

ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

TAX ASSESSMENT AND COLLECTION PROBLEMS OF
CATEGORY "A" MEDIUM TAXPAYERS
A CASE OF ADDIS ABAB MEDIUM TAXPAYERS No. 2 BRANCH
OFFICE

BY

ABEBU MEKONNEN EAD/0489/03

ZUFAN DENEKE EAD/0536/03

EDEN REDA EAD/0498/03

JUNE 2014

ADDIS ABABA

**TAX ASSESSMENT AND COLLECTION PROBLEMS OF
CATEGORY “A” MEDIUM TAXPAYERS
A CASE OF ADDIS ABAB MEDIUM TAXPAYERS No. 2 BRANCH
OFFICE**

**A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING BUSINESS FACULTY
ST. MARY’S UNIVERSITY**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF BACHELOR OF ARTS IN ACCOUNTING**

BY

ABEBU MEKONNEN EAD/0489/03

ZUFAN DENEKE EAD/0536/03

EDEN REDA EAD/0498/03

JUNE 2014

ADDIS ABABA

ST. MARRY'S UNIVERSITY

**TAX ASSESSMENT AND COLLECTION PROBLEMS OF
CATEGORY "A" MEDIUM TAXPAYERS**

**A CASE OF ADDIS ABAB MEDIUM TAXPAYERS No. 2 BRANCH
OFFICE**

BY

ABEBU MEKONNEN EAD/0489/03

ZUFAN DENEKE EAD/0536/03

EDEN REDA EAD/0498/03

FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head

Advisor

Internal Examiner

External Examiner

Signature

Signature

Signature

Signature

ACKNOWLEDGEMENTS

First of all we would like to thank the almighty God who has helped us pass the most difficult and challenging times of our research paper work.

Secondly, we would like to extend a special word of thanks to our advisor, Belayneh, for his priceless and unreserved support through his continuous advice.

Thirdly, we would like to thank all respondents and informants especially, Tesefu Bekele, Tax Assessment and Collection Process for providing us the required information in the process of data collection.

Finally we never forget all those who were sharing their brotherly and sisterly advice.

LIST OF TABLES

	Page
Table 3.1 Personal characteristics of tax office employees-----	28
Table 3.2 Awareness of taxpayers -----	29
Table 3.3 Taxpayers Service Satisfaction -----	29
Table 3.4 Taxpayers Average Annual Revenue -----	30
Table 3.5 Benefit to pay tax -----	30
Table 3.6 Time given for payment of tax -----	31
Table 3.7 The fulfillment of document required -----	31
Table 3.8 Number of tax office employees -----	31
Table 3.9 Knowledge of tax office employees -----	32
Table 3.10 Examination of the tax office level of hospitability -----	32
Table 3.11 Clarification and training about tax collection -----	33
Table 3.12 Knowledge of taxpayers about taxation -----	33
Table 3. 13 What are the Problems related to taxpayers -----	33
Table 3.14 What are the Problems related to tax office -----	34
Table 3.15 The six month revenue collection comparisons between plans to actual -----	35
Table. 3.16 Information about important of taxation -----	35

TABLE OF CONTENTS

CHAPTER	PAGE
I. INTRODUCTION	
1.1 Background of the study	1
1.2 Statement of the problem	3
1.3 Research questions.....	4
1.4 Objective of the study	4
1.4.1 General objective	4
1.4.2 Specific objective	5
1.5 Significance of the study.....	5
1.6 Scope of the study.....	5
1.7 Definition of terms	6
1.8 Research Design and Methodology	6
1.8.1 Research Design.....	6
1.8.2 Population and Sampling Technique	6
1.8.3 Methods of Data Collection	7
1.8.4 Data Analysis Methods	7
1.9 Limitation of the study	7
1.10 Organization of the study	7
II. REVIEW OF RELATED LITERATURE	
2.1 Introduction	8
2.2 Theoretical review	8
2.2.1 Definition of Taxation	8
2.2.2 Purpose of Taxation.....	8
2.2.3 Cannons of Taxation	9
2.2.4 Impact, Incidence and Taxable Capacity.....	10
2.2.5 Kind of Taxes.....	11
2.2.6 Approaches to tax administration	15
2.2.7 Important of tax administration.....	15
2.2.8 Tax administration challenges	17
2.2.9 Efficiency of tax administration	17

2.2.10	Tax Administration Improvements	18
2.2.11	Efficient and Effective Tax System	19
2.2.12	Effective Factors in the Efficiency of Tax System	20
2.2.13	Effective Factors in the Financial Power of Individuals and the Society to Pay Taxes.....	20
2.2.14	Effective Factors in the Ability of the Government in Tax Collection..	21
2.2.15	Tax assessment	21
2.2.16	Procedures for tax collection	22
2.2.17	Identification and registration of taxpayers	22
2.2.18	Filling returns.....	22
2.2.19	Return processing	22
2.2.20	Payment of taxes	23
2.2.21	Audit and examination	23
2.2.22	Collection and enforcement	23
2.3	Empirical literature review	23
III.	DATA ANALYSIS AND INTERPRETATION	
3.1	Introduction	27
3.2	Back ground information of the tax office employees.....	27
3.3	Analysis of respondents' response.....	28
IV.	SUMMARY, CONCLUSION AND RECOMMENDATION	
4.1	Summary	36
4.2	Conclusion.....	37
4.3	Recommendation	38

Bibliography

- Asamnew Gebresslassie (2012). Tax assessment and Collection Problems of Category “A” Taxpayers, Addis Ababa University. (Unpublished).
- Addis Ababa City Government (2003). Tax Assessment and Collection, Proclamation No. 311/2003.
- Bird and Casanegra De Jantscher, (1992). Improving Tax Administrators in Developing Countries. Washington: International Monetary Fund.
- Council of Ministers (2002). Income Tax Proclamation No 286/2002. Addis Ababa: Berhanena Selam Printing Press.
- Ethiopian Chamber of Commerce (2005). Taxation in Ethiopia: Direct and Indirect taxes. Addis Ababa: Ethiopian Business Development Service Network.
- [Http://kalyan-city.blogspot.com](http://kalyan-city.blogspot.com), “What is tax definition” Adam-Smith html, 2010/12.
- James, A. Richardson and W. Bartley Hildreth (1999). Tax Compliance and Administration Handbook on Taxation, New York: Marcel Dekker, Inc.
- Kaldor (1980). The Role of Taxation in Economic Development, Essays on Economic Policy. London: Duckworth.
- Kangave (2005). “Improving Tax Administration: A Case Study of the Uganda Revenue Authority”. Journal of African Law. Uganda:
- Odingo, D. (2011). Impact of Taxes on Performance of Small Scale Business Enterprises. Uganda: Makerere University. (Unpublished).
- Taddele, G. (2010). Tax Reforms and Their Implications on Revenue Productivity of Ethiopian Tax System. Mekele University. (Unpublished).
- Tanzi, Vito and Howell Zee (2001). Tax Policy for Developing Counties. Washington D.C:

DECLARATION

We, the undersigned, declare that this study is our original work, prepared under the guidance of Belayneh. All sources of materials used for the study have been dully acknowledged.

Name

Signature

Place of Submission: _____

Date of Submission: _____

Abstract

Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice.

The goal of this research is to study tax assessment and collection problems of category “A” medium taxpayers found in Addis Ababa medium taxpayers No. 2 branch office. To achieve this objective, the researchers used both primary and secondary sources to collect data. And also the researchers used probability and non probability sampling techniques.

The information gathered witnessed that there exist inefficiency and insufficient number of tax office employees in Addis Ababa medium taxpayers’ No. 2 branch office. There is a big problem for system connection due to this many taxpayers does not get the service as they came to the tax office.

Moreover, there is lack of tax knowledge by taxpayers. Due to this, delay in tax payment, do not pay the proper amount they should pay and negligence are taken by taxpayers as solution to escape from payment of taxes.

To create effective and efficient employees, the tax office should offer continuous training for their employees by allocating enough money to training center.

The tax office should employ or recruit sufficient number of employees to avoid work influences by one employee.

For better tax administration, the authority should be put better technology which is the network system is fast, huge capability of storage and perform the work without any obstacle. To have effective tax collection the tax office should be solve the administration problems.

List of Abbreviations

VAT: Value Added Tax.

TOT: Turnover Tax.

TIN: Tax Identification Number.

FDRE: Federal Democratic Republic of Ethiopia

ERCA: Ethiopia revenue and custom authority.

SIRM: Standard Integrated Revenue Management.

SIGATS: Standard Integrated Government Tax Administration System.

APPENDIX

CHAPTER ONE

1. Introduction

1.1 Background of the study

According to Kaldor (1980), “A tax is a compulsory contribution from the person to government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.” Quickly he added that “A tax is a compulsory contribution of the wealth of a person or body of persons for the service of the public powers”

Tax Collection is the main source of Government revenue for any country in the world including Ethiopia. Taxes are compulsory payments for which no value or service has to be rendered in return. It is a financial charge or levy imposed on an individual or a legal entity by the state. According to Justice Wendell Holmes 1905, a famous American judge, “a tax is a price we pay for living in a civilized society”.

According to Bird (1974), tax administration refers to the identification of the taxpayer, assessment of tax payable, collection of taxes and enforcement of tax liability. According to Tanzi (2001), tax administration refers to a structure/procedure of identification of potential taxpayer, collection and laws governing taxation.

In Ethiopia, tax is administered at federal or central and regional levels. The constitution of Federal Democratic Republic of Ethiopia (FDRE) has separated the tax revenue to be collected by federal government, state or regional government and jointly by the federal and state government. The regional governments of Ethiopia collect taxes and revenue by bureaus of Regional Inland Revenue Authorities from privately own enterprises and organs of regional governments. The tax assessment for those, who are required to maintain financial records, is done based on the records that taxpayers maintain; however, if they fail to maintain financial records, estimated assessment will be done. For the rest of taxpayers, who are not required to maintain financial records, it is based on the standard assessment method (Council of Ministers, 2002).

Taxes levied by central and regional government consist of direct and indirect taxes. Direct taxes are taxes including employment income tax, business income tax, and taxes on

royalties, dividend income tax, tax on interest on deposits, rental tax and chance winnings while indirect taxes are mainly composed of VAT, excise taxes, TOT and custom duties. Hence proper assessment and collection of tax is one of the factors that enable the government to achieve its goals and programs. Besides, it reduces the country's dependability on the foreign loan and donations Council of Ministers (2002).

Taxpayers are classified into the following three major categories:

- 1) Category "A" Taxpayers
- 2) Category "B" Taxpayers
- 3) Category "C" Taxpayers

Category "A" Taxpayers

According to Ethiopian chamber of commerce (2005), this category of taxpayers includes:

- a) Any company incorporated under the laws of Ethiopia or in a foreign country;
- b) Any other business having an annual turnover of Birr 500,000 or more.

In the current situation category "A" divided into three based on their annual income level. Those are:-

- Small taxpayers:- birr of 500,000 – 1,000,000
- Medium taxpayers :- > 1,000,000 – 27,000,000
- Large taxpayers :- > 27,000,000

Category "B" Taxpayers

Unless already classified in category "A", any business having an annual turnover of over Birr 100,000 would be classified under category "B" taxpayers. This category of taxpayers should to the Tax Authority profit and loss statement at the end of the year.

Category "C" taxpayers

Unless classified in categories "A" and "B", those businesses whose annual turnover is estimated up to Birr 100,000 are classified under this category of taxpayers (Ethiopian chamber of commerce, 2005).

When we come to the study area, Addis Ababa medium taxpayers No. 2 branch office, which is delegated to assess and collect both direct and indirect taxes from category “A” medium taxpayers (> 1million – 27 million) performing different types of business activities in five sub cities. The office is found in around Stadium in front of Bethzatha Hospital Yeha City Center building on the 4th floor.

In the statutory authority of Addis Ababa medium taxpayers No. 2 branch office, the tax assessment, collection and controlling core process office performs assessment of taxes and collection based on income tax proclamation No. 286/2002 and Addis Ababa city government charter proclamation No. 311/2003, which are delegated powers to sub city and kebele for the purpose of efficient provision of various social goods and services.

Addis Ababa medium taxpayer’s No. 2 branch office has an objective to establish modern revenue assessment and collection system, and provide equitable, efficient and quality service to taxpayers, who are considered customers, and cause taxpayers voluntary discharge their obligation by enforcing the applicable tax laws.

SIRM (Standard Integrated Revenue Management) and **SIGTAS** (Standard Integrated Government Tax Administration System) software are applicable for regular tax assessment and collection.

Source: Addis Ababa medium taxpayers tax assessment, collection and controlling core process office report.

1.2 Statement of the problem

Taxation is the system of raising money to finance government. All governments require payments of money takes from people. Governments use tax revenues to pay soldiers and police, to build dams and roads, to operate schools and hospitals, to provide food to the poor and medical care to the elderly, and for other purposes this will have a benefit to society, without taxes to fund its activities, government could not exit (Ethiopian chamber of commerce, 2005).

To maximize the collection of the needed tax revenue for the government, it is very important that the revenue agencies are efficient and effective in their duties as they aimed

at satisfying the taxpaying public. The level of potential tax revenue is determined by the level of economic activity of an area (James & Alley, 2001).

Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent budget deficit because of having the higher public expenditure than the revenue. To address this problem, the government always strives to improve the level of tax imposed on the taxpayers and quality of the tax administration. However, this imposition of tax couldn't still bring the required result due to a number of reasons such as challenges in tax assessment and collection, non compliance and delinquent taxpayers, lack of awareness of taxpayers and tax officers about rules and regulations for these reasons, the actual amount of tax couldn't be collected properly. Therefore, the purpose of this study were assessing the problems of tax assessment and collection activities of Addis Ababa medium taxpayer's No. 2 branch office.

1.3 Research Questions

The study seeks to answer the following basic research questions:

- What are the major challenges in tax assessment and collection relating to category “A” medium taxpayers?
- How strong enough the tax office is to control non compliance and delinquent taxpayers?
- To what extent do the taxpayers and tax officers know the rules and regulation of tax?
- To what extent dose the tax office employees competent, which collects taxes?
- How far the tax collection system of the tax office is effective?

1.4 Objective of the study

1.4.1 General objectives

The General objective of this research is to study tax assessment and collection problems of category “A” medium taxpayers found in Addis Ababa medium taxpayers No. 2 branch office.

1.4.2 Specific objectives

Specifically, this study tries to address the following issues:

- ❖ Identify the challenges of tax assessment & collection relating to category “A” medium taxpayers.
- ❖ To see how the tax office to control non compliance and delinquent taxpayers.
- ❖ To assess whether the taxpayers and tax officers have enough knowledge about the rules and regulations of tax.
- ❖ To assess the tax office employees competent, which collect taxes?
- ❖ To determine effective tax collection system of the tax office.

1.5 Significance of the study

It is obvious that an economic development of a country can be certain by an effective and efficient taxes administration. When the administration and implementation of tax system is effective, the government’s revenue that helps to fulfill the socioeconomic needs of the society will be amplified. Hence this research can indicate the ways to improve the tax revenue of Addis Ababa medium taxpayers No. 2 branch office and the government at large by providing appropriate suggestions for identified problem, it can provide the way for other researchers who want to conduct further investigation on the area raised as a title, give some possible insights to the higher officials of the authority to tackle or to solve the problems identified with this finding, the research paper will also help us as being the partial fulfillment of bachelor of art degree in accounting, as well as it can serve as an additional source of reference material for those who want to conduct a further research.

1.6 Scope of the study

It is difficult to cover the whole category of taxpayers in all sub cities and branches. Because the study is delimited to category “A” medium taxpayers in three sub cities (Bole, Nifas Silke Lafto and Akaki Kality) tax assessment and collection process of Addis Ababa medium taxpayers No. 2 branch office. The data collections were also addressing in 75 taxpayers and 16 employees of tax office in the mentioned branch. Besides, data collections from the office report were only 2006 six months revenue collection.

1.7 Definition of Terms

Canon: A general rule, principle, or standard.

Impose: To lay down a tax.

Levy: Imposition of tax that is due.

Tax avoidance: The practice of paying as little tax as possible by claiming all allowable deductions from income.

Tax Base: The assessed value of set assets, investments or income streams that is subject to taxation.

Tax Evasion: An illegal practice whereby an individual intentionally avoid paying their true tax liability or hide taxable income.

Tax Incidence: Direct burden of tax on the person who ultimately pays it.

1.8 Research Design and Methodology

1.8.1 Research Design

A research design is a conceptual structure that shows how all the major parts of the research project come together. According to Kothari (1985) it constitutes the blueprint for the collection, measurement and analysis of data. In this study, the type of research was descriptive. The rationale for selecting this type of research is that the study has no control on the variables; rather it described the Addis Ababa Medium taxpayers No. 2 branch office tax assessment and collection problem.

The general objective of this research is designed to study the tax assessment and collection problems of category “A” medium taxpayers found in Addis Ababa medium taxpayers No. 2 branch office. In addition to that the general objective split in to specific objective. The study used both primary and secondary sources of data collection method. The sample selection was random and convenience. Finally, the data were analyzed by employing descriptive technique through tabulation and percentage.

1.8.2 Population and Sampling Technique

The total population of this research is category “A” medium taxpayer’s No. 2 branch office for five sub cities of Addis Ababa (Bole, Kirkos, Ledeta, Nifas Silke Lafto and Akaki Kality). The researchers were used probability and non probability sampling techniques. These are simple random and convenience. By simple random sampling

technique from 5 sub cities we selected only 3 sub cities and convenience sampling for 75 taxpayers were used.

1.8.3 Methods of Data Collection

The methods of data collection or techniques were primary and secondary sources. To obtain primary sources, the researchers were collect data from tax officers and taxpayers by using questionnaire. In addition to primary sources, secondary sources like booklet, office document, journals and internet were used. The nature of this research is descriptive, open ended and close ended.

1.8.4 Data Analysis Methods

The data obtained from questioners were analyzed in descriptive analysis methods specifically through tabulation and percentage.

1.9 Delimitation of the study

It is not convenient to say that the study was conducted without any obstacle. The researchers faced some problems. Some of these problems were scarcity of adequate secondary data resource and also time.

1.10 Organization of the study

The paper was organized in four chapters. Chapter one deals with the Introduction of the study, chapter two presents the Review of the Related Literature, theoretical review and empirical review, chapter three presents Data Analysis and Interpretation, chapter four, were deals with the Summary, Conclusions and Recommendations parts of the study under taken.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

This chapter covers theoretical and empirical literature review related to the study. In order to provide suitable theories and empirical evidence on the topic under investigation, the researchers has reviewed a number of existing literatures; these are helps to explain some key terms, which are relevant to the study. And the researcher has also reviewed other researchers discussion related to the study area.

2.2 Theoretical review

2.2.1 Definition of Taxation

Taxation is refers to assessment, collection, administration and management of taxes. It deals with raising public revenue, managing public expenditure and public debt. The general idea behind taxation is the provision of public goods and services. However the benefits received by taxpayers from the government are not related to or proportionate to the tax paid (Odongo, 2011).

Taxation is a payment which cannot be avoided without attracting a punishment and in return of which no gain/quid pro-quo is promised by the government to the taxpayer.

The government is responsible for providing to its citizens certain public facilities and services like roads, schools, and market securities. There are two main tax authorities; the local government authority and the central government authority (Odongo, 2011).

2.2.2 Purpose of Taxation

According to Odongo (2011), taxation is an important source of government revenue and an economic policy tool by government to attain economic growth. The importance of taxation therefore arises from debate of whether government should interfere in the operations of the market mechanism.

Taxation has increased in importance not only as a tool of raising revenue for the traditional roles but also for accelerating the economic growth and ensuring social justice (Odongo, 2011).

The primary objective of taxation in underdeveloped countries is not related to stability of income and expenditure. These countries face a number of problems of insufficient savings and capital accumulation, which calls for a need to promote specific products to fill both the supply and demand gaps. It is the problem of growth that covers a number of aspects; the tax system has to be designed to help the economy.

As in all other countries, one of the purpose of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for supply of public goods and services which otherwise would not be available to the general public by the market. The central aim of the tax system in Ethiopia is to collect sufficient money to finance the administrative machinery of the government as well as to finance the fulfillment of basic infrastructures like roads, telecommunication, electricity and other basic social services like education, health and water supply facilities (Odongo, 2011).

The tax system in Ethiopia is not only meant to raise revenue for current expenditures but also aims at directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws (Ethiopian chamber of commerce, 2005).

2.2.3 Cannons of Taxation

Adam Smith (1778) one time famous British economist indicated four cannons of taxation (in his book “The Wealth of Nations”). These principles are very significant, and they are as true today as in his days. they are:

- **Equity:** - The subjects of every state ought to contribute towards the support of the government in equal proportions to their respective abilities. A system of taxation therefore, ought to distribute the tax burden on the community as equitable as possible.

• **Certainty:** - The tax which each individual is bound to pay ought to be certain and not arbitrary. That is, the tax collector is not squeeze out more than necessary from the taxpayer (Luke 3: 13). The time of payment, the mode of payment, the actual amount to be paid, ought all to be clear and plain to the contributor and to every other person.

• **Convenience:** - Every tax ought to be levied at the time or in a manner in which it is most likely to be convenient for the contributor. For example, where the Customs considers the traders declaration to be incorrect, the verification of essential facts for the determination of correct liability should be speedy and accurate. A tax should therefore, as far as possible be levied at a time and in a manner most convenient to its payment and should be brought as near as possible to the point of consumption to meet the convenience of the owner of the goods; hence as one of the numerous indulgence, the Customs allows goods to be warehoused so that the trader clears his goods in bits at his own volition.

• **Economy:** - Every tax ought to be so contrived to take account of the ability of the persons who are charged with the taxes to pay. The cost of collection should also be very low so that the tax payer may not think that tax administrators exact taxes for their comfort and not for the benefit of the citizenry. The cost of collection for a tax administration of a developed country should therefore, not exceeds 0.2% of the total collected.

Other Principles

Other principles of taxation include:

Simplicity, A system of taxation ought to be simple and plain.

Elasticity, A system of taxation ought to respond automatically to changes in the community's wealth, population and other needs.

Productivity, A system of taxation ought to produce enough net yield or revenue but not so high as to damage the source of that revenue (<http://kalyan-city.blogspot.com,2010/12>).

2.2.4 Impact, Incidence and Taxable Capacity

a) The impact of a tax is the pinch of payment and this is on the person who pays the tax initially.

b) The incidence of a tax is the money burden and this is on the person who finally pays the tax. The term thus indicates the “final resting place” of the tax.

c) In Income Tax administration, the person who pays the tax bears both the impact and the incidence, whilst in commodity taxes some or all of the taxes which are paid by traders are passed on to the consumers by way of increased prices.

d) The taxable capacity of a country is the limit of a country’s capacity to accept and absorb taxation and this is determined to a large extent on

- The country’s real wealth.
- The attitude of the population to taxation in general.
- The type of taxes levied.
- The possibilities of tax evasion.
- The level beyond which any increase in taxation might lead to reduction in the national income (e.g. the effect of taxes on incentive, wage demands, price increase) (<http://kalyan-city.blogspot.com,2010/12>).

2.2.5 Kind of Taxes

Taxes are commonly described as “Direct” or “Indirect”. This distinction is from administrative point of view convenient although it may not always be correct.

Direct Taxes

These are paid by persons or organizations on their incomes, profits, consumptions, etc and the impact and incidence are on the same persons or organizations, e. g. income tax or entertainment tax.

Advantages of Direct Taxation

The advantages of this form of taxation are:

- Incidence and yield are easy to determine.
- The taxpayer knows with certainty what he is expected to pay.

- Yield increase automatically as wealth and population increase.
- Direct taxes are in general progressive.

Disadvantages of Direct Taxation

Direct taxes have the following disadvantages:

- The cost of administration involved is very heavy.
- The effect on incentive, enterprise and saving in case of those with large incomes may be considerable.

Indirect Taxes

These are levied on persons in the expectation that the taxes will be shifted or passed on to others. Here the impact and incidence are on different persons. They are called Indirect Taxes because the administering authorities the Customs and Excise Service, which levy the taxes on goods, do not collect the taxes from the consumer but indirectly through importers, manufacturers or other intermediaries. The shifting or passing on is effected by embodying the amount paid in taxes in the selling price of the commodities taxed to the consumer (<http://kalyan-city.blogspot.com,2010/12>).

Advantages of Indirect Taxation

The advantages of this form of tax are:

- Payment and collection of the taxes are easy and convenient
- In general, yield is elastic.
- Evasion is difficult as compared with direct taxation.
- Restriction of harmful consumption, as a government policy is possible.
- Incentives for enterprise are not harmed, as in the case of direct taxes

Disadvantages of Indirect Taxation

Disadvantages of indirect Taxation are:

- They are often regressive.
- Revenue may be uncertain where the demand for the taxed goods is elastic.
- Incidence is not easy to determine.
- They are not always equitable.

Type of Indirect Taxes

- Customs duties on goods imported from foreign countries.
- Excise duties on home-produced goods.
- Value Added Tax on home-made goods.
- Export duties.

Basis of Indirect Taxes

Indirect taxes may take the following forms:

Ad valorem Duty this is where the rate of duty is a percentage of the value of the goods e.g. wrist watches, 20% ad valorem.

Specific Duty this is where the rate of duty is based on some physical attribute or a combination of physical attributes of the commodity being taxed e.g. weight, gallon age.

Alternative Duty this is where the rates are both ad valorem and specific, the rate which provides the higher or lower amount of duty as demanded by law, being applied.

Sliding Scale this is where the ad valorem or specific rate varies according to the unit price of the commodity. For example, Excise duty on cigarettes, where the weight of 1000 cigarettes does not exceed 2.075 lb – 55% of the selling price; and where the weight of 1000 cigarettes exceeds 2.075 lb but does not exceed 2.5 lb – 60% of the selling price.

Tax Incidence

Tax incidence is said to “fall” upon the group that, at the end of the day, bears the burden of the tax. The key concept is that the tax incidence or tax burden does not depend on where the revenue is collected, but on the price elasticity of demand and price elasticity of supply. For example, a tax on apple farmers might actually be paid by owners of agricultural land or consumers of apples.

The theory of tax incidence has a number of practical results. For example, United States Social Security payroll taxes are paid half by the employee and half by the employer. However, economists think that the worker is bearing almost the entire burden of the tax because the employer passes the tax on in the form of lower wages. The incidence falls on the employee.

Tax Avoidance and Tax Evasion

Tax avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by means that are within the law. In contrast, tax evasion is the general term for efforts to not pay taxes by illegal means. The term tax mitigation is a synonym for tax avoidance. Its original use was by tax advisors as an alternative to the term tax avoidance (<http://kalyan-city.blogspot.com,2010/12>).

Some of those attempting not to pay tax believe that they have discovered interpretations of the law that shows that they are not subject to being taxed: these individuals and groups are sometimes called tax protesters.

An unsuccessful tax protestor has been attempting openly to evade tax, while a successful one avoids tax. Tax resistance is the declared refusal to pay a tax for conscientious reasons (because the resistor does not want to support the government or some of its activities). Tax resisters typically do not take the position that the tax laws are themselves illegal or do not apply to them (as tax protesters do) and they are more concerned with not paying for particular government policies that they opposed.

Tax Evasion

Tax evasion on the other hand is the general term for efforts by individual firms, trust and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned)(<http://kalyan-city.blogspot.com,2010/12>).

2.2.6 Approaches to tax administration

Tax administration refers to the identification of the taxpayer, assessment of tax payable, collection of taxes and enforcement of tax liability. In addition to the above definition tax administration refers to a structure/procedure of identification of potential taxpayer, collection and laws governing taxation (Odongo, 2011).

According to Odongo (2011), says that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about taxpayer, continued criticism of the tax and its structure should be simple in order to avoid tax evasion.

2.2.7 Important of tax administration

According to Asamnew (2012), tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of tax systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population. In recent years, the shift away from these taxes corporate income and progressive individual income tax and toward tax systems that rely more on broad based consumption taxes such as the value added tax, flatter rate structures, and the adoption of “dual income taxes,” in which a progressive tax on labor income is accompanied with a low flat rate tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments.

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994).

Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explained by changes and

differences in the environment, resources and technologies available to the country's tax administrators.

Aside from the role of tax compliance and administrative issues on the evolution and general features of the tax system, there is no question that administrative considerations influence, and often impose decisive limits, on particular tax laws. Most obviously, the failure to tax all sources of economic power, such as the imputed rental value of homes or accruing capital gains, are often justified by reference to practical concerns of administer ability. It is futile to design a complex and sophisticated response to a tax policy problem if the rules to implement the regime cannot be administered (Asian Development Bank, 2001).

Ensuring the taxes are collected from those who owed them has always been an elusive challenge for tax departments. It has never been easy to collect taxes from lawyers who take cash for a Saturday office visit; waiters who receive most of their income as tips; landlords who collect rent in cash; small business people who skim part of their profits or hire people off the books; cash only window cleaners, roofers and painters; or large corporations that contract out to sweatshops. It has been even more difficult to collect taxes from crack cocaine dealers, smugglers, hit men and hit women, and those who make their living defrauding and extorting their clients. The underground economy has always been diverse and even vaster than these examples suggest (Asian Development Bank, 2001).

However, as if these traditional forms of tax evasion were not challenge enough, the combined effects of information technology and globalization is now alleged to allow those who have been able to hide in the shadow economy to evade paying their fair share of tax to disappear altogether. Many individuals are no longer tied to one national jurisdiction; those that are increasingly receive payments from work and investment abroad; anyone can have access to an over sea's bank; anyone with access to a computer can transact business anywhere in the world; property is becoming increasingly fungible and can be shifted relatively easily between jurisdictions. Those and other developments are said to call into question governments' continued ability to levy taxes in a world in which companies, assets, and people are infinitely mobile (Asian Development Bank, 2001).

2.2.8 Tax administration challenges

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

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers (Kaldor, 1980).

Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure (Kaldor, 1980).

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

2.2.9 Efficiency of tax administration

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. This will mean extending the VAT to all but a few goods and services, (notably export, which should be zero- rated, and banking and insurance services,

where it may be difficult to determine the amount of value added to be taxed) (Asamnew, 2012).

Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. In traditional countries, tax administration can be organized respecting the functional principle (collecting, recording, auditing and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers. This can lead to the decrease of their compliance, resulting with lower total revenue. Next should be improved auditing and follow up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code (Asamnew, 2012).

2.2.10 Tax Administration Improvements

Effectiveness and efficiency in tax administration is very important and it involves simplification wherever feasible, but it sometimes requires more complex procedures in order to secure even enforcement. The aim of this is to eliminate unnecessary burden on the taxpayer and the tax officials and to secure a more equitable and effective application of the tax laws. Thereby, the morale and cooperation of the taxpayer as well as the tax official will be improved and better revenue structure obtained. An increase in resource devoted to tax administration should also be contemplated. There is a need for the use of

presumptive rules in assessing tax on certain hard-to-tax groups in order to generate the needed tax revenue (Richard & Oliver, 1975 p241).

A society's willingness to be taxed will depend on a large extent its belief about what the tax revenue is being used for. Increased tax effort may be difficult when government expenditure patterns do not give rise to substantial acceleration of national income and when tax sacrifices as well as developmental gains are not equitably distributed among the population. It is therefore clear that tax effectiveness and efficiency is an administrative issue (Asamnew, 2012).

2.2.11 Efficient and Effective Tax System

Efficiency is doing things right and relating them to input and what a manager does. To be efficient, one must therefore attend to the input requirements of the job to clarification of objective, planning, direction and control. It is making the most economic use of resources. Efficiency in Domestic Tax Division relates the travel cost, allowances to staff and other administrative cost, cost of application of tax laws such as garnishment and prosecution and staff performance as a result of tax collection. Measuring efficiency is percentage resources actually used over the resources that were planned to be used. Measuring productivity relates to process output to input. Measuring quality involves customer satisfaction, implementing objectives and determining whether designs, systems and solutions to problems are meeting requirements (James, 1999).

Management is about ensuring the effective use of resources by exercising management skills to produce results to which value can be added to satisfy customer needs. In order to be effective, management must give attention to output of the job to perform in terms of such factors as obtaining best possible results in the important attainment of the aims and objectives of the organization. Effectiveness must be related to some purpose, objective or task to the performance of the process of management and the execution of work. A criterion for assessing the effectiveness is in terms of measuring the result. Also important is how this result is achieved and the effect on the people and the organization. This may influence effectiveness in the longer term. Management effectiveness results from a combination of personal attributes and dimensions of the job in meeting the demands of the situation and satisfying the requirements of the organization. Personality which is extraversion or introversion, agreeableness, conscientiousness, emotional stability or

instability, openness or close-mindedness is powerful determinants of manager's effectiveness (James, 1999).

Stewart (1985) suggests that effectiveness is more important than efficiency because one must be doing the right kind of work, only then does it matter whether the work is done efficiently. However, it must be noted that managers who want to improve should review both their efficiency and effectiveness. Effectiveness is measured by Actual Output divided by Expected output multiplied by one hundred.

2.2.12 Effective Factors in the Efficiency of Tax System

To have an efficient Authority, we need to investigate the efficiency factors of the Revenue Authority and to determine their level of effectiveness. This study focuses on several factors, which may be effective in the efficiency of tax system. These include information technology, tax law, administrative formalities, private and public sector services, encouragements, tax fraud and education (James, 1999).

A tax organization, which collects the highest amount of taxes from the existing resources in the fastest possible time duration and with the lowest possible collection costs, can be regarded as an efficient organization. It is possible to come to an efficient tax system, only if we obtain a scientific attitude towards whatever comes under the category of taxation. If we want to have a macro-structural point of view towards theoretical issues in taxation, the best way is to carry out scientific and academic studies, collect data from tax officers or, in other words, those in charge of collecting taxes and taxpayers. In a reformed system, the tax rates should be appropriate and rational, the exemptions should be lower in amount, the tax collection organization should be more efficient, the tax burden of the indigent people should be lighter and the fight against corruption and tax evasion should be much more intense. The tax system in developing countries imposes high expenses on the society. Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources are some of the features of such systems (James, 1999).

2.2.13 Effective Factors in the Financial Power of Individuals and the Society to Pay Taxes

The effective factors in the power of the individuals and the society for payment of taxes are determined by two sets of factors: structural and volitional. The main structural factors

that are effective on the ability of the individuals in payment of taxes include the level of per capita income of the economic texture of the society and the significance of the various kinds of economic activities as well as the macroeconomic policies adopted by the governments (Bired & Casanegra, 1992).

The effective volitional factors, which influence the ability of the individuals and the society in payment of the taxes include:

The level of development of a culture of tax payment in the society; the position that public opinion holds about the tax system; the attitude of the citizens towards the government that may be influenced by the quality of public services and the way of allocation of the tax revenues. In general, the expansion of the culture of tax payment in the society in a way that people assume the payment of taxes as their duty, and have a proper understanding of the responsibilities and duties of the government in receiving a percentage of national product and expending it on providing the requirements of the people, would effectively influence the payment of taxes (Bired & Casanegra, 1992).

2.2.14 Effective Factors in the Ability of the Government in Tax Collection

These include enactment of appropriate tax laws; the accessibility of tax bases; tax rates; the number of tax sources; and the executive expenditures of tax collection. The ability of the government in tax collection depends not only on structural factors, but also on official factors. In many developing countries, the low level of tax revenues is due to the fact that the tax laws are not carried out properly and perfectly, and this, in turn, results from the inefficiency of the official system and the executive methods of allocation and collection systems (Bired & Casanegra, 1992).

2.2.15 Tax assessment

A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards. The core service responsibilities include:

- Preparing annual market value assessments for all properties.
- Preparing the business assessment valuations for all business premises
- Maintaining accurate property information and ownership on all realty accounts
- Maintaining accurate business information and ownership on all business accounts
- Defending assessments before municipal and provincial assessment tribunals

- Responding to inquiries and requests for information related to assessment taxation
- Producing and mailing annual assessment and tax notices to tax payers
- Reporting assessment rolls and meeting annual audits (Asamnew,2012) .

2.2.16 Procedures for tax collection

It is expected that people's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income. On the other part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries (Tanzi, 2001). The procedures undertaken by tax authority to ensure compliance are discussed as follows.

2.2.17 Identification and registration of taxpayers

Tax Identification Number (TIN) is used to identify taxpayers. Every taxpayer has a unique TIN, which he or she is supposed to use in all his or her correspondence with the tax authority, and no taxpayer should have more than one TIN. In countries like Uganda, they issue TIN free of charge upon the taxpayer completing a TIN application form (Kangave, 2005).

2.2.18 Filing returns

Taxpayers are requiring filing returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayer has their file (Kangave,2005).

2.2.19 Return processing

Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer. The officer then allocates an assessment number to the return and issues the taxpayer with a Bank Payment Advice Form, stating the tax payable (Kangave,2005).

2.2.20 Payment of taxes

Taxes are due on the due date of the submission of the self assessment returns. Tax should be paid to an authorized bank, using the bank payment advice form.

2.2.21 Audit and examination

The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (Kangave,2005).

2.2.22 Collection and enforcement

When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The commissioner may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences. (Kangave,2005).

2.3 Empirical literature review

There were studies on tax components and tax systems for different periods in different regimes in Ethiopia. Wogene (1983) tried to examine the contribution of taxation. He argued that taxation and tax system was used as a tool for establishing the material basis of socialism. He estimated the resilience and built it elasticity of the total tax revenue and examined the difference between the two measures to reflect the impact of the tax reforms on tax revenue for the period 1975 – 1981. He used the constant rate structure method to separate the revenue impact of discretionary tax measure. His result indicated that the tax reforms have significantly contributed to increasing tax revenue in the country (Asamnew,2012).

A study by Teshome (1979) also tried to see tax elasticity in Ethiopia. The author used built in elasticity method to examine the revenue effectiveness of the Ethiopia's coffee export taxes. His empirical finding shows that revenue elasticity with respect to change in

volume and value of exports is unity i.e. the revenue was price inelastic. He thus concluded that the present coffee tax formula requires constant revisions of tax laws whenever significant changes in the tax collection of the government in post revolution Ethiopia (Asamnew,2012).

The study by Teshome (1979) showed that coffee export tax in Ethiopia was inelastic while study of agricultural tax share in capital formation by Kifie showed that tax collected from this category was very small (Taddele,2010).

Teame (1985) studied the overall productivity of the tax system for the period 1968 – 83 and found out that the system had buoyancy greater than unity but an elasticity which is less than one from which the conclusion was that the tax system was unstable and inflexible. This study employed the CRS and DV techniques of estimating tax elasticity (Asamnew,2012).

Zelalem (1999) studied the productivity of the Ethiopian tax system for the period 1961 – 1998. He estimated the buoyancy and elasticity of the overall and major individual tax categories using the method of division index. The results of this study showed that the Ethiopian system was inefficient for most of the coefficients were found to be less than one. The explanation given for the low productivity of the tax system was that the system suffered from the problems of weak administration and extensive tax evasion (Asamnew,2012).

The following part will be discussing the empirical review of tax administration in different countries by different researchers.

Jenkins (1991) emphasized that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well operation one. The researcher also warned that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration and almost daily improvements in methods of its

management, it is impossible to expect that tax reforms could be realized successfully (Asamnew,2012).

The removal of exemptions, loopholes, and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system, rationalization, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of “tax handles”, however, while influencing tax policy, should not be allowed to dictate it. Concentrating on just a few handles can lead to highly distortion structures (Asamnew,2012).

Kaldor (1980) tried to show the effect of tax reforms of 1983 on the revenue productivity of the tax system in Ghana. To this end, two separate regressions for the pre reform period (1970 - 82) and the reform period (1983 -1993) were fitted for some major tax types. It was found out that there was a progress of both buoyancy and elasticity for personal income tax, company income tax, sales tax and import tax. The study attributed the improvements to growth in GDP and general improvement of the tax administration. This study on the other hand showed that there was a fall in buoyancy and elasticity for excise duty whose cause was stated to be abolition of all excise duties on products other than beverages and tobacco in 1987 and the successive reduction in the duty rates of the affected goods (Asamnew,2012).

James (1999) examined issues affecting the formulation of tax policy through the development of actual proposals by tax policy makers. This was done taking account of the possibility that too narrow an approach to this process can produce misleading conclusions and that proposals for tax reform may be inappropriate when the wider context of the tax system as a whole and the environment in which it has to operate are considered. Two issues were used to illustrate the situation tax compliance and tax simplification. The paper concluded that in developing tax policy it is important to ensure that the wider context is taken into account and it also outlines a practical approach to achieve this aim(Asamnew,2012).

Kangave (2005) discussed tax administration in Uganda's context. It then discussed Uganda's tax structure, the problems faced in administering taxes, and it gave possible solutions to the problems the author identified in this research. The author, in his research, identified corruption, tax evasion, and inadequate resources for tax administration poor quality of audits and inadequate support for tax administration as problems or challenges of tax administration that have weakened the ability to achieve desired revenue targets. The author did not purport to address all of the problems. Neither does it set out to address in detail the causes of these problems. Instead, it points out the problems. Besides, the author recommendations for solving the tax administration problems were adopted from the Canadian tax administration system. The researcher do not believe that the tax Canadian tax administration system should not be taken as standard for measuring the performance of tax administration system. In addition to this, the author used interview with the tax officials and relied on secondary sources. However, author could have also gathered responses from the target taxpayers to get additional information for his research.

Sahota (1961) undertook a study on the tax performance of the tax system of India for the period 1948 – 1958 using the proportional adjustment method and found that the tax system was inelastic even though the country had a highly progressive income tax at that time. The reason was due to a defective tax structure and rate schedule, wide spread tax evasion and income distribution in favor of the “non-income tax payers group” or in favor of the low-income brackets within the tax-paying group (Asamnew,2012).

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced by taxpayers and the tax authorities in administering different tax activities such as tax assessment and collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the assessment and collection activities.

CHAPTER THREE

3. Data Analysis & Interpretation

3.1 Introduction

This chapter presents the data analysis and interpretation part of the study. The analysis is done by using questionnaires distributed to tax assessment and collection problem of Category “A” medium taxpayers and the tax office employees. The study generally considers 1,500 taxpayers on a population size and out of them 5% or 75 taxpayers were identified as a sample by using convenience sampling. However, out of 75 taxpayers the questionnaires were properly filled and returned by 50 taxpayers. In addition to this, 15 taxpayers were owner of the company and others were accountant and managers. On the other hand, the study provides 16 questionnaires for the concerned employees of the tax office and all questionnaires were properly filled and returned.

3.2 Back ground information of the tax office employees

Table 3.1 personal characteristics of tax office employees

No		Item	In figure	Percent (%)
1	Sex	Male	7	44
		Female	9	56
			16	100
2	Level of education	Certificate	-	-
		Diploma	-	-
		1 st Degree	14	88
		Above 1 st degree	2	12
			16	100
3	Current Position	Revenue collection follow up officer	5	31
		Auditor	1	6
		Finance officer	3	19
		Tax assessment & collection officer	7	44
			16	100
4	Work Experience	< 1 year	11	69
		From 1- 5 years	4	25
		From 6 – 10 years	-	-
		Above 10 years	1	6
			16	100

Source: Questionnaires

As we can see from the previous table, 56% of the respondents are female and the rest are male. This implies most of the employees are female. Concerning educational level, 88% of the tax office employees are first degree holder and 12% are above degree. This indicates the office recruit or employs qualified and competent people for providing efficient and effective working environment. According to the table, 44% of the respondents are Tax assessment & collection officer, 31% are Revenue collection follow up officer and the remaining are Auditor and Finance officer. This implies most of the tax office employees are tax assessment and collection officer. In addition to this 69% of the tax office employees work experience are less than 1 year, where as 25%, and 6% are 1-5 and above 10 years respectively. This shows that the majority of respondents are less than one year.

3.3 Analysis of respondents' response

3.3.1 The taxpayers' response

Table 3.2 Awareness of taxpayers

Have you enough awareness of tax assessment?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Yes	11	10	6	27	54
No	8	5	10	23	46
Total	19	15	16	50	100

Source: Questionnaire

According to 54% of respondents, they have enough awareness of tax assessment and the remaining of them have no awareness of tax assessment.

Table 3.3 Taxpayers Service Satisfaction

What is the hospitality of the tax office?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Very satisfied	4	-	3	7	14
Satisfied	7	11	11	29	58
Bad	8	4	2	14	28
Very bad	0	0	0	0	0
Total	19	15	16	50	100

Source: Questionnaire

Concerning the service satisfaction of the taxpayers, 58% of the respondents are satisfied, very satisfied (14%) and bad (28%) by the service. As their reason, network delayance is the main problem that resulted in crowd of people.

Table 3.4 Taxpayers Average Annual Revenue (in Ethiopia birr)

How much your average annual revenue?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
1,000,001 – 5,000,000	-	4	3	7	14
5,000,001 – 10,000,000	5	-	2	7	14
10,000,001 – 15,000,000	3	6	10	19	38
15,000,001 – 20,000,000	6	-	1	7	14
Above 20,000,001	5	5	-	10	20
Total	19	15	16	50	100

Source: Questionnaire

As we can observe the above table, 38% of the respondents generate annual revenue ranging from birr 10,000,001 – 15,000,000, 20% of them are above 20,000,000 and the others are 14% each. From this, we can understand that majority of respondents annual average revenue are 10,000,001 – 15,000,000. So the tax office tax assessment and collection are moderate.

Table 3.5 Benefit to pay tax

Do you think you are beneficiary to pay tax?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Yes	15	14	13	42	84
No	3	1	3	8	16
Total	19	15	16	50	100

Source: Questionnaire

As we can see from the above table, most of the respondents (84%) beliefs that they are beneficiaries to pay tax and the remaining are not. Because, according to their respondents, they belief that their payment could be miss used by corrupted officers. From the majority of the respondents we can conclude they are beneficiary.

Table 3.6 Time given for payment of tax

Dose the time given to pay tax are sufficient?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Yes	18	14	15	47	100
No	-	-	-	-	-
Total	19	15	16	50	100

Source: Questionnaire

From the above table, all of the respondents said that the time given for payment of tax is sufficient.

Table 3.7 The fulfillment of document required

Do you provide the required document when you go to tax office?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Yes	17	13	15	45	90
No	2	2	1	5	10
Total	19	15	16	50	100

Source: Questionnaire

As indicated the above table, 90% of the respondents provide the required document. However, the rest of them do not present the required document. It shows that the taxpayers accept the rules and procedures of tax office, because, most of the respondents meet a requirement.

Table 3.8 Number of tax office employees

Do you think the number of the tax office employees sufficient?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Yes	6	7	7	20	40
No	13	8	9	30	60
Total	19	15	16	50	100

Source: Questionnaire

From the above table, 60% of the respondents replied that the number of tax office employees is not sufficient. The problems that arise from shortage of employees are a lot of works has to be done by one employee that overloads the employee and they do not finish their work on time. So, due to the above facts the taxpayers are not getting sufficient and timely service from the tax office. On the other hand, 40% of them replied sufficient. Therefore, from the majority we can conclude the number of tax office employees is not sufficient.

Table 3.9 Knowledge of tax office employees

Are the tax office employees having enough knowledge about the collection of tax?	Sub cities			Total	Percent (%)
	Bole	Akaki Kality	N/Lafto		
Yes	12	7	10	29	58
No	7	8	6	21	42
Total	19	15	16	50	100

Source: Questionnaire

According to, 58% of the respondents replied that they have enough knowledge about collection of tax and the rest of them have not. Therefore, majority of tax office employees have enough knowledge.

3.3.2 The tax officers' response

Table 3.10 Examination of the tax office level of hospitality

Description	Responses	Respondents	
		Count	Percent (%)
What is your level of hospitality for the tax payers when they come to pay tax?	Excellent	8	50
	Very good	6	38
	Good	2	12
	Fair	0	0
	Poor	0	0
	total	16	100

Source: Questionnaires

As the above table shows, respondents ranked the level of hospitality for the taxpayers are excellent (50%), very good (38%), and good (12%). This demonstrates that majority of tax office hospitality are excellent.

Table 3.11 Clarification and training about tax collection

Description	Responses	Respondents	
		Count	Percent (%)
Do your offices provide you continuous clarification & training about tax collection	Yes	6	38
	No	10	62
	Total	16	100

Source: Questionnaires

According to most of the respondents (62%), replied do not get continuous clarification and training about tax collection, whereas 38 % get training. The reasons for the office not provide training according to respondents are;

- It is new sector and there are a lot of thing that have to be fulfilled.
- There is no managerial control and successive training because of financial shortage and training center.

Table 3.12 Knowledge of taxpayers about taxation

Description	Responses	Respondents	
		No	Percent (%)
How do you evaluate the knowledge of taxpayers about taxation?	High	2	12.5
	Medium	12	75
	Low	2	12.5
	Total	16	100

Source: Questionnaires

Concerning to knowledge of taxpayers, 75% of the respondents replied medium, the remaining are high and low. This shows that majority of taxpayers have moderate knowledge about taxation.

Table 3.13 What are the Problems related to taxpayers

No	Description	Yes	No	Total (%)
1	Do most taxpayers pay their tax liability on time?	6 (38%)	10 (62%)	100%
2	Are the taxpayers paying the proper amount they should pay?	6 (38%)	10 (62%)	100%

Source: Questionnaires

As the table indicates, 62% of the respondents replied that taxpayers do not pay their tax liability on time and the remaining pay tax on time. The reason for most of the taxpayers not to pay their tax liability on time are; taxpayers need the money to run their business so they prefer to pay penalty than to pay on time, and lack of awareness towards the use of paying tax on time.

On the other hand, 38% of the respondents replied that the taxpayers pay their tax amount properly whereas, 62% of taxpayers do not pay the proper amount. The reason as to respondents are; there is no sufficient control methods so that it is easy to decrease their tax by decreasing their selling, lack of awareness towards tax advantages, and when the revenue they collect is high they will not be willing to pay proper amount so they involve in fraudulent activity by expanding their expenses.

Table 3.14 What are the Problems related to tax office

No	Description	Yes	No	Total (%)
1	Do you face any problem during tax assessment & collection?	11(69%)	5(31%)	100%
2	Are the numbers of employees in the tax office are sufficient?	7(43%)	9(57%)	100%
3	Do you believe that your office tax assessment & collection system is effective?	6(38%)	10(62%)	100%

Source: Questionnaires

From the above table shows, 69% of the respondents stated that the tax office faced problems. As mentioned by them the problems are, there are some misinformed taxpayers about the rate of payment, there is some fraudulent activity, sales without invoice, low document clarity, double document number created for one period and one payment entered twice. The remaining of them stated the tax office do not face any problem.

Concerning number of employees in the tax office, 57% of respondents replied not sufficient and the remaining of them replied sufficient. On the other hand, the researchers asks about the effectiveness of the tax assessment and collection, 62% of the respondents said that the tax assessment and collection are not effective where as 38% are effective. The reason for effective are, they use a modern technology which is called SIGTAS. The other reason for not effective are, the system connection problem and taxpayers did not pay their tax properly on time (as survey response).

In addition to this the researchers collect secondary data from the office report as the supplementary for questionnaire.

Table 3.15 The six month revenue collection comparisons between plans to actual

Year	Types of revenue	Plan	Actual performance	Actual for Percentage
2006	Direct tax	281,345,023.21	68,529,171.80	24.36%
	Indirect tax	418,000,587.80	167,148,447.25	40%
	Total	699,345,611.01	235,677,619.05	33.70%

Source: Addis Ababa No. 2 medium taxpayers' office report (2006 E.C.)

As we can understand from the table, the authority collects indirect tax and direct tax. The actual performance direct tax is 68,529,171.80 ETH birr which is 24.36% percent of plan of the tax. And also the actual performance indirect tax is 167,148,447.25 ETH birr which is 40% on the plan of the tax. By the same explanation the contribution of direct tax and indirect tax on the total plan is 281,345,023.21 and 418,000,587.80 respectively. This shows the contribution of both direct and indirect taxes the plan is greater than actual (699,345,611.01 > 235,677,619.05). From the questionnaire and office report we can conclude the tax assessment and collection is not effective.

Table 3.16 Information about important of taxation

No	Description	Responses	Count	Percent (%)
1	Do you give full information about the important of taxation for your customers	Yes	16	100
		No	-	-
	Total		16	100

Source: Questionnaires

As indicating the above table, all of the respondents replied that they give full information for their customers about the important of taxation.

Besides to the above close ended questions, respondents are also provided with opportunity to fill the open ended question and state whatever they think is important and what are not incorporated by the researchers.

As the survey result shows, respondents said that there is no enough control to protect non compliance and delinquent taxpayers. The reaction for those non compliance and delinquent taxpayers are low due to some officer's carelessness.

Besides, taxpayers have limited ability regarding tax knowledge and competent accountants to keep accounts.

CHAPTER FOUR

4. Summary, Conclusion and Recommendation

Based on the presentation and analysis of the obtained data, the following summary of findings, conclusion and recommendation are given hear after;

4.1 Summary of finding

This study is to assess and analyzes category “A” Medium taxpayer’s tax assessment and collection problem on Addis Ababa No. 2 branch office. The data collected from respondents are interpreted and analyzed by using descriptive analysis methods specifically through tabulation and percentage method. From the findings of this study, it is possible to summarize the following points:

- As regard to the qualification of the respondent’s the study shows that 88% of the tax office employees are first degree holders and 12 % of them are above degree. In addition to this 69% of the tax office employees work experiences are less than one year, where as 25%, & 6% are 1-5 & above 10 years respectively.
- Concerning the service satisfaction, 58% of the taxpayers are satisfied, very satisfied (14%) & bad (28%) by the service. In addition, all of the taxpayers replied that the time given for payment is adequate.
- The study indicates 90% of the taxpayers provide the required document & 10% of them do not present.
- The study shows that 62% of the tax office employees are not given a continuous clarification and training by the authority to upgrade their knowledge about tax collection, where as 38% are given.
- The finding shows that 84% of tax payers feel about taxation as useful but 16% are not.
- As the finding shows, 62% of the tax payers are not paying their tax liability on time & the remaining pays their tax on time. Besides, 38% of the taxpayers pay their tax amount properly, whereas 62% of them do not pay the proper amount.
- As 69% of the tax office employees stated that, the tax office face problem and 31% of them stated do not face any problem.

- As the finding shows, 60% of the taxpayers replied that there is no sufficient numbers of employees in the tax office, where as 40% of them replied sufficient.

4.2 Conclusion

The result of the data obtained from the questionnaires shows, the tax office faced different financial, administrative problems and challenges to handle the taxpayers. It may be considered as the implemented tax collection and assessment system is not successful. That is, there is inefficient and insufficient number of tax office employees in Addis Ababa medium taxpayers' No. 2 branch office.

The tax office does not offer continuous training about tax collection by the tax officer because of financial problem and no attention for the employees due to shortage of training center.

During our observation there is a big problem for system connection due to this many taxpayers does not get the service as they came to the tax office. Furthermore, there is shortage of material like computer. On the other hand, hospitality of the taxpayers in the office is excellent.

Based on the questionnaires result, the study found that there is lack of tax knowledge by taxpayers. Due to this, delay in tax payment and do not pay the proper amount they should pay are taken by taxpayers as solution to escape from payment of taxes.

Besides, taxpayers do not record their book timely and do not submit their book of records timely for assessment. Furthermore, do not pay their taxes on time due to they need their money to run their business so they prefer to pay penalty than to pay on time.

The tax office faces many problems during tax assessment and collection such as, misinformed taxpayers about the rate of payment, sales without invoice, low document clarity, double document number created for one period and one payment entered twice. In addition to this, collection of the tax office is not effective.

Based on the survey result, there is no enough control to protect non compliance and delinquent taxpayers. The reaction for those non compliance and delinquent taxpayers are low.

Generally, taxpayers and tax offices have tax administration problems of different natures. The following section presents different recommendations as to which these observed tax administration problems can be solved.

4.3 Recommendation

This section presents the appropriate suggestions that can be utilized to minimize the tax administration problem in Addis Ababa No. 2 branch office.

- ❖ To create effective and efficient employees, the tax office should offer continuous training for their employees by allocating enough money to training center.
- ❖ The tax office should employ or recruit sufficient number of employees to avoid work influences by one employee.
- ❖ For better tax administration, the authority should be put better technology which is the network system is fast, huge capability of storage and perform the work without any obstacle. In addition to this, the office should be fulfilling the required material like computer for each employee.
- ❖ The tax authority should maintain adequate management information system. So that, taxpayers should receive clear, concise and up to date information on describing what is taxable, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay taxes.
- ❖ Besides extensive work should be done by the tax office to identify taxpayers who presents under invoicing, commit sales without invoice, misinformed taxpayers about the rate of payment, low document clarity, double document number created for one period and one payment entered twice. Therefore, the office must offer awareness vastly to the taxpayers to solve the problem.
- ❖ The tax office should give high attention to control non compliance and delinquent taxpayers by setting clear and transparent rules and regulation.

- ❖ To have effective tax collection the tax office should be solve the administration problems.
- ❖ Generally, in order to increase tax compliance, government should adopt a comprehensive strategy, beginning with the writing of the tax laws in easy and understandable terms to enforce. In the light of changing social and economic conditions, Addis Ababa No. 2 branch office must take a sustainable comprehensive look at their tax administration in order to assess how they can increase compliance and minimize the problems existing in the tax administration.