



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

**ASSESSMENT OF VALUE ADDED TAX ADMINISTRATION PRACTICE:  
THE CASE OF LIDETA SUB CITY SMALL SCALE TAX PAYERS BRANCH  
OFFICE**

**BY  
HERAN DEJENE  
SGS/0243/2009A**

**JUNE, 2018  
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION (GENERAL MBA CONCENTRATION)**

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SCHOOL OF GRADUATE STUDIES  
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## TABLE OF CONTENTS

CHAPTER ONE.....	1
INTRODUCTION .....	1
1.1 Background of the Study .....	1
1.2 Background of the Organization .....	2
1.3 Statement of the Problem.....	3
1.4 Research Questions.....	4
1.5 Objective of the Study.....	4
1.5.1 General Objective.....	4
1.5.2 Specific Objectives.....	5
1.6. Significance of the Study .....	5
1.7. Scope and Limitation of the Study .....	5
1.8. Organization of the Paper .....	6
CHAPTER TWO.....	7
LITERATURE REVIEW .....	7
2.1 Theoretical Review of Value Added Tax(VAT).....	7
2.1.1 History of VAT.....	7
2.1.2 VAT in Ethiopia .....	9
2.1.3 VAT Administration .....	10
2.1.4 VAT Administration Practices.....	11
2.1.5 Principles of a Good Tax System .....	12
2.1.6 Implementation of Rule and Regulation .....	13
2.2 Empirical Review .....	15
2.2.1 Problems in VAT Administration Practices.....	16
2.2.2 Problems of Taxpayers and Tax Authority .....	16
2.2.3 Awareness of Taxpayers.....	17
2.3 Summery of Literature Reviews and Knowledge Gap.....	19
CHAPTER THREE .....	20
RESEARCH DESIGN AND METHODOLOGY .....	20
3.1 Research Approach and Design.....	20
3.2 Population and Sampling Techniques .....	20
3.3 Types and Sources of Data .....	21
3.4 Procedures of Data Collection.....	22
3.5 Research Validity and Reliability .....	22
3.6 Methods of Data Analysis .....	23

CHAPTER FOUR.....	24
RESULTS AND DISCUSSION.....	24
4.1 Findings of the Study.....	24
4.1.1 Demographic Data Presentation.....	24
4.1.2 Problems Related to VAT Administration Practices.....	27
4.1.3. Implementation of Regulation and Institutional Capacity.....	29
4.1.4 Sellers Commitment and Customer Awareness towards VAT Sell.....	32
4.1.5 Mechanisms to Improving VAT Administration Practices.....	37
4.2 Discussion.....	39
CHAPTER FIVE.....	42
CONCLUSION AND RECOMMENDATIONS.....	42
5.1 Conclusions.....	42
5.2 Recommendations.....	43
<i>REFERENCES</i> .....	44
APPENDIX A.....	47
QUESTIONNAIRE.....	47
DECLARATION.....	52
ENDORSEMENT.....	53

## **ACKNOWLEDGMENTS**

First of all, glory be to the almighty God for his every day kindness and blessing to all of us.

Secondly, I thank my advisor, Dr. Asmamaw Getie(Asst.Prof.) for his guidance and encouragement throughout the thesis work. My sincere appreciation goes to LSCSSTP branch office management and employees for giving me all the data I need and My gratitude also goes to my friends Muez Yihdego and Tariku Astatke for their continuous support on this research. Finally, my appreciation and thanks goes to all my beloved families for their understanding and encouragement during my thesis work.

## LIST OF ACRONYMS

ERCA	Ethiopian revenue and customs authority
VAT	Value Added Tax
LSCSSTP	Lideta sub city small scale tax payers
GST	Goods and service tax
FIRA	Federal Inland Revenue Authority
SPSS	Statistical Package for Social Scientists

## List of Tables

Table 1: Reliability Test.....	22
Table 2: Gender of Respondents .....	24
Table 3: Age of respondents.....	25
Table 4: Educational Level of Respondents.....	25
Table 5: Department of Respondents .....	26
Table 6: Positions of Respondents and Years of Experiences .....	27
Table 7: Problems Related to Employees Awareness and Skills .....	28
Table 8: Implementation of Regulation and Institutional Capacity .....	30
Table 9: Sellers Commitment and Customer Awareness towards VAT Sell.....	32
Table 10: Customers and Sellers Attitude towards VAT Receipt.....	34
Table 11: VAT Registration and Related Problems .....	36
Table 12: Mechanisms to Control Improper VAT Administration Practices.....	37



## **ABSTRACT**

*The objective of the study is to assess VAT administration practice in the case of Lideta sub city small scale tax payers' branch office. The study used both qualitative and quantitative research methods to collect and analyze both primary and secondary data. The target populations of the study were the staff members of the Lideta sub city small scale tax payer's branch office. In the branch office there were 222 total workers out of this 100 of them were workers who are directly or indirectly involved in VAT collection and administrating department, the others are staff members. The study used purposive and convenient non-probability sampling technique to select representative sampling from the 100 workers. Accordingly, the total sample size considered by the researcher was 80. The information gathered from employee's attitude towards VAT administration problems, and factors. Questionnaires were distributed for eighty employees of the branch office and to analyze the data, descriptive data analysis technique and statistical package for social science (SPSS) software version 20 was used. Further, secondary data was collected to measure the VAT administration practices of the branch office. The major factors for the problem in VAT administration practices are:- consumers are not willing to transact with a proper VAT receipt, lack of sellers commitment on VAT sell, tax authority Poor tax enforcement capacity, unfair competition between VAT registered and unregistered tax payers, lack of employees skill and experience to detect any tax fraud and evasion, employees lack of awareness on VAT proclamation,. The paper suggests that branch office should create continuous awareness about VAT and receipts for the customers and sellers, in order to overcome the complexity and frauds related to of tax collection. The branch office could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way. Finally, the concerned body may take these findings worthwhile for corrective action as the researcher put some helpful recommendations.*

**Key Words:** - VAT Administration practices, Factors and problems, purposive and convenient sampling

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

A value-added tax (VAT), known in some countries as a goods and services tax (GST), is a type of general consumption tax that is collected incrementally, based on the increase in value of a product or service at each stage of production or distribution. Emergence and rapid spread of VAT is one among the most important tax developments in the latter 20th century. VAT was invented in 1954 by a French economist Maurice Laurie who was joint director of the French tax authority. France was the first country to introduce VAT in effect from April 10, 1954. By 1969, only eight nations had adopted VAT, out of this, Cote-D'Ivoire was the first country in Africa to introduce VAT in 1960. Since 1979, VAT has been adopted as the main form of an indirect tax by many countries in different parts of the world.

Misrak T. (2008) Almost unknown in 1960, VAT is now found in more than 130 countries, raises around 20% of the world's tax revenue (Keen and Lockwood, 2007 :). In Ethiopia, according to Negarit Gazeta the 15th year no. 6 (78/94:24) one of the focuses of the tax policy reforms was reforming indirect taxation (VAT). The main reform to indirect taxation was the introduction of a VAT in January, 2003 as a replacement to sales tax according to 2003 income tax proclamation 1. Compared with the replaced sales tax, the new VAT has the advantages of, 1) taxes services in addition to production, 2) grants zero rating to exports and 3) gives exemption to fewer basic products.

Empirical studies have shown the inter links between the VAT performance of a country and its level of development. The revenue gains from VAT is likely to be higher in an economy with higher level of per capita income, lower share of agriculture, and higher level of literacy (Ebrill et al., 2001). VAT proves to be an efficient tool for revenue collection; its performance, therefore, has direct impact on fiscal mobilization, macroeconomic stability, and development.

### **VAT Administration.**

VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. According to Jantscher (1990) these responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Perhaps peripherally, VAT administration is also

concerned with issues of who should administer the tax, what organizational setup to use and what resources are available. There may be weaknesses in how VAT administrators perform their duties. Weaknesses in VAT administration, in turn, may adversely impact on the salient features of the tax and government's policy objectives as a whole.

According to Gupta and Mookherjee (1998), tax administration comprises three interrelated activities: the identification of tax liabilities based on existing tax legislations; the assessment of taxes to determine if the taxes paid are actually within tax liabilities; and the collection, prosecution, and penalty activities that impose sanctions on tax evaders and ensure that taxes and penalties due from the tax payers are actually collected. In principle, VAT applies to all provisions of goods and services. VAT is assessed and collected on the value of goods or services that have been provided every time there is a transaction (sale/purchase). The seller charges VAT to the buyer, and the seller pays this VAT to the government.

Ethiopia introduced VAT through proclamation no.282/2002 which has been ratified on July 2002 and come in to force on January 1/2003. The adoption of VAT in to its tax system by replacing the former sales tax was with the objective in which VAT is considered to be important to enhance saving and investment minimize the damage that may be caused by tax. Evasion and avoidance stimulate economic growth and improve the relationship between growth domestic product and government revenue in the country.

In order to make up sufficient revenue from VAT it needs efficient and effective tax administration. However, developing countries like Ethiopia, where there is a large number of informal sector, low tax moral, rampant evasion, and total distrust between tax administration and taxpayers may not make the tax collection successful. The VAT administration is poor due to many factors, particularly incapacity of tax authorities to implement the attributes of the tax to practice.

## **1.2 Background of the Organization**

The Ethiopian revenue and customs authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border.

The ERCA traces its origin on July7, 2008 as a result of the merger of the ministry of revenues, the Ethiopian customs authority and the federal inland revenues into one giant organization. A reason for the merger of the forgoing administration in to a single autonomous is to build a modern organization that is committed to leadership and client service. According to article 3of the proclamation

no.587/2008, the authority is looked upon as “an autonomous federal agency having its own legal responsibility.”

The Addis Ababa city collects taxes from individual taxpayers and belongings in its territory. However, the proclamation no. 285/2002 authorized the federal Inland Revenue authority (FIRA) to administer the VAT. For simplicity, FIRA delegated regions and city administrations to collect the tax from their own taxpayers started from September 2004 (FIRA, 2004:103). However, in Addis Ababa due to VAT administration problems, the city revenue authority cannot collect the potential tax which the city can generate. Lideta is one of the sub city that founds in Addis Ababa and also is a part of the country revenue collection sector it makes various reforms to rise the tax collection potentials for the country.

This research assesses VAT administration practices in Lideta sub city small scale tax payer’s branch office.

### **1.3 Statement of the Problem**

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many facilities, business enterprises, industries and the general public. 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. (ERCA, 2015.)

Ethiopia is passing through in a sensational development process, the development that going to solve a lots of problems for the society like road constructions, water supply, electric power supply, and many other infrastructures, to achieve this socio-economic development VAT which is collected from the society is become the ultimate ways for the development of the country. The economic development of the country depends on tax which is paid by every citizen in the country especially VAT become the necessity income for the government because it is taxed 15% at every step from the producers of goods to retailers and consumers, also from service renders.(ERCA, 2015)

There are a number of rules and regulations which are stated about VAT and VAT administration. From this stated rules and regulations some of them are not implemented as expected to be, so it is the faller for proper administrations of VAT. The ignored rules are not the only reasons but also VAT un-registered business activities and organizations who are supposed to be registered are also another collapse for the country.

Wollela A. (2008) noted that in developing countries the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. Concerning the latter, Bird and Gendron (2005) noted that developing and transitional countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers.

In addition, because of inadequate managing the process of VAT sell, there is unfair competition with their opponents by not issuing receipt for the customers the problem become very complicated. Receipt is an evidence for the government to collect revenue from any kinds of business activity. So; this is also another basic problem for decreasing of government revenue.

In general, there have been studies on VAT administration in Ethiopia and also in the different towns of the counties by different researcher; in Addis Ababa at a sub city level there are no comprehensive studies that assess VAT administration practices. It is, hence, not well known which factors that affect VAT administration practices as a whole. In this context, among 10 different sub cities found in Addis Ababa the researcher selected one sub city which is Lideta sub city. The objective of this study is to assess VAT administration practices in Lideta sub city small tax payer's branch office.

#### **1.4 Research Questions**

The study attempt to answer the following questions:

1. What are the major problems in VAT administration practices?
2. What is the implementation level of regulations in lawful manner?
3. What is the commitment level of seller's and customers awareness on VAT sells?
4. What are the mechanisms the branch office uses to control improper VAT administration?

#### **1.5 Objective of the Study**

##### **1.5.1 General Objective**

The general objective of the study is to assess VAT administration practices in the case of Lideta sub city small scale tax payers branch office.

### **1.5.2 Specific Objectives**

1. To identify the major problems in VAT administration practices
2. To assess the implementation level of regulations in lawful manner
3. To assess the commitment level of seller's and customer awareness on VAT sells.
4. To assess the mechanism the branch office uses to control improper VAT administration.

### **1.6. Significance of the Study**

The findings of this study will be used to assess VAT administration practices and to identify the factors that affects VAT administration practices in Lideta sub city small scale tax payers branch office and also to solve the problems that hinder the administrative practices properly. Hence, it may help the authority to improve VAT administration practices by provide information to decision makers for better VAT administration practice, by providing the mechanism of controlling improper VAT administration practices of Ethiopian revenues and customs authority particularly at Lideta sub city small scale tax payers branch office. Additionally, as the researcher did not found studies made on similar topic in Lideta sub city, on administrative side, this research will have a contextual contribution to the body of knowledge and it will also serve as additional reference for future researchers on the area.

### **1.7. Scope and Limitation of the Study**

The study focused particularly in the case of Ethiopian revenue and customs authority at Lideta sub city small scale tax payers branch office. In examining the constraints in terms of administrative activities, the study only assesses VAT administration practices of the branch office.

The limitation of this study is, particularly focused on only one sub city small tax payers branch office and study made on the side of administrative organs only. This also might not represent the overall situation of Addis Ababa city.

## **1.8. Organization of the Paper**

The second chapter of the paper is going to deal with the review of related theoretical and empirical literature. Under chapter three, the methodology of the study specifically the approach and design, population, sampling technique and procedure, source of data, collection tools and procedures, reliability and validity of data collection tools, data analysis mechanisms used will be described and discussed in detail. Under chapter four findings of the study will be discussed and interpreted. Under chapter five in the last chapter will provide the summary of findings, conclusions, and recommendations forwarded to advise the administrative authority to take correction measures.

## CHAPTER TWO

### LITERATURE REVIEW

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

#### 2.1 Theoretical Review of Value Added Tax (VAT)

A **value-added tax (VAT)**, known in some countries as a goods and services tax (GST), is a type of general consumption tax that is collected incrementally, based on the increase in value of a product or service at each stage of production or distribution. Value added tax is a tax on the value added to the supply by the last seller, (Radhakrishanan, 2008).

Value added tax (VAT): is an indirect tax on the domestic consumption of goods and services, except those that are zero-rated such as food and essential drugs or are otherwise exempt (such as exports). It is levied at each stages in the chain of production and distribution from raw materials to final sale based on the value (price) added at each stage. It is not a cost to producer or the distribution chain members, & where as its full brunt is borne by the end consumer, it avoids the double taxation (tax on tax) of a direct sales tax.

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

##### 2.1.1 History of VAT

Value added tax was first introduced before 50 years ago, remained confined to a handful of countries until the late 1960s, however, most countries have a VAT, which raises, on average, about 25 percent of their tax revenue (Ebrill, et al, 2001). VAT is still a relatively new tax. It was first introduced as a comprehensive national tax 50 years ago in France. Since then it has been adopted as the main form of indirect taxation by many countries in different parts of the world and at different stages of economic development (Thorony; 1960). Value added tax has been introduced effectively in Ethiopia on January 1, 2003 replacing sales tax. The design of the VAT legislation is intended to achieve the expected revenue projections, support capital investment and development, simplify its administration



for the tax authority and the business community, and, combined with the recent reductions in the income tax rates, minimize the tax burden for the lower income population.

Economists generally favor designing the VAT so that it is a tax on consumption, in the sense that its key effect is to drive a wedge between the price that consumers pay for their purchase and the price that suppliers receive from the corresponding sales (Ebrill, et al, 2001). Value added tax (VAT) is increasingly being used throughout the world, including many African countries to raise government revenue with less administrative costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. A central claim made by advocates of the VAT is that it is a particularly efficient form of taxation - has that actually proved to be the case? One way of testing for this is to ask whether, all else equal, countries with a VAT raise more revenue, overall, than do those without. (Richard, 2005:10).

The key feature of the VAT is that it is a broad based tax levied at multiple stages of production, with- crucially-taxes on inputs credited against taxes on output. That is, while sellers are required to charge the tax on all their sales, they can also claim a credit for taxes that they have been charged on their inputs. The advantages of this is that revenue is secured by being collected throughout the process of production (unlike a retail sales tax) but without distorting production decisions (as a turnover tax does) (Richard, 2005:8).

The key claim made by advocates of the VAT is that it is particularly effective way of raising tax revenue. Cnossen (1990), for example, argues that “purely from a revenue point of view, VAT is probably the best tax ever invented. Advocates have also long recognized that the VAT, like any other tax, is vulnerable to evasion and fraud, but stress distinctive features of the VAT that may make it less vulnerable than other forms of taxation (Michael k and Stephen S., 2007).

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

Brazil, by the fiscal reform of 1965, introduced a traditional VAT that applied at all stages of production. The VAT's expansion was limited to less than 10 countries in the late 1960s. In 1965, VAT was not yet a worldwide success, almost general consumption taxes in the area were retail sales taxes. By 1989, however, 48 countries, primarily located in Western Europe and Latin America but also including a handful of developing countries, had adopted a VAT. The spread of the VAT in Europe was driven by the fact that it is a prerequisite for membership of the European Union (previously the European Economic Community). Its spread has accelerated since, with strong support from the IMF, as it has now been implemented in more than 140 countries, where it often accounts for one-fifth of the total tax revenue. In most countries it has been used to increase revenues, but in a few it has also enabled reductions in income taxes and excises. Currently, 160 countries in the world adopted and implemented VAT. Out of this 152 countries are member of the UN states. VAT has been adopted in Ethiopia on January 1, 2003 replacing sales tax, with VAT proclamation no.282/2002.

### **2.1.2 VAT in Ethiopia**

Ethiopia introduced VAT through proclamation no.282/2002 which has been ratified on July 2002 and came into force on January 1/2003. The adoption of VAT into its tax system by replacing the former sales tax was with the objective in which VAT is considered to be important to enhance saving and investment minimize the damage that may be caused by tax. Evasion and avoidance stimulate economic growth and improve the relationship between growth domestic product and government revenue in the country.

According to new amendment on Tax administration proclamation no.983/2008 The Ethiopian revenue and customs authority categorizes taxpayers into three;

Category "A" taxpayers (large size taxpayers) first, business income taxpayers or rental income taxpayers formed under the laws of Ethiopia or foreign laws that have separate legal personality (share company, plc., public enterprise, public financial agency, and foreign body's business agent residing and doing business in Ethiopia on behalf of the principal) regardless of their annual gross turnover or revenues. Second, any other business income taxpayers or rental income taxpayers having an annual gross turnover of birr 1,000,000 (One million birr) or more (i.e. annual gross turnover  $\geq$  birr 1,000, 000).

Category "B" taxpayers (medium size taxpayers) which includes, unless already classified in large size, business income tax or rental income taxpayers with no legal personality and whose annual gross turnover is more than birr 500,000 but less than birr 1,000,000 (i.e. birr 500,000 < annual gross turnover < birr 1,000,000).

Category "C" taxpayers (small and micro size taxpayers) which includes any other business income taxpayer or rental income taxpayers which are not already classified under large size or medium size, business income taxpayers or rental income taxpayers having no legal personality and whose annual gross turnover is estimated up to birr 500,000 i.e. estimated annual gross turnover  $\leq$  birr500, 000 (Tax administration proclamation no. 983/2008).

In Ethiopia, all small and medium businesses are required to be formal, properly licensed and subject to paying taxes as per the tax proclamation of the country (income tax proclamation no. 979/2008). Taxpayers who receive income from trade are required by law to register for tax (have their tin-taxpayers' identification number), keep and maintain sufficient records for tax purposes, carryout tax assessments, pay taxes (as due) and carryout other tax related duties like withholding and paying employment income tax on behalf of their employees. All small and medium businesses are required to use cash register machine. Most business operators of small and medium taxpayers are subject to indirect taxes, like VAT, TOT and are required to comply with all applicable provisions under the respective tax status. For instance, small and medium businesses whose annual taxable transaction is less than birr 1,000,000 are required to pay turn over tax (TOT) to equalize and fairness in commercial relations and make complete the coverage of tax system so as to increase government revenue from taxation (ERCA, 2016).

### **2.1.3 VAT Administration**

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, and collection (Kangave, 2005). Ethiopia's tax reform program has introduced VAT at the rate of 15% (fifteen percent) on January 1, 2003 to replace the sales tax proclamation that provides exemption for basic necessities and domestic transportation and zero rating to encourage exports and capital investments. Subsequent to the introduction of VAT, additional exemptions were extended to basic foods, agricultural fertilizers and to other products. Unlike the sales tax, VAT provides relief of tax on all business inputs, including capital goods and business expenditures and will provide further business incentives by zero rating exports and the international transport of goods and passengers. Since domestically produced goods relieved of VAT, they will be more competitive within international markets and may mean a shift from Ethiopia's dependence on foreign to domestic trade, but it is too early to evaluate its impact. It is not, however, difficult to see that its implementation is a challenge, owing to the predominance of small and informal operators in the country, its history of tax evasion and corruption, lack of standard

recordkeeping systems as well as the lack of knowledge about VAT and a tax-base for its computation.

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

#### **2.1.4 VAT Administration Practices**

As Jantscher (1990), noted that the basic tasks of tax administration consist of three distinct (though connected) activities, i.e. identification, assessment and collection. As Tait (1988), the introduction of VAT is usually the greatest change in tax system of a country and there is also a possibility to perform the reform of tax administration.

##### **I. Registration procedure**

Under the VAT proclamation, registration for VAT is categorized in to three. These are obligatory, voluntary and special business categories. Any person who carries on a taxable activity and at the end of any period of 12 calendar months has made, during that period, taxable transactions the total value of which exceeds 1,000,000 birr or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during the period will exceed 1.000,000 birr, has the obligation to register for VAT. (article 16(1) (a) and (b)) according to article 17, a person who carries on taxable activity and is not required to be registered for VAT may voluntarily apply to the tax authority for such registration, if he regularly is supplying or rendering at least 75% of his goods and services to registered persons. The third category of registration, special business categories that also have the following features: those who are involved in export are advised to be registered voluntarily in order to get refund. This is practical through zero rate purchases that enable the person to ask credit on input tax. Such forced special business category registrants are: gold, electronics, importers, shoe factories, level ten and above constructors, computers and their accessories, leather and leather products, plastic and plastic products. (Proclamation no. 978/2008).

## II. Filing of tax return and payment of VAT

Every registered person is required to file a VAT return with the authority for each accounting period, whether or not tax is payable in respect of that period; and to pay the tax for every accounting period by the deadline for filing the VAT return. The VAT return for every accounting period is filed no later than the last day of the calendar month following the accounting period. VAT on taxable imports is collected by the ERCA accordance with VAT as per the customs legislation of Ethiopia under the procedure contemplated for customs duty, (proclamation no.978/2008, and art.26).

## III. VAT assessment procedures

The tax assessment for those, who are required to maintain financial records, is done based on the records that taxpayers maintain; however, if they fail to maintain financial records, estimated assessment will be done. For the rest of taxpayers, who are not required to maintain financial records, it is based on the standard assessment method (Council of Ministers, 2008). The self- assessment systems which are require tax payers to do calculation, payment, and reporting their own tax payable by themselves. However, VAT is essentially a self-assessed by taxpayer. In the self-assessment taxation approach, taxpayers calculate their taxable income, file tax returns and pay their taxes due. This taxation system basically presupposes taxpayer's willingness to pay taxes, continue accurate bookkeeping behavior and calculate their taxable income based on objective data. Self-assessment is so important helps to improve effectiveness by focusing resources on taxpayer services, enforcement, reduce compliance costs and reduce corruption. But administrative assessment is not compatible with modern tax administration (Bodin, 2008). The issue of self-assessment reemerged in the early 1990s, as transition economies moved toward VAT implementation with little experience of tax administration and little appreciation of what would be required to administer an accounts-based tax (Ebrill, et al, 2002). Modern tax systems and their administration are built on the principle of "voluntary compliance," meaning that taxpayers are expected to comply with their basic tax obligations with only limited intervention by revenue officials. In practice, voluntary compliance is achieved through a system of "self- assessment". In most countries, the development of self – assessment is closely linked to the rise of the VAT. Indeed, the real question is not how to administer a VAT in a country without the capacity to administer self –assessment, but how to implement the basic principles of self– assessment in a country willing to introduce a VAT (Keen ,2005 ).

### **2.1.5 Principles of a Good Tax System**

According to Muñoz and Cho (2003), VAT is expected to enhance revenue, improve economic efficiency, promote exports, and foster growth. So the proper amount of tax must be collected on a timely manner for successfully improving and maintaining stable economic growth in a nation. To do

this, the enforcement power of the tax administration, including proper tax assessment and collection must be applied in a manner that fulfills the tax principles.

A good tax system should be efficient in that it should be able to waste as little money and resources as possible. Efficiency can be measured against three standpoints: administrative costs, compliance costs and excess costs. These three relate to the cost of operation of the tax system, to its flexibility and certainty.

According to Tesfaye (2008), taxation has become a vital component of development effort of every country without a tax system that functions well governments cannot provide even the basic infrastructure and social services. Public infrastructures cannot be improved without an equitable and efficient means of mobilizing revenue. Many countries are beginning to see that a tax system has a role in providing a safety net for the poor. It is incentive measure to protect the environment a good tax system is essential if governments are to pursue growth, equity and environmental protection people will be more willing to pay. As stated by Uremadu, 2000; Harvey, 1982; and Musgrave, 1987 cited in Uremadu and Ndulue (2011), a good tax system must be based on principles as thus explained. Equity: treatment of similarly situated tax payers or that people should pay tax according to their abilities to pay. Certainty: it stipulates that the time of payment, the manner of payment and the amount to be paid should be clear to the taxpayer and to the taxing authorities. Convenience: this relates to mode of payment and the timing. This principle stipulates that the time and manner of payments should be convenience to the taxpayer. As a matter of fact, a tax system should be simple, easily assessed, and understood and be collected at minimal costs. Economy: the total costs of collection should be small when compared with the tax yield or amount realized from tax. Hence, the compliance costs to the tax payers and the administrative costs to the government negatively affect national output of taxes collected. Simplicity: this is usually a good tax system should be very simple and not be complex. It should be simple and well understood by both the tax payers and tax administrators alike. It should as well be easily administered.

### **2.1.6 Implementation of Rule and Regulation**

Powers and duties of the Addis Ababa revenue authority;

A) Enforce and implement tax laws, regulations and directives within the region.

B) Assess and collect tax revenues that are legally specified to be collected by the regional government, and joint tax revenues of the regional and federal governments in pursuance of delegation of power from the federal government, upon the recognition of the regional government;

- C) Carryout revenue research to broaden the revenue base on the basis of the economic activity of the region; and seek solutions to problems pertaining to tax administration of the region
- D) Direct and coordinate the implementation of tax reform program being undertaken in the region;
- E) Inspect documents found in any person's possession necessary for the execution of tax laws;
- F) Develop and implement various taxpayers' education programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligation; improve staff competence in adherence to the tax administration through launching appropriate capacity building mechanisms;
- G) Investigate tax offences, institute and follow up criminal proceedings in courts; for the discharge of such responsibilities, organize and administer its own prosecutors and tax criminal investigators, and control their implementation;
- H) Establish and implement modern tax assessment and collection system based on the rules of transparency and accountability, by providing equitable efficient and quality services; enforce tax incentives and ensure that such rights are used for their intended purposes;
- J) Without prejudice to article (6), sub-article (2) (I), in accordance with directives issued under this proclamation, assess and collect municipality revenues and provide them the necessary technical professional support (proclamation 91/2004);
- K) Collect and compile data necessary for tax assessment, and by using the same, assess and collect taxes thereof;
- L) Undertake studies, when necessary, to issue and amend tax laws, regulations and directives, and thereby submit and implement the same to the regional government for approval;
- M) Own property, enter into contracts, sue and be sued in its own name;
- N) Provide for taxpayers alternative institutions to pay their taxes
- O) Prepare and submit the revenue's authority short, medium and long term plan and budget, implement up on the approval; and submit timely report to the council of regional government;
- P) It may delegate and implement from the specified responsibilities of this sub articles, as necessary its powers of tax criminal investigation and prosecution to the regional police and prosecutor;



## 2.2 Empirical Review

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 purported 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.

It is hence suggested that the government would better look at the possibility of making sufficient resources available for the administration of VAT. Of course, this would be a challenge for countries like Ethiopia where resources appear to be limited. However, considering the role of VAT administration in the overall financial system of the Ethiopia government, allocating reasonably sufficient resources is worthwhile to consider. (Wollela Abehodie, 2008)

According to Wollela A.(2008), VAT has significance role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible. Nevertheless, in Ethiopia revenue generated by VAT are usually generated at the expense of a compromise in its salient features. This usually caused by factors including weaknesses in the administration, that is, the incapacity of the administration to put the attributes of VAT in practice.

According to Child (2008), corrupt practices in revenue administration involves tax officers, taxpayers, and importers and customs clearing agents, therefore it can take many forms ranging from systematic- where individuals act together, systematically support evasion to individual corruption, where tax officers abuse their position for financial gain from tax payers. In most cases corrupt practices include: charging for services that should be free, charging for help to overcome complicated procedures and to qualify for exemptions or duty free treatment, turning a blind eye to non-registration for taxation, smuggling, and fraud ( in customs, for instance, the declaration of false values supported by fraudulent invoices),overstating values, over-assessing tax to instigate corrupt deals with importers and tax payers, aiding taxpayers and importers in understating income and value of goods, losing' files, facilitating or organizing the smuggling of goods, receiving payments to complete tax returns for tax payers or customs entries for importers.

According to Fjeldstad (2003), high tax rates and complicated regulations were reasons behind tax evasion. He argued that high tax rates and complex set of rules, especially for customs and corporate taxes, resulted in large potential rewards for tax payers to evade the tax burden.

Ndaba (1987) on the study on factors facing revenue collection in local government, revealed that, financing local government in Tanzania faces a number of problems. He explained that, revenue



collection is hindered by; the loss in experienced staff and the temporary discontinuity of the local rates collection on individual and their property. In order to improve revenue collection, Ndaba recommended several means; these are, to improve revenue collection mechanism; to have close supervision; to improve the recording of the business license owners and provision of reliable transport to inspectors/collectors.

Semboja and Therkliden (1992) in their study in Tanzania revealed that, local authorities were not able to collect enough revenue to finance the operations and maintenance of the basic service in their localities.

Ojong, M. (2002), highlights some factors that inhibit the performance of local government generally. Some of them are such as; poor financial base and limited revenue, unqualified, inexperienced and unskilled staff, corruption and misappropriation of funds, lack of local plans and weak programming capacity, limited autonomy, where, although constitutionally recognized, the federal and state governments dominate over the local government through the state government offices of local government affairs, the ministry of local government, and the local government service commission.

Aruwa (2008) did a study on the relevance and the problems of value added tax (VAT) in Nigeria. He surveyed Nigerian organizations dealing in taxable supplies, revenue staff and the public to gain insight into the administration value added tax, its relevance in the revenue generation and problems hindering the efficient administration of VAT. Primary and secondary data was used. Descriptive statistics as a tool of analysis was used in analyzing the collected data. The study findings showed that the federal Inland Revenue Service (FIRS) staff perceives that they are not adequately armed technically to handle VAT. The study findings concerning organizations revealed that they have inadequate knowledge of the VAT mechanism due to the low VAT education.

### **2.2.1 Problems in VAT Administration Practices**

According to Wollela A. (2008) VAT has significance role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible. Nevertheless, in Ethiopia revenue generated by VAT are usually generated at the expense of a compromise in its salient features. This usually caused by factors including weaknesses in the administration, that is, the incapacity of the administration to put the attributes of VAT in practice.

### **2.2.2 Problems of Taxpayers and Tax Authority**

Dheressa et.al, (2015), the study was particularly focused on challenges of VAT administration regarding the assessment, collection and implementation of VAT. Their survey result showed that,

most of the business entities have not comply with the laws and regulations of VAT and they committed illegal activities by preparing fake invoices and they remitted the tax income for themselves rather than to pay the government. Concerning the side of the authority, it is incapable to identify and control business enterprises that are noncompliance with the laws and regulations of VAT. They recommended in their study that the authority should strengthen its follow-up, appraise the performance of existing, recruit qualified new employees, strengthen its controlling mechanisms, improve its administrative systems and prepare programs to provide intensive education to the society about the benefits, rules and regulations of taxes specifically VAT.

Bizualem (2015), indicated that the major challenges delay ERCA from generating what was initially planned are: lack of sufficient number of skilled personnel, limited staff capacity, non- responsiveness by the management, limited awareness creation, problems related with invoicing, unfair competition, and control centered management tendency. And he recommended that the need to strengthen the administration capacity in general and the VAT collection system in particular as efficiently as possible.

According to Jebessa (2005), many business owners do not keep their books properly, which invited to general estimations, which are often arbitrary. So training is necessary on the one hand and on the other hand, national standards for bookkeeping, which would be respected in all taxation offices nationwide, need to be defined and introduced.

### **2.2.3 Awareness of Taxpayers**

According to Dekan (2003), the tax assessment sometimes can be unclear to the tax payers. Regarding to the complexity of tax assessment system (not simple and clear) may result in unintentional non-compliance if taxpayers have problems with filling the tax form. Furthermore, such noncompliance differs from other crimes. Because, it can be conclude that the errors occurred unintentionally due to the misinterpretation of the rules. Results from a survey shown that only 55% of the taxpayers were certain, that they had neither overstated a deduction nor understated taxable income on their return. Thus, by enhancing complexity, it is difficult to distinguish honest from dishonest taxpayers. By this virtue, tax examiners in the tax administration will have greater problems to identify a case of noncompliance and comparing whether the violation was deliberate or unintentional. And this can be increased tax collection costs. Besides, the Kwabena (2011), findings on the knowledge of tax systems revealed that most self- employed are not knowledgeable of the tax system in Ghana. To affirm this internal revenue service organizes educational programmers, for the self-employed category of the taxpayers and find out the possible impact on revenue mobilization from the informal sector. The analyses on education the research shown that, only 27 out of 189 respondents

representing 14.3% have received some tax education while the remaining 85.7% have never received any form of income tax education.

According to Hastuti (2014), self-assessment system requires taxpayers to calculate, pay, and report their own tax payable. Having full understanding of this kind of obligation helps the government indeed to have complied taxpayers. The complied taxpayers pay tax with the right amount with the right procedure. This is good since government revenue will be earned. For the potential taxpayers, it is also good to be informed with his kind of obligation. Tax is something unquestionable for every citizen, their awareness of taxation will be important in pursuing tax compliance.

Asamenew (2012), found that the major causes for the problem in VAT administration practices are there exist inefficiency and insufficient number of tax assessment and collection officers, most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of taxpayers do not know why they are paying taxes; what types of taxes are expected from them; and the applicable rules and regulations. Due to this he recommend that negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

According to Hagos (2011) and Lemessa (2007), awareness creation by the authority on taxpayers were rated about 87.8% and 74% of the respondents responded that below enough and poor and this shows that the awareness creation activities of the tax authority were ineffective and inefficient in according to awareness creation. Therefore, they established that the awareness creation problem was a series and the root cause of all problems relating to the tax collection and assessment. Due to this, the authority may not achieve the expected future voluntary compliance in the absence of services along with the taxpayer's lack of tax awareness. Without educating taxpayers and creating tax awareness, making power visible to the community might detect the deliberate evasions and frauds but not be a solution to create a compliant taxpayer those does not comply unknowingly (Mihret, 2011).

Markos (2010), found that different problems were observed, the main one is being attitudinal problem of the tax payers and implementation capacity of the government employees. As a result, the data show that there are many business men and companies that should be registered for VAT but are not. As a result, the branch office is losing millions of birr per year. And he recommended changing the attitude of the taxpayers and building the implementation capacity of the employees.

### **2.3 Summary of Literature Reviews and Knowledge Gap**

To summarize, the empirical findings found that the factors that affects VAT administration problems were limited awareness creation, lack of equity and fairness of the tax system, ineffectiveness and inefficiency of the tax authority, poor service delivery, problems related with invoicing, total distrust between the tax administration and taxpayers and lack of simplified procedures.

In general, the gap that identified by the researcher is that although there have been studies on VAT administration in Ethiopia and also in the different towns of the counties by different researcher, but in Addis Ababa at a sub city level there are no comprehensive studies that exhaustively assess the VAT administration practices. Even these studies did not exhaustively assess the VAT administration practices as a whole. However this study particularly address in Lideta sub city small tax payers branch office.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

This chapter focuses on the research methodology used in carrying out the study. The areas covered are research approach and design, population and sampling techniques, types of data and tools/instruments of data collection, procedures of data collection and methods of data analysis.

#### **3.1 Research Approach and Design**

##### **Research Approach**

The researcher uses mixed approach of both quantitative (mainly) and qualitative approaches. The rationale for combining both quantitative and qualitative data was to better understand a research problem by combining both numeric values from quantitative research and the details of qualitative research in order to neutralize limitations of applying any of a single approach.

##### **Research Design**

Saunders et al., (2007) define research design as the general plan of how the research questions would be answered. A research design is a framework or blueprint for conducting the research project. It details the procedures necessary for obtaining the information needed to structure and/or solve research problems (Patrangelo 2010).

In this research the researcher used descriptive research design as the main objective of the study is to assess the factors that affect VAT administration practices.

#### **3.2 Population and Sampling Techniques**

##### **Target Population**

Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate (Sekeran, 1990). The population of this study is staff members of the Lideta sub city small tax payers branch office. Due to time and financial constraints, the researcher could not cover the entire population and therefore a representative sampling was chosen for the study. The target population of this study was the employees who are directly or indirectly involved in VAT collection and administering departments. This means, process coordinators, team leaders, senior officers, and junior officers were included in the target group.

In Lideta sub city small tax payers branch office there were 222 total workers from this 100 of them were workers who are directly or indirectly involved in VAT collection and administrating departments and the remaining 122s were staff members. (Lideta sub city small scale tax payers branch office 2010 (E.C) human resource department data). Therefore, the researcher focused in this 100 VAT collection and administrating department workers only.

## Sample Size and Sampling Techniques

The researcher collected data from representative size of sample in the sample frame. These are done using purposive and convenient non-probability sampling technique from the selected list of employees. The reason for the researcher selected purposive and convenient non-probability sampling method is workers related to VAT collection and administrating department are essential to the research, and based on availability of workers during the survey period, respectively. In small tax payers branch office 100 employees are working directly or indirectly on VAT issues from this total target population the researcher determine representative sample size based on the formula stated below.

Base on Taro Yamane (1967) the following formula was used to determine the sample size

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n= sample size

N= population

E= level of precision or sampling error (5%)

$$\text{(Sample size of the workers)} \quad n = \frac{100}{1 + 100(0.05)^2} = 80$$

Hence, from the total 100 workers related to VAT collection and administrating department of the branch office, the acceptable sample size according to the above formula is 80. Therefore, the total sample size considered by the researcher is 80.

### 3.3 Types and Sources of Data

The researcher obtained data from primary and secondary data sources in order to obtain a reliable data and achieve the stated objectives of this study. In this study, both primary and secondary data sources were used. Primary source of data collection was employed through the use of questionnaires collected from the staff of Lideta sub city small tax payers branch office. The researcher used both quantitative and qualitative methods of data collection to gather the data.

## Method and Instruments of Data Collection

Primary and secondary sources of data collection methods were used by the researcher. Primary data is collected from the staff of the branch office by using surveying technique. The researcher used questionnaire guide as the main instruments for data collection. The researchers used one set of questionnaire for the survey which was answered by the selected departments and junior and senior officials, auditors and process coordinators, team leaders of tax assessment and follow-up, collection and enforcement departments. Secondary data were also obtained from source of branch office periodic reports.

### 3.4 Procedures of Data Collection

All important VAT information data for the study was collected from the staff members of Lideta sub city small tax payers branch office through questioner. The questionnaire was prepared based on the research questions. The researcher has tried to make the questionnaire clear, brief and understandable. Before distributing the questionnaire, it was reviewed by friends and also commented and validated by the advisor. Secondary data was collected by reviewing different theoretical and empirical literatures, journals and articles.

### 3.5 Research Validity and Reliability

The validity is concerned with the accuracy or truthfulness of the data. That is, the validity refers to the extent to which the data obtained is accurate for the purpose. In this research the validity and truthfulness of the data is proofed by crosschecking questionnaires each other and with different related literatures and also checked by evaluating with managers of the branch office. Reliability of data is related to its consistency and it refers to the extent to which the data is the same irrespective of their source. And in this study Chronbach alpha test is used. “*Chronbach’s alpha has been described as one of the most important and pervasive statistics in research involving test construction and use*” (Cortina, 1993, p.98). Different authors accept different values of this test in order to achieve internal reliability, but the most commonly accepted value is 0.70 as it should be equal to or greater than to reach internal reliability (Hair *et al.*, 2003). So that reliability test was taken for all variables and the result shows good internal consistency among variables.

**Table 1: Reliability Test**

Reliability Statistics for all variables

Cronbach's Alpha	N of Items
.905	32

### **3.6 Methods of Data Analysis**

The researcher used descriptive analysis technique to analyze the collected data. In the qualitative part of the study, after the data was collected and processes manually, descriptive technique is adopted for analysis of the data. The statistical analysis conducted based on percentages. Tables are used to present the findings. The data collected through questionnaires are carefully coded in to statistical package for social scientists (SPSS) and checked for consistency. The analysis is performed with a method of SPSS version 20. The data was analyzed, presented, and interpreted to give solutions for the research problem. Document analysis method was used to analyze the qualitative data.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

This chapter represents the findings of the study conducted to assess on VAT administration practices: problems and factors (in the case of Lideta sub city small tax payer's branch office). During survey the tax officers was asked different types of questions. The data collected from questionnaires were carefully coded and checked for consistency and entered into the statistical package for social scientists (SPSS) spreadsheet. The analysis was performed with SPSS version 20. For small tax payers office questionnaires physically distributed to 80 target population of the employees, 70 questionnaires collected from tax officials. The response success rate of employee's respondents was 87.5% of them were returned, while the remaining 12.5% of the questionnaires were not returned. Finally, in this section based on this questioner's response and other related secondary documents VAT administration practices of the authority, problems and factors are presented carefully. The responses were summarized and presented in the following section below.

#### 4.1 Findings of the Study

##### 4.1.1 Demographic Data Presentation

In this section of the research the general background of participants is presented. This tended to give overall information on the participants of the study.

**Table 2: Gender of Respondents**

	Frequency	Percent	Valid percent	Cumulative percent
Male	38	54.3	54	54
Valid Female	32	45.7	46	100
Total	70	100	100	

Source; Questionnaire Result, 2018

As shown in above table2 from the total respondents of LSCSSTP employees 54 % of the respondents were male, but the remaining 46% percent of the respondents were female.

**Table 3: Age of respondents**

Age of the respondents	Frequency	Percent	Valid percent	Cumulative percent
20-30year	33	47.1	47	47
31-40year	23	32.9	33	80
41-50year	10	14.3	14	94
>51year	4	5.7	6	100
Total	70	100	100	

Source; Questionnaire Result, 2018

The importance of the age of respondents is to ensure whether the respondents do the required level of maturity to respond properly to the given questionnaires. The above table age of respondents shows that the majority of respondents 47% were those whose age are 20 -30, followed by 33%, for age group 31-40 next to this 14% of the respondents also 41- 50 and the remaining 6% were those respondents, whose age group are more than 51. Therefore, this survey indicates that most of the respondents were young and productive age group.

**Table 4: Educational Level of Respondents**

Category	Frequency	Percent	Valid percent	Cumulative percent
Below diploma	2	2.9	3	3
Diploma	6	8.6	9	12
BA degree	57	81.4	81	93
Masters and above	5	7.1	7	100
Total	70	100	100	

Source; Questionnaire Result, 2018

As indicated table 4: most tax officials belong to bachelor degree 81.4% and a few of them belong to diploma holder 8.6%, few of them also belong to masters or above 7.1%. The others respondents were 2.9% belong to below diploma. This shows that the respondents are qualified enough to easily understand and respond the questionnaire correctly. The tax authority should encourage those employees who want to follow for masters or above in order to increase the number of employees having qualifications of masters or above.

**Table 5: Department of Respondents**

Categories	Frequency	Percent	Valid percent	Cumulative percent
Assessment and follow-up	16	22.9	23	23
Auditing and investigation	35	50.0	50	73
Collection and enforcement	16	22.9	23	96
Other	3	4.3	4	100
Total	70	100	100	

Source; Questionnaire Result, 2018

Table 5: showed 50% of respondents belong to department of auditing and investigation. Assessment and follow-up also cover 23%. Further, 23% of the respondents belong to department of collection and enforcement. In connection with this, about 4% of respondents are belonging to “others” category like cash register machine controller and tax intelligent department. This implies that the questionnaires is disseminated and fill at the right person and the department that concern issue directly or indirectly.

**Table 6: Positions of Respondents and Years of Experiences**

Variables	Categories	Frequency	Percent	Cumulative percent
Position of respondents	Auditor or officer	30	42.9	42.9
	Senior auditor or officer	30	42.9	85.8
	Team leader or process coordinator	5	7.1	92.9
	Deputy or general manager	2	2.9	95.8
	Other	3	4.2	100
	Total	70	100	
Working experience	<5 years	26	37.1	37
	6-10 years	33	47.1	84
	11-15 years	6	8.6	93
	>15	5	7.1	100
	Total	70	100	

Source; Questionnaire Result, 2018

Table 6: shows both the position and experience of respondents within the tax office. From position point of view, auditor/officer 43% and senior auditor/officer 43% both accounts the highest percentage of respondents. Team leader /process coordinator account 7% of the respondents, deputy or general manager accounts only 3% and the remaining 4% are others position. When we see the small tax payers branch office the team leaders and process coordinators are few in number based on the structure of ERCA as compare to other position. Experience of respondents from the above survey 37% of the respondents are less than 5 years experience. Around 47% of the respondents were 6-10 years' experience, 9% of respondents are 11-15 years experience and the remaining 7% were more than 15 years experience. This indicates the authority lack of much experienced manpower to detect any evasion and fraud that happen from tax payers and it questioned the tax office to poor VAT administration capacity because of less experience personnel.

#### 4.1.2 Problems Related to VAT Administration Practices

**Table 7: Problems Related to Employees Awareness and Skills**

Variable	Categories	Frequency	Percent	Cumulative percent
Auditors, inspectors have the required skill and experience to detect and handle tax offences by tax payers.	Strongly agree	5	7.1	7.1
	Agree	22	31.4	38.6
	Indifferent	2	2.9	41.4
	Disagree	34	48.6	90.0
	Strongly disagree	7	10.0	100.0
	Total	70	100.0	
Tax officials have adequate potential and confidence in decisions making related to VAT.	Strongly agree	24	34.3	34.3
	Agree	26	37.1	71.4
	Indifferent	5	7.1	78.6
	Disagree	8	11.4	90.0
	Strongly disagree	7	10.0	100.0
	Total	70	100.0	
The branch office have continues capacity building program at different level of the authority.	Strongly agree	9	12.9	12.9
	Agree	12	17.1	30.0
	Indifferent	3	4.3	34.3
	Disagree	24	34.3	68.6
	Strongly disagree	22	31.4	100.0
	Total	70	100.0	
Branch office has capable and required work force empowered to implement the law.	Strongly agree	3	4.3	4.3
	Agree	10	14.3	18.6
	Indifferent	12	17.1	35.7
	Disagree	28	40.0	75.7
	Strongly disagree	17	24.3	100.0
	Total	70	100.0	
Employees are well aware of the VAT proclamation and its amendments	Strongly agree	14	20	20
	Agree	16	22.9	42.9
	Indifferent	5	7.1	50
	Disagree	19	27.1	77.1
	Strongly disagree	16	22.9	100
	Total	70	100	

Source; Questionnaire Result, 2018

In the above Table 7: survey responses of tax payers 48.6% disagreed and 10% strongly disagreed respectively that the existing auditors, inspectors, prosecutors and other staff members have necessary skill and experience to detect and handle tax offences by taxpayers. In addition to this, 31.4% and 7.1% of the respondent were agreed and strongly agreed respectively, that the existing auditors, inspectors, prosecutors and other staff members has the necessary skill and experience to detect and handle tax offences by taxpayers. Additionally based on the above table 22.9% and 20% of respondents agreed and strongly agreed respectively that employees are well aware of the VAT proclamation and its amendments but majority of respondents 27.1% and 22.9% of respondents were disagree and strongly disagree respectively that the employees are not well aware of the VAT proclamation and its amendments .the remaining 7.1% of respondents were indifferent from this. In related to this based on the above table data 37.1% and 34.3% of the respondents were disagreed and strongly disagreed respectively, that tax officials have adequate potential and confidence in decisions making related to VAT. But 11.4% and 10% of respondents were agree and strongly agree respectively that the tax officials have adequate potential and confidence in decision making and relate to VAT, the remaining 7.1% of the respondents were indifferent from either agree or disagree in this issue. This indicated that the employees lack of the awareness level of VAT proclamation and its amendment and lack of confidence in decision making related to VAT between the officials. Based on the above table data also 34.3% and 31.4 of the respondents were disagree and strongly disagree respectively that, the branch office have continues capacity building program at different level of the authority. Whereas 17.1% and 12.9% of respondents were agree and strongly agree respectively that the branch office have a continues capacity building program at different level of the authority. The remaining 4.3% of the respondents were indifferent. In addition to this 40% and 24.3% of respondent were disagree and strongly disagree respectively that branch office don't have capable and required work force empowered to implement the law, whereas 14.3% and 4.3% of respondents were agree and strongly agree respectively that the branch office has capable and required work force to implement then law. 17.1 % of respondents were indifferent.

#### **4.1.3. Implementation of Regulation and Institutional Capacity**

**Table 8: Implementation of Regulation and Institutional Capacity**

Variable	Categories	Frequency	Percent	Cumulative percent
The reporting period for VAT filling and payment is enough for the tax payers.	Strongly agree	15	21.4	21.4
	Agree	30	42.9	64.3
	Indifferent	2	2.9	67.1
	Disagree	15	21.4	88.6
	Strongly disagree	8	11.4	100.0
	Total	70	100.0	
The existing VAT administration practice is sufficient enough.	Strongly agree	8	11.4	11.4
	Agree	9	12.9	24.3
	Indifferent	7	10.0	34.3
	Disagree	26	37.1	71.4
	Strongly disagree	20	28.6	100.0
	Total	70	100.0	
There is in general shortage of resources and infrastructural facilities to enhance tax law enforcement.	Strongly agree	21	30.0	30.0
	Agree	25	35.7	65.7
	Indifferent	4	5.7	71.4
	Disagree	11	15.7	87.1
	Strongly disagree	9	12.9	100.0
	Total	70	100.0	
Branch office has enough capacity in managing and administration of VAT in lawful manner.	Strongly agree	6	8.6	8.6
	Agree	7	10.0	18.6
	Indifferent	14	20.0	38.6
	Disagree	26	37.1	75.7
	Strongly disagree	17	24.3	100.0
	Total	70	100.0	
Implementation level of rules and regulations is in lawful manner	Strongly agree	7	10.0	10.0
	Agree	10	14.3	24.3
	Indifferent	8	11.4	35.7
	Disagree	28	40.0	75.7

	Strongly disagree	17	24.3	100.0
	Total	70	100.0	
In branch office rules and regulations are highly effective in implementation.	Strongly agree	7	10.0	10.0
	Agree	7	10.0	20.0
	Indifferent	9	12.9	32.9
	Disagree	28	40.0	72.9
	Strongly disagree	19	27.1	100.0
	Total	70	100.0	

Source; Questionnaire Result, 2018

In the above table the 42.9% and 21.4% of respondents agree and strongly agree respectively that, the reporting period for VAT filling and payment is enough for the Lideta sub city small tax payers. That means total 64.3% of from total respondents. 21.4% & 11.4% of respondents were disagree and strongly disagree that the reporting period for VAT filling and payment is not enough for the Lideta sub city small tax payers. The remaining 2.9% of respondents were indifferent. Based on the above data 37.1% & 28.6% of respondents were disagree and strongly disagree respectively that, the existing VAT administration practice is sufficient enough which means majority of respondents 65.7% of them. 12.9% & 11.4% of respondents were agree and strongly agree that the existing VAT administration practice is sufficient enough. The remaining 10% of the respondents were indifferent. 35.7% & 30% of respondents were agree and strongly disagree respectively that there is in general shortage of resources and infrastructural facilities to enhance tax law enforcement. 15.7% & 12.9% of respondents were disagree and strongly disagree respectively that there is in general shortage of resources and infrastructural facilities to enhance tax law enforcement. The remaining 5.7% of the respondents are indifferent. 37.1% & 24.3% of respondents were disagree and strongly disagree respectively that Lideta sub city small tax payers branch office has not enough capacity in managing and administration of VAT in lawful manner. 10% & 8.6% of respondents were agree and strongly agree respectively that Lideta sub city small tax payers branch office has enough capacity in managing and administration of VAT in lawful manner. The remaining 20% of the respondents were indifferent. Additionally based on above table data 40% & 24.3% respondents were disagree and strongly disagree respectively that the implementation level of rules and regulations in Lideta sub city small tax payers branch office is not in lawful manner, whereas 14.3% & 10% of the respondents were agree and strongly agree respectively that the implementation level of rules and regulations in Lideta sub city small tax payers branch office is in lawful manner, the remaining 11.4% of the respondents are indifferent. 40% & 27.1% of respondents were disagree and strongly disagree that in Lideta sub city small tax payers branch office rules and regulations are not effective in implementation. Whereas



10% and 10% of respondents were agree and strongly agreed that in tax payers branch office rules and regulations are highly effective in implementation. The remaining 12.9% of respondents were indifferent.

#### 4.1.4 Sellers Commitment and Customer Awareness towards VAT Sell

**Table 9: Sellers Commitment and Customer Awareness towards VAT Sell**

Variable	Categories	Frequency	Percent	Cumulative percent
Branch office do continuous awareness creation about VAT for the tax payers.	Strongly agree	6	8.6	8.6
	Agree	8	11.4	20.0
	Indifferent	7	10.0	30.0
	Disagree	27	38.6	68.6
	Strongly disagree	22	31.4	100.0
	Total	70	100.0	
Sellers have high level of commitment for VAT sell.	Strongly agree	1	1.4	1.4
	Agree	4	5.7	7.1
	Indifferent	8	11.4	18.6
	Disagree	31	44.3	62.9
	Strongly disagree	26	37.1	100.0
	Total	70	100.0	
The customers have enough awareness about VAT sell.	Strongly agree	1	1.4	1.4
	Agree	4	5.7	7.1
	Indifferent	7	10.0	17.1
	Disagree	27	38.6	55.7
	Strongly disagree	31	44.3	100.0
	Total	70	100.0	
The VAT rate is high and has made goods and services expensive and results making taxpayers non volunteers to pay tax properly	Strongly agree	8	11.4	11.4
	Agree	9	12.9	24.3
	Indifferent	3	4.3	28.6
	Disagree	43	61.4	90.0
	Strongly disagree	7	10.0	100.0
	Total	70	100.0	

Unregistered tax payers is creating unfair competition and making registered taxpayer's loss their market share and profitability.	Strongly agree	16	22.9	22.9
	Agree	42	60.0	82.9
	Indifferent	4	5.7	88.6
	Disagree	4	5.7	94.3
	Strongly disagree	4	5.7	100.0
	Total	70	100.0	

Source; Questionnaire Result, 2018

Based on the above table 38.6%&31.4% of respondents were disagree and strongly disagree respectively that, branch office do not continuous awareness creation about VAT for the tax payers.11.4%&8.6% of the respondents were agree and strongly agreed that Lideta sub city small tax payers branch office do continuous awareness creation about VAT for the tax payers. The remaining 10% of the respondents were indifferent. 44.3%&37.1% of respondents were disagree and strongly disagree respectively that, sellers do not have commitment for VAT sell. 5.7%&1.4% of respondents were agree and strongly agree respectively that sellers have high level of commitment for VAT sell. The remaining 11.4% of respondents were indifferent .additionally 38.6%and44.3% of respondents were disagree and strongly disagree that the customers do not have enough awareness about VAT sell. Which means majority of respondents total 82.9% from the respondents.61.4%&10% of respondents were disagree and strongly disagreed respectively that the VAT rate is not high and has not made goods and services expensive and results not making taxpayers non volunteers to pay tax properly, 12.9%and 11.4% of respondents were agree and strongly agreed that the VAT rate is high and has made goods and services expensive and results making taxpayers non volunteers to pay tax properly. The remaining 4.3% of respondents were indifferent. Additionally 60%and 22.9% of respondents were agree and strongly agree respectively that unregistered tax payers is creating unfair competition and making registered taxpayer's loss their market share and profitability. Which means the majority 82.9% of the total respondents. 5.7%and 5.7% of respondents were disagree and strongly disagree that unregistered tax payers is not creating unfair competition and not making registered taxpayer's loss their market share and profitability. The remaining 5.7% of the respondents were indifferent.

**Table 10: Customers and Sellers Attitude towards VAT Receipt**

Variable	Categories	Frequency	Percent	Cumulative percent
All consumers are willing and determined to transact with a proper VAT receipt.	Strongly agree	1	1.4	1.4
	Agree	3	4.3	5.7
	Indifferent	7	10.0	15.7
	Disagree	27	38.6	54.3
	Strongly disagree	32	45.7	100.0
	Total	70	100.0	
Customer are highly negligible for receipt due to lack of awareness creation made by the branch office.	Strongly agree	15	21.4	21.4
	Agree	22	31.4	52.9
	Indifferent	3	4.3	57.1
	Disagree	18	25.7	82.9
	Strongly disagree	12	17.1	100.0
	Total	70	100.0	
Unfair computation with the opponents by not issuing receipt for the customers	Strongly agree	24	34.3	34.3
	Agree	28	40.0	74.3
	Indifferent	13	18.6	92.9
	Disagree	3	4.3	97.1
	Strongly disagree	2	2.9	100.0
	Total	70	100.0	
Some VAT registered business enterprise collect tax with illegal invoice.	Strongly agree	24	34.3	34.3
	Agree	32	45.7	80.0
	Indifferent	7	10.0	90.0
	Disagree	4	5.7	95.7
	Strongly disagree	3	4.3	100.0
	Total	70	100.0	
The main obstacle for the collection of evidence like	Strongly agree	23	32.9	33.3
	Agree	31	44.3	78.3

receipt and related documents is some VAT payer uses illegal receipt as well as unregistered VAT machine.	Indifferent	8	11.4	89.9
	Disagree	6	8.6	98.6
	Strongly disagree	1	1.4	100.0
	Total	69	98.6	
<i>Missing</i>		1	1.4	
	Total	70	100.0	

Source; Questionnaire Result, 2018

Table10; indicated that 38.6% and 45.7% of respondents were disagree and strongly disagree respectively which means majority of the respondents 84.3% respondents that ,all consumers are willing and determined to transact with a proper VAT receipt. Whereas 31.4% and 21.4% of respondents were agree and strongly agreed that customer are highly negligible for receipt due to lack of awareness creation made by the branch office. Whereas 25.7%and17.1% of respondents were disagree and strongly disagreed respectively that customer are not negligible for receipt due to lack of awareness creation made by the branch office. The remaining 4.3% of respondents were indifferent. 40% and 34.3% of respondents were agreed and strongly agreed respectively that there is unfair computation with the opponents by not issuing receipt for the customers. 4.3%and 2.9% of the respondents were disagree and strongly disagree respectively. The remaining 18.6% of respondents were indifferent. Additionally 45.7%and34.3% of respondents were agree and strongly agreed respectively that, some VAT registered business enterprise collect tax with illegal invoice. Whereas 5.7%&4.3% of respondents were disagree and strongly disagree respectively that some VAT registered business enterprise not collect tax with illegal invoice. The remaining 10% of respondents were indifferent. 44.3%and32.9% total 77.2% of respondents were agreed and strongly agreed respectively that the main obstacle for the collection of evidence like receipt and related documents is some VAT payer uses illegal receipt as well as unregistered VAT machine.

**Table 11: VAT Registration and Related Problems**

Variable	Categories	Frequency	Percent	Cumulative percent
All of those who should get registered for VAT are registered.	Strongly agree	3	4.3	4.3
	Agree	5	7.1	11.4
	Indifferent	12	17.1	28.6
	Disagree	26	37.1	65.7
	Strongly disagree	24	34.3	100.0
	Total	70	100.0	
Because of low awareness and lack of information all of those who should get registered for VAT are not registered.	Strongly agree	16	22.9	23.2
	Agree	31	44.3	68.1
	Indifferent	10	14.3	82.6
	Disagree	7	10.0	92.8
	Strongly disagree	5	7.1	100.0
	Total	69	98.6	
<i>Missing</i>		1	1.4	
	Total	70	100.0	
Because of poor capacity of the branch offices that deal with VAT all of those who should get registered for VAT are not registered	Strongly agree	26	37.1	37.1
	Agree	29	41.4	78.6
	Indifferent	11	15.7	94.3
	Disagree	3	4.3	98.6
	Strongly disagree	1	1.4	100.0
	Total	70	100.0	
Due to selfishness all of those who should get registered for VAT are not registered.	Strongly agree	18	25.7	25.7
	Agree	27	38.6	64.3
	Indifferent	13	18.6	82.9
	Disagree	6	8.6	91.4
	Strongly disagree	6	8.6	100.0
	Total	70	100.0	
Increasing the awareness level of tax payers about the VAT registration process and on other related issue.	Strongly agree	7	10.0	10.0
	Agree	10	14.3	24.3
	Indifferent	8	11.4	35.7
	Disagree	28	40.0	75.7
	Strongly disagree	17	24.3	100.0
	Total	70	100.0	

Source; Questionnaire Result, 2018

Based on the above Table11; 37.1% and 34.3% of respondents were disagree and strongly disagree respectively that all of those who should get registered for VAT are registered. Which means 71.1% from the total respondents.44.3% and 22.9% of respondents total67.2% were agree and strongly agree that because of low awareness and lack of information all of those who should get registered for VAT are not registered.41.4% and 37.1% of respondents total78.5%were agreed and strongly agreed respectively that, because of poor capacity of the branch offices that deal with VAT all of those who should get registered for VAT are not registered. Additionally 38.6% and 25.7% of respondents total 64.3% were agree and strongly agreed respectively that, due to selfishness all of those who should get registered for VAT are not registered. It indicated that due to various reason all of those who should get registered for VAT are not registered. Based on the above data 40% and 24.3% of respondents total 64.3% were disagree and strongly disagree respectively that the branch office follows increasing the awareness level of tax payers about the VAT registration process and on other related issue.

#### 4.1.5 Mechanisms to Improving VAT Administration Practices

**Table 12: Mechanisms to Control Improper VAT Administration Practices**

Variable	Categories	Frequency	Percent	Cumulative percent
VAT invoicing, filing and payment system of the tax authority that needs improvement.	Strongly agree	25	35.7	35.7
	Agree	22	31.4	67.1
	Indifferent	2	2.9	70.0
	Disagree	14	20.0	90.0
	Strongly disagree	7	10.0	100.0
	Total	70	100.0	
Branch office uses various mechanisms to control improper VAT administration.	Strongly agree	17	24.3	24.3
	Agree	24	34.3	58.6
	Indifferent	6	8.6	67.1
	Disagree	15	21.4	88.6
	Strongly disagree	8	11.4	100.0
	Total	70	100.0	
Does sufficient awareness creation to tax payers as a mechanism to control	Strongly agree	3	4.3	4.3
	Agree	9	12.9	17.4
	Indifferent	6	8.6	26.1

improper VAT administration practices.	Disagree	32	45.7	72.5
	Strongly disagree	19	27.1	100.0
	Total	69	98.6	
<i>missing</i>		1	1.4	
	Total	70	100.0	
Fair and transparency in imposing the VAT penalty on tax payers by the authority.(except normal audit)	Strongly agree	7	10.0	10.1
	Agree	9	12.9	23.2
	Indifferent	9	12.9	36.2
	Disagree	28	40.0	76.8
	Strongly disagree	16	22.9	100.0
	Total	69	98.6	
<i>missing</i>		1	1.4	
	Total	70	100.0	
Branch office provides appropriate incentives and awards to the best performing tax officials.	Strongly agree	4	5.7	5.7
	Agree	7	10.0	15.7
	Indifferent	8	11.4	27.1
	Disagree	26	37.1	64.3
	Strongly disagree	25	35.7	100.0
	Total	70	100.0	

Source; Questionnaire Result,2018

Based on the above Table12; 31.4% and 35.7% of respondents which means majority of total 67.1%of respondents were agree and strongly agreed respectively that, the issues of VAT invoicing, filing and payment system of the tax authority that needs improvement. 20% and 10% of respondents were disagree and strongly disagree respectively that the issues of VAT invoicing, filing and payment system of the tax authority that not needs improvement, the remaining 2.9% of respondents were indifferent. Additionally 34.3% and 24.3% of respondents were agree and strongly agreed that Lideta sub city small tax payers branch office uses various mechanisms to control improper VAT administration. Whereas 21.4% and 11.4% of respondents were disagree and strongly disagreed that the branch office not uses various mechanisms to control improper VAT administration, the remaining 8.6%of respondents were indifferent.45.7% and 27.1% of respondents which means the majority 72.8% of total respondents disagree and strongly disagree that, Lideta sub city small tax

payers branch office does not have sufficient awareness creation to tax payers as a mechanism to control improper VAT administration practices. Whereas 12.9% and 4.3% of respondents were agree and strongly agreed respectively that, Lideta sub city small tax payers branch office does sufficient awareness creation to tax payers as a mechanism to control improper VAT administration practices. The remaining 8.6% of respondents were indifferent. Additionally 40% and 22.9% of respondents which means total 62.9% of total respondents were disagree and strongly disagree respectively that, there is no fair and transparency in imposing the VAT penalty on tax payers by the authority. (except normal audit), whereas 12.9% and 10% of respondents were agree and strongly agree respectively that, there is fair and transparency in imposing the VAT penalty on tax payers by the authority. (except normal audit). The remaining 12.9% of respondents were indifferent. Besides, 37.1% and 35.7% of respondents which means total 72.8% of the majority respondents were disagree and strongly disagree respectively that, the branch office does not provides any appropriate incentives and awards to the best performing tax officials and the committed and volunteer tax payers also. Whereas 10% and 5.7% of respondents were agree and strongly agreed respectively that, the branch office provides appropriate incentives and awards to the best performing tax officials and the committed and volunteer tax payers. The remaining 11.4% of respondents were indifferent.

## **4.2 Discussion**

The study discussed the following as the major findings regarding the VAT administration practices: problem and factors in the case of Lideta sub city small tax payer's branch office.

As presented on the findings, majority of the respondents which is 58.6% (strongly disagree and disagree) believe that the auditors, inspectors, prosecutors and other staff members do not have the required skill and experience to identify and handle tax offenses. Similarly, half of respondents did not agree that employees are well aware of the VAT proclamation while 42.9% of them said employees are well aware of it. Besides, majority of the respondents representing 71.4% of total responded that the tax officials lack adequate potential and confidence for decision making. This evidences imply that the employees are not well equipped with necessary skill, knowledge and experience to handle their jobs. The study also showed that they lack confidence while making decisions.

As indicated in the analysis, about 65.7% of the respondents disagree on the capacity building program at made by the branch office. But 30% of the respondents agreed in the question that it has the program to conduct at the branch office. This implies the authority has no intended apparent schedule for the training of employees about the capacity building program.



In another analysis, 64.3% of the respondents disagreed on the capability of workforce empowerment to implement the law. Where this imply that the majority of the respondents empowerment of the employees in the implementation of the law is small in the branch office.

About 64.3% of the respondents of the total sample agree on reporting period of VAT filing and reporting period is enough for the tax payers. In addition, majority of the respondents 65.7% of them disagreed that the existing VAT administration practice is sufficient enough.

55.7% of the respondents replied that there is no enough resource to and infrastructural facilities to enhance tax law enforcement. This indicates place of work, office equipment and machineries sufficiency is in question of the employees. In addition to this result, 61.4% of the response from the employees is disagreement about the capacity in managing and administration of VAT in lawful manner.

About 67.1% of the response also is a disagreement of the question whether the branch office is effectiveness of implementing the rules and regulation. Besides, majority of the respondents, 70%, disagreed that continuous awareness creation of the customer towards VAT is minimal by the branch office. Besides, 81.4% of the respondents believed that sellers have no commitment in VAT sell. This is consistent with 82.9% of the response that VAT customers have no awareness about VAT sell. Also the 71.4% of employees disagreed that VAT rate made goods and services expensive for taxpayers not to pay properly.

Most of the employees, 82.9% of them, believe that unregistered tax payers create unfair competition. Majority of the respondents 84.3% respondents believes that, all consumers are not willing and determined to transact with a proper VAT receipt. Also customers' negligibility for receiving receipt due to lack of awareness creation made by the branch office. Whereas, 74.3% of respondents agreed that there is unfair competition with opponents by not issuing receipt for the customer. Additionally, 80% of the employees agreed that some VAT registered business enterprises collect tax with illegal invoice. 77.2% of respondents also agreed that, the main obstacle of the collection of evidences like receipt is taxpayers using unregistered VAT machines and illegal receipts.

71.1% from the total respondents believed that all of those who should get registered for VAT are not registered. Majority of respondents replied that because of low awareness and lack of information (67.2%) and because of poor capacity of the branch office (64.3%), all of those who should get registered for VAT are not registered. It indicated that due to various reasons all of those who should get registered for VAT are not registered. Whereas, 64.3% of the total respondents replied that the branch office do not follows increasing the awareness level of tax payers.

The improvement of invoicing, filing and payment system of the tax authority is agreed by the majority of respondents, i.e. 67.1% of the total employees. In addition to this, majority of the respondents, 58.6%, agreed that the branch office uses various mechanisms to control improper VAT administration but 33.8% disagreed this situation. Besides, 72.8% of total respondents disagree that, the branch office have sufficient awareness creation to tax payers as a mechanism to control improper VAT administration practices. Also, 62.9% of total respondents were believes that, there is no fair and transparency in imposing the VAT penalty on tax payers by the authority. Besides 72.8% of the majority respondents were disagreed that, the branch office does not provides any appropriate incentives and awards to the best performing tax officials and the committed and volunteer tax payers.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATIONS

In this chapter, the researcher summarizes the research by giving a concluding remarks and making a possible recommendations which can improve the performance of the branch office.

#### 5.1 Conclusions

In general, the research tries to assess the VAT administration practice of Lideta Sub city Small Tax payers Branch Office by investigating employees' attitude, knowledge and skills. The research proved that almost more than half of the branch office employees lack sufficient knowledge, skill and experience in administrating VAT. This can be seen from the result that most of the respondents disagreed on most variables such as capacity building program at different level of the authority, capability and required work force empowered to implement the law, and awareness of the VAT proclamation and its amendments.

Some of the employees of the branch were not capable to detect any tax fraud and evasion due to in adequate experience and skill, lack of awareness of VAT proclamation and due to the lack of capacity building programs made by the authority. But in small tax payers branch office the office hiring more professionals and skilled manpower's like that of other related branches of the authority it may expected they know everything in detail.

Meanwhile, the implementation of the existing law requires the knowledge and skill of employees; they have mixed response as indicated in findings of the research. Sufficient reporting period for VAT filling, existence of shortage of infrastructure to enhance tax law has got positive response. While, effectiveness of the branch office to implement the law and in lawful manner are not enough according to the respondents.

On the other hand, the commitment level of sellers and customers, in the finding, is almost low in every variable set in the questionnaire. The implication here is that unfair competition exists in the market which favors unregistered traders are beneficiary with low market price. The sellers' commitment not to issue receipt is to attract customers with low market price while making a better profit. This directs us to conclude that due to the above problems of implementing the law and inefficiency of the branch office, traders are entering in unfair market competition.

Finally, most respondents agreed on the improvement of the current tax administration. Such recommended by the employees are: invoicing, filing and payment system should be improved, sufficient awareness creation should develop, fair and transparency in imposing VAT penalty on tax payers should be applied, are among others mentioned as improvement mechanism

## 5.2 Recommendations

Based on the above conclusions, the researcher recommended the following main points;

- The branch office should develop a continuous capacity building programs on its employees, implementation of laws, and promotion of awareness creation among sellers and customers.
- Rules and regulations must be applicable in lawful manner in order to solve administration problems, so must create appropriate awareness about proclamations for the employees and also preparing rules and regulations in the form of flyers and brochures for the customers this help to create awareness.
- The tax authority could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way such as enriching the knowledge of employees by taking local and international VAT administration practices in the form of training, workshop, seminar etc.
- The branch office shall be in a position to stop unfair market competition and put its maximum effort to penalize tax offenders in a transparent ways which others can learn from it.
- It should suggest that few VAT registered taxpayers are not raise invoice, Especially at the night they are selling without receipt so it need continuous follow up and make attitudinal changes first and then strengthen the enforcement level of the authority.
- Due to lack of awareness creation made by the branch office consumers are highly negligible to receipt, to create common and better understanding on the concept of VAT and receipt the branch office should be made continuous awareness creation to the customers and sellers about VAT and benefits of receipts..
- To improve its standards and performance, the branch office should participate tax payers by making regular meetings.
- As a one mechanism to improve improper VAT administration practices the branch office suggest to make appropriate incentives and rewards for the best performing tax officials.

As a research, this thesis is not without limitation. The major limitations in this thesis are the time and financial resource scarcity, getting secondary relevant data from the concerned branch office and the researcher's skill. Beside this, the study focuses only on the VAT Administration practices at Lideta Sub-City small Taxpayers Branch Office in administrative side only. Hence, the scope needs to be widened to cover the taxpayer's side. To this end it is believed that this thesis has made a significant contribution to the relevant body of knowledge and used as starting point for further study.

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## APPENDIX A



**St. Mary's University**

**School of Graduate Studies**

**Department of General Management**

### QUESTIONNAIRE

This questionnaire is prepared for the study of MBA (Masters of Business Administration) thesis in general management. The objective of the study is to assess the factors that affect VAT administration practices. Your responses will be of much importance for the soundness of conclusions and recommendations to be drawn based on this research. Accordingly, you are kindly requested to give genuine and honest answers. The information you provide in this study will be used for the stated purpose only and it will be held confidential. I appreciate your voluntary and valuable participation in this study.

**Thank you for your cooperation in Advance!!!**



**PART I. RESPONDENTS GENERAL INFORMATION:**

To show your preferred alternatives, please, put (√) in the space provided

1. **Gender:** (A) Male  (B) Female
2. **Age:** (A) 20-30  (B) 30-40  (C) 40-50  (D) 50>
3. **Education level:** (A)below Diploma  (B) Diploma   
(C) Bachelor degree  (D) Masters and above

**4. Name of your department:**

- (A) Assessment and follow-up
- (B) Auditing and investigation
- (C) Collection and enforcement

Other, please specify \_\_\_\_\_

**5. Your status or position in the organization?**

- (A) Auditor/officer  (C) Team leader /process coordinator
- (B) Senior auditor/officer  (D) Deputy/general manager

Other,  
specify \_\_\_\_\_

**6. How long have you been working in the organization?**

- (A) Less than five years  (C) Ten to fifteen years
- (B) Five to ten years  (D) More than fifteen years

**PART II: RELATED TO ADMINISTRATION**

On the below questions, please, put (√) in the boxes of your choice and give your explanations on the spaces provided.

1. Are there problems in the VAT administration that needs to be improved?

- (A). Yes  B). No  C). I don't know

2. If your response is yes, what kind of problems did you face on VAT administration? List your top three problems below:

- (A) \_\_\_\_\_
- (B) \_\_\_\_\_
- (C) \_\_\_\_\_

3. What are the problems that hinder smooth administration of VAT?(more than one answer is possible)

- (A) Consumers' are not willing to buy goods and services with VAT
- (B) VAT tax payers are less competitive in the market than non-VAT tax payers

(C) Poor tax enforcement capacity of the authority

(D) Use of fraudulent invoices and non-issuance of invoices

Other, please specify \_\_\_\_\_

4. In order to improve VAT administration and maximize revenue of the country; list top three ideas that needs action;

(A) \_\_\_\_\_

(B) \_\_\_\_\_

(C) \_\_\_\_\_

To show your preferred alternatives, please, put (√) in the space provided

No	Items of Assessment	Strongly agree (1)	Agree (2)	Indifferent(3)	Disagree(4)	Strongly Disagree(5)
1	Auditors, inspectors and prosecutors have the required skill and experience to detect and handle tax offences by taxpayers.					
2	The issues of VAT invoicing, filing and payment system of the tax authority that needs improvement.					
3	The reporting period for VAT filling and payment is enough for the Lideta Sub City Small Tax Payers.					
4	The existing VAT administration practice is sufficient enough.					
5	Tax officials have adequate potential and confidence in decisions making related to VAT.					
6	There is in general shortage of resources and infrastructural facilities to enhance tax law enforcement.					
7	The branch office have continues capacity building program at different level of the authority.					
8	Lideta Sub City Small Tax Payers Branch Office do continuous awareness creation about VAT for the tax payers.					
9	Lideta Sub City Small Tax Payers Branch Office has capable and required work force empowered to implement the law					
10	Lideta Sub City Small Tax Payers Branch Office has enough capacity in managing and administration of VAT in lawful manner.					
11	The implementation level of rules and regulations in Lideta Sub City Small Tax Payers Branch Office is in lawful manner					
12	In Lideta Sub City Small Tax Payers Branch Office rules and regulations are highly effective in implementation.					
13	Employees are well aware of the VAT proclamation and its amendment.					
14	Sellers have high level of commitment for VAT sell.					
15	The customers have enough awareness about VAT sell.					
16	All consumers are willing and determined to transact with a proper VAT					

	receipt.					
17	Customer are highly negligible for receipt due to lack of awareness creation made by the branch office.					
18	The VAT rate is high and has made goods and services expensive and results making taxpayers non volunteers to pay tax properly.					
19	There is unfair computation with the opponents by not issuing receipt for the customers					
20	Unregistered tax payers is creating unfair competition and making registered taxpayer's loss their market share and profitability.					
21	Some VAT registered business enterprise collect tax with illegal invoice.					
22	The main obstacle for the collection of evidence like receipt and related documents is Some VAT payer uses illegal receipt as well as unregistered VAT machine.					
23	All of those who should get registered for VAT are registered.					
24	Because of low awareness and lack of information all of those who should get registered for VAT are not registered.					
25	Because of poor capacity of the branch offices that deal with VAT all of those who should get registered for VAT are not registered?					
26	Due to selfishness all of those who should get registered for VAT are not registered.					
27	Lideta Sub City Small Tax Payers Branch Office uses various mechanisms to control improper VAT administration.					
28	Lideta Sub City Small Tax Payers Branch Office does sufficient awareness creation to tax payers as a mechanism to control improper VAT administration practices.					
29	There is fair and transparency in imposing the VAT penalty on tax payers by the authority.(except normal audit)					
30	The branch office provides appropriate incentives and awards to the best performing tax officials.					
31	The branch office provides appropriate incentives and awards to the committed and volunteer tax payers.					
32	The branch office follows increasing the awareness level of tax payers about the VAT registration process and on other related issue.					

## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Asmamaw Getie(Asst.Prof.). 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.

Heran Dejene Kasaye

Name

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

\_\_\_\_\_

Signature

**June, 2018**

## ENDORSEMENT

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

Dr. Asmamaw Getie(Asst.Prof.)

Advisor

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

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Signature

**June, 2018**