



**ST MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS AND ECONOMICS
MBA IN ACCOUNTING AND FINANCE**

**ASSESSMENT OF BUSINESS PROFIT TAX ADMINISTRATION IN YEKA
SUB CITY REVENUE AND CUSTOMS AUTHORITY**

By: BEZA KEBEDE

JUNE, 2015
ADDIS ABABA,
ETHIOPIA

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By: BEZA KEBEDE

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY COLLEGE, SCHOOL OF
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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

DECLARATION

I, the undersigned declare that this thesis is my original work, prepared under the guidance of Ato Tiruneh Legesse, Associate Professor. All source of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

Signature

St. Mary's University, Addis Ababa

June 2015

ENDORSEMENT

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

Advisor

Signature

St. Mary's University, Addis Ababa

June 2015

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List of abbreviations

ERCA: Ethiopian revenue and customs authority

VAT: Values Added Tax

GDP: Gross Domestic Product

IMF: International Monetary Fund

TIN: Tax Identification Number

SIRM: Standard Integrated Revenue Management

SIGTAS: Standard Integrated Government Tax Administration System

ABSTRACT

Tax is a compulsory payment and a personal obligation to the government without expectation of direct return or benefit to tax payers. Tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax policy. Yeka sub city Revenue and Customs Authority is delegated to assess and collect both direct and indirect taxes from Category “A” and “B” taxpayers who are performing different types of business activities in thirteen Weredas based on the tax proclamation No 286/2002 and Addis Ababa city government charter proclamation No 311/2003. The main objective of Yeka sub city Revenue and Custom office is to establish modern revenue assessment and collection system, and provide equitable, effective and efficient and quality service to tax payers and encourages voluntary compliance of the tax obligation and implementing applicable tax laws.

The objective of this study is to assess the business profit tax administration at Yeka sub city revenue and Customs Authority “with regard to Category “A” and “B” taxpayers and to identify the challenges. To achieve this objective, a descriptive survey was used and both primary and secondary source of data was adopted. Both mixed method research approach questionnaire were used to assess and answer the research questions. The questionnaire was administered for 371 tax payers and for 18 employees of the tax administration. According to the response obtained from the questionnaire it is concluded that Yeka sub city tax administration is not efficient and effective in various aspects. Such as: customer service, tax assessment and collection procedures, enforcing the tax law, tax payer complaint handling and response, providing awareness and information regarding tax. Due to these factors it was identified that voluntary tax compliance of the tax payer at Yeka sub city is very low. It is recommended that the tax authority should adopt a service-oriented attitude towards taxpayers and the tax payer must be treated with respect, honesty and trustworthy. The tax administration needs to strengthen itself and the employees should be capacitated with customer service oriented training and an understanding of the entire system of tax administration. In addition to this, the authority should make the tax law and procedures simple, understandable, and transparent. Sustainable awareness creation programs and maintains good working relationships with the tax payers and

consistently delivers up-to-date information and treat inquiries, requests and appeals in an accurate and timely fashion.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

“The core purpose of taxation is revenue mobilization, providing resources for National Budgets, and forming an important part of macroeconomic management”. Dr. Jack Itzhak Barsheshet (2013). Taxes have become the life blood for governments to deliver essential services and to make long-term investments in public goods.

“Tax is a compulsory payment and a personal obligation to government without expectation of direct return or benefit to tax payers. Taxes received from the tax payers, may not be incurred for their benefit alone”. Gebre.W, (2014, P.41-42). According to Prof. Richard M. Bird, (2004). *“The public sector is funded through tax, and taxes are a major component in the state, local authorities and other public bodies’ funding. It is also used by the state as a mechanism redistribution of wealth in society, to encourage economic activity and to direct the behavior of residents”*. Several types of taxes are introduced by the government to raise enough revenue so as to cover its fundamental expenditures.

TAX ADMINISTRATION BASICALLY CONSISTS OF SETS OF RULES AND REGULATIONS GUIDING THE TAX AUTHORITY TO DISCHARGE ITS RESPONSIBILITIES IN THE IMPLEMENTATION OF THE TAX POLICY. THE ACTIVITIES INVOLVED IN THE BUSINESS TAX ADMINISTRATION INCLUDE: IDENTIFYING AND REGISTERING THE TAXPAYER, ADMINISTRATIVE ASSESSMENT, MONITORING AND CONTROL, CONTROL OF FILING AND PAYMENTS, REFUNDS, AUDITS AND PENALTIES. FAILING TO CARRY OUT THESE ADMINISTRATION RESPONSIBILITIES BY THE TAX ADMINISTRATOR AS WELL AS EXISTENCE OF WEAKNESSES IN THE DESIGN OF THESE ADMINISTRATION ACTIVITIES WILL DEFINITELY ADVERSELY IMPACT ON THE ADMINISTRATION EFFICIENCY WHICH THIS IN TURN AFFECTS THE ACHIEVEMENT OF THE TAX OBJECTIVES AND IMPLEMENTATION OF THE POLICY. Misrak Tesfaye (2014).

Ethiopia has undertaken a comprehensive tax reform in the past couple of decades with the major aim of creating modern business profit tax system, broadening the tax base,

redistributing income and support economic efficiency. Many of the tax payers used to pay business profit taxes under administrative assessment scheme (presumptive business profit taxation). However due to technological advancement and growth of trade and business the tax policies are also changing accordingly and electronics sales register machines are introduced and also high and middle tax payers required to keep books of records. The tax payers are classified in to three categories of Higher, Lower and Middle tax payers represented by A, B & C respectively. The 1st two categories are obliged to use electronic sales register machine and also are required to keep books of records. (ERCA)

CATEGORY "A": WHOSE ANNUAL TURNOVER IS MORE THAN OR EQUAL TO BIRR 500,000.00, CATEGORY "B" WHOSE ANNUAL TURNOVER IS MORE THAN BIRR 100,000.00 BUT LESS THAN BIRR 500,000.00 AND CATEGORY "C": WHOSE ANNUAL TURNOVER IS LESS THAN OR EQUAL TO BIRR 100,000.00 AND PAYING ANNUAL BUSINESS PROFIT TAX UNDER THE ADMINISTRATIVE ASSESSMENT SCHEME (PRESUMPTIVE BUSINESS PROFIT TAXATION). Income Tax Regulation No. (78/2002).

Ethiopia improves tax collection systems to increase government revenue and decrease evasion through automated system for Customers data management. Automation facilitates the clearance of legitimate trade, improves the efficiency of business profit tax controls and secures revenue collection. *"This automated system helps traders in having timely and accurate business profit tax information, saves time initially wasted in perusing of records, reduction in business profit tax preparation costs, reduces costs of business profit tax refund claims, reduction in labor, reduces costs of business profit tax refund claims, good record keeping and increases efficiency in the businesses"*. ERCA, (2013)..

Yeka Sub City is composed of thirteen Weredas administrations and there are a total of 14,917 tax payers. Among these 4,650 are from category "A", 5,685 from category "B" and the rest 4,582 are from category "C" tax payers. ERCA Report (2013). Each Wereda has revenue and Customs offices to better serve the tax payers and also in an effort to closely follow up taxpayers who are said to be mostly noncompliant with the business profit tax system.

1.2 Background information of tax administration in Ethiopia

The tax administration in Ethiopia is divided in two levels as federal and regional. At the federal level ERCA is in charge of collecting revenues, both tax and none tax, from different organizations owned by federal government and from customs duties. The ten sub cities have their own revenue and customs administration offices and are in charge of tax assessment, collection, and control of variety of the tax bases declared by Category “A” and “B” taxpayers in their jurisdiction. The tasks of Wereda, at each sub city are responsible for assessment and collection of taxes and other liabilities of Category “C” tax payers.

The study focus here is Category “A” and “B” business profit tax payers residing in Yeka sub city. In the sub city, tax assessments and collections are carried out according to income tax regulation No. 78/2002 article 18.

Category “A” includes any company incorporated under the tax law of Ethiopia or in or a foreign country and other entities having annual turnover of Birr 500,000 and more. Those who are under category “A” have to maintain all records which will enable them to submit a balance sheet and Income statement disclosing the gross profit, general and administrative expenses, depreciation, and provisions and reserves together with supporting vouchers. Council of Ministers Regulation no. 78/2002: (Article 18, Sub Article 2).

Category ‘B’ includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. This category of taxpayers must submit profit and loss statement at the end of the year. The law requires all entries in the records and accounts to be supported by appropriate vouchers. Council of Ministers Regulation (no. 78/2002: Article 18, Sub Article 2).

Category “A” and “B” taxpayers are obliged to keep books of records. Category “A” required to submit the financial statement, balance sheet and Income statement/ to the tax office within four months Hamle to Tikemt 30 of Ethiopian calendar, whereas Category “B” taxpayers are required to submit the financial statement to the tax office within two months Hamle to Nehase 30 of Ethiopian calendar. Next the Auditors receive the documents and then it is reassessed based on proclamation No. 286/2002 and 311/2003, during the period of

Hamle to Tikemt 30 and then assessment notification will be distributed to tax payers for payment.

1.2.1 Yeka sub city Revenue and Customs Authority

Yeka sub city Revenue and Customs Authority is the tax authority, which is delegated to assess and collect both direct and indirect taxes from Category “A” and “B” taxpayers performing different types of business activities in thirteen Weredas found in Yeka Sub city. The office is found around Megenagna road in Addis Ababa. 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 Weredas for the purpose of efficient provision of various social goods and services.

The main objective of Yeka sub city Revenue and Customs office is to establish modern revenue assessment and collection system, and provide equitable, effective and efficient and quality service to tax payers and encourages voluntary compliance of the tax obligation and implementing 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.

1.2.2 The structure and profile of Yeka sub city Revenue and Customs Authority

The organizational structure is designed on the basis of different activities to be performed rather than depending on the different tax types. Taxpayer’s registration and information officers are responsible for registration of taxpayers based on the regulation of licensing by receiving necessary information, and then passing the documents to documentation section.

Tax assessment auditors receive records of the required books and supporting documents with regard to categories ‘A’ and ‘B’ taxpayers to verify according to business income tax regulation for the purpose of taxation. After statements are verified, a copy will be given to

the taxpayer and also send to documentation section, which is based on by the approval of income tax assessment, collection and controlling core process owner.

The following are the major sections of the tax administration. Documentation, Officers' Section, Income Intelligence & Investigation, Officer & Income Tax Law Accomplisher and Controlling Process, Tax Payers Registration & Information Section, Tax Assessment & Collection Office Section, Tax Assessment & Audit Section

Income tax inelegancy investigation and income tax law accomplisher and controlling process officers are responsible to check whether taxpayers are performing in compliance with the applicable rules and regulations and to take legal action on the bases of proclamation no 311/2003 on those who receive tax assessment notification and refused to pay their liability.

1.2.3 Profit tax administration

If a taxpayer has submitted a declaration of income within the time and manner as prescribed in the proclamation, the Yeka sub city Revenue and Customs administration has five years to amend the assessment. The five years assessment period runs from the due date of the declaration. In case where the taxpayer has not declared his/her income or has submitted a fraudulent declaration, assessment is made by the tax by the Tax Authority. Every assessment notification should contain the following elements: gross income and deductions applicable; taxable income; rates applicable or Percentage; taxes paid and due; any penalty or interest; taxpayer's name, address, and TIN; and brief explanation of the assessment and a statement of the taxpayer's rights.

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

of income tax required genuinely, the understatement of tax results in the following penalties:

- 10% of the understatement if the understated amount of tax is considered not substantial, or
- 50% of the understatement if the understated amount is considered substantial.

However, there is no any stated parameter to say a certain amount is substantial or not. Therefore, it is up to the perceptions of the individuals, which is very subjective and subjected it to undesired bargaining and complaints that in fact made the administration on such regard very difficult and complicated.

1.2 STATEMENT OF THE PROBLEM

A good tax administration is capable of providing effective and efficient service and enhancing voluntary compliance. *“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”*. Samiei, (1999. P.35). Tax efficiency involves using the least resources to achieve maximum tax collection output and attaining higher productivity in tax collection mechanism. The critical success factor of the tax division is its tax payers. Voehl, (1992). These taxpaying institutions and individuals needs to be treated with care, respect and dignity. They are therefore considered as strategic partners of the tax division. *“Tax payer satisfaction is the core business of tax efficiency. It is a set of momentary emotional responses affected by the gap between expected and perceived outcome by the concerned parties”* Parasuraman & Zeithaml, (1982).

“The fundamental role of the Tax Administration is to render quality taxpayer services and to encourage voluntary compliance, to detect and penalize noncompliance. Facilitating compliance involves such elements as improving services to taxpayers by providing them clear instructions, understandable forms, and assistance and information as necessary” Prof. Richard M. Bird (2004).

The tax administration should apply the tax laws in a fairly, reliable and transparent manner and also consistently deliver quality customer service and treat inquiries, requests and appeals from business profit taxpayers in an accurate and timely fashion. Taxpayers are sensitive to tax and causes high rate of non-compliance if there is no proper tax administration. *“Non-compliance is caused by factors such as lack of awareness on tax rules and regulations, corruption, tax evasion/fraud practices, unclear policy and poor tax administration”*, Simon James & Clinton Alley (1999).

“The greatest challenge for any tax administration is achieving and maintaining a high degree of voluntary compliance. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and “user-friendly” administrative systems and procedures”, Barrie Russell, (2010).

The availability of encouraged and motivated employees who can effectively and efficiently discharge their duty and responsibility is very important to provide better service to the business profit tax payer. The capacity to monitor each business profit tax payer and the existence of strong and specialized audit system is also the other major aspects of the business profit tax administration.

The amount of tax revenue collected depends not solely on how well a tax authority enforces compliance but also on how efficiently a tax authority operates in collecting tax revenues. In an environment where increased tax rates are stridently opposed and a pervasive culture of non-compliance persists.

Category “A” and “B” Business profit taxpayers are required by law to determine their business profit taxable income, compute their business profit tax liability and submit their business profit tax returns based on existing tax laws and policy statements issued by the tax authorities.

The tax department needs to ascertain that taxpayers receive adequate information on their obligations, the types of taxes facing them, deadlines for submitting tax returns, and

payments to be made. Taxpayers also need to be informed about changes in tax legislation, have tax forms readily available, and have easy access to information. The provision of tax education has affected the way the taxpayer makes tax compliance decision. Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes.

In Ethiopia, the government has restructured its tax administration and working hard to provide efficient and effective services for tax payers, beginning with strengthening the organization and management of the revenue agency, implementing vigorous collection systems and building capacity in core tax administration functions. Hence, this study attempts to assess as to how the tax administration is providing its service effectively and efficiently for business profit tax payers and to identify challenges affecting the tax administration of Yeka Sub city revenue and Customs Authority.

1.3 RESEARCH QUESTIONS:

- ✓ How does the tax authority implement the profit tax policy, rules and regulation concerning business profit tax administration?
- ✓ What are the advantages and challenges in using electronics sales register machine by both the business profit tax payer and the tax authority in administering business profit tax?
- ✓ How does the tax authority supports and provide efficient service to business profit tax payer and encourages voluntary business profit tax compliance?
- ✓ How does the tax authority administer business profit tax and its effort in revenue generation and its level of enforcement?
- ✓ What is the capacity of the tax authority in inspecting and detecting the non-tax compliers, business profit tax fraud and evasion that are committed by business profit tax payers?

1.4 OBJECTIVE OF THE STUDY:

The study has both the general and specific objectives.

1.4.1 General Objective

- ✓ The general objective of the study is to assess the business profit tax administration with regard to efficiently and effectively implementing the tax policy of the country and to identify the challenges at Yeka Sub City Revenue & Customs Authority.

1.4.2 Specific Objectives

- ✓ To assess as to how the tax policy, rules and regulation are being implemented in administering the Business profit tax.
- ✓ To assess the extent to which the Electronic Seles Registers machine is being used by the tax payers for annual tax revenue determination.
- ✓ To assess as to how the tax authority supports and provide effective and efficient service to the business profit tax payers and enhance voluntary tax compliance.
- ✓ To assess the capacity of the tax administration in revenue generation effort and the challenges.
- ✓ To assess as to how the tax authority inspects the non-tax compliers and to detect business tax fraud and evasion committed by the tax payer.

1.5 DEFINATION OF TERMS

Tax *“is simply defined as a financial charge or other levy imposed on an individual or a legal entity by government”*, (Gebrie Worku, (2008)

Business: According to Ethiopian Income Tax Proclamation No. 286/ 2002, *“defined business as any industrial commercial, professional or vocational activity any other*

activities recognized as trade by the commercial code of Ethiopia and carried on by any person for profit”.

Equity means *“a tax system should be fair among individuals and taxes should be levied based on taxpayers’ capacity. Horizontal equity means that taxpayers with the same income or wealth should pay the same amount of tax (tax burden) while vertical equity means that taxpayers with high income (capacity) should pay higher tax (tax burden)”.* AICPA, (March 2001)

Certainty *“is defined as a taxpayer knowing his other tax liability and when and where to pay the tax. It relates to the simplicity of the tax systems so that the taxpayers are easily understood and capable of calculating their tax liability”.* AICPA, (March, 2001)

Convenience *“The practical explanation of this is that tax should be close to the ability to pay, both in terms of the amount of tax and in terms of the timing of the imposition of the tax. Tax should be based on fair principles and be close to taxpayers’ ability to pay.”* (Dr. Jack Itzhak Barsheshet (2013). The introduction of electronic filing is another example of a facility provided by the tax authority to ease the method of filing tax returns.

Efficiency *“refers to how the tax authority collects the tax revenues and can be divided into two subsections: administrative efficiency and economic efficiency. Administrative efficiency refers to the costs involved when collecting tax revenues. The administrative cost should be as small as possible to achieve desirable economic efficiency”.* AICPA, (March 2001). Economic efficiency referring to tax should not interfere with the working of the markets.

Presumptive tax is a tax system whereby the taxpayer does not maintain books of records and submit such financial documents. *“It uses objective factors and indices to estimate the income of taxpayers who do not keep records of physical inputs; these factors include: gross turn over, number of employees, stock, asset, the different kind of services provided, and the equipment used in the establishment, etc.”*, Misrak Tesfaye (2014)

Self-Assessment: system is essentially an approach whereby taxpayers are required by law to keep books of records and to determine their taxable income, compute their tax liability

and submit their profit tax returns based on existing tax laws and policy statements issued by the tax authorities. *“The basic feature of a Self-Assessments that it is the taxpayer rather than the tax authority that is responsible for the assessment of tax liability”*, Tapan K. Sarker, (2003)

Tax Compliance *“is defined as in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law”*, Simon James & Clinton Alley (1999). The degree of non-compliance may be measured in terms of the ‘tax gap’. This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance.

Voluntary Tax Compliance: tax compliance is defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays. According to, Andreoni, Erard, and Feinstein (1998) *“tax compliance is defined as taxpayers’ willingness to obey tax laws in order to obtain the economy equilibrium of a country”*. And also defined by Song and Yarbrough, (1978) *“as taxpayers’ ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place”*

Tax avoidance *“is the legal utilization of the tax regime to one’s own advantage, to reduce the amount of tax that is payable by means that are within the law. By contrast, tax evasion is the general term for efforts not to pay taxes by illegal means”* , Pencavel, J., (1979).

Electronic Tax Register (ETRs) *“is an automated system for business data management and modernization of tax collection system”*. ERCA, (2013). *“It assists traders in such a way that it saves their time in perusing records and reduction in tax preparation costs that used to be paid to tax agencies. Tax refund claims can also be easily handled and as result reduces costs of businesses.”* IMF, (2005)

1.6 SIGNIFICANCE OF THE STUDY

This assessment provides significant information to ERCA pertaining to the business profit tax administration and challenges of Yeka Sub city Revenue and Customs Authority.

It assists Yeka Sub City Revenue and Customs Administration in identifying administrative gaps in fulfilling and providing effective and efficient service to the business profit tax payers and provides information where improvement is required. It also assists identifying areas that need attitudinal change from both tax administration and tax payer.

Assist Yeka Sub City Revenue and Customs Administration to identify aspects or areas where taxpayers experience challenges and search for improvement and tax reform.

This study will be useful for further study to those who are interested in undertaking more research in this area.

1.7 DELIMITATION/ SCOPE OF THE STUDY:

The study was confined only on business profit tax administration of at Yeka sub city Revenue and Customs Authority on category “A” and “B” tax payers. Other types of taxes such as the Customs, Excise tax, Personal income tax, rental, Value Added Tax (VAT) and other tax categories which are administered under the revenue and Customs Authority are not included in this study.

As tax is a very sensitive issue the researcher has faced big challenge and difficulty in collecting data and information from both tax payers and tax officers. Some tax payers were not willing to fill the questioner taking in to account that the researchers may be inspector from the tax authority disguising himself as researchers and some business profit tax payers were not provide true and clear information because of mistrust of the researcher and some are filling the form indiscriminately without giving much attention to it, as it may interfere with their daily routine.

CHAPTER TWO LITERATURE REVIEW

2.1 INTRODUCTON

This chapter discusses on the literature review in the context of defining taxation, tax administration and the concepts of Tax Compliance. It further looks at various concepts and theoretical framework concerning presumptive and self-assessment tax system, electronic sales register machine and principles of good taxation systems. The empirical work of various researchers and other reference materials are scanned to have basic conceptual framework of the subject matter.

The literature review has three sections. Section 2.2 presents a theoretical review on tax administration and on major tax principles such as: Equity and fairness principle, convenience of payment principle, simplicity principle, certainty principle, transparency principle and neutrality principle proposed by different writers. Literature on electronics register machine and voluntary compliance is also presented in this section. Section 2.3 presents the Ethiopian context on business profit tax administration, voluntary compliance and tax evasion studied by different researchers and factors that affects the tax administration and 2.4 discuss on the empirical review.

2.2 THEORICTICAL REVIEW

2.2.1 DEFINATION OF TAX

Tax is defined by many scholars in many ways. But all definition revolves around the same concepts and theoretical conclusions. According to Bhatia, (1976) *“tax is defined as a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government”*. In general terms, tax can be defined as a contribution from individuals out of their private property for the maintenance

and defense of government, so that it may perform its functions and the ends of the state be realized. *“In simpler terms, “tax is a financial charge or other levy imposed on an individual or a legal entity by government”*. Gebrie Worku, (2008).

There are different approaches in classifying taxes, but all of them can be placed in one of two large classes either direct or indirect. *“direct taxes are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on the same or single person, on the other hand indirect tax is are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on different persons (tax payers)”*. Misrak Tesfaye, (2014). Similarly, according to Yohannes Mesfin & SisayBogale, (2009), *“a direct tax is one which is demanded from the very persons who it is intended or desired from”*. On the other hand, indirect taxes are those which are demanded from one person in expectation and intention that he/she shall indemnify himself/herself at the expense of another. Obvious examples are the income and inheritance taxes on the one hand, and value added tax and customs duties on the other.

Some taxes are flat, while others increase as the amount being taxed increases, which is termed as are progressive. *“Regardless of what is being taxed or how it is calculated, there is one certainty “the tax is being levied to finance the activities that the population deems necessary for government to provide”*. Justice Oliver & Wendell Holmes, (1904)

2.2.2 TAX ADMINISTRATION

“There is no single set of prescriptions that, once introduced, will ensure improved tax administration in any country”. Prof. Richard M. Bird, (2004). Tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax policy. *“The activities involved in the tax administration include: identifying and registering the business profit taxpayer, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties”*. Yesegat, (2008).

In general studies have identified that the main obstacles of tax administration are lack of tax education among the taxpayers, poor public relation activities, and lack of awareness, corruption, tax evasion/fraud practices, and policy and administration defects. *“The need to increase training and improve the working environment of tax officials, as well as establish an information management system are also seen as important factors to be met for better tax administration”*. Center for tax policy and administration, (September, 2001)

Modern tax administrations seek to optimize tax collections while minimizing administration costs and taxpayer compliance costs. The most cost effective systems of collecting taxes are those that induce the vast majority of taxpayers to meet their tax obligations voluntarily, leaving tax officials to concentrate their efforts on those taxpayers who do not comply. Taxpayers are more likely to comply voluntarily when the tax administration: (1) adopts a service-oriented attitude toward taxpayers, and educates and assists them in meeting their obligations; (2) creates strong deterrents to non-compliance through effective audit programs and consistent use of penalties; and (3) is transparent and seen by the public to be honest, fair, and even-handed in its administration of the tax laws. *“Experience shows that voluntary compliance is best achieved through a system of self-assessment”*. Andrew Okello, (March, 2014)

In pursuing their mission, all tax administrations confront similar challenges, such as how to broaden the tax base by continually bringing non-registrants and non-filers into compliance, strengthen organization and management, control tax evasion, improve tax collection, and facilitate voluntary compliance. *“The greatest challenge for any tax administration is achieving and maintaining a high degree of voluntary compliance, which can be facilitated by vigorous tax payer service and education programs and creative measures to minimize the burden on tax payers in complying with their tax obligations”*. Arturo Jac (2011).

A major challenge of revenue authorities is to be responsive to the individual circumstances of tax payers while at the same time being consistent. Responsiveness translates into accessible, dependable and timely information service as well as the accurate and timely treatment of requests and appeals. This can be achieved by constructing systems and procedures that are aimed more towards the needs of the tax payers than those of the tax

administration. Examples of this would be to facilitate links with tax payers through single points of contact to ensure that services are available when and where needed. *“Efforts to develop enhanced electronic means of communication between tax payers and the revenue authority which could include enabling the electronic submission of returns, introducing facilities for electronic payments and on-line access to account balances”*. Center for tax policy and administration, (September, 2001)

2.2.3 TAX COMPLIANCE

“Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though ‘tax laws are not always precise” James and Alley, (2004).

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard, and Feinstein (1998) claimed that *“tax compliance should be defined as taxpayers’ willingness to obey tax laws in order to obtain the economy equilibrium of a country”*. According to Singh (2003), *“the definition of tax compliance is an action by a person filing his Income Tax Form (or usually referred as Returns), declaring all taxable income accurately, and disbursing the payable tax within the stipulated time without getting the tax authority to keep reminding or taking action”*. Kirchler, (2007) perceived a simpler definition in which *“tax compliance is defined as the most neutral term to describe taxpayers’ willingness to pay their taxes”*. A wider definition of tax compliance, defined by Song and Yarbrough, (1978 defined as *“taxpayers’ ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place”*. Similarly, tax compliance is also defined as *“the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time”*. Simon James & Clinton Alley, (1999).

The promotion of voluntary compliance should be a primary concern of revenue authorities. The ways by which revenue authorities interact with tax payers and employees impact on the public perception of the tax system and the degree of voluntary compliance. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and

efficient treatment but also by clear, simple and “user-friendly” administrative systems and procedures and when it is easier for tax payers to do so. The main role of revenue authorities is to ensure compliance with tax laws. The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner. Tax payers who are aware of their rights and expect, and in fact receive, a fair and efficient treatment are more willing to comply.

2.2.4 PRINCIPLES OF GOOD TAX ADMINISTRATION

Generally, governments levy taxes for multiple of purposes, but mainly to raise funds in order to cover public expenditures and on the other hand to properly allocate resources. Whatever its function and essence, tax is fundamentally important for the existence of a government and a nation. Hence, the taxes that governments levy have to be governed by certain principles.

As stated in Bhatia, (1976), “*a good tax system, in order to achieve various objectives, chooses and adheres to certain principles which become its characteristics. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty*”. Adam Smith, in his book ‘The Wealth of Nations’ which was published in 1776 suggested that “*a tax system is based on certain basic principles, namely equity, certainty, convenience and efficiency*”.

2.2.5 FAIRNESS /EQUITY

According to James, (2000), “*the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way*”. The problem here is in deciding who is equal to whom. Similarly, Due and Friedlander, (1981), also argue that “*what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on*”. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society. Lemessa, (2005) also adds that “*a major responsibility is to ensure that all*

taxpayers dealt with by a given official are accorded similar treatment and that all officials dealing with a given taxpayer would accord the same treatment". Similarly, Brooks (2001) states that *"fairness has always been widely regarded as the most important criteria in judging a tax system"*.

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

Similarly, Due and Friedlander, (1981), argue that *"persons will oppose taxes that they feel strike them "unfairly" and allow others to escape a "reasonable" burden, and they will favor taxes they accept to concentrate on others, especially when "others" are non-humans such as corporations"*.

2.2.6 CERTAINTY

The tax rules should specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined. A person's tax liability should be certain rather than ambiguous. The tax rules should specify when the tax is to be paid, how it is to be paid, and the amount to be paid. A tax system's rules must enable taxpayers to determine what is subject to tax (the tax base) and at what tax rate(s). Taxpayers should be able to determine their tax liabilities with reasonable certainty based on the nature of their transactions. AICPA, (2001). If the transactions subject to tax are easy to identify and value, the principle of certainty is more likely to be attained. On the other hand, if the tax base is dependent on subjective valuations or transactions that are difficult to categorize, the principle of certainty might not be attained. In addition, how the taxes are paid and when the taxes are due should be spelled out in the applicable laws, as well as in the tax forms and instructions.

Certainty is important to a tax system because it helps to improve compliance with the rules and to increase respect for the system. Certainty generally comes from clear statutes as well as timely and understandable administrative guidance that is readily available to taxpayers.

2.2.7 CONVENIENCE OF PAYMENT

A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. A tax should be payable when it is most likely to be convenient for the taxpayer. Convenience of payment is important in helping to ensure compliance with the tax system AICPA, (2001). The more difficult a tax is to pay the more likely that it will not be paid. Typical payment mechanisms include withholding (such as the withholding of income taxes from employee paychecks) and periodic payments of estimated tax liability. The appropriate payment mechanism should depend on the amount of the liability and ease of collection.

2.2.8 EFFICIENCY

A good tax system should be efficient in that it should be able to waste as little money and resources as possible. *Administrative costs are the costs to the government (and ultimately to the taxpayer) of collecting tax revenue. In order to collect taxes, the government must hire collectors to collect the revenue; data entry clerks to process the tax returns; auditors to inspect questionable returns; lawyers to deal with disputes; and accountants to track the flow of money. It is also costs of the tax payer of making tax payments to the government and the time spent in filing tax returns and keeping records.* Yohannes Mesfin (2009, P-11)

2.2.9. ORGANIZATIONAL STRENGTH OF TAX AUTHORITIES

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

honest taxpayers will almost in self-defense be forced to the level of the careless and dishonest. A tax administration which seeks compliance must protect those who comply or else compliance will not be forthcoming.

Bird and Oldman, (1967) further state that *“the sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of taxpayer respect for the tax system”*. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite. These writers argue that in large part the solution for the large delinquency lies in providing the bite. In this sense effective tax collection is a facet of the larger problem of providing adequate penalties, to which reference will later be made. In other words tax is evaded to the extent that tax authorities are perceived as weak by taxpayers.

A tax system doesn't function in a vacuum. Its relationship with at every turn are with the public, and since the combination of taxes reaches nearly every individual in one way or another, the administration finds itself dealing with the nation as a whole. *“Hence, inevitably its operations and effectiveness are affected by the attitudes of the nation towards the tax system”*. Bird and Oldman, (1967).

But while tax administration is thus affected by these national attitudes Bird and Oldman, (1967), *“it is equally true that the attitudes can in turn be affected by tax administration”*. *Rational and efficient procedures, higher personnel standards, better management, improvement in relation with the public and in the daily contacts between tax official and taxpayer, can operate to increase the public respect for the tax administration”*. Moreover, once the tax administration has been placed on a sound basis, it is in a position to assert that compliance must be forthcoming. Such an assertion would hardly be tolerated or even taken seriously, as long as tax officials were themselves inefficient and corrupt. But if the administration has brought stability and honesty to its own operations, the self-respect thus achieved can form the foundation for its demand of respect and compliance from the taxpayer.

Lemessa (2005) states that *“tax systems that depend on ad hoc administrative procedures rapidly become discredited and endanger compliance. To encourage compliance it is equally important that tax authorities administer the law fairly”*. This implies both an absence of arbitrary or corrupt behavior on the part of the officials, and “normative standards” to ensure that the same laws are applied and administered in a standard fashion across the board. A taxpayer, Peacock and Forte, (1981) will be more receptive to information on his obligation if, in his efforts to comply, he receives a reasonable degree of service from the revenue administration. *“Poorly drafted forms, long waiting lines and even charges for acquiring them, bureaucratic hassle in processing the case, rudeness from the officials, cumbersome appeal procedures, and the like, can repel even the most loyal taxpayers”*.

On the other hand the ways in which revenue authorities interact with taxpayers and their own employees have an impact on public perception of the tax system and the degree of voluntary compliance. Taxpayers who are aware of their rights and expect, and in fact receive, a fair and efficient treatment are more willing to comply. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and “user friendly” administrative systems and procedures. Voluntary compliance is enhanced when it is easier for taxpayer to do so and it is essential that a good tax system should appear equitable to the tax payers.

2.2.10. AWARENESS/TAX EDUCATION

James, (2000) argues that “the norm is usually to comply rather than not to comply. *“For a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers”*. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such tax payers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons. On other side, other writers such as Smith and Kinsey, (1987) argue that *“tax noncompliance is an intentional behavior”*. In countries like Ethiopia where most of the

business community have no access to information, lack of awareness cannot simply be overlooked rather it can be assumed as a major determinant of tax compliance behavior.

2.2.11 CULTURE

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

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

2.2.12. HONESTY OF THE TAXPAYERS

It is pointed out by Adams, (1921) that *“the success of income tax rests primarily upon the honesty of taxpayers”*. Some authors, Brooks, (2001) indicated that *“tax morality has declined over the past few decades and this is attributed to wasteful, inefficient, and even perverse governments. Adams further states that one of the factors that contribute to the dishonesty of the taxpayers is the complexity of the tax system, as it may lead to administrative failures”*.

This can be viewed as it has relation with the tax culture of the society. Practically it is difficult to obtain genuine information from taxpayers regarding their income. Hence, tax gap is created to the extent the taxpayers hide information regarding their business activity.

2.2.13. LACK OF ABILITY TO PAY

Some observers Fjeldstad and Ranker, (2003) argue that “in African countries like Namibia and South Africa, the nonpayment is due to poverty or inability to pay”. This issue holds true in Ethiopia also where several business operators are not willing to pay their annual tax obligations due to lack of ability to pay. Generally when taxpayers have no enough disposable income and they used to consume the return from sales, it is clear that tax evasion is inevitable and leads to tax arrears.

2.2.14. SOCIAL FACTORS

The issue of non-compliance is not only a question of state-society relationships but also a question of relationship between citizens and/ or groups of citizens within local communities. There is an existing social bond between the society and this bond influences the members of the society in complying with the tax law. That is taxpayers may be influenced by their peer groups to comply or not to comply with the tax law. As cited by Levi, (1988) and Fjeldstad and Ranker, (2003), “*the dimension of trust that seem to affect compliance is trust another citizens to pay their share of service charges. In particular, trust in other citizens to pay their share seems to be important*”. The larger the fraction of the local population that is observed not paying, the lower perceived risk of being prosecuted. This has impacts on the individual taxpayer’s perception of the credibility and trustworthiness of the revenue administration.

2.2.15 ATTITUDE TOWARDS THE GOVERNMENT

Attitudes towards the government, Levi, (1988) “*may affect the taxpayer’s normative commitment to comply with law*”. Similarly, Due and Friedlander, (1981), also argue that, “*attitudes toward the general level of taxation and tax increases are dependent, of course, on attitudes about the desirability of governmental programs and on attitudes toward the government itself*”. On the other hand, Fjeldstad, (2004) “*citizens’ willingness to pay taxes voluntarily rests on the local government’s capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise on-compliant*”.

2.2.16 CONVENIENCE OF PAYMENT

A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. A tax should be payable when it is most likely to be convenient for the taxpayer. Convenience of payment is important in helping to ensure compliance with the tax system. According to Dr. Jack Itzhak Barsheshet, (2013) *“tax should be close to the ability to pay, both in terms of the amount of tax and in terms of the timing of the imposition of the tax. Tax should be based on fair principles and be close to taxpayers’ ability to pay. Tax must be imposed in manner that is least offensive to the taxpayer and is just and equal”*.

2.2.17 SIMPLICITY

The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner. Simplicity in the tax system is important both to taxpayers and to those who administer the various taxes. Complex rules lead to errors and disrespect for the system that can reduce compliance. *“Simplicity is important both to improve the compliance process and to enable taxpayers to better understand the tax consequences of transactions in which they engage in or plan to engage”*. The American Institute of Certified Public Accountants/AICPA (March, 2001)

2.2.18 TRANSPARENCY AND VISIBILITY

Taxpayers should know that a tax exists and how and when it is imposed upon them and others. Visibility enables individuals and businesses to know the true cost of transactions. It also enables them to see what their total tax liability is and to which level of government it is being paid. When a tax is not visible, it can be easily retained or raised with little, if any, awareness among taxpayers about how the tax affects them.

2.3 ETHIOPIAN TAX SYSTEM

2.3.1 Tax Administration in Ethiopia

“The current Ethiopian Revenue and Customs Authority/ERCA/ is an autonomous federal government agency having its own legal personality and whose basic duties are to implement and enforce the tax and Customs law of the country and to administer the tax revenue collection of the federal government”. Misrak Tesfaye, (2014). The Ethiopian Revenue and Customs Authority/ERCA/ was established and came in to existence on 14th July 2008 by proclamation No. 587/2008 merging the three executive organs namely the Federal Inland Revenue Authority, the Customs Authority and the National Lottery Administration.

The main objective of ERCA according to the proclamation No.587/2008 *“is to establish modern revenue assessment and collection systems and provide customers with equitable, efficient and quality service, to enable taxpayers voluntarily discharge their tax obligations, to enforce tax and Customs laws, to collect efficiently and effectively tax revenues and to provide the necessary support to regional tax administration”.*

“Tax Identification Number/TIN/ is a unique code such as a numeric number or alphanumeric member given by the tax administration of a county to each tax payer to identify them as a tax paying entities”, Misrak Tesfaye, (2014). TIN supply to tax payer in Ethiopia was started in December 2003 by the federal government revenue authority. In reference to Article 43-47 of Income tax Proclamation No. 286/2002 and related TIN supply directives No. 11/2001, every person having a tax obligation (a potential tax payer) is required to obtain a maximum of one tax payer identification number through registration with no charge of fee for obtaining the TIN.

The income tax statutory instrument currently enforce by the federal (central) government of Ethiopia consists of Income tax proclamation No. 286/2002, Income tax proclamation No. 608/2008, Income tax proclamation No. 693/2010, Income tax regulation No. 78/2002 and related income tax directives.

Under Ethiopian taxing system, all incomes other than income from mining activities and income from agricultural activities which qualify the definition of income under the income tax legislation of Ethiopia are categorized in to four heads or schedules. *“Employment*

income (Schedule “A” income), Rental income (Schedule “B” income), Business profit income (Schedule “C” income), and income from other sources (Schedule “D” income)”.

For effective and efficient tax administration purpose the above mentioned *schedule “B” (Rental income) and “C” (Business profit income) is classified in to three categories of Higher, Lower and Middle tax payers represented by “A”, “B” & “C” respectively. The 1st two categories are obliged to use electronic sales register machine and also are required to keep books of records.* ERCA, (2008). The basis for categorization is their legal personality and annual gross turn over. In fact the tax authority continually assesses and will determine whether the taxpayer shall continue in the same category or should be shifted from one category to the other.

CATEGORY “A” INCLUDES ANY COMPANY INCORPORATED UNDER THE TAX LAW OF ETHIOPIA OR IN OR A FOREIGN COUNTRY AND OTHER ENTITIES HAVING ANNUAL TURNOVER OF BIRR 500,000 AND MORE. THOSE WHO ARE CATEGORIZED UNDER “A” HAVE TO MAINTAIN ALL RECORDS AND ACCOUNTS WHICH WILL ENABLE THEM TO SUBMIT A BALANCE SHEET AND PROFIT AND LOSS ACCOUNT DISCLOSING THE GROSS PROFIT, GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION, AND PROVISIONS AND RESERVES TOGETHER WITH SUPPORTING VOUCHERS (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).

“Category ‘B’ includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. This category of taxpayers must submit profit and loss statement at the end of the year. The law requires all entries in the records and accounts to be supported by appropriate vouchers” (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).

“Category ‘C’ unless already classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. On the other hand, standard assessment is used to determine the income tax liability of Category ‘C’ taxpayers”. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. This category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the

income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area.

The authority collects the taxes from the taxpayers either through its office or through third parties including the Commercial Bank of Ethiopia and the Ethiopian Post Office. In general, the Authority is responsible for the collection of all taxes from income earned in the federal government whereas the regional governments are responsible for the collection of taxes from income earned in the states. The Authority is further bestowed with the duty of implementing and enforcing the laws of the country that deal with income taxation. According to the Constitution of Federal Democratic Republic of Ethiopia, revenue sources are assigned between Federal government and Regional states. Regional states can endorse their income tax proclamation and regulations based on the constitution in conformity with the federal income tax proclamation.

2.3.2 Business Profit Tax

According to Article 2(6) of the Income Tax Proclamation No. 286/ 2002, “*defined business as any industrial commercial, professional activation or any other activities recognized as trade by the commercial code of Ethiopia and carried on by any person for profit*”. Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards.

Accordingly, businesses (bodies) are required to pay 30% flat rate of business income tax; and other taxpayers under Schedule C, i.e., unincorporated or individual businesses are required to pay taxes ranging from 10% to 35% according to the following table.

Table 3.1 Business income tax rate

Taxable Business Income / Net Profit per year		Tax Rate (in %)	Deduction (in Birr)
over Birr	to Birr		
0	1,800	Exempt threshold	
1,801	7,800	10%	180.00
7,801	16,800	15%	570.00
16,801	28,200	20%	1410.00
28,201	42,600	25%	2520.00
42,601	60,000	30%	4950.00
	Over 60,000	35%	7950.00

In the determination of business income subject to tax in Ethiopia, deductions would be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer.

The current profit taxation system of Ethiopia is a combination of both self and presumptive assessment, and efforts were constantly made to fully engage the system into self-assessment system. However due to the nature and complexity of small and petty traders who are labeled” hard to tax group” and level of awareness of the business community it was in vain.

2.3.3 ELECTRONICS SALES REGISTER MACHINE

Ethiopian revenues and customs authority (ERCA) has started the application of sales register machines nationwide for its provision of information from its taxpayers since February 2008. The Directive No 139/2007 is a special law to make it obligatory for any person who sells goods or services to consumers to use sales Register Machines. This provides a reliable means for the Authority to check the total sales and tax payable by

individual taxpayer. *“The tax payers who use the machine can quickly process their customer’s transactions and accurately keeps records. ERCA also obtains information regarding total sales and this would enable the authority to levy tax based on information”* ERCA, (2013).

Automation is not an end in itself, but a crucial component of taxation reforms, which aims at modernizing tax administrations and aligning the legal framework and procedures with international standards and best practices. *“Automation facilitates the clearance of legitimate trade, improves the efficiency of taxation controls and secures revenue collection. In addition, it helps address expectations of traders and transport operators regarding transparency, predictability and reliability, as well as the simplification of border-crossing and administrative procedures”*. Jon M. Peha, (1999).

Benefits of automation include a reduction of fraud, remote access to information, improved collection of statistics, and uniform application of tax legislation. The introduction of tax automation minimizes direct contacts between tax collection officers and traders or their agents, and hence leads to a reduction of corruption. Further benefits achieved through customs automation include improved reporting, control of file transfers, automatic reconciliation of tax returns declarations, and compliance testing of bank files. Paperless declarations and customs automation save time and make it easier to focus on inspecting high-risk consignments. *“The possibility of submitting tax returns declarations on-line has in some cases made it possible to reduce the associated fees; in other cases it has helped eliminate the obligatory contracting of Customs agents.(Robert S. 1997).African Journal of Business & Management”* (AJBUMA) Vol. 1 (2010),

2.4 EMPERCICAL REVIEW

Countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations, but also taxpayer attitudes toward taxation and government in general. A problem appears to have been the search for one overarching model of taxpayer compliance that allows predictions to be made about the taxpaying population as a whole, McKerchar and Evans (2009). However, as argued by Alm et al. (1992), individuals exhibit much diversity in their tax behavior. Some people are primarily

worried about getting caught and penalized; others are more concerned about the behavior of other taxpayers (or neighbors or business competitors); others think in terms of civic duty and/or public services and may weigh those considerations against the perceived accountability and efficiency of the state. Such different factors are all likely to vary across different countries, institutions, and cultures.

Asamenew G/silassie (2010) on his research on collection problems of Category “A” taxpayers in Yeka Sub city it was indicated that there exist lack of knowledge on the applicable tax rules and regulations and thus, negligence, delay in tax payment and evasion were 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 for assessment and do not pay their taxes on time. But the study did not say anything as to how the tax administration should address the non-tax compliers. Some evidence support the relevance of deterrence strategies to addressing non-compliance, McKerchar and Evans (2009), the fear of getting caught, or the probability of detection, has been found in some contexts to be an effective strategy to induce truthful behavior. The study was also underlined that power failure was also one of the major problems which attributes for low performance of Yeka sub city tax administration.

Teklu Kassu, (June, 2011) Challenges of Tax Administration in Arada Sub-City of Addis Ababa City Administration by Teklu Kassu. The title of the study was on the challenges of the tax administration but the overall study was focused mainly on VAT. However, the finding of this study indicated that the taxpayer identification and registration for VAT particularly, enforced registration by estimation of the daily income of taxpayers not processed by well trained and credible tax officials. This is one of the reasons for non-registration of many potential taxpayers for VAT in the Sub City. The other reason for non-registration of many potential taxpayers for VAT is unwillingness and lack of awareness of taxpayers to be register for VAT.

Lemessa Tulu. (2007) A Research Project on Determinants of Taxpayers’ Voluntary Compliance with Taxation the Case Study of Dire Dawa City concluded that the tax rate was a lot higher than what most taxpayer’s ability to pay and also the tax which was levied was

not fair and equitable due to this the tax payers were not motivated to pay the tax voluntarily. It was also indicated that the city tax administration is not efficient and effective in tax assessment, collection procedure, creating awareness on tax laws and enforcing it and providing quality services. It was also mentioned that diverse collection of cultures, languages, beliefs and backgrounds as one of the major cause for non-compliance. But the research could not substantiate as to how this diversity affects voluntary compliance. For instance, Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services. They suggest that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner, or by more effectively emphasizing that taxes are necessary for the receipt of government services.

According to the research conducted by DR Clifford G. Machogu and DR Jairus B. Amayithe on the Effect of Taxpayer Education on Voluntary Tax Compliance at Mwanza City- Tanzania, (August, 2013), the findings revealed that the level of taxpayer education affects the tax compliance. In their studies, they concluded that there was a significant positive relationship between the level of tax knowledge and tax compliance. Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. However these findings contradicts with the findings obtained by Lin and Carrol (2000), which concluded that there was no significant positive relationship between the level of tax knowledge and tax compliance.

Agbedzani Yayra (2011) in his research Effectiveness and Efficiency of Income Tax Collection In Berekum District Tax Office, concluded that poor performance of the tax administration was attributed to inadequate tax education campaigns through newspapers, local radio stations and other electronic media among others and also indicated that higher tax rates was also posed opportunity for evasion.

According to the study conducted by Fadjar O.P. Siahaan , (November, 2012), on the Influence of Tax Fairness and Communication on Voluntary Tax Compliance in Indonesia the findings of this study showed that tax fairness and trust has direct effect on voluntary tax

compliance. This study is consistent with the findings of Etzioni (1986) and Bradley (1994) that tax fairness could increase compliance behavior. These results indicate that feeling of unfair tax system increase the tendency to evade. This finding is consistent with the previous researchers that taxpayer need and ability to pay were the most significant variables related to perceptions of a fair tax system. Also, the amount of taxes evaded increase when taxpayers perceived themselves to be victims of fiscal inequity. However, this study focus only on three factors that influence compliance behavior. Namely: Procedural and distributive fairness, equity and equality. Other factors that influence compliance behavior may exist that were not examined in this study. Such as, gender, age, probability of detection, tax morale might influence taxpayers' compliance.

As a study was conducted by Larissa-Margareta, (2012) *Understanding The Determinants of Tax Compliance Behavior as a Prerequisite for Increasing Public Levies*, in Romania, indicated that theoretical and empirical studies reported that tax compliance behavior is as complex as taxpayer's personality. Various types of factors influence the decision to comply, starting from the socio psychological determinants (attitudes, norms, fairness, motivational postures), political determinants (complexity of law and tax system, fiscal policy), to the economic ones (audit probabilities, fines, tax rates, income). Hence, assessing the factors which impact on the ordinary taxpayer is a prerequisite for finding ways of increasing tax compliance. The most robust findings reported in empirical studies should be analyzed with the aim of developing a tax system which fosters compliance and reduces the distance between taxpayers and tax authorities, as Owens and Hamilton (2004) suggest.

Evaluating taxpayers' attitude and its influence on tax compliance decisions, Abubakari Abdul – Razak and Christopher Jwayire Adafula, (September, 2013) conducted in Tamale, Ghana, identified that the levels of understanding of the tax laws influence to a significant degree the attitudes of taxpayers. Taxpayers' levels of understanding positively correlated to a significant degree with their tax compliance decisions. That study also concluded in part that people doubted the real benefits of paying taxes. Tax education is very crucial as the levels of transparency in the government use of revenue affects tax compliance. Atubuga (2006) captured this notions briefly when he concluded in part “the transparency of the tax system is directly proportional to people's willingness to pay taxes and hence the amount of

taxes that may be mobilized". It was further elaborated that a strong positive correlation exists between perceived levels of tax burden and compliance decisions. The policy implication of this is for the tax authorities to adopt strategies towards making the tax system more equitable taking the taxpayers views into account.

Gloria Mesiku, (2008) Tax Administration, Procedural Justice, Tax Payers' Attitude and Tax Compliance among Small Business Income Earners in Arua District, The study revealed a significant positive relationship between procedural justice and tax payers' attitude of among small business income earners. This therefore means that when tax payers experience procedural justice they will have a positive attitude towards paying tax. Procedural justice is in terms of respectful treatment of tax payer, neutrality and trusting the tax payers as if they can do the right thing meaning that if the tax office is procedurally just then tax compliance is bound to improve. Further finding showed that there is a positive relationship between Procedural justice and perceived enforcement of tax law. This implies that when tax payers perceive the enforcement process of tax laws to be procedurally just, then they will be compelled to comply. Additionally results show a significant and positive relationship between perceived enforcement of tax law and tax Compliance .This implies that if there is an enforcement of the tax law in place there will be an increase in tax compliance The relationship between tax payers' attitude and tax compliance implies that when tax payers have a positive attitude towards the tax system, they will become committed to paying taxes thus an increase in tax compliance levels. Vogel (1994) believes that if taxpayers are convinced that the tax system is administered fairly and all taxpayers contribute by law and reasonably equally, then they are prepared to pay. Thus perceptions of fairness in the tax system, and commitment to paying tax are important compliance factors.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY:

3.1 RESEARCH DESIGN

The study employed descriptive survey. Creswell, (2003) defines descriptive survey as a method of collecting data for the purpose of testing hypothesis or answering research questions concerning the current status of the subjects under study. It attempts to describe, explain and interpret conditions of the present i.e. “what is”. According to Cohen and maroon (1999) descriptive survey is a design used to gather data at a particular point in time with the intention of describing the nature of existing conditions or identifying standards against which existing conditions can be compared or determining the relationship that exist between events. Thus, a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. This is done through the use of strategies and procedures to describe, clarify and interpret existing variables based on frequencies, averages, and other statistical calculations.

Descriptive survey sometime associated with limited disadvantages. Setert and Hofnung, (1997) maintained that there is the difficulty of ensuring that the questions to be answered in descriptive survey are clear and not misleading. This is so because survey reports can vary significantly because of the exact wording of questions. Newman, (2003) also claims that the method may produce unreliable results because questions asked into private matters that people may not be willing to talk about.

Notwithstanding the above disadvantages, the descriptive survey is found to be most appropriate for this study. This is largely due to the fact that the design is considered to be relatively easy to conduct because data are fairly easy to obtain and interpret by the use of simple descriptive statistics and it has the advantage of producing a good amount of responses from a wide range of taxpayers at Yeka Sub City on issues of the tax administration.

3.2 POPULATION AND SAMPLING TECHNIQUE

3.2.1. POPULATION

The target population of this study constitutes the tax payer who are legally registered category “A” and “B” tax payers and operating in this Sub city and the tax officer and tax auditors from the tax authority of Yeka Sub city. The total population under this study is 10, 314 tax payers. Among these 4629 are from category-A, 5685 from category-B.

The questionnaires were designed specifically for the three major actors who are involved in the process of business profit tax operation and presumed to give sufficient information concerning the business profit tax administration. Namely tax payers, tax officers and tax auditors and a separate questioner were distributed for these groups. The justification for choosing these groups is in that they are directly involved in the processes of implementing the business profit tax and are affecting and be affected by the process and are also critical in the execution of the tax policy.

3.2.2 SAMPLING TECHNIQUE

Data for the study was collected from both primary and secondary sources. The administration of questionnaires was the basis for primary data. Data collected from this source was centered on the overall administration of business profit tax and the challenges involved in the process of tax collection.

Considering the fact that the study covers such a vast population, not all the population was included in the study. It is thus a significant sample from the population was drowned. Both the probability and non-probability sampling methods was employed to select the sample for the study.

A probability sampling method was used to select respondents from the taxpaying public for the study. In order to determine the total sample size, www.raosoft.com and www.checkmarket.com sample size calculators were used. Accordingly a sample size of 371 is determined from the total taxpaying population of 10,342. For manual sample selection

the Fisher, Laing, Stoeckel and Townsend (1998) has been referenced and ascertained $SS = [N * z^2 * (p*q)] / [(ME^2 * (N - 1)) + (z^2 * (p*q))]$. This sample size considered that a 5% margin of error (or confidence intervals) and 95% confidence level parameters in order to closely match the sample size with those of the entire population.

After the total sample size was determined a stratified sampling technique was used to select respondents from each of the two business categories A and B. These business categories were used as a strata and proportional allocation was used to select the samples from the two strata.

In terms of the non-probability sampling, purposive sampling method was used to select tax officers and auditors from Yeka Sub city revenue and Customs Authority. Thus out of 18 tax officers 8 were selected and similarly out of 19 tax auditors 10 were selected and questionnaire was distributed for them. Purposive sampling technique is used because it is deemed appropriate means to select respondents who are knowledgeable and well experienced in the subject matter. In sum, a combination of sampling techniques (stratified random sampling, and purposive sampling) was used to select sample tax payers. This is to ensure that major business sectors within a population are adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

3.3 TYPES OF DATA AND TOOLS/ INSTRUMENTS OF DATA COLLECTION

The researcher used both primary and secondary source of data to gather sufficient information for the study under investigation.

The primary data were collected through standard questionnaire. Questionnaires were used to collect data for the study. Prior to designing the instrument, a thorough literature search was conducted to determine and categorize concepts and variables used in similar past studies. These were modified to suit the goal of the present study. Accordingly, three separate questionnaires were developed. One for the tax payer the other two separate questionnaire for the tax officers and tax auditors.

The questionnaire elicit responses on issues regarding respondents' background characteristics, efficiency and effectiveness of the tax administration, reasons for low compliance, challenges involved in the collection of taxes and the ways of ensuring that business tax administration in Yeka Sub City is made effective and efficient.

The questionnaire comprised of both closed and open ended questions. Closed ended questions are quicker and easier both for respondents and researcher. Most of the closed ended questions are designed on an ordinal level of measurement basis, and others are designed as 'yes' or 'no' questions, so that the variables can be ranked to measure the degree of their strength or the agreement or the disagreement of the respondents with the variables can be elicited. Adding open ended questions allows respondents to offer additional information and to freely explain and also answer that the researcher didn't include in the questionnaire. The replies of open-ended questions were analyzed by content under different categories.

3.4 PROCEDURE OF DATA COLLECTION

Simple random sampling technique was used to select the number of respondents to participate in the study. In each of the business category, a sampling frame was formed listing all the units of the population which constitute the tax payers. Care was taken to avoid any defect that may occur in designing the frame such as inadequate, inaccurate and incomplete frame. The population of each business category was numbered in an order from one (1) to its population size. The total population is divided in to the total sample size of 371 and every n^{th} is selected systematically to form the overall sample represented.

Questionnaire pre-test was done to indicate its effectiveness. This was to check whether the replies provided the type of information needed or whether there are some elements of ambiguity. The questionnaire was circulated to those tax payers who are randomly selected and collected up on completion. The questioner was prepared in both English and Amharic. However, in the cases where the respondent deemed illiterate the researcher and data collectors were personally interviewed each individual tax payers to fill the questioner and

recording the responses. Field and central editing was done checking the legibility, completeness and consistency of the data. Thus editing was preceded by coding which is assigning a consecutive number and care was taken to clearly administer. Finally, data entry was done.

Secondary data sources such as periodic and yearly reports, brochures, flayers and research etc. were also used as backup to the major research instruments.

3.5 DATA ANALYSIS

Data collected from the field was analyzed using descriptive statistics. The Statistical Package for Social Sciences (SPSS) Version 20.0 Software was employed to process and analyze the instruments. Frequencies, Mean Mode, Percent %, proportions, charts and diagrams were used to present the results. The likert scale questionnaire was analyzed using mean and standard deviation.

The Qualitative data was transcribed and analyzed using content analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The focus of this chapter is on the analysis of the data which was collected from the field study according to the responses given by the respondents in all the questionnaires administered. Among which 371 questionnaires were distributed to registered tax payers selected at random and 18 questionnaires were distributed to the staff of the tax authority. These eighteen questionnaires administered to tax office were analyzed separately since their questions were different. In addition, secondary data was collected from the tax office to analyze the evidence. In this section, efforts were made to provide meaning to the data collected from the field. To do this, the responses were grouped into discrete variables like age, sex, business category, type of business activity among others. The data was analyzed using statistical tools like charts, graphs, Percentage %, among others with the Microsoft Word, Microsoft Excel and Statistical Package for Social Sciences (SPSS) version 20.0 software.

The 371 respondents which constitutes the two business categories A and B tax payers include; general importers and exporters, travel agencies, hotels and restaurants, sugar retailers, construction contractors, consultancy firms, education centers, construction machineries and equipment's leasing, book stores, sales agencies, house hold gadgets retailers, photo shops, travel agencies, insurance firm, butchers, decor firms, electric repair shop, printing firms, building rent providers, clinics, transitory, fuel stations, whole sellers, groceries, fruit and vegetable shops, stationeries, dairy product shops, cake and bread bakeries, advertising firms, and boutiques.

4.2 SURVEY RESULTS

Table 4.1. Summary of Response Rate by Categories.

No.	Categories	Number of questionnaires distributed	Response rate in number	Response rate in Percent %
1	Category -A	167	157	94
2	Category -B	204	189	93
	Total	371	346	93

Source: Field Survey Data 2015

The above field survey result indicated that from 371 questionnaires distributed to the three business category taxpayers in Yeka Sub City, 346 of them have returned and representing that 94 Percent from Category A and 93 present from Category B tax payers. Majority of the respondents responded from both selected categories of tax payers,

Table 4.2. Level of Education

Level of Education	Frequency	Percent %
Below 12 th Grade	55	15.9
12 th Grade complete	78	22.54
Certificate/TEVT	110	31.79
Diploma	64	18.5
First Degree	31	8.96
Master's Degree	8	2.31
Total	346	100.0

Source: Field Survey Data 2015

Again education influences ones understanding of the role of tax in the economic environment of any country. To this end, the study sought information on the level of education of respondents. According to the results presented above indicated that, certificate holders' and 12th grade completed tax payers constitute the highest percentage 31.79% and 22.54% respectively, whereas First degree and Master's Degree holder tax payers constitute the lowest percentage 8.96 % and 2.31% respectively. Diploma holders and below 12th grade tax payers constitutes 18.5 and 15.9% respectively.

As we see from this data majority of the respondents are educated and at least completed primary education and thus they can read and write. So the tax authority can easily communicate and transmit its message and aware and educate the tax payer on tax laws.

Table 4.3. Duration in Business

Year	Frequency	Percent %
1-5 Years	196	56.6
6-10 Years	111	32.1
More than 10 years	39	11.3
Total	346	100.0

Source: Field Survey Data 2015

It is noted that most of the businesses that fall into this research are below 5 years existence in business which constitutes 56.6% of the respondents whereas on the other extreme only 11.3 % respondents are more than 10 years in business. The 32.1% constitutes between 6 to 10 years in business.

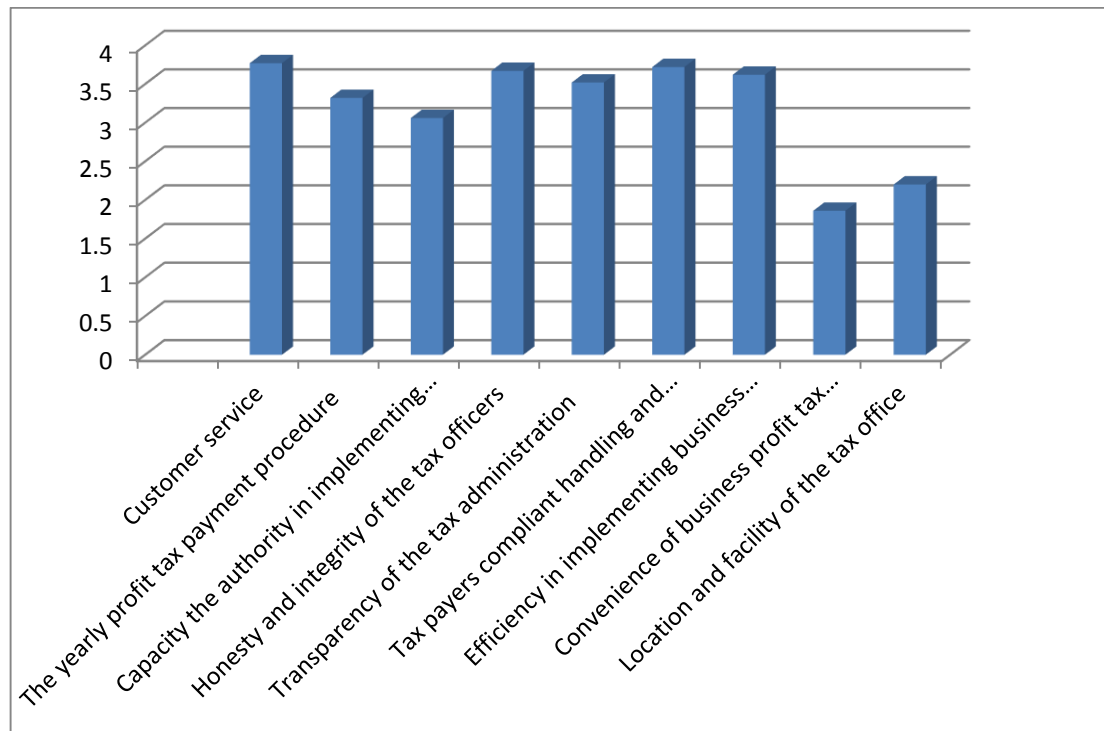


Figure 4.1. Evaluation of the strength of the business profit tax authority

Source: Field Survey Data 2015

Table 4.4. How do you evaluate the strength of the tax administration with respect to the following duty/responsibility?

Variables	Very Good		Good		Neutral		Poor		Very Poor		Mean	St.D
	Fre q.	%	Fre q.	%	Fre q.	%	Fre q.	%	Fre q.	%		
Customer service	8	2.3	63	18.2	15	4.3	168	48.6	92	26.6	3.77	1.1
The yearly profit tax payment procedure	18	5.2	85	24.6	31	9	211	61	1	0.03	3.32	0.91
Capacity the authority in implementing the tax laws	13	3.8	124	35.8	50	14.5	148	42.8	11	3.2	3.06	1.03
Honesty and integrity of the tax officers	0	0	51	14.7	79	22.8	150	43.4	66	19.1	3.67	0.95
Transparency of the tax administration	9	2.6	55	15.9	70	20.2	179	51.7	33	9.5	3.52	0.90
Tax payers compliant handling and responsiveness	0	0	84	24.2	13	3.8	164	47.4	85	24.6	3.72	1.08
Efficiency in implementing business profit tax system	23	6.6	50	14.5	32	9.2	240	69.4	1	0.03	3.62	0.73
Convenience of business profit tax payment period	59	17.1	281	81.2	1	0.03	5	1.4	0	0	1.86	0.46
Location and facility of the tax office	77	22.3	142	41	107	30.1	20	5.8	0	0	2.2	0.86
Simplicity of the tax liability settlement forms	1	0.03	134	38.7	53	15.3	158	45.7	0	0	3.06	0.92

Attitude of taxpayers toward tax administration is the other key factor that has to be considered and analyzed appropriately. Accordingly, the respondents were asked the above mentioned key questions so as to know their attitude towards the tax administration and their responses is summarized in the above table.

According to the tax payers response summarized on the above table, for each question raised above the majority of respondents rated higher percentage for poor and very poor which indicates poor service delivery of the tax administration. Apart from this as it is shown on the table the mean value of each response is calculated and compared with the average value and indicated that the majority of respondents were in favor of poor and very

poor, i.e. the service of the tax authority is not good and need improvement on the various aspects mentioned above. On the other hand the majority of the respondent responded in favor of good and very good for convenience of the tax payment period, location and facility of the tax office. So, this result indicates that the tax administration is virtuous in these three areas of responsibility and the tax payers are also happy and satisfied with these.

Table 4.5. What is your level of understanding on business profit tax laws and procedures?

Level Of Understanding	Frequency	Percent %
Very Poor	81	23.4
Poor	204	59.0
Good	57	16.5
Very Good	4	1.2
Total	346	100.0

Source: Field Survey Data 2015

With respect to the knowledge of the applicable tax laws as can be seen from above table, 59% and 23.4% of the respondents do have poor and very poor level of knowledge regarding the applicable tax laws and regulations. However, the remaining 16.5% and 1.2% of the respondents have constituted good and very good knowledge about tax laws and regulations. This finding clearly shows that the majority of the tax payers do not have proper knowledge about the tax laws and procedures to be followed in the tax system.

Table 4.6. What is the level of understanding for paying tax

Description	Frequency	Percent %
It is an obligation.	132	38.2
To avoid penalties, punishments	118	34.1
There is no opportunity to evade	41	11.8
In the anticipation of receiving public services	4	1.2
Contributes for the development effort of the country	51	14.7
Total	346	100.0

Source: Field Survey Data 2015

The tax payers were requested why they pay taxes and according to the response summarized on the above table, 34.1 % of the respondents said that they are paying taxes to avoid penalty and 38.2 % of the respondents said that they pay taxes because it is an obligation to pay it to the government and also 11.8% are responded that there is no opportunity to evade. This indicates that there is no good understanding as to why people pay taxes and compliance behavior is questionable and also implies that they have the intention not to pay if they have the opportunity to do so. On the other hand, 14.7% of the respondents responded that they pay taxes to support and contribute for the development effort of the country, and the remaining 1.2% of the respondents said that they pay taxes in the anticipation of receiving public services.

Table 4.7. Do you think that the annual business profit tax you are paying is fair

	Frequency	Percent %
Yes	88	25.4
No	256	74.0
No opinion	2	.6
Total	346	100.0

Source: Field Survey Data 2015

When people asked whether the tax they are paying is fair and based on their ability-to pay, 74% of the respondents responded that the tax is not fair and not based on their ability-to pay and 25.4% of the respondents responded that the tax they are paying is fair. The remaining 0.6% of the respondents do not give opinion. From this response it is clear that the tax rate is not based on the ability-to-pay principle or it is perceived to be unfair by taxpayers. This can be either indeed true or human beings are benefit maximizes so that it may be difficult to please all taxpayers. Even though the principle says the tax should be based on the ability- to-pay, the problem here is in determining this ‘ability’ for each taxpayer. Actually the tax rate may not be as such high but the communication gap between the tax authority and taxpayers might have created this perception and it continues to be the issue as far as the understanding of the taxpayers regarding tax rates, assessment, calculation etc. is low.

Table 4.8. Are you voluntarily paying your yearly profit tax obligation

	Frequency	Percent %
Yes	113	32.7
No	233	67.3
Total	346	100.0

Source: Field Survey Data 2015

Analysis from the questionnaire revealed that 67.7 respondents responded that they are not voluntarily paying their taxes where as 32.7% of the respondents are paying their taxes voluntarily. From this result it can be said the level of understanding of the tax payer on paying tax is low. Many taxpayers might be willing to comply in full but are unable to do so because they are not aware of, or do not understand, the extent of their obligations. One of the causes for non-compliance has been demonstrated to be the attitudes and perceptions of people. It is of utmost importance to determine taxpayers' perceptions towards taxation in order to enable the sub city to market itself and its services more effectively to the general public.

Table 4.9. If you are not paying voluntarily what is the reason for this?

	Frequency	Percent %
Lack of awareness	85	36.48
Lack of ability to pay	57	24.46
Negligence	15	6.44
Complicated tax procedure	76	32.62
No opinion	0	0
Total	233	100.0

Source: Field Survey Data 2015

It is necessary to solicit the reasons why people do not pay tax voluntarily. This will give ideas as to how the tax office could position itself in order to meet tax payer expectations. The various reasons according to this research are presented in the above table:

As shown on the above table, the tax payers were asked the reason why the tax payers' do not pay their taxes voluntarily, 36.48 % are responded they have lack of awareness and

32.62% responded there is complicated tax procedure, 24.46 % of the respondents' responded lack of ability to pay and 6.44 % responded that it because of negligence..

As a result, this study identified the majority of the tax payers are not willing to pay taxes because the tax which imposed on them is beyond their ability to pay. As stated on the literature ability to pay principle AICPA, (March 2001) is one of the principles that should be considered and addressed in the implementation of the tax. Many other tax payers also indicated that the tax payment procedure is not simple and also indicated that the awareness level of the tax payers are very low. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment, but also by clear, simple and user friendly administrative systems and procedures.

Table 4.10. Does the profit tax authority regularly provide awareness and education about business profit tax?

	Frequency	Percent %
Yes	94	27.2
No	196	56.6
Do not know	56	16.2
Total	346	100.0

Source: Field Survey Data 2015

According to the above table the tax payers were asked whether the tax administration provides awareness on business profit tax and the result show that 56% of the respondents said no, whereas 27.2 % of the respondents said yes and the remaining 16.2 % of the respondents said do not know. This result indicates that the government is poor in delivering training and awareness on taxes. The main impediment of tax administration among others is lack of tax education and lack of awareness among the taxpayers. Providing education on tax and enhancing the level of awareness can play important role in creating voluntary tax compliance behavior.

Table 4.11. How many times you have attended the orientation

	Frequency	Percent %
One time in a year	95	27.5
Three times in a year	2	0.6
I have not taken at all	249	72.0
Total	346	100.0

Source: Field Survey Data 2015

According to the table shown above, the majority of respondents 72% said that they have not received any orientation at all, whereas 27.5% have received one time in a year and only 0.6% has received the orientation three times. This table indicates that only few tax payers attended the training whereas the majority of the tax payer did not attend any training at all. Therefore, this finding shows that there is a big communication gap between the tax payer and the tax authority. It also indicates that the tax authority is not transparent and does not consider the tax payer as its major partner and provides the necessary support.

Table 4.12. Adequacy of the tax administration in providing awareness and education for tax payers

	Frequency	Percent %
Good	37	10.69
Neutral	249	71.97
Poor	41	11.85
Very poor	19	5.49
Total	346	100.0

Source: Field Survey Data 2015

The respondents were also asked whether the tax authority has the capacity to deliver orientation on business profit tax, 11.85 % and 5.49% of the respondents' responded that the tax authority is poor and very poor in providing orientation respectively and 10.9% responded the tax authority is good in providing orientation. The rest of the 71.97% respondents are neutral because they have never been participated and taken any training at all. This finding indicates that the tax payer were not attracted on the way that the tax authority provides the awareness program and also not happy on the capacity of tax authority to deliver the necessary awareness and education sessions.

Table 4.13. How long will it take to settle your yearly profit tax

	Frequency	Percent %
Hours	3	.87
Half day	58	16.76
One day	48	25.43
Two to three days	174	38.73
Three to five days	51	14.74
One week	12	3.47
Total	346	100.00

Source: Field Survey Data 2015

From the table above, 38.73% tax payers responded that two to three days will take to settle their yearly profit tax liability and also 14.74% responded that it will take three to six days. 16.76% and 25.43% of tax payers responded that it will take them half day and one day to settle their yearly profit tax liability respectively. The remaining 0.87% of respondents responded that it will take them hours to settle their yearly profit tax liability. This findings show that majority of the respondents said that it will take them more than one day to settle their annual profit tax obligation. It indicates that such practice does not encourage the tax payer to pay his obligation voluntarily.

Table 4.14. If it takes more days to settle your yearly profit tax what is the reason for this?

	Frequency	Percent %
Lack of efficiency of the tax office	159	46.0
Shortage of tax officer/man power in the tax office	41	11.8
Do not declare the tax obligation on time	57	16.5
The tax payer do not submit completed document	5	1.4
The profit tax payment procedure is not easy and simple	84	24.3
Total	346	100.0

Source: Field Survey Data 2015

The respondents were asked why settlement of business profit tax takes more than one day, the above table shows that 46.0% of the respondents responded that the reason for taking

more than one day is lack of efficiency of the tax office and 24.3% of respondents said that the reason is the profit tax payment procedure is not easy and simple and 11.8% of respondents responded that the reason is due to shortage of man power in the tax office. This shows that it due to inefficient service of the tax administration. The remaining respondent which constitutes 16.5% and 1.4% is due to the tax payer doesn't declare on time and the tax payers submit incomplete documents.

Table 4.15. Are you currently using sales register machine

	Frequency	Percent %
Yes	303	87.6
No	43	12.4
Total	346	100.0

Source: Field Survey Data 2015

From the above table the majority of respondents 87.6% are using sales register machine as the law enforces them to use the machine, whereas only 12.4% of the respondents are not using the sales register machine.

Table 4.16. How do you evaluate in using the sales register machine?

	Frequency	Percent %
Very Simple	115	33.2
Simple	152	43.9
Moderate	36	10.4
No opinion	43	12.4
Total	346	100.0

Source: Field Survey Data 2015

The above table shows that 43.9% and 33.2% tax payers responded that the sales register machine is very simple and simple to use respectively and 10.4% tax payers responded that the machine moderate. 12.4% decline to give their opinion as they are not using the machine. This finding indicates that the sales register machine is easy and user friendly and thus encourages the tax payer to use the machine.

Table 4.17. How do you evaluate the advantage of the sales register machine for your business?

	Frequency	Percent %
Very good	154	44.5
Good	133	38.4
Neutral	56	16.2
Poor	3	.9
Total	346	100.0

Source: Field Survey Data 2015

The respondents were also asked for the advantage of the sales register machine for your business, and 44.5% and 38.4% of the respondents are in favor of very good and good respectively and 16.2% of respondents do not give opinion and the remaining .09% of the respondents said that it is poor and don't have advantage. It is good for the tax authority to learn that the tax payer knowledge on the use of the machine is increased and learned that the sales register machine is advantageous for both the tax payer and the tax authority.

Table 4.18. Do you get any support from the tax administration when facing problems on the sales register machine?

Level of support	Frequency	Percent %
Good	128	37.0
Neutral	194	56.1
Poor	24	6.9
Total	346	100.0

Source: Field Survey Data 2015

The respondents were also asked whether the tax payers are getting any support from the tax administration when they are facing problems with the sales register machine, 56.1% are neutral and 37.0% tax payers responded they are receiving good support. Whereas 6.9% of the respondents responded that the support is poor. The tax administration is expected to give appropriate support for the tax payers because the law says the tax payer has to report to the tax administration within two hours for any malfunction otherwise it will not be valid. This survey indicates that the revenue administration expected to improve its service and provide support for the tax payer with regard to the sales register machine.

Table 4.19. Questions related to taxpayers' attitude towards the tax administration.

Attitude of taxpayers toward taxation and its administration is the other key factor that as to be considered and analyzed duly. Accordingly, the respondents were asked for various questions to know their attitude and their responses summarized in the following table.

Variable	Strongly agree		Agree		Neutral		Disagree		Strongly disagree		Mean	St.D
	Fre q.	%	Fre q.	%	Fre q.	%	Fre q.	%	Fre q.	%		
The tax laws on Business profit tax are not clear and it is difficult to understand	14	4	241	69.7	13	3.8	70	20.23	8	2.31	2.39	1.06
The profit tax payment procedure is not simple and easy to follow	58	16.8	191	55.2	2	0.58	81	23.41	14	4.05	2.43	0.93
The tax administration does not trust and have positive attitude towards the tax payer	163	47.1	86	24.9	47	13.6	26	7.514	24	6.94	1.95	1.09
The revenue administration provides the necessary encouragement and support to the tax payer	6	1.73	24	6.94	33	9.54	127	36.71	156	45.09	4.18	0.93
The business profit tax assessment is not fair in general.	121	35	84	24.3	40	11.6	64	18.5	37	10.69	2.04	1.16
The awareness level of the tax payer on business profit tax is very low	40	11.6	191	55.2	83	24.0	11	3.179	21	6.069	2.25	0.69
Business profit tax rates are too high	285	82.4	2	0.58	29	8.38	25	7.225	5	1.445	1.43	0.97

Source: Field Survey Data 2015

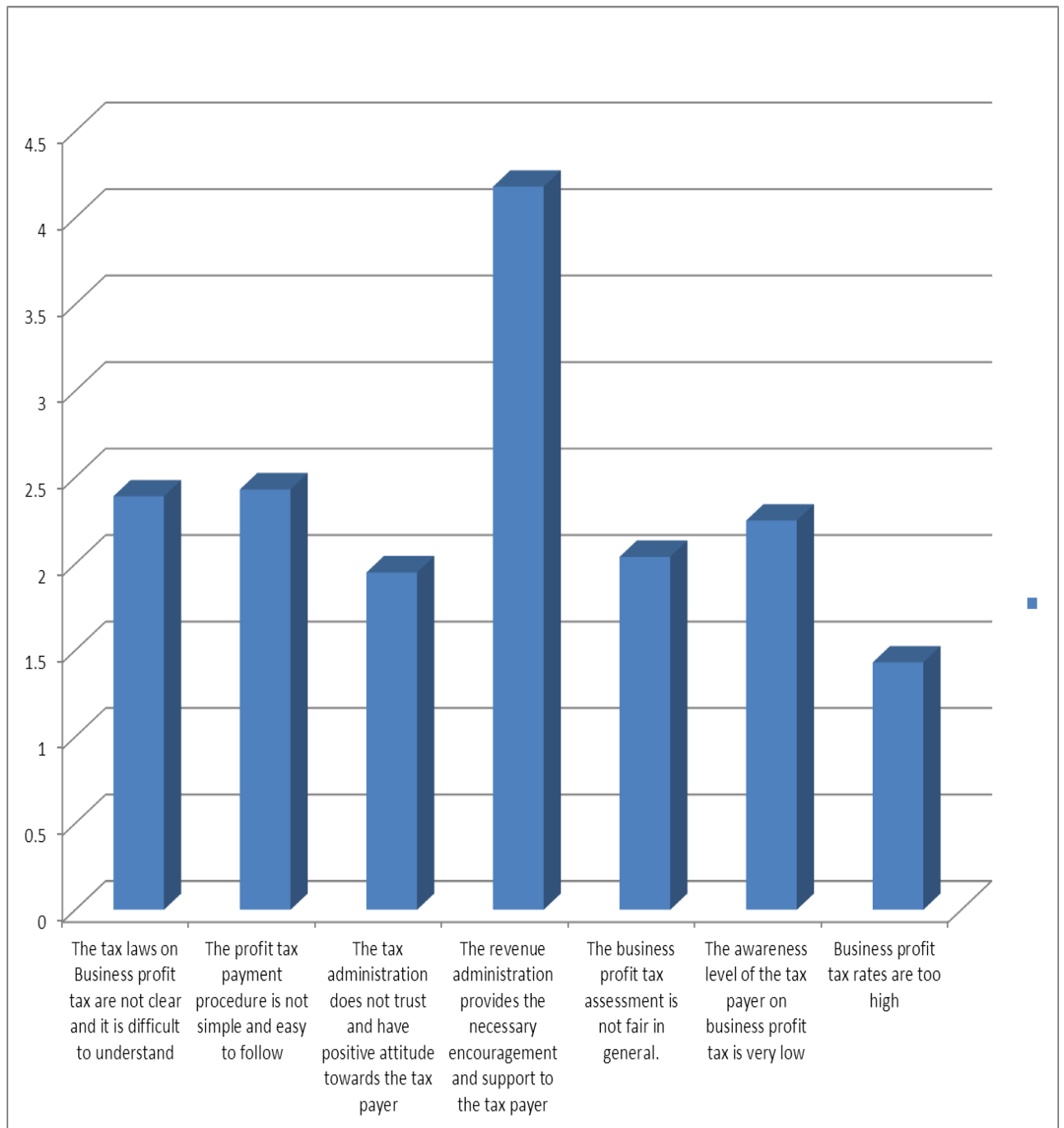


Figure 4.2 Taxpayers’ attitude towards the tax administration

Source: Field Survey Data 2015

As indicated on the above table and figure the tax payer response were analyzed based on the mean value obtained for each question. Accordingly many of the respondents were agreed the questions raised on the “Tax laws on Business profit tax are not clear and

difficult to understand, The profit tax payment procedure is not simple and easy to follow, The tax administration does not trust and have positive attitude towards the tax payer, The business profit tax assessment is not fair in general, The awareness level of the tax payer on business profit tax is very low and Business profit tax rates are too high” and their mean value is below the average. This result indicates that the tax payer are not provided with the necessary support from the tax authority and also the payment procedure is not simple and easy for the tax payer to exercise their business profit tax liabilities. On the other hand the majority of the respondents were disagreed on the question rose “The revenue administration provides the necessary encouragement and support to the tax payer” which shows a higher mean value above the average. This response also indicates that the tax payers are not getting the necessary encouragement and support from the tax administration.

4.3. CONTENT ANALYSIS OF OPEN-ENDED QUESTIONS

The respondents were also given opportunities to indicate their comments on some open-ended questions and to give general comment on the overall tax system. Accordingly they forwarded several comments and mainly regarding problems and measures that has to be undertaken. These comments were categorized and generally summarized under the under mentioned six points:

- The tax system lacks fairness and equity.
- Lack of sufficient awareness and education on tax
- Poor communication between the tax authority and taxpayers.
- Poor customer service.
- The existing tax rate if high.
- Absence of transparency in the overall tax system.

The respondents also stated the possible actions that have to be undertaken in order to bring about improvement in the tax system and ultimately ensure voluntary tax compliance. Based on the detail comments given by the respondents, the above points were briefly explained below.

Several respondents firmly commented that the tax system lacks fairness and equity. The principle of taxing states that similar taxpayers should be taxed similarly, Lymer and Oats (2009). However, the tax payers commented that individuals having equal income are not paying equal tax and this highly affected the taxpayers' motivation to pay taxes. In other words, as long as the tax system lacks horizontal equity it is difficult to change taxpayers' attitude in order to bring about voluntary compliance.

The other comment given by the respondents is that the tax authority does not provide sufficient education to taxpayers to increase awareness. According to the respondents one of the major causes in the overall tax system is lack of awareness which is attributed to poor tax education practice and absence of proper support and consultation between taxpayers and the authority.

There is no trust and culture of communication and consultation between the tax authority and the tax payer. This practice gives rise to the existence of a tax gap. The tax administration does not trust the tax payer and feel that the tax payer provides misleading and fraudulent financial statement.

The respondent further explained that there are several taxpayers who are not included in the tax bracket. Moreover, the tax authority exercises little effort in enforcing the tax law. This could be as result of the authority's lack of capacity.

Finally the respondents indicated that there is no transparency in the tax system. That is, the taxpayers have no access to information and they do not know how the changes, development, policies and procedures came in to existence. In other words, the policy and procedures in tax are not objectively understood by taxpayers or the tax authority is reluctant in making this procedures objective, transparent, and understandable to taxpayers.

4.4 SURVAY RESULTS FROM TAX OFFICER AND AUDITORS

Table 4.4.1 Level of education

	Frequency	Percent %
Below 12 grade	-	-
Certificate	-	-
Diploma	-	-
1 st Degree	18	100
Post graduate	-	-
Total		100.0

Source: Field Survey Data 2015

The above table shows that all the tax officers and auditors who were selected to fill the questionnaire are 1st degree graduate. It is a clear indication that all employees have basic qualification and have the capacity to deliver better service to the tax payer. They also have the capacity to understand the tax laws and are ready to take various capacity building training which enhance their level of understanding.

Table 4.4.2 Type of profession

	Frequency	Percent %
Accounting	5	27.78
Management	0	0
Auditing	2	11.11
Accounting& finance	5	27.78
Business education	2	11.11
Economics	3	16.67
Others	1	5.55
Total	18	100.0

Source: Field Survey Data 2015

From the above table we can learn that 55.56% of the respondents constitute the Accounting and the Accounting & finance professions each with 27.78% and 27.78% respectively. The rest of respondents constitute 11.11%, 11.11%, 16.67% and 5.55% in Auditing, Business education, Economics and Others respectively. Majority of the tax

officers and auditors have appropriate qualification in order to perform the duty of the tax administration.

Many of the respondents responded that there is no incentive, motivation or encouragement from the administration. Many of the respondents were not happy with the existing salary and benefit packages comparing to the responsibility and loyalty expected of them. Tax payers are mostly coming on the last days of the due date and they are overcrowded with many tax payers and working in a stressful situation and exposed them to various risks and errors.

Responses from the tax officers and auditors identified that there is inadequate resources as one of the key reasons for poor tax administration. Shortage of staff and staff turnover are also mentioned as the other major challenges.

Other challenges include poor network system and power interruption which is hindering the efficiency of the tax administration.

The tax officers were also responded that the tax payer don't submit fair and true financial statement for settling their yearly profit tax liability. It is observed that taxpayers prepare of financial statement showing low profit for the sake of paying reduced profit tax and even there is also no willingness to submit complete financial documents for audit. Due to this the tax administration lacked trust on the tax payer.

It was also indicated by the tax officer that many tax payer tend not to use the sales register machine. Many tax payers were caught by the tax intelligence office and found guilty and imprisoned. Sales register machine provides a reliable means for the tax authority to check the total sales and tax payable by individual taxpayer and means of controlling.

Many of the respondents expressed their concern that staffs are not provided with regular training to keep them abreast of developments in tax-related matters. This makes the administration of taxes in terms of customer service and support and accurate assessment very weak.

4.5 DISCUSSION

This section presents the discussion based on the identified findings shown above on the various question raise for the tax payer.

According to the response from the tax payer on the question “How the tax payer evaluates the strength of the tax authority with respect to major duty and responsibility” listed on the questionnaire, many of the respondents rated the service of the tax payer below the average level as shown on the above Table 4.6. This implies that the tax authority is not responsive towards the needs of the tax payers and do not provide adequate services to the tax payer. It also implies that the tax authority do not have the capacity to implement the tax laws and do not provide timely treatment of requests and appeals of the tax payer. If the tax payers do not get satisfactory service and treated as a major development partner of the government they will be discouraged and do not settle their tax liability voluntarily. This finding is supported by Bird and Casanegra de Jantscher, eds., (1992) who pointed out that an inefficient tax administration weakens the willingness of the tax payers to comply with the tax laws and creates room for political manipulation and in the process the government losses revenue. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently and efficient service delivery to taxpayers is a key factor against which the strength of the authority is judged.

Tax compliance will be developed only with the voluntary participation of the society. One of the areas to stress on while dealing with the issue of voluntary compliance is the development of persuasive communications between the tax authorities and taxpayers. The most effective tool for making people more positive is to empower them with knowledge. It is submitted that there is no better tool for government to positively influence the taxpayers than to provide them with knowledge on how taxpayers’ money is utilized. Any resistance or inability by government to communicate this most important area, will lead to possible speculation and resistance. Taxpayers’ attitude toward taxation is changed only through sustainable awareness creation programs. Voluntary compliance is promoted by fair and efficient treatment, clear, simple and user friendly administrative systems and procedures. To encourage compliance it is equally important that tax authority administers the law fairly.

The tax payer also responded that the tax administration did not provide them awareness and education on taxation. Tax education is a part of public relation activities, which can play important role in creating tax awareness. The taxpayers should be provided with an understanding of the significance and role of taxes in financing the government budget and also of their duty as citizens to file accurate returns and pay taxes. Providing education on tax and enhancing the level of awareness can play important role in creating voluntary tax compliance behavior. The objective is to ensure that taxpayers are aware of and understand their obligations and entitlements under the tax laws and also seek to elevate the sense of moral responsibility to pay taxes. It is important that tax officials be provided with adequate training, both at home and abroad, for a better understanding of recent domestic and international tax issues, which could then be utilized to formulate successful tax compliance strategies. But the tax officers lack uniform and satisfactory responses for the taxpayers' questions.

With regard to equity and fairness the tax payer responded that they are not fairly treated by the tax authority. Taxpayers will be discouraged to the extent that the tax is believed to be unfair and inequitable or so many others are not paying. The most obvious requirement for fairness or equity is to treat equal people in equal circumstances in an equal way. Maintaining tax equity and fairness is not achieved only through levying equal taxes on individuals who have equal income but also each taxpayer should pay according to his ability- to pay. Ensuring equity means encouraging and protecting honest and loyal taxpayers by adopting fair competition. This can be achieved by incorporating in to the tax system all those who are eligible. Generally, the authority has to try its level best in ensuring tax fairness and equity so that voluntary compliance behavior can be developed.

All the tax experts have recognized the utilization of online services as an effective factor for the efficiency of tax system. Exploitation of IT may also provide the grounds for utilization of a more efficient and more advanced management system in the organizations. This in turn will reduce time for tax payment and help curb the fraudulent activities in the tax system as confirmed by tax payers as well. Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. This directly hampers the compliance behavior of compliers and motivates non compliers to continue evading.

One of the other challenges faced by the authority is solving problem of corruption. Undesired communication of tax auditors with taxpayers was the major challenge that the tax administration is facing. There is constant interaction between taxpayers and tax officials since taxpayers have to file returns physically. This interaction encouraged the two parties to negotiate tax liability. They also are facing problems in identifying corrupted tax officers since corruption networks are between the two parties.

Tax audits in Yeka Sub City are conducted manually. Manual verification of taxpayer information is not only susceptible to mistakes by revenue officers, but also slows down the auditing process. Poor documentations are also the other challenge that was cited by the tax payer. Each of the tax payer file has to be properly documented and accessible for the tax audit and information. Effective and efficient documentation is also another manifestation of a good tax administration.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter presents a conclusion which is drawn from the study and recommendations on how the tax administration efficiently and effectively delivers its service to the business profit tax payers.

5.2. Conclusion

The sub city tax administration is the responsible body for assessing and collecting the tax revenue. The amount of revenue collected is directly dependent on the efficiency and effectiveness of the authority. In light of this fact the survey result showed the tax authority of the city administration is not efficient and effective in various aspects such as poor customer service, improving the tax assessment and collection procedures, creating awareness, enforcing the tax law, providing services, and information regarding tax. It can be concluded that, so long as this is the fact it is not easy to bring about voluntary compliance and narrow the tax gap.

The greatest challenge for any tax administration is achieving and maintaining a high degree of voluntary compliance, which can be facilitated by vigorous tax payer service and education programs and creative measures to minimize the burden on tax payers in complying with their tax obligations, Arturo Jac. (2011)

From this study it is concluded that the tax rate undoubtedly is a lot higher than what most taxpayers would like it to be. Most of the respondents feel that people should pay taxes according to their ability; in other words they feel that they do not pay about the same amount of tax as others in similar situations. Generally as long as the tax being levied is not fair and equitable it may reduce the motivation and voluntary compliance behavior of current taxpayers and also deter potential taxpayers from joining the tax system voluntarily.

The survey data has shown that majority of the taxpayers do not have detail knowledge about taxation and lack of awareness was cited as one of the major and leading reasons for not compliance and tax evasion. The respondents strongly agreed and commented that great effort has to be employed in this area. The respondents additionally commented on this issue and they reasoned out that both the tax authority didn't play their role well. Most of the respondents have no trust in tax estimation, assessment and collection procedures. From this it can be concluded that this problem has emanated from lack of awareness and problem of transparency in the activities of the authority.

The study indicated that although the majority of the respondents did not feel it is unfair to pay tax, all of the respondents have elicited certain factors that affect taxpayers' voluntary compliance and measures to be undertaken by the tax authority to ensure voluntary compliance. These factors which influence the taxpayers' voluntary compliance behavior can be concluded in that :

- equity and fairness of the tax system
- level of awareness of taxpayers
- effectiveness and efficiency of tax authority and
- the tax rate

The survey data also revealed that other factors such as taxpayers' attitude and honesty/loyalty are found to be the result of lack of awareness on taxation. Hence, it is advisable to capitalize on these factors to reinforce taxpayers' voluntary compliance. There is no magic or quick solution to increasing tax compliance. A reform strategy to increase compliance requires a concerted, long-term, coordinated and comprehensive plan.

An overly complicated tax system can overburden a weak tax administration and deter taxpayers from voluntarily paying their taxes. Too high tax rates can force taxpayers into the underground economy and destroy all efforts to increase voluntary compliance.

The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently. Functions such as tax assessment, collection, awareness creation, providing information, and enforcement has to be performed effectively and efficiently, so that it will

be perceived as strong and powerful by the taxpayers. In addition to this efficient service delivery to taxpayers is a key factor against which the strength of the authority is judged.

The sales register machine is paramount important for its valuable contribution to collect tax based on evidence from the taxpayers and also avoids frauds that could be made by sales personnel's of different business entities.. It is also seen that it is very useful for the tax payer too in maintain proper records of their daily sales. However, the survey data revealed that the tax payers are not getting adequate support from the tax office when they are facing machine failure and error records. Rather they were treated as if they are intending to cheat and deliberately perpetrated to commit fraud.

To conclude, the survey result shows there is a negative attitude towards the tax administration and the existing problems are down to lack of awareness and absence of transparency and poor tax payer service delivery and others summarized below:

- Absence of willingness and poor understanding about tax proclamations, rules and regulations by taxpayers
- Lack of sustainable educative promotion by the government
- Lack of transparency and poor customer response
- Lack of sufficient, incompetent and motivated tax officers
- The bureaucracy and length procedure to settle tax obligation
- Unwillingness to give clear information by taxpayers
- Lack of awareness of the applicable tax proclamations and laws by taxpayers and tax officers
- Frequent employee turnover
- Electric power failure
- Poor networking due to internet failure

5.3. RECOMMENDATIONS

One of the areas to stress is the development of persuasive communications between the tax authorities and taxpayers. Any Changes made on the tax policy and procedures need to be

continuously communicated. The most effective tool for making people more positive is to empower them with knowledge. Taxpayers' attitude toward taxation is changed only through sustainable awareness creation and education programs. Through taxpayer education, the taxpayer is aware of the rights, obligations and the procedures of paying taxes, as well as the consequences of non-compliance. The taxpayer can make rational decisions of complying with the tax laws, as he/she is certain of the outcome.

The tax administration has to work on public relation activities to boost the awareness level of the tax payer using radio and television and spots and consistently deliver tax education. The tax administration should also use newspapers, magazines, fliers, brochures for awareness creation strategy. With this people will be informed about their tax obligations and noncompliance can be improved.

Individuals will continue to willingly pay their taxes if they know that their taxes are being used appropriately for public goods. It is therefore recommended that the government should continuously aware the taxpaying public about ongoing projects which are being financed from their taxes. When taxpayers get feedback from their tax administration in connection with the use to which their taxes are put, their voluntary tax compliance levels will definitely increase and also the taxpayers trust on the government rises.

The tax administration should develop and maintain good working relationships with the tax payers and consistently deliver quality information and treat inquiries, requests and appeals in an accurate and timely fashion.

For efficiency and effectiveness to be attained, there is the need to increase manpower of the tax administration. The quality of personnel in terms of academics and ability and devotion has to be considered and should attract competent tax officers through incentive packages and better job security. Skilled and committed employees who are valued and treated equitably will be more likely to act fairly and professionally in all their dealings with tax payers.

It is important that tax administration officers and auditors to be provided with adequate trainings and refreshment courses, both on job and outside training and experience sharing

with other better performing sub city administration, for a better understanding and knowledge building. The working conditions of tax officials also need to be improved in order to motivate them to carry out their duties in a more efficient and professional manner.

The tax administration should adopt a service-oriented attitude towards taxpayers and must make it as easy and as least costly as possible for taxpayers to file and meet their tax obligations.

The tax administration should adopt and make simple the tax filing procedure and curtail the bureaucratic formalities in tax collection process. It is necessary to shorten the procedures such as tax assessment, tax collection and other administrative procedures. Such delay in tax assessment and lengthy tax collection processes prevent tax payer voluntary compliance and the tax administration could not reach its objectives.

There is a need to changing the attitude of tax officers towards taxpayers and avoid viewing all tax payer as evaders. The tax payer must be treated in such a way that he/she is one of the major development partners of the government and trust and due respect has to be provided to tax paying population. This will motivate the tax payer to have a positive attitude towards the tax administration and thus promote voluntary tax compliance.

Merit based and free and fair selection of best performers of the employees has to be conducted and has to be given recognition and rewards. This will obviously motivate the tax officials. An equivalent effort should be made to acknowledge and encourage the taxpayers who are complying voluntarily with their tax obligations.

In general to create an efficient tax administration, the tax authority needs to strengthen itself by educating and training its employees, improving its network operations, devoting additional resources. Training should include customer service training and cross functional training for employees so they have an understanding of the entire system of tax administration. In addition to this, the authority should make the tax law and procedures simple, understandable, and transparent. Voluntary compliance is enhanced when vibrant and efficient tax authority exists.

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APPENDEX-A

St. MARY'S UNIVERSITY

*School of Graduate Studies
Faculty of Business and Economics
MBA in Accounting and Finance*

Dear tax payer

The general objective of the study is to assess the efficiency and effectiveness of the tax administration on business profit tax and the challenges at Yeka Sub City Revenue & Custom Authority

The topic of this study is **“ASSESSMENT OF BUSINESS PROFIT TAX ADMINISTRATION IN THE CASE OF YEKA SUB CITY REVENUE AND CUSTOM AUTHORITY** “and you are randomly selected for this study among the list of tax payers.

Participation on this study will be on voluntary basis. Your confidentiality and privacy will be protected and any information provided would only be used for academic purpose. As a result it would be kept confidential and utmost secrecy would be maintained. After completion of the study you can get the final report if you are interested.

For any additional information you can contact the researcher through the following.

Mobile 0911-62-26-99

e-mail; bezakeb@yahoo.com

Beza Kebede

1. Questionnaire ID _____

I. Personal Information

2. Sex: 1. Male 2. Female

3. Age _____

4. Level of education:

1. Below 12th grade

5. First Degree

2. 12th Grade completes

6. Masters/PhD

3. Certificate

7. Other: _____

4. College Diploma

5. For how many years you have been as business profit tax payer?

1. Less than a year

2. 1-5 years

3. 6-10 years

4. More than 10 years

6. Which business category you are in?

1. A 2. B 3. C

Part II Tax payers' attitude towards the service of the tax administration

1. How do you evaluate the strength of the business profit tax authority with respect to the following parameters?

		Excellent	Very Good	Fair	Poor	Very Poor
		1	2	3	4	5
7	Customer service					
8	The yearly profit tax payment procedure					
9	Capacity the authority in implementing the tax laws					
10	Honesty and integrity of the tax officers					
11	Transparency of the tax administration					
12	Tax payers compliant handling and responsiveness					
13	Efficiency in implementing business profit tax system					
14	Convenience of business profit tax payment period					
15	Location and facility of the tax office					
16	Simplicity of the tax liability settlement forms					

Part III. Tax payers' knowledge and understanding on business profit tax?

17. What is your level of understanding on paying business profit taxes?

1. Very Poor 4. Good
 2. Poor 5. Very Good
 3. Fair

18. What is your understanding for paying business profit taxes (check all that you think appropriate)?

1. It is an obligation.

- 2. To avoid penalties, punishments
- 3. In the anticipation of receiving public services
- 4. There is no opportunity to evade.
- 5. Contributes for the development effort of the country
- 6. Don't know.

State if any other. ,

19. Do you think that the annual business profit tax you are paying is fair?

- 1. Yes
- 2. No
- 3. Do not know

If your answer is no. Why?.....

20. Are you voluntarily paying your tax obligation?

- 1. Yes
- 2. No

20. If not what is the reason for not paying business profit tax voluntarily?

- 1. Lack of awareness
- 2. Lack of ability to pay
- 3. Negligence
- 4. Complicated tax payment procedure
- 5. To commit fraud & to evade
- 6. Unknown

State if any other. ,

21. Does the profit tax authority regularly provide awareness and education about business profit tax?

- 1. Yes
- 2. No

		Excellent	Good	Fair	Poor	Very Poor
		1	2	3	4	5
22	Adequacy of the tax authority's in providing awareness and education for tax payers					

23. How often are you attending on the awareness and education sessions?

1. Four times per year 3. Twice a year
 2. Once a year 4. Not at all

If the answer is no. Why?.....

.....

24. Do you declare and settle your yearly business profit tax liability on time?

1. Yes 2. No

If your answer is no, do you have any reason for this?.....

.....

25. How long will it take to settle your yearly business profit tax liability?

1. Hours 4. More than one day 7. Three weeks
 2. Half day 5. One week 8. One month
 3. One day 6. Two weeks 7. More than one month

26. If it takes more days to settle the yearly profit tax, what is the reason for this?

1. Lack of efficiency of the tax office
 2. Shortage of tax officers
 3. The tax payer do not declare the tax obligation on time
 4. The tax payer do not submit completed document
 5. The business tax payment period is short

6. There is complicated tax procedure

State if any other. ,

.....

27. Are you currently using sales register machine?

1. Yes 2. No

If the answer is no what is the reason for not using it,

.....

		Very Simple	Simple	Moderate	Difficult	Complicated
		1	2	3	4	5
28	How do you evaluate in using the sales register machine?					

		Excellent	Very Good	Fair	Poor	Very Poor
		1	2	3	4	5
29	How do you evaluate the advantage of the sales register machine for your business?					

What kind of problem did you face in using the sales register machine? ,

.....

30. Do you get any support from the tax authority when you are facing a problem on the sales cash register machine?

1. Yes 2. No

If the answer is no, what is the reason for this?.....

.....

Questions related to taxpayers' attitude towards the tax administration.

		Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly disagree 5
31	The tax laws on Business profit is not clear and it is difficult to understand					
32	There is complicated business profit tax payment procedure					
33	The tax office do not have positive attitude towards the tax payer					
34	Business profit tax revenues are not properly used for public services					
35	The business profit tax assessment is not fair in general.					
36	The awareness level of the tax payer on business profit tax is very low					
37	Business profit tax rates are too high					

38. If you have any additional opinion concerning the annual profit tax:

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Thank you very much for your participation and cooperation.

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2. 下列各句，請選擇最適當的答句。

		答句 1	答句 2	答句 3	答句 4	答句 5
7	「你這件衣服真漂亮。」					
8	「你這件衣服真漂亮。」 「謝謝。」					
9	「你這件衣服真漂亮。」					
10	「你這件衣服真漂亮。」					
1	「你這件衣服真漂亮。」					
1	「你這件衣服真漂亮。」					
2	「你這件衣服真漂亮。」					
1	「你這件衣服真漂亮。」					
3	「你這件衣服真漂亮。」					
1	「你這件衣服真漂亮。」					
4	「你這件衣服真漂亮。」					
1	「你這件衣服真漂亮。」					
5	「你這件衣服真漂亮。」					

請將答案填入下列表格中。

16. 下列各句，請選擇最適當的答句。

- 1. 謝謝。
- 2. 不客氣。
- 3. 沒關係。
- 4. 這件衣服真漂亮。

17. 下列各句，請選擇最適當的答句。

- 1. 謝謝。
- 2. 這件衣服真漂亮。
- 3. 不客氣。
- 4. 這件衣服真漂亮。
- 5. 沒關係。

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St. Marry University
Faculty of Business & Economics
Graduate Program (MBA) in Accounting and Finance
Questionnaires for tax Officers

The purpose of the study is to analyze the prevailing Business Profit Tax Administration practice in Yeka Sub City Revenue and Tax Authority.

Responding to this questionnaire takes few minutes. Any information provided would only be used for academic purpose. As a result it would be kept confidential and utmost secrecy would be maintained. I thank you in advance for your cooperation.

Questionnaire ID _____

I. Personal Information

Age _____

Sex: 1. Male 2. Female

Marital Status: 1. Single 2. Married 3. Divorced

Job Position: _____

1. Secondary education	<input type="checkbox"/>	4. College/Univ. Student	<input type="checkbox"/>	7. Master Degree	<input type="checkbox"/>
2. TVET/College diploma	<input type="checkbox"/>	5. College/Univ. Dropout	<input type="checkbox"/>	8. PhD	<input type="checkbox"/>
3. Secondary education	<input type="checkbox"/>	6. First Degree	<input type="checkbox"/>	9. Other	_____

Types of qualification

1. Accounting	<input type="checkbox"/>	4. Business Education	<input type="checkbox"/>	7. Other	_____
2. Management	<input type="checkbox"/>	5. Commerce	<input type="checkbox"/>		
3. Accounting & Finance	<input type="checkbox"/>	6. Economics	<input type="checkbox"/>		

Total work experience in tax administration office: _____

Total work experience in tax administration office: _____

II. QUESTIONS FOR TAX OFFICERS

Instruction: Please make a tick (√) mark for which you think appropriate and give your opinion for the open ended questions.

1. What is your level of understanding on business profit tax policy, laws and regulation?

- | | | | |
|--------------|--------------------------|--------------|--------------------------|
| 1. Very Poor | <input type="checkbox"/> | 4. Good | <input type="checkbox"/> |
| 2. Poor | <input type="checkbox"/> | 5. Very Good | <input type="checkbox"/> |
| 3. Fair | <input type="checkbox"/> | | |

2. How often do you get refreshment training and updates your knowledge on business profit tax?

- | | | | |
|-----------------|--------------------------|--------------|--------------------------|
| 1. Monthly | <input type="checkbox"/> | 4. Quarterly | <input type="checkbox"/> |
| 2. Semiannually | <input type="checkbox"/> | 5. Annually | <input type="checkbox"/> |
| 3. Not at all | <input type="checkbox"/> | | |

3. Does your current salary and benefits justify your duty and responsibility?

1. Yes 2. No

4. If the answer is no, why? _____

5. How do you evaluate the Equity and Fairness of the business profit tax law?

- | | | | |
|--------------|--------------------------|--------------|--------------------------|
| 1. Very Poor | <input type="checkbox"/> | 4. Good | <input type="checkbox"/> |
| 2. Poor | <input type="checkbox"/> | 5. Very Good | <input type="checkbox"/> |
| 3. Fair | <input type="checkbox"/> | | |

If there is any other? _____

6. Is the annual business profit tax payment time is Convenience for the business profit tax payers?

1. Yes 2. No

If no, when do you think the business profit tax should be paid? _____

7. How do you evaluate the efficiency of the tax authority in collecting the business profit tax?

- | | | | |
|--------------|--------------------------|--------------|--------------------------|
| 1. Very Poor | <input type="checkbox"/> | 4. Good | <input type="checkbox"/> |
| 2. Poor | <input type="checkbox"/> | 5. Very Good | <input type="checkbox"/> |

3. Fair

8. How often does the tax authority provide awareness and education to the business profit taxpayers?

1. Four times per year

3. Many times

2. Once a year

4. Not at all

3. Twice a year

9. How do you provide the orientation and training?

1. Brochures and pamphlets

3. Electronics media TV, Radio, Internet

2. Discussion

4. With all means

3. Workshop

Any other: _____

10. How do you evaluate the participation of the business profit tax payers in attending the orientation and training sessions?

1. Very Poor

4. Good

2. Poor

5. Very Good

3. Fair

11. How do you evaluate the capacity of the tax administration in undertaking the business profit tax policy in terms of human resource and employees' moral and discipline?

1. Very Poor

4. Good

2. Poor

5. Very Good

3. Fair

12. How do you evaluate honesty and loyalty of the business profit taxpayers to the business profit tax system?

1. Very Poor

4. Good

2. Poor

5. Very Good

3. Fair

13. Do you think that social and cultural factors have an impact on business profit tax compliance?

1. Yes 2. No

If your answer is yes, state how it affects _____

14. How do you estimate the size of business profit taxpayers who do not submit fair financial statement?

1. Many 4. Average
2. Few 5. None
3. Unknown

15. How do you see the trend of business profit taxpayers who do not comply with business profit taxes laws and regulation?

1. Increasing 4. Decreasing
2. Stable 5. None
3. Unknown

16. What are the types of assessment practiced in Ethiopia?

1. Administrative assessment 2. Self-assessment 3. Both

17. which tax payers are included in this tax system: _____

18. Which type of assessment contribute (generate) higher revenue?

1. Administrative assessment 2. Self-assessment 3. Both

19. Which type of assessment is most vulnerable to the risk of fraud and corruption?

1. Administrative assessment 2. Self-assessment 3. both

20. Why? _____

21. How does the presumptive tax are determined on the tax payers.

- 1. Predetermined rate
- 2. By conducting assessment
- 3. Guessing
- 4. Location of the business
- 5. Size of the business

Please specify if there is any other ways: _____

22. Why business profit taxpayers do not comply with business profit taxes laws and regulations (check all that apply)?

- | | | | |
|-------------------------------|--------------------------|-------------------------------|--------------------------|
| 1. Lack of awareness | <input type="checkbox"/> | 4. Lack of ability to pay | <input type="checkbox"/> |
| 2. Deliberately refusal | <input type="checkbox"/> | 5. Negligence | <input type="checkbox"/> |
| 3. Poor tax collection system | <input type="checkbox"/> | 6. Lack of trust on the govt. | <input type="checkbox"/> |

If any, mention here _____

23. Is the business profit tax payment period is Convenient for business profit tax payer?

1. Yes 2. No

If the answer is not what is your suggestion time _____

24. How do you measure the cost of business profit tax collection?

- | | | | |
|--------------|--------------------------|-------------------|--------------------------|
| 1. Expensive | <input type="checkbox"/> | 3. Very minimum | <input type="checkbox"/> |
| 2. Average | <input type="checkbox"/> | 4. Not measurable | <input type="checkbox"/> |

25. Who is to blame for the poor business profit tax compliance (check all that applies)?

- | | | | |
|----------------------------------|--------------------------|-----------------------------------|--------------------------|
| 1. Business profit tax authority | <input type="checkbox"/> | 3. City government | <input type="checkbox"/> |
| 2. Business profit taxpayers | <input type="checkbox"/> | 4. License and permit authorities | <input type="checkbox"/> |

Why? _____

26. Does the political system have an impact on your as well as other business profit taxpayers' attitudes toward the business profit tax system?

1. Yes 2. No

27. How do you measure the business profit tax system and procedure?

1. Very Simple 4. Difficult
2. Simple 5. Complicated
3. Moderate

28. Does the business profit tax payer properly utilize the sales register machine? _____

29. What kind support do you give to the business profit tax payer when error occurred on the sales register machine? _____

30. Does the sales register machine have an advantage in controlling business profit tax?

1. Yes 2. No

If not why? _____

31. What measures should be taken to improve compliance behavior of the business profit tax payers?

1. Strengthening legal enforcement and penalties
2. Working more on awareness and education on tax policy, laws and regulation
3. Providing fair and equal treatment for all tax payers
4. Publicizing the development effort being made by the government
5. Reducing the current business profit tax rates
6. Improving the service delivery of the tax office
7. Improving the human and material capacity of the tax office

Add if you have additional comment _____

32. Give your general comment on the overall attitude of the public towards business profit taxation and how positive attitude towards business profit taxation can be developed. _____

Thank You!!!

St. Marry University
Faculty of Business & Economics
Graduate Program (MBA) in Accounting and Finance
Questionnaires for tax auditors

The purpose of the study is to analyze the prevailing Business Profit Tax Administration practice in Yeka Sub City Revenue and Tax Authority.

Responding to this questionnaire takes few minutes. Any information provided would only be used for academic purpose. As a result it would be kept confidential and utmost secrecy would be maintained. I thank you in advance for your cooperation.

Questionnaire ID _____

II. Personal Information

Age _____

Sex: 1. Male 2. Female

Marital Status: 1. Single 2. Married 3. Divorced

Job Position _____

1. Secondary education	<input type="checkbox"/>	4. College/Univ. Student	<input type="checkbox"/>	7. First Degree	<input type="checkbox"/>
2. TVET/College diploma	<input type="checkbox"/>	5. College/Univ. Dropout	<input type="checkbox"/>	8. Masters/PhD	<input type="checkbox"/>
3. Secondary education	<input type="checkbox"/>	6. First Degree	<input type="checkbox"/>	9. Other	_____

Types of qualification

1. Accounting	<input type="checkbox"/>	4. Business Education	<input type="checkbox"/>	7. Other	_____
2. Management	<input type="checkbox"/>	5. Commerce	<input type="checkbox"/>		

3. Accounting & Finance

6. Economics

Total work experience in tax administration office: _____

II. QUESTIONS RELATED TO THE TAX AUDIT

Instruction: Please make a tick (✓) mark you thought appropriate and your opinion for the open ended questions.

Note: You can also give your opinion in Amharic language.

1. Is there any tax audit manual?

1. Yes 2. No

2. If you have the manual how do you evaluate it?

- 1. It is clear and workable
- 2. It lacks some clarity
- 3. It is completely unclear
- 4. No opinion

3. What is your level of knowledge on tax laws, rules and regulations of e business profit tax?

- 1. Very Poor
- 2. Poor
- 3. Fair
- 4. Good
- 5. Very Good

4. If the answer for No. 3 is poor and very poor, how do you carry out your audit work?

- 1. Referring rules and regulations
- 2. Working with someone who has better knowledge
- 3. As per the knowledge gained through education and training

5. How often do you get refreshment training and updates on tax audit?

- 1. Monthly
- 2. Semiannually
- 3. Not at all
- 4. Quarterly
- 5. Annually

6. Is the annual business profit tax payment period is Convenient for business profit tax payers?

1. Yes 2. No

7. What are the types of assessment practiced in Ethiopia?

1. Administrative assessment 2. Self-assessment 3. Both

8. Which type of assessment contribute (generate) higher revenue?

1. Administrative assessment 2. Self-assessment 3. Both

9. Which type of assessment is exposed to the risk of misappropriation?

1. Administrative assessment 2. Self-assessment 3. both

10. Why? _____

11. Why business profit taxpayers do not comply with business profit taxes laws and regulations (check all that apply)?

1. Lack of awareness 4. Lack of ability to pay
2. Deliberately refusal 5. Negligence
3. Poor and tiresome collection system 6. Lack of trust on the govt.

If any, mention here _____

12. Does the non-compliance of business profit taxpayers can put the credibility and trustworthiness of the revenue administration under question mark.

1. Strongly Agree 3. Moderately agree
2. Moderately disagree 4. Strongly disagree

13. Do auditors and investigation staff have appropriate powers of access to information held by the business profit tax payers and other parties?

1. Yes 2. No

14. Do the respective government officials give/pay close attention for the business profit tax audit by assigning appropriate & skilled persons and allocating sufficient resources?

1. Yes 2. No

15. What are the types of audit most usually applied?

1. Full audit
2. Limited scope/sample audit
3. Single issue audit
4. Any of the three depending on the risk identified

16. When do you audit the business tax payers' books of records?

1. Annually
2. When the tax payers submit their annual financial statement
3. Every five year
4. Only when there are cases reported
5. Not at all

If there is any other, please specify: _____

17. How do you evaluate honesty and loyalty of the business profit taxpayers on their financial records and paying fairly the annual business profit tax?

1. Very Poor 4. Good
2. Poor 5. Very Good
3. Fair

18. How do you estimate the size of business profit taxpayers who do not submit fair financial statement?

1. Many 4. Unknown
2. Few 5. None
3. Average

19. How do you see the trend of business profit taxpayers who do not comply with business profit taxes laws and regulation?

1. Increasing 4. Unknown
2. Stable 5. None
3. Decreasing

It there any reason for this: _____

20. How are audit cases selected? _____

21. Is only one individual auditor selecting the cases?

1. Yes 2. No

22. Does the selected business profit tax payers who are to be audited notified in advance?

1. Yes 2. No

23. Does notification has impact?

1. Yes 2. No

What is the reason for this ? _____

24. Is there any legal framework to investigate the business profit taxpayers' record keeping?

1. Yes 2. No

25. Are the business profit tax payers cooperative to give essential information's?

1. Yes 2. No 3. Partially (not all)

26. Do you think that you are performing the audit works as per GASP (Generally Auditing Standards Procedure)?

1. Yes 2. No 3. Partially (not all)

27. If the answer is "No" what kind of audit standard do you follow. _____

28. Which business tax category of business profit tax payers are more difficult to audit?

1. Category A tax payers 3. Category B tax payers
2. Category C tax payers 4. All categories

29. What would the possible measures (solutions) to solve the problem?

30. How do you measure the simplicity of the business profit tax system and procedure?

1. Very Simple 4. Difficult
2. Simple 4. Complicated
3. Moderate

31. How do you measure the cost of business profit tax collection?

1. Expensive 3. Very minimum
2. Average 4. Not measurable

Do you have any reason for this? _____

32. Is there anything to add in relation to business profit tax audit practice?

Thanks.

Equity and Fairness *Similarly situated business profit taxpayers should be business profit taxed similarly.*

1. All business profit taxpayers are business profit taxed at the same business profit tax rate (a flat business profit tax) because those with higher incomes will pay more than business profit taxpayers with lower incomes.
2. Business profit taxpayers with higher incomes pay business profit tax at higher rates than lower income business profit taxpayers (a progressive business profit tax).
3. Many different types of income are business profit taxed the same (meaning, for instance, that few or no types of income are excluded from business profit taxation).

Certainty *The business profit tax rules should specify when the business profit tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.*

Convenience of Payment *A business profit tax should be due at a time or in a manner that is most likely to be convenient for the business profit taxpayer.*

Economy of Collection *The costs to collect a business profit tax should be kept to a minimum for both the government and business profit taxpayers.*

Simplicity *The business profit tax law should be simple so that business profit taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.*

Neutrality *The effect of the business profit tax law on a business profit taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.*

Economic Growth and Efficiency *The business profit tax system should not impede or reduce the productive capacity of the economy.*

Transparency and Visibility *Business profit taxpayers should know that a business profit tax exists and how and when it is imposed upon them and others*

Minimum Business profit tax Gap *A business profit tax should be structured to minimize noncompliance.*

Appropriate Government Revenues *The business profit tax system should enable the government to determine how much business profit tax revenue will likely be collected and when.*