



**ST.MSRY'S UNIVERSITY SCHOOL OF  
GRADUATE STUDIES**

**ASSESSMENT OF VALUE ADDED TAX  
ADMINISTRATION ~ THE CASE OF ADDIS  
ABABA No.2 MEDIUM TAXPAYERS  
BRANCH OFFICE**

**BY  
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**JUNE, 2016  
ADDIS ABABA, ETHIOPIA**

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No 2. MEDIUM TAXPAYERS BRANCH OFFICE***

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FACULTY OF BUSINESS***

***ASSESSMENT OF VALUE ADDED TAX ADMINISTRATION ~  
THE CASE OF ADDIS ABABA No 2. MEDIUM TAXPAYERS  
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## List of Abbreviations/Acronyms

- ERCA – Ethiopian Revenues and Customs Authority
- MOFEC – Ministry of Finance and Economic Cooperation
- FIR – Federal Inland Revenue
- IMF – International Monetary Fund
- WTO – World Trade Organization
- VAT – Value Added Tax
- GST – Goods and Services Tax
- ETRs – Electronic Tax Register

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## **Abstract**

*The general objective of this research was to assess the current VAT Administration of the Addis Ababa No. 2 Medium Taxpayers Branch office. Thus, it is a descriptive type of research. Both qualitative and quantitative data analysis techniques were used. Primary data were obtained with the help of questionnaire and interview from VAT registrants and concerned tax officials. Convenience and purposive sampling techniques were used to select appropriate and representative sample size from VAT registrants and tax officials respectively as a result, from 5,000 VAT registrants 357 samples were selected and from 74 tax officials whose activity is directly related to Value Added Tax assessment and collection 22 samples were selected. Secondary data were obtained from the collection; audit, enforcement and refund performance reports of the branch. Tables, percentages and graphs were used for data analysis. From the outcome of the study the major obstacles that hinder VAT Administration are low rate of voluntary compliance, lack of taxpayers awareness, shortage of well trained employees, especially in relation to operating the computer program which creates difficulty in differentiating non-filers from stop filers and affects the follow-up and controlling activities, relatively low rate of audit and enforcement, weak filing and payment system. Therefore, the following points are recommended. Develop taxpayers awareness to increase voluntary compliance, provide training for employees, modernize the service delivery in relation to filing and payment, strengthen audit and enforcement capacity of the branch office.*

*Key Words: - VAT, VAT administration, collection, compliance*

# CHAPTER ONE

## 1. Introduction

Taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. It is used to equally supply public goods and services which cannot be available to the general public on the market. (Bogale & Mesfin, 2009) defined taxes as they are a portion of private wealth, levied on the incomes and wealth accumulation of individuals and corporations and on the goods and services produced exports and imports for the purpose of meeting the expenditure essential to carrying out the functions of government. Based on their nature and the reason for paying taxes are generally classified as direct and indirect. In which direct taxes (income tax, business profit tax, income from game of chances...) are types of taxes that cannot be transferred or shifted to another business or person and are directly paid by person or business which is charged. However, in the case of indirect taxes (turnover tax excise tax, value added tax...) they are levied upon commodities before they reach to the consumer who ultimately pays the taxes as part of the market price of the commodity.

Value Added Tax (VAT) is an indirect tax because it is collected from someone other than the person who actually bears the cost of the tax directly, as it is a tax on the supply of goods and services that is ultimately borne by the final consumer, but collected at each stage of production and distribution chain, it is a tax on what people buy rather than their savings or earnings or investments (Olatunji, 2009). It was first introduced in France in 1954 with the replacement of turnover tax with the intention to satisfy high demand of revenue on the part of the government in order to rebuild France from the civil of WWII Bogale et al. (2009). Cote d'Ivoire was the first African country to implement VAT in 1960 (Jaleta, 2014). Ethiopia adopted New Zealand's model of VAT which is a standard rate of 15 % broad based and minimum exemption on January 1<sup>st</sup>, 2003 by replacing the outdated sales tax. Bogale et al. (2009) stated the major reasons behind introducing VAT in Ethiopia was because it is more advantageous than sales tax in that:- it allows collection on the added value created wherever sales transaction is conducted, it also permits refund on tax

that businesses paid for inputs (raw materials) which decreases evasion that is not true in sales tax as it is collected only at one stage, it increases saving and investment by changing the extravagant way of life imposed from custom on the part of final consumers and the incapability of sales tax in generating adequate revenue.

(James, 2011) stated because of being the best method of taxing the general consumption, its neutral treatment of exports, and its revenue-raising capacity currently VAT become popular and acceptable by many countries. (Le, 2003) also underlined the usefulness of VAT in that the presence of VAT has been associated with a higher ratio of general government revenue compared with alternatives in indirect taxation; the VAT has more revenue potential: it is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement. Moreover, according to (International Monetary fund (IMF), 2004), report more than 4billion, 70%, of the world's population live in countries with VAT and VAT raises about \$18 trillion in tax revenue, roughly one-quarter of all government revenue. In Ethiopia as (MOFEC, 2013) annual report shows the share of tax revenue in total government revenue was 74.1% in 2011/12. Similarly, revenue collected from VAT is continuously increasing in 2011/12; revenue collected from VAT (domestic VAT plus import VAT) was 28.3 billion Birr. The collection has increased by 46.65% over the previous budget year performance of 19.3 billion. These indicate that the government is increasingly relying on the more reliable tax revenue as a source of its income. As the revenue generating capacity of VAT is higher than other taxes this paper is mainly intended to examine The Addis Ababa No. 2 Medium Taxpayers Branch Office's Value Added Tax Administration activities especially in relation to collecting potential VAT Revenue within its territory.

## 1.1 Background of the Organization

The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenues from customs duties and domestic taxes. It was established on 14<sup>th</sup> July, 2008 by merging three governmental bodies. According to Art 3 of the proclamation No.587/2008 because of their similarities in activities, resource mobilization and organizational arrangement the merging of the Ministry of Revenue, Ethiopian Customs

Authority and The Federal Inland Revenue become necessary for the establishment of Ethiopian Revenues and Customs Authority (ERCA). It is established as an independent federal agency having its own legal personality with the following objectives:-

- ✿ To establish modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service,
- ✿ To cause taxpayers voluntarily discharge their tax obligations,
- ✿ To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion,
- ✿ To collect timely and effectively tax revenues generated by the economy;
- ✿ To provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems.

In order to achieve the above objectives ERCA opens 13 outline branches and 17 city branches in Addis Ababa, that are delegated to collect various taxes from Small and Large Taxpayers. In addition to these branches another two separate medium taxpayers branches were opened having the intention to bring tax harmonization, to improve the service delivery and to solve the problems in Addis Ababa City Tax Administration. The openings of these new branches also help to decrease the burden of small taxpayers branches. Previously small taxpayers branches serve lots of taxpayers in addition to those VAT registrants whose annual turnover is below 1 million, but currently if the VAT registrants' annual turnover reaches 1 million they are categorized as medium taxpayers and their documents will be transferred to those newly opened medium taxpayers branch offices. The Addis Ababa No.1 Medium Taxpayers Branch Office is one of the recently opened medium taxpayers branches which covers the area of Arada, Gulelle, Yeka, Addis ketema and Kolfe Keranio sub-cities taxpayers and the other newly opened branch office is the Addis Ababa No.2 Medium Taxpayers Branch Office which covers taxpayers who are doing business in Lideta, Kirkos, Bole, N/silk Lafto and Akaki Kality sub-cities this divides the Addis Ababa city into two. For that reason these two are authorized to collect various types of direct and indirect taxes like income tax, pension contribution fund, income from the rental of a building, excise tax, value added tax etc. from sole proprietorships and small-scale cooperatives that are already registered for VAT but whose

annual turnover is greater than or equal to 1 million. Therefore, each of the mentioned sub-cities transfer the documents of those registrants to the respective medium taxpayers branch offices after their annual sales reach one million. Accordingly, these medium taxpayers branches do not perform the registration and identification processes of taxpayers. As a result the establishment of these branches will help ERCA to make its service more custom-made and collect the potential tax revenue.

The Addis Ababa No.2 Medium Taxpayers Branch Office started its operation in 2013 with the transferred VAT registrants' documents of 4,374 which are categorized as medium taxpayers from Lideta, Kirkos, Bole, N/Solk Lafto and Akaki Kality Small Taxpayers Branch offices.

## 1.2 Problem Statement

The Addis Ababa No.2 Medium Taxpayers Branch Office is one of the newly opened branch which is delegated by ERCA to collect various types of direct and indirect taxes only from sole proprietorship and small-scale cooperatives which are categorized as medium taxpayers (taxpayers who are already registered for VAT and whose annual turnover is greater than or equal to 1million). However, as the VAT collection performance shows there is a huge gap between the VAT revenue collected and the total number of VAT registrants who fulfill their obligation. For example, in 2014/2015 budget year the Branch Office collected total tax revenue of Birr 2,187,088,071.49, out of this almost 50% is gained from Value Added Tax. During this budget year the branch intended to collect Birr 1,791,716,174.86 of the tax revenue from VAT. But, it collected Birr 1,084,819,027.99 which is only 60.54% of its plan. As the annual performance report of the branch office indicates throughout the budget year the total number of the frequency of monthly filers are 46,505 out of these only 38% are payment filers the rest are nil and credit filers and there are also the total number of the frequency of non filers is 10,827. Moreover, in the first and second quarter of the budget year of 2015/2016 the branch collected Birr 1,615,352,558.4 of total tax revenue, out of which 37.51% is gained from Value Added Tax. The intention was to collect Birr 609,083,165.18 of tax revenue from VAT and actual collection was Birr 605,923,716.99 which is 99.48% of its plan. It almost

achieved its plan, however this does not mean that the branch collected the potential VAT revenue rather it is under performing because alike the previous budget year there are a number of nil, credit and non filers. From the total number of VAT filers throughout this budget year the frequency of the total number of monthly filers and non filers were 26,573 out of these payment filers are only 37% the rest are nil and credit filers besides there are also VAT registrants who do not report the VAT return totally. Accordingly in both budget years there is a huge gap between the total number of payment filers and those nil, credit filers as well as those who do not report the VAT return totally.

Therefore, this research tries to examine the reason behind these large number of credit, nil and non filers, to assist the branch office to make the service delivery more custom made and appraise its performance and take the necessary actions for those which need correction mainly in relation to Value added Tax Administration. Furthermore, as there is no documented study conducted in relation to VAT Administration of the Branch Office so it can be used as a reference for further study.

### 1.3 Basic Research Questions

1. How the branch's VAT collection does takes place?
2. What are the major constraints which frequently occurred that hold back the VAT collection?
3. What activities are done in order to increase the VAT registrants' awareness to voluntarily and appropriately fulfill their obligation on time?
4. How does the branch manage activities in relation to non-compliances of taxpayers?

### 1.4 Objective of the Study

The general objective of this research paper is to assess the Value Added Tax Administration of the Addis Ababa No.2 Medium Taxpayers Branch Office.

### Specific objectives:-

1. To review VAT administration activities especially in relation to:-
  - VAT collection performance
  - Auditing and enforcement
  - Refund
2. To assess the major limitations those frequently occurred and hold back the VAT collection activity.
3. To review the voluntary compliance of the taxpayers.
4. To appraise the service delivery of the branch.

## 1.5 Scope of the Study

This study is limited to assess the Value Added Tax Administration activities of the Addis Ababa No.2 Medium Taxpayers Branch Office particularly collection, refund and audit activities from its establishment November, 2013 to the end of the second quarter of the budget year of 20015/2016 (which is Tahisas 30, 2008 E.C). The scope is limited to medium taxpayers because as its name indicates the Branch Office was opened to collect various types of direct and indirect taxes like income tax, pension contribution fund, income from rental of a building, excise tax, value added taxes and others only from those who are categorized as medium taxpayers (those whose annual turnover is greater than or equal to 1 million) because other taxpayers are served by small or large taxpayers branch offices of ERCA.

## 1.6 Significance of the Study

As ERCA launched two branches to collect different taxes only form medium taxpayers for a better handling of the tax administration in the city, the study may give a clear picture on how the assessment and collection of VAT is taking place, to point out the difficulties faced by taxpayers as well as tax collection officers that hinder the collection of potential revenue and to suggest possible solutions. Therefore, the branch can use the findings to



evaluate its performance revise its assessment and collection practice and fills the gap between the budget and actual collection of VAT and to make its service more custom-made and increase the revenue that will be gained from VAT. Furthermore, there is no documented study conducted in relation to VAT administration of the Branch Office so the results of the findings may be used as a reference for others who want to make further research.

## 1.7 Definition of Terms

**Credit Filers:** - are those VAT registrants who declare (report) the monthly VAT return with claim of refund (the case where input VAT is greater than output VAT).

**Nil Filers:** - are those VAT registrants who declare (report) the monthly VAT return with zero (the case where input VAT is equal to output VAT which is neither payment nor claim).

**Payment Filers:** - are those VAT registrants who declare (report) the monthly VAT return with payment (the case where output VAT is greater than input VAT).

**Input tax:** - the VAT that a business collects over on taxable supplies which a business consumes or uses in its operations.

**Input tax credit:** – a type of tax credit that is given for the purpose of offsetting the collection of goods and services tax.

**Output tax:** - Value added tax (VAT) charged (paid) by businesses.

**Self-assessment** – is a system where taxpayers voluntarily comply with their tax obligations without involvement of a tax official.

**Tax Refund:** - is a return by the tax authority of excess taxes paid by an individual. (If an individual paid more taxes than he actually owed then he will receive a tax refund after filling his taxes for the year).

**Tax Payable for Tax Period:** – is the amount of tax that has to be paid by a registered person. It is the difference between the amounts of tax charged on taxable transactions and the amount of tax creditable.

## 1.8 Organization of the Paper

This research paper is organized into five chapters. The first chapter is the introduction which indicates the background of the study, statement of the problem, basic research questions, objective of the study, delimitation /scope of the study, significance of the study and definition of terms. The second chapter is a review of related literature obtained from different sources written on tax especially VAT which provides theoretical and empirical support for the findings and analysis. The third chapter includes methods of the study. The fourth chapter describes the results and discussion data analysis and interpretation using descriptive way. The final chapter deals about summary of findings, conclusions and recommendations given by the researcher.

## CHAPTER TWO

### 2. Review of Related Literature

#### 2.1 Theoretical Review

Taxes are one of the major sources of revenues used by governments to finance public goods and services. Bogale et al. (2009), defined taxes as a portion of private wealth, extracted from individuals by the state for the purpose of meeting the expenditure essential to carrying out the functions of government. They are levied on the incomes and wealth accumulation of individuals and corporations and on the goods and services produced exports and imports. (Hamdu & Zinash, 2014) on their behalf described taxes as they are compulsory payment to government without expectation of direct return or benefit to taxpayers. The idea of taxation involves three basic characteristics which must be properly stressed, it is a compulsory levy, it is imposed by an organ of government and that it is for public purposes (Aruwa, 2008) therefore, it is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Government has the right to oblige all citizens to share its costs. It is used to equally supply public goods and services (social services and infrastructures like, clean water supply, health, education, roads, and telecommunication and electricity facilities) which cannot be available to the general public on the market. i.e. The nature of consumption of public goods is such that consumption by one does not reduce consumption for others. Besides, consumption of public goods by an agent does not exclude others from doing the same. Such nature of public goods therefore, makes them impossible for private suppliers to gain 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.<sup>1</sup>

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<sup>1</sup> Ethiopian Chamber of Commerce and Ethiopian Business Development Services Network, Taxation in Ethiopia, Addis Ababa, 2005 Pg 1

The primary purpose of taxation is to raise revenue to finance government expenditure. The study conducted by (Ethiopian chamber of commerce & Ethiopian Development Service Network, January, 2005) summaries the specific purposes of taxation in Ethiopia as follow:-

- ✿ Raising of as much revenue as possible to finance the country's social and economic development programs and to alleviate poverty,
- ✿ Promotion of capital investment and trade,
- ✿ Insuring equity, fairness and consistency in the administration of tax laws,
- ✿ Encouraging certain industries which are held important in developing the country, and
- ✿ Discouraging other industries which are likewise not important to the long-run development of the country.

But the central aim of the tax system in Ethiopia is to collect sufficient money to finance the administrative machinery of the government as well as to finance the fulfillment of basic infrastructures like roads, telecommunication, electricity and other basic social services like education, health and water supply facilities.<sup>2</sup>

Both the state and federal governments have the power to impose taxes upon their citizens. Taxation includes the processes of levying, collecting, and paying taxes Bogale et al. (2009). Therefore, if it is collected appropriately and implemented as required, it helps to facilitate and speed up governments' activities for the development of countries.

### 2.1.1 Value Added Tax (VAT)

According to the relationship between the nature of the taxes and the reason for payment they are generally classified as direct and indirect. Direct taxes are type of taxes that cannot be transferred or shifted to another business or person that it is entirely paid by persons or business that are charged. It includes personal income tax, business profit tax, income from game of chances, rental income tax, dividend income, tax on interest income on deposits, income from rental of buildings and property, etc. Indirect Taxes levied upon commodities

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<sup>2</sup> Ethiopian Chamber of Commerce and Ethiopian Business Development Services Network, Taxation in Ethiopia, Addis Ababa, 2005 Pg 39

before they reach to the consumer who ultimately pays the taxes as part of the market price of the commodity i.e amount of tax is included in the selling price. Turnover tax, stamp duty, customs duty, withholding tax, excise tax and value added tax are included under this category.

Value Added Tax (VAT) - A tax imposed on domestic consumption of the added value to goods and services as well as on imported goods and it is collected by business firms or individuals at all stages of production and distribution. It is a tax on exchange Bogale et al. (2009). VAT is a tax on the sale of goods at every stage when it changes hands in the provision of credits for input tax paid at the time of purchase of goods (intended for resale, to be used as raw material for the purpose of manufacturing or for packing) or capital goods for the purpose of manufacturing (Dakito, 2011). It is a tax on what people buy rather than their savings or earnings or investments. It is categorized as an indirect tax because it is collected from someone other than the person who actually bears the cost of the tax directly, as it is a tax on the supply of goods and services which is eventually born by the final consumer but all collected at each stage of production and distribution chain Olatunji (2009). It is charged as a percentage of prices of goods and services and is collected and by VAT registered businesses. The collected VAT amount is settled through deduction scheme where, VAT registered businesses are allowed to deduct their VAT liability from the amount of tax they have paid to other taxable persons while they are making purchases for their business activities.

### 2.1.2 Origin of Value Added Tax

Even if Americans were the first advocators of the concept of value added tax they failed to implement it and the modern concept of VAT was effectively introduced in France in 1954 with the replacement of turnover tax. In France it was introduced to satisfy high demand of revenue on the part of the government in order to rebuild France from the civil of WWII Bogale et al. (2009). Cote d'Ivoire was the first African countries to implement VAT in 1960 (Simon, 2013). As James (2011) stated because of being the best method of taxing general consumption, its neutral treatment of exports, and its revenue-raising capacity now a day's VAT is being popular and acceptable by many countries.

### 2.1.3 Tax Reform & the reason adopted by Ethiopia

Value Added Tax (VAT) was implemented in Ethiopia on January 1<sup>st</sup>, 2003 (VAT Proclamation No. 285/2002) with the replacement of the outdated sales tax.

Many scholars described that majority of governments' revenue is obtained from VAT for countries who implemented it. The major rationales behind introducing VAT in Ethiopia include, the following, among others are:-

- i. Sales tax doesn't allow collection on the added value created wherever sales transaction is conducted but VAT does.
- ii. VAT allows little room for evasion, taxes in VAT are collected in multi stages and business entities are allowed to have a refund on the tax they paid for inputs (raw materials such as labor, transportation, warehousing, etc.). This leaves little room for evasion. But this is not true in sales tax as it is collected only at one stage.
- iii. VAT enhances saving and investment, VAT is a consumption variety tax. The fact that the final burden lies on consumers raises awareness to have a means of reduction of payment for consumption at any possible incident. This undoubtedly will change the extravagant way of life imposed from the custom, on the part of final consumers.
- iv. Outdated sales tax is not capable to generate adequate revenue for the government to cover necessary expenditures.<sup>3</sup>

In 2014, Jaleta on his behalf describes four main objectives for the adoptions of VAT in the Ethiopian context, including; raising large amounts of revenue as the engine and tool of national development, to redistribute income and wealth among members of the community residing in a state, for fulfillment of the WTO agreement and to implement the IMF directions.

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<sup>3</sup> Yohannes Mesfin & Sisay Bogale, Tax Law, (2009). pp 64-65

According to the proclamation Ethiopian VAT is levied at a fixed rate of 15 % of the value of every taxable transaction by a registered person, every import of goods, other than exempt or zero rated transactions and the law also describes what taxable, exempt and zero-rated transactions are.

- ⌘ Taxable Transaction - is a supply of goods (sale of goods) or a rendition of services in Ethiopia in the course or furtherance of a taxable activity other than an exempt supply which is only carried out by a registered person Art 7(3).
- ⌘ Exempt Transaction - An exempt transaction is a transaction not subject to VAT. Thus the transaction is not considered a taxable transaction for social, economic or development reasons.

As per (VAT proclamation No.285/2002 & Ministry of Finance and Economic Development Circular) the following are some of the cases where VAT exemption is allowed:- Financial services, imported raw materials used for production of exportable products, raw materials and packaging materials purchased domestically and used for exportable products, supply of goods or services by a workshop employing disabled (individuals of more than 60% of staff are disabled), medical services, books, electricity, kerosene, water, educational services including child care, milk, bread, transport service, postal services, license and certification fees, the sale of a dwelling used for a minimum of two years, fertilizer, pesticides and improved seeds and seedlings.

- ⌘ Zero-Rated Transactions – are taxable transactions that are subject to VAT, but taxed at zero-rating of tax. In other words, the transaction by itself is taxable and subject to VAT in the sense included under Art 7(3) “taxable transaction” But, the Law has given blessing so that the transaction (supply of goods or rendition of services) is completely free from tax Bogale et al. (2009).

As per Art 7(2) of the VAT proclamation, the following transactions are zero rated.

- ✿ export of goods and services,
- ✿ rendition of transportation or other services connected with international goods or passengers, as well as the supply of lubricants, consumption, during international flights,
- ✿ supply of gold to the National bank of Ethiopia,
- ✿ transfer of assets of a taxable activity or an independent functioning part of a taxable activity from one registered person to another registered person as a going concern.

#### 2.1.4 Types of VAT

Types of VAT are determined on the basis of treatment of capital goods that has been purchased by a firm, i.e. a firm calculates its value added by subtracting its purchases of capital goods from its sales and then applying the tax rate to the resulting value added to determine a tax liability, therefore the fundamental question here is whether the input tax paid for capital goods is allowed or not. Consequently, there are three separate types of value-added tax: - gross product, income, and consumption.

i) Gross product type / Gross National Product Type / - This type of VAT provides no allowance for taxes paid on capital purchases, i.e. taxes paid on purchases of capital goods and deduction of depreciation from the tax base in subsequent years is not allowed. Therefore tax is levied both on consumption and gross investment.

ii) Income type - Refund on the full value of taxes paid on capital purchases is prohibited like in case of the gross product type of treatment. But, refund on the periodic allowance for the depreciation value of capital goods is permissible. This means the method allows gradual deduction of VAT paid on capital purchases over a number of years, much like depreciation.



iii) Consumption type – allows businesses to immediately deduct the full value of taxes paid on capital purchases. This type is somewhat more favorable to investment expenditure than the other two. And it is the most widely accepted one therefore it is almost common in most states of the world. In general, European countries have adopted the consumption type. Consumption type VAT is widely used. So, by the term 'VAT' basically refers to the consumption type VAT.

### 2.1.5 VAT Styles

According to (Jams, 2011) there are three main varieties of VAT across the world: the European model, the Japanese model and the New Zealand model Goods and Services Tax (GST). The European which uses different multiple tax rates with varying notches of exemptions and the mostly adopted style. Japanese model uses the flat rate of 5% without exemptions of goods and services, when compared with others it is the lowest tax rate among the world. The Japanese consumption tax is neutral as it neither encourages nor discourages choices among domestic or foreign purchases of goods for business inputs and corporate profits. And New Zealand model Goods and Services Tax (GST) collects VAT revenue by using a single standard rate on a reasonably broad based goods and services. The GST administration is relatively simple which makes it easy for business to administer and for the public to understand. There are minimal exemptions from the tax and those that exist are reasonably unique. In addition, GST is applied at a single rate on the vast majority of transactions. Hence there little thought needed by the buying public that because there is only one rate of tax there is no decision needed between items that may suffer more or less tax (Jaleta, 2014). Businesses also find the tax relatively simple. Almost all transactions are subject to the tax, hence only limited attention is needed to identify those not, and the rate is uniform, making it easy to administer in terms of pricing and calculation. The single tax rate and limited number of exemptions also avoided problems associated with classification differences (Mul, 1993). In 2011, James stated that even if most jurisdictions have adopted a European-Style VAT marked by multiple rates and varying degrees of exemptions, of the three major styles of VAT in existence, it is New Zealand's GST which comes closest to resembling the ideal VAT that is, levied at a single rate on a relatively broad base. i.e. A

good VAT is a flat rate VAT extending through to the retail stage of the economy, levied on a broad consumption base of goods and services with minimal exclusions. So as compared to others this model is a relatively pure form of VAT with a single tax and minimal exemptions, more importantly favored to generate large amount or revenue and it reduces the distortions emerged on the overall economy of a country and also it is closest to the good VAT system. Therefore, according to Jaleta (2014) Ethiopia adopted New Zealand's model of VAT that helps the country to generate more revenue.

### 2.1.6 Value Added Tax importance and relative contribution to a country's total revenue

The main intention of each country to introduce VAT is that it is easier to enforce, difficult to evade and it creates a simple administrative structure than other taxes such as turnover and retail sales tax. By the same chain, VAT collects large amounts of tax revenue for the government for fulfillment of the expenditure gaps Jaleta (2014). The law requires using VAT invoice approved by the tax authority when every time a transaction is made moreover each registered person is obliged to maintain an appropriate purchase and sales records this makes evasion difficult.

VAT is a self-assessment tax that is paid when return being rendered in-built in the new tax in the refund or credit mechanism, which eliminates the cascading effect that is a feature of the retail sales tax Olatunji (2009). 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.

There is strong support, although not necessarily a consensus, for levying VAT on a destination basis, meaning it would be payable in the jurisdiction where consumption rather than production occurs. This has the intended effect of making exports exempt or zero rated for VAT purposes James (2011). This feature of destination principle encourages export and used to avoid double taxation.

Tax legislation is one of the factors which are considered by potential investors in making investment decision, therefore exemption of capital goods from VAT encourages investment. Moreover, as VAT is a consumption tax that is paid on expenditure a person has the option to save so as not to be taxed so VAT promotes capital investment and saving Bogale et al. (2009).

Many scholars and experts of taxations stated that, countries that do impose VAT tend to be larger, wealthier, and more industrialized than those that do not (Emrana & Stiglitzc, 2005). The presence of VAT has been associated with a higher ratio of general government revenue compared with alternatives in indirect taxation; the VAT has more revenue potential: it is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement Le (2003).

The overall objective of VAT is to maximize revenue by maximizing the levels of voluntary compliance and deterring evasion. It has now been implemented by more than 150 countries and it raises approximately 20 percent of the world's tax revenue. Over the last twenty-five years, the share of VAT as a percentage of total taxation has almost doubled passing from 11.2% on average in 1985 to 19.2% in 2009, this share remaining stable since 2000. These taxes are globally the third important source of revenue for governments, behind social security contributions 27% and personal income taxes 25% ("spread of VAT", 2012).

According to (IMF, 2004), more than 4 billion, 70%, of the world's population now live in countries with VAT and VAT raises about \$18 trillion in tax revenue, roughly one-quarter of all government revenue. For example the (Organization For Economic-Cooperation And Development /OECD/, 2014) revenue statistics shows that, the share of GST/VAT in New Zealand and United Kingdom was 30% and 20.8% of total tax revenue respectively in 2012. Moreover, in Nigeria during 1994 the first year of implementation, Value Added Taxes amounts to be 45.98% of internal revenue, in 1995 it goes to 57.98% and 2006 its contribution to internal revenue rose to 88.2% (Oluchukwu & Vincent, 2013).

When we come to Ethiopian case Jaleta (2014), in his study found out that how much the country's economy is changed because of implementing value added tax i.e. after the

adoptions of VAT the GDP growth rate alarmingly increased and reached about 21.9% on average and the average ratio of VAT revenue to that of GDP was 2.95%, while the growth rates of VAT itself was 66.27% on average. Therefore this shows that VAT revenue plays an energetic role for the national development of Ethiopia and it enables to succeed the current growth and transformation plan (GTP) of the country.

As per (MOFEC, 2013) annual report the share of tax revenue in total government revenue was 65.4% in 2009/10. This increased to 68.9% in 2010/11 and 74.1% in 2011/12. Likewise the share of tax revenue in total domestic revenue increased from 80.4% in 2009/10 to 85.3% in 2010/11 and to 83.4% in 2011/12. Similarly revenue collected from VAT is continuously increasing. In 2011/12, revenue collected from VAT (domestic VAT plus import VAT) was 28.3 billion Birr. The collection has increased by 46.65% over the previous budget year performance of 19.3 billion. These indicate that the government is increasingly relying on the more reliable tax revenue as a source of its income (MOFEC, March 2013).

In 1993, S Mulr's study of the experience of New Zealand's GST underlines that it is a method of forcing as people who are at present able to escape without paying their fair share of income tax will then come back within the tax net automatically when they spend money. Which indicates, since VAT is a consumption tax and imposed on buyers at each stage of value adding chains, no one can reject to pay it unless otherwise refuses to purchase the goods and services as a result, from the previous tax system, it is relatively easy to administer and difficult to evade. Therefore because of its feature, if greater emphasis is given for VAT administration it would be possible to collect sufficient amount of revenue that is required for government's activities which boosts a country's economy.

### 2.1.7 Value Added Tax Administration

In the study by (Yesegat, 2008) VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them with respect to taxpayers identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refund. In (Nwanyanwu, 2015) on his behalf stated that,

Value Added Tax (VAT) Administration refers to the process adopted in registering, assessing, collecting and accounting for VAT revenue. It encompasses penalties and cases of appeal associated with the making of returns arising from failure to register in line with the VAT Act. Therefore a good VAT administration means fully implementing the design attribute of tax and reducing gap between effective taxation and what it is implied to be in legislation (Abay, 2013).

### 2.1.8 Importance of VAT Administration

As compared to other indirect taxes VAT is more broad revenue bases therefore its revenue generating capacity is high. A good VAT administration is critical in fully implementing the design attributes of the tax and reducing gaps between the effective taxation and what it is supposed to be in the legislation. More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objectives of a government Yesigat (2008).

### 2.1.9 Value Added Tax Administration aspects Vs Ethiopian VAT Proclamation No. 285/202 and VAT Amendment Proclamation No. 609/2008

Registration- VAT proclamation states that there are two types of registrations Obligatory and Voluntary.

For obligatory registration - Art 16(1) of 285/2002 states that if the total taxable transaction for a period of 12 months is about 500,000 Ethiopian Birr and more; or if there are reasonable grounds to expect at the beginning of any period of 12 calendar months that the total value of taxable transactions to be made by the person/business exceed 500,000 Ethiopian Birr, the person/business is required to registered for VAT.

Article 17, 285/2002 provided a condition that is required for voluntary registration a person/business that regularly supplying or rendering at least 75% of his goods and services to registered persons is allowed to register for VAT. In addition the following taxpayers are also required to register for VAT regardless of their annual sales turnover: -

- ✿ Share Companies, Private Limited Companies and Government Enterprises,
- ✿ Contractors above grade 10 (grade 1- 9 Contractors),
- ✿ Leather and leather products manufacturers,
- ✿ Shoe factories,
- ✿ Computers and related products suppliers,
- ✿ Electronics Refrigerators, television sets. Decks suppliers,
- ✿ Importers,
- ✿ Flour producers,
- ✿ Plastic and plastic products producers Jewelers. (<http://www.mofed.gov.et>) & Value Added Tax Registration instruction manual No. 25/2001.

Cancellations of Registration – the following issues are stated under Article 19, 285/2002 of the proclamation about cancellation of registration

Two situations where VAT registration is cancelled: -

- If the person's total taxable transaction or annual turnover might fall down or be expected to fall down below 500,000Birr or
- If the person ceases to make taxable transactions;

The cancellation will be effective in two cases either at the time the registered person ceased to make taxable transaction or if the person has not ceased to do so at the end of the accounting period during which the person has applied for cancellation of VAT registration.

When registration for VAT is cancelled - the Authority will remove the person's name and all other details from the VAT register and the person is required to return the issued certificate of registration.

Assessment- VAT is a self-assessment tax in Ethiopia in that the proclamation gives the responsibility for the registered person to calculate his own tax obligation and declare on a specified time period. (This includes adding 15% to the total value of the taxable goods or services he supply and then offset against his input with output). But if it is found that a person understates his tax obligation after review the authority shall issue

an additional assessment within 5 years after the end of the accounting period concerned; and in the case of fraud or willful negligence, notwithstanding any limitation in any other law, assessment make at any time. This reduces administration cost as well as facilitates the administration process (Art 28 & 29, 285/2002).

Tax Credits- The proclamation allows tax credits and Article 21,285/2002 states the allowable and restricted conditions for tax credit. Tax Credit is the amount of VAT that is creditable is the amount of VAT payable (paid) by a registered person in respect of tax invoices or customs declaration issued during the accounting period. The following are some of the conditions where tax credits are allowed.

- ✿ Imports of goods during the current accounting period and pass through customs declaration,
- ✿ taxable transactions involving the supply of goods or rendering of services that are considered to take place during the current or preceding accounting period, where the goods or services are used or are to be used for the purpose of the registered person's taxable transactions and
- ✿ A person who registers for VAT after the introduction of VAT shall be entitled to credit under this Article in the first accounting period in which the person is registered for VAT paid or payable on goods (including capital goods) that are on hand on the date of registration, but only to the extent that the purchase or import of the goods occurred not more than six months prior to the date of registration.

Tax credit is not allowed for the following conditions:-

- ⌘ On a taxable transaction to, or import by, a person of a passenger vehicle unless the person is engaged in or hiring of, such vehicles, and the vehicle was acquired for the purposes of such business, or
- ⌘ the person is engaged in the business of transporting passengers for hire and the vehicle was acquired and is licensed for that purpose;
- ⌘ For taxable transactions to, or import by a person of goods or services acquired in relation to entertainment /“entertainment” the provision of food, beverages, accommodation, and recreation or hospitality of any kind by a registered person

whether directly or indirectly to any person in connection with a taxable activity carried on by the registered person/ unless:-

- ✓ the person is in the business of providing entertainment and the supply or import relates to the provision of taxable transactions involving entertainment in the ordinary course of that business; or
- ✓ the person is in the business of providing taxable transactions involving transportation services and the entertainment is provided to passengers as part of the transportation services;

Seizure of Property to Collect VAT- Even if the responsibility for the correct calculation and timely payment of VAT and presentation of a return to the Authority by the prescribed deadline rests on the taxpayer sometimes, taxpayer may not comply as expected. In this case (Article 31,285/2008) of the proclamation give the Authority full power to collect the tax due by seizing property which is equivalent to cover to the tax due and additional expenses incurred in the process of the seizure of property. A seizure shall extend only to property possessed and obligations' existing at the time the seizure is made. However, whenever the seized properties are insufficient to cover the require amount, it may be necessary to the Authority to proceed to seize other property liable to seizure of the person against whom the claim exists until the amount due from such person, together with all expenses, is fully paid.

Accounting for VAT-

- i.** Filing and Payment– is effected simultaneously on monthly basis that is according to (Art 26,285/2008) taxpayers are obliged to file a VAT return whether or not tax is payable in respect of that period and make payments within the 30 days period of following the end of the accounting period.
  
- ii.** Record Keeping- a VAT registered person or any other person liable for tax is obliged to maintain the following documents for 10 years. Original tax invoices received by the person, a copy of all tax invoices issued by the person, customs documentation relating to imports and exports by the person, accounting records (including accounts, books, computer stored information, or any other



documents); and any other records as may be prescribed by the Minister of Revenue by directive ( Art 37, 285/2002).

- iii.** Tax Invoice – Under article 22, 285/2008 the law requires a registered person to simultaneously issue VAT invoices for taxable transactions, a document that contains certain information about the goods or services, to the person who receives the goods or services but, it prohibits issuance of tax invoices by unregistered.

This VAT invoice is executed in the form stipulated by the Minister of Revenue and 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 tax if the goods are 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.

The supplier has to provide the invoice to the maximum of 60 days after the date of the supply of goods or rendition of services. If a registered recipient has lost the original tax invoice for a taxable transaction, the registered supplier may provide a copy clearly marked "copy". However, the Minister of Revenue may by directive waive a registered person's obligation to issue a receipt or tax invoice for cash sales if the total consideration for the entire supply does not exceed 10 Birr.

Refund – for the purpose of refunds, the VAT legislation categorizes taxpayers into two groups: zero rated businesses (mainly exporters) and other (non-exporting) businesses Yesegat (2008). Therefore, for exporters refund is allowed if at least 25 % of the value of their taxable transactions for the accounting period is taxed at a

zero rate, the Authority shall refund the amount of VAT within a period of two months after the registered person fills an application for refund, accompanied by documentary proof of payment of the excess amounts.

In the case of other registered persons non- exporters, the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period is to be carried forward to the next five accounting periods and credited against payments for these periods. And any unused excess remaining after the end of this five-month period shall be refunded by the Authority within a period of two months after the registered person fills an application for refund accompanied by documentary proof of payment of the excess amounts (Art 27,285/2008).

Administrative Penalties - VAT proclamation of Article 45, 285/2008 describes punishments for failure of registration, failure of maintaining records, tax evasion as per the following:-

Failure of registration – Where any person engages in taxable transactions without VAT registration where VAT registration is required be punished - 100% of the amount of tax payable for the' entire period of operation without VAT registration;

Failure of maintaining records- A person who fails to maintain the required records be punished –2,000 Birr for each month or portion thereof that the failure continues;

Invoicing – Issuance of incorrect tax invoice resulting in a decrease in the amount of tax or increase in a credit or in the event of failure to issue a tax invoice will be penalized to 100% of the amount of tax for the invoice or on the transaction; “Incorrect invoice means printed or computer generated receipt not authorized by the Authority, or a document containing an increase or decrease in its figures with the intention to increase or decrease the actual purchase or sales amount or as a result of negligence, or prepared by printing or duplicating receipts with identical numbers or by use of copies of all receipt or by any fraudulent means for increasing tax credit or tax refund or to get tax refund while being not entitled to it or for any other similar purpose.”

Failure to use VAT Invoice- According to Art 50b of Proclamation 609/2008 any person who is registered for VAT commits an offence if carries out transactions without VAT

invoice and shall, upon conviction, be punished with a fine of not less than Birr 10,000 and not more than Birr 100,000 and imprisonment for a term of not less than two years and not more than five years. However, in the case where the tax payable on the basis of the amount shown on the illegal invoice is in excess of the Birr 100,000 the fine shall be equal to the tax amount.

**Unauthorized VAT Collection** - Any person not authorized to collect tax under this Proclamation who collects or attempts to collect tax (or an amount the person describes as tax) commits an offence and is liable on conviction to a fine of not less than 50,000 Birr and to imprisonment for a term of not less than (5) five years and not more than (10) ten years (Art54, 285/2002).

**Un authorized Use or Print of Receipt-** Any person commits an offence if uses unauthorized computer generated or printed receipts or provides the service of printing unauthorized receipts and shall, upon conviction, be punished with a fine of not less than Birr 10,000 and not more than Birr 100,000 and imprisonment for a term of not less than two years and not more than five years (Art 50c, 609/2008).

Where a person who is not registered for VAT issues a tax invoice, is liable for a penalty of 100 % of the tax which is indicated in the tax (Art 45, 285/2008).

**Violations of the Requirements of the use of Sales Register Machines** – if a person who has the obligation to use sales register machine commits an offence if caused damage or change to the fiscal memory of a sales register machine or attempts to cause damage or change to the fiscal memory and shall, upon conviction, be punished with imprisonment for a term of not less than three years and not more than five years sub article 3; more over other strict regulations in relation to violation of the requirements of the use of Sales Register Machine are stated in VAT amendment proclamation No.609/2008 art 50d.

**Late payment-** Article 47, 285/2008 states that if any amount of tax is not paid by the due date, the person liable is obliged to pay interest of 25% over and above the highest commercial lending interest rate that prevailed during the preceding quarter on such amount for, the period from the due date to the date the tax is paid. In addition in VAT amendment Proclamation 609/2008 new articles of 47a, 48b, 47c are added which describe

about Penalties for Failure to Meet Requirements of the use of Sales Register Machines, Penalties for Failure to Observe Supplier's Obligations and Penalties for Failure to Observe Sales Register Machine Service Center's Obligations which are related to usage of sales register machine in detail.

Late filing – a person who fails to file a timely return for each accounting period whether or not tax is payable 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. But the amount is limited to 50,000 Birr for the first month (or portion thereof) in which no return is filed. And the minimum amount of the penalty in any event may not be less than smaller of the two amounts: 10,000 Birr; 100 % of the amount of tax required to be shown on the return (Art 46, 285/2002).

Failure to Notify – A person who fails to notify the Authority of a change i.e any change in the name in which, a taxable activity is carried on by the registered person, address, place of business, constitution, or nature of the principal taxable within 21 days of the change occurring commits an offence and is liable on conviction:

- (a) If the failure was made knowingly or recklessly, to a fine of not less than 10,000 Birr and to imprisonment for one year; or
- (b) In any other case, to a fine of not less than 5,000 Birr and to imprisonment for six months (Art 52, 285/2008).

Making False or Misleading Statements - Article 50, 285/2008 states that, presenting a false or misleading a tax officer of the Authority or omitting any matter or thing that leads the statement misleading and if the false statement or if the omission is made without reasonable excuse (reason), and if this causes underpayment of tax by an amount not exceeding 1,000 Birr, brings a punishment of not less than 10,000 Birr and not more than 20,000 Birr, and imprisonment for a term of not less than one (1) year and not more than three (3) years, but if the underpayment of, tax is in an amount exceeding 1,000 Birr, to a fine of not less than 20,000 Birr and not more than 100,000 Birr and imprisonment for a term of not less than three (3) years and not more than five (5) years,

Where the statement or omission is made deliberately or carelessly and results in an underpayment of tax by an amount not exceeding 1.000 Birr, to a fine of not less than 50,000 Birr and not more than 100,000 Birr, or imprisonment for a term of not less than five (5) years and not more than ten (10) years; and if the underpayment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 75,000 Birr and not more than 200,000 Birr, or imprisonment for a term of not less than ten (10) years and not more than fifteen (15) years.

Waiver of Penalty - Article 42, 285/2008 allows the Authority to waive the administrative penalties entirely or partially in accordance with its directives issued but these do not include late payment interest penalties which are stated under article 47 of 285/2008.

As it is stated by Olatunji (2009) Value added tax laws are not adequate for efficient VAT returns and collection rather the extent of how the tax law is interpreted and implemented as well as the publicity brought into it will determine how a particular tax is able to meet its objectives. Therefore to full fill the intended objective the need for having strong value added tax administration is unquestionable that is why James and Yesegat in their study emphasized the importance of VAT administration. According James (2011), in practice, no two VATs look exactly alike, with differences in rates, thresholds, exemptions, refund, and coverage. Some VATs exist sub-nationally or are limited to the manufacturing or wholesale level. Like with any other tax, the revenue-generating potential of the VAT is relative to a country's administrative capacity. The VAT produces far less revenue, far less efficiently, in countries with weak administrative capacity. In addition Yesegat (2008) on her part stated that, 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, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large.

## 2.2 Empirical Review

A study on Challenges of Value Added Tax Administration: The Case of East Wollega Zone by (Dheressa, Reddy, and Yadeta, 2015) investigated the challenges of VAT administration in relation with assessment, collection and implementation and they also evaluate the main problems related to VAT administration activities performance and service delivery of tax office and voluntary compliance of taxpayers in the case of Eastern Wollega Zone specifically Nekemte town. Their samples were composed of VAT registrants, Auditors, Tax Collectors, Audit and Assessment and Process Owners/ Team leaders they used stratified and judgmental sampling methods to select the samples. Descriptive statistics method and charts, figures, percentages and statistical package for social science (SPSS) were used for data analysis. Based on the results of their findings, the researchers noted that the authority is facing the following problems that have an effect on collecting sufficient amount of revenue:- Resistance against Value Added Tax registration, low level of tax awareness, weak audit and enforcement capacity of the tax authority, selling goods and service without using value added tax invoices by registrants, weak culture of taxpayers, lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Taxpayers generally majority of the respondents stated that there is poor Value Added Tax Administration in the East Wollega Zone.

In 2008, Yesegat's study about Value Added Tax Administration in Ethiopia: A reflection of problems - had the objective of how VAT administrators in Ethiopia perform their duties and how the effective taxation requirements differ from the legislation (focusing on the key administration tasks) and also identify key problem areas that deserve the government's due attention. The study was conducted by using interviews with tax officials and distributing semi-structured questionnaires to taxpayers and tax practitioners (mainly accountants in private practice). The researcher raised the following issues that are related to VAT administration practices help to achieve the research objective - Taxpayer identification and registration, VAT filing and payment, Control of filing and payment,

VAT Invoicing, VAT Audit, Penalties and VAT Refund. Generally, the outcomes of the survey shows lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority which confirms the existence of limited tax administration resources. The researcher therefore suggested that enhancing tax education and follow-up programs are valuable and designing a strategy that can encourage consumers to ask for VAT invoices could be helpful although this is likely to increase the administrative costs of the tax. It is also advisable for the authority to consider the possibility of recruiting and retaining sufficient number of qualified VAT administrators, auditors in particular.

A research about The Administration and Problems of Value Added Tax in Nigeria by Aruwa (2008), mainly examines the relevance and problems hindering efficiency of VAT. In order to get the necessary and adequate information the researcher collected various data from VATable Nigerian organizations, FIRS staff and the public. He also used descriptive statistics such as percentages, mean and combined mean for data analysis. The survey result generally shows that majority of the FIRS staff perceive that they are not adequately equipped technically and administratively to handle VAT operations. VATable organizations have inappropriate knowledge of VAT operations because as per the in-depth interviews with a few of the VATable organizations indicate that input VAT is wrongly treated as production costs. The responding organizations do claim that input VAT actually caused their working capital requirements to increase. Therefore, the argument that the system is not properly understood by the VATable organizations remains. Even if the governments have raised substantial revenue from VAT it is presently perceived as been underutilized due to high rate of tax evasion, lack of record keeping by business enterprises.

(Gela & Mohammed, 2013) studied problems face by traders during using ETRs the case of Addis Ababa City. The researchers adopted mixed methods approaches and random sampling method and distributed a structured questionnaire having both open ended and closed ended questions to investigate the effect of ETRs on timely filing of the monthly

VAT returns, the effect of ETRs in increasing tax revenue to the authority and the problems faced by the traders in using ETRs. Their findings show that the use of ETRs has significantly improved the collection of VAT and has increased government income, usage of ETRs also helps business to prepare and file their VAT returns on their own which helps them to minimize the payments to tax agencies to prepare monthly VAT returns as well as meet ERCA's reporting deadlines without these agencies involvement. In the case of problems faced by business in relation to usage of ETRs their findings revealed ETRs suppliers charge high cost and take longer maintenance time. It takes long process to get correction if mistake occurs in connection to using ETRs besides the refund settlement also takes more than 6 months. Generally the researchers found out that services given by ERCA is not adequate, doesn't have well trained and experienced employees. This needs ERCA to provide continuous training.



## CHAPTER THREE

### 3. Research Methodology

This part shows from where and how the data would be collected and interpreted. The method applied to this research and the reason for adoption is also described.

#### 3.1 Research Design

The research design section gives an overall view of the method chosen and the reason for that choice, (Lewis, Saunders & Thornhill, 2009).

According to Lewis et al. (2009) the objective of descriptive research is ‘to show an accurate profile of person, events or situations. So descriptive research is used to describe a behavior or type of subject, it does not determine any specific cause and effect relationship, and also it is not used to compare two or more variables. Thus, as the purpose of this research was to explain the current state of the Addis Ababa No. 2 Medium Taxpayers Branch Office’s Value Added Tax Administrative activities, it is a descriptive type of research. Both qualitative and quantitative data analysis techniques (mixed methods approach) were also used. Mixed methods research is a methodology for conducting research that involves collecting, analyzing, and integrating (or mixing) quantitative and qualitative research in a single study or a longitudinal program of inquiry which provides a better understanding of a research problem or issue than either research approach alone (Creswell, 2009). Since both quantitative and qualitative approaches have their own strengths and weakness, the usage of mixed methods approach in this study helps to utilize the strength and offset with weaknesses of one approach to the other which gave a better understanding of the research questions.

## 3.2 Sampling Techniques

A survey design provides a quantitative or a numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. From sample results, the researcher generalizes or makes claims about the population<sup>4</sup>. Surveys are popular as they allow the collection of a large amount of data from a sizeable population in a highly economical way often obtained by using a questionnaire administered to a sample. Consequently, as the number of the target population of this study is not a manageable survey research method was adopted. Accordingly, the research was conducted by taking samples from a total of 5,000 Value Added Tax registrants who are already registered for VAT in another branch and whose documents are transferred to Addis Ababa No.2 Medium Taxpayers Branch Office from its opening until December, 2015. And 74 tax officials whose activity are directly related to Value Added Tax assessment and collection out of which 11 are working in the investigation audit and 58 in the assessment and 5 in the collection departments and then generalize the results obtained from the samples.

The documents of the VAT registrants who were paying their taxes in Lideta, Kirkos, Bole, and N/silk Lafto and Akaki Kaliti sub-cities of Small Taxpayers Branch Offices are transferred to The Addis Ababa No. 2 Medium Taxpayers Branch Office after their annual sales is greater than or equal to 1,000,000. This shows that their business are scattered in various sub-cities and it is very difficult to search out the target population at a time. So the appropriate time to get the samples of Value Added Tax registrants was the monthly tax reporting period, thus, in order to get the required samples for this study convenience sampling technique was employed. To gather the necessary data (in order to get an expert judgment) from the concerned tax officials who are familiar with the work purposive sampling technique of non-probability sampling method and stratified probability sampling techniques were used. To give a proportionate chance, according to their number and to select the representative sample from each section based on their close relationship with the Value Added Tax Administration activities, the population of tax officials is divided into

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<sup>4</sup> John W. Creswell, Research Design Qualitative, Quantitative and Mixed Methods Approach 3<sup>rd</sup> ed. 2009

three levels such as investigation audit, assessment and collection so 78%, 15% and 7% respectively were chosen.

### 3.3 Determination of the Sample Size

To determine the sample size for Value Added Tax registrants the researcher used the following formula:-

$$n = \frac{X^2 * N * P * (1-P)}{(ME^2 * (N-1)) + (X^2 * P * (1-P))}$$

Where:

n = Sample Size

$X^2$  = Chi-Square for the specified confidence level (1.96%)

N = Population Size (5,000)

P = population proportion (50%)

ME = desired margin of error (5%)

(<http://research-advisors.com>)

$$n = \frac{1.96^2 * 5,000 * .50 * (1-.50)}{(0.05^2 * (5,000-1)) + (1.96^2 * .50 * (1-.50))}$$

$$= 357 \text{ samples}$$

According to (Teddlie & Yu, 2007) in purposive sampling selection of sample is based on usage of expert judgment and typically small (usually 30 cases or less) are used as sample size, therefore to determine the sample size from the tax officials the researcher used 30% of the target population:-

$$n = 74 * 30\% = 22 \text{ samples}$$

### 3.4 Data Collection Methods, Sources and Instruments

To gather adequate information about the Addis Ababa No. 2 Medium Taxpayers Branch Office's VAT administration activities primary and secondary data collection methods were used. In this study primary data were used as main sources. In addition to that

secondary sources were also employed to support the findings of the research which are obtained from the primary sources.

Primary data regarding possible causes of non-compliances are acquired from VAT registrants and tax officials by using closed and open-ended questionnaire. In addition interview with some tax officials was also conducted to get additional information about handling of non-compliance.

Secondary data in relation to Value Added Tax collection performance and management of non-compliances are obtained from the annual Value Added Tax collection, auditing and enforcement performance reports (i.e from 2013/2014 budget year to 2015/2016 half year reports) of the branch office. Online articles, published and unpublished written documents, web sites of ERCA, MOFEC and FIR were analyzed as supplementary information for the research.

Advantages of collecting both closed-ended (quantitative data) and open-ended (qualitative) data prove beneficial to best understand a research problem Creswell (2003). As (Zohrabi, 2013), described using different types of procedures for collecting data and obtaining that information through different sources can augment the validity and reliability of the data and their interpretation. Therefore, to make this research more valid and reliable mixed methods approach is used.

### 3.5 Data Collection Procedures

The primary data have been collected by using a questionnaire and interview from Addis Ababa No.2 Medium Tax Payer Branch Office VAT registrants and tax officials who are working in the investigation audit, assessment and collection departments of the Branch Office. Moreover, in order to collect the secondary data various performance reports and manuals of the branch office, websites of Ethiopian Revenues and Customs Authority, MOFEC, FIR, published and unpublished written materials and other related documents from different sources were also used.

### 3.6 Methods of Data analysis and Presentation

To analyze and interpret the results of the primary data that has been obtained from the respondents experiences and observations, which is used to evaluate the VAT administration of the Branch Office, descriptive statistics, percentages and tables were used.

## CHAPTER FOUR

### 4. Results and Discussion

#### 4.1 Introduction

This study was designed to assess the problems related to the Value Added Tax Administration in Addis Ababa, which emphasis on one of ERCA's medium taxpayers branch offices that is the Addis Ababa No. 2 Medium Taxpayers Branch Office. The research studied about VAT administration practice, particularly Assessment, Collection, Auditing, Refund, the Service Delivery and other related activities. The results obtained based on the data collected from respondents are presented and discussed in this chapter.

#### 4.2 Response Rate Analysis

The field survey result indicates questionnaires were distributed to 357 VAT registered taxpayers who came to the branch office for monthly VAT reporting purposes during the month of 'Miazia 2008 E.C.' (March/April, 2016). Due to lack of willingness or cooperation out of 358 questionnaires, 239 (66.67%) were returned. Given that attitude of traders towards tax related issues, this response rate is good and from 22 questionnaires distributed to tax officials, 16 were returned representing 72.73% this relatively less from previous studies, but it is due to different reasons like being in a meeting, went for training and unwillingness. The data presentation is done by grouping related and relevant research questions together.

The following section describes the Addis Ababa No. 2 Medium Taxpayers Branch Office VAT Administration practices and major limitations which affect its activities, particularly VAT collection, Voluntary Compliance, and VAT auditing, enforcement capacity, VAT Refund and Service delivery of the branch office.

### 4.3 Value Added Tax Collection performance

According to the Addis Ababa No. 2 Medium Taxpayers Branch Office VAT collection performance report during the budget year of 2013/2014 the actual amount of total tax revenue collected was 346,753,344.86 out of this sum 99.10% which is Birr 343,648,363.13 was gathered from Value added Tax. Since the branch office started its operation almost in the middle of the budget year until the document transferring process (from Lideta, N/Silk Lafto, Bole, A/kaki kality and Yeka small taxpayers branch offices to Addis Ababa No. 2 Medium Taxpayers Branch Office) ends most of the tax revenue were collected by those five small taxpayers branches of ERCA. Not only that, even if their documents were transferred to the Addis Ababa No.2 Medium Taxpayers some of the taxpayers pay their tax liability in one of the previous branches in which they were served before so the branch could not collect more than this amount .

For the period of 2014/2015 budget year Birr 2,598,137,201.07 of total tax revenue was actually collected which is 84.18% of the planned amount. Even though the branch office planned to collect Birr 1,791,716,174.76 of Value Added Tax Revenue but it actually collected 60.54% of its plan that is Birr 1,084,819,027.99. The following table shows the number of frequencies of VAT registrants who file and not file the monthly VAT return throughout the 2014/2015 budget year. As indicated in table 4.1 below the frequencies of nil, credit and non filers are vast in number in which the branch office could have the probability to collect more amount of VAT revenue which implies that during this period frequency of non-compliances were very high.

Table 4.1 - Total number of frequency filers and non filers during 2014/15 fiscal year

Month	VAT registrants who declare VAT return monthly			Number of monthly Filers	Non filers (those who do not report VAT return totally)
	Payment	Nil	Credit		
<b>July</b>	1,125	85	1,773	2,983	1,851
<b>August</b>	1,028	183	2,155	3,366	1,468
<b>September</b>	1,484	390	1,954	3,828	1,006
<b>October</b>	917	328	1,693	2,938	1,896
<b>November</b>	1,990	188	2,053	4,231	603
<b>December</b>	1,761	502	2,345	4,608	226
<b>January</b>	1,146	303	2,231	3,680	1,154
<b>February</b>	1,256	323	2,210	3,789	1,045
<b>March</b>	1,519	295	1,931	3,745	1,089
<b>April</b>	1,816	353	2,273	4,442	515
<b>May</b>	2,010	400	2,094	4,504	453
<b>June</b>	1,669	377	2,345	4,391	566
<b>Total number of frequency of filers and non filers during the budget year</b>	17,721	3,727	25,057	46,505	10,827
	38%	8%	54%		

Source: - Form Addis Ababa No. 2 Medium Taxpayers Branch annual performance report.

Therefore, as can be seen from the above table during 2014/15 fiscal period from the total number of VAT registrants on average per month those who report VAT return with payment 1,477, those who report nil (zero)311, those who report credit 2,088 and 902 are those who do not totally declare VAT return. Thus the 60.54% collection performance was only from those frequencies of payment filers. This shows that how much the gap between payment filers to that of nil, credit and non-filers is very big.



Furthermore In 2015/2016 budget year of six months (from July, 2015 to December 2015) collection performance shows that the branch office intended to collect Birr 1,705,633,922.92 of total tax revenue and 94.71% was actually collected out of this Value Added Tax amounts to be Birr 605,923,716.99 which is 99.48% of the planned amount of Birr 609,083,169.18. As per the report the revenue that is collected from VAT is increasing from time to time. But from the table below even if the collection amount is rising, as the previous budget year (2014/2015) frequencies of nil and credit filers are also vast in number which holds back the performance of the branch office from collecting the potential revenue that could be gained from the economy. That is because during 2015/16 1<sup>st</sup> and 2<sup>nd</sup> quarter from the total number of VAT registrants on average per month 1,658 are those who report the VAT return with payment, 2,411 report nil (zero), 350 report credit and like the previous period there are also registrants who do not totally declare VAT return but their actual number could not be obtained from the computer system. Thus the 99.48% collection performance was only from those frequencies of payment filers. This shows that how much the gap between payment filers to that of nil, credit and non-filers is very big. In both budget years if the performance is measured from the total number of registrants the percentage would be less.

Table 4.2 – Frequencies of number of filers during 2015/16 fiscal year (1<sup>st</sup> and 2<sup>nd</sup> quarter)

Month	Payment	Nil	Credit	Number of monthly Filers
<b>July</b>	1,748	2,952	238	4,938
<b>August</b>	1,562	2,338	513	4,413
<b>September</b>	1,698	2,152	307	4,157
<b>October</b>	1,553	2,312	405	4,270
<b>November</b>	1,668	2,393	338	4,399
<b>December</b>	1,721	2,319	356	4,396
<b>Total number of frequency of monthly filers during the budget year</b>	9,950	14,466	2,157	26,573
	37%	54%	8%	

Source: - Form Addis Ababa No. 2 Medium Taxpayers Branch

Yesegat (2008), in her study implied that in administering VAT in Ethiopia, tax authorities use computer programs to maintain taxpayers registration and process VAT returns. Detection of non-filers seems to be carried out mainly manually. The tax authority tries to identify non-filers in collaboration with the Ministry of Trade and Industry. Similarly Kassu (2011), found out that in Arada Sub City there is no reliable evidence about the total number of active VAT registrants. It is also impossible to know the number of stop filers using the computer system. Therefore, it is not possible to know the degree of difference between registered taxpayers and those who fill returns.

Likewise, this problem still continues in the Addis Ababa No. 2 Medium Taxpayers Branch Office. Two types of software used by ERCA to facilitate the VAT administration process the branch uses Standard Integrated Government Tax Administration System (SIGTAS) to perform every activity related to tax (from registration up to cancellation) and Automated System for Customs Data Management (ASICUDA) to get customs related information. However, in Addis Ababa No. 2 Medium Taxpayers Branch Office it is difficult to find the updated status of VAT registrants, especially when the registrants cancelled their registration license. So that it is not easy to get the actual number of lists of active VAT registrants and also to differentiate the number of non-filers from stop-filers by using the computer system which makes the follow-up and control of filing and payment activity of the branch office more complicated, there is a gap between users and the computer program which shows lack of well trained employees, which is the result of weak tax administration.

#### 4. 4 Major constraints of VAT collection

The VAT proclamation 285/2002 and VAT proclamation amendment 609/2008 necessitate each VAT registrant to issue an invoice for every supply of taxable goods or taxable services, which must explain the amounts of tax, charged and other useful information. In addition to that usage of electronics tax register (ETR) machines is also required by law. Nevertheless 53.14% of the respondents of VAT registrants indicated that there are businesses which are trading without issuing invoices. Out of this 20.5% replied that they are many in number. Moreover, in relation to usage of (providing) forged invoices 41.01%

of the registrants confirmed about the existence this fraudulent activity. Likewise, as indicated below in table – 4.3 100% of tax officials witnessed about the reality of businesses that do not issue tax invoices out of them 37.5% confirmed that many of the traders transact without issuing invoices. In addition, 93.75% of tax officials prove that there are taxpayers who provide forged invoices. The same problem is identified by Yesegat (2008), in Ethiopia there is the difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices (by giving the option of buying with or without invoices to customers) and using duplicated invoices. In the same way in east Wollega Zone Jaleta (2014), found out that because of lack of knowing about why they collect VAT, there are many Value Added Tax collectors who are not selling goods and service with a tax invoice. Brew & Wiah (2012) in their study proved that there is a positive relationship between VAT revenue and businesses issuing VAT receipts which displays efficiency in the mode of collection of VAT revenue. Even if the invoice credit method is a self enforceable which helps the tax authority to cross check the out-put VAT paid by the supplier with the in-put VAT deducted by the purchaser none issuance of tax invoice means avoiding this evidence related to a transaction which leads the branch office to lose its power to control the potential VAT revenue that can be collected.

In addition VAT registrants are required by law to keep proper records and file correct returns, but according to the outcome of the survey result this is another problem 93.75% response of the tax officials shows that there are taxpayers who do not comply law from these respondents almost 50% of them said they are many in number. The other fraudulent activity is related to cash register machine it is one of the controlling mechanisms used by ERCA to know the exact amount of sales as well as the amount of VAT revenue that must be collected from a trader. Gela et al. (2014) taxpayers who use the machine can quickly process their customer's transactions and accurately keeps records. ERCA also obtains information regarding total sales and this would enable the authority to levy tax based on that information. However, in connection with the problem of usage of cash register machine in a wrong way deliberately, as per the survey result, 41.84% of VAT registrants give their consent about the reality of this tendency.

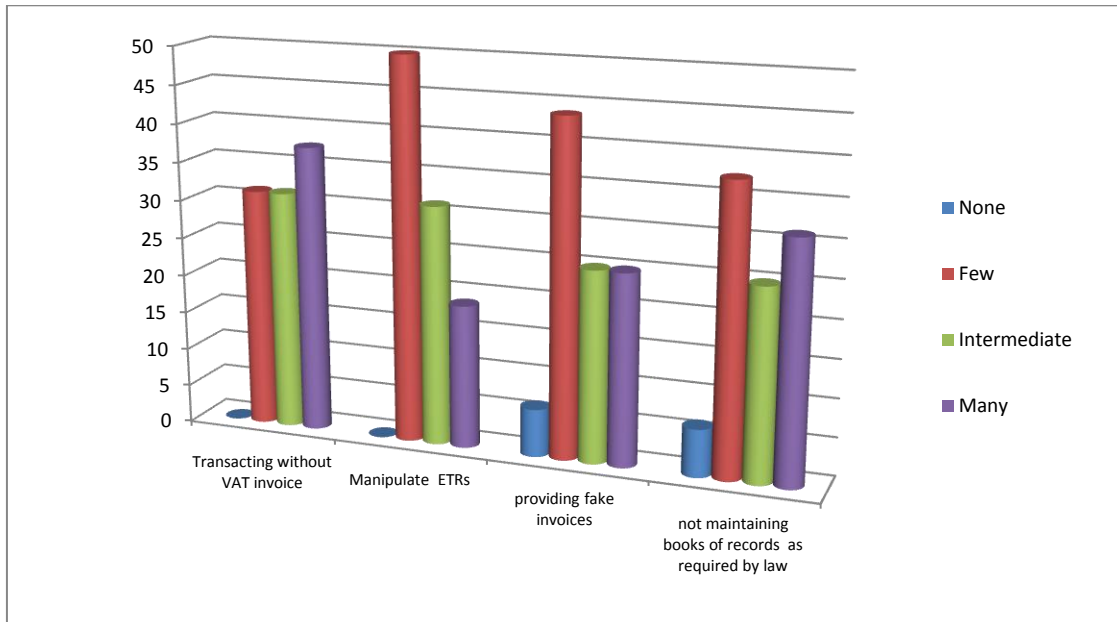
Furthermore, half of the respondents of tax officials proved about the existence of traders who manipulate the cash register machine. This shows that there is an understatement of the amount of sales, which decreases the amount of tax (VAT revenue). In relation to invoice and cash register machine Kassu (2011), also identified the same problem in Arada Sub-city Small Taxpayers Branch Office that is many VAT registrants sell goods and services without tax invoices and few registrants manipulate cash register machines. All the above constraints affect the revenue that can be collected from VAT. From both the responses of VAT registrants and tax officials, we can see that these percentages are very alarming which puts the tax administration activity in question. As Hunachew (2014), stated ERCA is able to assess and collect tax accurately and to trace any attempt of tax evasion using a central computer, which collects data from the local systems used by the traders, specifically information on the total sale when a customer purchases several items. Though this is a great opportunity to reduce tax evasion, it seems that this benefit is either underutilized or it is not fully implemented. Therefore, with the help of this connection and by strengthening its enforcement capacity the branch office has to try to avoid or reduce this situation as much as possible.

Table 4.3 - Loyalty of VAT registrants - responses of Tax Officials (%)

	None	Few	Intermediate	Many
Transacting without VAT invoice	0	31.25	31.25	37.50
Manipulate ETRs	0	50.00	31.25	18.75
providing fake invoices	6.25	43.75	25.00	25.00
not maintaining books of records	6.25	37.50	25.00	31.25

Source: - Questionnaire

Figure 4.1 Loyalty of VAT registrants responses of Tax Officials



Source Table 4.3

### 4.5 Tax compliance

Tax compliance means the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner. (<http://www.moneycontrol.com/glossary/taxes/tax>). As per the outcome of the response of most tax officials voluntary compliance of taxpayers in the branch office is low this is due to lack of knowledge, poor VAT administrative system and fear of competition from unregistered similar businesses. The same is true in Arada Sub-city small Taxpayers Branch Office according to Kassu (2011), voluntary compliance of taxpayers in the sub-city is low this is due to taxpayers attitude towards VAT, lack of uniform registration of similar business within the same area and equal business activities and lack of effective control and enforcement.

Even though their occurrence differs transacting without VAT invoice, late submission of the VAT return, late payment of VAT, non-filing, manipulation of cash register machines, Overstated claims of repayment and providing fake of forged invoices are among the types of non-compliances that the tax administrators of the branch office faced during their activity that hinders the Value Added Tax collection. As per the responses of tax officials

31.25% are those who put the occurrence of the overstated claims of repayment existed many times, however 62.5% of them said that it is the least frequent. In the words of 31.25% of tax officials the existence of late submission of the VAT return is more frequent which they face during their daily activity and 31.25% are those who said several times and 37.5% believed that it is less frequent. In relation to non-filing of VAT 12.5% answered that it happened more frequently, 25% many times, 43.75% said the least frequent, 12.5% replied that we have not ever faced and 6.25% remains silent. With regard to manipulation of electronics tax register 25% many times, 62.5% less frequently. As said by 31.25% of tax officials making transactions without invoice is the most frequently happened, 56.25% put it as less frequent. In connection with the provision of forged invoices as mentioned by the respondents, 25% of them indicated that it is more frequent; furthermore 18.75% responded it occurred many times and the rest 56.25% stated that it is less frequently happened.

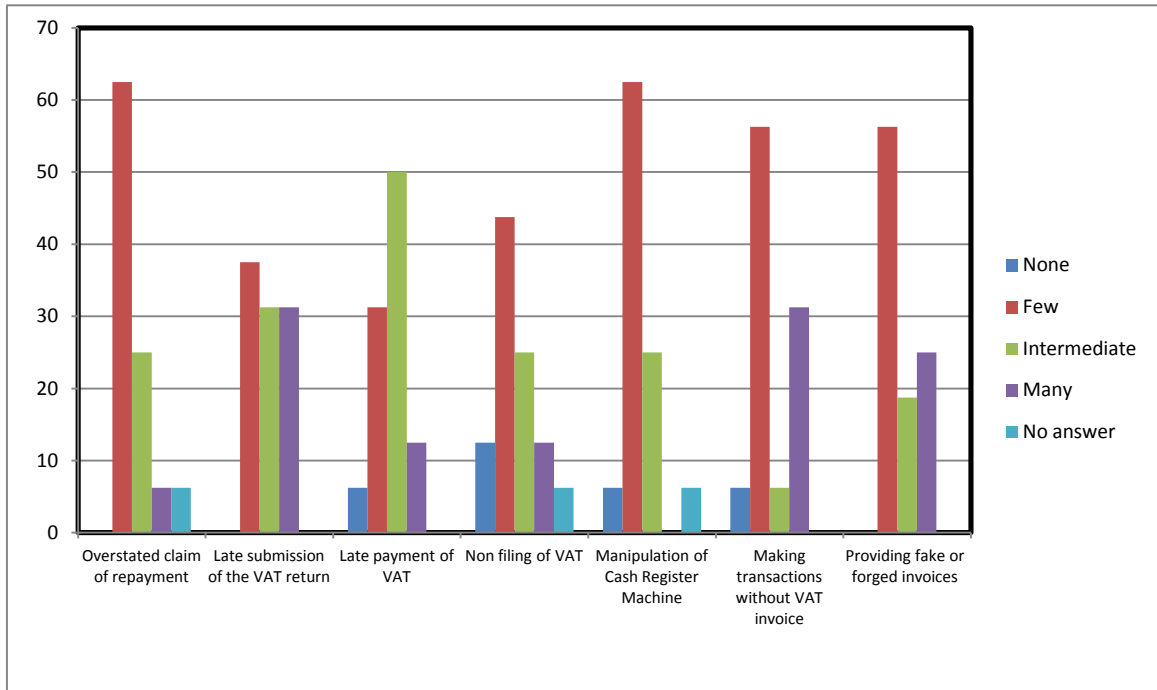
From these types of non-compliances as the results of the respondents shows, relatively speaking late submissions of VAT return, making transactions without VAT invoice and providing fake or forged invoices are the most frequent non-compliances. This is also another sign of understatement of the amount of tax that could be collected.

Table 4.4- Frequencies of non-compliances (%)

	None	Few	Intermediate	Many	No answer
Overstated claim of repayment	0	62.50	25.00	6.25	6.25
Late submission of the VAT return	0	37.50	31.25	31.25	0.00
Late payment of VAT	6.25	31.25	50.00	12.50	0.00
Non-filing of VAT	12.50	43.75	25.00	12.50	6.25
Manipulation of Cash Register Machine	6.25	62.50	25.00	0.00	6.25
Making transactions without VAT invoice	6.25	56.25	6.25	31.25	0.00
Providing fake or forged invoices	0	56.25	18.75	25.00	0.00

Source – Questionnaire

Figure 4.2 - Frequencies of non-compliances



Source: - Table 4.4

The frequencies of these non-compliances may be either deliberately or as the tax officers stated it may be due to lack of knowledge that is taxpayers may innocently fail to discharge their obligation. For example, as interview with some of the tax officials indicated that currently there are many ongoing construction activities in the Addis Ababa city because of this a lot of businesses are changing their original places. In this case as per the requirements in VAT proclamation 285/2002 (38), if the VAT registrants themselves do not notify the branch office, it is difficult to know whether the company stops or continues its business. If it continues its activities getting the exact address of the business would be hard this situation crates a hole to some traders’ to make fraud without notifying about the change of address and to hide and transact without issuing an invoice or if a company discontinues its function but an invoice issued in the name of the closed company and transact with others who do not know the cause. Therefore it is difficult to manage this kind of non-compliances.

Moreover, as per the qualitative information collected from the VAT registrants with the help of open-ended questions they raised some reason for their non-compliances. As some of these respondents mentioned they are not comfortable with the usual reduced reporting

periods of 10 days for Zero filers 20 days for credit filers and 30 days for payment filers. They reasoned out that the law has given the right to fulfill our obligation within 30 days, so why this restriction does required because sometimes we have got problems to collect some documents (purchase invoices) on time from our suppliers or partners in this case we felt stressed for not carrying out the requirement.

As per the study of Yesegat (2008), the reporting period, especially the 20-day period for credit filers, is very short. This is a problem, especially for taxpayers who conduct business at several locations since gathering documents from different offices takes time. Furthermore the shortness of the reporting period puts substantial pressure on employees and disrupts the normal operation of businesses.

The other thing which may be considered as a reason for non-compliance is taxpayers awareness about their duties and responsibilities. When VAT registrants were asked whether they have enough knowledge about the consequences of not complying with VAT laws, only 34% of them who confidently answered yes, but the rest do not have enough knowledge about the consequences of not complying with VAT laws. Taxpayer education is an important part of addressing tax compliance, and is a central component of revenue administrations' effort to build a taxpaying culture in developing countries Fjeldstad & Iversen (2015). So the provision of improved knowledge about the tax system makes them to better know about their rights and obligations. Consequently it increases taxpayers' willingness to pay tax as well as to comply with tax laws.

#### 4.6 VAT auditing, fairness and efficiency of penalties and enforcement capacity

As it is stated in the ERCA's 2014 audit manual, the overall objective of a tax audit is to improve the compliance of taxpayers, whether they declare the correct amount of tax and paid at the right time.

The results of the questionnaire from the tax officials about the audit activity of the branch office shows that the selection of taxpayers for audit is based on risk measures, they identified some of the lists of various criteria used for selection of an audit like the frequent



loss report by the taxpayer, sales volume, post attitude of taxpayer, business type, when a customer wants to close or stop his business and before attaining 5 years. Furthermore, there is a manual which shows various lists of types of risk measures together with their level that helps the auditors to be uniform in selecting a taxpayer for an audit. Moreover, according to the tax officials even if there is a shortage of auditors in the branch office in addition to a desk audit a field audit is conducted whenever necessary. On the contrary, according to Kassu (2011), in respect of VAT audit in Arada Sub City Small Taxpayers Branch Office, there was no appropriate audit program based on risk management. It was rather planned to give better service for the customers. The audit task was also only desk auditing. No door to door inspection to check inventories and other things which need to be checked.

In 2008, Yesegat discovered the selection of VAT audit cases in Ethiopia is done by the audit selection committee and the selection criteria include: credit declaration, nil VAT declaration, non-filers, unusual VAT filing patterns, and information obtained from third parties. Cases selected based on the above criteria would be subjected to audit.

Table – 4.5 Half year audit performance report of 2015/16 (1<sup>st</sup> and 2<sup>nd</sup> quarter)

	<b>planed</b>	<b>Actual</b>	<b>%</b>
<b>Audited documents</b>	320	389	121.56
<b>Additional amount collected</b>	204,046,666.00	421,742,211.41	210.52

Source: - Audit performance report of the branch office

Even though the report shows that the audit performance rate is more than 100% of its plan, when it is compared to the total number of nil, credit and non-filers of VAT registrants the performance is still very low. This shows that if the number of documents to be audited has increased the probability of collecting the extra amount from those nil, credit and none filers would be high. As per the study conducted by Yesegat (2008), in the 2004/05 fiscal year, in Ethiopia tax authorities audited 189 taxpayers out of 17,278 registrants (1.1 per cent). Similarly, in the 2005/06 fiscal year, 347 taxpayers out of 22,215

registrants were audited (1.6 per cent). These figures suggest the low audit rate which may have a negative impact on the revenue potential of VAT and the level of compliance.

As Kassu (2011), noted in his study enforcement is weak in Arada Sub-city Small Taxpayers Branch Office, this is mainly due to shortage of manpower to inspect door to door and to deliver tax notices to taxpayers on time. Moreover, delays of the tax office to seize and sell the property of taxpayers, not willing to pay the tax according to the law make the law remain on paper. By the same token as it is discovered from most (75%) of the tax officials' response the enforcement capacity of the Addis Ababa No. 2 Medium Taxpayers Branch Office is weak. The branch office uses various methods to get information about different crimes in relation to tax evasion (usage of forged tax invoices, selling without invoices...) by cross checking the purchase and sales invoices or from third-party. Based on that within the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2015/2016 budget year from third party the branch office obtained 15 cases of information related to tax evasion whereas 14 were valid. Yet, due to lack of sufficient manpower out of these 14 valid tax evasion crimes only 50% were performed, but the rest 50% are on process. Similarly in 2013/2014 and 2014/2015 fiscal periods (6) cases and in 2015/2016 first and second quarter (21) cases a total of 27 taxpayers documents were suspected in usage of forged invoices and sent to Investigation Audit Section from various departments but all are still on process according to the report this is because of shortage of sufficient and well qualified workforce. Moreover In relation to the fairness and efficiency of penalties, 68.75% of tax officials evaluated it as good but the remaining 25% said poor. On the contrary 33.05% of VAT registrants are not satisfied with the penalty system of the branch they said that there is lack of uniformity in penalty for similar issues. This kind of perceptions by taxpayers encourages non-compliances thus the branch office lacks its trustworthiness. This widens the gap between the tax administrators and the taxpayers.

Audit and enforcements are issues among the core tax administration functions. Therefore all of the above audit and enforcement performance reports are indicators of weak tax administration which needs the branch to build an effective audit and enforcement capacity as it is one way to increase tax compliance. As Abdi (2010), stated an effective audit program will have significantly wider impacts than just raising revenue directly from audit

activities. In a tax system that is perceived to be fair and equitable, punishing taxpayers who do not comply builds community confidence and encourages compliance from the broader population as compliant taxpayers support the administration's efforts to deal with non-compliance.

#### 4.7 Refund

A tax refund is a reimbursement on tax paid to a registered person when the actual tax liability is less than the amount paid to goods and services. The VAT proclamation in article 27 allows refunds to exporters within two months and for non-exporting taxpayers the law allows to carry forward to the next five accounting periods and credited against payments for these periods, any unused excess remaining after the end of this five-month period shall be refunded by the Authority within a period of two months. But in both cases, the registered person is required to file an application for refund, accompanied by documentary proof of payment of the excess amounts.

Based on that as indicated in table 4.6 below during the budget year of 2014/2015 there were a total of 79 VAT registrants who claim for refund, from these requests after a thorough examination of the documents of the registrants the branch office reimbursed Birr 56,319,059.17 for 68 VAT registrants (86.08%) from the remaining 11 applications 7 are transferred to the next budget year and 4 claims stopped. In 2015/2016 fiscal period, a total of 115 refund claims (7 of them are transferred from the previous budget year) from this applicants Birr 165,058,939.08 has been refunded for 90 applicants (78.26%) the rest 25 applications are on process.

Table 4.6-Refund performance report for 2014/15 full year & 2015/16 (1<sup>st</sup> and 2<sup>nd</sup> quarter)

Budget year	Applications presented for refund	Applications responded	Amount refunded	Transferred to the next fiscal period
2014/15	79	68	56,319,059.17	11
		<b>86%</b>		
2015/16 (1 <sup>st</sup> and 2 <sup>nd</sup> quarter)	115	90	165,058,939.08	
		<b>78%</b>		

Source – Addis Ababa No. 2 Medium Taxpayers Branch Office.

As the 6 months refund performance report shows the status of the branch relatively is in good condition because as the survey result from the VAT registrants shows most of them respond that they do not have knowledge, whether refund can be paid in cash after their request rather they only know to carry forward to the next period to offset, if they have known the case more applications could be presented to the branch, in that case, it would be difficult to respond as the law requires and which holds their working capital for a longer period. Gela et al. (2014) in their study demonstrated about refund claimed by traders, it could take more than 6 months to settle the case. This will take the working capital of the trader.

#### 4.8 Service Delivery

As the results shown in table 4.6 below 45.19% VAT registrants agreed that the Branch Office updates any changes in relation to VAT on time and appropriately, but 37.66% of the respondents disagree with this point because as they said the branch posted every information on the notice board unless we go there in person there is no other means to be informed. Updating traders for any new information benefits both the traders and the branch office in that it helps to increase voluntary compliance, VAT registrants will not be penalized because of lack of knowledge and the branch's tax administration activity also become simple. Therefore, a lot has to be done in this regard.

ERCA in its directive In relation to usage of ETRs, points out various possible mistakes that could occur together with a clear, detailed procedure and how these mistakes should be handled and corrected by its concerned staff. In this directive even if there is no time limit set, by taking various things into consideration (the type of business complexity, amount, taxpayers background and other related things) the amendment must be given to the taxpayer within a short period. Nevertheless, in Addis Ababa No. 2 Medium Taxpayers Branch Office even if 46.86% of the respondents of VAT registrants agreed that whenever a mistake occurs at the time of making transactions because of ETRs the concerned tax officials respond immediately to correct the mistake, but the other 30.96% of the respondents of registrants disagree that it is difficult to get correction as well as to get sufficient information from the branch office because the process is too long and boring.

Besides, as most of them complained that, tax officials’ attitude towards traders is very much irritating in that they do not trust traders, they think as if all traders are tax evaders that is very much discouraging. This makes traders to absorb the mistake by themselves and be penalized which leads to non compliance.

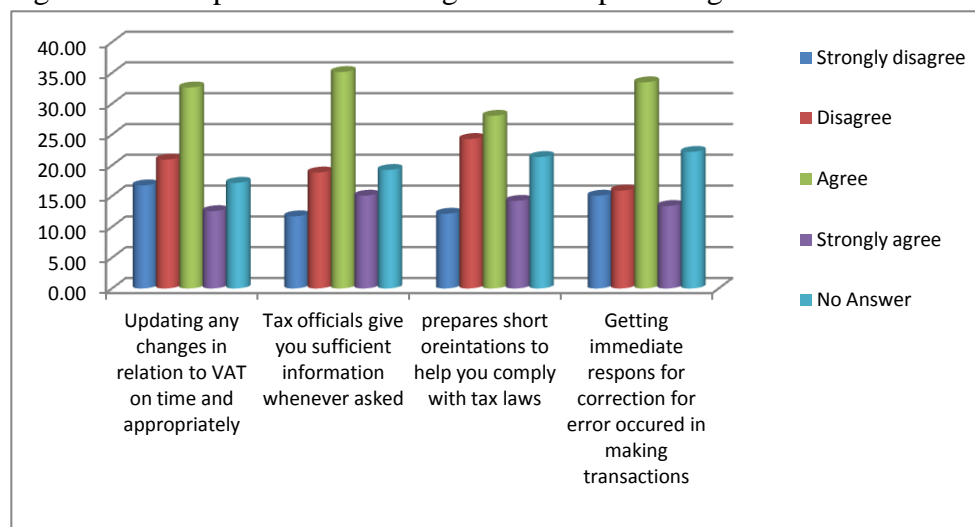
The survey results of Gela et al. (2014) also indicate that if a mistake occurs when using ETRs, to get correction at the ERCA takes very long and hectic process that needs lots of ups and down in addition to that it is very frustrating as one may consider putting oneself as a criminal. This is the result of the way the tax collectors consider traders as tax evaders. The process has to be shortened to reduce such complaints.

Table 4.7–Responses of VAT registrants on providing information and service delivery

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Agree</i>	<i>Strongly agree</i>	<i>No Answer</i>
Updating any changes in relation to VAT on time and appropriately	16.74	20.92	32.64	12.55	17.15
Tax officials give you sufficient information whenever asked	11.72	18.83	35.15	15.06	19.25
prepares short orientations to help you comply with tax laws	12.13	24.27	28.03	14.23	21.34
Getting immediate response for correction for error occurred in making transactions	15.06	15.90	33.47	13.39	22.18

Source: - Questionnaire

Figure 4.3 - Responses of VAT registrants on providing of information and service delivery



Source: - Table 4.7

Even if most of the respondents of tax officials evaluated the filing and payment process of the branch office as good, as information obtained from the open-ended questions 50.63% of VAT registrants implied that it took more than an hour to finish the monthly VAT declaration, but the rest 49.37% stated that most of the time it took more than a day to complete their obligation of declaration of monthly VAT return as they stated this is because of shortage of the cashiers, negligence of some employees, frequent power interruption, and system breakdown. As a result, they are forced to wait their turn for longer hours, which take the working time of the traders that they complain a lot. As per Article 26 of VAT proclamation 285/2002 every registrant is required to report the VAT return for each accounting period, whether or not tax is payable in respect of that period. Which means the process is repeated monthly and implies that they are unnecessarily wasting too much of their working time, therefore the branch has to try to shorten the process and solve the problem as much as possible. Alike Gela et al. (2014) found out that traders in Addis Ababa have to pass long queue that took too much time to pay the monthly VAT return. It may take more than one day. Hence, paying the monthly VAT return is taking the working time of the traders.

An organization must have well-trained and qualified employees who are competent in taking care of different matters easily and provide adequate customer service to achieve its objective. In the study by Yesegat (2008), ERCA lacks qualified tax administrators they are not capable of handling cases quickly, particularly at the time of the audit, they lack confidence to make decisions and willingness to help taxpayers, also fail to give consistent information on the same VAT issues. In addition, according to Gela et al. (2014) traders in Addis Ababa are not satisfied with the service given by ERCA as it is not adequate, doesn't have well trained and experienced employees.

As noted by the previous researchers the same problem is identified in Addis Ababa No.2 Medium Taxpayers Branch Office, as the survey result obtained from VAT registrants about the capability and qualification of the tax officials indicated that 33.05% of the respondents stated that the tax administrators are not qualified enough to handle some issues and have a problem of solving easy matters by themselves they rather wait for their supervisors to deal with the case. Furthermore, when the registrants give their opinion

concerning honesty and dedication of employees 32.22% of them revealed some employees lack sincerity and dedication. When tax officials respond about the branch's manpower resource 37.5% said that the branch has a shortage of competent and skilled manpower, in relation to training 75% of them said that the branch is weak in providing adequate training programs for employees who are working in different levels to upgrade their abilities. This creates a gap between employees' knowledge and what would be expected from them, which is very difficult to manage their day-to-day activities. Therefore, developing skilled, honest and dedicated employees contribute a lot to have a good tax administration activity.

Another problem which is pointed out by the VAT registrants is that as per the information gained from the open-ended questions this days power interruption is the frequent problem, according to the respondents when power is off, we cannot use the electronic tax register machine in this case, it is a must to get the branch office's approval to transact by using the authorized value added tax cash sales invoice. To get this approval, we must report either through telephone or appear in person, however, most of the time the telephone line is out of service so we are forced to present in person to report the situation which is very difficult and time consuming.

## CHAPTER FIVE

### 5. Summary of Findings, Conclusions and Recommendations

This chapter deals with the summary of findings, conclusions and recommendations based on the findings of the study:-

#### 5.1 Summary of Findings

In the budget years of 2014/15 and 2015/16 the collection performance report reveal that the amount of VAT revenue collected is 60.54% and 99.4% of its plan respectively. However, these amounts are collected only from 38% and 37% of the total number of VAT registrants who declare the VAT return on time the rest percentage is covered by nil and credit filers in addition in each month there are also VAT registrants who do not fulfill their obligation totally which broadens the gap more and reduces the collection performance percentage. Another discovery is that the problem of unavailability of proper documentation system of the branch which is difficulty in getting accurate number and status of VAT registrants who fulfill their obligation on time by using the computer system which affects the collection of additional tax revenue. This is implication of a gap between employees' know-how and utilization of the computer program.

According to the refund performance report in 2014/15 and 2015/16 six months the performance is 86% and 78% respectively. In relation to audit, there is a detailed audit selection criteria manual which is useful to make the base of selection uniform among auditors and avoid biasness. On the other hand even if, the audit report shows that the branch performs 121.56% of its plan and enable to collect extra amount of Birr 421.71 million from audit within the budget year of 2015/2016, conversely when it is compared to the large number of credit, nil and non filers still there is a huge gap between the audited documents and those numbers of credit, nil and non-filers which needs to add additional staff and strengthen the audit activity in order that the possibility of collecting extra amount is clear. Within the 1st and 2nd quarter of 2015/2016 budget year from third party the branch office obtained 15 cases of information related to tax evasion whereas 14 were valid. Yet, due to lack of sufficient manpower out of these 14 valid tax evasion crimes only



50% were performed, but the rest 50% are on process. Similarly in 2013/2014 (3) cases, 2014/2015 (3) case and 2015/2016 (21) cases that is a total of 27 taxpayers documents were suspected in usage of forged invoices and sent to Investigation Audit Section from various departments but all are still on process. Audit and enforcements are issues among the core tax administration functions. Therefore all of the above audit and enforcement performance reports are indicators of weak tax administration which needs the branch to build an effective audit and enforcement capacity as it is one way to increase tax compliance.

Due to lack of knowledge, poor tax administration and fear of unnecessary competition from similar unregistered business voluntary compliance in the branch office is low from the results of the findings selling without invoice, providing forged invoices, manipulation of cash register, not maintaining proper books of returns, non-filing and late submission of the VAT return are among non-compliances which frequently occurred. They may be either voluntarily or deliberately. This needs the development of strong and modern audit and enforcement program. But penalty cannot be the only way to increase compliance; especially for those taxpayers who do not know tax laws and procedures. Therefore, to reduce the gap help taxpayers to understand their rights and obligations and make them aware of any revised rules and regulations.

As per the outcome of the findings, it is found that because of shortage of adequate number of cashiers, lack of sufficient well trained and qualified employees, frequent power interruption and system breakdown VAT registrants are forced to wait long hours and even more than a day to declare the monthly VAT return which leads VAT registrants not to fulfill their obligation on time. There is also a problem in getting response for correction if a mistake occurs at the time of using ETRs because the process is too long, boring and time consuming. Tax officials' attitude towards traders in that lack of trust and considering all traders as if they are tax evaders is another problematic area that most of taxpayers complained. All the above factors have negative effect on the service delivery of branch office and needs the branch's attention to modernize and enhance the system.

## 5.2 Conclusions

VAT revenue plays a significant role in a country's economy; it becomes the more reliable tax revenue as a source of income in which government can rely on. On the contrary, still there are many factors which affect the revenue generated from VAT. Therefore, to benefit from this tax and to get maximum revenue as much as possible, it needs to discover and solve those obstacles.

Within the two consecutive years (2014/15 and 2015/16) the collection performance report demonstrate that the amount of VAT revenue collected are 60.54% and 99.4% of its plan respectively. However, these amounts are collected only from 38% and 37% of the total number of VAT registrants who declare the VAT return on time the rest percentage is covered by nil and credit filers. In addition there are also lots of VAT registrants who do not fulfill their obligation totally there by if the collection performance is measured from the total number of VAT registrants the real collection performance is less than the stated percentage which broadens the gap further as a result this is the implication of the branch's inefficiency in collecting the potential tax revenue. Another discovery is that the problem of unavailability of proper documentation system of the branch which is difficulty in getting the accurate number and status of VAT registrants who fulfill their obligation on time that is differentiating by using the computer system which affects the collection of additional tax revenue as this makes the follow up and control process more complex. This is implication of a gap between employees' know-how and utilization of the computer program which the branch's weakness in having well qualified workforce.

In relation to audit and enforcement, having a detailed audit selection criteria manual is useful to make the base of selection uniform among auditors and avoid biasness which is the strongest part of the branch office however, based on the findings from the audit report the branch performs 121.56% of its plan within the budget year of 2015/2016 regardless of the number of auditors it is good, conversely when it is compared to the large number of credit, nil and non filers still there is a huge gap between the audited documents and those numbers of credit, nil and non-filers. Moreover due to lack of knowledge, poor tax administration and fear of unnecessary competition from similar unregistered business voluntary compliance in the branch office is low in addition from the results of the findings

it is understood that selling without invoice, providing forged invoices, manipulation of cash register, not maintaining proper books of returns, non-filing and late submission of the VAT return are among non-compliances which frequently occurred from this it is clear that there is a possibility of collecting extra amount if further auditing is performed therefore, the branch's performance is ineffective. In the budget year of 2015/2016 there are 14 valid tax evasion cases obtained from third party. Yet, due to lack of sufficient manpower out of these 14 valid tax evasion crimes only 50% were performed, but the rest 50% are on process. Similarly in 2013/2014 (3) cases, 2014/2015 (3) case and 2015/2016 (21) cases that is a total of 27 taxpayers documents were suspected in usage of forged invoices and sent to Investigation Audit Section from various departments but all are still on process. this shows weak enforcement because such kinds of cases are sensitive it needs careful follow up and to shorten also speed up the process as much as possible and send them to prosecutor for further action, as the time passes it would be difficult to get the necessary documents as well as the suspects. Audit and enforcements are issues among the core tax administration functions. Therefore, all of the above audit and enforcement performance reports are indicators of weak tax administration.

As per the outcome of the findings, it is found that because of shortage of sufficient number of cashiers, lack of sufficient well trained and qualified employees, frequent power interruption and system breakdown VAT registrants are forced to wait long hours and even more than a day to declare the monthly VAT return and leads VAT registrants not to fulfill their obligation on time which shows the branch's service delivery poor.

It seems too early to evaluate the performance of the Addis Ababa No. 2 Medium Taxpayers Branch office VAT Administration performance. But, as it is indicated in the discussion section of this paper the same problems were identified by other researchers in the past (even before 7 years) however these obstacles are still affecting the tax revenue badly. Branching tax centers alone may simplify the burden. Yet, this does not indicate that all the existed problems are solved. From the beginning the branch has to be exhaustively organized with adequate and well trained workforce and equipped with the necessary materials. In addition the development of strong Value Added Tax administration is required by taking the existed branches experiences, otherwise it would be very difficult to

control and reduce the number of non-compliances which directly affect the tax revenue collection significantly and greater effort is required to increase voluntary compliances and build taxpayers' confidence and achieve the objective of ERCA.

### 5.3 Recommendations

On the basis of the findings of this study, the following solutions are recommended:-

Tax laws alone are not enough to have an effective tax administration, unless there are well-qualified tax officials. Things are changing from time to time being lack of training creates a gap between employees' knowledge and what would be expected from them. Therefore, providing adequate training programs in every aspect related to their activity (in usage of a computer program, auditing, documentation and customer handling) helps employees to cope with the latest rules and regulations, technological advancements, to build confidence and manage their activity without difficulty.

To increase voluntary compliance and decrease the frequency of non-compliances taxpayer education is vital which helps them to better understand the rules and regulations and to discharge their obligation easily. Taxpayers are available in the branch every month, this is a better opportunity to contact them and transfer the required message. Therefore, the branch can prepare short audiovisual messages about essential tax related issues and pass on this message while they are waiting for their turn to declare the monthly VAT return in addition to posting the information on the notice board.

These days there are several ongoing construction activities in Addis Ababa, which forces people to change their address, due to this as the researcher understands from the interview with the tax officials the branch office faces a problem to get the exact address of some taxpayers who changed their businesses address. In this case, unless the taxpayers themselves disclose their latest address, the branch cannot have a way to know their new location. Consequently, it needs the cooperation of the concerned organizations. In that, whenever a notice is given to a business organization to leave the place it would be better to send the same notice to the branch office to become aware of the situation which helps to follow-up and take the necessary action.

One of the reasons of the opening of this branch was to improve the service delivery; however VAT registrants raised their grievance about the payment system of the monthly VAT return. According to them the process takes more than an hour and even more than a day this is due to shortages of cashiers and negligence of employees, which leads them to wait for long hours and waste much of their useful working time. This show the existing employees are not using their time properly. Hence, increase the number of the cashiers; add the payment windows, looking for the possibilities to offer all the services (documentation, assessment and payment activities) in one window, supervise employees to make use of their time appropriately, effectively and to fulfill their responsibilities to reduce the problem. In addition, frequent power interruption and system breakdowns are also other causes which affect the service delivery. Even if shortage of power is a countrywide problem, buying a generator is not beyond the branch's capacity and hence, it is the only option to resolve this difficulty.

In this branch, it is not easy to get the exact number of total VAT registrants and to identify their real status, that is, whether they are reporting their VAT return as required by law. Even, it is difficult to differentiate the status of non-filers and stop-filers. When the registrants cancel their registration license according to the law their status must be changed immediately, otherwise to follow and enforce them to file their VAT return is impossible without knowing their actual status, which makes the auditing activity more complex. For that reason, providing a special training session or preparing on-the-job training to all the concerned tax administrators about how the computer software (SIGTAS) works helps them develop their knowledge and to be more effective. Since all the necessary information about the taxpayers is obtained from the computer system, updating the status of VAT registrants every time by using this computer system is required, which facilitates knowing their actual status easily and to produce an accurate and immediate report. On the other hand, VAT registrants present application for cancellation of registration for the branch office, nevertheless they may not stop doing business or transacting in this case, the branch office can communicate "kebeles" in which the registrants' business situated to know whether their business is active or not.

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## APPENDEX 1

### Questionnaire for VAT Registrants

Dear respondents,

This study is conducted for the partial fulfillment of the requirements for the Masters of Accounting and Finance. It is intended to assess the practice of Value Added Tax Administration in Addis Ababa No.2 Medium Taxpayers Branch Office. The purpose of this questionnaire is to get your opinion based on your observation concerning the present Value Added Tax administration practices of the Branch Office and the major limitations you think that hinders its effectiveness. As a result the study will be used as an input for the Branch Office to identify its problems, upgrade its service and create conducive environment both for the employees as well as for the taxpayers. I would like to remind you that your response will only be used for the study and be highly confidential. Therefore, please do not hesitate to answer all questions.

I thank you in advance for sharing your precious time and kind cooperation.

Sara Gebeyehu

#### Questions Related to Personal Information

1. Sex \_\_\_\_\_
2. Level of education \_\_\_\_\_
3. The type of business \_\_\_\_\_
4. When did you register for VAT? \_\_\_\_\_
5. How did you register for VAT?
  - i. Voluntarily
  - ii. Obligatory
6. In which sub-city does your business exist \_\_\_\_\_
7. When did your document transferred to this branch? \_\_\_\_\_
8. How do you handle the filing requirements (your books of accounting records)
  - i. Myself
  - ii. Employee accounting professionals
  - iii. tax practitioner
9. What was your position at last month?
  - i. Nil
  - ii. Credit
  - iii. Payment

10. Do you declare your VAT receivable and payable on time?  
 i. Yes always      ii. sometimes
11. If your answer is sometimes for question No. 10 what was (were) your reason/s?  
 \_\_\_\_\_  
 \_\_\_\_\_
12. What do you think about the reduced reporting periods? ( 10 days for nil filing, 20 days for credit filing 30 days of payment)  
 i. Too long    ii. Enough      iii. Short      iv. Too short
13. On average how many periods does it take to finish the monthly VAT filing and payment process?  
 i. minutes      ii. Hours      iii. days
14. What problems did you ever face at the time of VAT declaration?  
 \_\_\_\_\_  
 \_\_\_\_\_
15. Have you (your company) ever been penalized in any issues in connection with VAT within the budget year of 2014/2015 and after wards?  
 i. Yes      ii. No      iii. Do not know
16. If yes how many times? \_\_\_\_\_
17. What were the reasons as to why these penalties occurred? (circle all that apply)  
 i. Did not register on time  
 i. Overstated claim to a repayment  
 ii. Late submission of the VAT return  
 iii. Late payment of VAT  
 iv. Non filing of VAT  
 v. In connection with VAT invoice  
 Other please  
 specify \_\_\_\_\_
- 
18. Have you ever applied for refund to be paid in cash?
19. If yes, for question No. 17 after your application of refund within how many periods does the branch reimburse in cash?  
 \_\_\_\_\_
19. Do you have any idea about the legal consequence in relation to VAT?  
 i. yes very much      ii. Somewhat      iii. No

20. What do you think about VAT registrants in terms of their frankness and faithfulness in the case of the following situations?

	Many	Few	Immaterial	Non
Making transactions without VAT invoice				
Providing fake or forged invoices				
Manipulation of Cash Register Machine				

21. How do you evaluate the services of the Branch Office regarding the following matters?

	Strongly agree	Agree	Disagree	Strongly disagree
The Branch Office updates any changes in relation to VAT on time and appropriately				
Tax officials give you sufficient information when ever asked				
The Branch Office often tries to make traders to comply with the law				
Tax officials respond in case of error happens in usage of cash register machine errors created either because of the machine itself or in case where void transactions happen				

22. How do you evaluate the Branch Office with respect to the following factors?

	Excellent	Very Good	Good	Fair	Poor
Fast and excellent customer service					
Organized with Competent and skilled manpower					
Honesty and Dedication of employees					
Tax assessment					
VAT collection system					

Fair and efficient penalties and appeal system					
Auditing procedure					

23. What things do you propose for the future to be adjusted on the overall VAT administration practice of the Addis Ababa No.2 Medium Taxpayers Branch Office?

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Thank you very much

## APPENDIX 2

### Questionnaire for Tax Officials

Dear respondents,

This study is conducted for the partial fulfillment of the requirements for the Masters of Accounting and Finance. It is intended to assess the practice of Value Added Tax Administration in Addis Ababa No.2 Medium Taxpayers Branch Office. The purpose of this questionnaire is to get your opinion from your experience concerning the present Value Added Tax administration practices of the Branch Office and the major limitations you think that hinders its effectiveness. As a result the study will be used as an input for the Branch Office to identify its problems, upgrade its service and create conducive environment both for the employees as well as for the taxpayers. I would like to remind you that your response will only be used for the study and be highly confidential. Therefore, please do not hesitate to answer all questions.

I thank you in advance for sharing your precious time and kind cooperation.

Sara Gebeyehu

1. Sex \_\_\_\_\_
2. Level of education
  - i. Grade 12
  - ii. Diploma
  - iii. First degree
  - iv. Masters and above
3. Your status or position in the organization?
  - i. Assessor
  - ii. Auditing and inspection
  - iii. Collection
4. What do you think the reason that your office did not collect the intended amount of VAT revenue during the fiscal period of 2013/2014? \_\_\_\_\_

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5. During the fiscal period 2013/2014 report of your Branch Office indicates that huge number of credit filers and non filers, what would be the reason?

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6. From your experience which of the following problems hinder VAT administration more? **Please rank /order/ them.**

- i. VAT registrants are less competitive in the market than non VAT registrants
- ii. Consumers are not that much willing to buy goods and services with VAT
- iii. Poor tax enforcement capacity of the Branch Office
- iv. Use of fraudulent invoices and trading without issuance of VAT invoices

7. What do you suggest as a solution for the above problems? \_\_\_\_\_

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8. What are the criteria used by the Branch Office for selection of taxpayers for audit?

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9. How many periods does the refund procedure take? \_\_\_\_\_

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11. How do you express the number of voluntary VAT compliances in your Branch Offices' territory?

- i. Very high
- ii. High
- iii. Reasonable
- iv. Low
- v. Very low

12. What would be their reason? For question no. 11

- i. Lack of knowledge
- ii. Poor VAT administrative system
- iii. Due to fear of competition from unregistered similar businesses

Any other please state \_\_\_\_\_

13. What do you think about VAT registrants in terms of their frankness and faithfulness in the case of the following situations?

	None	Few	Intermediate	Many
Making transactions without VAT invoice				
Manipulate Cash Register Machine				
providing fake invoices to secure more input tax				
Traders who do not to maintain books of records of their business operations as required by the law				

If you have any mention it here \_\_\_\_\_

\_\_\_\_\_

14. What frequent noncompliance you experienced that causes penalty to the taxpayers?

	None	Few	Intermediate	Many
Overstated claim of repayment				
Late submission of the VAT return				
Late payment of VAT				
Non-filing of VAT				
Manipulation of Cash Register Machine				
Making transactions without VAT invoice				
Providing fake or forged invoices				

If you have additional please specify \_\_\_\_\_

\_\_\_\_\_



15. How does the Branch Office handle the above non-compliances?

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16. How do you evaluate the strength of your Branch Office with respect to the following factors?

	Poor	Not bad	Good	Very Good	Excellent
Activities done in increasing public awareness					
Fast and Excellent customer service					
Filing and payment procedure					
Penalties and appeal system					
Enforcement of non compliance of VAT according to the proclamation					
Value Added Tax assessment procedure					
Audit and inspection procedure					
Competent and skilled manpower					
Sufficient training is provided for employees in different levels and departments which helps them to upgrade their capacity.					

17. What things do you propose for the future to be adjusted on the overall VAT administration practice of the Addis Ababa No.2 Medium Taxpayers Branch Office?

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Thank you very much

## *DECLARATION*

I the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Abebaw Kassie. 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.

Sara Gebeyehu

*Name*

\_\_\_\_\_

*Signature*

## *ENDORSEMENT*

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

*Dr. Abebaw Kassie*

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*Advisor*

\_\_\_\_\_

*Signature*

*St. Mary's university College, Addis Ababa*

*June, 2016*