

**Factors Affecting the Value Added Tax (VAT) and Their Impacts on
Sales of VAT Registered Business Firms: *In Case of Ambo Town***

*A Thesis Submitted to the School of Graduate Studies of Jimma University
in Partial Fulfillments of the Requirements for the Degree of Masters of
Business Administration (MBA)*

By:

ZERIHUN GETACHEW



JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MBA PROGRAM

JUNE, 2017

JIMMA, ETHIOPIA

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DECLARATION

I hereby declare that this thesis entitled “ *Factors affecting VAT and their impacts on sales of VAT registered business firms at West Shewa Zone Ambo town revenue authority branch*” has been carried out by me under the guidance and supervision of Mr. Abiy Getahun and Mr. Mohamed Getahun.

The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

Researcher’s Name

Date

Signature

CERTIFICATION

This is to certify that this thesis entities, ‘‘ *Factors affecting VAT and their impacts on sales of VAT registered business firms at West Shewa Zone Ambo town revenue authority branch*’’ Submitted to Jimma University for the award of the Degree of Master of Business Administration (MBA) and is a record of valuable research work carried out by Mr. Zerihun Getachew, under our guidance and supervision.

Therefore, we hereby declare that no part of this thesis has been submitted to any other university or institution for the award of any degree or diploma.

Main Advisor’s Name

Date

Signature

Co-Advisor Name

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Signature

Abstract

Many Developed and developing countries in the world generate their government's revenue from taxes. Taxes can be classified as direct and indirect taxes. Direct taxes are taxes that are directly related to the taxpayers; whereas indirect taxes are taxes paid by an individual through the purchase of goods and services. VAT is one of the indirect taxes levied on consumption where the value of goods and services increase as they change hands in the course of production, distribution and final sales to the consumer. This research investigates the impacts of factors affecting VAT on sales VAT registered business firms in West Shewa Zone, specifically at Ambo town Inland Revenue authority branch. For the sake of achieving the objectives of the study, the researcher used mixed research approach, that means both quantitative and qualitative research approach were used. The information used for the study was gathered through self administered questionnaire from a sample of 208 VAT registered business firms and 12 office employees of the revenue authority branch of Ambo town. These respondents were selected using stratified sampling technique and purposive sampling technique respectively. The researcher used questionnaires and interviews to collect primary data and relevant documents to collect secondary data from the data sources. The data collected by distributing the questionnaire were analyzed by statistical analysis of both descriptive analysis and inferential statistical analysis such as correlation and multiple regression analysis. The result of this study indicates that Compliance of VAT highly predict the revenue of VAT payers while Mode of payment less predictor of the revenue of VAT payers among the selected explanatory variables. Based on the findings of the study, the researcher forwards some recommendations to both VAT registered business firms and the employees of VAT at the Inland Revenue authority branch of Ambo town and suggestion for other researchers.

Key words: VAT, Sales, Factor Affecting VAT

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ACRONYMS/ ABBREVIATIONS

EFIRA:	Ethiopian Federal Inland Revenue Authority
ERCA:	Ethiopian Revenue and customs Authority
ETB:	Ethiopian Birr
ETRs:	Electronic Tax Registers
FDRE IT:	Democratic Republic of Ethiopia Indirect Tax
FIRA:	Federal Inland Revenue Authority
IMF	International Monetary Fund
Proc. No.:	Proclamation Number
SIGTAS:	Standard Integrated Government Tax Administration System
TIN:	Taxpayer Identification Number
UK	United Kingdom
VAT	Value Added Tax

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Value added tax (VAT) has spread throughout the world since its introduction from France on April 10, 1954. By 1969, only eight nations had adopted VAT, out of this Cote-Devoir 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, 2008).

Ethiopia introduced value added tax (VAT) in the year 2003 as a replacement for sales tax so as to broaden the tax base and make the tax administration more efficient with the proclamation No.285/2002. The VAT has an annual sales registration threshold of ETB 500,000. It is chargeable with a zero rate, particularly for exports goods and services. It is also applied at a standard rate of 15 percent on other supplies of taxable goods and services (except those that are zero rated and exempted). VAT exemptions mainly include educational and health services and food items. Therefore multi stage sales tax which is imposed at more than one level of production and distribution has replaced sales tax for reasons of administration and simplicity (Hailu, 2004).

Value added tax in simple terms could be defined “as a tax on the value added at different stages of manufacturing and distribution of goods and services”. It is a form of indirect tax in the nature of a multi-point sales tax with a set off or credit for tax paid on purchases / services. Each transaction of goods sold in the course of business is taxed, thus providing revenue to the government on the value added at each stage. Value added tax (VAT) is a type of indirect tax that is imposed on goods and services. Sometimes, when the government operates on a budget surplus or wants to increase its revenue in order to finance its budget deficit (Ravindra Tripathi et al, 2011).

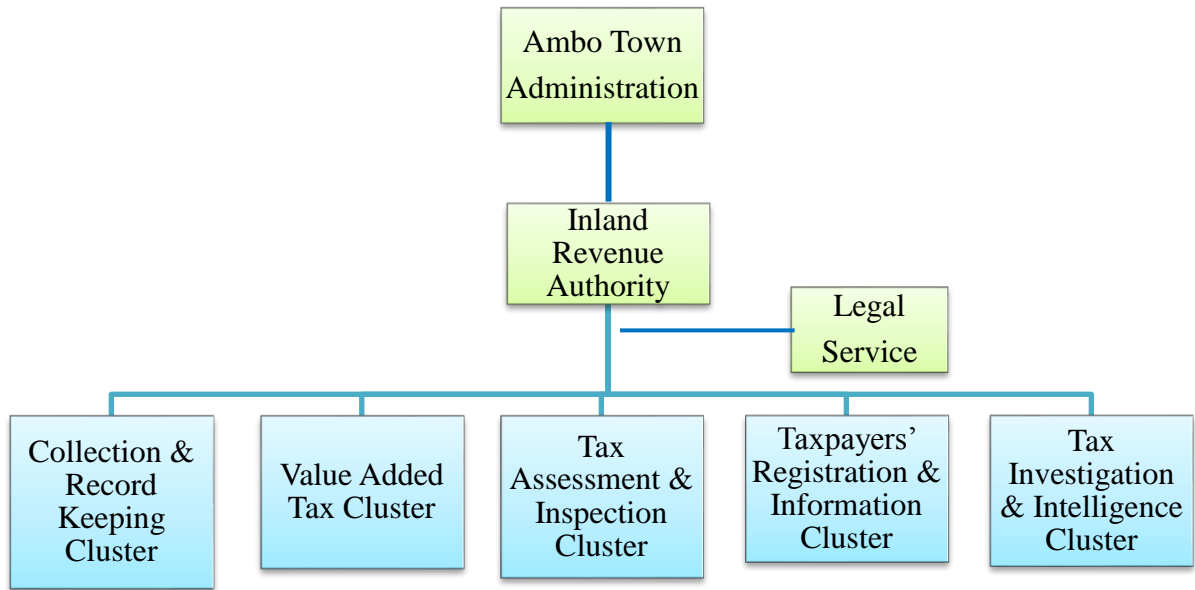
Value added tax (VAT) is an indirect consumption tax assessed on the value added to a product at each point in the cycle of production and distribution. It is a consumption tax

because it is ultimately borne by the consumer, who pays a fixed percentage of the final sale price of a product. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost of the VAT on the final consumer in the form of price increases. Tax is added to a product's price each time it changes hands until delivery to the customer takes place, when the final tax is paid.

This study was trying to assess the factors affecting VAT and their impacts on sales of VAT registered business firms in the country specifically in Ambo town.

1.2. Background of Study Area

Ambo town is located in Oromia region in Western Shewa Zone at 112 km distance from the capital Addis Ababa to western. The town has an estimated total population of 260, 193 of whom 131, 922 are men and 128, 271 are women according to Ambo town Administration Statistical abstract. Ambo is popular for its immense natural gifts including excellent climate which provides comfortable living and working environment. Ambo is also famous for its mineral water widely consumed all over the world. Besides, the town also hold the pioneer higher learning institution i.e. Ambo University. The town administration is directly accountable to the Oromia Regional Government. Currently the mandate of tax administration is given to the Inland Revenue Authority of the city administration which is accountable to Ambo Town Administration. The authority was established by proclamation as an independent agency with the mandate of city's revenue administration. The authority has a manager and there are five divisions and a legal service which are directly accountable to the manager. The organizational structure of the authority is depicted in the following diagram.



Source: organizational structure of Inland Revenue authority of Ambo town

Figure 1 Organizational structure of Ambo Town Administration Tax Authority

1.3. Statement of the Problem

Many developed and developing countries in the world generate their revenue from taxes. In Ethiopia the principal taxes currently in place are business Income Tax, Turn over Tax/Value Added Tax (VAT), Excise Tax, Customs Duty, and Employment Income Tax. These taxes can be classified as direct and indirect taxes. Direct taxes are taxes that are directly related to the taxpayers; whereas indirect taxes are taxes paid by an individual through the purchase of goods and services. VAT is one of the indirect taxes levied on consumption where the value of goods and services increases as they change hands in the course of production, distribution and final sales to the consumer. (Hailemariam, 2011).

Some researchers who have done their studies on VAT in Ethiopia includes; [Lemessa (2005); Wollela (2008); Yesegat (2008); Hailemariam (2011); Simon (2013); and Hamdu and Zinash (2014)]. These researchers are more focused on the factors affecting VAT in Ethiopia.

According to Hailemariam (2011) and Yesegat (2008); Tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax policy. The activities involved in the tax administration include: identifying and registering the VAT taxpayer, VAT invoicing, VAT filing and payment requirements, control of filing and payments of VAT, VAT refunds, VAT audits and penalties.

According to Lemessa (2005) and Yesegat (2008); Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on VAT administration and compliance.

Other researchers who have done their studies on mode payment of VAT particularly ETRs in Ethiopia include Hamdu and Zinash, (2014). According to these researchers, the introduction of ETRs machine has assisted in cutting costs that the business used to incur and ease work in processing VAT; ETR machine have really helped increase profits due to their efficient nature. ETRs machine reduce the tax- reporting burden on businesses while improving the efficiency and effectiveness of government operations, provides timely accurate tax information to business and also increase the availability of electronic tax filing.

McKerchar (2002) cited in Wollela (2008) explained deliberate noncompliance could include tax evasion, which in turn would include all people or entities operating within the hidden economy, taxpayers that deliberately understate their income; over claim deductions, rebate or credits; take an aggressive stance in their tax affairs that cannot reasonably be supported; or do not keep the required records.

However, their studies were more focused on these factors affecting VAT; they did not depict out their impact on sales of VAT registered business firms.

An economic development of a country can be convinced by an effective and efficient administration and collection of taxes particularly VAT. This is because, when the implementation and administration of the tax system is effective, the government's revenue that helps to fulfill the socioeconomic needs of the society will be improved. Therefore, to collect sufficient revenues from VAT registered taxpayers; there must be proper implementation of VAT on every VAT registered business firms; the factors that hold back the collection of VAT revenue should have to be identified and also the impacts of these factors on sales of VAT registered taxpayers should have to be specifically identified and solved. Hence, the main concern of this study attempts to assess the levels of the factors that influence VAT and their impacts on sales of VAT registered business firms. Therefore, the main purpose of this study was to address the following basic research problems:

- To what level administrative policy and practices can affect the sales of VAT Registered business firms?
- To what extent do the business firms make compliance with the VAT rules and regulations and affect the sales of VAT Registered business firms?
- To what extent the mode of payment of VAT affects the sales of VAT Registered business firms?
- To what extent the VAT Registered taxpayers and VAT employees are control over acts of criminal offenses?

1.4. Objectives of the Study

1.4.1. General Objective

The main objective of the study was to assess the factors that affect Value-Added Tax (VAT) and their impacts on sales of VAT registered business firms in Ambo town.

1.4.2. Specific Objectives

- To examine the level administrative policy and practices on collecting VAT revenue and its impacts on sales of VAT registered taxpayers;
- To examine whether the VAT taxpayers do their business with the compliance of the VAT rules and regulations and its impacts on sales of VAT registered taxpayers currently in use;
- To identify the extent to which control over acts of criminal offenses of VAT and its impacts on sales of VAT registered taxpayers and;
- To examine the levels of impacts of the mode of payment of VAT on the sales of VAT registered taxpayers;

1.5. Significance of the Study

It is obvious that an economic development of a country can be convinced by an effective and efficient administration and collection of taxes. This is because, when the implementation and administration of the tax system is effective, the government's revenue that helps to fulfill the socioeconomic needs of the society will be improved. Therefore, the research was expected to identify the key factors that have impacts on sales of VAT registrant taxpayers at a revenue authority branch of Ambo town; to identify the factors that hold back the collection of VAT revenue; and also to identify to what extent of these factors can affect on sales of VAT registered taxpayers and then recommend mechanisms for improvement. In addition this research can indicate the ways that what the branch authority's officials have to do in the future based on the views of the VAT registered taxpayers towards VAT, it can provide the way for other researchers who want to conduct further investigation on the area raised as a title, give some possible insights to the higher officials of the authority to tackle the problems identified with this finding, initiates the authority to give closer attention towards the administration and follow ups as well as conduct awareness creation programs to achieve the desired objectives of VAT implementation, inform the policy makers to take the problems identified in to account by providing appropriate suggestions as well as it can serve as an

additional source of reference material for those who want to conduct a full time research.

1.6. Scope of the Study

The spatial and temporal coverage of this study was limited to VAT registered taxpayers of West Shewa Zone Inland Revenue Authority of Ambo town only to investigate the factors that affect VAT and their impacts on sales of VAT registered business firms. The sample respondent comprises both employees of tax administration and VAT registered business firms in the town. This study again focuses on four factors affecting VAT such as administrative policy and practices on collecting VAT; Compliance of VAT payers with the VAT rules and regulations; acts of criminal offences and mode of payment of VAT to see the level and how they affect sales of VAT registrant taxpayers.

1.7. Limitation of the study

- The study is only limited to Ambo town Inland Revenue authority branch.
- It is difficult to use the proposed systematic sampling technique
- In addition, since VAT is the recent phenomenon, the absence of enough reference material of VAT is the other limitation of the study

1.8. Organization of the Paper

The paper is organized into five chapters. The first chapter focuses on the background of the study, background of Study Area, statement of the problem, objectives of the study, significance of the study and scope of the study. The second chapter deals with the theoretical and empirical review of literature. The third chapter concerns with the research design and methodology with subsections such as data sources, data gathering tools and data analysis. The fourth chapter presents the data presentation, analysis and discussion of results and whereas the final chapter deals with the conclusion, recommendation, limitation of the study and future research implication.

CHAPTER TWO

2. REVIEW OF LITERATURE

2.1. Introduction

This chapter deals with the issue of taxation and particularly Value Added Tax (VAT). It was emphasized in the review of related literatures from various sources. This is to mean different published materials and books were investigated to conceptualize the issue of VAT. To make it sensuous various empirical and conceptual evidences were critically reviewed and presented. It was also identified past research gaps that have not been tackled so that a solution for the same may be sought. It was also helped shed some light on important areas that have been ignored by previous researchers and that are a major barrier to effective collection of local Value added Tax revenue in Ambo town. Furthermore, this literature depicts the theoretical review, empirical review and conceptual view on the factors affecting the VAT and their impacts on sales of VAT registrant taxpayers in Ethiopia, particularly in Ambo town.

2.2. A Theoretical Review

Theoretical framework section defines theories used to support the study and therefore variables forming the research are anchored on the theories. This theoretical review depicts on VAT administrative policy and Practices, acts of VAT criminal offenses, Mode of payment of VAT and Compliance raised by VAT registrant taxpayers with the VAT rules and regulations.

Taxes are revenue collected by the government to afford public services in the country and finance its daily activities (Bhatia, 2009). The workers of Jhingan (2004) shows as the main and most important reasons for taxation are to finance government expenditure and to redistribute wealth for the development of the country in general. Taxes are divided into two main categories, direct and indirect.

I. Direct tax

Direct taxes are taxes imposed on direct income of any individuals or company, (Federal Democratic Republic of Ethiopia Indirect Tax (FDRE IT), Proclamation No. 286/2002). These taxes majorities have progressive rates; however, other has fixed (flat) rate that generate tax income progressively and proportionally related to taxable person's income respectively. These are: Employment Tax, Building Rent Tax, Business Profit Tax, Other Income Taxes (Tax on interest Income on Deposits, Dividend, Income Tax, Royalties Tax on Income, Games of Chance Tax on Income, Gains of Transfer of Certain Investment Property Tax on income, Rental of Property Tax on Income, and Rendering of Technical Services outside the Ethiopia Tax on income) (Misrak, 2008).

II. Indirect tax

According to Shenk and Oldman (2007), indirect taxes of a tax on consumption have long been the heart of taxation in developing countries and it provides two-thirds or more of tax revenues in many countries. Indirect taxes are imposed by the government and collected from taxpayers assigned by law from consumers for the transaction service they get goods or service from the market. These taxes are turnover, Value Added, Excise, Customs duty, and Stamp Duty (FDRE IT Proclamation No. 286/2002).

2.2.1. What is Value Added Tax?

VAT - an indirect tax levied on the public and private consumption. This tax is paid by corporations, even though the tax burden has shifted to consumers (Bendikiene, saparnis, 2006), as manufacturers and service providers include it in the price (Dilius, Kareivaite, 2010).

VAT is introduced at the beginning of the manufacturing process and is counted in each phase of the product or service production and marketing until it reaches the consumer, who pays this tax (Streimikiene, Mikalauskiene, 2006).

Value-added tax is collected after the final consumer prices are imposed, but does not affect the production or distribution (Dilius, Kareivaite, 2010). On the other hand, VAT is a regressive tax, because in terms of the same consumption, people with lower income

spend a larger part of their income rather than those with higher income (Jenkins et al., 2008).

VAT is a tax on consumption levied whenever the value of goods and services increase as the changes hands in the course of production, distribution, and final sale to the consumers. It is a tax on the value added to goods and services by enterprises at each stage of the production and distribution processes. The study conducted by Bird (2005), reveals VAT as the ‘money machine’ tax, which necessarily adopted by both developed and developing countries that allow the government to collect sufficient amount of revenue. VAT replaces the sales tax on manufactured and imported goods and services in Ethiopia January 2003 (FDRE VAT Proc. No. 285/2002). According to this proclamation, VAT in Ethiopia is payable if they are: supplies, made in Ethiopia, made by a taxable person, made in the course of furtherance of a business, are not specifically exempted or zero rated. Supplies, which are made by Ethiopian, not exempt known as taxable supplies.

As it was also trying to mention earlier that, VAT is an indirect tax type, which is imposed on consumption or spending. VAT is collected from sales of the value added of goods and services, starting from importers and producers ending with consumers through the conditions of whole selling and retailing. The VAT applied to the value added meaning a producer for example, provides a final product to sell, performs different activities like spending direct and indirect costs and administrative cost except VAT and prepaid income tax. Doing that, value is created. This value is liable to tax, (FDRE VAT Proc. No. 285/2002). The VAT ensures neutrality in international trade by freeing exports of tax and by treating imports and domestic goods the same; this is an important attribute in an interdependent, high-tax world. As a transactions tax, which must be shown on invoices, the VAT is harder to evade than an income tax (Sijbren, Cnossen, 1998).

VAT is imposed only on the value created upon production and distribution, but not on the cumulative return. Therefore, it avoids the tax cascading burden using this method. This tax follows the procedures of refunding or credit input tax that is paid on purchasing inputs for production of goods or provision of services. Again, it is paid for the sales of

the output. It is based on the invoice in order that it reconciles the input tax against output tax. Thus, record processing is mandatory to balance them. Therefore, modern accounting method of business system is being practical as the result of VAT introduction, (Misrak, 2008).

2.2.2. Types of VAT

According to (Bhavana Puri, 2011) VAT has been classified on several bases and it can be basically classified into three categories, namely consumption type of VAT, income type VAT and production type of VAT. The difference among such types of VAT depends upon the treatment of capital goods purchased from other firms and the treatment of depreciation for the purpose of the tax base (value added).

2.2.2.1. Consumption Type of VAT

If all capital goods (investments) brought from other firms are excluded from the tax base (value added) in the year of purchase, but the depreciation is included in the tax base, it is known as consumption type of VAT. It can be expressed in the following equation:

Value-added = Wages + Interest + Rents + Depreciation + Profit - Capital goods purchased from outside (in the year of purchase). The above equation clearly shows that the tax base is consumed because investments are free from taxation. Under this type of VAT, investments are encouraged because it excluded from the tax base. Similarly, imports are taxed whereas exports are relieved from tax. Thus, the tax base for the nation under this type is equal to the domestic consumption.

2.2.2.2. Income Type of VAT

Under the income type VAT, capital goods purchased from outside suppliers are included in the tax base in the year of purchase but depreciation is excluded from the tax base. The following equation is presented to make clear ideas about the tax base under it.

Value added = wages + interests + profits + capital goods purchased from outside (in the years purchase) or

Value added (tax base) = sales - purchase (excluding purchase of capital goods from outside in the year of purchase) - depreciation.

The above equation clearly shows that the value added is equal to the consumption plus net investment. It means the tax base for the nation is the net national income that comprises the consumption and then net investment of all firms within the country.

2.2.2.3. Production Type of VAT

The production type VAT includes capital goods purchase from another firm in the tax base in the year of purchase and also includes depreciation in the tax base. It can be expressed in the following equation.

Value added = wages + interests + rents + depreciation + profits + capital goods purchased from outside (in the year of purchase). Or,

Value added (tax base) = sales – purchase (excluding purchase of capital goods from outside in the year of purchase). The above mentioned equation obviously shows that the tax is imposed both on consumption and gross investment.

2.2.3. VAT Administrative Policy and Practices in Ethiopia

Ethiopia has undertaken a comprehensive tax reform in the past couple of decades with the major aim of creating modern tax system, broadening the tax base, redistributing income and support economic efficiency. Value added tax was introduced in January 2003 as a result of this reform effort with the objective of replacing the weak sales tax. Both the policy and administration of VAT was designed to maximize revenue generation more than the sales tax. Tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax policy. The activities involved in the tax administration include: identifying and registering the taxpayer, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Tasks such as determining who would be administering the tax, what organizational setup to use and what resources are available are peripherally fall under the responsibility of VAT administration (Yesegat 2008, p. 146).

Goods and services are commonly charged with VAT aiming to collect as much funds in the state budget as possible. The VAT administration is not complex and relatively cheap.

VAT is a key element of the tax system, which is a significant and important source of revenue in many states. According to the VAT scheme, the added value is created in each phase of the manufacturing process, so that each phase brings revenue to the state budget (Bendikiene, Saparnis, 2006). VAT is administered by the EFIRA, ERCA and the Regional Government's Finance Bureau. The ERCA administers VAT on imports into the country. The EFIRA with its VAT department, large taxpayers' office and branch offices (Addis Ababa branch and regional branch offices) administers federal and joint VAT on domestic transactions, while the regional governments' finance bureaus administer their own VAT revenues (Wollela and Yesegat, 2008).

The design and administration of VAT at Ethiopia present how the tax authorities perform their responsibilities with respect to the major VAT administration tasks including taxpayer identification and registration; VAT filing and payment; control of VAT filing and payment; VAT invoicing, VAT auditing; penalties and VAT refunds.

2.2.3.1. Taxpayer identification & registration

The VAT legislation requires businesses undertaking taxable activities in Ethiopia with an annual turnover of ETB 500,000 and more to register for VAT. After the VAT was operational with such a registration requirement, the authority devised forced-registration schemes. These schemes include selective registration requirements that compel all businesses engaged in a specific sector/form of ownership to register for VAT regardless of the level their annual turnover.

VAT Taxpayer registration

The initiation function of VAT administration is to identify and register those who are obliged to collect VAT. According to ERCA the VAT registration program was commenced in august 2002.

There is a VAT invoice prepared by the ERCA containing the following information:

- ✓ Full name of the registered person and the purchaser, and the registered;
- ✓ Person's trade name, if different from the legal name;
- ✓ Taxpayer Identification Number (TIN) of the registered person and the purchaser;

- ✓ Number and date of the VAT registration certificate;
- ✓ Name of the goods shipped or services rendered
- ✓ Amount of the taxable transaction;
- ✓ Amount of the excise on excisable goods;
- ✓ Sum of the VAT due on the given taxable transaction;
- ✓ Issue date of the VAT invoice, and
- ✓ Serial number of the VAT invoice

The registered person is required to issue the VAT invoice to the purchaser of goods or services upon the supply or rendering, but not later than 5 days after the transaction. There are two ways of registration stated in the VAT proclamation no. 285/2002. These are obligatory and voluntary registrations (Taxation in Ethiopia, 2005). In obligatory registration any person whose annual taxable income is expected to be more than 500,000 Birr to be registered for VAT and registering all companies having legal entities for VAT without any prerequisite at the current condition. Voluntary registration is made by a person who carried on taxable activities and is not required to be registered for VAT, may voluntarily apply to the authority for such registration, if he/she regularly is supplying or rendering at least 75 percent of his goods and services to registered persons. In the voluntary registration input VAT can be recovered if a person is registered. It will therefore be beneficial to voluntarily register where the person makes mainly zero-rated supplies. In such a case, input VAT will be recovered, and no VAT will be charged on zero-rated outputs

2.2.3.2. VAT filing and payment

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, (FDRE VAT Proclamation No.285/2002, Art.26).

2.2.3.3. VAT invoicing

VAT invoice is the central feature of VAT accounting. Under Ethiopian VAT law, the registered person is required to issue a VAT invoice to the purchaser of goods and services upon the supply or rendering, but not later than 5 days after the transaction. A person who is not registered for VAT doesn't have the right to issue a tax invoice. It should be noted that only, the VAT registered person has to issue a VAT invoice if the total consideration for the entire supply does exceed Ethiopian Birr 10 (FDRE VAT Proclamation No.285/2002).

However, if this is to work, all actors in the system should comply as per the law. Apart from this view, the VAT invoicing practice is serving much below than the expectation. In Ethiopia the problem is two sided. On the one hand the suppliers tend to use any opportunity to avoid the issuance of VAT invoice which may include negotiation with the purchaser. On the other hand, most of the purchasers, perhaps all citizens, unless they need it as evidence for claiming VAT refund or some other reason, such as for accounts settlement with their organizations (employers); no one as civilized citizen worries about demanding invoices. The other problem with VAT invoices is the use of fake or duplicated invoices. VAT, sales invoices are printed by each taxpayer with the provision of standard format and permission by the tax authority. However, there are no criteria or procedure issued to select printing presses (firms) and it is up to the taxpayer to select and negotiate with the printing firm nearby. This gives rise to the printing of fake and duplicated invoices.

These issues are further evidenced by the study conducted by the Yesegat stated "these problems include the difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices (by giving the option of buying with or without invoices to customers) and using duplicated invoices" (Yesegat 2008 pp 153).

2.2.3.4. VAT Auditing

Tax audit is one of the most important tools for treating compliance risk by tax administrators. However, it is also considered to be one of the capacity challenges to many administrations. As the Indian Government Revenue Department of revenue (2006) study indicates, "It has generally been observed that audit is most often the weakest component of VAT administration, early in the implementation phase.

For audit to be efficient and effective, it should be supplemented by sound risk management /selectivity practices. The lack of sound risk management practice is one of the most contributing factors for the insignificant impact of audit on VAT compliance efforts. In other words, audit efforts are considered to be only a futile attempt in some instances, which result in less benefit than its cost.

2.2.3.5. VAT Refunds

In Ethiopia the standard VAT rate is 15 percent. VAT refund is defined by various authorities and professionals in various ways. Commonly, Refund claims arise when a VAT registered entity pays more VAT on procurements than it collects on sales. This is referred to as a "net credit" position

As of the official proclamation, VAT refund is practical if at least 25 percent of the value of a registered person's taxable transaction for the accounting period is taxed at a zero rate. The Authority refunds the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period within a period of two months after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amounts.

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

person is entitled to a refund is not paid by the Authority that is satisfied with in two months whichever is applicable, the Authority pays the person entitled to the refund, interest set at 25 percent over and above the highest commercial lending interest rate that prevailed during the preceding quarter, (Proc. No.285/2002, Art. 27).

2.2.3.6. Seizure of Property to Collect VAT

A person who has liability to pay VAT imposed by the law has to pay properly. However, this may not be implemented as per expected. During this Authority is lawful to collect the tax by seizing property equivalent to tax and the administrative cost of managing seizure of property, as per the proclamation. Seizure extends only to property possessed and an obligation existing at the time the seizure is made. Whenever the seized properties are sold, the procedure to be followed is with public auction or any other approved method by the Authority after ten days of the seizure. However, for perishable goods the authority decides the appropriate time to sell.

When properties are insufficient to cover tax liability, the Authority may proceed to seize other properties liable to seizure of the person against whom the claim exists until the amount due from such person together with the expenses, is fully paid. The person, whose property to the seized should be notified before 30 days of seizure. However, if the Authority makes a finding that the collection of the tax is in jeopardy, it does not necessarily to keep 30 day period.

2.2.3.7. VAT Appeal Administration

This procedure enables taxpayers to reveal their grievances. They are allowed providing what they are not satisfied in receiving VAT administration service. Here, the power and duties of Authority with individual professionals stated explicitly. On the other side, customers right to forward their complaints in order to get satisfaction. In relation to appeal procedure activities like reviewing, wave ring, appealing and burden of proof is being practiced.

Member of the review committee is appointed by Authority at each level of administration upon the recommendation of the head of the authority. The Review Committee waives administrative penalties as per the law. Any person who objects to an

additional assessment made by the Authority has the right to appeal within 30 days from the receipt of that assessment notification or from the date of the decisions of the Review Committee to the Tax Appeal commission by depositing in cash with the Authority an amount equal to 50 percent of the additional tax assessed. If a person appeals in accordance with mentioned above and the Tax Appeal Commission determines that the person is liable for the additional assessment, the person is in default unless he pays within thirty 30 days of the decision of the Commission. Otherwise, no appeal is made within the period prescribed, the Additional assessment of the tax made by the Authority is deemed correct, final, and immediately payable. The burden of proving that an assessment is excessive or that the decision of the Authority is wrong is on the person objecting to the assessment or decision, (Proc.No.285/2002, Art. 42- 44).

2.2.4. VAT Criminal Offenses

There are various agencies with very stiff penalties under the VAT system. Some of the agencies are Failure to register, Failure to provide required information, making false claims, Obstructing VAT inspectors, Failure to submit returns and Connivance of tax officials with VAT payers.

This part of Value Added Tax criminal offense is penalized and processed in ordinary court in addition to administrative punishment which is undertaken not by the court but through executive. A tax office is a violation of the criminal law of Ethiopian and is charged, prosecuted, and appealed in accordance with Ethiopian criminal procedure law (Proclamation No.285/2002, Art.48).

2.2.4.1. Taxpayer of VAT evasion

Tax evasion in general refers to illegal practices to escape from taxation. To this end, taxable income, profits liable to tax or other taxable activities are concealed, the amount and/or the source of income are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated. Tax evasion can occur as an isolated incident within activities that are – in other aspects – legal. Tax evasion occurs in the informal economy where the whole activity takes place in an informal

manner – this means the business is not only evading tax payments but is also not registered as formal enterprise at all.

A person who evades the declaration or payment of tax, or a person who, with the intention to defraud the government; applies for a refund that is not entitled to commit an offense. So, if a person does this may be prosecuted and on conviction, be subject to a term of imprisonment of not less than five years, (Proclamation No.285/2002, Art.49).

2.2.4.2. Making False or Misleading Statements

During VAT activities, a person makes or misleads statements by making a statement to a tax officer of the Authority. Where the statement or omission is made without reasonable excuse, and if the inaccuracy of the statement were undetected may result in an underpayment of tax by an amount not exceeding 1,000 Birr, to a fine of not less than 10,000 Birr and not more than 20,000 Birr. In addition, imprisonment for a term is not less than one year and not more than three years. If the underpayment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 20,000 Birr and not more than 100,000 Birr and imprisonment for a term of not less than three years and not more than five years. Where the statement or omission is made knowingly or recklessly:

- a. If the inaccuracy of the statement were undetected may result in an underpayment of tax by an amount not exceeding 1,000 Birr, to a fine of not less than 50,000 Birr and not more than 100,000 per. On the other hand, imprisonment for a term of not less than five years and not more than ten years.
- b. If the underpayment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 75,000 Birr and not more than 200,000 Birr, or imprisonment for a term of not less than ten years and not more than fifteen years, (Proclamation No.285/2002, Art.50).

2.2.4.3. Obstruction of Administration

1. A person who, obstructs or attempts to obstruct an officer of the Authority in the performance of duties under this Proclamation, or otherwise impedes or attempts to impede the administration, of the Proclamation commits an offense and is liable on

conviction to a fine of not less than 1,000 Birr and not more than 100,000 Birr, and imprisonment for a term of two years;

2. For purposes of number (1), the following and similar other actions is considered to constitute obstruction: refusal to satisfy a request of the Authority for inspection of documents/ reports, or other information related to a taxpayer's income producing activities; noncompliance with an Authority request to report for an interview; Interference with a taxation officer's right to enter the taxpayer's business premises, (Proclamation No.285/2002, Art.51).

2.2.4.4. Failure to Notify

A person who fails to notify the Authority of a change considered commits an offense and is liable on conviction: Where the failure was made knowingly or recklessly, to a fine of not less than 10,000 Birr and to imprisonment for one year; or In any other case, to a fine of not less than 5,000 Birr and to imprisonment for six months, (Proclamation No.285/2002, Art.52).

2.2.4.5. Offenses by Tax Officer

1. Any tax officer or former taxation officer employed in carrying out the provisions of VAT Proclamation who,
 - a. Directly or indirectly asks for, or receives in connection with any of the taxation officer's duties, a payment or reward, whether pecuniary or otherwise, or promise or security for that payment or reward, not being a payment or reward which the officer is lawfully entitled to receive, or
 - b. Enters into or acquiesces in an agreement to do or to abstain from doing, permit, conceal, or connive at any act or thing whereby the tax revenue is or may be degraded or which is contrary to the provisions of this Proclamation or to the proper execution of the taxation officer's duty, commits an offense and is liable on conviction to a fine not less than 50,000 Birr and to imprisonment for a term of not less than ten years and not more than twenty years.

2. A tax officer or former tax officer employed in carrying out the provisions of this Proclamation, except such information is required by the Commercial Code of Ethiopia to be published in the Trade Gazette, who,
 - a. Discloses to any person or that person's representative, any matter in respect of another person, that may, in the exercise of the taxing officer's powers of the performance of the taxation officer's duties under the said provisions, come to the taxation officer's knowledge; or
 - b. Permits any other person to have access to records in the possession or custody of the Authority, except in the exercise of the taxing officer's powers or the performance of the officer's duties under this Proclamation or by order of a court; commits an offense and is liable on conviction to a fine of not less than 10,000 Birr and to imprisonment for a term of not less than two years and not more than five years.
3. Nothing in VAT proclamation prevents a taxation officer from disclosing
 - a. Any document or information to:
 - i. Any person where the disclosure is necessary for the purposes of this Proclamation or any other physical law;
 - ii. The Auditor-General where the disclosure is necessary for the performance of the duties entrusted to it by law.
 - iii. The competent authority of the government of another country with which Ethiopia has entered into an agreement for the avoidance of double taxation or for the exchange of information, to the extent permitted under the agreement;
 - b. The Ethics and Anti-Corruption Commission, where the disclosure is necessary for the performance of the duties entrusted to it by law.
 - c. Law enforcement agency not described above where the Minister of Revenue issues written authorization to make disclosures necessary for the enforcement of the laws under the agency's authority; or Information, which does not identify a specific person to any person in the service of the State in revenue, or statistical department where such disclosure is necessary for the performance of the person's official duties, (proclamation No.285/2002, Art.53).

2.2.4.6. Unauthorized VAT Collection

Any person not authorized to collect tax under VAT Proclamation who collects or attempts to collect taxes (or an amount the person described as a tax) commits an offense and, is liable on conviction to a fine of not less than 50,000 Birr and to imprisonment for a term of not less than five years and not more than ten years, (Proclamation No.285/2002, Art.54).

2.2.4.7. Aiding or Abetting

A person, who aids, abets, incites, or conspires with another person to commit a violation of this Proclamation, also commits a violation of this proclamation. That person may be subject to prosecution and, on conviction, to a fine and imprisonment, not in excess of the amount of fine or period of imprisonment provided for the offense aided or abetted, (proclamation No.285/2002, Art. 55).

2.2.4.8. Offenses by Entities

1. Where an entity commits an offense, every person who is a manager of that entity at that time is treated as having committed the offense and is liable to a penalty.
2. Where an entity commits an offense by failing to pay an amount of tax, including an amount treated by VAT Proclamation as though it were taxed, every person who was manager of that entity at that time or was a manager within six months prior to the date of commission is jointly and severally liable with that entity and that other person to the Authority for the amount.
3. Number (1) and (2) does not apply where,
 - a. The offense is committed without that person's knowledge or consent; and
 - b. That person has exercised the degree of care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances to prevent the commission of the offense, (Proclamation No.285/2002, Art.56).

2.2.4.9. Improper Tax Debit and Tax Credit Notes

A registered person, who fails to provide a tax credit note or a tax debit note as required by VAT Proclamation commits an offense and is liable on conviction, to a fine of 10,000 Birr and to imprisonment for one year. A person who provides a tax credit note or tax debit notes otherwise than as provided for in this Proclamation commits an offense and is liable on conviction,

- a. Where the failure was made knowingly or recklessly, to a fine of 20,000 Birr to imprisonment for three years; or
- b. In any other case, to a fine of 10,000 Birr and to imprisonment for one year, (Proclamation No.285/2002, Art.58)

2.2.4.10. Publication of Names

The Authority publishes by notice in the Gazette a list of persons who have been convicted of criminal offenses. Every list published in terms of convicting of criminal offenses specifies:

- a. The name, address, and principal enterprise of the person;
- b. Such particulars of the offense as the Authority may think fit;
- c. The tax period or tax periods in which the offense occurred;
- d. The amount or estimated amount of the tax evaded; and
- e. The amount, if any, of the additional tax imposed, (Proclamation No. 285/2002, Art.59).

2.2.4.11. Consequences of De-registration

The following are the legal consequences of the cancellation of VAT registration:

From the date the registered is cancelled, the person (supplier) cannot charge (collect) VAT and cannot issue tax invoices for any supplies made. In other words, the person cannot make taxable transactions. After the VAT registration is cancelled, the person cannot claim a refund of VAT paid on any goods or services purchased.

2.2.5. VAT Compliances

VAT compliance can be described as the degree to which a taxpayer obliges to VAT rules and regulations. James and Alley (2004) indicated that the meaning of the tax compliance concept can be given from different perspectives, but they define tax compliance as “the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity”.

According to surveys done by Yesegat (2008, p. 151) on compliance revealed, the prevalence of VAT unregistered businesses is very high and resulted in uneven market competition, loss of profit by registered businesses. So the compliance for VAT registration is still a big problem in Ethiopia. Non - compliance is a result of factors such as lack of awareness, deep rooted tax evasion or fraud practices, and policy and administration defects. Yesegat (2008, p. 154) Tax compliance in Ethiopia in general and VAT compliance in particular is at its lowest level due to lack of efficient and effective administration though there are sluggish improvements. The ultimate objective of the tax administration should be effective implementation of the VAT law and maximizing collection of legislated revenue with increased compliance. This can never be possible without putting in place a system which reward the compliers and penalize the non-compliers. Strict penalties on those who violate the law would have a preventive effect to encourage compliance. The Ethiopian VAT law promulgated penalties ranging from financial fines to imprisonment on those who don't comply with the particular regulations. This is the strong part of the regulation without being made effect by the administration, though implementation of the penalty law started only recently in its strict sense. This actually requires putting in place efficient and effective risk-based revenue administration which would enable to identify the high and low risk taxpayer with a proper management of their profiles. Lack of such properly functioning system is also one of the weaknesses in the Ethiopian VAT administration.

According to Lemessa (2005), when compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risk associated with non-compliance by

developing strategies targeted at those risks. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on VAT administration and compliance. Lemessa (2005) also adds that a major responsibility is to ensure that all taxpayers dealt with by a given official are accorded similar treatment and that all officials dealing with a given taxpayer would accord the same treatment. The tax system (Eckstein, 1979) must also be fair, both to promote the objective of an equitable distribution of income and to assure continued voluntary compliance by VAT taxpayers.

Tax noncompliance can be intentional (deliberate) or unintentional. Intentional noncompliance occurs when taxpayers consciously decide on not to meet the requirements of the relevant tax regime. McKerchar (2002) cited in Wollela (2008) explained deliberate noncompliance could include tax evasion, which in turn would include all people or entities operating within the hidden economy, taxpayers that deliberately understate their income; over claim deductions, rebate or credits; take an aggressive stance in their tax affairs that cannot reasonably be supported; or do not keep the required records. In this case intentional noncompliance leads to under-compliance with the concomitant financial benefits (mainly reduction in tax liability) accruing to the noncompliant taxpayer.

Deliberate noncompliance may also aim at reducing, apart from the tax liability, the efficiency and compliance costs to taxpayers. In this case, deliberate noncompliance may be observed in a variety of ways including those arising from a taxpayer's intentional failure of claiming deductions, credits, hiding income involving complex treatment. These measures may result in overstatement or understatement of the tax liability. Further, these deliberate actions by taxpayers may be motivated by such factors as the difficulty of dealing with a complex tax system, and the amount of time and effort needed to comply with the requirements of the tax system (Wollela, 2008).

On the other hand, unintentional noncompliance emerges when taxpayers fail to fulfill the requirements of any aspect of the tax system without any deliberate action. Unintentional noncompliance may result in either overstatement or understatement of the tax liability. Unintentional noncompliance is not necessarily motivated by financial

benefits to the noncompliant taxpayer. Unintentional understatement or overstatement of tax liability may arise because of, among others, lack of knowledge and failure to pay due care in the maintenance of book of accounts and the preparation of returns.

2.2.6. Mode of payment

The introduction of the Electronic Tax Registers and Electronic Signature Devices offer unique benefits to traders and the Revenue Authority alike by recording transaction data that it cannot be deleted (Lumumba Omweri Martin et.al, 2010).

Ethiopia improves tax collection methods to increase government revenue and decrease evasion. The current information communication technologies are now modernizing tax collections. The Ethiopia Revenue and Custom Authority (ERCA) adopted the Electronic Tax Register (ETRs) Automated system for Customers data management. The use of sales register machine in Ethiopia across the country keeps on increasing. The tax payers who use the machine can quickly process their customer's transactions and accurately keeps records. ERCA also obtains information regarding total sales and this would enable the authority to levy tax based on information (ERCA, 2013).

The modernization of the tax collection system using ETRs is expected to assist traders in such ways as to save their time in perusing of records and reduction in tax preparation costs that used to be paid to tax agencies. Tax refund claims can also be easily handled and as result reduces costs of businesses (IMF, 2005).

The introduction of ETRs machine has assisted in cutting costs that the business used to incur and ease work in processing VAT; ETR machine have really helped increase profits due to their efficient nature. ETRs machine reduce the tax- reporting burden on businesses while improving the efficiency and effectiveness of government operations, provides timely accurate tax information to business and also increase the availability of electronic tax filing (Hamdu and Zinash, 2014).

The Standard Integrated Government Tax Administration System (SIGTAS) is an integrated information system that enables governments to automate the administration of taxes and licenses. This software is designed to meet the needs of developing countries

who wish to increase their control over state revenue by equipping themselves with computerized systems. Since 1996, SIGTAS has been implemented in 20 countries located in Africa, the Caribbean, the Middle East, Eastern Europe and Asia (Hailemariam, 2011).

SIGTAS was designed to adapt to the changes affecting the country's tax policy. Accordingly, declaration forms, penalty rates and interest can be modified without programming. Thanks to its integrated nature, SIGTAS is able to manage every facet of the tax management process including

- ✓ Taxpayer registration;
- ✓ Handling of tax declaration forms;
- ✓ Assessments (including payments and withholdings);
- ✓ Collections case management and objection case management;
- ✓ Cashing, penalties and calculation of interest and penalties;
- ✓ Audit (case tracking and follow-up).

The software also provides for documentation management, objections (appeals) and payment agreements handling. In addition, SIGTAS offers the possibility of developing interfaces to share data with external systems such as customs, government financial software or other government divisions. SIGTAS can operate in three languages simultaneously, which makes it possible for tax agents to perform operations in the language of their choice and facilitate correspondence with taxpayers.

In modern tax administration, computerizing the tax collection procedure satisfies the taxpayer's requirements in the best possible manner. Change the administration in computerizing way satisfies two possible requirements. On one hand, it makes the work effective and efficient, and on the other hand, to the taxpayer requirements, fairness and justice and rehabilitates the management of the authority.

However, the Federal Inland Revenue Authority (FIRA), now existing as Ethiopian Revenue and Customs Authority (ERCA), announces from 24 February 2004 the

development of new software enabling to carry out the duty of the collection of Value Added Tax through computer systems named, Standard Integrated Government Tax Administration System (SIGTAS) (Hailemariam, 2011).

2.3. Empirical Review

In principle, VAT is collected from consumption of goods and services. So, the maximum potential that can be collected from consumption expenditure is VAT rate multiplied by consumption expenditure of a particular year.

After the introduction of VAT, VAT revenue collection has shown growing trends as compared with the replaced sales tax. The impact of VAT on government tax revenue is also shown in the structure of tax. The contribution of VAT on domestic goods and services as well as foreign trade shows a substantial increase though the domestic source is by far lower than that of foreign trade. This might be associated with administrative difficulty to collect the tax from the domestic economy and the existence of illegal practices on VAT. VAT collection from imported goods is easy since it is collected at entry point (Hailemariam, 2011).

2.3.1. Administrative policy and practice

According to Hailemariam (2011), the Problems that are observed during the implementation of VAT related with external and internal factors.

The external problem associated with the illegal practices of the taxpayers. Even though intensive education program has been undergoing by the tax administration, the following illegal practices are observed:

- Some VAT payer enterprises have collected the tax with illegal invoice and retain the tax for themselves,
- Some eligible business entities have not yet registered for VAT,
- Some VAT registered business enterprises offers customers an opinion to pay or not to pay VAT,
- Some did not declare the tax they collected as per the law, and etc.

The weakness of tax administration highly attributed to the above illegal practices. The VAT administration is weak in the area of auditing, follow-up and enforcement though the VAT department of ERCA has computerized its tax system (Demirew, 2004).

Tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax policy. The activities involved in the tax administration include: identifying and registering the taxpayer, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Tasks such as determining who would be administering the tax, what organizational setup to use and what resources are available are peripherally fall under the responsibility of VAT administration (Yesegat, 2008).

2.3.2. Compliance of VAT

According to James et al (2003), compliance of tax consists three distinct types: payment compliance, filing compliance and reporting compliance.

According to surveys done by Yesegat (2008), on compliance revealed, the prevalence of VAT unregistered businesses is very high and resulted in uneven market competition, loss of profit by registered businesses which should be reduce sales business firms.

Tax compliance in Ethiopia in general and VAT compliance in particular is at its lowest level due to lack of efficient and effective administration though there are sluggish improvements. The recent IMF (2009, p. 1) study on revenue administration reform supports this idea in its findings: "persistent compliance management inefficiencies, an ineffective headquarters function, comparatively low staff skills and capacity, and unexploited data and performance management systems in ERCA".

According to Lemessa (2005), when compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risk associated with non-compliance by developing strategies targeted at those risks. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on VAT administration

and compliance. To encourage compliance it is equally important that tax authorities administer the law fairly (Lemessa, 2005).

2.3.3. Mode of payment of VAT

Timely filling VAT returns was attributed to the adoption of the ETR machine. The use of ETR machine has led to improved sales audit for VAT registered business. This is an indication of that indeed the use of ETRs machine has improved sales audit on top of timely filling of monthly VAT returns. The frequency of sales auditing has reduced to daily giving prompted sales patterns and feedbacks (Lumumba O. M. et.al, 2010).

The introduction of ETRs machine has assisted in cutting costs that the business used to incur and ease work in processing VAT; ETR machine have really helped increase profits due to their efficient nature. ETRs machine reduce the tax- reporting burden on businesses while improving the efficiency and effectiveness of government operations, provides timely accurate tax information to business and also increase the availability of electronic tax filing (Hamdu and Zinash, 2014). According to Hamdu and Zinash;

- The use of ETRs has significantly improved the collection of VAT and has increased government income.
- ETRs helps the business firms to prepare and file their VAT returns in good time to beat the ERCA deadlines without the involvement of tax agent's services in filling tax returns and also the machines help most businesses to file their returns on their own and it minimize the payments to the tax agents to prepare the monthly VAT returns.

2.3.4. VAT criminal offences

There are various agencies with very stiff penalties under the VAT system. Some of the agencies are failure to register, failure to provide required information, making false claims, obstructing VAT inspectors, failure to submit returns and connivance of tax officials with VAT payers.

2.3.4.1. Taxpayer of VAT evasion

Tax evasion in general refers to illegal practices to escape from taxation. To this end, taxable income, profits liable to tax or other taxable activities are concealed, the amount and/or the source of income are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated.

McKerchar (2002) cited in Wollela (2008) explained deliberate noncompliance could include tax evasion, which in turn would include all people or entities operating within the hidden economy, taxpayers that deliberately understate their income; over claim deductions, rebate or credits; take an aggressive stance in their tax affairs that cannot reasonably be supported; or do not keep the required records.

There are various reasons for tax evasion. In order to develop methods and instruments for fighting tax evasion and avoidance, it is important to foremost establish a broad understanding of the different reasons underlying these problems. These reasons can be filed in two categories. The first category comprises factors that negatively affect taxpayers' compliance with tax legislation. These factors can be subsumed either contributing to a low willingness to pay taxes (low tax morale) or to high compliance costs with tax laws. The second category contains reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities (Wollela, 2008).

However, their studies were more focused on these factors affecting VAT; they did not depict out their impact on revenue of VAT payers.

An economic development of a country can be convinced by an effective and efficient administration and collection of taxes particularly VAT. This is because, when the implementation and administration of the tax system is effective, the government's revenue that helps to fulfill the socioeconomic needs of the society will be improved. Therefore, to collect sufficient revenues from VAT registered taxpayers; there must be proper implementation of VAT on every VAT registered business firms; the factors that hold back the collection of VAT revenue should have to be identified and also the impacts of these factors on sales of VAT registered taxpayers should have to be specifically identified and solved. Hence, the main concern of this study attempts to

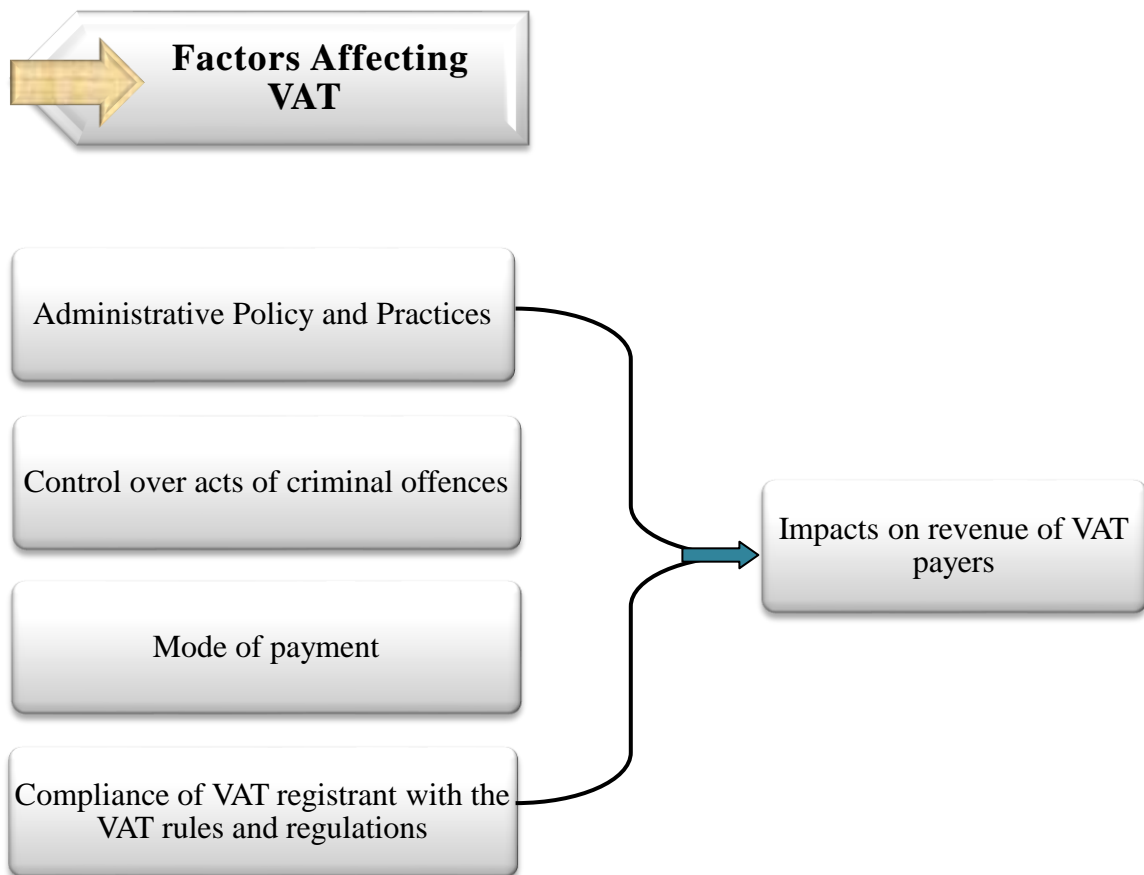
assess the levels of the factors that influence VAT and their impacts on sales of VAT registered business firms.

2.4. Conceptual Framework

The study is attempted to investigate whether the VAT is affected by both internal & external factors. VAT is influenced by both internal factor and external factors which have impacts in turn on sales of VAT registered business firms. This study propose that the sales of VAT registered business firms is influenced by VAT administrative policy and Practices, VAT criminal offences, mode of payment of VAT and compliance of VAT registered business firms with the VAT rules and regulations and their relation is presented as follows

Independent Variables

Dependent Variables



Source: developed for this research, 2017

Figure 2 Conceptual frameworks of factors affecting VAT and their impacts on sales of VAT payers

The study was containing both dependent and independent variables. The dependent variable is impacts on sales of VAT registered taxpayers; while independent variables are the factors that affecting the VAT such as administrative policy and Practices, Control over VAT criminal offences, mode of payment of VAT and compliance of VAT registrant with the VAT rules and regulations that influence the VAT and brings impact on sales of VAT registered taxpayers.

VAT administrative Policy and Practices: The design and administration of VAT which presents how the inland revenue authorities branch of Ambo town perform their responsibilities with respect to the major VAT administration tasks, including VAT taxpayer identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refunds.

Control over VAT criminal offenses: These are agencies with very stiff penalties under the VAT system because of failure to register, failure to provide required information, making false claims, obstructing VAT inspectors, failure to submit returns and Connivance of tax officials with VAT payers.

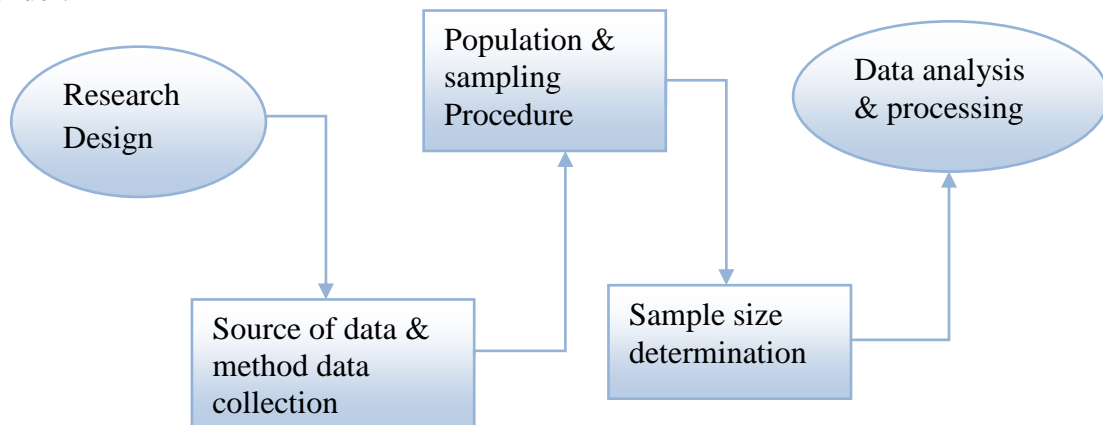
Mode of payment of VAT: automated way of the administration of taxes and licenses particularly VAT.

Compliance of VAT registrant taxpayers with the VAT rules and regulations: it is described as the degree to which a taxpayer obliges to VAT rules and regulations.

CHAPTER THREE

2. RESEARCH DESIGN AND METHODOLOGY

This Chapter presents the methodological concerns used in conducting the research and provides a justification for each step taken. It includes research design, data sources, target population and sampling techniques, methods of data collection, scale of measurement, Methods of Data processing and Analysis and reliability test. Diagrammatically, the outline of the research methodology for this study is narrated as under.



Source: developed for this research, 2017

Figure 3 Outline of research methodology

2.1. Research Design

A research design is a conceptual structure that shows how all the major parts of the research project come together. According to C. R. Kothari (1985), the research design constitutes the blueprint for the collection, measurement and analysis of data. In this study, explanatory and descriptive type of the research was used. In the study a mixed research approach was used which is appropriate when either qualitative or quantitative approach by itself is inadequate to understand the research problem. The reason of using a mixed methods approach is to gather data that could not be obtained by adopting single method (Creswell, 2003). In the qualitative part, the data regarding the objectives were

analyzed thoroughly. These data mainly obtained through interview and review of documents. On the other hand, quantitative data were obtained through questionnaires.

2.2.Data Sources and Data Collection Method

For the proper attainment of the objectives of the study; the researcher was used both primary data and secondary data source. The primary data used was collected through self administered questionnaires and interview. For primary data collection a questionnaire which has two sections such as demographic questionnaire and basic survey (factors affecting VAT and their impacts on sales of VAT registered business firms) questionnaire were distributed to the target respondents. The questionnaire comprises both close ended and open ended questions. Mainly the survey was conducted by distributing questionnaires to both office employees and VAT registered taxpayers in Ambo Town in Revenue Authority branch office operating their business activities. Secondary data source was used to identify the VAT registrant taxpayers from VAT office documents of revenue authority branch of the town. The questionnaire was prepared in English language and later translated into Afan Oromo for the VAT taxpayers and office employee's respondents since it is working language.

2.3. Target Population and Sampling Technique

Sampling design is the plan and technique of selecting the appropriate sample from the population identified. The plan consists of the components identifying the population, sampling frame, sampling unit, sample size and sampling technique (Kothari, 2004). The sample frame for this study had two categories; VAT registered taxpayers and tax officers / employees working in the office of Ambo town revenue authority branch.

The target population of this study comprised of all employees of the office and VAT registered taxpayers, who were 45 and 590 in number respectively as the information gathered from the Revenue Authority branch of the Ambo town. Ambo town was chosen because it was convenient to the researcher and it was also lucrative business town.

In this study, both probability and non- probability sampling techniques were used to select representative samples. From probability sampling technique, Stratified sampling

techniques was used to select respondents of the VAT taxpayers. On the other hand, Purposive sampling was used to select the employees based on knowledge and position of their works or to include the employees directly related to the VAT administration responsibilities and activities. The stratified sampling technique was used on the basis of similarity of items that the taxpayers registered for VAT to form stratum. Accordingly, six type's strata were formed by the researcher. The strata that formed on the basis of similarity of items were;

1. Electronic items trading which are 53 in numbers
2. Hotel, Café and Restaurant service which are 108 in numbers
3. Shops & Boutique for clothes and shoes which are 105 in numbers
4. Contractor, Construction materials provider and consulting service which are 140 in numbers
5. Stationary, Office and House equipment and furniture which are 67 in numbers
6. Others, such as shops of precious metals and jewelry, Garage, training automobile for license, factory, Wood and Metals workshops which are 117 in numbers

Sample Size Determination

In this research to find representative sample size of the study population of VAT taxpayers, the researcher had employed the formula and by slightly adjusts the fraction into significant digit to calculate the actual sample size out of the total as a sample frame. According to Yemane (1967), sample size is computed as follows:

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

Therefore, this formula should be used to calculate the sample size Where,

N - Target population

n - Sample size that represents the total population

e - Level of statistical significance (marginal error).

So, as the estimated population of VAT taxpayers of the Ambo Town of revenue authority branch is 590 and the sample size become

$$n = \frac{N}{1 + N(e^2)} = \frac{590}{1 + 590(.05^2)} = 238$$

Therefore, the sample size used for this study was 238 of VAT registered taxpayers, and 13 employees. The sample size selected here is considered as the representatives for all employees of Inland Revenue authority branch and VAT registered taxpayers of Ambo town. The sample size determined also large enough for precision, confidence and generalisibility of the research findings.

The researcher was selected the sample size from each stratum according to C. R. Kothari, 2004 sample size of the strata is found by multiplying the total sample size with the probability of each strata as follows.

Table 3.1 Bases of Stratification

No.	Items	Multiplying Total Sample Size With the Probability of each Strata (n*P)	Sample size of each strata
1	Electronics trading	238 * (53/590)	22
2	Hotel, Café and Restaurant	238 * (108/590)	44
3	Shops and Boutique	238 * (105/590)	42
4	Construction and Consulting	238 * (140/590)	56
5	Stationary, Office and House equipment	238 * (67/590)	27
6	Others, such as shops of precious metals and jewelry, Garage, training automobile for license, Wood and Metals workshops	238 * (117/590)	47
Total respondents			238

Source: computed survey data, 2017

Purposive sampling was used for the 13 employees, since they are expected as more representative based on knowledge and position of their works or to include the employees directly related to the VAT administration responsibilities and activities for this study.

Scale of Measurement

A self administered questionnaire was used to obtain demographic information of respondents relevant to the study. Participants were asked to furnish information with regard to their age, gender, educational level, job level and their length of service on the present institution.

Basic survey questionnaire of factors affecting VAT and their impacts on sales of VAT registered business firms were provided containing 29 questions which are under four factors affecting VAT (explanatory variables) and one dependent variable (sales of VAT registered business firms). These questions contain both closed ended and open ended questionnaires. Closed ended contains 25 questions which were presented by using a Likert scale. Accordingly, each closed ended statement is rated on a 5 point Likert response scale which includes strongly agree, agree, uncertain, disagree and strongly disagree. The open ended questionnaire is also provided to get the opinion of respondents that cannot be described in closed ended questionnaires.

2.4.Methods of Data processing and Analysis

Method of data processing in this study was manual and computerized system. In the data processing procedure editing, coding, classification and tabulation of the collected data were used. The researcher edited the collected raw data to detect errors, omissions, checking that there is an answer for each question and the questions are answered accurately and uniformly. The process of assigning numerical or other symbols came next which was used by researchers to reduce into a limited number of categories or classes. After this the process of classification or arranging large volume of raw data into classes or groups on the bases of common characteristics was applied. Data having the common characteristics was placed together and in this way the entered data were

divided into a number of groups. Finally, tabulation was used to summarize the raw data and displayed in the compact form (in the form of statistical table) for further analysis.

The data analysis is the further transformation of the processed data to look patterns and relationships between data groups by using descriptive and inferential statistics analysis. The data processing and analysis procedures were undertaken by computer using Microsoft excel (version IBM SPSS Statistics version 20) program.

2.4.1. Descriptive Analysis

The researcher used descriptive analysis to reduce the data into a summary format by:

- Tabulation – the data arranged in the table format.
- Measure of central tendency – minimum and maximum values, mean and standard deviation were used to describe the data obtained from the VAT registrant taxpayers and office employee's respondents.
- Histogram, tables and Charts like pie chart were used to describe the demographic characteristics of respondents.

2.4.2. Inferential Statistics Analysis

According to Sekaran (2000:401), ‘inferential statistical analysis allows researchers to infer from data through analysis the relationship between two variables; differences in a variety among different subgroups; and how several independent variables might explain the variance in a dependent variable.’ The following inferential statistics analysis methods are used in this research.

2.4.2.1. The Pearson Product Moment Correlation Coefficient

The Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationship between two variables when the relationship between two variables is linear and when the variables correlated are continuous.

For the purposes of analyzing whether a statistically significant relationship exists between factors affecting VAT and their impacts on VAT registered business firms, the

Pearson Correlation Coefficient was used. To ascertain whether there is a statistically significant relationship exists between;

- ✓ Administrative policy and practices with its impacts on sales of VAT registered business firms
- ✓ Compliance of VAT registrant taxpayers with the VAT rules and regulations with its Impacts on sales of VAT registered business firms
- ✓ Mode of payment with its Impacts on sales of VAT registered business firms
- ✓ Control over acts of criminal offense with its impacts on sales of VAT registered business firms

According to (Mc Daniel and Gates, as cited by Adam Martin, 2007), correlation Coefficient can range from -1.00 to +1.00. The value of -1.00 presents a perfect negative correlation. While a value of +1.00 presents a perfect positive correlation. A value of 0.00 correlations presents no relationship. The results Correlation Coefficient may be interpreted as follows:

Correlation Coefficient	Interpretation
(-1.00 to -0.8)	High
(-0.8 to -0.6)	Substantial
(-0.6 to -0.4)	Medium
(-0.4 to -0.2)	Low
(-0.2 to 0.2)	Very Low
(0.2 to 0.4)	Low
(0.4 to 0.6)	Medium
(0.6 to 0.8)	Substantial
(0.8 to 1.00)	High

3.1.1.1. Multiple Regression Analysis

Multiple regression analysis takes into account the inter correlations of all variables involved. Sekaran (2000) adds that in multiple regression analysis more than one predictor is jointly regressed against the criterion variable. This method is used to determine if the independent variables would explain the variance in factors affecting VAT and their impacts on sales of VAT registered business firms at the target revenue authority branch.

Description of Variables and Model Specification

Multiple linear regression analysis was used to study the effect of the independent variable on the dependent variable. In this study, the dependent variable was sales of VAT Registered business firms and independent variable is factors affecting VAT. The basic objective of using the regression equation in this study was to make the researcher more effective at describing, understanding, predicting and controlling the stated variables.

↻ Independent Variables

➤ Factors Affecting VAT

- Administrative Policy and Practices (X_1)
- Compliance on the VAT rules and regulations (X_2)
- Mode of payment (X_3)
- Control over acts of Criminal offense (X_4)

↻ Dependent Variables

- Sales of VAT Registered business firms (Y)

Regress sales of VAT registered business firms on the selected factors affecting VAT

The equation of multiple linear regression formula expression is presented as:

$$Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

This study contains both dependent and independent variables. The dependent variable is sales VAT registered taxpayers; while independent variables are VAT administrative

policy and practices, Control over acts of VAT criminal offenses, mode of payment of VAT and compliance of the VAT that influence the VAT and that brings impact on sales of VAT registered taxpayers. These variables were analyzed by using a linear multiple regression model which can be specified as follows:

$$Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Where: β is the intercept term – it gives the mean or average effect of Y of all the variables excluded from the equation, although its mechanical interpretation is the average value of Y when the stated independent variables are set equal to zero.

Y - Dependent variable - Impacts on sales of VAT Registered business firms

$X_1, X_2, X_3,$ and X_4 - the explanatory variables (the regressors)

$\beta_1, \beta_2, \beta_3,$ and β_4 refers to the coefficient of their respective independent variables which measures the change in the mean value of Y, per unit change in their respective independent variables

2.5. Validity and Reliability Test

Validity is the extent to which differences found with a measuring instrument reflect true differences among those being stated. Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure (C.R. Kothari, 2004).

In order to test the validity of data, collection instrument researcher conducted pilot study by distributing 25 questionnaires of factors affecting VAT (explanatory variables) and their impacts on sales of VAT registered business firms with in three offices of inland revenue authority branch of zone, woreda, and town's which found in Ambo town on 15 employees that means 5 employees on each offices. Reliability is the extent to which a variable or set of variables is consistent with what is intended to measure ((C.R. Kothari, 2004). The reliability of data was found a Cronbach's alpha coefficient of 0.772 for sales of VAT registered business firms questionnaire as computed below.

Table 1 Cronbach Alphas' Result of Reliability Test

Factors Affecting VAT	Number of items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
Administrative policy and Practices	7	0.730	0.729
Compliance of VAT	4	0.722	0.721
Mode of payment	4	0.712	0.713
Control over acts of Criminal offense	6	0.753	0.754
Sales of VAT registered business firms	4	0.772	0.772

Source: developed for this research, 2017

As the above table 1, the test results of the Cronbach's alpha values of all the variables was greater than 0.7 and this indicates that the items in each of the domains are well understood by the respondents.

CHAPTER FOUR

3. DATA PRESENTATION, ANALYSIS AND DISCUSSION

3.1. Introduction

This section focuses on interpretation and analysis of data collected from primary and secondary sources through interview and distributed questionnaires to VAT registered taxpayers and employees of Ambo town Inland Revenue authority branch. The type of the research is descriptive study of nature. As clearly indicated in the methodology section the total sample of the study is 238 from VAT taxpayers and 13 from Ambo town revenue authority branch employees.

The data are presented as they have been collected from their respective source, and analysis has been carried out, for each of them. Quantitative questions have been presented and analyzed using Tables, percentages and graphs. Qualitative analyses were used for open - ended questionnaires and interviews conducted at the revenue authority branch of Ambo town with respondents of office employees regarding factors affecting VAT and their impacts on sales VAT registered business firms. The questionnaires were prepared in English language translated into Afan Oromo i.e. the questionnaires and interview has been conducted in Afan Oromo, so as to avoid language barrier. All data are systematically analyzed, presented and discussed under each topic of the main basic research questions.

The survey result indicates that among 238 questionnaires distributed to VAT registered taxpayers, 208 were answered and returned by the taxpayers' respondents and collected, while the remaining questionnaires were not. The total response rate of taxpayers' for the questionnaire was 87.4 percent, and from 13 questionnaires distributed to tax officials, 12 were returned representing 92.3 percent.

3.2.Descriptive Statistics

This section provides quantitative and qualitative analyzed data in the study. Quantitative data analyzed involves demographic data; Levels of impacts of factors affecting VAT on

sales of VAT registered business firms and results of measures of central tendency and dispersion. Whereas, Qualitative data analyzed comprises content analysis of open ended questions.

3.2.1. Demographic Data

The demographic data provides information on the backgrounds of the respondents in the study. Personal details of respondents covered are sex, age, level of education and work experience.

Profile of VAT Registrant Taxpayer Respondents

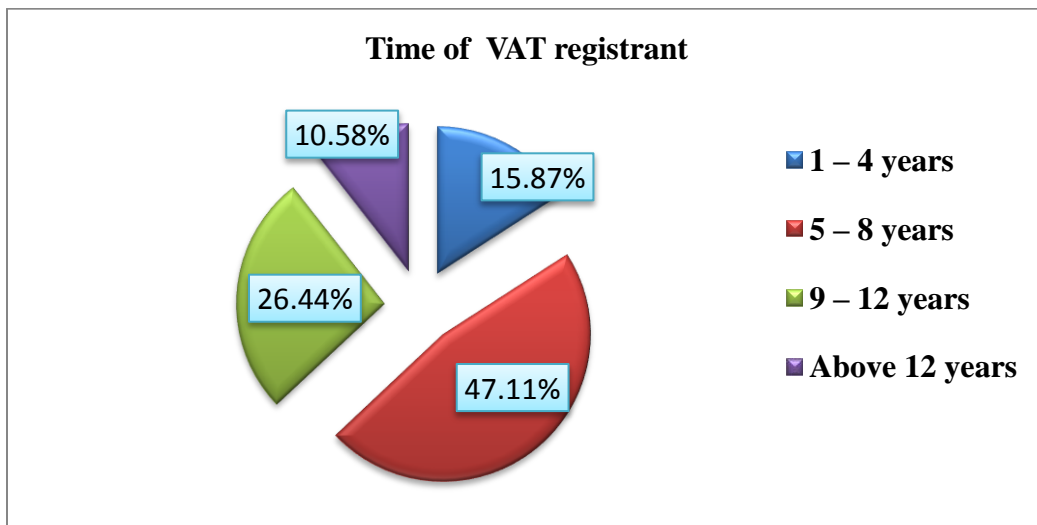
Table 2 Profile of VAT Registrant Taxpayer Respondents

S.N	Variable	Description	Frequency	Percent (%)
1	Sex	Male	134	64.42
		Female	74	35.58
		Total	208	100
2	Age	Less than 30	132	63.46
		30-40	52	25
		41-50	24	11.54
		Above 50	-	-
		Total	208	100
3	Level of Education	Grade 12 and below	35	16.82
		Diploma	99	47.60
		First degree	51	24.52
		Masters and above	23	11.06
		Total	208	100
4	Time of VAT registrant taxpayers	1 – 4 years	33	15.87
		5 – 8 years	98	47.11
		9 – 12 years	55	26.44
		Above 12 years	22	10.58
		Total	208	100

Source: Survey Results, 2017

According to the above table, out of the total respondents, 134 (64.42 percent) are males and 74 (35.58 percent) are females. Hence, most of VAT registered taxpayers are males, and the age distribution shows, 132 (63.46 percent) of respondents were less than age of 30 years, 52 (25 percent) of them were between the age of 30 - 40, and whereas 24 (11.54 percent) of them were between the age of 41 - 50 years. This response implies that 100 percent of the respondents were at the age between 20-50 years. From this the researcher infers that most of the respondents are in the productive age range.

The educational level of the respondents implies, 35 (16.82 percent) are below grade twelve, 99 (47.60 percent) and 51 (24.52 percent) of them had educational attainment of diploma and degree respectively and the left 23 (11.06 percent) is master's degree and above holders. This implies that the majority of the respondents were literate and their response to the questionnaire believed to be supportive of the study.



Source: Survey Results, 2017

Figure 4 Experience of VAT registrant taxpayers respondents

As indicated in the figure above, most of the respondents registered for VAT were in the last in 5 up to 8 years.

Profile of Office Employees' Respondents

The response of tax officials was very important to evaluate the effectiveness of their office in VAT administration and also to understand the thought of taxpayers towards VAT. The respondents of office Employees at Ambo Town revenue authority Branch are 12 out of 45 and it is 26.67 percent. The demographic characteristics of these respondents are summarized in the Tables below.

Table 3 Demographic characteristics of respondents of office employees

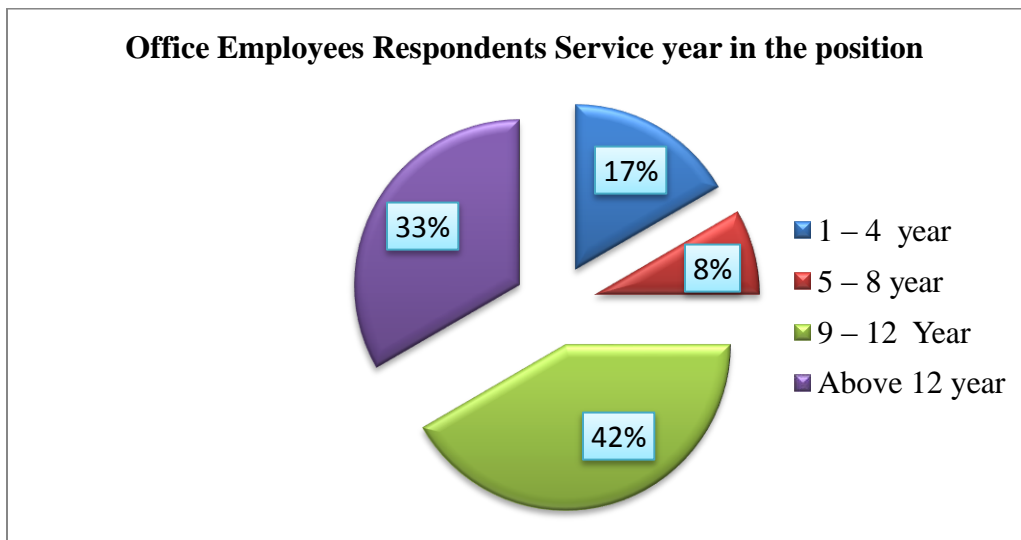
S.N	Variable	Description	Frequency	Percent (%)
1	Sex	Male	8	66.67
		Female	4	33.33
		Total	12	100
2	Age	20-30	6	50
		31-40	4	33.33
		41-50	2	16.67
		Total	12	100
3	Level of Education	Diploma	-	-
		First degree	9	75
		Masters and above	3	25
		Total	12	100
4	Respondents Position	Auditor	3	25
		Tax Collection Officers	3	25
		Tax assessors	3	25
		Tax education	2	16.67
		Revenue Operation	1	8.33
		Coordinator		
	Total	12	100	
5	Respondents Service year in the position	1 – 4 year	2	16.67
		5 – 8 year	1	8.33
		9 – 12 Year	5	41.67
		Above 12 year	4	33.33
		Total	12	100

Source: Survey Results, 2017

As shown in the above table in relation to sex distribution, 8 (66.67 percent) are males and 4 (33.33 percent) are females. This shows most of the respondents of office employees are males.

The age distribution shows 6 (50 percent) of the respondents are between the age 20-30, whereas 4 (33.33 percent) of the tax officials are between the age 31- 40, and 2 (16.67 percent) is between the age 41- 50. This shows that all officials are in the productive age.

In terms of the level of education, 9 (75 percent) of the respondents have a first degree and 3 (25 percent) of the respondents have above the first degree holder. Hence, we can conclude that almost all of the respondent employees educational status is degree and above. This shows that they can adopt any reform and technology. Regarding to their position, they were composed of auditors 3 (25 percent), Tax collection officers 3 (25 percent), Tax assessor 3 (25 percent), Tax education 2 (16.67 percent), and Team leader is 1 (8.33 percent).



Source: computed from survey data, 2017

Figure 5 Experience of office employees respondents

According to Respondents' Service year (experience) in the position, 9 (75 percent) of respondents have more than nine years and 3 (25 percent) of respondents have less than nine years.

3.2.2. Levels of impacts of factors affecting VAT on revenue of VAT payers

This part describes the level of factors affecting VAT and their impacts on revenue of VAT registered business firms of Ambo town. Descriptive statistics were employed to calculate its level and the result of the impacts of factors affecting VAT on revenue of VAT registered business firms is depicted in the tables below.

Administrative policy and Practices

Administrative policy and Practices refers to the design and administration of VAT which presents how the branch authorities of tax perform their responsibilities with respect to the major VAT administration tasks, including VAT taxpayer identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refunds.

Table 4 level of impacts Administrative policy and practices of VAT on revenue of VAT payers

Administrative policy and Practices				
		Frequency	Valid Percent	Cumulative Percent
Valid	Disagree	10	4.6	4.6
	Uncertain	73	33.3	37.9
	Agree	112	51.1	89.0
	Strongly Agree	25	11.0	100.0
Total		220	100.0	

Source: computed from survey data, 2017

As it can be seen in table 4, 137 (62.1 percent) of respondents are agreed with the impacts of administrative policy and practices of VAT on revenue of VAT payers and whereas 10 (4.6 percent) of respondents are disagreeing with the impacts of administrative policy and practices of VAT on revenue of VAT registered business firms of Ambo town.

Compliance of VAT registrant taxpayers with the VAT rules and regulations

Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James and Alley (2004) indicated that the meaning of the tax compliance concept can be given from different perspectives, but they define tax compliance as “the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity”.

Table 5 level of impacts Compliance of VAT registrant taxpayers with the VAT rules and regulations on revenue of VAT payers

Compliance of VAT registrant taxpayers				
		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	1.4	1.4
	Disagree	27	12.3	13.7
	Uncertain	98	44.1	57.8
	Agree	83	38.1	95.9
	Strongly Agree	9	4.1	100.0
Total		220	100.0	

Source: computed from survey data, 2017

The table above depicts the level of the impacts of Compliance of VAT registrant taxpayers with the VAT rules and regulations of VAT on revenue of VAT registered business firms.

Accordingly, 92 (42.2 percent) of respondents are agreed and 30 (13.7 percent) of respondents are disagreeing with the impacts of Compliance of VAT registrant taxpayers with the VAT rules and regulations of VAT on revenue of VAT registered business firms of Ambo town.

Mode of payment of VAT

It relates automated way of the administration of taxes and licenses particularly VAT. Based on the fact the following table shows the level of impacts of mode of payment on revenue of VAT registered business firms in Ambo town.

Table 6 level of impacts of Mode of payment on revenue of VAT payers

		Mode of payment		
		Frequency	Valid Percent	Cumulative Percent
Valid	Disagree	18	8.2	8.2
	Uncertain	85	38.3	46.5
	Agree	90	41.2	87.7
	Strongly Agree	27	12.3	100.0
Total		220	100.0	

Source: Computed from survey data, 2017

As it is indicated in the above table, the majority of respondents were agreed on the impacts of Mode of payment on revenue of VAT registered business firms. Accordingly, 117 (53.5 percent) of respondents are agreed, 18 (8.2 percent) were disagreed and the rest 85 (38.3 percent) of respondents were neither agreed nor disagreed on the impacts of mode of payment on revenue of VAT registered business firms.

Control over acts of Criminal offense

These are agencies with very stiff penalties under the VAT system because of failure to register, failure to provide required information, making false claims, obstructing VAT inspectors, and failure to submit returns.

Table 7 level of impacts of control over acts of criminal offense on revenue of VAT payers

Control over acts of Criminal offense				
		Frequency	Valid Percent	Cumulative Percent
Valid	Disagree	18	8.3	8.3
	Uncertain	83	37.5	45.8
	Agree	91	41.5	87.3
	Strongly Agree	28	12.7	100.0
Total		220	100.0	

Source: computed from survey data, 2017

Therefore, as per the result in table 7, 119 (54.2 percent) of respondents were agreed with the impacts of control over acts of criminal offense on revenue of VAT registered business firms. On the other hand, 18 (8.3 percent) of respondents were disagreed and 83 (37.5 percent) of respondents were neither agreed nor disagreed with the impacts of control over acts of criminal offense on revenue of VAT registered business firms of Ambo town.

3.2.3. Results of Measures of Central Tendency and Dispersion

This part explains the Descriptive Statistics calculated on the basis of variables included in factors affecting VAT and their Impacts on revenue of VAT registered business firms questionnaires. The measures of central tendency and dispersion for factors affecting VAT and their Impacts on revenue of VAT registered business firm results obtained from the sample of respondents of VAT registrant taxpayers and office employees of Ambo town Revenue Authority Branch.

Table 8 Results of factors affecting VAT and their impacts on revenue of VAT payers

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Administrative policy and Practices	220	1.00	4.00	3.9785	.78173
Compliance with the VAT rules and regulations	220	1.00	4.53	3.6008	.71888
Mode of payment	220	1.00	4.00	3.7916	.78542
Control over acts of Criminal offense	220	1.00	4.17	3.9554	.76010
Impacts on revenue VAT payers	220	1.00	4.25	3.8659	.68678
Valid N (listwise)	220				

Source: Developed for this research, 2017

As the table above indicates that the mean for factors affecting VAT such as Administrative policy and practices, Compliance of VAT, Mode of payment and Control over acts of criminal offense were calculated for impacts on revenue of VAT payers. The mean of all explanatory variables in the above table are approaches to four that means respondents are mostly agreed with the relations of dependent and independent variables.

Therefore, it should be concluded from table 8 that respondents are most agreed with the relations that the administrative policy and practices with a mean and standard deviation of 3.9785 and .78123 respectively. This is followed by control over acts of criminal offense with a mean and standard deviation of 3.9554 and .76010, mode of payment with a mean and standard deviation of 3.7916 and .78542 and compliance of VAT registered business firms with the VAT rules and regulations with a mean and standard deviation of 3.6008 and .71888 respectively.

This the above result implies that administrative policy and practices of the VAT has positive impacts on revenue of VAT registered business firms when they perform their responsibilities of identification and registration of taxpayers for VAT, control of VAT filing and payment of VAT taxpayers, VAT invoicing, VAT auditing, penalties and VAT refunds. Controlling activities of criminal offense of the VAT has positive impacts on sales of VAT registered business firms when both VAT payers and employees control VAT evasion and avoidances, fraud off VAT, illegal activities of VAT payers, and unauthorized VAT revenue collection. The use of electronic cash registers machine has positive impacts on sales of VAT registered business firms as it reduces the time taking to prepare VAT returns, increased efficiency in sales audit, assisted in cutting costs that the business used to incur and ease work in processing VAT, and the frequency of sales auditing has reduced to daily giving prompted sales patterns and feedbacks. voluntary compliance of VAT also has positive impacts on sales of VAT registered business firms as fairness and equity, awareness transparency in overall tax system improved among VAT registered business firms and office employees.

3.2.4. Content analysis of open ended questions

The respondents were also given opportunities to indicate their comments on four open ended questions and to give general comment on the VAT system. Accordingly 147 (67 percent) of respondents issued several comments and mainly regarding factors affecting VAT and their impacts sales VAT registered business firms. These comments were categorized and listed below:

Some respondents commented on each selected explanatory variables to indicate the impacts on sales VAT registered business firms. Accordingly, 95 (43 percent) of respondents responded that administrative policy and practices of VAT has impacts on sales of VAT registered business firms as VAT taxpayers and the tax authorities of Ambo town perform their responsibilities properly with respect to the major VAT administration tasks including VAT taxpayer identification and registration; control of VAT filing and payment; VAT auditing; and VAT refunds. Failing to carry out these administration responsibilities by both tax administrator and the VAT taxpayer should brings adverse impact on sales of VAT registered business firms.

From the whole respondents, 86 (39 percent) of respondents also commented that compliance of VAT has positive impacts on sales of VAT registered business firms as voluntarily compliance exist between tax administrator and the VAT taxpayer. However, non-compliance is the result of factors such as lack of awareness; policy and administration defects; lack of fairness and equity and absence of transparency in VAT system which has adverse impacts on sales of VAT registered business firms. These respondents firmly commented that individuals having equal annual income are not registered for VAT and pay VAT and this highly affects the VAT taxpayers motivation to be compliant and remaining compliant.

From total respondents, 106 (48 percent) of respondents were also commented that mode of payment particularly ETRs has significant effect on sales of VAT registered business firms. According to these respondents opinion, ETRs improves sales audit; reduces the frequency of sales auditing; and also ETRs has assisted in cutting costs that the business used to incur and ease work in processing VAT of business firms. In addition to its positive contribution, ETRs also have its own negative impacts on sales of VAT registered business firms in the way of if a mistake occurs at the time of using ETRs, to get correction takes long time and also if error occurs when using the ETRs, to correct the mistake it is considered putting oneself as criminal at the revenue authority branch of Ambo town.

From total respondents, 88 (40 percent) of respondents were also commented that controlling activities of criminal offence has impacts on sales of VAT registered business firms as the tax authorities and VAT taxpayers of Ambo town perform to control the activities of criminal offence such as VAT evasion and fraud, failure to register, failure to provide required information, making false claims, and failure to submit returns.

3.3.Results of inferential statistics

In this section, the results of inferential statistics employed in the study are presented. For the purposes of assessing the objectives of the study, Pearson's Product Moment Correlation Coefficient was computed and multiple regression analysis was also

performed. With the aid of these statistical techniques, conclusions are drawn with regard to the sample and decisions are made.

3.3.1. The Pearson Product Moment Correlation Coefficient

In order to determine whether there are significant relationships between the factors affecting VAT and sales of VAT registrant taxpayers, Pearson's Product Moment Correlation Coefficient was computed.

Accordingly table 9 presents the Correlation between factors affecting VAT and sales of VAT registrant taxpayers for the Ambo town revenue authority branch. The correlation coefficient indicates that there is a positive relationship between factors affecting VAT and sales of VAT registrant taxpayers ranging from moderate to substantial.

Table 9 correlations between factors affecting VAT and sales of VAT payers

Correlations		
Factors Affecting VAT		Impacts on sales of VAT payers
Administrative policy and Practices	Pearson Correlation	.612**
	Sig. (2-tailed)	.000
	N	220
Compliance of VAT registrant taxpayers	Pearson Correlation	.777**
	Sig. (2-tailed)	.000
	N	220
Mode of payment	Pearson Correlation	.315**
	Sig. (2-tailed)	.000
	N	220
Control over acts of criminal offence	Pearson Correlation	.424**
	Sig. (2-tailed)	.000
	N	220

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

Source: developed for this research, 2017

As shown in table 9 the relationship between factors affecting VAT and sales of VAT registrant taxpayers, here the correlation coefficient indicates a positive relationship exists, ranging from moderate to substantial. Substantial/strong relationship exists between Compliance for the VAT, Administrative policy and Practices, and sales of VAT registrant taxpayers .777 and .612 correlation coefficient value respectively, while moderate /average positive relationship exists between control over acts of criminal offence and sales of VAT registrant taxpayers (.424), mode of payment and its sales of VAT registrant taxpayers (.315), on correlation coefficient value of (r =.777, .612, .424, .315, $p < 0.01$) respectively which is statistically significant at 99% confidence level.

3.3.2. Multiple regression

For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, multiple regression analysis was performed. The results of the multiple regression analysis are narrated under.

Regress sales of VAT registrant taxpayers (as the dependent variable) on selected factors affecting VAT (as independent variables) for Ambo town revenue authority branch.

Table 10 effects of factors affecting VAT on sales of VAT registrant taxpayers

Model Summary					
Multiple R	.828				
R Square	.686				
Adjusted R Square	.680				
Std. Error of the Estimate	.38835				
Degree of freedom					
Regression	4				
Residual	215				
F	117.477				
Sign F	.000				
Variables	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	-.116	.127		-.913	.362
Administrative policy and Practices	.236	.047	.235	5.016	.000
Compliance with the VAT	.562	.044	.588	12.729	.000
Mode of payment	.090	.035	.103	2.576	.011
Control over acts Criminal offence	.113	.038	.125	2.942	.004
P < 0.01					

Source: developed for this research, 2017

The coefficient of multiple correlations which is the degree of association between factors affecting VAT and their impacts on sales VAT registered taxpayers, as indicated by multiple R in table 10, is .828. Given the R Square value of .686 and adjusted R Square of .680, the model summary revealed that the proportion of the variation in factors affecting VAT explained by the four predictors jointly is 68.6 percent. The remaining 31.4 percent of the variance is explained by variables not included in this study.

The unstandardized regression coefficients of the bivariate association between the focal independent variables and the dependent variable are explained in the form of the following equation. As shown in table 10 Predicted (impacts on sales of VAT registrant business firms score) = $-.116 + .236$ (Administrative policy and practices) + $.562$ (Cost Compliance VAT registrant taxpayers with the VAT rules and regulations) + $.090$ (Mode of payment) + $.113$ (Control over acts of criminal offenses)

I.e. $Y = - .116 + .236 X_1 + .562X_2 + .090X_3 + .113X_4$.

Table 10 further shows that, F statistics value 117.477 at 4 and 215 degrees of freedom indicates all the explanatory variables – factors affecting VAT included in this study can significantly explain at 99 percent confidence level to the variation in the dependent variable – sales of VAT registrant business firms. The effect of explanatory variables on sales of VAT registered business firm has been presented in their order of importance along with beta value.

- Compliance of VAT registrant taxpayers with a (Beta = .588)
- Administrative policy and Practices with a (Beta = .235)
- Control over acts of criminal offenses with a (Beta = .125) and
- Mode of payment with a (Beta = .103)

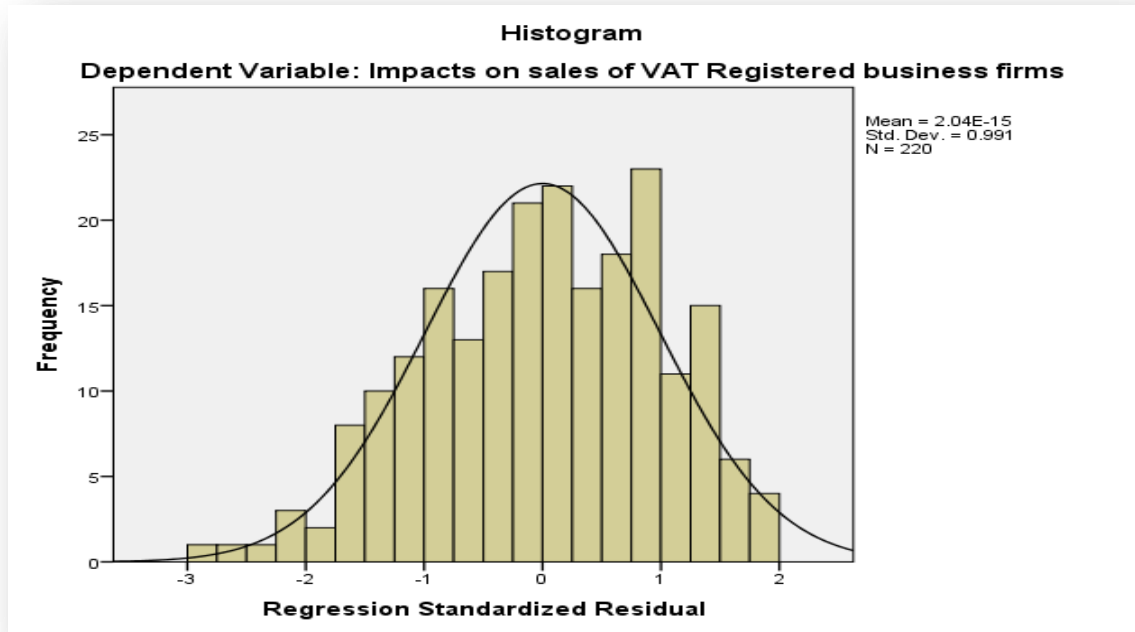
The variable compliance of VAT registrant taxpayers with a Beta value .588 is the best predictor of sales of VAT registrant business firms. This is followed by administrative policy and practices with a Beta value of .235 and control over acts of criminal offenses with a Beta value .125. On other hand mode of payment with a Beta value .103 is the poorest predictor of sales of VAT registrant business firms when it is compared with the other selected explanatory variables in this study.

3.3.2.1. Test for Multiple Regression Model Assumptions

Different tests were run to make the data ready for analysis and to get reliable output from the research. These tests were intended to check whether the Multiple Regression Model Assumptions, are fulfilled when the explanatory variables are regressed against dependent variables. Accordingly, the following assumption presents tests of the multiple regression model assumption.

Assumption 1: Test for Normality

The normality tests in this study as shown in figure 4.1 of histogram shows that the data were consistent with a normal distribution assumption.



Source: developed for this research, 2017

Figure 6 Histogram that shows a normality test for the Multiple Regression Model Assumption

The researcher used histogram to test the normality of predictor and predicted variables. As Fig. 6 shows, both test of normality of variables are normally distributed because the skewness indicates both positive and negative (skewed to both direction from 0).

Assumption 2: Test for multicollinearity

In order to examine the possible degree of multicollinearity among the explanatory variables, the correlation matrix, the tolerance and variance inflation factor (VIF) statistics of the selected variables were presented as below.

Correlation matrix assumes when computing the matrix of Pearson's correlation among all independent variables the correlation coefficients need to be smaller than 0.75 (Malhotra, 2007). As it appears in the correlation matrix table 11, there was no such high

correlation between the explanatory variables. Thus, there is no problem of multicollinearity for this study.

Table 11 Correlation matrix between explanatory variables

Model	Administrative policy and Practices	Cost Compliance	Mode of payment	Control over acts of Criminal offense
Administrative policy and Practices	1.00			
Cost Compliance	.000	1.00		
Mode of payment	.013	.000	1.00	
Control over acts of Criminal Offense	.000	.000	.000	1.00

Source: developed for this research, 2017

Tolerance, which measures the influence of one independent variable on all other independent variables; the tolerance (T) is calculated with the initial linear regression analysis. $T = 1 - R^2$ for these first step regression analyses. With $T < 0.2$ there might be multicollinearity in the data and with $T < 0.01$ there is certainly multicollinearity <https://www.Statisticsolutions.com/assumptions> of multiple-linear-regression. As it appears in the tolerance and variance inflation factor (VIF) statistics table 12. The tolerance of the independent variable with the initial linear regression is 0.314 i.e. there is no multicollinearity between independent variables.

Variance Inflation Factor (VIF) statistics of the linear regression are defined as $VIF = 1/T$. Similarly with $VIF > 10$ there is an indication of multicollinearity <https://www.Statisticsolutions.com/assumptions> of multiple-linear-regression. Therefore, as it appears in the tolerance and variance inflation factor (VIF) statistics table 12.

Table 12 the tolerance and variance inflation factor (VIF) statistics of explanatory variables

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Administrative policy and Practices	.668	1.497
Compliance of VAT registrant taxpayers	.684	1.461
Mode of payment	.906	1.104
Control over acts of Criminal offense	.810	1.235

Source: developed for this research, 2017

As shown in the table above, The Variance Inflation Factor (VIF) of all independent variables is less than 10 i.e. there is no multicollinearity between independent variables.

3.4. Summary of Results

This section discusses the findings of the statistical analysis the research in relation to the previous research literature. The study intended not only to ascertain the factors that affect the VAT but also to examine the levels of impact on sales of VAT registrant taxpayers by each factor that affect the VAT in Ambo town revenue authority branch.

Descriptive Statistics of Factors Affecting and Their Impacts on Sales of VAT Registered Business Firms

The results of this study show that most respondents of both VAT registrant taxpayers and employees of the revenue authority branch of the town were agreed that the selected explanatory variables have impacts on sales of VAT registered taxpayer. Accordingly, 137 (62.1 percent) of respondents of both VAT registrant taxpayers and office employees were agreed that administrative policy and practices of VAT has impact on sales of VAT registrant taxpayers. This result is supported by the findings of Yesegat (2008). According to yesegat, tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax

policy. The activities involved in the tax administration include: identifying and registering the taxpayer, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Failing to carry out these administration responsibilities by both tax administrator and the VAT taxpayer as well as the existence of weakness in the design of these administration activities should be adversely impact on the administration efficiency which in turn affects sales of VAT registered business firms negatively.

On control over acts of criminal offense of VAT explanatory variable, 119 (54.2 percent) respondents of both VAT registrant taxpayers and office employees were agreed that Control over acts of Criminal offense of VAT has impact on sales of VAT registered business firms. This result is supported with the findings of McKerchar (2002) cited in Wollela (2008). According to Wollela explained deliberate noncompliance could include tax evasion, which in turn would include all people or entities operating within the hidden economy, taxpayers that deliberately understate their income; over claim deductions, rebate or credits; take an aggressive stance in their tax affairs that cannot reasonably be supported; or do not keep the required records. This implies Controlling activities of criminal offence of VAT significantly improves sales of VAT registered business firms and government income from the collection of VAT as the tax authorities of Ambo town and VAT taxpayers perform controlling activities of criminal offence such as VAT evasion and fraud, failure to register, failure to provide required information, making false claims, and failure to submit returns.

Mode of payment explanatory variable, 117 (53.5 percent) respondents of both VAT registrant taxpayers and office employees were agreed that Mode of payment of VAT has impact on sales of VAT registered business firms. This result is supported with the findings of Lumumba Omweri Martin et.al (2010) and Hamdu and Zinash (2014). According to Hamdu and Zinash, the use of ETRs has significantly improved the collection of VAT and has increased government income. According to Lumumba Omweri Martin et.al, the use of ETR machine has led to improved sales audit for VAT registered business. This is an indication of that indeed the use of ETRs machine has

improved sales audit on top of timely filling of monthly VAT returns. The frequency of sales auditing has reduced to daily giving prompted sales patterns and feedbacks.

Compliance of VAT explanatory variable, 92 (42.2 percent) respondents of both VAT registrant taxpayers and office employees were agreed that voluntary Compliance of VAT registrant taxpayers has impact on sales of VAT registered business firms. This result is also supported with the findings of Lemessa (2005) and Yesegat (2008). According to Lemessa (2005), Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on VAT administration and compliance. Yesegat (2008), non-compliance of VAT is the result of factors such as lack of awareness; policy and administration defects; lack of fairness and equity and absence of transparency in VAT system have adverse impacts on sales of VAT registered business firms.

However, 4.6 percent, 13.7 percent, 8.2 percent and 8.3 percent of respondents were disagreed while 33.3 percent, 44.1 percent, 38.3 percent and 37.5 percent of respondents were neither agreed nor disagreed with the impacts of Administrative policy and Practices, Compliance of VAT registrant taxpayers, Mode of payment and Control over acts of Criminal offense of VAT on sales of VAT registered business firms of Ambo town respectively.

Correlation Analysis between Factors Affecting and Their Impacts on Sales of VAT Registered Business Firms

The results of this study show that Substantial/strong, statistically significant and direct relationship was found between Compliance of VAT registrant taxpayers and administrative policy and practices, and sales of VAT registrant taxpayers; while moderate /average statistically significant and positive relationship was found between Control over acts of criminal offenses and mode of payment and sales of VAT registrant taxpayers.

Substantial relationship exists between Compliance for the VAT, administrative policy and practices, and with the impacts on sales of VAT registrant taxpayers .777 and .612

correlation coefficient value, respectively, while the moderate positive relationship exists between Control over acts of criminal offenses and mode of payment with the impacts on sales of VAT registrant taxpayers (.424) and (.315) correlation coefficient value respectively. The explanatory variables on correlation coefficient value of ($r = .777, .612, .424, .315, p < 0.01$) respectively, are statistically significant at 99 percent confidence level.

Regressing Factors Affecting VAT on the selected Sales of VAT Registered Business Firms

The results of multiple regression analysis regressing sales of VAT registered business firms as dependent variable, on factors affecting VAT indicates that the explanatory variables significantly explain the variation of sales of VAT registered business firms. The variable Compliance of VAT registrant taxpayers with a Beta value.588 is the best predictor of sales of VAT registrant business firms. This is followed by administrative policy and practices with a Beta value of .235, and Control over acts of criminal offenses with a Beta value .125. On other hand mode of payment with a Beta value. 103 is the poorest predictor of sales of VAT registrant business firms when it is compared with the other explanatory variables in this study.

CHAPTER FIVE

4. Conclusion and Recommendation

This final chapter presents the conclusion of the whole thesis and highlight future research directions. Accordingly, the first section presents an overview of the thesis and its major findings. The second section discusses the implications of factors affecting VAT and their impacts on sales of VAT registered business firms in Ethiopia particularly in Ambo town. Finally, the limitations of the thesis and future research directions are presented.

4.1. Conclusion

This study was conducted to investigate the factors affecting VAT and their impacts on revenue of VAT registered business firms in the country specifically in Ambo town. The explanatory variables that were conducted on this research to investigate whether they have impacts on sales of VAT registered business were comprise administrative policy and practices of VAT; compliance of VAT; mode of payment of VAT and control over acts of criminal offense of VAT. According to this conducted research, all of the selected explanatory variables are statistically significant and direct relationship with the sales of VAT registrant taxpayers. Therefore, based on the result from data analysis and findings of the research, the researcher has concluded the following points.

Administrative policy and practices of VAT factor significantly improves revenue of VAT registered business firms and government income from the collection of VAT as the tax authorities of Ambo town perform their responsibilities properly with respect to the major VAT administration tasks including VAT taxpayer identification and registration; VAT filing and payment; control of VAT filing and payment; VAT invoicing, VAT auditing; penalties and VAT refunds. Failing to carry out these administration responsibilities by both tax administrator and the VAT taxpayer as well as the existence of weakness in the design of these administration activities should be adversely impact on

the administration efficiency which in turn affects sales of VAT registered business firms negatively.

Compliance of VAT factor also affect revenue of VAT registered business firms positively and enhance government income from the collection of VAT as voluntarily compliance of VAT exist between tax administrator and the VAT taxpayer. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement Lemessa (2005). However, non-compliance of VAT is the result of factors such as lack of awareness; policy and administration defects; lack of fairness and equity and absence of transparency in VAT system have adverse impacts on sales of VAT registered business firms.

Mode of payment particularly ETRs of VAT factor has significant direct relationship with revenue of VAT registered business firms. ETRs improve revenue of VAT registered business firms in the following ways:

- Timely filling VAT returns was the attributed to the adoption of the ETR machine.
- The use of ETR machine has led to improved sales audit for VAT registered business. This is an indication of that indeed the use of ETRs machine has improved sales audit on top of timely filling of monthly VAT returns. The frequency of sales auditing has reduced to daily giving prompted sales patterns and feedbacks.
- ETRs machine reduce the tax- reporting burden on businesses while improving the efficiency and effectiveness of government operations, provides timely accurate tax information to business and also increase the availability of electronic tax filing.
- The introduction of ETRs machine has assisted in cutting costs that the business used to incur and ease work in processing VAT; ETR machine have really helped increase profits due to their efficient nature.

However, ETRs also have its own negative impacts on revenue of VAT registered business firms in the way of if a mistake occurs at the time of using ETRs, to get correction at the revenue authority branch of Ambo town takes long time and if error

occurs when using the ETRs, to correct the mistake at the revenue authority branch of Ambo town is very frustrating as one may considered putting oneself as criminal.

Controlling activities of criminal offence of VAT factor significantly improves revenue of VAT registered business firms and government income from the collection of VAT as the tax authorities of Ambo town and VAT taxpayers perform controlling activities of criminal offence such as VAT evasion and fraud, failure to register, failure to provide required information, making false claims, Obstructing VAT inspectors, Failure to submit returns and Connivance of tax officials with VAT payers.

Generally this research is concluded as, even though, the level of the selected explanatory variables on impacts of sales VAT registered business are varied, all of the selected explanatory variables are statistically significant and direct relationship with the sales of VAT registrant taxpayers.

4.2. Recommendation

Based on the findings and conclusions of the study, the researcher forwards the following recommendations to the employees of revenue authority branch and VAT registrant business firms of Ambo town and suggestion for other researchers.

The existence of weak administration activities should be improved through proper implementation of tax policy and administration which consists of sets of rules and regulations that guides the employees and VAT taxpayers of revenue authority branch of Ambo town. The major VAT administration tasks includes VAT taxpayer identification and registration; VAT filing and payment; control of VAT filing and payment; VAT invoicing, VAT auditing; penalties and VAT refunds.

Non-compliance of VAT should be improved by both tax administrator of revenue authority branch and VAT registered business firms of Ambo town through;

- Strengthening legal enforcement and penalties on non-compliant VAT taxpayers so that the compliers are encouraged and non compliers are discouraged.

- Improving fairness, equity and transparency of VAT system in all taxpayers this means taxpayers having equal annual income must be registered for VAT and pay VAT;
- Improving relationship between tax administrator with the VAT payers;
- Providing necessary information to VAT Payers regarding the provision of services and utilization of VAT revenues; and
- Establish transparent and consistent system of penalty which in combination with effective tax education can bring result on the compliance improvement

Since ETRs improves revenue of VAT registered business firms, Revenue authority branch of Ambo town

- Should provide the system to make correction if mistake occurs at the time of using ETRs
- Should have to give training for VAT payers on ETRs functions

To significantly improves the revenue of VAT registered business firms and government income from the collection of VAT; the tax authorities of Ambo town and VAT taxpayers should have to be perform on controlling activities of criminal offence such as VAT evasion and fraud, failure to register, failure to provide required information, and making false claims of VAT taxpayers.

4.3. Future Research Implication

The study used four variables to measure the level of impacts on sales of VAT registered business firms, but other extraneous variables like income, consumption and production type of VAT are variables that might have an effect on sales of VAT registered business firms, so in order to improve on this study, it is suggested that future research needs to include these extraneous variables for better findings to bring.

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Appendix 1: Questionnaires for VAT registered taxpayers

Jimma University

College of Business and Economics

MBA Program

Questionnaires for respondents on titled as ‘*Factors Affecting the Value Added Tax (VAT) and their Impacts on Sales of Vat Registered Business Firms*’: (In Case of Ambo Town)

Dear respondents this is the questionnaires intended to obtain relevant information on Factors Affecting VAT & their Impacts on VAT registered taxpayers in ambo town which is useful for academic purpose; to identify the main Factors affecting VAT & to alleviate the negative impacts on VAT registered taxpayers. The findings of the study greatly depend on your cooperation for which are grateful in advance to achieve this you are kindly requested to cooperate giving response for the following question.

Confidentiality

I can assure you that all information obtained through this questionnaire will be handled and stored with the highest order of confidentiality. I thank you very much in advance for your cooperation.

General directions to respondents:

Please **do not** write your name anywhere on the questionnaire.

If you make an error, cross it out and indicate your actual response.

You can also give your opinion in either Afan Oromo or Amharic language.

Section I. Classification/Identification Questions

Answer by putting a thick (√) in the box of your choice and write in the blank space where it provided.

1. Sex: a. Male b. Female
2. Age group (in year): a. 20-30 b. 31-40 c. 41-50 d. above 50
3. Level of education:
 - a. Grade 12 and below b. Diploma c. First degree d. Masters and above
4. Type of business:
 - a. electronics & stationary hotel, cafe & restaurant
 - c. construction d. shops e. Others
5. For how many years you are known as VAT registrant?
 - a. 1 – 4 b. 5 – 8 c. 9 – 12 d. above 12

Section II. Survey questions

Rate your answers using the following likert scale by putting a thick (√) in the box of the table.

5 - Strongly Agree 4 – Agree 3 – Neutral 2 – Disagree 1 - Strongly Disagree

6. Administrative Practices factor

No	Questions	1	2	3	4	5
1.	VAT authorities of Ambo town branch perform their responsibilities of VAT taxpayer identification and registration on time.					
2.	Taxpayers have adequate knowledge on the consequences of not voluntarily registering for VAT.					
3.	The VAT registered taxpayer to issuing a VAT invoice to the purchaser of goods and services at a time.					
4.	The problems that you have experienced with related to VAT Administration					
4.1	Unwillingness of VAT taxpayers					
4.2	Lack of awareness about VAT					
4.3	Fraud off VAT collectors.					

5.	VAT refunds processed according to VAT rules and regulations on time.					
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7. Compliance with the VAT rules and regulations factor

No	Questions	1	2	3	4	5
1.	There are VAT employees enforcement applied to you to register for VAT taxpayer.					
2.	The VAT registered taxpayers provide a VAT credit note and tax debit note as required by VAT employees.					
3.	There are VAT taxpayers cost compliance with VAT rules & regulation.					
4.	VAT taxpayers have confidence in the Revenue Authority Office Branch of Ambo town on VAT collection and auditing.					

8. Mode of payment factor

No	Questions	1	2	3	4	5
1.	The use of electronic tax registers machines reduced VAT filing costs.					
2.	The electronic tax registers machines reduce the time you are taking to prepare VAT returns.					
3.	The electronic tax registers machines contribute to achieve effectiveness in VAT administration.					
4.	The electronic tax registers machine has increased efficiency in sales audit.					

9. Acts of Criminal offence factor

No	Questions	1	2	3	4	5
1.	There are acts of VAT evasion and avoidances in the VAT revenue collection process.					
2.	There could be control over VAT registered business enterprises and employees who have collected the VAT with illegal invoices.					
3.	The VAT administration of Ambo town is strong enough to control non-registered and illegal activities of VAT payers.					

4.	There are acts of Seizure of Property to Collect VAT from VAT registered taxpayers.					
5.	There are activities of misleading statements on collecting VAT revenues.					
6.	There are acts of Unauthorized VAT revenue collection.					

10. Impacts of Factors Affecting the VAT on Sales of VAT Registered business firms.

No	Questions	1	2	3	4	5
1.	Administrative policy and practices of VAT have impacts on sales of your businesses					
2.	Acts of Criminal offences of VAT have impacts on sales of your businesses.					
3.	Modes of payment of VAT have impacts on sales of your businesses.					
4.	Cost compliance of VAT has impacts on sales of your businesses.					

11. If you are strongly agree or simply agree with administrative policy and practices of VAT have impacts on sales of VAT registered business firms , please state what you believe the impacts of the administrative practices on sales of VAT registered business firms.-----

12. If you are strongly agree or simply agree with activities of criminal offences of VAT have impacts on sales of VAT registered business firms , please state what you believe the impacts of the activities of criminal offences on sales of VAT registered business firms-----

13. If you are strongly agree or simply agree with cost compliance of VAT have impacts on sales of VAT registered business firms , please state what you believe the impacts of the cost compliance on sales of VAT registered business firms-----

14. If you are strongly agree or simply agree with modes of payment of VAT have impacts on sales of VAT registered business firms , please state what you believe the impacts of the modes of payment on sales of VAT registered business firms-----

Appendix 2: Questionnaires for VAT officers

Jimma University

College Of Business and Economics

MBA Program

Dear respondents this is the questionnaires intended to obtain relevant information on Factors Affecting VAT & their Impacts on VAT registered taxpayers in ambo town which is useful for academic purpose; to identify the main Factors affecting VAT & to alleviate the negative impacts on VAT registered taxpayers. The findings of the study greatly depend on your cooperation for which are grateful in advance to achieve this you are kindly requested to cooperate giving response for the following question.

Confidentiality

I can assure you that all information obtained through this questionnaire will be handled and stored with the highest order of confidentiality. I thank you very much in advance for your cooperation.

General directions to respondents:

Please **do not** write your name anywhere on the questionnaire.

If you make an error, cross it out and indicate your actual response.

You can also give your opinion in either Afan Oromo or Amharic language.

Section I. Classification/Identification Questions

Answer by putting a thick (√) in the box of your choice and write in the blank space where it provided.

1. Sex: a. Male b. Female
2. Age group (in year): a. 20-30 b. 31-40 c. 41-50 d. above 50
3. Level of education:
 - a. Grade 12 and below
 - b. Diploma
 - c. First degree
 - d. Masters and above
4. Your position: a. VAT Auditor b. Tax Collection Officer
- c. Tax Assessors d. Tax Education e. Revenue Operation Coordinator
5. Work experience: a. 1 – 4 b. 5 – 8 c. 9 – 12 d. above 12

Section II. Survey questions

Rate your answers using the following likert scale by putting a thick (√) in the box of the table.

5 -Strongly Agree 4 – Agree 3 – Uncertain 2 – Disagree 1 - Strongly Disagree

6. Administrative Practices factor

No	Questions	1	2	3	4	5
1.	VAT authorities of Ambo town branch perform their responsibilities of VAT taxpayer identification and registration on time.					
2.	Taxpayers have adequate knowledge on the consequences of not voluntarily registering for VAT.					
3.	The VAT registered taxpayer to issue a VAT invoice to the purchaser of goods and services at a time.					
4.	The problems that you have experienced with related to VAT Administration					
4.1.	Unwillingness of VAT taxpayers					
4.2.	Lack of awareness about VAT					
4.3.	Fraud off VAT collectors.					
5.	VAT refunds processed according to VAT rules and regulations on time.					

6 Compliance with the VAT rules and regulations factor

No	Questions	1	2	3	4	5
1.	There are VAT employees enforcement applied to you to register for VAT taxpayer.					
2.	The VAT registered taxpayers provide a VAT credit note and tax debit note as required by VAT employees.					
3.	There are VAT taxpayers cost compliance with VAT rules & regulation.					
4.	VAT taxpayers have confidence in the Revenue Authority Office Branch of Ambo town on VAT collection and auditing.					

7 Mode of payment factor

No	Questions	1	2	3	4	5
1.	The use of electronic tax registers machines reduced VAT filing costs.					
2.	The electronic tax registers machines reduce the time you are taking to prepare VAT returns.					
3.	The electronic tax registers machines contribute to achieve effectiveness in VAT administration.					
4.	The electronic tax registers machine has increased efficiency in sales audit.					

8 Criminal offence factor

No	Questions	1	2	3	4	5
1.	There are acts of VAT evasion and avoidances in the VAT revenue collection process.					
2.	There could be control over VAT registered business enterprises and employees who have collected the VAT with illegal invoices.					
3.	The VAT administration of Ambo town is strong enough to control non-registered and illegal activities of VAT payers.					
4.	There are acts of Seizure of Property to Collect VAT from VAT registered taxpayers.					
5.	There are activities of misleading statements on collecting VAT revenues.					
6.	There are acts of Unauthorized VAT revenue collection.					

9 Impacts of Factors Affecting the VAT on sales of VAT Registered business firms.

No	Questions	1	2	3	4	5
1.	Administrative policy and practices of VAT have impacts on sales of VAT Registered business firms					
2.	Acts of Criminal offences of VAT have impacts on sales of VAT Registered business firms.					
3.	Modes of payment of VAT have impacts on sales of VAT Registered business firms.					
4.	Cost compliance of VAT has impacts on sales of VAT Registered business firms.					

10 If you are strongly agree or simply agree with administrative policy and practices factors of VAT , please state what you believe to be the administrative practices of VAT impacts on sales of VAT Registered business firms.-----
-----.

11 If you are strongly agree or simply agree with cost compliance factors of VAT , please state what you believe to be the compliance of VAT impacts on sales of VAT Registered business firms.-----

12 If you are strongly agree or simply agree with modes of payment factors of VAT , please state what you believe to be the modes of payment of VAT impacts on sales of VAT Registered business firms.-----
-----.

13 If you are strongly agree or simply agree with criminal offences factors of VAT , please state what you believe to be the criminal offences of VAT impacts on sales of VAT Registered business firms.-----
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Thank you for taking the time to complete this questionnaire.

Appendix 3: Questionnaires for VAT registered taxpayers which is translated into Afan Oromo

Jimma University

College of Business and Economics

Department of Management

MBA Program

Kabajamtoota kanfaltoota taaksii dabalata qabeenyaa bulchiinsa magaala Amboo qorannoo ‘**sababoota taaksii dabalata qabeenyaa fi dhiibbaa inni gurgurtaa kanfaltoota taaksii dabalata qabeenyaa**’ irratti qabu qorachuudhaaf; sadarkaa digirii lammaffaattii fi akkasumas dhiibbaa inni gurgurtaa kanfaltoota taaksii dabalata qabeenyaa irratti qabu furuudhaaf barbaadameera. Haa ta’u malee, galtee fi milkaa’ina qorannoo kanaatiif gumaachi fi deeggarsi isin gootan shoora olaanaa qaba. Kanaafuu gaaffileewwan qarannoo armaan gaditti tarreeffaman amanamummaa fi qulqullinaan akka nuuf guuttan dursinee isin galateeffanna.

Amantummaa

Ragaalee odeeffannoo isin biraa karaa gaffiilee armaan gadiitti tarreeffaman argannu icciitii cimaa fi amantummaa olaanaan qabachuu keenya isin hubachiifna.

Kallattii

- ✓ Maqaa keessan barreessuun hin barbaachisu.
- ✓ Yoo dogoggora uumtan bakka isiniif mijatutti mallattoo xiyyaa agarsiisuun caqasaa.
- ✓ Afaan oromoo ykn afaan amaraatiin barreessuu ni dandeessu.
- ✓ Bakka duwwaa chaartii keessatti qophaaye keessatti mallattoo (✓) kaa’aa.

Kutaa I. Gaaffilee gaafamtoota adda baasuu

1. Saala: a. dhiira b. dhalaa
2. umuri : a. 20-30 31-40 41-50 50 ol
3. sadarkaa barumsaa:
 - a. kutaa 12 gadi b. Diploma c. digirii jalqabaa d. Masters fi isaa ol
4. gosa biizinesii : a. Elektironiksii fi isteshinariii b. hoteela, kaaffee fi restoorantii c. hojii ijaarsa adda addaa d. daldaala huccuu qophaa'aa fi kophee e. daldaala gosa biroo
5. Erga taaksii dabalataa qabeenyaa galmooftanii hangam turtan?
 - a. 1 – 4 b. 5 – 8 c. 9 – 12 d. waggaa 12 ol

Kutaa II. Gaaffilee Qorannoo

Gaaffilee chaartii keessa taa'aniif deebii keessan lakkoofsota armaan gadii keessaa filachuun bakka duwwaa chaartii qophaa'e keessatti tartiiba gaaffiilee qopha'aniin mallattoo (√) kaa'aa!

5 - Baay'ee Gaarii 4 – Gaarii 3–Giddugaleessa 2 – Gad-aanaa 1 - Baay'ee Gad-aanaa

6. Sababoota akka magaala Ambootti taaksii dabalata qabeenyaarratti dhiibbaa qaban

No	Gaaffileewwan	1	2	3	4	5
1.	Hojiirra oolmaan Bulchinsa taaksii dabalata qabeenyaa sassaabbii taaksii dabalata qabeenyaarratti dhiibbaa qaba.					
2.	Waliigalteen kanfaltoota taaksii dabalata qabeenyaa fi seerri fi qajeelfamni taaksii dabalata qabeenyaa sassaabbii taaksii dabalata qabeenyaarratti dhiibbaa qaba.					
3.	Malli kanfaltii taaksii dabalata qabeenyaa maashinaan raawwatu sassaabbii taaksii dabalata qabeenyaarratti dhiibbaa qaba.					
4.	Gochootni taaksii dabalata qabeenyaa seeraan alaa sassaabbii taaksii dabalata qabeenyaarratti dhiibbaa qaba.					

7. Sababoota Hojiirra oolmaa Bulchinsa taaksii dabalata qabeenyaa

No	Gaaffileewwan	1	2	3	4	5
1.	Waajjirri Galii bulchiinsa magaala amboo daldaaltota taaksii dabalata qabeenyaa kanfalu qaban yeroon adda baasuu fi galmeessuun itti gaafatamummaa isaa ni baha.					
2.	Kanfaltoonni gibiraa fedhiitiin taaksii dabalata qabeenyaa yoo gaalmaa'uu dhiisan sabababii maaliif akka hin galmoofneef hubannoo ga'aa qabu.					
3.	Yeroo maamilli Daldaalaa irraa meeshaa bitatu nagaheen taaksii dabalata qabeenyaa battalumatti maamilaaf ni kennama.					
4.	Rakkoolee bulchinsa taaksii dabalata qabeenyaa wajjin yeroo baay'ee walqabatan					
4.1.	Daldaaltotni taaksii dabalata qabeenyaa kanfaltiif fedhii dhabuu					
4.2.	Hubannaa dhabuu daldaaltota taaksii dabalata qabeenyaa					
4.3.	Waliindhahinsa sassaabdota galii taaksii dabalata qabeenyaa					
5.	Yeroo daldaalaan taaksii dabalata qabeenyaa hanga kanfalamuu qabuu olitti galii taasise akkaataa seera fi qajeelfama bulchinsa taaksii dabalata qabeenyaa tiin yeroo kaawame keessatti daldaalichaaf ni deebi'a.					

8. Sababa waliigaltee daldaaltota taaksii dabalata qabeenyaa fi seeraa fi qajeelfama giddu jiru

No	Gaaffileewwan	1	2	3	4	5
1.	Daldaaltota taaksii dabalata qabeenyaa galmeessuuf dhiibbaan gama hojjetoota taaksii dabalata qabeenyaatiin ni taasifama.					
2.	Daldaaltonni taaksii dabalata qabeenyaa nagahee gurgurtaa meeshaalee harkaa-harkatti fi duubee yeroo barbaadametti gabaasa hojjetoota taaksii dabalata qabeenyaatiif ni dhiyeessu.					
3.	Akkaataa seeraa fi qajeelfama taa'een daldaalaan taaksii dabalata qabeenyaa kanfaltii raawwachuuf waldiddaan ni mul'ata.					

4.	Sassaabbii fi ooditii taaksii dabalata qabeenyaa irratti daldaaltonni taaksii dabalata qabeenyaa amantummaa qabu.					
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9. Sababa tooftaa kanfaltii taaksii dabalata qabeenyaa maashinaa

No	Gaaffileewwan	1	2	3	4	5
1.	Itti fayyadaminsi maashinii baasii faayila taaksii dabalata qabeenyaa hidhuuf bahu ni hir'isa.					
2.	Maashiniin galmeessaa taaksii dabalata qabeenyaa yeroo muraasa keessatti raawwata.					
3.	Maashiniin galmeessaa taaksii dabalata qabeenyaa bulchiinsi taaksii dabalata qabeenyaa bu'aa qabeessa akka ta'uuf ni gumaacha.					
4.	Maashiniin galmeessaa taaksii dabalata qabeenyaa ooditiin gurgurtaa meeshaale akka salphatu ni taasisa.					

10. Gochoota taaksii dabalata qabeenyaa seeraan alaaf sababa ta'an

No	Gaaffileewwan	1	2	3	4	5
1.	Gochootni taaksii dabalata qabeenyaa dhoksuu fi gatuu yeroo sassaabbii galii taaksii dabalata qabeenyaa ni jira.					
2.	Daldaaltonni taaksii dabalata qabeenyaa seeraan alaa nagahee kan birootiin gurgurtaa raawwatan tokko tokko ni jiru.					
3.	Bulchinsi taaksii dabalata qabeenyaa magaala Amboo to'annaa daldaaltota taaksii dabalata qabeenyaa hin galmoofnee fi warreen nagahee seeraan alaan gurgurtaa raawwatan hordofuun cimina olaanaa qaba.					
4.	Gochootni yeroo daldaaltonni taaksii dabalata qabeenyaa kanfaltii taaksii dabalata qabeenyaa kanfalu dadhaban qabeenya dhaabbataa daldaaltichaa gurguranii kanfalchiisuun ni jira.					
5.	Yeroo sassaabbii taaksii dabalata qabeenyaa haqamnii fi laaqamni dogoggoraaf nama saaxilan ni mul'atu.					
6.	Gochootni sassaabii taaksii dabalata qabeenyaa seeraan alaa ni mul'atu.					

11. Dhiibbaa sababootni taaksii dabalata qabeenyaa daldaaltota taaksii dabalata qabeenyaa galmaan irratti qaban

No	Questions	1	2	3	4	5
1.	Hojiirra oolmaan Bulchinsa taaksii dabalata qabeenyaa galii gurgurtaa keessanirratti dhiibbaa qaba.					
2.	Gochootni taaksii dabalata qabeenyaa seeraan alaa galii gurgurtaa keessanirratti dhiibbaa qaba.					
3.	Tooftaan kanfaltii taaksii dabalata qabeenyaa maashinaa galii gurgurtaa keessanirratti dhiibbaa qaba.					
4.	Waliigalteen daldaaltota taaksii dabalata qabeenyaa fi seeraa fi qajeelfama ba'e giddu jiru galii gurgurtaa keessanirratti dhiibbaa qaba.					

12. Yoo Hojiirra oolmaan Bulchinsa taaksii dabalata qabeenyaa galii gurgurtaa keessanirratti dhiibbaa qaba jettan ta'e , karaa kamiin akka dhiibbaa fidu ibsaa

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13. Yoo Gochootni taaksii dabalata qabeenyaa seeraan alaa galii gurgurtaa keessanirratti dhiibbaa qaba jettan, karaa kamiin akka dhiibbaa fidu ibsaa

.....

14. Yoo Tooftaan kanfaltii taaksii dabalata qabeenyaa maashinaa galii gurgurtaa keessanirratti dhiibbaa qabajettan, karaa kamiin akka dhiibbaa fidu ibsaa

.....

15. Yoo Waliigalteen daldaaltota taaksii dabalata qabeenyaa fi seeraa fi qajeelfama ba'e giddu jiru galii gurgurtaa keessanirratti dhiibbaa qaba jettan, karaa kamiin akka dhiibbaa fidu ibsaa

.....

Yeroo keessan aarsaa gochuun yaada nuu gumaachitaniif galatoomaa!