ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

PRACTICES AND CHALLENGES OF VAT ADMINISTRATION IN YEKA SUB-CITY OF ADDIS ABABA CITY ADMINISTRATION: THE CASE OF CATEGORY "A" TAX PAYERS

BY

MISGANAW SINOR

JUNE 2016
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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING AND FINANCE CONCENTRATION)

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APPROVED BY BOARD OF EXAMINERS

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Dean, Graduate Studies   **Signature**

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Advisor   **Signature**

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External Examiner   **Signature**

_____   _____

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of the research advisor. All sources 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, 2016**

ENDORSEMENT

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

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Advisor   Signature

St. Mary's University, Addis Ababa   **June, 2016**

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LIST OF ACRONYMS

VAT: Value Added Tax

ERCA: Ethiopian Revenue and Customs Authority

EFDR: Ethiopia Federal Democratic Republic

PLC: Private Limited Company

EFY: Ethiopian Fiscal Year

BoFED: Bureau of Finance and Economic Development

RQ: Research Question

CSA: Central Statistical Agency

GDP: Gross Domestic Product

FIRA: Federal Inland Revenue Authority

AACRA*:* Addis Ababa City Roads Authority

BPR: Business Process Re-engineering

TIN: Tax Identification Number

ABSTRACT

This study examines Practice and Challenges of VAT administration in Yeka Subcity Addis Ababa Administration (the case of Category "A" taxpayers), and investigates particularly in VAT administration operation regarding the VAT registration practice, VAT assessment practice and VAT collection practice. The study adopted a cross sectional design which has quantitative and qualitative in nature. It involved descriptive research designs. The study sample comprised of 274 category "A" taxpayers of which 148 responded which was 91.35% response rate. The data was tested for reliability, and analyzed using data analysis tools SPSS 20 program, tables, percentages, frequencies, excel and results presented based on the study objectives. The techniques used in the study include survey with taxpayers, interviews with tax officials. With these research methods, the results of the study reveal that practice and Challenges of VAT administration practice have some pitfalls like decreases the tax revenue of the country, discouraging the business entering to the trade and encourages corruption, the study forwards the corrective measures to be taken by the tax administrators and taxpayers to mitigate some problems in VAT administration. Some of the results are: there is a problem of staff experience on rules regulations and new amended proclamations and the tax officials are less confidential because of job insecurity because some of the employees were fired without any material mistake as a result the majority of the employees particularly VAT assessment and collection officers are in frustration and aggressive in administering and there is no training at all for all tax officials , there is no consistent Vat rules and regulation , there are also intelligence and investigation officers they exercise their duty wrongly that means they add frustrations by looking and informing immaterial things i.e. tax notifications to anticorruption commission due to this fact tax officials develop less confidence and they leave their work, and the tax appeal committees are not professionals and they do not now the tax rules and proclamations due to this taxpayers are not satisfied enough

Key words*: VAT assessment practice VAT collection practice and VAT registration practice.*

CHAPTER ONE

INTRODUCTION

1.1.   Background of the study

Different attempts have been made by variants of writers in order to define the term 'tax' since its introduction. Dalton (1991) defines tax as "a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return." Bhatia (2003) also defines the word tax "as a compulsory legal levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct quid pro quo from the government for the contribution made .Tax is the money that you have to pay to the government so that it can pay for public services. People pay tax according to their income and businesses pay tax according to their profits. Tax is also often paid on goods and services (Oxford, 2010).

Tax assessment refers to the initial review by the tax authority of the tax declaration and attached supplementary documents submitted by   a taxpayer and verification of the arithmetical and technical accuracy of the declared tax liability and tax payable shortly after the submission of the declaration .once an income declaration is checked and verified by the concerned tax authority through a process called income tax assessment, hence, tax assessment is the end result of the process of ascertaining a tax payer's taxable income and the tax payable on that income(Tesfaye et al,2014).

Tax collection is a collection of money from taxpayers based on the tax assessment declaration or notification (Tesfaye et al, 2014).

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, and collection (Kangave, 2005).

Ethiopia's tax reform program has introduced VAT at the rate of 15% (fifteen percent) on January 1, 2003 to replace the sales tax proclamation that provides exemption for basic necessities and domestic transportation and zero rating to encourage exports and capital

investments. Subsequent to the introduction of VAT, additional exemptions were extended to basic foods, agricultural fertilizers and to other products. Unlike the sales tax, VAT provides relief of tax on all business inputs, including capital goods and business expenditures and will provide further business incentives by zero rating exports and the international transport of goods and passengers. Since domestically produced goods relieved of VAT, they will be more competitive within international markets and may mean a shift from Ethiopia's dependence on foreign to domestic trade, but it is too early to evaluate its impact. It is not, however, difficult to see that its implementation is a challenge, owing to the predominance of small and informal operators in the country, its history of tax evasion and corruption, lack of standard recordkeeping systems as well as the lack of knowledge about VAT and a tax-base for its computation.

Like many developing countries, Ethiopian government revenue derives from different sources such as tax, non-tax, loan (borrowing) and assistance. The main purpose of generating revenue from these various sources is to finance government expenditure. These public expenditures are meant for public goods and services that are very essential for the development and well-being of the society. Among the various aforementioned sources of revenue are the primary and sustainable sources of government revenue (Asamnew.n/d)

In Ethiopia, Ethiopian Revenue and Customs Authority (ERCA) is an autonomous federal government agency having its own legal personality and whose basic duties include, but not limited to :(i) to implement and enforce the tax and customs laws of the country and to administer the tax revenue of the federal government, (EFDR proclamation No.587/2008). (ii) Provide necessary support to regions with a view to harmonizing federal and regional tax administration systems and also in reference to Proclamation No.587/2008. (iii) Establish and implement modern revenue assessment and collection systems providing efficient, equitable and quality service with the sector which helps to implement awareness creation programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligation, (iv) conduct study and research activities with greater emphasis to improve the enforcement of customs and tax law (Federal proclamation No, 587/2008).

Taxes can be categorized in to direct and indirect.Direct taxes are taxes that fall on the same or a single person, Such taxes are entirely paid to the government by those persons on whom the

taxes are initially imposed or another. According to Dalton (1995) "A Direct tax is really paid by the person on whom it is legally imposed". Indirect taxes are taxes that are levied on consumption of goods and services and paid by legally entitled individuals and business entities (Income tax Regulation No, 78/2002).

The Ethiopian revenue and custom authority categorizes taxpayers in to three;

Category "A" taxpayers (Large size taxpayers) first, business income taxpayers or rental income taxpayers formed under the laws of Ethiopia or foreign laws that have separate legal personality (share company, PLC, public enterprise, public financial Agency, and foreign body's business agent residing and doing business in Ethiopia on behalf of the principal) regardless of their annual gross turnover or revenues. Second, Any other business income taxpayers or rental income taxpayers having an annual gross turnover of Birr 500,000 (Five hundred thousand Birr) or more (i.e. annual gross turnover   Birr .500, 000).

Category "B" Taxpayers (Medium size Taxpayers) which includes, unless already classified in large size, business income tax or rental income taxpayers with no legal personality and whose annual gross turnover is more than Birr 100,000 but less than Birr 500,000 i.e. Birr 100,000< annual gross turnover <Birr 500,000).

Category "C" Taxpayers (small and Micro size Taxpayers) which includes any other business income taxpayer or rental income taxpayers which are not already classified under large size or medium size, business income taxpayers or rental income taxpayers having no legal personality and whose annual gross turnover is estimated up to Birr 100,000 i.e. estimated annual gross turnover   Br 100, 000 (Income tax Regulation No. 78/2002). On the base of the above background this study investigates the VAT administration practice on tax registration, tax assessment and tax collection from Category "A" taxpayers in Yeka Sub city Addis Ababa administration.

1.2. Statement of the Problem

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

favor in countries that are politically fragile. However, the tax bases of developing countries are adversely affected by administration problems including poorly conceived tax policies and lack of certainty regarding future policy changes. In addition, tax administrations can also create problems for the taxpayers as they impose onerous reporting and record keeping requirements, perform excessive assessment and collection, fail to deal with their corrupt employees, and failure to provide transparency in the operations of tax administration (Baurer,2005). In reality, under inadequate tax administration including insufficient and ineffective tax administration, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner Edmiston and Bird (2004). It is unmoving under a number of challenges regarding its operation and administration that are not yet resolved. Weak tax administration may make the tax system unfair in that honest taxpayers would bear heavier and disproportional burden. It, in turn, may have impact on the efficiency of tax operation, and also may encourage businesses to work in the illegal economy. In Ethiopia, taxation has been used for the purpose of raising as much revenue as Possible to support the ever-expanding public expenditure needs of the different levels of government. It is also a mechanism for reduction of inequalities in income distribution, promotion of capital investment and trade, encouraging and/or discouraging certain industries depending on how suitable for country's economic development program.

However, it is not often the case to collect the potential VAT in the country due to lack of awareness of taxpayers as well as paucity of tax agencies cooperation with the business community. Tax systems are usually legislated without proper discussion with the business community. In addition, the business owners do not have easy access to and clarification on information of the tax laws. The tax agencies do not also provide advising services. As a result, taxpayers misinterpret tax rules and regulations. Moreover, they lack awareness regarding the tax type to be imposed on their doings, purpose and operation of assessment, goods and services exempted from tax, negative upshot of contraband trade, and reporting and filing requirements of the tax law.

Value added tax performance to Total revenue which accounted on the average about 24.7% of the total revenue of the city government in the year 2006 EFY has been growing from Birr 1.2

Billion in EFY 2003 to Birr 4.7 Billion after the introduction of withholding on VAT, the tax collection from this source has been improved significantly BoFED (2009). To continue the role of VAT in the government finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually acquired at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice, dearth of willingness to operate in accordance with tax laws, non-issuance of VAT invoices for buyers, and barter arrangements hidden from tax authorities. The offence was non-issuance of VAT invoices for the buyer in a belief that inclusion of VAT in the price would push the buyers to go away .At this time; over one hundred individuals who were operating in those businesses were arrested (Addis Ababa city revenue office Annual Report, 2013).To mitigate the above problems, a successful tax administration should be implemented which is capable to investigate, detect and prevent loss of tax revenue. Thus, this study assesses the VAT administration practice in Addis Ababa administration, Yeka Subcity, as there is no comprehensive study which discloses the practice in the study area before.

1.3. Research questions

For the purpose of this study, the researcher was intended to investigate VAT administration practice in Yeka Sub city by seeking answers to the following research questions:

RQ1. What is the VAT registration practice in Yeka Sub city in respect of category "A" taxpayers?

RQ2. What is the VAT assessment practice in Yeka Sub city in respect of category "A" taxpayers?

RQ3. What is the VAT collection practice in category "A" taxpayers in Yeka Sub City?

1.4. Objective of the study

1.4.1. GENERAL OBJECTIVE

The main objective of the study is to investigate VAT administration practice in Yeka Subcity Addis Ababa city administration.

1.4.2. SPECIFIC OBJECTIVE

Given the overall objective of investigating VAT administration practice in Yeka Subcity Addis Ababa administration, specifically, the study focused on the following objectives:

1. To examine VAT registrations practice in respect of category "A" taxpayers in Yeka Subcity.
2. To study VAT assessment practices in respect of category "A" taxpayers in Yeka Subcity.
3. To investigate VAT collection practices in respect of category "A" taxpayers in Yeka Subcity

1.5. Significance of the study

The findings of this study can contribute in enhancing the VAT administration of the selected Sub city in Addis Ababa administration. The government will be able to adopt a comprehensive strategy, and step up VAT registration, VAT assessment and VAT collection to increase tax revenue. The study has provided feedback to taxpayers, tax authority, academicians and regulatory bodies regarding the application of VAT registration, VAT assessment and collection practice. The study contributed in evaluating the prevailing VAT administration, registration, and assessment and collection practice identifying the pitfalls and in making improvements based on the findings on the existing tax administration systems. Finally, the study might have invaluable importance for future researchers who need to conduct a study in this and related fields.

1.6. Scope and limitation of the study

In light of the availability of data, finance and time consideration, the study is confined only to tax registration, tax assessment and tax collection practice regarding value Added Tax (VAT) in respect of Category "A" taxpayers in Yeka Subcity, Addis Ababa administration. The major limitation of the study was lack of time and it is obvious that adequate and reliable information is important to undertake any kind of survey precautions. However, the unwillingness and carelessness of some respondents while filling the questionnaires during data collection were considered as constraints to the study.

CHAPTER TWO

LITRETURE REVIEW

2.1. Introduction

This chapter presents a short review of existing theoretical and empirical literature view of tax registration, tax assessment, and tax collection. At the end of the review, an effort is made to summarize the major drawbacks of the existing empirical studies and to identify the knowledge gap or the focus of the current research.

2.2. Theoretical view of Taxation

Taxation is a system of raising revenue by a government through tax. It is a method of collecting funds by a government from tax sources to finance its operation. Taxes are in general the backbone of any politico-economic regime. Constraints on its power to take are constraints on its power to act. The levying and collecting of taxes are therefore the central function of governments in all countries .The levying and collecting system and methods obviously, vary widely according to the political, economic and social characteristics of individual countries (income tax proclamation, 78/2002). The objective of taxation can therefore to raise revenue to finance government expenditure, redistribution of wealth and income to promote the welfare and equality of the citizens, regulation of the economy thereby creating enabling environment for business to increase (Nightingale, 2002; and Lyme and Dates, 2010).

2.2.1. Tax assessment and collection practice in other developing countries.

James and Abiola (2012) in their study entitled as impact of tax administration on government revenue in the case of Nigeria have suggested that management and organizational approach in the implementation of tax administration is very weak. They also approved these weaknesses could be traced to the use of poor tools, inadequate staffing of the tax-collecting organization, poor funding, bad access road to the interior of the rural areas, poor enlightenment, lack of knowledge about their job and periodic training. Due to these practice most goal oriented agency tax officers are misfit for the job a result their employment is like putting a square peg in a round hole. If taxation is for public expenditure, public goods ought to have been consumed equally.

Laffer, (2009) cautioned that "A government simply cannot tax a country into prosperity". As important as tax revenue is to a nation, many people still find it difficult to comply with their tax obligation. According to (Nightingale, 2002), "No one really likes paying taxes yet they are inevitable for the provision of social welfare". With the exception of countries like UK, America, France and a few others where taxation seems to be the main sustenance of the economy, every other nation almost look up to the government as the almighty provider. Some argue that payment of taxes to the government is just a way of enriching the selected few political elites who have fortified themselves with powers unquestionable. Others believe that they are not getting enough from the government in return for what they are paying; a lot more believe that government is so rich that imposing tax on the people is another way of exploiting the innocent citizens.

2.2.2. Tax assessment and collection practice in Ethiopia

As Fjeldstad, (2004) suggested and Yalemtesfa Taye, (2011) retrieved the question involves asking; why should people pay taxes? For taxpayers, paying taxes to the state is a quid pro quo that is they expect public services to be provided, which is basically 'tax for service' people are more likely to pay taxes if they felt that the government was providing services equitably, collecting revenue fairly and using the revenue to provide service. They also stated as there is a tendency for the revenue and expenditure sides of the public finance equation to be treated as separate silos.

Tax assessment refers to the initial review by the tax authority of the tax declaration and attached supplementary documents submitted by a taxpayer and verification of the arithmetical and technical accuracy of the declared tax liability and tax payable shortly after the submission of the declaration .once an income declaration is checked and verified by the concerned tax authority through a process called income tax assessment, hence, tax assessment is the end result of the process of ascertaining a tax payer's taxable income and the tax payable on that income. (Income tax proclamation 78/2002).According to Gebeyehu (2008) findings the main challenges of effective tax administration are ;(I) Lack of a taxpaying culture,(ii) Weak accountability, (iii) Lack of transparency, (iv) unstable tax amendments,(v) employee turnover, (vi) luck of awareness on

tax rules and regulation,(vii) poor tax administration, (viii) lack of Knowledge about tax rules and regulations, (ix) corruptions in both sides, tax officials and taxpayers.

2.3. The legal framework of taxation in Addis Ababa city

Addis Ababa, the capital of Ethiopia, is the industrial, commercial and cultural centre of the country. Being the seat of various regional and international institutions, it is an important political and diplomatic hub of Africa. With a population of more than 2.7 million (CSA 2008), Addis Ababa is the largest city in Ethiopia. According to the 2007 population and housing census of the Central Statistical Agency, the city accounts for 30% of the nation's urban population and is ethnically diverse. 52.4% of the population is female, a slightly higher rate than the national ratio (51%). Addis Ababa also has the highest number of female- headed households (38.5%) in Ethiopia.

2.4. Powers and Duties of the Addis Ababa Revenue Authority;

1) Given by law, the authority shall have all the powers and duties to perform its activities.

2) Without prejudice to the above general statement the Authority shall have the following specific powers and duties:

- ✓ Establish and implement modern revenue assessment and collection system;
- ✓ provide, based on rules of transparency and accountability, efficient, equitable and quality service within the sector; properly enforce incentives of tax exemptions given to investors and ensure that such incentives are used for the intended purposes;
- ✓ implement awareness creation programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligations;
- ✓ carry out valuation of goods for the purpose of tax assessment and determine and collect the taxes;
- ✓ conduct study and research activities with greater emphasis to improve the enforcement of customs and tax laws, regulations and directives and the collection of other revenues; and based on the result of the study and research initiate laws and policies and implement the same up on approval;

✓ collect and analyze information necessary for the control of import and export goods and the assessment and determination of taxes; compile statistical data on criminal offences relating to the sector, and disseminate the information to others as may be necessary;

a) Enforce and implement tax laws, regulations and directives within the Region.

b) Assess and collect tax revenues that are legally specified to be collected by the Regional Government, and joint tax revenues of the Regional and Federal Governments in pursuance of delegation of power from the Federal Government, upon the recognition of the Regional Government;

c) Carryout revenue research to broaden the revenue base on the basis of the economic activity of the Region; and seek solutions to problems pertaining to tax administration of the Region

d) Direct and coordinate the implementation of tax reform program being undertaken in the Region;

e) Inspect documents found in any person's possession necessary for the execution of tax laws;

f) Develop and implement various taxpayers' education programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligation; improve staff competence in adherence to the tax administration through launching appropriate capacity building mechanisms;

g) Investigate tax offences, institute and follow up criminal proceedings in courts; for the discharge of such responsibilities, organize and administer its own prosecutors and tax criminal investigators, and control their implementation;

h)establish and implement modern tax assessment and collection system based on the rules of transparency and accountability, by providing equitable efficient and quality services; enforce tax incentives and ensure that such rights are used for their intended purposes;

j) Without prejudice to Article (6), Sub-article (2) (i), in accordance with directives issued under this proclamation, assess and collect municipality revenues and provide them the necessary technical professional support (Proclamation 91/2004);

k) Collect and compile data necessary for tax assessment, and by using the same, assess and collect taxes thereof;

l) Undertake studies, when necessary, to issue and amend tax laws, regulations and directives, and thereby submit and implement the same to the Regional Government for approval;

m) Own property, enter into contracts, sue and be sued in its own name;

n) Provide for taxpayers alternative institutions to pay their taxes

o)Prepare and submit the revenue's Authority short, medium and long term plan and budget, implement up on the approval; and submit timely report to the council of Regional Government;

p) It may delegate and implement from the specified responsibilities of this sub articles, as necessary its powers of tax criminal investigation and prosecution to the Regional police and prosecutor;

2.5. Tax Administration

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing and collection (Kangave, 2005).

Tax assessment refers to the initial review by the tax authority of the tax declaration and attached supplementary documents submitted by   a taxpayer and verification of the arithmetical and technical accuracy of the declared tax liability and tax payable shortly after the submission of the declaration. An inefficient tax administration weakens the willingness of the taxpayers to comply and create room for political manipulation and in the process the government losses revenue.(Bird), According to Musgrave's (1989),the solution to poor assessment and registration method is to employ well trained and skilled personnel who are well paid and also to employ good equipment like computers. That is the basis for efficient tax administration lies in the choice of appropriate technology and clear administrative procedures, good methods of conducting tax payer registration, assessment and the provision of public goods. Alm (1998) contents that some people do not pay taxes if they dislike the way the taxes are spent, if they feel government is not providing public goods and services, if they do not participate in the decision making or if they feel they are treated unfairly by the government. He later note that compliance increases with indicators of the availability of public goods and services, and suggest that government can increase compliance by providing goods that their citizens prefer more, by providing these goods in a more efficient manner, or by more effectively emphasizing that taxes are necessary for receipt of government services. Cavallo (2000) also argues that taxpayers tend to resist payment of taxes if they see no link between the taxes paid and the services rendered by the government. Taxes are

important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many families, business enterprises, industries and the general public. Public goods are normally supplied by public agencies due to their natures of non-rivalry and non-excludability. The former is defined as the nature of consumption of public goods is such that consumption by one does not reduce consumption for others. The later implies that consumption of public goods by an agent does not exclude others from doing same. Such nature of public goods therefore makes them impossible for private suppliers to avail them at market prices like other commodities. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods.

Quasi public goods are goods that are easy to keep nonpayer from consuming, but use of the good by one person does not prevent use by others. Also termed a near-public good, the trick with a quasi-public good is that it is easy to keep people away, and thus you can charge them a price for consuming, but there is no real good reason to do so. From an efficiency view, the more people who consume a quasi-public good, the better off society. This mixture of nearly unlimited benefits and the ability to charge a price means that some quasi-public goods are sold through markets and others are provided by government. For efficiency's sake, none should be sold through markets example education, health, etc (Smart, M.2002).

2.6. Value Added Tax (VAT) Administration Practice

VAT is a tax on consumer expenditure. It is collected on business transactions and imports. A taxable person can be an individual, firm, company, as long as such a person is required to be registered for VAT. Most business transactions involve supplies of goods or services. VAT is payable if they are: Supplies made in Ethiopia; Made by a taxable person; Made in the course or furtherance of a business; are not specifically exempted or zero-rated. The Value Added Tax would be levied at the rate of 15% of the value of: Every taxable transaction by a registered person; every import of goods, other than an exempt import; and Import of services. A person who carries on taxable activity and is not registered is required to file an application for VAT registration with the Authority if: At the end of any period of 12 calendar months the person made , during that period, taxable transactions the total value of which exceeded 500,000 Birr; or At the

beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 Birr (EFDR Proclamation 78/2002).

2.6.1. Types of VAT

Though there is legal and administrative frame work, the administration on VAT refund is still persistent problem. The problems are attributed in one way or another to the existence of widespread of tax abuse and reluctance on the part of tax officials. Bu t, one feature in VAT, as we discussed earlier, is the prevalence of refund to business entities of the tax they paid in their business against their taxable sales. The treatment for crediting or rebating varies. Accordingly, we have three types of VAT: Gross product type, Income type and Consumption type Hailemariam Mamo (2011).

i) Gross product type

In this type of VAT, taxes paid on purchases of capital goods fixed capitals and depreciations there to are not allowed to be refunded. If a person registered for VAT purchases equipments, buildings, different machineries, though there exists obvious depreciation value rebut is prohibited this type of VAT is not common as it raises stiff resistance on the part of tax payers

ii) Income type

Here, again refund ion the purchase value of capital goods is prohibited like in case of goods product type of treatment. But, unlike the previous one, it allows refund on the periodic allowance for the depreciation value of capital goods.

iii) Consumption type

This type of VAT is the most used and widely accepted one. It is almost prevalent in most states of the world. This is basically related with the fact that all business purchases including that of capital goods and related depreciations are allowed to be rebated. Thus, it is accepted easily on the part of the community subject to VAT registration. Stated otherwise in this kind of VAT, there is no discrimination among tax payers.

2.6.2. Advantage of VAT

 The following are some of the main advantages of using VAT

> **It avoids cascading effect of a tax (Tax on Tax).**

VAT works on the principle that when raw material passes through various manufacturing stages and manufactured product passes through various distribution stages, tax should be levied on the incremental value at each stage and not on the gross sales price. This ensures that same commodity does not get taxed again and again and, thus, there is no cascading effect. Putting the concept in simple terms, in VAT system, each input is taxed only once. However, this is not a condition in sales and excise taxes

> **It is a more comprehensive and equitable tax system.**

Even though the ultimate burden of VAT falls on the final consumer, VAT is collected by the government from all sectors, that is, from import, manufacturing, who sales and retail sectors. Therefore, it is a more comprehensive and equitable tax system. On the contrary, sales tax is normally levied at one stage of the whole marketing Misrak tesfaye Msc, (2008)

> **It reduces the possibility of tax evasion**

In the case of VAT, the tax is divided in to several parts depending on the number of stages of production and sale. In each stage, every transaction is made using VAT invoice approved by the Tax Authority. In addition, each VAT register person (supplier) has to maintain appropriate records on their sales and purchases transaction those obligations make tax evasion difficult Misrak tesfaye Msc, (2008)

> **It has less tax burden**

Under VAT system, the tax is collected in small fragment at different stages of production and sales, hence, the VAT payers feel the burden of the tax less Misrak tesfaye Msc, (2008).

> **It is neutral**

Regardless of the number of stages of production and distribution, VAT is collected in each stage. Therefore, VAT is expected to be perfectly neutral in the allocation of resources in the form of production and commercialization Misrak tesfaye Msc, (2008)

> **It improves productivity**

In VAT system, a firm has to pay tax even though it runs into loss. The fir m cannot claim any exemption for loss because it pays taxes on the value produced and not on profits. So, firm will always try to improve their performance and reduce the cost of production. As a result, the overall productivity of the country will be improved Misrak tesfaye Msc, (2008)

➢ **It promotes capital investment and saving**

VAT is a consumption tax since one pays VAT on its expenditure and has the option to save so as not to be taxed. Furthermore, relief from tax on capital goods may encourage investment. Potential investors also consider tax legislation as one of the factors in making investment decision Misrak tesfaye Msc, (2008)

➢ **It enhances exports**

Exports of goods and services in most countries that implement VAT are liable to VAT at zero-rate. This may make export internationally competitive and, thus, encourages exports Misrak tesfaye Msc, (2008)

2.6.3. Criticism on VAT

While elaborating points during introductory section to VAT, I have tried to see the rationales behind replacing sales tax with VAT. By then we touched up on some advantages of introducing VAT in certain tax system of state .VAT is not only with advantage scholars raise strong critics against having VAT in a state. Some of the critics are Misrak tesfaye Msc, (2008)

➢ **It is regressive in nature**

A straightforward single rate VAT with few exemptions would tax lower income groups (the poor) more heavily than the higher income groups (the rich). It is, thus, incongruent with the basic principles of taxation which state that a person should be taxed according to his ability-to-pay. This makes VAT regressive tax system. In order to compensate for its regressive effect, a number of countries have exempted basic goods particularly food items from VAT.

➢ **It requires advanced economic structure.**

The proper implementation of VAT system requires organized and advanced financial and economic structure as it is complicated system. VAT system also requires proper record keeping of invoices at each stage of production and sale by both the seller and buyer. Hence, it becomes difficult to implement the system in all types of economy.

➢ **It puts additional burden to tax authority**

In VAT system, the manufacturers, wholesalers and retailers have to fulfill various legal formalities in the form of maintaining various records, accounts, books, etc. The verification of those formalities puts additional burden to the tax enforcing authorities.

> **It is uneconomical**

VAT system involves high cost of administration, assessment, verification, collection, etc. hence, it is highly uneconomical.

> **It has ream loopholes for tax evasion**

Although VAT system requires proper record keeping of invoices at each stage of production and distribution by both the buyer and seller, it has ream loopholes for tax evasion. This may include the following:

✓ Taxpayers could over report sales of zero rated goods;

✓ Taxpayers could use invoices they received for personal purchase to claim tax credit;

✓ It enables buyers and sellers to strike secret deals with regards the issuance of receipts;

✓ It could lead to the formation of forged companies' receipts to claim tax credit on input VAT, etc.

2.6.4. Registration Procedure:

A person applying to register for VAT is required to do so in such a form as is established by the implementation directives issued by the Ministry of Revenue; When a person carrying out taxable transactions files an application to be registered for VAT, the Authority is required to register the person in the VAT register, and to issue certificate of registration within 30 days of the registration; A person registered for VAT is required to use his taxpayer identification number on all VAT invoices, and on all tax returns and official communications with the Authority. There is a VAT invoice prepared by the Ministry of Revenue containing the following information: Full name of the registered person and the purchaser, and the registered; Person's trade name, if different from the legal name; Taxpayer identification number of the registered person and the purchaser; Number and date of the VAT registration certificate; Name of the goods shipped or services rendered; Amount of the taxable transaction; Amount of the excise on excisable goods; Sum of the VAT due on the given taxable transaction; Issue date if the VAT invoice, and Serial number of the VAT invoice. The registered person is required to issue the VAT invoice to the purchaser of goods or services upon the supply or rendering, but not later than 5 days after the transaction Misrak tesfaye Msc, (2008)

2.6.5. Record Keeping Requirement

A registered person or any other person liable for VAT under the proclamation shall maintain for 10 years in Ethiopia: Original tax invoices received by the person; Copy of all tax invoices issued by the person; Customs documentation relating to imports and exports; Accounting records; and Any other records as may be prescribed by the Minister of revenue by directive. Administrative Penalties , Where any person engages in taxable transactions without VAT registration where VAT registration is required –100 % of the amount of tax payable for the entire period of operation without VAT registration; Where any person issued incorrect tax invoice resulting in decrease in the amount of tax or increase in accredit or in the event of the failure to issue a tax invoice –100 % of the amount of tax for the invoice or the transaction; Where a person who is not registered for VAT issues a tax invoice – a penalty of 100 % of the tax which is indicated in the tax invoice and is due for transfer to the budget but has not been transferred; and where a person fails to maintain records required – 2,000.00 Birr for each month or portion thereof that the failure continues. A person who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month (or portion thereof) during which the failure continues, up to 25% of such amount. The penalty's limited to 50,000.00 Birr for the first month (of portion thereof) in which no Return is filed. If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest is set at 25% over and above the highest commercial lending interest rate that prevailed during the Preceding quarter Misrak tesfaye Msc, (2008)

2.6.6. Tax payable and Tax Credits

Obviously, in introducing VAT, the government is aspiring to generate better amount of revenue than what was collected during sales tax system which had served for more than four decades but with insignificant place to become basic means of income from taxation in Ethiopian history. In short, tax payable is the amount that is expected to be collected from person registered for VAT in Ethiopia.

Art 20 in this regard runs the amount of tax payable for any accounting period by a person who is registered or is required to register is the difference between the amount of tax charged

on taxable transactions creditable tax stated otherwise, under VAT proclamations, though taxable transactions are subject to VAT. There are also deductible/creditable taxes. In this case, the amount required from the person is the simple arithmetic difference obtained by deducting creditable taxes from all taxable transactions. Instances of creditable/ deductible taxes, indicated under Art 21, includes among others:

- ✓ Imported goods that are entered to customs declaration during the current accounting period ; and
- ✓ Taxable transactions (supply of goods or rendition of services) that are used or to be used for the purpose of the registered persons taxable transactions with in the time limit indicated under Art 11 of the proclamation.

Therefore, once creditable items are identified, it is simple to calculate the total amount expected from tax payer Misrak tesfaye Msc, (2008)

2.6.7.   Reverse Taxation/Reverse Charge)

It is a situation where tax is imposed if a non-resident person who is not registered for VAT renders services to the taxable person who is resident in Ethiopia; In this case, the person who received the service has the duty to withhold VAT payable to the service provider.

In this regard, the cumulative reading of Art 23(1) and (2) tells that. If a non-resident person who is not registered for VAT in Ethiopia renders services in Ethiopia for a person registered in Ethiopia for VAT or any legal business entity, the rendering service is subject to taxation

Unlike the previous duties which are directly imposed upon the person that supplies goods or services, here, the obligation to with hold and pay tax is imposed on service receiver that is what it is called as reverse taxation.

When the customer, who received the service and with hold the VAT, the withhold tax is payable at the time of filing of the VAT return for the accounting period in which the Transaction takes place. The payment document for payment of the withhold tax is considered to be a VAT invoice and gives the customer the right to VAT credit. It should be noted that, in reverse transaction if the invoice value doesn't explicitly indicate the amount of VAT, the value would be deemed to have been inclusive of VAT Tax Invoice. Whenever you supply standard rated goods or services, which are transactions subject to tax, you must give them a document

showing certain information about what you have supplied. This document is known as VAT invoice. Tax invoice is imposed on tax payers subject to VAT. But it is also a right conferred upon such personnel, for the fact that a non-registered person cannot issue Tax invoice.

Like other documents, tax invoice for VAT is a document that clearly shows the amount of VAT payable. Issuing this document by the registered person is mandatory imposed so as to have better implementation of VAT.

As per Art 22(2) - the VAT invoice as a document is required to contain the following information's.

- ✓ the full name of the registered person and the purchaser and the registered person's trade name if different from the legal name.
- ✓ The respective identification numbers of the registered person and the purchaser.
- ✓ The number and date of the VAT registration certificate
- ✓ The name of the goods shipped or service rendered
- ✓ The amount of transaction
- ✓ the amount of excise on excisable goods
- ✓ sum of the VAT due on the given taxable transaction
- ✓ the issue date in the VAT invoice and;
- ✓ serial number of the VAT invoice

As can be logically inferred, the corollary obligations behind the particularities indicated above is, the registered recipient who has not received a tax invoice can request from the supplier and the supplier shall comply with the obligation.

Besides, the following source documents are required to be filed appropriately:

- ✓ VAT collection receipt
- ✓ list of items sold
- ✓ credit of sales invoices
- ✓ receipt for sale of zero rated supplies
- ✓ receipt for sale of exempt supplies

2.6.8. Powers of Levying and Collection Enforcement for VAT

In federal states like Ethiopia, concurrent powers of taxation is given both to federal (central)

governments and regional states. As we have seen at the beginning, the F DRE constitution divides powers of taxation between and among the federal and regional governments in the following manner. Powers exclusively given to federal government, powers exclusively given to regional governments, and concurrent powers of taxation. With respect to new taxes, that might be introduced in the future in reaction to societal needs and technological advancements the constitution submits the issue to be decided by the joint session of the house of federation and the house of peoples representatives (art.99 of the FDRE constitution.) When VAT is introduced in 2002 power of taxation was resolved by similar procedure and the joint session decided in favor of the federal government. Thus it is only the federal government that has power to levy VAT in Ethiopia.

One open fact here is persons subject to VAT reside both federal and regional states. Since VAT requires cooperation, regions are given delegations to collect returns from VAT.

Regarding collection enforcement mechanisms, the FIRA (federal Inland Revenue authority) is entrusted ways the duty of implementations of the VAT proclamation and regulation issue to supplement the proclamation.

Thus, FIRA is authorized to investigate any statements records, books of accounts submitted by any person at any time. The authority can send duly accredited inspectors to check the statements, records and books of accounts or any vouchers stocks or other material items at the person's place of business, requiring the person, or an employee who has access to produce the same. The person is duly bound to answer questions related with the collection of taxes in VAT. For this purpose any municipalities" body, financial institution, department, or agency of federal or regional governments is required to render full information to the authority.

The power is extended even up to seizure of the properties of the person liable to pay tax and failed to comply with his obligation to pay tax.

2.6.9. Appeals

Anybody that feels his rights are jeopardizing by administrative tribunal or regular courts can bring his case before competent organ. Appeal is a constitutional right as far as made in accordance with law. The VAT system is not exception to these rules. A tax payer under VAT, Who is aggrieved by the decision of tax authorities, may lodge his complaint to a body competent to hear and decide on such application. The aggrieved parts have two options: tax

appeal commission or regular courts.

The tax payer objecting the assessment by revise committee while taking appeal to Tax Appeal Commission is required to deposit 50% of the additional tax assessed Art 43(1).)

2.7. Empirical view on tax assessment and collection practice

Considering the significance of tax administration, many studies have been conducted in some developing and transitional countries with respect to the main VAT administration tasks. These studies include Jantscher (1990), Edmiston and Bird (2004), Bird and Gendron (2005), Grandcolas (2005) and Bird (2005). These papers assessed how VAT administrators in developing and transitional countries perform their duties and how the effective taxpayer requirements differ from the legislation. More specifically, the analyses focused on practices of different developing countries with respect to taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties. In addition, the costs of VAT administration were briefly examined in the case of Jantscher's (1990) study. The main conclusion of these studies is that VATs prevailing in developing countries were quite different from the broad based tax discussed in public finance literature and that administrative problems have a major contribution to this divergence. Administrative problems, in turn, may be partly caused by administrative resources constrain.

2.7.1. Empirical review on VAT administration in Ethiopia

Bekure Herouy, on his study of "The VAT Regime under Ethiopian Law", (2004) distinct Value Added Tax (VAT) as is a general consumption tax assessed on the value added to goods and services. It is a *general tax* that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons (i.e., VAT registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions is involved. According to Bekure Herouy, VAT has spread throughout the world

since its introduction in 1955. Its format has changed and now incorporates what was once an offshoot, "GST" (goods and services tax). France is credited with first implementing VAT. It did so in 1955. The tax spread through Europe, South America and parts of Africa in the 1960s and 1970s before taking a hold in other regions. For example, the tax spread throughout the South East Asia/Pacific region from 1984 (Indonesia) to 1999 (Australia).

Most of the political debate over a consumption tax has centered on whether the United States should adopt a value-added tax (VAT) similar to the ones that European countries have. While a VAT definitely is a tax on consumption, it is not the kind that most consumption, tax advocate prefer. What's more, the debate over whether to add a VAT to the U.S. tax code has obscured the more basic issue of whether to tax income or consumption. Every Member State of the European Union has a Value Added Tax (VAT). The First VAT Directive of April 11, 1967 (as amended) required that Member States replace their general indirect taxes by a common system of value added tax. In fact, the assessment base for the Member States' VAT constitutes one of the critical components of "own resources", the EU's budgetary revenue. Yet the laws establishing the VAT are national laws, each framed within certain parameters specified by the EU in the Sixth Council Directive 77/388/EEC (as amended) on the common system of VAT and the uniform basis for its assessment. This Sixth VAT Directive aims to ensure that each Member State has a broadly identical "VAT base", VAT levied on the same transactions. Its subsequent amendments have attempted to remove anomalies.

Wollela (2009), Despite the concentration of most of the prior tax compliance literature on direct taxes (mainly income tax) neglecting indirect taxes, it was noted that VAT noncompliance appeared to be prevalent, especially in developing countries. VAT noncompliance could take various forms including not registering for VAT, registering but not levying VAT (partially or wholly) on sales, levying VAT on sales but not reporting (partially or wholly), claiming credit on purchases more than the input tax paid, not claiming input VAT credits and not maintaining proper books and supporting documents. The prevalence of these forms of VAT noncompliance could be because of any of the determinants of tax noncompliance; and the level of VAT compliance costs was shown to be one of the factors potentially affecting VAT compliance decision of taxpayers.

Regarding revenue raised by VAT, in Wollela (2008), the Federal Inland Revenue Authority (2007) indicated that VAT is the principal source of revenue for the country. For instance, at the Federal level, from 2007/8-2009/10, on average in each year, the share of the VAT to total tax revenue is about 38.55% (FRCA, 2010). In Addis Ababa, in the same year, it amounts to 21.43% (AACRA, 2010). In terms of the VAT administration problem, Wollela (2008:145) stated "in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, that is, the incapacity of tax authorities to implement the attributes of the tax in practice. Wollela (2012) examines the decentralization of VAT revenue and its administration in Ethiopia is likely to impact on the proper functioning of the VAT system, and achieve the government's policy objectives at large. So, considering the practical difficulties of administering VAT at regional governments' level and the distortions of VAT revenue decentralization (revenue import among different regional governments), it is worthwhile for the government to reassess the assignment of VAT revenue and the decentralization of its administration.

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced by taxpayers and the tax authorities in administering different tax activities such as VAT registration, VAT assessment and VAT collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the registration, assessment and collection activities. Therefore, this research will identify the VAT administration practice and Challenges in Yeka sub city, addis Ababa Administration. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions. The VAT is administered by the domestic tax administration in the majority of the surveyed countries (29 out of 36), reflecting the uncontroversial decision of the authorities to administer the VAT in the same domestic tax department as the previous sales or turn over taxes. In these cases, discussions focused on the respective merits of establishing separate VAT offices or administering the VAT, with the income tax, in function based offices (Ebrill, 2001:126). In the Ethiopian case, based on the Business Process Re-engineering (BPR), offices and tasks are rearranged so that they can be process based instead of function based.

2.8.   Conclusions to the literature review and knowledge gape.

The empirical studies that have been reviewed in the preceding section focused on the different tax assessment and collection strategies that affect taxpayers, VAT in particular, and the use of tax administration strategy for improving the tax assessment and collection coverage. However, to the knowledge of the researcher, it is possible to conclude that although there have been a number of studies on tax administration related issues both in developed and developing countries, Ethiopia in particular, there are no studies that exhaustively examine the VAT administration practice in Ethiopia. Even these studies did not not assess exhaustively VAT administration practices in Ethiopia.

CHAPTER THREE

RESEARCH DESIGN OR METHODOLOGY

3.1Introduction

This section discusses the method and procedures that shows how to carry out the research. It also discussed the research design, study population, sample size and sampling design ,research instrument , reliability of the instrument ,method that were used for data analysis and limitation encountered.

3.2Description of the study area

Location: Addis Ababa, the capital of Ethiopia, is the industrial, commercial and cultural centre of the country. Being the seat of various regional and international institutions, it is an important political and diplomatic hub of Africa. With a population of more than 2.7 million (CSA ,2008), Addis Ababa is the largest city in Ethiopia. According to the 2007 population and housing census of the Central Statistical Agency, the city accounts for 30% of the nation's urban population and is ethnically diverse. 52.4% of the population is female, a slightly higher rate than the national ratio (51%). Addis Ababa also has the highest number of female- headed households (38.5%) in Ethiopia.

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The major economic activities of the study area; According to BoFED's Addis Ababa City Gross Domestic Product (GDP) estimates, the city's economic activity is dominated by the services sector, which contributes to about 77 percent of the city's economy, followed by the industrial sector whose share in the economy is about 22 percent. Agriculture contributes to less than 1 percent of the city's output.

During 2004/05 – 08/09 the city's economy is estimated to have grown at annual average rate of about 8.6% in real terms BoFED (2008) bringing a real per capital income growth of about 6 percent. Gross value added at current prices is estimated to have reached birr 43.3 billion in 2008/9. The city's per capita income is approximately three times more than the national average and most economic and social indicators including education and health coverage, road network, water supply, etc are significantly better than the national average. Around 36 percent of the city's population is living below the poverty-line and according to Addis Ababa City Administration strategic plan (BoFED 2008), out of the total economically active population of the city, about 61 percent is engaged in the informal sector. The high rate of population growth, uncontrolled horizontal expansion of the city's boundaries, and the proliferation of slums inside the inner city are contributing to the widening gap between the demand and supply of public goods and services. The housing conditions of the inner city are dominated by old and mostly congested neighborhoods that are largely made up of sub- standard rental dwellings with low level of access to major public services.

3.3 Research Design and Analysis

The study adopted a cross sectional design and the research approaches; qualitative and quantitative were used in which quantitative methodology was a dominant. The reason why the researcher used quantitative method is just to minimize the subjectivity of results since the variables is by its nature more of psychological Ruyter et al., (1997). In addition descriptive research design has been used.

 Qualitative research was used to describe or explain what is happening within a study area. Qualitative method mainly includes three kinds of data collection: in-depth interview, direct observation, and written documents (Patton, 2003). For this study, data were collected through in-depth interview and documentary analysis. The following discussions present the in-depth interview and document study. In-depth interview an interview is a purposeful discussion and/or conversation with two or more people, and helps the researcher to gather valid and reliable data that are relevant to achieve research questions and objectives. Interviews might be structured (using standardized questions), semi-structured, and unstructured (in-depth) conversations Saunders et al (2003). Structured interview uses pre-established questions, asked in a

predetermined order. On the other hand, unstructured interview attempts to draw out information, attitudes, opinions, and beliefs around particular themes, ideas, and issues without the aid of predetermined questions Leary (2004). This study applied in-depth interview to explore the data that is unclear for the researcher and the information that have not been collected through survey analysis by allowing the interview to remain flexible. To determine the sample size no formula exists in qualitative research. There is a tradeoff between depth and breadth, given limitation of time and money (Patton, 2003). Thus, in-depth interview is conducted with four higher tax officials of ERCA in Yeka Subcity as well as taxpayers, with the intent of gathering information that needs clarification and not be achieved through other techniques. In order to help to hold experienced or concerned respondents, purposive sampling is used. In such type of sampling, it is not possible to specify the possibility of one person being included in the sample. And the study was mainly depending on the primary data.

3.4 Data type and Data Sources

As the research were intending to investigate practice and challenges of VAT administration. The researcher makes use of both primary and secondary data from respondents as it relates to the "VAT registration, VAT assessment, and VAT collection practice "in Yeka Sub city AA administration. The Primary Data was collected through standard questionnaires which were developed by Gloria Mesiku (2011) and self-structured open ended interviews were distributed to the respondents. Secondary data was collected through review of articles in the journals, publications, regulatory books. Text books, Addis Ababa administration revenue office documents are reviewed.

3.5 Sampling Design and Techniques

With the application of a stratified sampling, the total population are grouped as importer and exporter; wholesalers and retailers; manufacturer; and service provider. Then after, simple random sampling has been applied to select sample of category "A" taxpayers in the sub city from the respective group based on the list of category "A" taxpayers containing their respective business sector and address. There are 274 Category "A" taxpayers in Yeka sub city. The target Category "A" tax payers include; general importers and exporters, travel agencies, hotels and restaurants, sugar retailers, construction contractors, consultancy firms, education centers,

construction machineries and equipments rent providing firms, book stores, sales agencies, house hold gadgets retailers, photo shops, travel agencies, insurance firm, butchers, decor firms, electric lift repair shop, printing firms, Chat retailers, building rent providers, clinics, transistor, fuel stations, whole sellers, groceries, fruit and vegetable shops, stationeries, dairy product shops, cake and bread bakeries, advertising firms, and boutiques.

3.6 Sample Size

There are several methods for determining the sample size, but in this research the researcher took a formula developed by Yamane (1967:886) to determine the sample size.

Yamane T. (1967:886) used: the following formula to determine the minimal sample size of a given population size.

n =   N   =274/1+274(0.05)2 = 162 (taxpayers).

   1+N (e) 2

Where: n = sample size, N = population size and e = the level of error. In this research a degree of variability (i.e. proportion) and a confidence level of 95%.

The target population is 274 Category "A" taxpayers and 4 high tax officers at 5% standard error are required The sample to be examining is 162 taxpayers selected and four large size tax officials in the revenue office selected for interview.

Types of Business	Total Population	Sample selection	Number of Respondents	percentage of Respondent rate	Non respondents	Non respondents rate
Merchandise	153.00	108.00	103.00	95.37%	5.00	4.63%
Service	59.00	30.00	25.00	83.33%	5.00	16.67%
Manufacturing	9.00	7.00	5.00	71.43%	2.00	28.57%
Others	53.00	17.00	15.00	88.24%	2.00	11.76%
Total	274.00	162.00	148.00	91.36%	14.00	8.64%

The sampling design for this population is stratified sampling technique (probability), because it is more precise and to the great extent which avoids bias. After determining the target population size by using stratified sampling technique the population stratified in to four main homogenous groups namely Merchandise (importers and exporters; wholesalers and retailers); manufacturers; ,service providers and other.

After stratification the simple random sampling technique was used to select the representative sample from each stratum which contains a population size.

3.7 Data Collection Instruments

Primary data was obtained from the selected category "A" taxpayers using self-administered close ended questions targeted to the selected category "A" taxpayers found in Yeka Subcity Addis Ababa city administration. The questionnaire were designed according to the objectives and study variables and responses to the questions were anchored on a five (5) point Liker scales ranging from 5 – strongly agree to 1 - strongly disagree. Part one of the questionnaires has been used to gather biographic information. This instrument was adopted, because it allows systematic collection of information about the objective of the study.

3.8 Data Processing, Analysis and Presentation

After collecting the data, it has been edited, coded and checked to have the required quality, accuracy and completeness. Then the data has been analyzed using SPSS V.20 program which provided descriptive outputs.

3.9 Questionnaire Design

According to Gebeyehu (2008) Questionnaire design for tax assessment and collection problem surveys typically helps to extract information on the characteristics of the business, the time spent on each VAT registration, VAT assessment and collection case by tax officials, issues of tax related practices by taxpayers, and any other related issues. The questionnaires were designed to meet the following objectives, Clarity: The questions were kept short and precise and the language is as simple as possible to encourage legibility and maximize the response rate (Amharic version).Comprehensiveness: the number of questions was keeps to a minimum to encourage responses. However, it has to be necessary to collect a large amount of relevant quantitative. Attitudinal questions: Tax officials were asked to respond on their attitudes towards

the existing VAT assessment and collection system for the government as well as for the tax payer. Questionnaires were distributed through face to face for all respondents. The tools of analysis were Spss 20. Version, tables, excel And the questionnaires were adopted from (Gloria Mesiku, 2011).

3.10 Ethical considerations

In the context of research, according to sauders, Lewis and Thorn hill (2001:130), "… ethics refers to the appropriateness of your behavior in relation to the right of those work, or are affected by it".

The researcher has taken in to account the dignity and safety of the research participants. Participants have been given enough time to fill and return the questionnaires in order to enhance the validity of the information and for not infringe their precious work time. The respondents are not enforced to participate in the study .rather; the researcher has convinced them by explaining the general objectives and confidentiality of the information, the area and time taken to finish the questionnaire. In addition, the researcher respects the work of previous investigations and cited appropriately those works that has been taken as a basis. The researcher has never exposed the specific raw data of specific tax payer for anyone else and will strictly confidential.

Participants has been given the choice to participate or not to participate, and furthermore informed in advance about the nature of the study, the nature and quality of the participants' practice has been kept strictly confidential, findings are ready to be reported in a complete and honest fashion, without misrepresenting what has been done or intentionally misleading others as to the nature of it. Data was not fabricated to support a particular conclusions .finally it is good research practice to offer confidentiality or anonymity, as this will lead to participants giving more open and honest responses. Therefore this research is strictly confidential.

CHAPTER FOUR

RESULTS AND DISCUSSION

The pervious chapter, the research methodology has been discussed, and the methods adopted for the study to attain the objective have been stated. This chapter presents the result and analysis of the data collected using different methods .this chapter is organized in six sections .The first section 4.1 presents characteristics of respondents second section 4.2 Reliability test 4.3 the VAT registration practice, the fourth section 4.4 presents VAT assessment practice, the fourth section 4.5 presents VAT collection practice presents 4.6 presents correlation 4.7 presents interview result section eight and the nine present summaries of findings.

Currently, the government of Ethiopia, like many other governments, seeks to raise revenue mainly through taxation in order to cover its expenditures on infrastructure development in particular.

4.1.   Characteristics of respondents

Table 1: Distribution of the Gender, Age and Education group of respondents

Variables	Values	Frequency	Percent
Gender	Male	40	27.0
	Female	108	73.0
	Total	148	100.0
Age	18-28	18	12.2
	29-39	61	41.2
	40-50	55	37.2
	Greater than 50	14	9.5

		148	100
Education	Total	148	100
	Primary	2	1.4
	Secondary	7	4.7
	Diploma	55	37.2
	Degree	84	56.8
	Total	148	100

Source: survey, 2016

Wellela(2008) stated that the response rate 71.8 per cent was reasonably good in consideration of the difficulty to collect data in poor developing countries, Ethiopia in particular. In line with this assertion for this study, the response rate was 91.35 percent or 8.65% were invalid; as a result it was rationally very fine. Tittle,(1980) and Jackson and Milliron,(1986) reported that the empirical Early research testing the tax compliance level of males versus females reports that females are more likely to tax compliance and traditionally "females identified with conforming roles, moral restraints, and more conservative life patterns and The survey result in (table 4.1)above shows that majority of respondent's 73 per cent were Female and 23 per cent were males this indicates that in Yeka Subcity Addis Ababa administration revenue authority most category "A" tax pares were Females.

Tittle e etal, (1980) pointed out young taxpayers are more willing to take risks and are less sensitive to endorsements as well as age is a factor for intentional evaders, with younger taxpayers less complain. In addition noncompliance is significantly less common and of lower magnitude among householders in which either the head or the head's spouse is over age 25 to 39; all these attributes may promote higher tax compliance. In line with (Tittle e tal, 1980) the survey result in table 4.1 above shows 41.2% of the respondents were the ages of 29-39 years old, 37.2% respondents were the age of 40-50 years old, 9.5% of the respondents were the age of greater than 50 years and 12.2 % of the respondents were the age of 18-28 years of old. This indicates that most of category "A" taxpayers in Yeka Subcity were 29-39 years who were promote higher tax compliance.

The above table confirmations more than half of the respondents (56.2%) had a qualification of Degree, (37.2%) of the respondents were Diploma, and (4.7%) of the plaintiffs were Secondary and the remaining (1.4%) of the respondents were Elementary. From this characteristic more than half of the respondents are more educated (50.4%) who has Degree educational status. This depicted that most of Vat payers in Yeka Subcity were more educated. Education, as a demographic variable relates to the taxpayers "ability to comprehend and comply or not comply with the tax laws" Groenl and Veldhoven, (1983).

The job opportunity for highly educated peoples is high that means literate peoples are highly joining in the trade or market, while less educated people are out of the market

Table 2: Distribution of the type of business, Sales, VAT and Capital

Variables	Values	Frequency	Percent
Business	Merchandise	103	69.6
	Service	25	16.9
	Manufacturing	5	3.4
	Others	15	10.1
Sales	Less than 500,000	27	18.2
	500,001-1,000,000	90	60.8
	1,0000,001-10,000,000	28	18.9
	10,000,001-40,000,000	3	2.0
VAT	Less than 100,000	21	14.2
	100,001-150,000	46	31.1
	150,001-350,000	51	34.5

|			
	350,001-450,000	30	20.3
CAPITAL	Less than 5,000,000	32	21.6
	5,000,001-10,000,000	98	66.2
	10,000,001-20,000,000	16	10.8
	20,000,001-30,000,000	2	1.4

Source: survey, 2016

In table 2 above shows distribution of the type of business 69.6% were merchandise, 16.9% were service , 3.4% were manufacturing business and the reaming were 10.5% other businesses , from this respondents characteristics the merchandise business is the dominance one and the manufacturing business is the least one. Which indicates the merchandise business can be done with small capital and which is easy to administer relative to others sectors.

In the above table shows that majority of the respondents (60.8%) have business turnover ranging from 500,000.00 to 1,000,000.00 and (18.2%) respondents have business turnover of less than 500,000.00, and (18.9%) respondents have business turn over between 1,000,001.00-10,000,000.00 and the rest(2.0%) were between 10,000,000.00-40,000,000.this indicates that most of category A taxpayers are in between 500,000-1,000,000 which is fair because a tax payer is considered as Category "A " if and only if their annual sales turnover is greater than or equal to 500,000 except some special cases like forced VAT registered taxpayers even if their sales turnover is less than 500,000 they can be considered as Category "A" taxpayers.

In the above table shows that the respondents initial capital of less than 5,000,000 were 21.6%, 5,000,001-10,000,000 were 66.2 %, 10,000,001-20,000,000 were 10.8% ,20,000,001-30,000,000 were 1.4% therefore most of the taxpayers initial capital were 5,000 ,000 to 10,000,000 Which implies that most of the taxpayers are running their business with less amount of capital that is why their annual sales also less.

Regarding VAT, the table shows that majority of respondents are in between 250,000 to 350,000 were 34.5%, less than 100,000 were 14.2%, 100,000 to 250,000 31.1, 350,000 to 450,000 were 20.3 therefore most vat are not paid properly.

Graph 1 Data of Employees
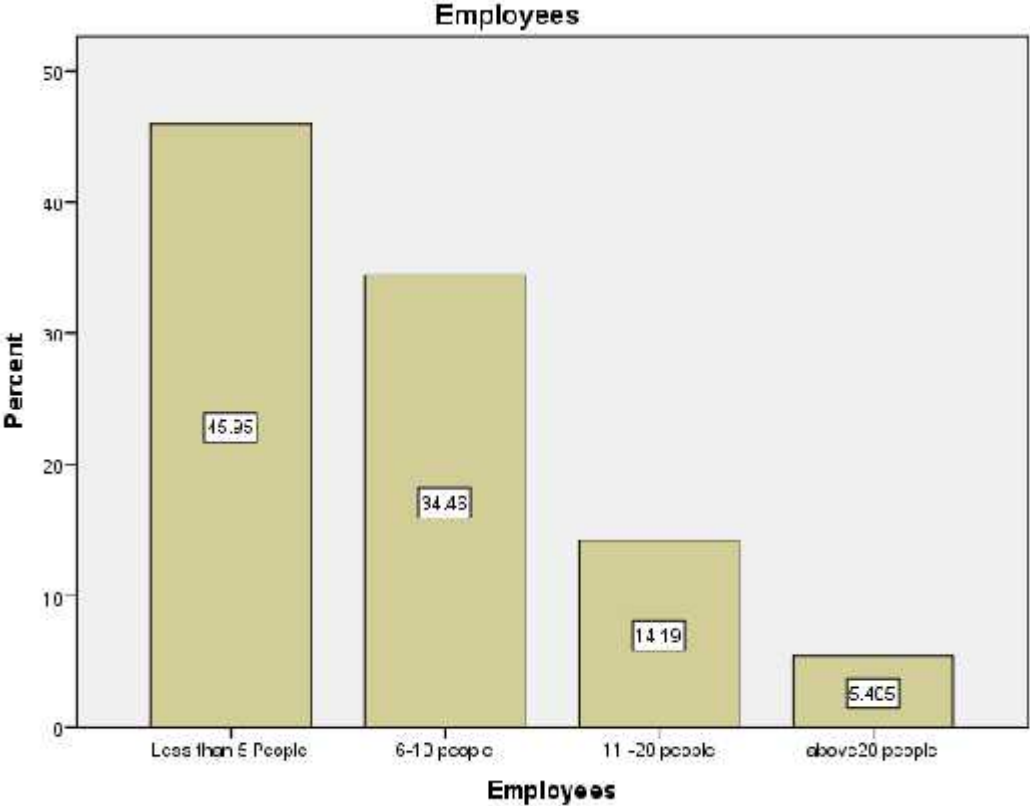
In the above chart shows distribution of employees in the taxpayers business and 45.95% of respondents have less than 5 employees,34.46% of respondents were 6-10 employees , 14.19% were 11-20 employees , 5.41 % respondents have more than 20 employees. There for most of the business organization having less number of employees.

Graph 2 Data of Duration
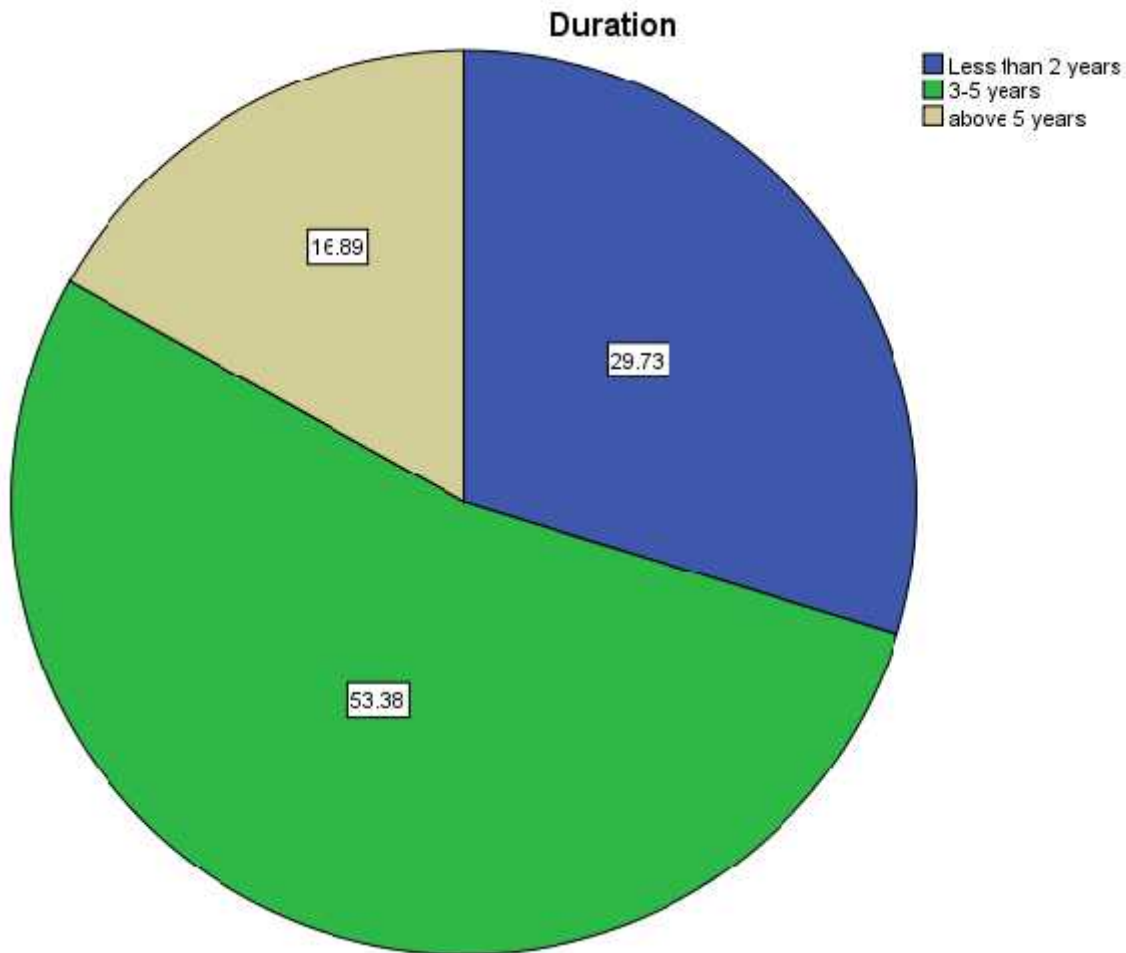
In the above chart shows the respondent's experience in the business 53.38 % of the respondents were between 3-5 years, and 29.73 were less than 2 years, 16.89% were greater than 5 years. From this almost all of the taxpayers have an experience of less than 5 years. This indicates that most categories "A" taxpayers are less experienced which may be less turnover of the business sector and the ownership of the business.

4.2. Reliability Test

As stated by "Hair et al., (2007) reliability indicates the extents to which a variables or set of variables is consistent in what it is intended to measure" (Cited by Siddiqi; 2011:20). Reliability analysis used to measure the consistency of a questionnaire. There are different methods of reliability test, for this study Cronbach's alpha is considered to be suitable. Cronbach's alpha is

the most common measure of reliability. For this study the Alpha coefficient for the overall scale calculated as a reliability indicator is 0.60. The Alpha coefficients for the scales were presented on the following table. As described by Andy (2006) the values of Cronbach's alpha around 0.752 is good. The alpha vales in this study are around 0.752 and above therefore it is good.

Table 2.1: Result of Reliability Test

SERVEQAL Dimension	Numbers of Attributes	Cronbach's Alpha of Perceived performance
Vat Registration	**6**	**0.654**
Vat Assessment	*15*	**0.766**
Vat collection	*6*	**0.722**
Overall	*27*	**0.752**

Source: SPSS reliability result output

According to best standard variables with the mean ranging from 1-1.8 is the lowest, with the mean ranging from 1.181-2.61 is low, with the mean ranging from 2.62-3.41 is average/moderate, and with the mean ranging from 3.42-4.21 is Good/High, and with the mean ranging from 4.22-5.(1977 scale of best standard).

4.3. VAT registration practice

Table 3 the mean and standard deviation of vat registration

VAT registration practice	N	Mean	Std. Deviation
I voluntarily registered as a tax payer with tax admin office.	148	3.32	1.240
Tax payer registration is normally conducted in a good way.	148	2.82	1.080
Tax registration procedures are simple.	148	2.50	1.259
The way the registration exercise is conducted.	148	2.27	1.034
I am absolutely confident about the legitimacy of the claims in tax return.	148	2.63	1.343
When I registered I was allocated a tax identification number.	148	3.32	1.256
Grand Average mean and SD		2.80	0.513

Source; survey, 2016

Standard deviation is the most frequently calculated measure of variability or dispersion in a set of data points the standard deviation values represent the average distance of a set of scores from the mean or average score. A smaller standard deviation represents a data set where scores are very close to the mean score (a smaller range). A data set with larger standard deviation has scores with more variance (large range).

Average grand mean and standard deviation regarding vat registration dimension result from the above (table 3) were 2.80 which shows below average mean according to best standard and grand average standard deviation of vat registration deviates 0.513 from its mean and which indicates that there is small variation in Vat registration practice because taxpayer registration is not normally conducted in good way, taxpayers voluntarily registered as a taxpayer with tax admin office, taxpayers are not absolutely confidential about the legitimacy of the claims in their vat return, unclear registration procedure which have been complex procedure and also which confirmed through interview result and when taxpayers registered tax identification number were allocated . VAT registration procedures are long, tedious. .The other problem contrary to the survey result observed from the interview result made was that there are taxpayers owing different business entities but with different TIN numbers. Furthermore the prevalence of firms performing business without being registered or having TIN created duplication and falsification of address and there is a less use of technology like computers in obtaining data of taxpayers.

4.4. VAT assessment practice

Table 4 the mean and standard deviation of vat assessment

VAT assessments	N	Mean	Std. Deviation
I take full responsibility for assessing my own VAT liability.	148	3.24	1.337
I have full responsibility to declare VAT in every month	148	3.64	1.256
Assessment of VAT is based on your declaration.	148	2.91	1.242
The tax office considers the concerns of average citizens when making decisions.	148	2.68	1.278
The Tax Office respects each individual's rights as a citizen.	148	2.61	1.317
The tax office tries to be fair when making decision.	148	2.55	1.342

The tax Office gives equal consideration to the views of all taxpayers.	148	2.53	1.367
The tax Office gets the kind of information it needs to make informed Decisions.	148	2.54	1.253
The frequent inspections motivate me to comply with tax laws.	148	2.42	1.251
There is a clear guideline on procedures of appeal.	148	2.45	1.321
The ax authority treats people as if they can be trusted to do the right thing	148	2.13	1.230
The tax Office treats people as if they will only do the right thing when forced to do so.	148	2.83	1.435
The tax office consults widely about how they might.	148	2.61	1.393
Change things to make it easier for taxpayers to meet their obligations.	148	2.74	1.361
The tax office goes to a great length to consult with the community over changes in the tax system.	148	2.47	1.357
Grand Average mean and SD		2.69	0.637

Source, survey, 2016

From the above (table 4), the researcher conducted that the grand average mean and standard deviation are 2.69 $\pm$ 0.637 respectively which have variability. Regarding vat assessment dimensions resulted from the above table the average grand mean of the vat assessment were 2.69 which show average/moderate mean according to best standard and standard deviation regarding vat assessment dimensions which deviates 0.637 from its mean. This has small variability in vat assessment according to the study through questionnaire instrument survey. some of the possible reasons of the variability based on the survey study were the tax officials give un equal treatment to the view of all taxpayers, there were no clear guideline on procedures of appeal, the assessment of vat was not based on the capacity to pay principle ,the tax office could not consider the concern of average citizens when making decisions which is contrary to adam smith(1776),posit that a good tax should have the qualities of equitability, efficiency, neutrality, flexibility and simple . And the tax office does not go to a great length in consulting the taxpayers over changes in the tax system. and the interview result confirms the survey result

as it shows were lack of awareness; tax officers do not understand the tax rules and regulations, they dislike paying vat which is in line with (Nightingle,2002) concludes that no one really likes paying vat yet they are inevitable for the provision of social welfare. The tax assessment and collection officials do not respect taxpayers as citizens when given decision and it also erode the trust of the tax payer's interest to pay. From the interview result taxpayers have rent seeking ideology, and the members of the appeal commission at every level shall be appointed from among persons having good reputation, acceptability, integrity, general and professional knowledge and from among persons who have not committed any offense in connection with vat administration but in the case of yeka subcity the appeal committees which is not applied which means simply appointed by the Mayer. Tax administration team in particular vats assessment and collection officers resign themselves from their position because of job insecurity. From this research interview result the researcher observed that, less experienced tax officers, and taxpayers changing their business type and falsification of address, Lack of a taxpaying culture, Weak accountability, Lack of transparency, unstable tax amendments, tax officers turnover, luck of awareness on tax rules and regulation, lack of Knowledge about tax rules and regulations, corruptions in both sides, tax officials and taxpayers which is in line with the study by Gebeyehu (2008). Luck of awareness on tax rules and regulation, lack of Knowledge about tax rules and regulations were in line with Mihiret, (2011).

4.5. VAT collection practice

Table 5: Mean and standard deviation of vat collection.

VAT Collection	N	Mean	Std. Deviation
I can accurately determine my VAT liability.	148	3.23	1.494
It is everyone's responsibility to pay the correct amount of vat.	148	3.43	1.070
I have never attempted to avoid VAT.	148	3.36	1.161
I pay actual VAT assessed.	148	3.25	1.261
I always pay my VAT in time.	148	3.94	0.984
I always file my taxes in time.	148	3.66	1.104
Grand Average mean and SD		3.48	0.52

Source: survey, 2016

In the above (table 5) shows that taxpayers Grand average mean regarding vat collection dimensions result were 3.48 which show good/high mean according to best standard and Grand average standard deviation in vat collection dimension were 0.52 deviates from its mean which show insignificant relative to some of the possible reasons that makes the variability low is that taxpayers fill their tax on time, taxpayers have not exaggerated the amount of vat return according to the survey result but in the interview result taxpayers minimized the amount of vat payable, taxpayers that paying fair tax is everyone's responsibility in contrary to the interview results from tax officials, which indicates that in category "A" taxpayers were not responsible to pay the correct amount of vat and in the previous study by (Asaminew, nd), which confirms the result. Tax officials are less confidential in rules and regulations and there is frustration of investigation and intelligence officers because those intelligence officers miss exercise their power and inform to anticorruption commission and to Inland Revenue authority and the authority have absolute power to fire tax officers without any evidence and material mistake.

4.6. Correlations

Table 6   Correlations

	Vat Registration	Vat Assessment	Vat collection
Vat Registration	1	0.127	-0.096
Vat Assessment	0.127	1	-0.296[**]
Vat collection	-0.096	-0.296[**]	1

 **. Correlation is significant at the 0.01 level (2-tailed).

In the above table Vat collection has a negative relationship with vat registration and vat assessment which means even if there is a challenging on vat registration and vat assessment process, the tax payers are trying to pay their vat accurately and on time. Long time process is taken to registered vat and also there is no systematic system of assessment of vat declaration and the tax officers are few when compared to the people or the business men that declares vat every month so that within a lot of challenges from the inland revenue and custom office most people are declaring their vat in each month. But, According to the interview result there is a

problem also on vat collection due to people uses vat receipt of personal purchase or unnecessary purchase which minimizes the vat payables or increases vat claims.

4.7.   Interview result

This study employed in-depth interviews with higher tax officials. In the context of the above data sources, the following section presents the results of in-depth interviews with 4 higher tax officials. As far as this study is concerned on the issues of practice and challenges of VAT administration, the participants some ideas. Accordingly, from the different tax administration dimension, 25 percent of interviewees showed that taxpayers had fair opinion towards the current tax administration practice whereas 75 percent of them however were unhappy with the prevailing Vat system. This aimed at obtaining the officials and tax payer's awareness on tax registration practice, the tax assessment practice and tax collection practice on VAT system and the effect of tax knowledge and tax procedures complexity on VAT administration. In the study, higher tax officials in the vat payers response that they share the problems or the variances that is shown in practice, the tax officers in the detail interview responded that there is a problem of staff experience on rules regulations and new amended proclamations and the tax officials are less confidential because of job insecurity because some of the employees were fired without any material mistake as a result the majority of the employees particularly VAT assessment and collection officers are in frustration and aggressive in administering and there is no training at all for all tax officials , there is no consistent Vat rules and regulation , there are also intelligence and investigation officers they exercise their duty wrongly that means they add frustrations by looking and informing immaterial things i.e. tax notifications to anticorruption commission due to this fact tax officials develop less confidence and they leave their work, and the tax appeal committees are not professionals and they do not now the tax rules and proclamations due to this taxpayers are not satisfied enough .and also tax officials said that there is a problem of rent seeking ideology on the side of the taxpayers .This all makes the VAT administration practice in Yeka Subcity Addis Ababa city administration less compliance with tax laws .

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

The main objectives of this research have been to investigate Practice and Challenges of VAT administration practice in respect of category "A" taxpayers in Yeka Subcity of Addis Ababa City administration. Both survey and interview techniques were employed to investigate the existing VAT administration practice of the selected Subcity. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

5.1 SUMMARY OF FINDINGS AND CONCLUSION

The previous chapter presented the results and analysis of the study. This chapter provides the conclusions and recommendations in line with the findings of the study. The chapter is structured in to two sections. The first section deals with conclusions whereas the second section presents some recommendations suggested that have been identified in the study.

Thus, the study examined the VAT registration, VAT assessment, collection practice in Yeka Subcity of Addis Ababa city Administration (the case of category "A" taxpayers) the study was conducted to investigate the VAT assessment, collection and registration practice.

The study adopted the primary and secondary data and the primary data were the dominant one specifically, the techniques used in the study include survey with taxpayers and interviews with tax official's .Specifically, the findings from the discussions are concluded in the subsequent paragraphs.

- ✓ The tax assessment and collection officials do not respect taxpayers as citizens when given decision and it also erode the trust of the tax payer's interest to pay.
- ✓ Regarding tax assessment staff, there is no competency assessment model and there is no training and less emphasis is given for continuous upgrading the capability and knowledge of staff resources once they have given and held a particular position. There is also higher staff turnover in the tax authority, tax assessment team in particular.
- ✓ The authority fails to retain proficient and well-trained VAT assessment. As a result, Yeka Sub city tax administration office does not have experienced and proficient tax assessment

and collection officials especially the tax office needs especially trained employees who have knowledge on VAT rules and regulation.

✓ There is poor VAT administration practice in Yeka Subcity Addis Ababa Administration in the case of category "A" taxpayers.

✓ The research concluded that lack of education on VAT constitutes the nucleus of the key challenges faced both VAT collectors and tax payers.

✓ VAT administrations practice is not at the required level of operational capability to conduct VAT assessment and professional capability to give appropriate services to taxpayers.

5.2 RECOMMENDATION

Based on the above mentioned findings, the writer forwards the following points as his brief recommendations;

✓ The higher tax officials should respect and treat equally all taxpayers in the office.

✓ Tax officers and taxpayers need continues training on awareness creation on tax rules and regulations to improve VAT administration.

✓ From the interview result most of the core tax coordinator in tax administration office was not professionals therefore which has to be improved by the concerned party.

✓ According to interview result VAT assessment and collection practice were not following the appropriate rules and procedures, category "A" taxpayers can be assessed not based on the actual vat receipts or the financial documents which violets the tax rules and regulations and also which opens the door of corruption.

✓ VAT registration procedures are long and tedious there for which should be improved.

✓ The tax authority should make guarantee for his employees job security to do their jobs confidentially and give continues training.

✓ To avoid unnecessary VAT registration procedures, Yeka Sub city tax administration should consider the inherent factors in specific sector and economic conditions and should have well established accountability to alleviate the risk of corruption.

✓ Tax administration office should sufficiently use an investigative approach to check and it should use an investigatory approach to establish the completeness, accuracy, timeliness,

credibility and validity of taxpayer's VAT declarations, disclosures, and other financial arrangements.

✓ The subcity administration revenue office should increase the number and improve the capability of total tax assessment staff members to achieve required vat assessment quality that might improve overall administration and future vat revenue performance. There should be appropriate need assessment and employees should have been given training based on the gap identified. Staff should have been given continuous training so that their skills are kept up-to-date and relevant. Further, the authority should supply sufficient computers and should have well established tax systems which are suitable to taxpayers. The authority should also found a mechanism to retain the qualified tax officials.

✓ Tax administration team in particular tax assessment and collection officers resign themselves from their position because of job insecurity which should be seen by legislative and judiciaries.

✓ This study did not show all gaps of practice and challenges of vat administration due to short period of time so that it is important for further study in this area.

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Appendix 1- Practice and challenges of VAT administration survey instrument.

ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

PRACTICES AND CHALLENGES OF VAT ADMINISTRATION IN YEKA SUB-CITY OF ADDIS ABABA CITY ADMINISTRATION: THE CASE OF CATEGORY "A" TAX PAYERS

Questionnaire

Dear respondent,

A study on "**practice and challenges of VAT administration in Yeka sub city of Addis Ababa Adminisration: the Case of Category "A" "** will be carried out leading to the award of a **MBA in Accounting and Finance** which can be conducted by **Misganaw Sinor**. This study is enlightened the business community, policy makers and the general Public about the above area of study. In order to accomplish this study, I requesting you to complete this questionnaire. The information obtained has to be used purely for academic purposes and therefore be treated with utmost confidentiality .If you are interested in the results of this study, we will be glad to send you a summary of our findings after completion of the study. Thank you for participating and making this study a success.

Section A: Respondent background information

1. **Gender**

1, ( ) Female   2, ( ) Male

2. **Age**   How old is you?

1, (   ) 18 – 28 years

2, (   ) 29 – 39 years

3, (   ) 40 - 50 years

4, (   ) above 50 years

3. **Education**   What is the highest level of education attained?

1, (   ) Primary

2, (   ) Secondary

3, (   ) Diploma

4, (   ) Degree

5, ( ) Others (Specify)

4. **Business**   What type of business are you in?

1, (   ) Merchandise (i.e. retail shop, kiosk, sugar and oil, cloth, import, export, whale sale etc.)

2, (   ) Service (e.g. saloon, restaurant, clinic, Garage)

3, (   ) Manufacturing (Food & Beverage)

4, (   ) others (please specify)

4.   **Sales** What is the size of your business as regards to annual sales Volume?

1, (   ) Less than 500,000.00

2, (   ) 500,001.00 to 1,000,000.00

3, (   ) 1,000,001.00 to 10,000,000.00

4, ( ) 10,000,001.00 to 40,000,000.00

5, ( ) 40,000,001.00 to 50,000,000.00

6. **Income**   How much average monthly/annual VAT do you pay?

1, (   ) Less than 100,000.00

2, (   ) 100,001.00 to 250,000.00

3, ( ) 250,001.00 to 350,000.00

4, ( ) 350,001.00 to 450,000.00

5, ( ) 450,001.00 to 550,000.00

6, ( ) 450,001.00 to 550,000.00

7. **Capital**   How much capital did you have to start this business?

1, ( ) Less than 5,000,000.00

2, ( ) 5,000,001.00 to 10,000,000.00

3, ( ) 10,000,001.00 to 20,000,000.00

4, ( ) 20,000,001.00 to 30,000,000.00

5, ( ) 30,000,001.00 to 50,000,000.00

8. **Employees**   How many people are you employing for running the business effectively?

1, (   ) Less than 5 people

2, (   ) 6 to 10 people

3, (   ) 11 to 20 people

4, ( ) Above 20 people

9. **Duration**   For how long have you been operating this business?

1, (   ) Less than 2 years

2, (   ) between 3 and 5 years

3, (   ) More than 5 years

Section B: VAT administration practice

The data in this section will be used to measure VAT registration practice. For each of the statements, please indicate your agreement or disagreement on a 5 point scale ranging from "SD-strongly disagree" (1) to "SA - strongly agree" (5) (1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree).

Code	VAT registration practice	SD	D	N	A	SA
Va1	I voluntarily registered as a tax payer with tax admin office.	1	2	3	4	5
Va2	Tax payer registration is normally conducted in a good way.	1	2	3	4	5
Va3	Tax registration procedures are simple.	1	2	3	4	5
Va4	The way the registration exercise is conducted.	1	2	3	4	5
Va5	I am absolutely confident about the legitimacy of the claims in tax return.	1	2	3	4	5
Va6	When I registered I was allocated a tax identification number.	1	2	3	4	5

Section C: VAT assessment

The data in this section will be used to measure vat assessment practice. For each of the statements, please indicate your agreement or disagreement on a 5 point scale ranging from "SD -strongly disagree" (1) to "SA - strongly agree" (5) (1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree).

Code	VAT assessment	SD	D	N	A	SA
Vas1	I take full responsibility for assessing my own VAT liability.	1	2	3	4	5
Vas2	I have full responsibility to declare VAT in every month	1	2	3	4	5
Vas3	Assessment of VAT is based on your declaration.	1	2	3	4	5
Vas4	The tax office considers the concerns of average citizens when making decisions.	1	2	3	4	5
Vas5	The Tax Office respects each individual's rights as a citizen.	1	2	3	4	5
Vas6	The tax office tries to be fair when making decision.	1	2	3	4	5
Vas7	The tax Office gives equal consideration to the views of all taxpayers.	1	2	3	4	5

Vas8	The tax Office gets the kind of information it needs to make informed Decisions.	1	2	3	4	5
Vas9	The frequent inspections motivate me to comply with tax laws.	1	2	3	4	5
Vas10	There is a clear guideline on procedures of appeal.	1	2	3	4	5
Vas11	The ax authority treats people as if they can be trusted to do the right thing	1	2	3	4	5
Vas12	The tax Office treats people as if they will only do the right thing when forced to do so.	1	2	3	4	5
Vas13	The tax office consults widely about how they might.	1	2	3	4	5
Vas14	Change things to make it easier for taxpayers to meet their obligations.	1	2	3	4	5
Vas15	The tax office goes to a great length to consult with the community over changes in the tax system.	1	2	3	4	5

Section D: VAT collection

The data in this section will be used to measure VAT collection practice for each of the statements, please indicate your agreement or disagreement on a 5 point scale ranging from "SD -strongly disagree" (1) to "SA - strongly agree" (5) (1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree).

Code	VAT collection	SD	D	N	A	SA
Vc1	I can accurately determine my VAT liability.	1	2	3	4	5
Vc2	It is everyone's responsibility to pay the correct amount of vat.	1	2	3	4	5
Vc3	I have never attempted to avoid VAT.	1	2	3	4	5
Vc4	I pay actual VAT assessed.	1	2	3	4	5
Vc5	I always pay my VAT in time.	1	2	3	4	5
Vc7	I always file my taxes in time.	1	2	3	4	5

THANK YOU FOR YOUR TIME

Misganaw Sinor

MBA ACCOUNTING AND FINANCE

ID No. SGS/0571/2007A