

THE PRACTICE OF VALUE ADDED TAX AND ITS PROBLEMS IN JIMMA ZONE REVENUE AUTHORITY

A THESIS SUBMITTED TO THE POST-GRADUATE PROGRAM OF COLLEGE OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR MASTERS OF SCIENCE (MSc) DEGREE IN ACCOUNTING AND FINANCE.

BY: GADISA ABDATA

ADVISORS:

AREGA SEYOUM (PhD)

AMBAYE MERGA (MSc)



**JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
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ABSTRACT

This study was focused particularly on identifying and assessing the problems in association with the practice of VAT at Jimma Zone Revenue Authority. To achieve this objective, the researcher used primary and secondary data. The researcher used questionnaires, interviews and relevant documents to gather primary and secondary data from the data sources. Pie charts, graphs, table, Percentages were used in analyzing the collected data. VAT practice in Jimma Zone has faced different confronts. The main problems that encountered are: misunderstanding of the public in general and business community in particular regarding the VAT laws, resistance against registrations for VAT by some traders, administration inefficiency, and provisions of understated financial statements. All these constraints hinder the smooth practice of VAT and achieve the desired objectives as possible. On the basis of these findings, the researcher recommends that the authority should train the taxpayers about the rules and regulations of VAT continuously, recruiting new employees and give nonstop training for the existing once, it should also increase its follow-up and investigation to control refusal enterprises, as well as effectively and efficiently performing the tasks of identification of VAT taxpayers, processing of returns, controlling collections, auditing taxpayers, recognizing genuine taxpayers and levying penalties to tackle the problems it has encountered.

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ACRONYMS AND ABBREVIATIONS

JZRA	Jimma Zone Revenue Authority
VAT	Value Added Tax
SIGTAS	Standard Integrated Government Tax Administration System
RST	Retail Sales Tax
GNP	Gross National Product
FIRA	Federal Inland Revenue Authority
Art.	Articles
PLC	Private limited Company

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tax can be defined as a levy or other type of a financial charge or fee imposed by the state or central governments on legal entities or individuals. It can be categorized as direct or indirect taxes. For the purpose of this study, the researcher takes one of the types of indirect tax which is VAT. If tax is levied directly on personal or corporate income, then it is a not indirect tax. If tax is levied on the price of a good or service, then it is named an indirect tax. Value added tax (VAT) is a type of indirect taxes on goods and services. They are also referred to as commodity or consumption taxes, since they are paid only when particular transaction of goods or services is affected. The burden or incidence of such taxes falls indirectly on the ultimate consumer rather than on the registered taxpayer that is why this tax is indirect tax. Taxation has been the major source of revenue for governments for thousands of years. It is the process of raising government revenue to finance its expenditure through tax.

(<http://www.investorwords.com/4879/tax.htm>.)

According to Encyclopedia management (2009) Value Added Tax (VAT) falls under the total category of a consumption tax, meaning taxes are paid on what people buy rather than on their earnings, savings or investments. Sales tax is imposed on the general sales. A Value-Added Tax (VAT) is a fee assessed against businesses at each step of the production and sells process, usually whenever a product is resold or value is added to it. 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 charged.

According to Cnossen(1998) as cited in James (2011,p.15) suggested that the nearly universal introduction of the Value Added Tax should be considered the most important event in the evolution of the tax structure in the last half of the twentieth century. The idea of VAT traces

back to the writing by Von Siemens, a German business man, in the 1920s. However, Value Added Tax was first applied in France in 1948. VAT came into effect for the first time on 10th April, 1954 in France (Tuan Minh Le, 2003). In order to increase the revenue of the government many countries in the world are implementing the Value Added Tax. Value added Tax (VAT) is a special types of indirect tax in which a sum of money is levied at a particular stage in the sale of a product or service.

VAT is the principal source of revenue for the Ethiopian government. Ethiopia has introduced VAT beginning from January 2003 as a replacement for sales tax. It came into existence by replacing sales tax under Proclamation No. 285/2002. Compared to sales tax, VAT is applied on the value added at each stage of production and distribution chain, and it is expected to solve the double taxation problem. That means, cascading effect reduces tax evasion and promotes export with its modern administration system. On the other hand, sales taxes are normally only charged on final sales to consumers; because of repayment, VAT has the same overall economic effect on final prices. Although few attempts are done to study the VAT administration at the ERCA, Bisrat (2010) and Wolela (2008), no study has looked exclusively on VAT practice at Zone level. Teffera (2004) attempted to examine the implementation of VAT in Ethiopia using information obtained solely from the tax authority. Based on only this scope it is difficult to reach on conclusion. The data should be collected from both of the tax payers and tax officers in order to reach on the reliable and accurate finding.

1.2 Rationale (justification) of the Research

Studies on VAT and its problems are not new research paradigm. VAT is the youngest tax regime in Ethiopia with the age of only 10 years. According to A.Mohammed Salmen (2010) GST or VAT is not a new tax system. Most of countries in the world have already adopted this tax system. However, in implementing GST, the government should take into consideration several evils of factors that might retard the development of the GST system. These evils can occur on both sides of taxpayers and tax officers. Therefore, a properly planned GST system should look upon before the system is introduced. For example, the community should be properly educated with general knowledge on VAT system, since the end consumers will bear the burden of the cost of tax. The business company should be briefed on the administrative side since remittance

of revenues to the government will be done by the supply chain. The business company should also be encouraged to update their accounting records to facilitate audit and investigation process on the government side, well qualified personnel should be provided in assisting the public.

Overall, the GST or VAT system is considered to be effective since it can increase the total revenue of the governments. The Revenue Authority has begun to meet the objective which was set by the government. VAT was collected exclusively by the Federal Inland Revenue before some years ago. Now days, it was collected by regional and Zone level in order to increase the numbers of revenue collection and for good administration. But, there is the gap between the established rule and regulation with the practice of it. This implies that, there exists tax evasion and other problem. So, these problems are the burning issue of the country and reduce revenues of the government. However, various studies made ever focus on only Federal, taking inappropriate scope of the study and data collection method, limited sample size and taking very few VAT registered to understand the problem of VAT and its administration. As a result this study was conducted taking the above previous researches limitations. Lastly the researcher has motivated to undertake this study that there is no study conducted at Jimma Zone. Therefore, the researcher believes that the study fill the literature and knowledge gap observed in the area of VAT practice and its problem at Zone level.

1.3. Statement of the Problem

The VAT proclamation No.285/2002 was introduced on 4th July 2002 and become into application as of 1st January 2003. The proclamation has 13 sections and 66 articles. According to this proclamation, tax payers are those persons registered or required to be registered persons carrying out taxable import of goods to Ethiopia. Most business transactions involve supplies of goods and services. VAT is payable if they are supplies which are made in Ethiopia, by a taxable person, furtherance's of a business and are not specifically exempted or zero rated.

According to Article 22 of the VAT Proclamation, all persons registered for VAT are required to issue a VAT invoice to the person who receives the goods or services. There are cases where a receipt or simplified form of VAT invoices may be used depending on the value of transactions involved. Those unregistered do not have the right to issue a tax invoices. VAT is a tax on the final consumption of certain goods and services, but it is collected at every stage of production

and distribution. It is gathered by all entities providing taxable goods and services and imposes on sales to all a purchases. A business firm calculates its VAT liability by the VAT rate.

The major activity in VAT administrations are identifying tax payer, processing returns, controlling collections, making refunds, auditing taxpayers and levying penalties. The other part of VAT administration is assessment on VAT execution. This includes identifying taxpayers and tax evasion as well as the registered and unregistered tax payers among the business society. This follows that the concerned authority takes legal measures against people who do not comply with the VAT law. It is not only the authorities who shall be responsible in assessment of execution of VAT but the consumers themselves will play key role. Since the VAT is a tax that is levied on the consumer, it does not constitute a tax on business. In effect, a registered VAT taxpayer is charging and collecting funds that are being held in trust for the government before being remitted to the Revenue Authority. However, Revenue Authority did experience the types of fraudulent activities that have been commonly encountered by many countries which have introduced VAT. Such fraudulent actions reject the country its revenue entitlements: create competitive inequalities in the business environment and work to the harm of the honest business taxpayers. Even though intensive education program has been undergoing by the tax administrative, there are various problems which restrain for the practice of VAT in the Zone. There is a strong need to understand the underlying causes of VAT practice. In our country many research have been done on VAT administration but not considering of theoretical part of rule and regulation of VAT and its practice. Teffera (2004) attempted to examine the implementation of VAT in Ethiopia using information obtained solely from the tax authority. From the data collected this researcher is not reaching on reliable finding and recommendation.

Therefore, this thesis will examine different problems associated with the practices of VAT which affects the government revenue and tries to answer the following basic questions:

- a) Do the business communities know the VAT rules and regulation properly?
- b) How do the business communities perform their business activities on the basis of the current VAT laws?
- c) Does the administration capacity of Jimma Zone Revenue Authority strong enough to control those noncompliance and delinquent taxpayers?

- d) Does VAT contribute for revenue generation, saving and consumption of the consumers?
- e) Does the practice of VAT in Jimma zone meets its objectives properly and encourages for the growth of investment?
- f) What are the major problems that hinder the smooth practice of VAT in Jimma Zone?

1.4. Objectives of the Study

1.4.1 General objective

The main objective of the study is to examine and analyze the practice of Value Added Tax and its problem in Jimma Zone Revenue Authority

1.4.2 Specific objective

This study on the practice of VAT and its problem in Jimma Zone assumes the following Specific objectives:

- ✓ To assess whether the tax payers doing their work in compliance with the rules and regulations of the VAT.
- ✓ To assess whether the practice of VAT meet its objectives of generating more government revenue and encouraging investment.
- ✓ To assess VAT's relevance in revenue generation, saving and consumption of the consumers.
- ✓ To identify the main problems that hinders the practice of VAT in Jimma Zone.
- ✓ To provide alternative solutions to tackle the identified problem and facilitate the practice of VAT.

1.5. Significance of the Study

An effective and efficient collection of tax is important for the economic development of the country. Because if effective and efficient tax system is implemented, there is an increase in government revenue, which helps to fulfill the socio-economic needs of the society. The Value

Added Tax department of the Revenue Authority did a very commendable job as per the new value added tax proclamation on January 1, 2003 through the conduct of an extensive consultation process with the stockholders, comprehensive taxpayers' education and information program and an effective tax payers' registration program.

The finding from this thesis, therefore, is expected to benefit various stakeholders in numerous ways. Some of these are:

- ✓ This study will initiate the authority to give closer attention towards the administration and follow ups as well as conduct awareness creation programs to achieve the desired objectives.
- ✓ It can indicate the ways that the authority's officials have to do in the future based on the views of the taxpayers towards Value Added Tax.
- ✓ The research can be significant in providing a reference material for those who are interested in conducting further research on the area of Value Added Tax (VAT).

1.6. Scope of the Study

This thesis deals with the analysis of Value Added Tax practices and its problem in Jimma Zone Revenue Authority, which covers the period from its inception up to the present day. That is from (2003) up to 2012/2013 year. The data used for the analysis were gathered from the various departments of the Revenue Authority of Jimma Zone and it also assesses some VAT registered tax payers in Jimma Zone. The purpose of making general analysis is to show how successful is the Jimma Zone Revenue Authority will practice the VAT and the way to alleviate the problems at the time of implementation. Since it is difficult to cover the whole VAT registered taxpayers and Tax officers of the Zone Revenue Authority, the researcher was forced to select representative samples of Tax payers and employees of Jimma Zone Revenue Authority.

1.7. Limitations of the Study

It is obvious that adequate and reliable information is important to undertake any kind of survey precautions. However, the reluctance and carelessness of some respondents while filling the questionnaires during data collection were considered as constraints to the study.

In addition, since VAT is a current phenomenon, the absence of enough reference materials regarding the VAT practice and its problems in the authority can be cited as one of the limitations of conducting this study.

1.8. Organization of the thesis

This thesis attempts to identify and analyze the VAT practice and its problems in Jimma Zone Revenue Authority. Accordingly, the thesis is organized in a way that chapter one deals with the introduction of the study, chapter two presents the Review of the Related Literature, and chapter three brings the Research Methodology part of the study. Chapter four presents the Data Analysis and Results of the Findings and the last chapter deals with the Conclusion and Recommendations parts of the study.

CHAPTER TWO

REVIEW OF THE RELATED LITERATURES

2.1 The concept of vat

2.1.1. What is vat?

Different authors agree on the definition of VAT as an indirect tax which is levied on the consumption of goods and services. Lejeune, (2011) defines VAT as it is a significant and increasingly prevalent form of consumption tax, representing a major source of revenue for governments around the world. According to James (2011), VAT allows the recovery of taxes paid on business inputs and therefore avoids the cascading problems that arise with a turnover tax.

As Parameswaran (2005) define VAT as a family of sales tax and it is to be paid by the manufacturers or goods and services on the basis of value added by them. Therefore, VAT is an indirect tax levied on domestic consumption of goods and services imported. It is designed to be paid on the value added which is the difference between the value of sales and value of purchase at the point of transaction throughout the production and distribution chain. Any producer owes tax only in the value added; in practice this means that the producer will have refund for VAT paid on all the purchases or inputs.

2.1.2 Evolution of VAT

The idea of the value added taxation (VAT) traces back to the writing by von Siemens, a German businessman, in the 1920s. Value added tax (VAT) was first applied in France in 1948. At the beginning, France introduced the GNP-based VAT covering up to the manufacturing level and subsequently replaced it with a consumption VAT in 1954(Tuan Minh Le,2003).Even though the introduction of VAT is so long but it is recently introduced in our country at the beginning of 2003. In Ethiopia it is new system issue and begins to implementation since January, 2003. In 1969 only eight countries adopted VAT. Out of these eight countries, Cote d'Ivoire is the first country in Africa to introduce VAT. Since 1979 the VAT spread rapidly in industrialized as well

as in the developing countries. Today, most countries have a VAT, which raises, on average, about 25 percent of their tax revenue. This makes VAT is the first tax system which spread quickly within a short period of time after its introduction.

As of 2003, from the 54 member countries of the African Union, about 31 of them introduced VAT. Following this, the government of Ethiopia introduced VAT with different objectives by replacing sales tax.

The following table2.1 on page 11 depicts those African countries with their rates and year of introduction.

Table2. 1: African countries, year of VAT introduction and VAT rate

Country	Date Introduced	Standard Rate (%)	Country	Date Introduced	Standard Rate (%)
Algeria	1992	21	Mauritania	1995	14
Botswana	2002	15	Mauritius	1998	10
Burkina Faso	1963	18	Morocco	1986	20
Benin	1991	18	Mozambique	1999	17
Cameroon	1999	18	Namibia	2000	15
Chad	2000	18	Niger	1986	17
CongoRepublic	1997	18	Nigeria	1994	5
Cote-Devoire	1960	20	Senegal	1980	20
Ethiopia	2003	15	Rwanda	2001	15
Egypt	1991	10	South Africa	1991	14
Gabon	1995	18	Sudan	2002	10
Ghana	1998	10	Tanzania	1998	20
Guinea	1996	18	Togo	1996	18
Kenya	1990	16	Tunisia	1998	18
Madagascar	1994	20	Uganda	1996	17
Malawi	1989	20	Zambia	1995	17.5
Mali	1991	15			

Source: MisrakT,(2008) Ethiopian Tax Accounting Theory and Practice (pp.310-311)

From this the researcher understand that the introduction of VAT with respective of the rate of

tax of different country. The maximum rate is 21percentages in case of Algeria and minimum rate is 5 percentages in Nigeria. So, we can say that rate of VAT is different based on the country's rule and regulation. The Ethiopian tax rate is fair and moderate as compared to other country. But, Amin Abdela,(2010) suggest that Value added Tax rate of Ethiopia is high and it should be minimized as much as possible for reducing the grievance of the tax payers.

2.1.3 Reasons for replacing sales tax by VAT

As stated in the proclamation No. 285/2002, sales tax was replaced in Ethiopia by Value Added Tax for the following reasons;

- ✓ The sales tax that was implemented does not allow the collection of the tax on the added value created wherever a sales transaction is conducted.
- ✓ The Value Added Tax reduces the damage that may be caused by attempts to avoid and evade the tax and helps to ascertain the profit obtained by the taxpayers.
- ✓ The Value Added Tax enhances saving and investment.
- ✓ The replacement of the sales tax by Value Added Tax enhances economic growth and improves the ratio relationship between Gross Domestic Product and Government Revenue.

Accordingly, the VAT has many advantages for the development of one country than sale tax because, sales tax enhance for cascading the tax. However, the VAT reducing the cascading tax and it has great advantage for the development of one country as well.

2.1.4 Administrative and compliance costs of VAT

As Bird (2005) emphasized attracting tax administration takes time. However, this is not means that tax authorities should be without of the required resources. Tax authorities need both sufficient resources and adequate political support to enable them to do their crucial jobs (Bird 2005). The additional VAT administrative costs may be financed with revenues that could be generated through improved administration. Improved tax administration which is partly possible through providing the administration with the necessary facilities is likely to generate more revenue in a fairer manner.

There are two broad types of resource cost associated with the operation of any tax: administration costs-incurred by the tax authorities, and compliance costs-incurred by taxpayers. Taken together, they are referred to here as collection cost. Administration costs are parallel to a

reduction in tax revenues and appropriately viewed as such. Compliance costs, however, should be weighted rather less heavily than administration costs when evaluating the costs and benefits of a tax

High collection costs are not necessarily a sign of a bad tax, but may simply reflect inefficient or corrupt administration. Nor are low administrative costs (even relative to revenue raised) necessarily a sign of a good one, since one could, for instance, raise substantial revenue under a VAT with low administration costs by assigning few resources to the payment of refunds. Indeed such is the potential role of the VAT as a catalyst for organizational and cultural change both within the tax collection agencies (spearheading, for instance, the modern use of information technology and the development of audit methods) and among taxpayers (developing a culture of record-keeping) that there is an important sense in which a successful VAT is in some circumstances bound to involve substantial collection costs, especially in its early years.

Collection cost figures must thus be interpreted with care. The even more fundamental difficulty, however, is obtaining such figures. In terms of administration costs, the organizational structure and reporting practices of tax authorities may make it difficult to isolate costs attributable to the VAT. The exercise may be especially difficult in function-based organizations, where VAT is administered along with other taxes, by the same people in the same offices. Even when a separate VAT department is in place, there may be genuine common costs arising, for instance, from joint auditing for VAT and income tax purposes. In terms of compliance costs, a personalized survey of taxpayers is needed to extract accurate information. These difficulties mean that even for developed countries hard numbers on these matters are relatively difficult to come by. In developing countries, it is almost entirely unavailable. It has not been possible, within the resources of this study, to rectify this important gap.

Absent such information, some guide is nevertheless provided by various studies of VAT collection costs that have been conducted for OECD countries (usefully reviewed by Cnossen, 1994).

Administration costs for a broadly “best-practice” VAT are put by Cnossen at around \$100 per registrant per annum. These costs vary widely, with the general perception that they are significantly lower where the VAT is simpler: they are estimated at around \$50 per registrant in New Zealand (with a single nonzero VAT rate) and \$200 in the United Kingdom (where there are two rates and substantial zero-rating).

Compliance costs for a best-practice VAT are estimated by Cnossen at around \$500 per registrant per annum. For Singapore, Jenkins, and Khadka (1997) estimated continuing compliance costs to be about \$700. Since these are largely fixed costs, independent of the amount of tax payable, they fall especially heavily on smaller traders: Cnossen (1994) puts them in the order of 2 percent of turnover for those with turnover below \$50,000, falling to about 0.3 percent for those with turnover above \$500,000.

These dollar figures will overestimate the corresponding costs in developing countries, since they largely reflect labor costs-including those of the taxpayer. Nevertheless, it is clear that compliance costs in particular can be significant for smaller traders. Suppose the threshold is set at \$50,000, for instance, and that traders at this level do indeed incur compliance cost of 2 percent tax on turnover. With a profit margin of 20 percent on sales, this is equivalent to a 10 percent tax on income. This implicit tax may be to some degree passed on to consumers in the form of higher prices, though insofar as smaller traders naturally tend to have relatively little market power much of the burden will remain with them. There is thus the possibility of some regressive impact.

One clear implication of the evidence for developed economies is that the collection costs associated with a VAT are likely to be significantly affected by the design of the tax. A simple structure with a single rate, few exemptions, reliance on self-assessment, and with a high threshold appears conducive to relatively low collection costs.

It should be borne in mind that it is not the collection costs of the VAT in itself that matters, but those costs relative to those of alternative taxes. The weight of evidence for developed countries suggests, for instance, that the VAT is less costly than an income tax. (LiamEbrill...., 2001)

2.1.5 Cancellation of VAT registration

According to Tesfaye, (2008) a person who has registered for VAT may call off his or her registration by arrangement with Revenue Authority, department of VAT. The reason for deregistration include:

- If the business closes trading permanently;
- If the business is sold;
- When the value of taxable supplies falls consistently below the VAT registration threshold;
- If he or she has been registered in error, or she has ceased to be a taxable person

When registration for VAT is cancelled, the authority is required to remove the person's name and all other details from the VAT register and the person is required to return back the issued certificate of registration. VAT registered person cannot charge VAT or issue tax invoices for any supplies made and cannot claim a refund of VAT incurred on any goods and services purchased from the date of the registration is cancelled (Tesfaye, 2008).

2.1.6 Administration penalties

From analysis of the applies pertaining to VAT penalties, Jantscher (1990) illustrious that in utmost (most) developing countries the stricter penalties in VAT laws are usually not applied, thus penalties have little prevention effects. In Ethiopia, the VAT legislation proclaims that taxpayers that fail to fulfill the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment. The tax authority started enforcing the penalty provisions (including the stricter ones) of the VAT legislation to some extent. For instance, although the legislation in general stipulates a penalty of 5 per cent of the amount of VAT unreported/underpaid, in practice (according to the outcomes of the in-depth interviews with tax officials) a late filing penalty of ETB1,000 for each accounting period the tax remained un(der)-reported is imposed. Based on the case there is the penalties of imprisonment. The penalty is limited to 50,000 Birr for the first month (of portion thereof) in which no return is failed. If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. Therefore, the people who are fails to pay the payment as per the tax year should be penalized according to the law of the country.

2.2. VAT practice process in Jimma Zone Revenue Authority

Value Added Tax is a tax levied on sales of goods and services rather than an income generated. It is borne ultimately by the final consumer on its expenditure. VAT is a tax not on the total value of goods sold or services rendered but only on the incremental value or newly created value by the last seller. The incremental value is the difference between sales proceeds and purchases of intermediate goods or services excluding the proceeding VAT. It is the base for VAT computation.

The government of Ethiopia has been introduced and effectively implemented the Value Added

Tax on January 1, 2003 by replacing the sales tax. Jimma Zone Revenue Authority continued to collect Value Added Tax since 2009 by the permission of Ministry of Revenue. This office has not collecting VAT from Private limited company (PLC.). For the private limited company the ERCA is responsible to collect VAT from them. Before practicing VAT, there are a number of issues that given prior concern, like capacity building of the tax collection system including effective computerization and tax officials training, considering the merit and demerits of VAT with regard to the society living standard and avoiding the business crises raised from the unsuccessful taxation system attempted.

Six month after the VAT proclamation No. 285/2002 has been ratified by the parliament. The council of ministers also issues VAT registration no. 79/2002 pursuant to the Value Added Tax proclamation for the practice in our country. In other words, VAT practice in Jimma Zone is based upon the proclamation which has 13 sections and 66 articles and regulation cited above.

Jimma Zone Revenue Authority has three departments for the operation of the Value Added Tax: Auditing process owner, Educational and objection process owner, and collecting and monitoring process owners.

Intensive taxpayer's educational campaign, which consisted pre-implementation seminars, information sessions, publications, media releases and taxpayers advisory services was conducted. These taxpayers education program had a positive effect on the taxpayers understanding about the VAT proclamation and the related obligation and entitlements.

According to taxation in Ethiopia, 2005 the Value Added Tax would be levied at the rate of 15% of the value of: every taxable transaction by a registered person, every import of goods, other than an exempt import and Import of services. Value Added Tax has been implemented in Ethiopia because it has more important than sale tax. The following are the reason that express VAT is more significant than sale tax:

- To broaden the tax base to cover more taxable points and items for better yield in revenue.
- VAT serves as an incentive mechanism to encourage foreign investment and export trade.
- The tax credit method avoids cascading of tax (i.e. tax on tax) on business inputs.
- VAT enables to make domestically manufactured goods to be more competitive in the

international market places by removing the tax content from goods for exported.

The VAT legislation is now consolidated by various directives issued with a view successfully face difficulties in implementation. It is probably necessary to first and for most do some examinations what VAT, as a tax system is at least to be able to appreciate the need for strong administration.

VAT is no doubt becoming a prominent element in most fiscal paws (additions) of action by government especially in the developing countries like Ethiopia. This is because, it is easy to administer, and this makes it a highly variable source of revenue. No wonder the tax has been described as manifestation in the country of an enduring success in human endeavors to maximize tax revenue with less administrative cost.

It can simply say, VAT is a tax on consumption collected by an agent from a third party on behalf of the tax authority. What are consumed in VAT is numerous, and they vary even within a class of goods or services. Value Added Taxable transactions in some are clear and straight forward while in some, they are controversial. Furthermore, using men and materials at its disposal, the tax authority is strictly obliged to account for its stewardship to the government in accordance with the provision of enabling legislation. This, therefore, portrays VAT as a tax system involving a spectrum of human activities within a broad hierarchy of levels of responsibilities right from the consumers to the registrant /VAT payers who subsequently render returns to the tax authority which also, in turn, as a revenue agency, remits what is collected to the coffers of government. With this analysis, it is not out of place to describe VAT as a system of multiple agency in which effective administration is inheritable.

2.2.1 Effects of VAT on consumption and investment

Whenever the VAT has been adopted controversy emanated in relation to its effect on retail prices. In some countries, the introduction of VAT would increase prices and aggravate the existing inflation since VAT is a consumption tax which is born by the financial consumer, i.e., a tax that could be shifted to consumers, it might at times have an inflationary effect. In Ethiopia, VAT should not be viewed as a fundamentally new concept; rather it should be seen as a logical and progressive development of sales tax, which had 15% & 5% rate. On the other hand, except zero rated exports and limited number of exemptions, VAT is levied a uniform rate of 15% on all goods and services. Thus, on account of this fact, it could be argued that VAT may lead to

inflation.

Differently, it could also be argued that VAT may lead to an increase in price on those goods but not much since the newly taxable value is a small percentage of total taxable goods and services (Schenk, 2002). The experience of many other countries supports this fact. Although in some cases the introduction of VAT was associated with a rise in consumer price index, it was a once and for all shift, there was no further and continuous price increase (Gillis, 1990).

There are also other researchers who argue that it is only if other actions, such as increase on many supplies are, taken together that a general price increase could occur. In other words it is not VAT itself that can be inflationary but other policies makes it so (Tanzi, 1992). Tanzi suggested that care should be taken particularly at the initial stage of introducing of VAT on curb such undesired result.

Though, it is difficult to evaluate the inflationary effect of VAT only after a year of its implementation, taking the above argument, VAT in Ethiopia is not accompanied with inflation problem. However, a price increase is being observed in almost all goods and services which can explained by market imperfection and devaluation of Ethiopian currency and a general price increase of goods would wide especially the increase in price of petroleum than by the effect of VAT only.

2.2.2 VAT registration

The initiation function of VAT administration is to identify and register those who are obliged to collect VAT. According to Jimma Zone Revenue Authority the VAT registration program was commenced in August 2009 with an aggressive campaign and during the first year of VAT operation, the number of taxpayers registered was 121 in the Zone. Though the currently VAT registered taxpayers are 1403.

2.2.2.1 Registration procedures and ways of registration

According to proclamation 285/2002, a person applying to register for VAT is required to do so the following activities.

There are two ways of registration stated in the VAT proclamation no. 285/2002. These are obligatory and voluntary registrations.

2.3.3. Cancellation of VAT registration

A person who has registered for VAT may cancel his or her registration by arrangement with JZRA, department of VAT. The reason for deregistration include: If the business closes trading permanently; If the business is sold; when the value of taxable supplies falls consistently below the VAT registration threshold; if he or she has been registered in error, or she has ceased to be a taxable person. when registration for VAT is cancelled, the authority is required to remove the person's name and all other details form the VAT register and the person is required to return back the issued certificate of registration. VAT registered person cannot charge VAT or issue tax invoices for any supplies made and cannot claim a refund of VAT incurred on any goods and services purchased from the date of the registration is cancelled (proc.285/2002)

2.2.4 Record keeping requirement

According to proclamation285/2002, section 9 a registered person or any other person liable for VAT shall maintain for 10 years in Ethiopia: original tax invoices received by the person; copy of all tax invoices issued by the person; Customs documentation relating to imports and exports; Accounting records; and any other records as may be prescribed by the ERCA by directives.

2.3.5 Administrative penalties

According to Wolela, 2009 VAT is administrated by the EFIRA, ECA and regional government's finance bureau. ERC administer the imported good and service into the country. Whereas EFIRA are administers the VAT of the federal and joint VAT on domestic transactions through VAT department, branch offices (Addis Ababa and regional), while regional governments' finance bureaus administer their own VAT revenue.

A person who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month (or portion thereof) during which the failure continues, up to 25% of such amount. The penalty is limited to 50,000 Birr for the first month (of portion thereof) in which no return is failed. If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest is set at 25% over and above the highest commercial lending interest rate that prevailed during the preceding quarter. (Proclamation 285/2002)

2.2.5 Exemption or zero-rating

As the name indicates, exemption means no VAT is charged on the supply and no credit can be taken for VAT paid on purchases used while zero-rating means the supply is charged with a VAT at 0% percent but credit can be taken for VAT paid on purchases used to make the supply. Exemption of a whole firm on all its sales is allowed usually because the firm is below a certain size and in order to facilitate administration or compliance. The aim of zero-rating, on the other hand, is to lift the entire VAT, including that already collected at earlier stages, from a particular service or good. It is disagreed that exemption should be granted where the lawmaker would rather not free the firm, but feel forced to do so owing to administrative and compliance difficulties while zero-rating is to be given when the purpose is to lift the VAT completely from a good or service, for social and economic ends (Gills et al, 1991).

Zero-rating is often said to be unsuitable for developing countries just because it may require tax refunds. This is quite a weak argument since tax refunds are important in establishing fairness for tax authorities in these countries.

One line of argument against exemption is that it complicates administration, erode the tax base and distort input-choice decisions and hence they have to be kept to minimum.

According to prominent of this argument where exemptions have been almost entirely eliminated (as in Chile), the VAT has been much easier to administer and there for quite successful. Some items are exempted to improve the distributional impact of the tax-a potentially reasonable tradeoff while others might be exempted for administrative or supporting reasons. This is exactly why underdeveloped countries exempt particular commodities as they are influenced more by distributional objectives than administrative concerns.

Administrative issues are more important under zero-rating. Since zero-rating increases the number of VAT refunds, many underdeveloped developing countries perceptively have limited it to exports(Gills ,et al, 1991).

According to proclamation 285/2002, the following types of supplies as well as imports of goods (other than by way of export) or rendering of services are exempt from payment of VAT: Sale, transfer or the lease of a used dwelling; rendering of financial services; supply/import of national/foreign currencies and of securities; import of gold to be transferred to the national bank; rendering of religious organizations or church services; import or supply of prescription

drugs specified in directives issued by minister of health, rendering of medical services; educational services provided by educational institutions, or child care services for children at pre-school institutions; supply of goods or rendering of services in the form of humanitarian aid, as well as import of goods transferred to state agencies of Ethiopia and public organizations for the purpose of rehabilitation after natural disasters, industrial accidents, and catastrophes; supply of electricity, kerosene, and water; goods imported by the government, organizations, institutions or projects exempted from duties and other import taxes to the extent provided by law or by agreement; supplies by the post office authorized under the Ethiopian Postal Service Proclamation, other than services rendered for a fee or commission; Provision of transport; permits and license fees; supply of goods or services by a workshop employing disabled individuals if more than 60% of staff are disabled; import or supply of books and other printed materials.

2.2 Empirical analysis

BekureHerouy (2004) Value Added Tax (VAT) is a general consumption tax assessed on the value added to goods and services. It is a consumption tax because it is swallowed ultimately by the final consumer. Value Added Tax is not levied by companies. Value Added Tax is collected fractionally, through the process of deductions whereby taxable persons. That means, the taxable person deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities.

According to Bekure Herouy, from its introduction (1955), VAT has spread throughout the world. Its format has changed and now incorporates what was once an outgrowth, "GST" (goods and services tax). France is attributed with first implementing VAT. The tax spread through Africa, Europe, and South America and in the 1960s and 1970s before taking a hold in other regions. Now day many countries in the world have such indirect tax. Almost all members of the OECD and all leading economies in the world have a VAT (or very broadly comparable tax), apart from the US.

Lazimpat& Kathmandu (2002) states in their paper of VAT and the Hotel Business, the rules and regulation that is required for VAT in hotels. As stated by the researchers, a registered hotel has to pay tax when purchasing any taxable business related goods or services (input tax) and

deducts this amount from the tax collected on sales or supplies (out-put VAT). The tax deduction paid on purchases includes tax paid on raw materials, semi-processed goods and other business expenses but these purchases or expenses have to be expended only on taxable goods or services.

According to Tuan (2003) studies on Practical Issues of Tax Policy in Developing Countries. The numbers of VAT registered is increasing in the developing countries. Among the form of VAT, Consumption types of computation is commonly used in the developing countries. A golden rule in designing an efficient VAT is that the tax be imposed on pure consumption, broad-based, and comprehensive in coverage over the whole production chain. The VAT may become a “money machine,” as usually commended, but only if it is simple in rate structuring and broad-based. The practical advice is that the VAT rate structure be designed as simple as possible, preferably with one or—at most—two positive rates, few exemptions, and zero rating being exclusively granted to exports. Zero-rating generally provides strong incentives for frauds, creates excessive burden on tax administration, and effectively erodes the base. The other problems are exemption may induce cascading effect and hence makes the system economically inefficient and excessive exemption tends to break up the integrity of the VAT regime and hurt its sustainability. The VAT design should, therefore, minimize—to the extent possible—the number of exemptions. The rule is also applicable to hard-to-tax sectors. VAT refund is a big issue in both developed and developing countries. In the majority of countries, refunds get delayed—which become “hidden costs” to firms and hurt their financial cash flow.

Suleiman A.S.aruma(2008) on his title the administration and problems of value added tax, Value Added Tax is one component of Tax which raises revenue of the government but there are problems during the implementation of value added tax. The followings are some problem of the FIRS staff: lack of technical skill to administer VAT efficiently, lack of training, lack of periodic workshops and conference and use of unqualified FIRS staff. Apart from the staff other problems are high rate of tax evasion, lack of recording business enterprises, and low VAT education is found among VAT able organizations and the public. Even if the tax officers are responsible to collect the tax, the VAT registered also contributes for the proper implementation of VAT in the country. Therefore, the research should look the idea of VAT registered and tax officers in order to have reliable information.

Wolela (2008) studies VAT administration and its problems in the case of Ethiopia. The researcher states that, VAT has a significant role in the revenue of the Ethiopian government. In the study, researcher examined how VAT administrators in Ethiopia perform their duties, how the effective taxation requirements differ from the legislation and identify key problem areas that deserve the government's due attention. Wolela's finding suggests that there is divergence between the effective VAT taxation and the legislation in Ethiopia. In addition, the outcomes of the surveys showed a lack of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators are the major challenges to the VAT system in the country.

According to Herouy (2004) studies the VAT Regime under Ethiopian Law with special Emphasis on Tax Exemption in the case of the Ethiopia and International experience. In the study the researcher states that NGO'S are free from tax with an agreement made with USAID since they are not working for profit.

A. Mohammad Salmeen, GST or VAT is not a new tax system. Many countries in the world have already using this taxing system. But, in practicing GST, the government should take into attention several challenges or factors that might slow down the development of the GST system. Problems can happened on both sides of tax officers and taxpayers. So, appropriately premeditated GST system should be looked upon before the system is newly established. The business entities would be clear with the administrative side and rule with the administration. The business company must inspired to bring up-to-date their accounting records to enable inspection and investigation process. On the government side, sound trained workers must be provided in supporting the community. The lower income citizen will not be so much affected when the government needs to determine the right GST rate. Overall, the GST or VAT system is considered to be effective since it can increase the total revenue of the government. However, the operation will need a well premeditated system since without it; a full GST system will not be accomplished. However, the potential returns which can be increased from the VAT depend on a number of influences, such as how broad the tax base will be? and the extent to which businesses will comply with the tax? .So to raise the revenue from practice of VAT the government must move aggressively to broaden the base but this is not simple especially for countries that have large informal sector such as agriculture sector and some goods that are exempt from this VAT system. It is too difficult to audit the informal sector .The consequence of value-added taxes

(VATs) on universal trade depends on two characteristics of VAT practice, which is whether there are high effective rates on imports, and whether refunds for exports are delayed or difficult to obtain.

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

J. Auerbach and R. Gordon states that even if the suitable dealing of financial services under a VAT is clear in theoretical model but, the actual operation of such a tax on financial services can appearance (face) many more practical problems than exist in other sectors. The standard approach to implementing a VAT would be to enforce a tax on the cash movement from transactions in real commodities, an "R-base tax" in the terminology of the Meade Committee Report (James E. Meade et al., 1978).

Since the product sold by financial intermediaries is by definition a financial service, however, any cash-flow tax on their real inputs must instead take the form of an $(R + F)$ -base tax that includes in its base all financial receipts and allows a deduction for all financial payments. This approach immediately raises the issue of "over taxation," as it would impose a tax not only on the real resources used by the monetary division, but also on the risk payments (premium) received by intermediaries. On the other hand, under certain assumptions about market completeness, a tax applied to risk premiums may not affect the market equilibrium. In addition, there would be many coordination and enforcement problems if part of the economy were subject to an R-base tax while the financial sector faced an $(R + F)$ _ base tax. For example, firms purchasing financial services should receive a credit for value-added taxes paid by financial intermediaries on services the firm purchase from them, but these financial transactions would

not normally be part of an R-base tax. Evasion occasions would also be widespread, with one side of a financial transaction facing a very different tax treatment than the other side of the transaction. Border corrections required under a destination-based VAT will also be much harder when dealing with economic intermediaries. In model, exports should be exempt from the VAT, whereas imports should be subject to the VAT. However, when financial services are "imported" (e.g., someone purchases insurance from a foreign financial in-between), there is no feasible monitoring at the border. Evasion of tax should then be simple, since there are no obvious costs of importance for individuals when they use a foreign financial intermediary, when purchasing financial services.

Herouy (2004), the classic elements of VAT that determines how the tax does work are:

- ❖ The tax is levied on definite exchange such as the trade of goods, the delivery of services, and other types of supplies.
- ❖ It is charged at each phase of the production and distribution chain by businesses on a continuous or taxable activity.
- ❖ Specified supplies are charged at the rate of 0% or are exempt from the tax. Zero rated businesses can entitlement a credit for VAT paid on inputs, exempt businesses cannot.

The cost of the tax is swallowed by VAT exempt institutions and unregistered consumers. Clearly, the final consumes more so that VAT primarily taxes the non-business and end consumer. In association, income tax applies across all scales of the community.

VAT differs radically in a second respect from income tax. Income tax taxes income (i.e. amounts coming in) while VAT taxes spending (i.e., amounts going out). Economic theory therefore classifies income tax as a "direct tax" and VAT as an "indirect tax" or a "consumption tax".

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

In this section, the research concentrated on the method adopted throughout the study. First, the study area and period, target population survey design types and nature of the data, method and instrument of data collection, sampling technique, sample size determination, and data discussions as well as presentations.

3.1 Study area and period

The study under VAT practice and its problem was undertaken in Oromiaregion, Jimma Zone. Jimma also spelled jima, is the largest and widest city in southwestern Ethiopia. It's a special Zone of the Oromia Region. It has a latitude and longitude of 7⁰40' N 36⁰50' E. The city was the capital of Kaffa province until the province was dissolved. Prior to the 2007 census, Jimma was reorganized administratively as a special Zone. In the early 1960s it was the greatest market in all of southwestern Ethiopia. Jimma is named by King Aba Jifar. Similarly Jimma city was taken as a Centre of commercial starting from the very beginning of 18th century. Jimma Zone is found at a distance of 345 from capital city of Ethiopia (Addis Ababa). (<http://en.wikipedia.org/wiki/Jimma> Dec,2012). This study was conducted from November 2012 to May 2013.

3.2 Target population

Based on the intended objectives, the study was conducted on Revenue Authority of Jimma Zone. Particularly, tax officers and VAT registered were considered. The total population of Value Added Tax registered is 1228 and 20 tax officer. Source :(Human Resource management and Auditor of Tax authority (2013))

3.3 Research approaches

In order to achieve the objective of this study, the researcher used both quantitative and qualitative method of research approach with descriptive survey research design. Thus, the researcher has examined the practice of VAT and its problem in Jimma Zone.

3.4. Research design and Sampling techniques

The extent to which a sample represents a population depends on the sampling frame, the sample size and the specific procedures of selecting potential respondents. Accordingly, from the 19 Zones found in Oromia region, the researcher selected Jimma Zone.

From the total population of the VAT registered taxpayers and employees of the Revenue Authority, the researcher has used simple random sampling techniques. The total number of target population is 1228 VAT registered and 20 tax officers, the researcher selected 293 VAT registered and 20 of the total population. So, the samples that have been selected can be generalized to the population.

3.5. Sample size determination

Using the simple random sampling approaches from the total VAT registered which was 1228, 293 taxpayers have been randomly selected (determined) using the following scientific formula.

$$No = \frac{(t)^2 * (p)(q)}{(d)^2}$$

Where t = value for selected alpha level of .025 in each tail = 1.96.

d = acceptable margin of error for proportion being estimated = 0.05

(p)(q) = estimate of variance = .25 (Taking p 0.5 gives the maximum sample size)

$$No = \frac{(1.96)^2 * (0.5)(0.5)}{(0.05)^2} = 384$$

Therefore, since the initial sample size is greater than 5% of the population (1228*.05=61), Cochran's (1977) correction formula should be used to calculate the final sample size.

These calculations are as follows:

$$n_1 = \frac{384}{(1+384/1228)} = 293$$

Where the population size = 1228

n_0 = required return sample size according to Cochran's formula (1977)

n_1 = required return sample size because sample greater than 5% of population.

Accordingly, the researcher distributes the questionnaires by looking their list of registration.

3.6. Data source and collection tools

Both primary and secondary data sources were used in the study. The primary data was collected from the VAT registered and tax officers. The researcher has used such instruments as self-administered questionnaires and semi-structured interviews to collect primary data from the respondents. Secondary data were gathered from document analysis of Oromia Revenue Authority, Jimma revenue Authority and FIRA, different related literatures such as books, journals, magazines, research reports, internet and others sources to support primary data.

3.7. Techniques of data collection

The intended information for this study was acquired through self-administered questionnaires, semi-structured interviews and document analysis. The instruments were developed by the researcher and adopted from other Ethiopians researchers.

3.7.1 Questionnaires

In order to acquire pertinent information for this study, the questionnaire was developed as the main instrument. A questionnaire was preferred because it is most appropriate means to involve large sample size of the population to gather the necessary information with a given time frame. The questionnaire consisted of items regarding respondent's background and their attitude towards practice of VAT and its problem in their Zone. The questionnaire contained open and closed- ended questions. The closed ended questions were used for the very reason that they are easier to categorize and analyze the responses. In order to have interpretive data, in some sort of quantitative sense, the researcher constructed the closed-ended question items in the form of

“Yes” – “No” with items to be chosen as their possible reasons for their responses and having five points were ranging from “strongly agree” to “strongly disagree” (likert scale) with the suggested values which run through one to five. Open –ended questions are used to provide opportunity to respondents to express their feelings, perceptions problems and intentions related to VAT practice. This enables the researcher to get detailed information about the activities and problems of VAT practice.

3.7.2 Interview

The semi-structured interview was held with Zone Revenue Authority manager and process owners of each department and Regional Revenue Authority and used to focus the respondents on important issues. Interviews were administered to each selected one Zone Revenue Authority manager, 3 Zone Revenue Authority process owners and 1 region Revenue Authority manager who is assumed to have information on VAT practice and its problem in the respective zone. It was believed that, it helps to get information about the attitudes and beliefs of sample populations, to supplement the questionnaire. It can also be seen critical to counter-check the respondents’ responses to the questionnaire.

3.7.3 Document analysis

In the document analysis, the researcher want through analyzing document such as data of VAT practice mechanism to identify the problems considered in VAT practice.

3.8. Procedures of data collection

The first step toward collection of necessary data were made face to face contact with the VAT registered of the Zone and manager of the Revenue Authority for the task of introducing the purpose of the study and facilitating the data collection activities.

Before conducting the interview, with the respective managers the interviewer explained the purpose of the present study to each interviewee. The researcher read out items of the interview to each manger and writes the responses of each interviewee.

3.9. Methods of data analysis and presentation

The collected data was analyzed by adopting the statistical methodology. The responses of the respondents collected using the above methods were organized, analyzed, and interpreted in a sensible way to identify problems that affect VAT practice. To analyze and interpret the data obtained from respondents descriptive statistics were used, with percentage.

CHAPTER FOUR

FINDINGS, DATA PRESENTATION AND INTERPRETATIONS

4.1. Introduction

The nature of this research is descriptive type that incorporates fact finding inquiries and surveys with regard to the Value Added Tax practice and its problems in Jimma Zone Revenue Authority. The main objective of this research is to assess and analyze the practice of VAT and its related problems in Jimma Zone Revenue Authority. This may give some possible insights to tax related policy makers to give closer attention towards tackling the problems raised in association with the VAT practice by providing appropriate suggestions. The collected data from each selected tax payers and tax officers found in Jimma Zone were filtered, categorized and proceeded using descriptive statistics like frequency, means by employing SPSS (Statistical Package for Social Scientists) version -16 windows software.

The survey was conducted by distributing questionnaires to both VAT registered taxpayers and employees of JZRA. From the total 293 questionnaires intended to be collected from taxpayers and from 20 tax officers, only 267 (85% response rate) questionnaires were effectively collected and analyzed. In order to have interpretive data, in some sort of quantitative sense, the researcher constructed the close-ended questions in the form of “Yes”-“No” with items to be chosen as their possible reasons for their responses and items having five points to be rated ranging from “strongly disagree” to “strongly agree” (likert scale) with the suggested values which run through one to five. Open-ended questionnaire and its major purpose were to give opportunity to the respondents to express their feeling, perceptions problems and intentions related to practice of VAT. This enables the researcher to get detailed information about the activities and problems of Value Added Tax in Jimma Zone. The questionnaires distributed to both VAT registered taxpayers and JZRA employees were prepared with an Amharic and Afaan Oromo version so as to avoid language barriers and minimize response biases due to misunderstanding. The following table summarizes about the respondents from both sides.

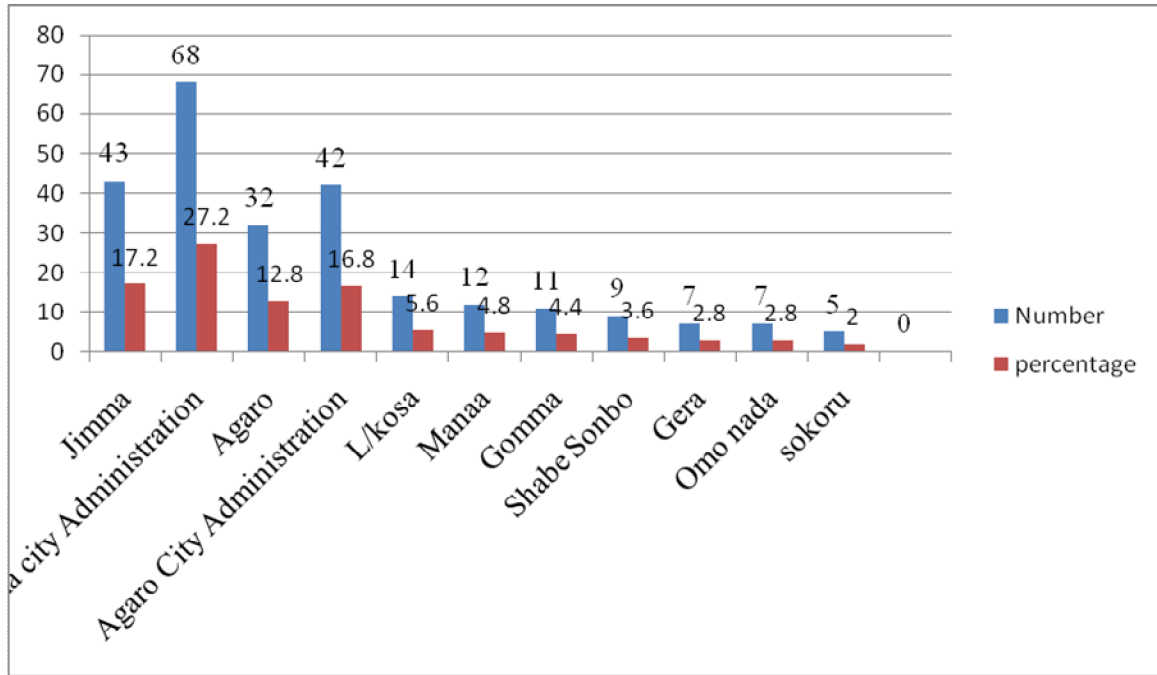
Table4. 1: Employees of Jimma Zone Revenue Authority (JZRA) and VAT registered taxpayer

Employees of JZRA and tax payers	Sample size	Percentage (%)	Number of respondents who provide their reply	Percentage (%)
Employees of JZRA				
Department of tax payers Educational and objection	8	40	7	41
Department of collection and monitoring	7	35	6	35
Department of Tax Audit	5	25	4	24
Total	20	100	17	100
VAT payers				
Jimma	48	16.3	43	17.2
Jimma city administration	77	26.3	68	27.2
Agaro	36	12	32	12.8
Agaro City administration	48	16.3	42	16.8
L/kosa	17	6	14	5.6
Manaa	16	5.5	12	4.8
Shabesonbo	12	4.1	9	3.6
Gera	10	3.4	7	2.8
Gomma	15	5.1	11	4.4
Omo nada	8	3	7	2.8
Sokoru	6	2	5	2
Total	293	100	250	100

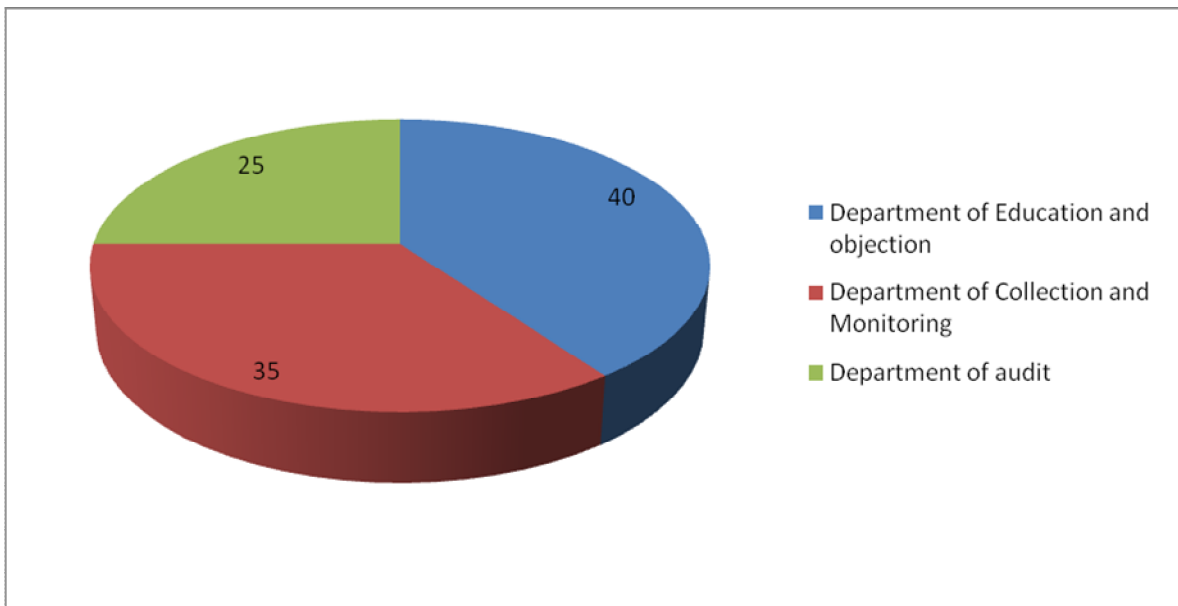
Source: Jimma Zone human resource and Audit Department, 2012/2013

The selected sample size of this study was 293 and 20 VAT registered VAT payers and employees of JZRA respectively for whom questionnaire distributed. Out of these, 250 from VAT payers and 17 tax officers were returned the questionnaires. The information obtained through interview and document analyses used as a complementary data for analysis. The following figure 4.1 shows the percentage and numbers of the respondent from two perspectives.

Figure 4.1: Respondents of VAT payers



Source: survey data, 2013



Source: Survey data, 2013

Figure 4.2: Respondents of Jimma Zone Revenue Authority Employees

4.2 Relevance of VAT

According to Amin Abdella (2010), a further point on the VAT rate is in order; revenue derived from VAT now accounts for over 40 percent of total tax revenue for the Government of Ethiopia. If the rate were to be reduced, this would cause an immediate and massive loss of revenue to the government, which would have to be offset by other tax means. Although revenue can be increased by broadening the tax base, this approach is much more long term, hence there would seem to be little practical alternative to continuing with VAT at its current level.

Table 4.2 show the relevance of VAT

Items	Types of responder	Strongly agree	Agree	neutral	disagree	Strongly disagree	Total	mean
VAT increases general consumption of goods and services	Tax payers	24(9.6%)	67(26.8%)	66(26.4%)	62(24.8%)	31(12.4%)	250(100%)	2.96
	Tax officers	3(17.6%)	5(29.4%)	8(47.1%)	1(5.9%)	-	17(100%)	3.59
VAT services encourage individuals to save part of their income	Tax payers	22(8.8%)	88(35.2%)	53(21.2%)	62(24.8%)	25(10.0%)	250(100%)	3.08
	Tax officers	3(17.6%)	7(41.2%)	5(29.4%)	2(11.5%)	-	17(100%)	3.65
VAT targets revenue generation for government	Tax payers	46(18.4%)	99(39.6%)	52(20.8)	35(14)	18 (7.2%)	250(100%)	3.48
	Tax officers	6(35.3%)	6(35.3%)	5(29.4%)	-	-	17(100%)	4.06

Source: survey data, 2013

Table 4.2 shows the responding VAT able organizations and tax officers' perceptions on the relevance of VAT to revenue generation, consumption and saving patterns. The tax payers claimed that, the VAT on their goods and services caused decreases in their general consumption of goods and services. The communities are not willing to buy those products from VAT

registered entities. So, the consumption of goods and services are decreased when the VAT is implemented on the goods and services. The tax officers are agreed the VAT practice increase the consumption of goods and services because the mean of this is more than 3. Income are divided into two main area .These are consumption and saving. It is obvious when there is tax on the consumption of the goods and services, people are not consuming large amount of goods and services (their consumptions are decreasing) and many of their income goes to saving. Both tax payers and tax officers are agreed with the idea and the mean of these are 3.08 and 3.65, respectively. They agreed that VAT targets revenue generation for government.

4.3 Registration of VAT

According to Wolela (2008) 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.

Table 4.3 The registration

Items	Types of respondents	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total	mean
VAT registration process is smooth and easy for taxpayers	Tax payers	38(15.2%)	91(36.4%)	50(20%)	53(21.2%)	18(7.2%)	250(100%)	3.31
	Tax officers	7(41.2%)	5(29.4%)	5(29.4%)			17(100%)	3.88
The VAT registered are benefited than nonregistered in the competitive markets	Tax payers	18(7.2%)	65(26%)	49(19.6%)	72(28.8%)	46(18.4%)	250(100%)	2.75
	Employee	5(29.4%)	7(41.2)	3(17.6)	2(11.8)		17(100%)	3.88
	Employees	4(23.5%)	9(23.5%)	3(17.6)	1(5.9%)		17(100%)	3.94
VAT threshold is fair for registration in Ethiopia	Tax payers	24(9.6%)	47(18.8%)	65(26%)	77(30.8%)	37(14.8%)	250(100%)	2.78
	Tax officers		4(23.5%)	8(47.1%)	5(29.4%)		17(100%)	2.94

Source: survey data, 2013

4.3.1 Process for registration

The survey further was conducted by asking both respondents about whether the process of VAT registration is smooth and easy for taxpayers or not. Out of the 250 taxpayer respondents, 129(51.6%) replied that the registration process is easy and smooth, but 71(28.4%) replied that the registration process is complicated or not easily accomplished and 53(20%) were not saying anything about the registration process of Jimma Zone Revenue Authority. Generally, they are agreed that the registration process is easy and smooth for the tax payers because it is above the mean. On the other hand, out of 17 employee respondents of the authority, 12(70.6%) respondents replied that the registration process is very easy for tax payers and the rest 5(29.4%) replied that the registration process is neither easy nor difficult. As can be observed from the responses replied by majority of both respondents, the registration process is smooth and easy for taxpayers. But, it further needs some modifications in order to make it very undemanding and soft to attract the business community to be registered and accomplish their businesses in a more formal and legal ways.

The 71(28.4%)taxpayer respondents who said the registration process is complicated were asked to put their reasons why they have said so. They put their reasons as the registration process demands additional and burdensome accounting procedures and the registration process is time consuming.

4.3.2Benefits from competition

Both the taxpayers and authority's employee respondents were further asked the VAT registered are benefited than nonregistered in the competitive markets. Out of the 250 taxpayer respondents, 118(47.2%) respondents replied that enterprises that are not registered for VAT are more benefited in the market competitions, 83(33.2%) respondents replied that VAT registered enterprises are more benefited and 49(19.6%) remain neutral. This means that, non-registered individual or companies are more benefited in the market competition and as a result people are not willing to register. From the result of the survey most respondents, 118(47.2%) replied that enterprises that are not registered for VAT are taking the advantages of the market competition and this leads to discourage the compliance business communities and aggravates the market distortion. Hence, the authority should strengthen its administration capacity for controlling of some noncompliance business communities so as to alleviate imbalance competition in the

market. In connection, the survey was conducted by asking the taxpayer respondents about why they thought that the nonregistered enterprises benefited more from the market competition. They gave their reasons as:

- Purchasing of goods and services with VAT requires incurring additional cost than without VAT. Hence, customers prefer to purchase goods and services from those entities that exclude the VAT rate from the prices of the items that they provide to their customers.
- The low purchasing power of the community that leads the public to cooperate with illegal activities expansion of evasions and frauds due to insufficient tax administration.

The same question was also raised for respondents from the authority. Among the 17 respondents, 12(70.6%) replied that enterprises that are registered for VAT outweigh the benefits they obtained from the market competitions, 2(11.8%) replied that enterprises that are not registered for VAT are more benefited from the market competitions than the registered ones and 3(17.6%) replied as they don't have ideas to conclude. The respondents who have said the registered taxpayers are more benefited from the market competition put their view point to say which is summarized in the following manner;

- It provides more chances to those who are registered for VAT to participate in different governmental and non-governmental propositions.
- Taxpayers that are registered for VAT also can take the advantage of confidently performing their business when the authority starts an investigation campaigns against those entities that are not registered to pay taxes, violating the tax rules, fraudulent and tax evasions and collecting taxes illegally.
- Since VAT collection is based on the declaration stated by taxpayer entity it makes the collection system easy and manifests clarity when the authority performs auditing. Hence, enterprises registered for VAT facilitates the authority's auditing performance and receive the advantage of recognition for their being genuine from the authority.
- Since the society's awareness is showing an improvement from time to time and the government is trying to expand settled market situations, the advantages of the benefits from the market competition will outweigh to the legally recognized taxpayers in the future.

Based on the responses replied by both respondents, the market competition between VAT registered and nonregistered enterprises is not balanced. That is the benefits that nonregistered business enterprises attain be more important than the benefits that registered enterprises are obtained from the market competition. Thus, to balance the market distortion the authority should improve and consistently modify its administrative capacity. The authority should also investigate and bring those entities that are not yet registered for VAT but are able to register (their annual turnover is \geq Birr 500,000) and the registered taxpayers should perform their activities with the compliance of VAT laws. In addition, the authority is highly expected to provide intensive education to the public about the rules and advantages of VAT to the economic development of the country and create an awaked society concerning the tax collected through VAT is the main source of revenue to the government. The business communities in particular and the public in general have also pay their attention to the messages transmitted through different Medias and make themselves ready to learn and acquire sufficient knowledge about the Value Added Tax proclamations and act in accordance with the VAT rules and regulations.

4.3.3 Threshold of VAT registration

According to the VAT Proclamation No. 285/2002 of Ethiopia, the enterprises whose annual turnover is half a million birr and above are compulsory to register for VAT. A threshold for VAT registration has been put in place for administrative purpose. VAT registered tax payers and the employees of Jimma Zone Revenue Authority were asked to forward their views whether the existing threshold is fair or not for VAT registration. Out of 250 taxpayer respondents, 71(28.4%) replied that the threshold is fair, while 114(45.6%) taxpayer respondents replied that the threshold level is not fair and 65(26%) respondents kept from giving their ideas by saying have no idea. As can be understood from the responses provided by the taxpayers, the majority, and 114 (45.6%) said that the current threshold level (500,000 birr) is high and hence allows most business communities whose return is below the threshold but actively participating in the market competition to stay unregistered.

On the other hand, the survey was also conducted by asking the employees of the authority to know their views whether they believe that the threshold level is fair or not. Out of the 17 respondents from JZRA, 3(17.5%) respondents replied that the current threshold level is fair, 8(47.1%) respondents replied that the threshold level is not fair, and 6(35.3%) respondents

replied as they don't have any idea.

From this point of view of the respondents, the researcher raised a question of how much it should be and put their reason behind. Accordingly, the respondents said that the threshold is not fair because it is high. Therefore, the threshold should be lowered though following this strategy is costly and requires additional and capable manpower and effective administration system. Both the respondents (VAT registered taxpayers and employees of Jimma Zone Revenue Authority) were mentioned that the reason why they have said the threshold level is high.

- ✓ It doesn't incorporate all enterprises that are actively participating in the market but are not registered for VAT because of the higher level of the threshold
- ✓ It affects only those few and honest business enterprises whose returns is $\geq 500,000$ birr
- ✓ It weakens the capacity of those registered enterprises to compete in the market because of the existence of entities that are not governed by the current threshold level
- ✓ It paves the way to declare an understated financial statements so as not to take the responsibility of collecting VAT by the business enterprises
- ✓ Because of the increasing number of new entrants to the market it should be lowered to make them start with and include their business activities within the tax net

Even though the current threshold level is high and doesn't incorporate the whole business community, the administration capacity of Jimma Zone Revenue Authority is not sufficient enough to govern the existing number of VAT registered taxpayers and attract the nonregistered ones into the tax net.

4.4 Rules and regulations of VAT

According to the VAT proclamation of Ethiopia, introduced in January 1st, 2003, VAT is payable and would be levied at the rate of 15% if: the supplies are made in Ethiopia, made by a taxable person, made in the course or furtherance of a business and are not specifically exempted from tax or zero charged. There are many rules and regulations from its registration up to cancellation.

Table 4.4 Rule and regulation of VAT

Items	Types of the respondents	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total	mean
Tax payers(VAT registered) are familiar with the VAT rule and regulation	Tax payers	22(8.8%)	74 (29.6%)	49 (19.6%)	81(32.4%)	24(9.6%)	250 (100%)	2.96
Some of the tax payers are declared the collected tax to tax offices	Employee (tax officers)	5(29%)	5 (29%)	4 (24%)	3 (18%)	-	17 (100%)	3.7
VAT raised more revenue than the sales tax	Tax payers	38(15.2%)	69 (27.6%)	67 (26.8%)	55 (22%)	21(8.4%)	250 (100%)	3.19
	Employee	6(35.5%)	6 (35.5%)	5 (29%)		-	17 (100%)	4.05

Source: Survey data, 2013

4.4.1 VAT rules and regulations

The survey was carried by asking the VAT registered taxpayers and on whether they are familiar with the VAT rules and regulations. For this question, from 250 taxpayer respondents, 96(38.4%) respondents replied that they know very well the rules and regulations of VAT, 105(42%) of them replied that they are know little about the rules and regulations of VAT, and 49(19.6%) of the respondents remain neutral to this item. Additionally, the average of the respondents is below the mean 2.94. So, the tax payers are not familiar with the rules and regulations of Value Added Tax.

4.4.2 VAT and Sales tax

The VAT is not the only possible form of consumption tax. It is natural to compare it, in particular, with the retail sales tax. VAT is applied at each stage of production and distribution when additional value is created. And this makes VAT a broad based tax that enables the government to raise more revenue. Comparing sales tax to Value Added Tax, the foundations of sales tax is narrower because it was limited to imports, manufactured goods and few selected services.

In this survey, both the VAT registered and employees of JZRA were asked whether VAT is more advantageous than the replaced sales tax or not. Among the 250 VAT registered taxpayers, 107(42.8%) respondents replied that VAT is more advantageous than the sales tax, 67(26.8%) of the respondents replied as they know nothing about both taxes (VAT and sales tax). 79 (31.6%) respondents replied that sales is more advantageous than VAT.

As can be observed from the above table 4.4, most of the respondents 107(42.8%) replied that VAT is more advantageous than the sales tax. They started to say so by putting as it (VAT)is a refundable tax when input tax exceeds output tax and it doesn't affect the business community since it is collected from the consumer as a reason. But the rest of the respondents including those who know nothing are confused with the difference between and has got a difficulty of comparisons. So the authority should give the respective taxpayers intensive awareness creating trainings so as to make them clear more about the merits of VAT.

Further, the survey was also conducted by asking the employees of JZRA whether VAT is more important than the sales tax on their point of views. From 17 employee respondents of the authority, 12(71%) replied that VAT is more advantageous than the sales tax and 5(29%) of them are neutral on the matter. As mentioned by the majority of the respondents, VAT is more advantageous than the sales tax. This is so because, VAT avoids double taxations, it is easy to control tax frauds and reduces the possibility of tax evasions, generates more revenue to the government (since it is collected from all sectors), and avoids cascading effect of tax (tax on tax).

From the points mentioned by both respondents (taxpayers and employees of JZRA) above, we can say that VAT is more advantageous than the sales tax. This is so because VAT reduces the cascading effects of tax, it is collected from all sectors so that it is a major source of revenue to the government, it improves productivity, it promotes capital investment and saving, it enhances exports at zero-rate, and it makes the net of the system to easily expand to control tax fraudulent activities and helps to avoid the possibilities of tax evasions.

4.5 Contribution of VAT to the country

Although the specific reasons for adopting the VAT differ from one country to another, the main argument is that a properly designed VAT raises more revenue with less administrative

and economic costs than other broadly based taxes. Hence, money collected from taxes and custom duties is one of the major sources of the government revenue. So, the respondents of the authority employees were asked whether they believe that the current VAT contribution to the government's revenue is sufficient or not. The question was raised like in the manner illustrated in the following table.

Table 4.5: Contribution of VAT

Survey question	Items		Total
	Yes	No	
Do you believe that the current VAT contribution to the government's revenue is sufficient?			17(100%)
	6(35%)	11(65%)	

Source: Survey data, 2013

As can be observed from table 4.5, out of the 17 officers, 6(35%) replied as they believe that the VAT contribution to the government revenue is sufficient and 11(65%) replied as they don't believe that the revenue collected through VAT to the government is sufficient.

The respondents who said the contribution of VAT to the government revenue is not sufficient list down their reasons as follows:

- Lower awareness of the society about the benefits of VAT to the governments revenue and the country's economy
- Weak tax administration and follow-up systems by the authority against both compliance and disobedience taxpayers
- The higher level of the threshold that doesn't govern all business entities
- Lack of skilled manpower and equipment
- Fewer efforts of identifying and rewarding genuine enterprises by the authority
- Existence of unethical employees and taxpayers refrain some interested business entities from their intention of registration for VAT

4.6 Effectiveness of VAT

The main objectives of VAT practice was to collect tax on the added value whenever a sales transaction is conducted; to minimize the damage that may be caused by attempts to avoid and evade the tax and to ascertain the profit obtained by the taxpayers; to enhance saving and

investment as it is a consumption tax and does not tax capital; and to enhance economic growth and improve the ratio relationship between Gross Domestic Product and Gross Revenue.

From these points of view, the employees of Jimma Zone Revenue Authority were asked about whether they believe that the practice of VAT is successful and achieve its objectives shown in the following table.

Table 4.6: Effectiveness of VAT

Survey question	Items		Total
Do you believe that the practice of VAT is successful and achieve its objectives?	Yes	No	17(100%)
	5(29.4%)	12(70.6%)	

Source: Survey data, 2013

As can be observed from the table 4.6 above, among the 17 employee respondents, 5(29.4%) replied that the practice of VAT for the last consecutive years was successful and the rest 12(70.6%) replied that it is difficult to say the practice of VAT in this Zone was successful and achieve the desired objectives. As per the findings, majority of the respondents agree that the practice of VAT requires more effort to achieve the desired objectives effectively. This is so because:

- ❖ the society is less conscious about VAT rules and contribution of VAT to the country's growth and development,
- ❖ tax administration system of the authority is weak
- ❖ The way and methods of fraudulent activities and tax evasions on VAT by taxpayers are increasing from time to time and
- ❖ The attitude of the business community towards VAT is still negative.

4.7 Challenges mitigating the effective administration of VAT

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. In principle, VAT is collected from consumption of goods and services. Like it has been observed in many developing countries, VAT practice in Jimma Zone has faced different challenges at the initial stage. Problems that are observed during the practice of VAT related with external and internal factors. The challenges are VAT registered organization are many in numbers. Among this tax evasion, duplicating illegal invoice and etc. With this perspective, the survey was conducted by asking both VAT registered tax payers and employees of JZRA about the bottlenecks (blocks) that hinder the smooth practices of VAT in Jimma Zone.

Table 4.7: Problems during the practice

Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total	Mean
Poor relationship between taxpayers and tax authorities	2(11.8%)	9(52.9%)	2(11.8%)	3(17.6%)	1(5.9%)	17(100%)	3.47
Poor remuneration and motivation of the JZRA staff	3(17.6%)	6(35.3%)	5(29.4%)	3(17.6%)		17(100%)	3.53

Source: Survey data, 2013

As can be observed from the table 4.7 the tax officers are asked on whether there is poor relationship between tax payers and tax authorities. From 17 respondents of the tax officers, 11(64.7%) of them were agreed on the question of poor relationship between tax officers and tax payers, 4(23.5%) of the respondents replied that they disagree on the question. The rest of the respondents 2(11.8%) remain neutral on the matter. As can be understood from the responses provided by the tax officers, the majority, 11 (64.7%) of the respondents replied that there exists poor relationship between tax payers and tax officer.

As can be observed from table 4.7, out of the 17 respondents, 9(52.9%) replied as they agree that the remuneration and motivation are low or poor and 3(17.6%) replied as they don't agree that the remuneration and motivation the staff is poor. Therefore, the majority of the respondents replied that there was low remuneration and motivation the authority. This has much significance

on the administration of the VAT.

Table4.8 Treatment of VAT registered community

Items	Yes	No	I have no idea
Does the worker treating all the taxpayers equally?	17(30%)	140(56%)	35(14%)

Source: Survey data 2013

As can be depicted on table 4.8 out of 250, 75(30%) of the respondents replied that Yes the worker of Jimma Zone Revenue Authority are treating all the VAT registered taxpayers equally and 140(56%) of the respondents are replied that the employee of the Jimma Zone Revenue Authority are not treating all the VAT registered tax payers equally. The rest 35(14%) of the respondents indicated that they do not have any idea on the matter. So the majority of the respondents replied that the workers of Jimma Zone Revenue Authority are not equally treating all the VAT registered tax payers.

4.8 VAT administration

According to Wolela (2009), VAT is imposed on the supply of goods and services others than exempted supplied (such as bread and milk). Additionally, VAT is based on the invoice credit method in which tax payers are given credit for the VAT paid on inputs when it is supported by the relevant documents. The tax is also based on the destination principle in that imports are taxed but not exports. VAT is chargeable at a standard rate of 15 percent on all taxable supplies of goods and services other than those zero rated (mainly exports). VAT is administered by the FIRA, ECA and the regional government's Finance Bureau. That means, ECA administers VAT on imports into the country. The EFIRA administers federal and joint VAT on domestic transactions, while regional governments' finance bureaus administer their own VAT Wolela(2009). For a long period of time, Ethiopian Revenue and Customs Authority administer the Value Added Tax only nationally as per the joint decision made by the house of representative and council of federation. Now a day, VAT is also administered and collected by

the regional governments. To administer VAT efficiently and effectively it requires qualified, trained, and inspired workforce. The main tasks that must be performed by any department in charge of VAT are: identification and registration of taxpayers, processing returns, controlling collections, auditing taxpayers, investigation for tax frauds and evasion or levying penalties. In order to administer these tasks, the department in charge has to be well organized and conduct publicity taxpayer's education and information during the moment intime.

Table 4.9 VAT administration effectiveness

Items	Strongly agree	Agree	Neutral	disagree	Strongly disagree	Total	mean
JZRA staff have requisite educational qualification to administer VAT efficiently	5(29.4%)	6(36.3%)	5(29.4%)	1(5.9%)		17(100%)	3.88
JZRA staff have requisite technical skills to administer VAT efficiently	6(35.3%)	3(17.8%)	5(29.4%)	2(11.8%)	1(5.9%)	17(100%)	3.65
JZRA staff have requisite training to professionally to administer VAT efficiently	4(23.5%)	3(17.6%)	7(41.2%)	3(17.6%)		17(100%)	3.47
FIRA periodic workshops and conferences impart sufficient skill to staff for effective VAT administration	5(29.4%)	3(17.6%)	7(41.2%)	2(11.8%)		17(100%)	3.65

Source: Survey data2013

Table 4.9 depicts the perceptions of JZRA staffs of their administrative skills with specific requirement for applicability of VAT in jimma Zone. Judging from the results, there are indications that basic educational qualifications are not met by the employees of JZRA, given that the mean score exceeds the cut off mean of 3.0. From the above table 4.9 the researcher understand that, for the staff of Jimma Zone Revenue Authority technical skill, training and periodic workshop and conference should be given by the Oromia Revenue Authority for the purpose of administering the VAT efficiently.

4.9 Actions taken

Table 4.10 Actions taken

Items	Yes	No	I have no idea
Does the authority have taken the measurement to alleviate the existing problems?	148(59%)	42(17%)	60(24%)

Source: Survey data, 2013

The survey has also conducted by asking the taxpayers whether the authority has taken some measures to alleviate the existing problems or not. Out of the 250 taxpayer respondents, 148(59%) said that the authority has taken some measures to alleviate the problems of VAT implementation committed by illegal business enterprises, 42(17%) respondents replied that the authority did not take corrective measures to alleviate the problems, 60(24%) respondents have no idea regarding the measures taken by JZRA to minimize the problems faced during the practice of VAT. From this, the researcher can conclude that the authority has taken different actions in order to alleviate the problems that has faced though additional measures are also expected to be done. Therefore, it is highly advisable for the authority to take more actions over those enterprises that are not convenient for the proper implementations of the VAT system in the Zone. This can be maintained by recruiting additional and capable employees, conducting continuous discussions between the taxpayers and the authority, providing continuous and intensive trainings to the existing taxpayers and its employees, improving the system (SIGTAS) that the authority is using, enforcing those business enterprises that scored their return equal to or above the threshold to register for VAT and recognize and encourage those genuine traders as well as it should take legal action over those noncompliance business enterprises.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

These days the best instrument which government can use as a source of revenue is taxation. It is obvious that an economic development of a country can be certain by an effective and efficient administration and collection of taxes. A good tax system should have one or a combination of desirable characteristics as economic efficiency, administrative simplicity, flexibility, political accountability and fairness for the purpose of good tax system. This is so because, when the practice and administration of tax system is effective, the government's revenue that helps to fulfill the socioeconomic needs of the society will be improved. It is possible to say that the major function of taxation is to organize the necessary funds to finance the increasingly expanding level of public expenditures.

VAT in Jimma Zone could be helpful in simplifying and modernizing the tax administration with its invoice based characteristics and its requirements for the registrants to hold a systematic book of accounting. Economically, VAT does encourage investment by providing a refund for a tax paid on inputs and encourage export by zero rating items exported. With the very concept of VAT, output tax is charged at each stage of production and distribution to ensure that only final consumption is exposed to be taxed.

In Jimma Zone, the practice of VAT which is a new and sophisticated tax that differs significantly from the classical tax schemes with which the people were familiar with the formerly existed taxes is not an easy task. Hence, various misconceptions regarding its impact, its application, and its benefit to the national economy and its advantage to simplify the tax administration system were normal in the initial phase of its application. These misunderstandings pave the way for the researcher to think about the gap of the practice of Value Added Tax and the problems it is encountering.

Accordingly, a survey was conducted to identify, access and analyze the practice of VAT by distributing questionnaires for information's gathered from VAT registered taxpayers and employees of JZRA. Based on the results of the findings, VAT Practice has faced different problems when it comes to the ground. The major ones are: administration inefficiency to control noncompliance taxpayers, lack of aware taxpayers, existence of reluctant enterprises to register for VAT, existence of registered enterprises issuing illegal VAT invoices, existence of unwilling customers to buy goods and services priced with VAT, the authority's weak follow-ups and controlling mechanisms against those taxpayers registered but doesn't use proper VAT invoices and those nonregistered enterprises but have a transaction of more than or equal to the threshold level, inability of the authority to render quality services and poor remuneration, and failing of some taxpayers to notify the collection of VAT to the tax offices.

The main causes of these problems were raised not only from the tax laws and proclamations but also from lack of awareness and deliberate resistance not to comply with the VAT laws of the business community, absence of sufficient materials and skilled manpower, the negative attitudes of some business societies towards VAT, weak purchasing powers of the society forcing to search goods and services that exclude the value of VAT from its price, and low remuneration of the tax officers. As the result of these constraints the practice of VAT in Jimma Zone could not meet its objectives as effectively as it was desired.

Due to the absence of sufficient manpower the authority could not perform its activity properly, so some taxpayers couldn't obey the existing VAT rules and regulations. Especially the Authority cannot have tax intelligence. Some of the measures that JZRA has to take to solve the problems stated above were: conducting intensive tax payers education programs, conducting practice seminars, rendering taxpayers advisory services (tax audit), release information through mass medias, conducting forced registration campaigns, trying to strengthen the tax administration systems, and increasing the investigation operations over illegal movements of taxable goods as well as upgrading the performing capacity of employees and improving the networking capacity of the Standard Integrated Government Tax Administration System (SIGTAS).

Currently, the number of tax registrants is increasing in the Zone. Taking this into account the FIRA has delegated regional/city administrations to collect the tax and administer taxpayers with their respective jurisdiction and act as the revenue organ. This can help to reduce mal-practices exercised against the tax system such as reluctance to register, it enhances service delivery, it increases the number of VAT payers as woreda Revenue Authority have more access to the transactions of the traders with their area, thereby increase tax revenue and it enhances tax administration skills of regions Revenue Authority through transfer of knowledge and application of information communication technology as well as sharing of experiences.

5.2. Recommendations

The major recommendations that come out from survey result goes towards both the authority and the business community. The recommendations to the authority are:

- ❖ VAT is increasingly being used throughout the world raise government revenue with less administrative and economic costs than other broad based taxes. Like it has been observed in many developing countries, VAT practice in Jimma Zone has been facing different problems at the initial stage. Since a poorly administered VAT raises less revenue that can change the nature of the tax resulting in unintended economic distortions, the Jimma Zone Revenue Authority (JZRA) has to build its administration capacity on both human and material resources to carry out its duties and responsibilities effectively and efficiently. This can be maintained through hiring of more qualified employees, provision of consistent training and development for staffs. Who will join and who have joined and using advanced information and communications technology so as to improve its administration capacity and control those on compliance VAT payers.
- ❖ There is a strong believe that well-informed tax payer society can be considered as an important asset for the tax officer. Therefore, the authority are advisable conduct a consistent awareness creation programs to up date the business community and the society at large about the concepts, rules and regulations, advantages and uses of the VAT. This can be carried out by intensively educating the public using mass-medias like television, radio, news papers, creating accessible websites, distribution of brochures, preparations of different seminars and workshpos on a regular basis to increaese awareness.
- ❖ Eventhough the primary objectives of VAT in Ethiopia is to raise government revenue, to encourage investment by providing fund for a tax paid on inputs and encourage export by zero rating export items, VAT has not been practiced effectively and meet its objectives JZRA recommended to strengthen its tax administration by delegating responsibilities to Wereda. When the authority delegates responsibilities to wereda they start to acting as an agency : the reluctance of business enterprises to register for VAT,

failure to file returns, non-issuance of VAT invoices violations of VAT laws will be highly reduced, uniformity of VAT system among wereda, quality service delivery, the number of VAT payers as wereda revenue office have more access to the transactions of the traders with their area will be enhanced, thereby increase tax revenue and it enhances tax administration.

- ❖ A threshold for VAT registration has been put in place for administrative purpose. The current threshold level (500,000 birr) is high and hence allows most business communities whose return is below the threshold but actively participating the market competition to stay unregistered. Therefore, the current threshold level should be adjusted into more rational level by considering the increasing number of entities engaging in different business and should be minimized to incorporate at least those business enterprises that are actively participating in the market competition and balance the revenue generated from the tax. This can be carried out by hiring more qualified and professional employees and reducing the threshold to lower level.
- ❖ To reduced the undesirable consequences that may undermine the whole form program, the organizational and human resource recommended to adjusted in order cope up with the increased number of VAT registrants that currently is observing. Particularly, man power requirement advisable to given special attention since the business community is in advance is searching for shortcomings of the administration. To tackle this problems in investigation and ftax officers recommended to strengthen and measures on those tax taxpayers who are constantly failing to comply with the tax rules and regulations advisable to taken.
- ❖ In general the practice of VAT in Jimma Zone has faced various problems such as tax evasion and fraud, false invoices prepared by enterprises, increased numbers of enterprises that collect VAT for for their selves, selling products by offering invoices of VAT exclusive, resistance from the business community against registration for VAT, preparations of understated financial statements and making a business trasaction reports under threshold level after it has launched. However, to sustain the VAT system as a good means to raise government revenue, the Jimma Zone Revnue Authority advisable to

take actions such as: train the taxpayers about the rules and regulations of VAT continuously, recruiting new employees and give continuous training for the existing one, delegate the authority to wereda and recommeable to increase its follow-up and investigation to control noncompliance enterprises, as well as effectively and efficiently performing the tasks of identification of taxpayers, processing of retruns, controlling collectios, auditing taxpayers and levying penalties to tackle the problems it has encountered.

The recommendations forwarded towards the taxpayers and the public are:

In addition to the tasks performed by the taxauthority, the business communities are advisale to conform the currect VAT rules and regulations, develop the culture of tax paying as a sign of modern thinking, pay attentions towards government's effort to collect and fund the long run projects carrying out all through the country, take into account as the government's main source of income to fund to the social and public affairs is the wealth collected and accumulated from taxes, consider paying tax as a means of directly or indirectly putting one's own contribution on charging the life of each citizen and they perform their activities according to the currect VAT laws as well as start to work in cooperation with the authority infighting against those enterprises that are violating the rules and regulations of VAT.

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Appendix A

Jimma University

College Of Business and Economics

MSC Program in Accounting and finance

Questionnaires for officers of the Authority, Jimma Zone

Dear respondents:

You are being asked to participate in a survey that intends to assess VAT Practice and its problems in Jimma Zone Revenue Authority. This study is conducted in partial fulfillment of the requirements for master's Degree in Accounting and Finance by Ato Gadisa Abdata. This is survey questionnaire which is aimed at identifying and collecting data about the practice of VAT and its problem in Jimma Zone. Your response to these questions has a paramount importance to complete the study, confidential and won't be used in any form for another purpose.

I respectfully request your kind cooperation in answering the questions that follow a clearly and frankly as possible and your response will be highly confidential.

Thank you in advance for your kind cooperation

If you have any question, you any contract the researcher by the following addresses:

E-mail: abdetagadisa@yahoo.com

Telephone No: +2510913840834/0923120112

Part I) indicate your agreement on the following questions and put a tick mark in the provided space

Table 1.JZRA staff VAT educational, administrative and technical skill.

No	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
A)	The staff have requisite technical skill to administer VAT efficiently					
B)	The staff requisite educational to administer VAT efficiently					
C)	The Jimma revenue Authority staff requisite training to professionally to administer VAT efficiently					
D)	JZRA man power development plan would improve VAT administration					
E)	JZRA periodic workshops and conferences impart sufficient skill to staff for effective VAT administration					

Table 2.Problems mitigating the effective administration and impact of VAT

Indicate whether the following problems are the real problems affecting the practice of VAT and put a tick mark in the provided space.

N _o	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
A)	Poor relationship between taxpayers and tax officers					
B)	Poor remuneration and motivation of the staff					

Table 3.The registration of VAT

Indicate your agreement on the following questions and put a tick mark in the provided space.

N _o	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
A)	VAT registration process is smooth and easy for taxpayers					
B)	The VAT registered are benefited than nonregistered in the competitive markets					
C)	VAT threshold is fair for registration					

Part II) Select an appropriate answer from the given alternatives and circle it, for other questions please provide your answers on your own words.

1. Do you think that the Authority had made sufficient clarifications to the public about the concept of VAT?

A) Yes

B) No

2. Do you believe that VAT implementation is more advantageous than the replaced sales tax?

- A) Yes B) No C) I have no idea

If your answer for question no.2 is yes, can you mention how it could be please?

3. Do you believe that the practice of VAT in Jimma Zone is successful and achieve its objectives?

- A) Yes B) No

4. Do you believe that the implementation of VAT is important for the development of investment and international trade?

- A) Yes B) No

If your answer for question no.4 is yes, how do you explain?

If your answer for question no.4 is No, can you mention why?

5. What are the critical problems that you face while the practice of VAT in the Zone?

6. What do you think that the alternative solutions to alleviate the problems identified?

7. Any additional information you want to suggest:

Appendix B

Questionnaires for VAT registered taxpayers

Jimma University

College Of Business and Economics

School Of Graduate Studies

MSc Program in Accounting and FINANCE

Dear participants:

You are being asked to participate in a survey that intends to assess VAT Practice and its problems in Jimma Zone especially in Revenue Authority. The purposes of the study are to: assess and describe the practice of VAT in Jimma Zone, identify the inductive factors and investigate the possible problems for the adoption and implementation and recommended solutions to help the program implemented successfully.

I respectfully request your kind cooperation in answering the questions that follow a clearly and frankly as possible and your response will be highly confidential.

Thank you in advance for your kindly cooperation

If you have any question, you may contact the researcher by the following address:

E-mail: abdetagadisa@yahoo.com

Telephone No: +251913840834/0923120112

Part I) Indicate your agreement on the following questions and put a tick mark in the provided space

Table 1.Relevance of VAT to revenue generation, consumption and saving pattern.

No	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
A)	VAT increases general consumption of goods and services					
B)	VAT services encourage individuals to save part of their income					
C)	VAT targets revenue generation for government					

Table 2. About the registration of VAT

Indicate your agreement on the following questions and put a tick mark in the provided space.

No	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
A)	VAT process registration is smooth and easy for taxpayers					
B)	The VAT registered are benefited than nonregistered in the competitive markets					
D)	VAT threshold is fair for registration in Ethiopia					

Table3. Regarding to the rule and regulation and benefit of VAT

No	Items	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
A)	Tax payers(VAT) are familiar with the VAT proclamation and regulation					
B)	Some the tax payers are declared the collected tax to tax offices					
C)	VAT raised more revenue than the sales tax					

Part II): Select an appropriate answer from the given alternatives and circle it, for other questions please provide your answers on your own words.

1. Does the VAT administrative system of the authority is effective?

A) Yes B) No

2. Does the authority give enough training or workshop for your organization?

A) Yes B) No

3. Are the taxes officers are treating all the taxpayers with equal eye?

A) Yes B) No C) I have no opinion

If your answer for question number 3 is “yes” can you mention reason?

4. Are there measures taken by the Revenue Authority to alleviate the problems associated withthe Practice of VAT?

A) Yes

B) No

C) I have no idea

If your answer for question number 4 is “yes” what are the measurements they took?

5. Any additional information you want to suggest:

Appendix C

Interview for Tax Authority managers and process owners

Jimma University

College Of Business and Economics

School Of Graduate Studies

MSc Program in Accounting and FINANCE

Introduction: Good morning/ afternoon. My name is Gadisa Abadata: I am MSc Degree in Accounting and finance students at Jimma University. I am working this Thesis for a partial fulfillment of the requirement for the degree of masters in Accounting and finance. I am currently conducting studies in VAT area: a baseline study to examine the practice of VAT and its related problem in Jimma Zone. You have been selected to participate in this study because of your position in the Regional VAT Bureau/ Zonal VAT department. The findings of this study will be for further research on this area in Oromia. All the information you give will be kept confidentially. First of all I want to thank you for your voluntary to make this interview.

Date: _____

Name of interviewer: _____

Position and name of the office: _____

The interview which is related the practice of VAT and its related problem in Jimma Zone

1. Do you think that the practice of VAT in Jimma Zone achieve its objectives effectively and efficiently?
2. Do you believe that the implementation of VAT is important for the development of investment and international trade?
3. Do you believe that the process of VAT registration is smooth and easy for taxpayers?
4. Does the Authority give the workshop, training, and conference for the taxpayer to create awareness?
5. Does the VAT administrative system of the authority is effective?
6. Do the taxpayers know the rule and regulation of VAT?
7. Are there problems relating to employees in implementation VAT?
8. What do you think that the alternative solutions to alleviate the problems identified?
9. Do you think that the tax administrations are strong enough to control non registered and illegal activities of VAT payers?
10. Is the VAT system complex as compare to sales tax?
11. Do you mention the items that are exempted from the VAT?
12. Do you know that some traders did not declare the tax they collected as per the law