to tax from house rent.

4.5 VAT (Value Added Tax)

VAT is an indirect tax which is collected from the value added taxable goods and services to be sold through VAT registered business only. In Ethiopia VAT was introduced in January 1, 2003, this new tax and TOT to replace the sales tax. VAT eliminates the cascading effects on the sales tax, improves allocations and raise additional tax revenue for financing government expenditure (ERCA,2011) in addition to this VAT encourage export, investment ,saving and get any kind of resources from foreigner and support the economy . In Ethiopia the VAT tax rate is standard rate (15%) and Zero rate (0%) which is laved on goods and service. Since the emerging of Ethiopian revenue and customs authority (ERCA) in the year 2008 both the federal and the state (regional) collect VAT. The federal state collect VAT from domestic and import goods and services through its nine agents. The states (regional) collect VAT from its wereda and Bureau level. Based on the latter issued by the FDRE house of federation, the revenue sharing arrangement between the federal government and the regional governments wit regarding to jointly established enterprises and private companies, both federal and states have 70% and 30% revenue share from VAT.(Misrak Tesfay, 2014).Since 2000/2008 Ethiopia collected averagely 11,437.73million birr per year. As per MoFED and ERCA information the collection of VAT increases from year to year. The average VAT contributes to the tax revenue and GDP was30.45 % and 2.95in the year between 2002/03 to 2013/14 respectively. How yearly VAT collection affected Tax Revenue and the Ethiopian economy with the measurement of GDP is discussed in table six below.

Table 5: VATR, Total Tax Revenue, Real GDP, Ratio of VAT to TTR & GDP

GCY	VAT Tax Revenue (in Millions of ETB)	Total Tax Revenue (in Millions of ETB)	Real GDP (in Millions of ETB)	Ratio of VAT to Total Tax Revenue (TTR) (%)	Ratio of VAT To GDP (%)
2002/03	372.20	8,194.30	197,331.46	4.54	0.19
2003/04	1,220.70	10,770.99	220,477.15	11.33	0.55
2004/05	4,032.05	12,036.99	248,354.75	33.50	1.62
2005/06	4,809.15	13,911.84	277,013.34	34.57	1.74
2006/07	5,931.48	16,289.77	309,686.77	36.41	1.92
2007/08	7,987.17	22,649.06	344,331.93	35.26	2.32
2008/09	10,638.78	28,092.16	378,907.38	37.87	2.81
2009/10	15,264.91	38,818.00	418,946.95	39.32	3.64
2010/11	19,343.91	58,980.00	466,648.14	32.80	4.15
2011/12	29,525.30	85,739.00	506,533.27	34.44	5.83
2012/13	38,115.15	108,217.80	562,251.93	35.22	6.78
2013/14	40,047.98	133,118.00	1,047,393.00	30.08	3.82
Average	**11,437.73**	**44,734.83**	**414,823.01**	**30.45**	**2.95**

Source: MoFED and ERCA

Table five shows that government revenue collection from VAT for the under reviewed period increased from time to time. The average VAT collection was 11,437.73 million birr for the last twelve years (2002/03 to 2012/14). The average ratio of VAT contribution to total tax revenue showed 30.45%. The maximum ratio of VAT support for the Total Tax Revenue was 39.32% and the minimum also was 4.54% since introduction.This indicate that during the reviewed period VAT contribution to tax total tax revenue increased from year of introduction (2002/03) to 2006/07.Unlikely it fell down in 2007/08 andraised and reached its maximum points in 2009/2010. Again, it declined in 2010/11 andmounted up inthe year 2011/12 and 2012/13.When these ups and downs occurred, VAT contribution to GDP was positively increasing from time to time during the reviewed period until 2012/13.the highest VAT ratio contribution for the GDP was 6.78% andthe minimum ratio of VAT contribution for GDP was 0.19% in to the reviewed period. The average VAT contribution for GDP was 2.95%. This indicates that VAT had economic contribution for Ethiopia.

4.6 Comparison of VAT with Other Taxes

In the table sixbelow, the study compared the average contribution of, Personal Income Tax, Business Income Tax, Rental Income Tax and VAT tax to total tax revenue and GDP.

Table 6: Types of taxes, Average ratio of taxesto Total Taxrevenue (TTR), and GDP

No.	Type of taxes	Average Ratio of Taxes to Total Tax Revenue (TR) (%)	Average Ratio of Taxes To GDP (%)
1	Personal income Revenue	10.83	0.98
2	Business income Revenue	15.93	1.54
3	Rental income Revenue	0.43	0.04
4	VAT income Revenue	30.45	2.95

Looking, the detailed movement of each tax contribution to Total Tax Revenue for the twelve year, all taxes contribution to the Total Tax Revenue fluctuated from year to year. However, when we see the above table, VAT was the best tax in contribution to the Total Tax Revenue under the research time period and followed by Business Income Tax, and Personal Income Considering the taxes, the average contribution to real Gross Domestic product (GDP), again VAT has taken the first place and followed Business Income Tax, and Personal Income Tax and Rental Income Tax and this indict that VAT has great economic contribution than other taxes within the studied period.

4.7 Practice of VAT Refund in Ethiopia

VAT refund is the difference between the input and output VAT. VAT Refund happened when the input VAT excessed the output VAT. InEthiopia VAT proclamation give the VAT refund for the newly established business and existing businesses with different conditions. According to Value added tax proclamation no.285/2002 articles 7(1) Subject to this Article, if at least 25 percent of the value of a registered person's taxable transactions for the accounting period (other than under Article 7 Sub-article (2)(d) is taxed at a zero rate, the Authority shall refund the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amounts. This article gives privilege for the newly established business to credit carried forward from previous month for that they have paid only for the fixed asset with the six month before they have registered for VAT.

Articles 7(2) Subject to this Article, in the case of other registered persons, the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period is to be carried forward to the next five accounting periods and credited against payments for these periods. and any unused excess remaining after the end of this five-month period shall be refunded by the Authority within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amounts. This article also gives the VAT registered to get back the balance of the carried forward from the previous five months within two months.

when we see the practice of articles seven (7) (1) the tax authority is settle everything within a period of two months period after the registered person files an application for refund, legaldocumentedreceipt for the payment of the excess amounts. But mostlyarticles seven (7) (2) practice have a problem. The tax payer indicates that after they have presented the entire necessary documents, the tax office will take eight month to one year to settle the refund balance and do not give the right and clear information about the settled documents. But the tax office in contrast indicates that, this happened because of long queue of tax payer who asks for refund and the tax payer is not presented the necessary documents on time.

4.8 Performance of Government

This section presents and measures the government performance between its budget and actual collection of VAT for the past Twelve year. Ethiopian Governments projected its revenue and expenditure for the one year and prepared the budget document of revenue and expenditure, if the budget is approved, and it is declared to the people by "Negarit Gazeta'' as proclamation. This document estimates the anticipated government revenues and expenditures, from and how much revenue is collected and put detailed activities where and how this revenue is expensed. Among the budgeted revenue, Tax revenue is one of the major source of revenue for Ethiopia. Value added tax (VAT) is one of the tax revenue which the government budgeted to collect more funds. In this part the study analyzed and discussed the government performance in collecting the anticipated VAT tax revenue for the budget starting on Hamle first and ending with Sene thirty, since the introduction time to 2013/2014 budget year. The study is tried to show the actual and budget with its growth rate of VATR, for the reviewed using table.

Table 7: BudgetVAT, Actual Collected of VAT, performancemeasurement, the deviation among Actual and Budget and the growth rate.

GCY	Budget of Value Added Tax(VAT) (in Millions of ETB)	Actual of Value Added Tax(VAT) (in Millions of ETB)	Performance in percentage (%)	Deviation(Actual b/n Budget) (In Millions of ETB)	Growth Rate of budget (%)
2002/03	-	372.20	1.00	372.20	0
2003/04	3,136.80	1,220.70	38.92	-1,916.10	1.00
2004/05	3,627.09	4,032.05	111.16	404.96	15.63
2005/06	4,979.16	4,809.15	96.59	-170.01	37.28
2006/07	6,155.93	5,931.48	96.35	-224.45	23.63
2007/08	8,002.42	7,987.17	99.81	-15.25	30.00
2008/09	9,640.45	10,638.78	110.36	998.33	20.47
2009/10	12,770.91	15,264.91	119.53	2,494.00	32.47
2010/11	18,218.00	19,343.91	106.18	1,125.91	42.65
2011/12	27,188.44	29,525.30	108.60	2,336.86	49.24
2012/13	35,182.70	38,115.15	108.33	2,932.45	29.40
2013/14	41,237.42	40,047.98	97.12	-1,189.44	17.21

Source: MoFED and ERCA

When we see table seven above, in the year 2002/03 the government didn't have the budget figure of VAT, this is because, Ethiopia introduced VAT at January 1, 2003. In the year 2003/04 the government was planned to collect birr 3,136.80 million but only 38.92% of the budget was collected and this indicate that the performance of the government in collecting the VAT revenue was very weak. For the 2004/05 budget year the government was increased its budget of VAT revenue and the government was collected 111.16% of the estimated or budgeted figure. This percentage shows that the government collected more VAT revenue for the year and it perform beyond the estimated figure. In addition, this year the government collected additional 404.96 million birr from VAT. When we see year 2005/06 and 2006/07 government now again increased its VAT revenue budget than before and collected 96.59% and 95.35% of the forecasted budget year respectively. This figure indicates that the government performed less as compared to the last year budget (2004/05).In the year 2007/08 also still the government was increase its collection budget of VAT revenue and collected 99.81% of the targeted budget of VAT revenue., and This figure shows that the government collected almost what it planed and performed well as it compared tothe last year performance. During 2008/09 budget year, the government was raised more VAT revenue compared to the last six budget year,and additional 998.33 million birr was collected for this year. This performance also was helped to collect additional 10.36% of the budget. Year 2009/10 was the highest performance of the government in collecting VAT revenue for the reviewed period. Accordingly, the government was collected additional19.53% of the budgeted amount. The budget year of 2010/11 was good for the performance of collecting VAT revenue and about 106.18% of the VAT budgeted is targeted, but when compared this percentage performance to the 2009/10 budget year, it was less performed. In the year 2011/12 and 2012/13, the government actually collected additional 8.63% and 8.33% VAT tax revenue respectively, but during the year 2012/13 government collected addition birr 2,932.45 million which was the huge amount of money for studied period. Finally, for the year 2013/14 the government was succeeded in collecting 97.12% of the budget. This figure indicates the government performance was very weak as compared to the performance of the last five years. Generally, when we see the actual and budget of VAT tax revenue amount since the introduction period the government collection and budget was increased year to year. On the other hand the growth rate also was fluctuated for the studied period.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

Under this chapter the study is discussed the conclusions of the finding and tried to forward the possible recommendations for rising the proper tax revenue in Ethiopia. The main objective of the study was to see the contribution of Value added tax (VAT) to Total Tax Revenue and Ethiopian economy. The study used secondary data of VAT and other Taxes Revenue since introduction of VATand compared VATRevenue withother taxes using ratio of contribution to Total Tax revenue, Gross Domestic product, the growth rate. In addition, the study is compared the performance of the government in collecting VATR for the budged years and the refund practice with the theory. Based on the data presentation and analysis the study concludes and recommend as follow:

5.1 Conclusions

The study was focused on the contribution of VAT Revenue to the Total Tax Revenue and Ethiopian economic growth, and compared with other major taxes Revenue for the last twelve year (2002/03 to 2013/2014) since the introduction of Value Added Tax (VAT).In addition the study tried to see the refund practice and the performance of the government between the budgeted and the actual collection of Value Added Tax. One of the major reasons of the Ethiopian government for the introducing Value Added tax (VAT) in January 2003 was to collect additional morefunds (Tax Revenue) for the development of the country, and which results economic growth. The study collected time series secondary data of Total tax revenue (TTR), Value Added Tax (VAT), Personal Income Tax (PIT), Business Income Tax (BIT), Rental Income Tax (RIT) and Real Gross Domestic Product (GDP) from the Ministry of Finance and Economy Development (MoFED) and Ethiopian Revenue and Customs Authority (ERCA).The available data of the study was analyzed and compared based on the descriptive statistics analyses using percentages and ratios. Using these percentage and ratios, the study compared the contribution of Taxes to the Total Tax Revenue, and economic growth with the measurement of Gross Domestic Product (GDP) and from the study analysis data the study concluded the following points:

- Comparing of the average Value Added Tax (VAT) collection with Personal Income Tax (PIT), Business Income Tax (BIT), Rental Income Tax (RIT), and government collected more tax revenue from VAT through the studied period.
- When we see the contribution of VAT to the Total Tax Revenue, VAT averagely contributed 30.45% to the TTR, when we compare this percentage with other taxes contribution VAT have great contribution during the studied period.
- When we see the Value Added Tax (VAT) contribution to GDP, The analysis also showed that VAT had about 2.95% average contribution to the GDP and comparing this figure with other taxesof Personal Income Tax (PIT), Business Income Tax (BIT), Rental Income Tax (RIT), and VAT contributed more amount of tax revenue to the economics of Ethiopia for the reviewed period. In general the study revealed that VAT is positively growing the Ethiopian economy.
- The government budget tax revenue of VAT was increased from year to year. Even if the performance of the government in collecting the budgeted VAT revenue for the reviewed period fluctuated the overall performance was satisfactory.
- Finally, the practice of VAT refund for the new business is implemented within in the specified time period but for the existed business the tax office has taken more time and this totally contradict the Value added tax proclamation no.285/2002 articles 7(2).

5.3 Recommendations

In this part the study is presented some suggestion, this may use to collect additional VAT and other taxes revenues.

- Governmentmust create good tax awareness to the tax payers.
- The government must force to register those who are trading without trade license.
- The government must register those who are not registered for VAT but fulfills the VAT registration criteria.
- Consumer must be ready to collection a receipt from the provider of Goods and services and this helps the government to collect additional taxes and help to control the tax collectors.
- The tax office has to create self-declaration system for individuals. This motivates the individuals to buy the Goods and Service from the legal provider and generate additional taxes revenue for the Government.

- The tax office must refund the tax payers VAT refund balance within the specified time and this helps the tax payer to do additional taxable transactions.
- The government need to have the required number and well trained employees who can implement the tax policies properly and work incorporation with the tax payer.
- The tax office mustfight corruption and corrupted employee becausethis illegal activity may lead the government to loss Tax Revenue.
- The tax office must continue of discussion with tax payers about the tax system because tax payers are playing the major roll of collecting the taxes.

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Appendix

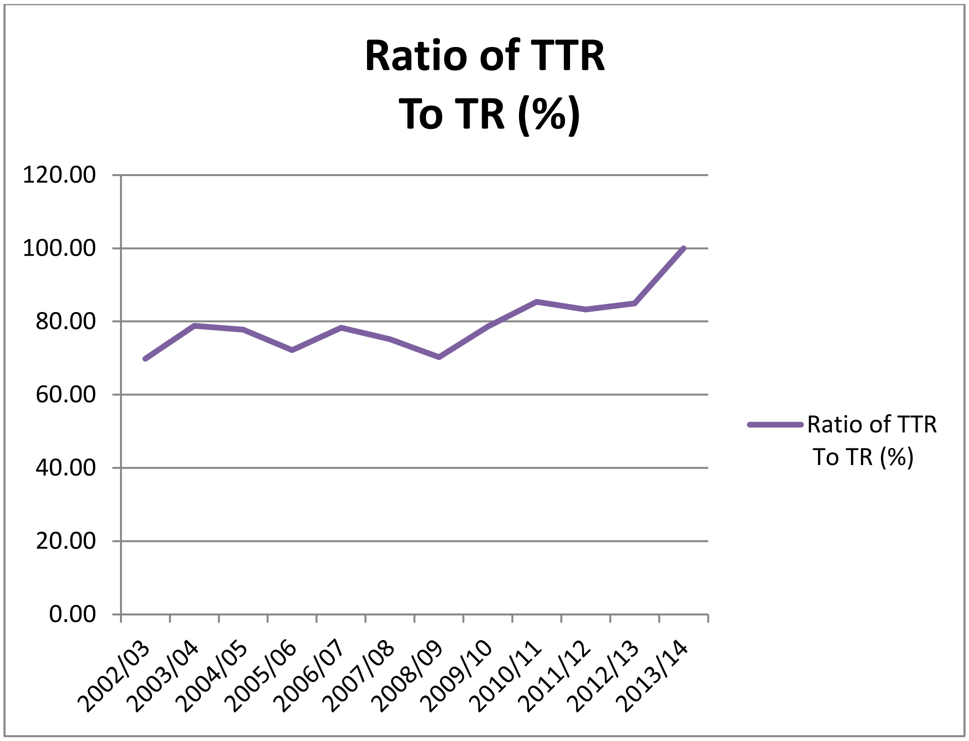

Figure 1: the contribution of TTR to TR

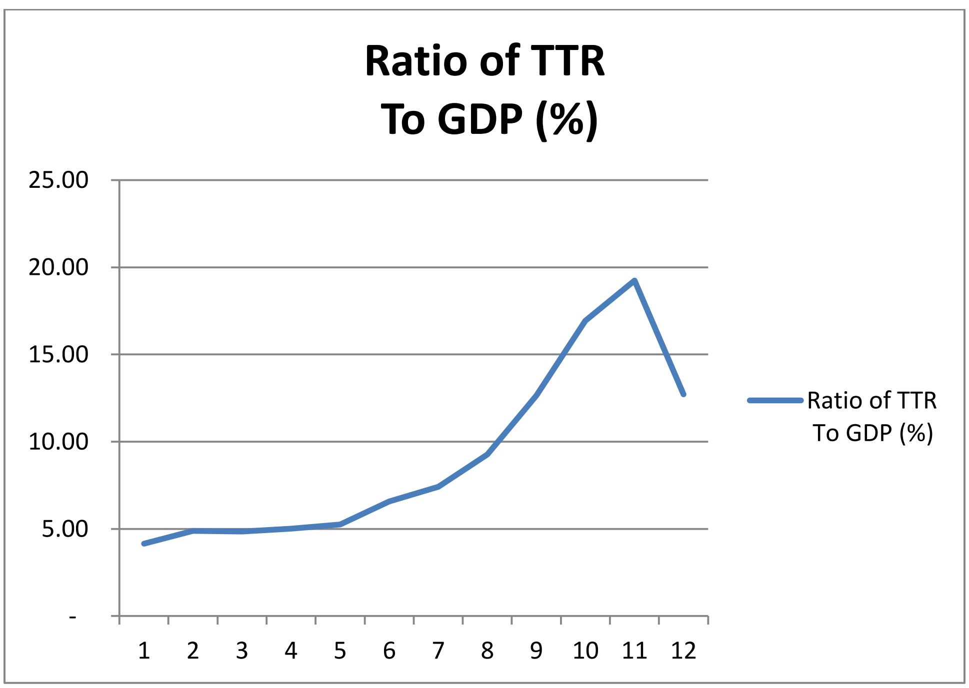

Figure 2: the contribution of TTR to GDP

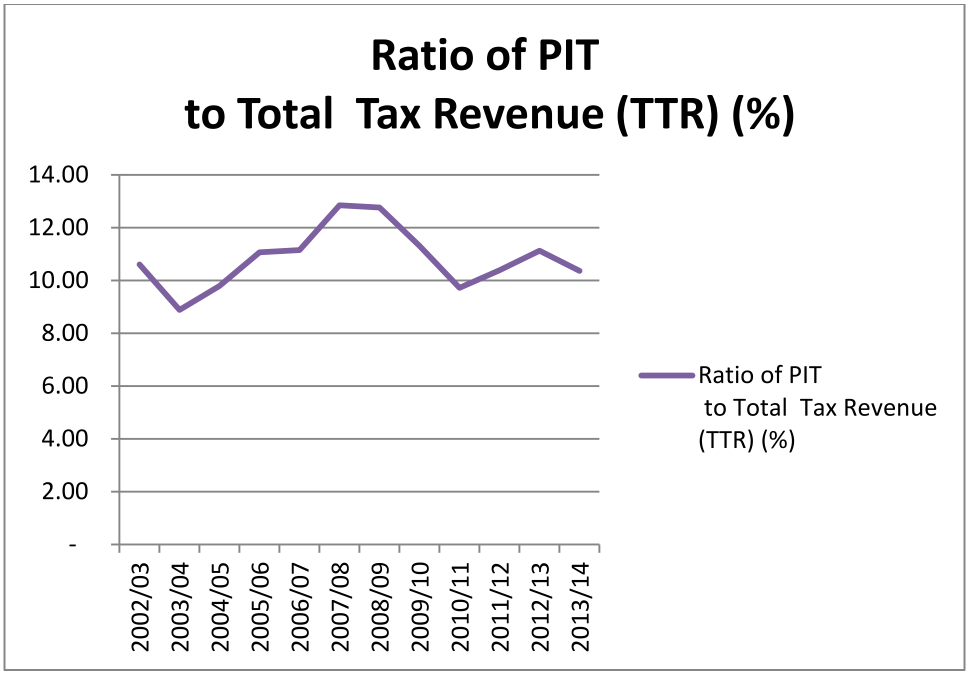

Figure 3: the contribution of PIT to TTR

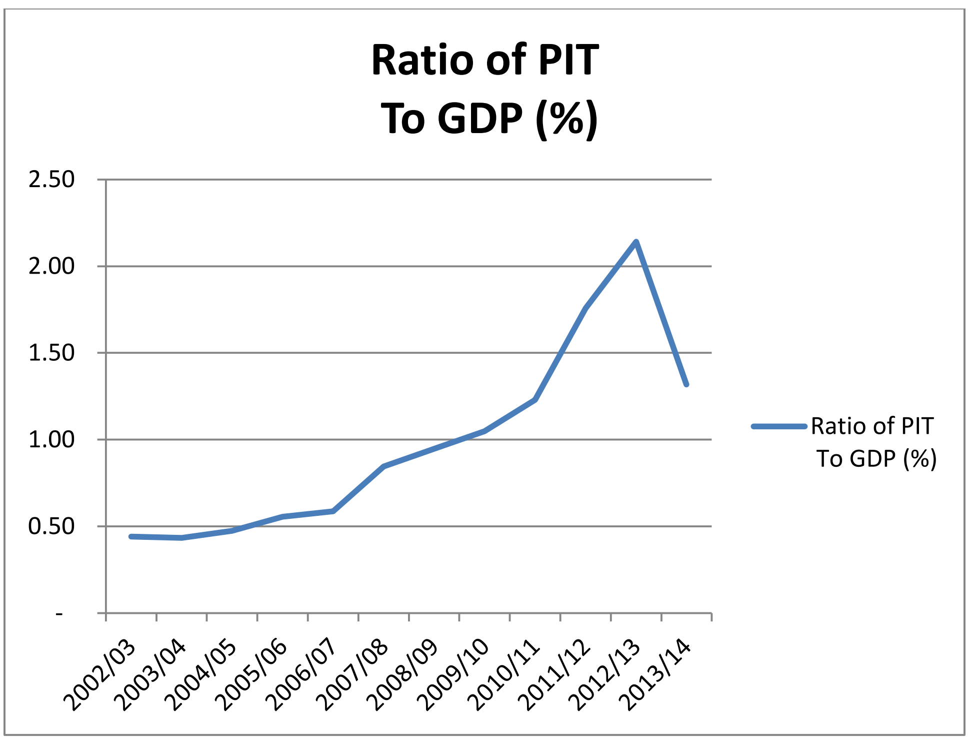

Figure 4: the contribution of PIT to GDP

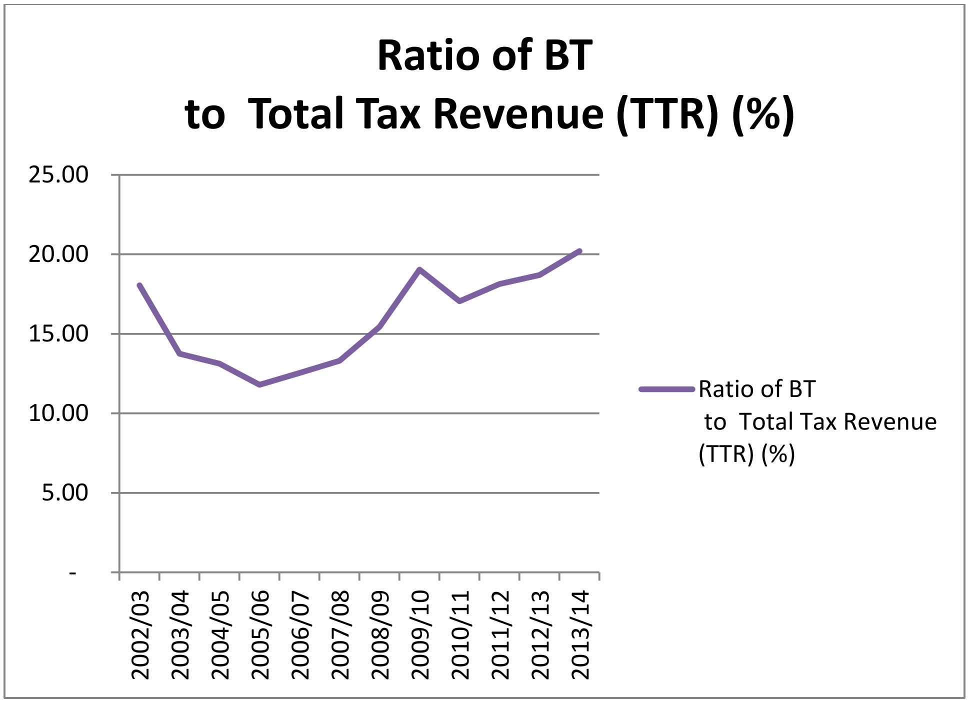

Figure 5: the contribution of BT to TTR

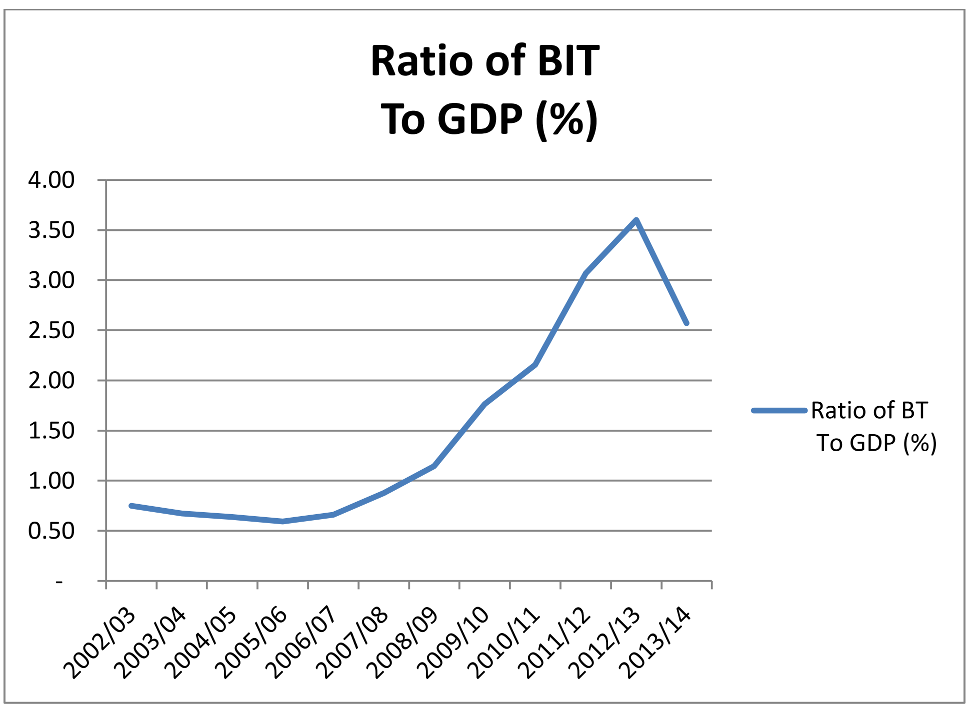

Figure 6: the contribution of BIT to GDP

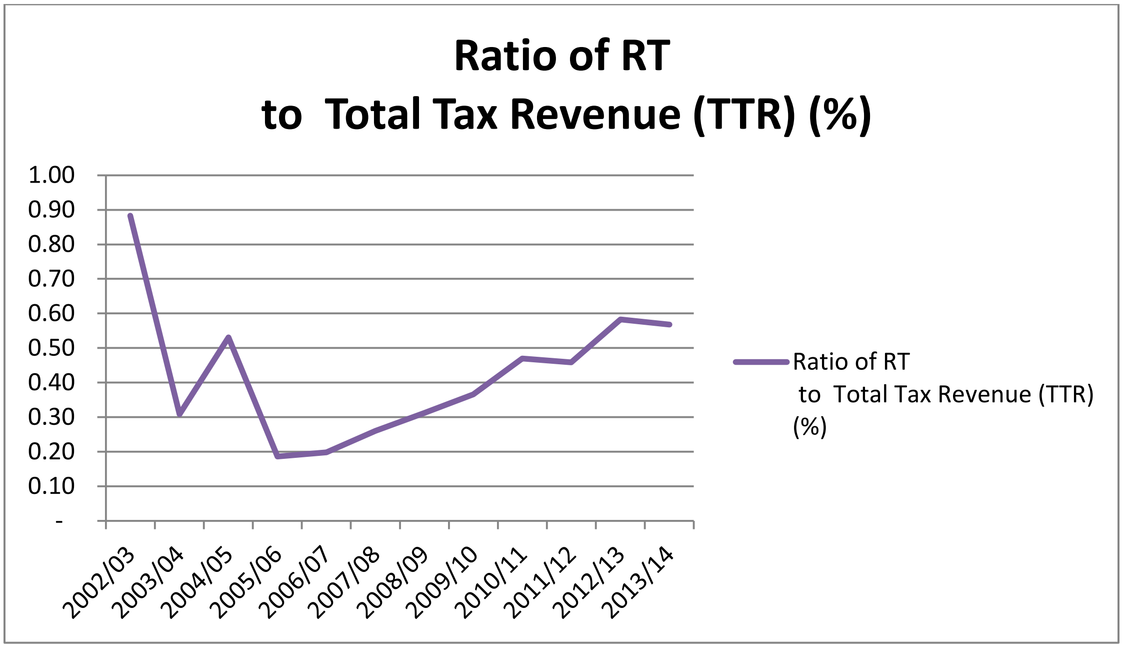

Figure 7: the contribution of RT to TTR

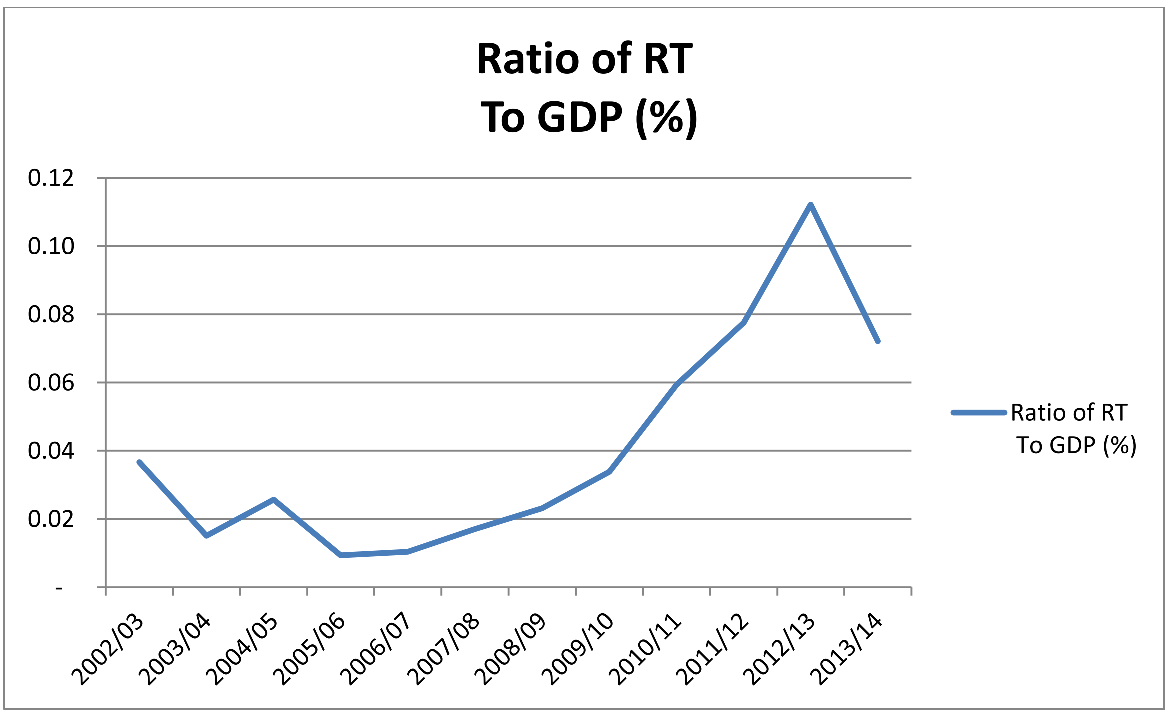

Figure 8: the contribution of RI to GDP

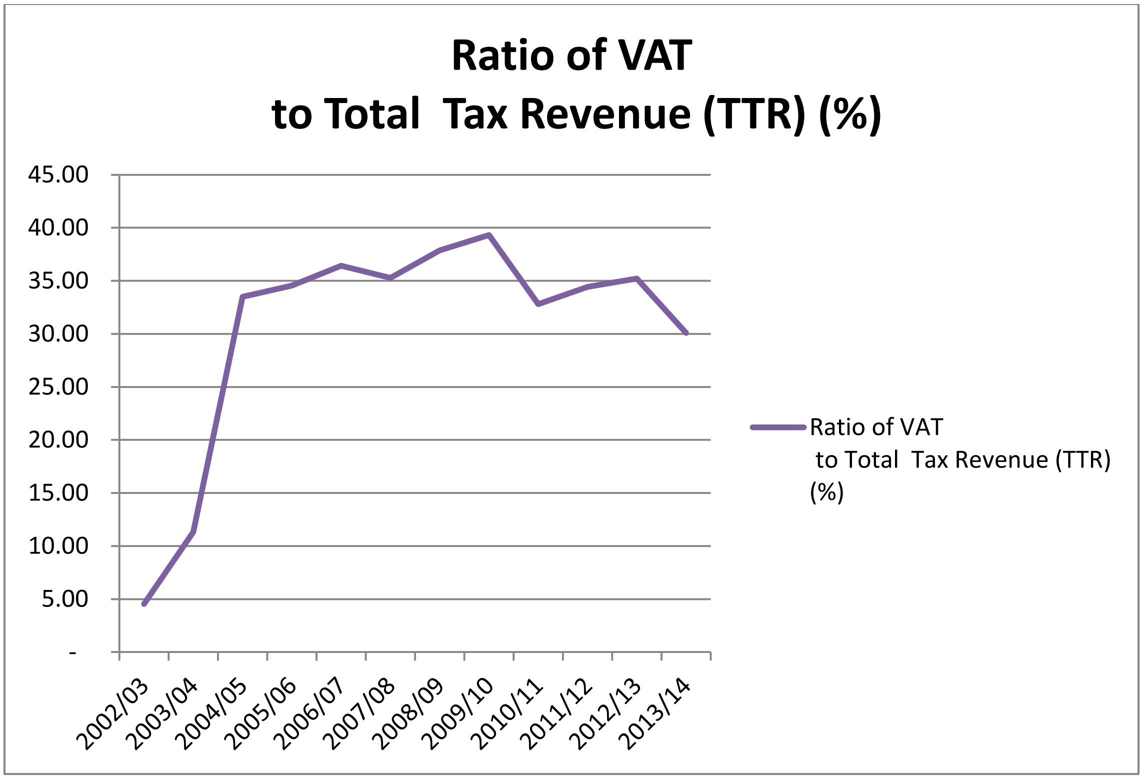

Figure 9: the contribution of VAT to TTR

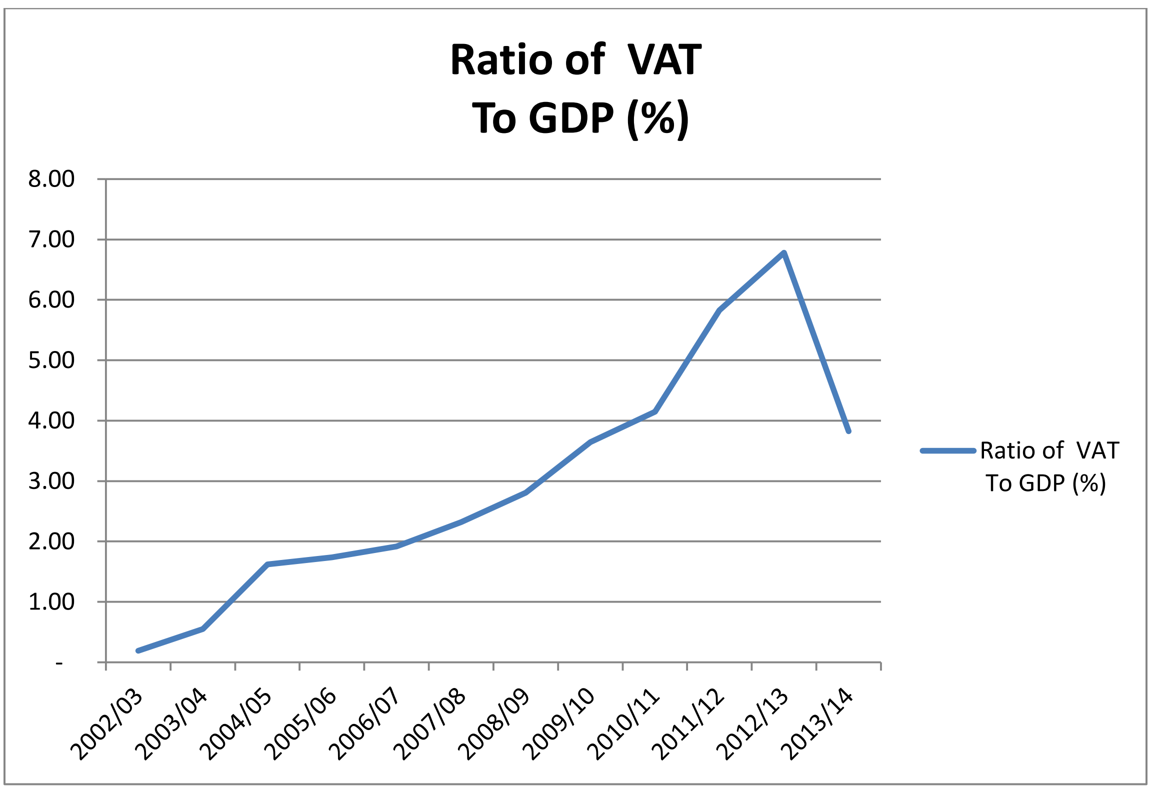

Figure 10: the contribution of VAT to GDP

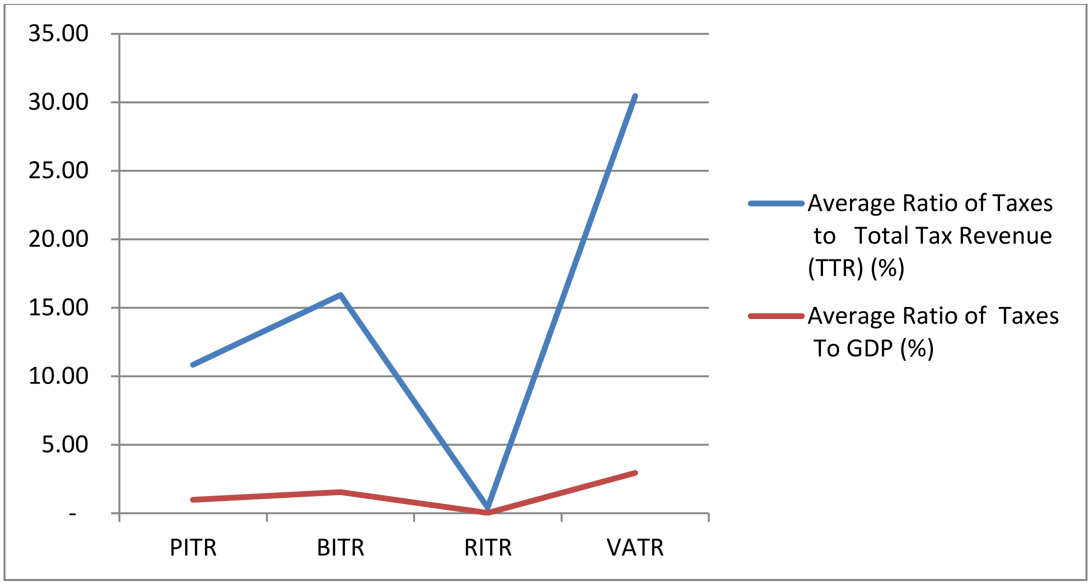

Figure 11: Comparison of VAT with Other Taxes