

**CHALLENGES OF VAT ADMINISTRATION AND COMPLIANCE
BEHAVIOR OF TAX PAYERS IN OROMIA REGIONAL STATE
JIMMA TOWN REVENUE AUTHORITY**

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DECLARATION

1. This senior thesis is my original work, and all those sources of material are used for the senior Proposal has been duly acknowledged.

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ABSTRACT

This study examine challenges of VAT Administration and compliance behaviour of Tax payers in the case of Jimma Town Revenue authority. The Objective of the study would be particularly focused on challenges of Value Added Tax Administration and compliance behaviour of Tax payers regarding the Value Added Tax assessment, collection and implementation of Value Added Tax and to assess the main problems related to the Value Added Tax administration activities performance tax office, service delivery of tax office and voluntary compliance of tax payers in the case of Jimma Town Revenue authority. To achieve this objective, the researcher was used to descriptive research design and sample of Value Added Tax Registrants taxpayers and Tax officials of the Authority would be selecting using simple random sampling method and judgmental sampling method respectively. The researcher would use questionnaire and relevant documents to collect primary data and secondary data from sources of data. The Target Population of the study were employees of tax officials and VAT registered taxpayers at Jimma Town Revenue authority. A sample of 290 taxpayers would randomly taken from the 1,061 taxpayers in the Town but tax officers would judgmentally selected by the researcher in order to collect sufficient and relevant information required to prepare the report of this study. Charts and figure and percentage by computer using (Statistical Package for Social Sciences) SPSS Version 21 software would be used to analysing the collected data. Value added Tax Administration in Jimma town on one has faced different challenges. The main problems that encountered are the following such as: Lack of Awareness of Taxpayers, resistance against registrations for Value Added Tax by some traders, weak culture of taxpayers, poor Value Added Tax administration system.

Keywords:

Challenge, Value Added Tax, Jimma Town, Ethiopia

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ACRONYMS

MoFED	-----	Ministry of Finance and Economic Development
IMF	-----	International Monetary Fund
FSS	-----	Forum for Social Studies
FDRE	-----	Federal Democratic Republic of Ethiopia
GDP	-----	Gross Domestic Product
TIN	-----	Tax Identification Number
ORS	-----	Oromia Regional State
ERCA	-----	Ethiopian Revenue and Costumes Authority
VAT	-----	Value Added Tax
SIGTAS	-----	Standard Integrated Government Tax Administration System
OLS	-----	Ordinary Least of Square
SPSS	-----	Statistical Package for Social Sciences

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CHAPTER 1

1. Introduction

The emergence and rapid spread of value added tax is among the most important tax development of the late 20th century. The theory is that the end consumer carries the burden of Value Added Tax, not the business, which is merely collecting the Value Added Tax on behalf of tax authority. Different scholars also define value added tax as a percentage tax on a value added applied at each stage of production. It is a type of indirect tax, nowadays found in more than 130 countries and has become the principal source of revenue for many countries (Kassu, 2011).

Ethiopian government has introduced Value Added Tax (VAT) in 2003GC as a replacement to sales tax. Currently VAT is the principal source of revenue for the government. For example, in 2006- 2007GC fiscal year, federal VAT revenue accounted for about 41 percent of total federal tax revenues from domestic sources (wollela A, 2008).

Value-added tax falls under the general category of a consumption tax, meaning taxes are paid on what people buy rather than on their earnings, savings, or investments. VAT has also been referred to as a sort of national sales tax, though it functions very differently. Sales tax is imposed on the total. (Encyclopaedia of Management, 2009). In Ethiopia, according to IMF (2003), one of the focuses of the tax policy reforms is reforming indirect taxation. The main reform to indirect taxation was the introduction of VAT in January 2003. However, weak tax administration, particularly in developing and transitional economies is the principal impediment to the successful implementation of VAT.

According to wollela, VAT has been more productive than sales tax since its introduction. To sustain VAT's revenue role in government's finance it is important to ensure that revenue collection through should be as effective as possible.

However, in Ethiopia revenues generated through VAT is usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT

administration, i.e., the incapability of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design feature of VAT and achieving government's policy objectives at large (Wollela A, 2008).

1.1 Background of the study

Tax administration is important activity in tax collection because it is the source of revenue for government. A good Tax administration is essential in fully implementing the design feature of VAT and achieving government's policy objectives at large. This thesis deals with the Administration of value added tax (VAT), focusing on the ORS Jimma town Revenue authority. Ethiopia needs to increase its public revenues to reduce the high level of poverty in the population (Tesfaye, 2014). One way of improving poverty is via generating higher revenues that will finance public expenditure. From the different sources of raising public revenue, taxation is one of a system of raising revenue by a government. It is the system of collecting money by government to finance government operations (Tesfaye, 2014).

According to explanation given by Yesegat (2015) on the Addis Ababa- Forum for Social Studies (FSS), tax revenue performance in Birr value shows increasing trend overtime with indirect taxes accounting for the largest share of tax revenue. Moreover, the VAT and customs duties have major contribution to the total tax revenue, and as a result, tax revenues currently cover nearly 70 percent of the total government expenditures.

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

According to the World Bank, cited in Ayele (2013), the Ethiopian tax revenue to GDP ratio was only around 9.5% out of expected 13%, while sub-Saharan country has 16% of tax revenue to GDP ratio. As a result, it contributes for deficit problem in Ethiopia every year. But VAT is the principal source of revenue for the Ethiopian government (Dheressa, et al, 2015). Since VAT is applied on the value added at each stage of production and distribution, it solves the tax cascading effect and reduces tax evasion with its modern administration system that sales tax cannot. For this reason, VAT has been more revenue productive than sales tax (Mesfin and Bogale, 2009). To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible.

In order to make up sufficient revenue from VAT, it needs efficient and effective tax administration. However, in developing countries like Ethiopia, there would be several problems that hinder effective VAT collection and assessment (Yesegat, 2008). This thesis would be examines trial to investigate and analyze the current Problems of VAT administration activities regarding VAT assessment and collection processes at the ORS Jimma town Revenue authority.

1.2 Statement of the problem

Obviously, a properly designed and administered tax system is very vital in generating revenue as well as increasing the tax base to the government of developed, developing, and transitional economies. As Bird (2008) noted, it is unquestionable to ensure that the revenue collected from favour in countries that are politically fragile. However, the tax bases of developing countries are adversely affected by administration problems including poorly conceived tax policies and lack of certainty regarding future policy changes. In addition, tax administrations can also create problems for the taxpayers as they impose onerous reporting and record keeping requirements, perform excessive assessment and collection, fail to deal with their corrupt employees, and failure to provide transparency in the operations of tax administration (Baurer, 2005). In reality, under inadequate tax administration including insufficient and ineffective tax administration, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner Edmiston and Bird (2004).

In Ethiopia, taxation has been used for the purpose of raising as much revenue as Possible to support the ever-expanding public expenditure needs of the different levels of government. It is also a mechanism for reduction of inequalities in income distribution, promotion of capital investment and trade, encouraging and/or discouraging certain industries depending on how suitable for country's economic development program.

Generating revenue from VAT in Ethiopia is frequently lower than expected. So, the government resolves to increase VAT revenue and to improve tax administration system on one side and taxpayer compliance on the other side. This creates problems on the business sectors. Some studies which have been undertaken in other places of the country (Markos,2010; Dheressa et al.2015; Bizualem,2015) have indicated that: lack of awareness by the side of the VAT payers while fulfilling their obligations, ineffectiveness and inefficiency of the Tax Authority, poor service delivery, total distrust between the Tax Administration and taxpayers, lack of simplified procedures, lack of the enforcement mechanism, resistance against registrations for VAT by some traders and weak culture of taxpayers are some of the major problems in VAT Administration.

According to Dheressa et al. (2015) to many potential problem of Value Added Tax implementation of East wollega Zone Value Added Tax administration is poor due to many factors, such as: difference in culture Value Added Tax registrant, lack of self-registrant, lack of awareness among the potential tax payers about the importance of Value Added Tax and poor tax collection system still exists.

When it comes to Ethiopia, Specifically in Jimma Zone there are few researches done on the Tax Compliance. For example, the studies conducted by Amina and Saniya, 2015 tax compliance and its determinant the case of Jimma zone the office has to work on education the young generation about the tax system and the benefit it has to the society as a whole, try to make the whole tax system as fair as possible with regard to the benefit received for paying tax and the tax burden of paying it, to expand and make more regular and consistent auditing still putting in mind the cost associated with it, work on bringing a good reputation in providing public service and making the tax system simple in general and the law, the forms, the filling, the paying and appeal system in particular in order to increase the tax compliance in one hand and the tax revenue in general. Non-compliant taxpayers take a

variety of actions to reduce their tax liability (Amina and Saniya, 2015). Negative tax voluntary compliance attitude is individuals' failure to comply with their tax commitment.

This study assessed VAT administrative activities in the **Oromia Regional State Jimma Town Revenue Authority**. A key question is whether the Jimma town collects the potential tax through voluntary compliance or not? So that it has examined the constraints using both primary and secondary data in a view to improve the town VAT administration, so as to collect the potential tax from individual taxpayers in the town and can yield adequate revenue for the Oromia regional state and over all national Treasury.

Unfortunately, to the best knowledge of the researchers, it seems like there was no recorded study that has been conducted in the Jimma town to explore reason behind VAT administration regarding VAT assessment and collection. Therefore, in addition to examining difference in culture Value Added Tax registrant, lack of self-registrant, lack of awareness among the potential tax payers about the importance of Value Added Tax and poor tax collection system still exists to identified gaps, this study would be design to examine VAT administration regarding current problems of VAT assessment and collection process at the Jimma Town Revenue authority to recommend possible solutions to the problems that help the Tax Authority to incorporate measures that address these pitfalls while collecting tax.

1.3. Research Questions

The study would attempt to answer the following research questions.

1. Do the registered taxpayers perform their work in compliance with current rule and regulations of the VAT?
2. What are the extents of the taxpayer's awareness towards VAT collection?
3. What are the problems facing the taxpayers?
4. What are the problems facing the Jimma Town revenue authority?
5. What are the major factors which hinder ORS Jimma town Revenue authority to monitor and audit VAT registrants, and to improve voluntary compliance and service delivery?

1.4 Objective of this study

1.4.1 General Objective

The main objective of the study is to investigate challenges of VAT Administration and compliance behaviours of Tax payers practice in Jimma town Revenue authority.

1.4.2 Specific Objectives

Given the overall objective of investigate challenges of VAT Administration and compliance behaviours of Tax payers practice in Jimma town Revenue authority, specifically, the study focused on the following objectives..

1. To examine VAT registration compliance behaviours practice in respect of Registered taxpayers in Jimma town revenue authority.
2. To study VAT assessment practice in respect of registered taxpayers in Jimma town revenue authority.
3. To investigate VAT collection practice in respect of registered taxpayers in Jimma town revenue authority.

1.5. Significance of the study

The finding of this study can help in identifying the existing challenges posed on the successful VAT administration of the ORS Jimma town Revenue authority in general. By identifying the major constraints, the main findings of the study would be expected to indicate the strategic intervention areas that might improve the administration of VAT by the town revenue authority.

Thus; policy makers to amend the law so as to make it simple and easy mainly for small and medium taxpayers, as well as the authority officials in order to collect the potential tax and to increase voluntary taxpayers, the researcher in fulfilling his masters degree and upgrading his research skill, taxpayers in broadening their knowledge in the area, practitioners, and other users benefit from this study. The study was also serves as springboard to investigate uncovered areas and to use it as a secondary data in due course of further research.

1.6. Scope of the study

The study would be focus particularly on the VAT Administration in ORS Jimma town Revenue authority due shortage of time and finance to address the entire tax issues in Jimma town revenue authority. Besides, this study would address the challenge of VAT administration affecting the revenue mobilization in ORS Jimma town Revenue authority.

In examining the constraints in terms of administrative activities, the study would only assessed the challenge of the town in administering the VAT. The rational for selecting this study area would be the town that hosts large number of VAT payers and the VAT is relatively the potential source of revenue to the government so it's good administration has high positive impact on both the potential revenue collection and improving the taxpayers' compliance.

1.7 Organization of the paper

The paper would be organized in five chapters; the first chapter would be introduction, the second chapter review of literatures, the third chapter research methodology, the fourth chapter data analysis and presentation, the fifth and final chapter conclusion and related recommendation.

CHAPTER 2

2.0. LITERATURE REVIEW

2.1. Introduction

This chapter explores the theoretical discourses as well as the empirical facts about VAT administration conducted by different scholars, and in different countries. Therefore, it is structured as follows; conceptual framework, empirical framework which includes empirical literature on the VAT administrative activities and the main determinants of VAT administration, empirical evidences of effects of weak VAT administration, and empirical literature on Ethiopia.

2.2. General overview on Tax

Taxes are divided in to two main categories, direct and indirect. Direct taxes are taxes, which suffered by tax payer, where as indirect taxes are paid to tax collector by some others (Lymer, Andy and Hancock, Dora, 2003).

I). Direct Taxes

Direct taxes are taxes imposed on direct income of any individuals or company, (Federal Democratic Republic of Ethiopia Indirect Tax (FDRE IT), Proclamation No. 286/2002).

These taxes majority have progressive rates; however, other has fixed (flat) rate that generate tax income progressively and proportionally related to taxable persons income respectively. These are: Employment Tax, Building Rent Tax, Business Profit Tax, Other Income Taxes (Tax on interest Income on Deposits, Dividend Income Tax, Royalties Tax on Income, Games of Chance Tax on Income, Gains of Transfer of Certain Investment Property Tax on income, Rental of Property Tax on Income, and Rendering of Technical Services outside Ethiopia Tax on income) (Misrak Tesfaye,Msc, 2008).

II). Indirect Taxes

Indirect taxes are imposed by government and collected by taxpayers assigned by law from consumers for the transaction service they get goods or service from market. These taxes are turnover, Value Added, Excise, Customs duty, and Stamp Duty. (FDRE IT Proclamation No. 286/2002).

2.2.2 Ethiopian Values Added Tax Administration

Here, the researcher would try to identify the administration of VAT and the legal reaction against the braking entities.

2.3. What is Value Added Tax?

As the student researcher tried to mention earlier that VAT replaces the sales tax on manufactured and imported goods and services in Ethiopia January 2003 (FDRE VAT Proclamation No. 285/2002). According to this proclamation, VAT in Ethiopia is payable if they are: supplies made in Ethiopia, made by a taxable person, made in the course of furtherance of a business, are not specifically exempted or zero rated. Supplies, which are made in Ethiopian, not exempt known as taxable supplies.

As it was also tried to mention earlier that, VAT is an indirect tax type, which is imposed on consumption or spending. VAT is collected from sales of the value added of goods and services, starting from importers and producers ending with consumers through the conditions of whole selling and retailing.

VAT applied on the value added meaning a producer for example provides final product to sell, performs different activities like spending direct and indirect costs and administrative cost except VAT and prepaid income tax. Doing that, value is created. This value is liable to tax, (FDRE VAT Proclamation No. 285/2002).

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

2.4 VAT Rate

The applicable rates to the tax base differ from country to country. Some developing countries have adopted VAT with a single rate and others with a multiple rate. The rate can be tax inclusive (rate applied to tax inclusive base) or tax exclusive (rate applied to tax

exclusive base). In practice, few countries such as Brazil and Bolivia use tax inclusive while most countries such as Kenya, Senegal, adopt tax exclusive rate. Ethiopian VAT law follows a VAT exclusive approach where by the price indicates only the value of the good and the VAT will be imposed after that (Gebreegziabher, 2012).

The Ethiopian VAT rate is also single rate of 15% and tax exclusive (Proc. No. 285/2002). This rate is comparably less than other countries such as Kenya (16%), Colombia (45%), Argentina (27%), Uganda (17%) and Senegal (20%). On the other hand, zero rating is the mechanism under VAT system by which the tax can be completely removed from a particular product or services or from a particular transaction does not include on the tax base (Schenk and Oldman, 2007).

2.5. Importance of VAT Administration

According to Asamnew (2012), tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of tax systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population. In recent years, the shift away from these taxes corporate income and progressive individual income tax and toward tax systems that rely more on broad based consumption taxes such as the value added tax, flatter rate structures, and the adoption of “dual income taxes,” in which a progressive tax on labour income is accompanied with a low flat rate tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments.

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994). Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explained by changes and differences in the environment, resources and technologies available to the country’s tax administrators.

Governments require tax administration to produce revenue from private entities to provide public goods and services. Tax compliance costs can be defined as all the costs borne by businesses and individuals for complying with tax regulation, excluding the costs of the taxes themselves. As tax system implementation is largely concerned with information processing, the bulk of costs of tax compliance are caused by information obligations, for instance, record keeping, filing in tax returns with data etc. Tax is compulsory payment to government without expectation of direct return or benefit to tax payers. It imposes a personal obligation on the tax payer. Taxes received from the tax payers, may not be incurred for their benefit alone. Tax revenue is one of the most important sources of government income.

Taxation is the powerful instrument in the hands of the government for transferring purchasing power from individuals to government (Gebre, 2006). Taxpayers are more likely to comply voluntarily when the tax administration: (1) adopts a service oriented attitude toward taxpayers, and educates and assists them in meeting their obligations; (2) creates strong deterrents to non-compliance through effective audit programs and consistent use of penalties; and (3) is transparent and seen by the public to be honest, fair, and even-handed in its administration of the tax laws (Andrew Okello, 2014).

2.6 Tax administration challenges

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of “tax potential” of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor,1980).

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve

macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers (Kaldor, 1980).

Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure.(Kaldor, 1980).

Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF, 2006).

2.7 Efficiency of Tax Administration

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. This will mean extending the VAT to all but a few goods and services (notably export, which should be zero rated, and banking and insurance services, where it may be difficult to determine the amount of value added to taxed) (Asaminew, 2012).

Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. In traditional countries, tax administration can be organized respecting the functional principle (collecting, recording, auditing and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing

number of taxpayers, many of which particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers.

This can lead to the decrease of their compliance, resulting with lower total revenue. Next should be improved auditing and follow up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code (Asamnew, 2012).

2.8 Improve Tax Administration

In reform of tax administration the importance of tax structure is clearly reflected, because tax administration and tax structure are interconnected and they have to be improved simultaneously in the tax reforms (The World Bank, 2011).

Reaping revenues from tax rate changes (whether up or down) requires effective tax administration. Raising revenues through base expansion requires even better administration. New taxpayers must be identified and brought into the tax net and new collection techniques developed. Such changes take time to implement. The best tax policy in the world is worth little if it cannot be implemented effectively. What can be done to a considerable extent inevitably determines what is done. One cannot assume that whatever policy designers can think up can be implemented or that any administrative problems encountered can be easily and quickly remedied. How a tax system is administered affects its yield, its incidence, and its efficiency.

The tax administration should provide impartial and professional courteous service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear, understandable and current tax information and will make this information available to tax payer through various media and provide timely, accurate written information that one can rely on to questions and requests for tax information (Asian

Development Bank, 2001). Education and information programs on specific tax issues should be arranged with taxpayers to enhance their awareness and taxpayers should be allowed to voluntarily disclose their tax situation without incurring a penalty or being prosecuted for tax violations under certain conditions (Asian Development Bank, 2001)

2.9. Empirical literature on Ethiopia

In Ethiopia, VAT was introduced in January 2003. The VAT Proclamation No.285/2002 states that VAT is collected from those VAT registered taxpayers whose annual turnover is above the threshold of Birr 500,000. It is applied at a uniform rate of 15% on all goods and services, with zero rates for exports. It provides tax exemption for services like transportation, education, finance and others, also for goods such as kerosene.

According to the Ministry of Revenue (2004), in 2003-2004, VAT revenue collection has shown an increase trend as compared to the replaced sales tax. However, the efficiency ratio (the ratio of VAT revenue to GDP divided to standard VAT rate) was about 14 % for the year 2003-2004, which was lower than the average efficiency ratio of Sub Saharan African countries (27%).

Regarding revenue raised by VAT, in Yesegat (2008), the Federal Inland Revenue Authority (2007) indicated that VAT is the principal source of revenue for the country. For instance, at the Federal level, from 2007/8-2009/10, on average in each year, the share of the VAT to total tax revenue is about 38.55% (FRCA, 2010). In Addis Ababa, in the same year, it amounts to 21.43% (AACRA, 2010).

A study made by Wollela Abehodie (2008) examines VAT administration in Ethiopia and identifies key problems including lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing and filing requirements. The paper suggests that in Ethiopia attempting to implement what is legislated in the main areas (such as refunds) deserves the government's due attention. The study also emphasizes the need to strengthen the administration capacity in general and the tax audit program in particular.

In Ethiopia revenues raised by VAT are usually gathered at the expense of erosion in its main features. So, this is due to VAT administration problems particularly for key VAT

administrative functions like VAT assessment and collection. In order to make up sufficient revenue from VAT it needs efficient and effective tax administration. However, developing countries like Ethiopia, there would be several challenges that hinder effective VAT collection and assessment (Yesegat, 2008).

Furthermore, the paper assesses the assignment of VAT revenue to regional governments and the decentralization of its administration. This paper examined how VAT administrators in Ethiopia perform their duties and how the effective taxation requirements differ from the legislation (focusing on the key administration tasks).

In addition, the outcomes showed a capacity of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority. This, in turn, is attributable to limited tax administration resources. It is hence suggested that the government would better look at the possibility of making sufficient resources available for the administration of VAT.

However, considering the role of VAT administration in the overall financial system of the Ethiopian government, allocating reasonably sufficient resources is worthwhile to consider. Generally, one can see that empirical studied under taken the above researcher not to account specific area of the tax administration and specific area of tax payers. So that this Study focuses on VAT collection problem of vat payers particularly small scale tax payers.

In terms of the VAT administration problem, Yesegat (2008:145) stated “in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, that is, the incapacity of tax authorities to implement the attributes of the tax in practice.” To show some indicators of VAT administration problems, for instance, in Jimma town revenue authority Revenue Office, as the first quarter report of 2010/2011 indicates, among the 1,061 VAT registrants, on average, in each month, 242 are nil filers. In addition to this, if we compare the gap between the amount of VAT collected and refund claimed, on average in each month, 650 registrant’s paid Birr 4,502,009.00 Whereas 169 registrants claimed refund of Birr 810,467.00.

Therefore, in Ethiopia the revenue collecting from VAT is better than the replaced sales tax. However as reports indicates, like in Jimma town revenue authority, there is low voluntary compliance which is the sign of weak VAT administrative activities and in effect poor VAT administration.

2.10 Challenges of Taxpayers and Tax authority

Dheressa et.al, (2015), the study was particularly focused on challenges of VAT Administration regarding the assessment, collection and implementation of VAT .Their survey result showed that, most of the business entities have not comply with the laws and regulations of VAT and they committed illegal activities by preparing fake invoices and they remitted the tax income for themselves rather than to pay the government. Concerning the side of the Authority, it is incapable to identify and control business enterprises that are noncompliance with the laws and regulations of VAT. They recommended in their study that the Authority should strengthen its follow-up, appraise the performance of existing, recruit qualified new employees, strengthen its controlling mechanisms, improve its administrative systems and prepare programs to provide intensive education to the society about the benefits, rules and regulations of taxes specifically VAT.

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

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

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced

by taxpayers and the tax authorities in administering different tax activities such as tax assessment and collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the assessment and collection activities.

2.11 Conclusions to the literature review and knowledge gaps

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

In addition, the outcomes showed a capacity of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority. This, in turn, is attributable to limited tax administration resources. It is hence suggested that the government would better look at the possibility of making sufficient resources available for the administration of VAT.

However, considering the role of VAT administration in the overall financial system of the Ethiopian government, allocating reasonably sufficient resources is worthwhile to consider. Generally, one can see that empirical studied under taken the above researcher not to account specific area of the tax administration and specific area of tax payers. So that this Study focus on VAT administration problem among tax payers.

CHAPTER 3

3.0. RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

This study therefore, designed within the framework of descriptive research approach Descriptive research studies were designed to obtain information, which concerns the current status of phenomenon (Saunders, 2007).

A cross sectional survey design that were used employed in this study. Both qualitative and quantitative approaches to data collection and analysis would be employed in order to get an in-depth understanding of the phenomenon under investigation and to confirm completeness for instruments Amin, 2005).

3.2. Target Population

A population is a group of items that a sample is drawn from. The target population that defined as suitable for this study would employees of tax officials and VAT registered taxpayers at Jimma Town Revenue authority to collect different information on the problems of VAT administration.

3.3. Method of Data Collection

The survey method would be conducted using a questionnaire for both tax officials and VAT registered taxpayers. The interviews would be made for those most related process owners in administration. The questionnaire would prepare in Both English and Amharic language for the tax officials and it would classify into two sections. The first part of the questionnaires would be design to collect participants' profile (background information), whereas, the second part of the questionnaire will be focus on VAT related issues that addresses the research questions. In addition, the study would be used Jimma Town Revenue authority Taxpayers office's report, documentary review, and brochures in relation to VAT administration.

3.4 Types and Sources of Data

The study would use descriptive type of research whereby both primary and secondary data used. The reason for using such type was due to simplicity and the nature of the topic selected. The primary data would be collected from two sources; from the taxpayers and tax officials. The primary data from the tax payers collected through questionnaire and the data collected from the tax officials through questionnaire and interview. On the other hand in the secondary data collection section the data collected from the Jimma Town Revenue authority document materials, different publications as well as reports on the VAT assessment and collection.

3.5 Sampling Design

In order to select the appropriate representative of the total population and to make the research findings more relevant and accurate, the sample design well structured. So, the researcher designed the sample as follows.

3.5.1 Sampling Technique

Depending on the nature of the respondents, the study would use two sampling design methods: the simple random sampling and the purposive method. According to Kumar (2011), simple random sampling is the most commonly used method of selecting a probability sample, whereby, each element in the population is given an equal and independent chance of selection. Whereas, in the purposive sampling the primary consideration is our judgment as to who can provide the best information to achieve the objectives of our study.

3.5.2 Sampling Frame

The sampling frame for VAT registrant taxpayers would be the registration list of taxpayers in the Jimma that consists of 1,061 VAT payers currently. Beside that the number of tax officials in the town has 157. Whereas for the tax officials, employee registration list of the town Tax Payers Branch Office would be used.

Therefore, the simple random sampling technique would be used for the taxpayers and the purposive sampling method would be used to select proper officials from whom relevant

information gathered. From the total population of the VAT registrant taxpayers of the Jimma Town Revenue authority, the sample size was determined. The selection of individual taxpayers would be done by simple random sampling. On the other hand, tax assessors, tax collectors, tax enforcement and tax auditors selected to gather proper and relevant information. For this case, purposive (non-random) sampling technique would used on their responsibility.

3.5.3 Sample Size Determination

Sample is a small or selected group used to represent the whole. The sample size that would be used to represent the whole population would be determined using the Yaro Yamane as it would not be easy to use the entire population.

The “Yaro Yamane” (1967), Formula is as stated below

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

Where

n = Sample size

N = Finite population

1 = Constant

E = Level of significance taken to be 0.05

$$n = \frac{1061}{1+1061(0.05)^2}$$

$$n = \frac{1061}{1+1061(0.0025)}$$

$$= 290$$

For the tax officials since they were selected purposively according to their responsibility 12 from tax assessment, tax collection 12 employees, Tax Enforcement 12 employees and 12 process owners from tax audit, 48 employees of Jimma Town Revenue authority would be selected.

3.6 Data Collection Methods

Primary data would collect through questionnaire which includes closed and open ended questions for the tax payers as well as officials. The questions prepared for the tax payers

included close ended; that are two alternatives, and with four alternatives. On the other hand, some questions designed open and this type of question would be prepare to gather information freely which would not covered by the close ended questions. The interview questions would design for the process owner of the town office, and this would be designed to gather information from the respective bodies and to strengthen the data. An in-depth interview would be conduct on face-to-face basis.

3.7 Data Presentation and Analysis

The main target of data analysis is to summarize the collected data and organize them in order to draw appropriate conclusion from the findings. In the data analysis involves three major steps. The first step is cleaning and organizing the data for analysis (Data Preparation). Since the type of research study would be descriptive and data gathering tools would questionnaires and interviews data collected from survey questionnaires would be carefully coded and checked for consistency and entered into Statistical Package for Social Scientists (SPSS) Version 21. The next step is describing the data (Descriptive Statistics). The statistical analysis would conduct based on Percentages, Tables and Figures by applying Excel programs. It provides simple summaries about the sample and the measures. The last steps would be to try to generalize from the sample data what the population looks like or how the population looks like. The quantitative data would be analyse and interpreted using percentages. The qualitative data analysis would be express in terms of attitudes, opinion and observation. The results of all analysis would be present in tabular forms.

3.8. Ethical considerations

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

The researcher has taken in to account the dignity and safety of the research participants. Participants have been given enough time to fill and return the questionnaires in order to enhance the validity of the information and for not infringe their precious work time. The respondents are not enforced to participate in the study .rather; the researcher has convinced

them by explaining the general objectives and confidentiality of the information, the area and time taken to finish the questionnaire. In addition, the researcher respects the work of previous investigations and cited appropriately those works that has been taken as a basis. The researcher has never exposed the specific raw data of specific tax payer for anyone else and would strictly confidential.

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

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This study was designed to assess problems related to VAT administration in Jimma with emphasis on Jimma Town Revenue Office. The research studied VAT administration problems regarding Registration, Assessment, Collection, Investigation, Refund and Taxpayers Service Delivery practices

The results obtained based on the data collected from respondents are presented and discussed in this chapter. It shows general characteristic of the respondents, the response rate and findings of the study about the effectiveness of the Jimma Town Revenue Office and the determinant factor that affected sound administration of VAT on the basis of the objectives of the study.

4.2 Response Rate Analysis

The field survey result indicates that from 290 questionnaires distributed to VAT registrant taxpayers in Jimma town, 234 were returned representing 80.6 percent, and from 48 questionnaires distributed to tax officials in the Town, all were returned representing 100 percent. In addition, interviews were held with four process owners of the Town. According to (Babbie, 2002) , any response of 50% and above is adequate for analysis and therefore, the response rate of 80.6% is satisfactorily.

4.3 Demographic Data

4.3.1 Backgrounds of VAT Registrant Taxpayers

VAT registrant taxpayers are the main witnesses to explain the VAT administrative activities of the tax office. The survey result in this section reveals the gender, level of education, type of business and their experience as VAT registrant.

Table: 4.1: Genders of VAT registrant taxpayer respondents

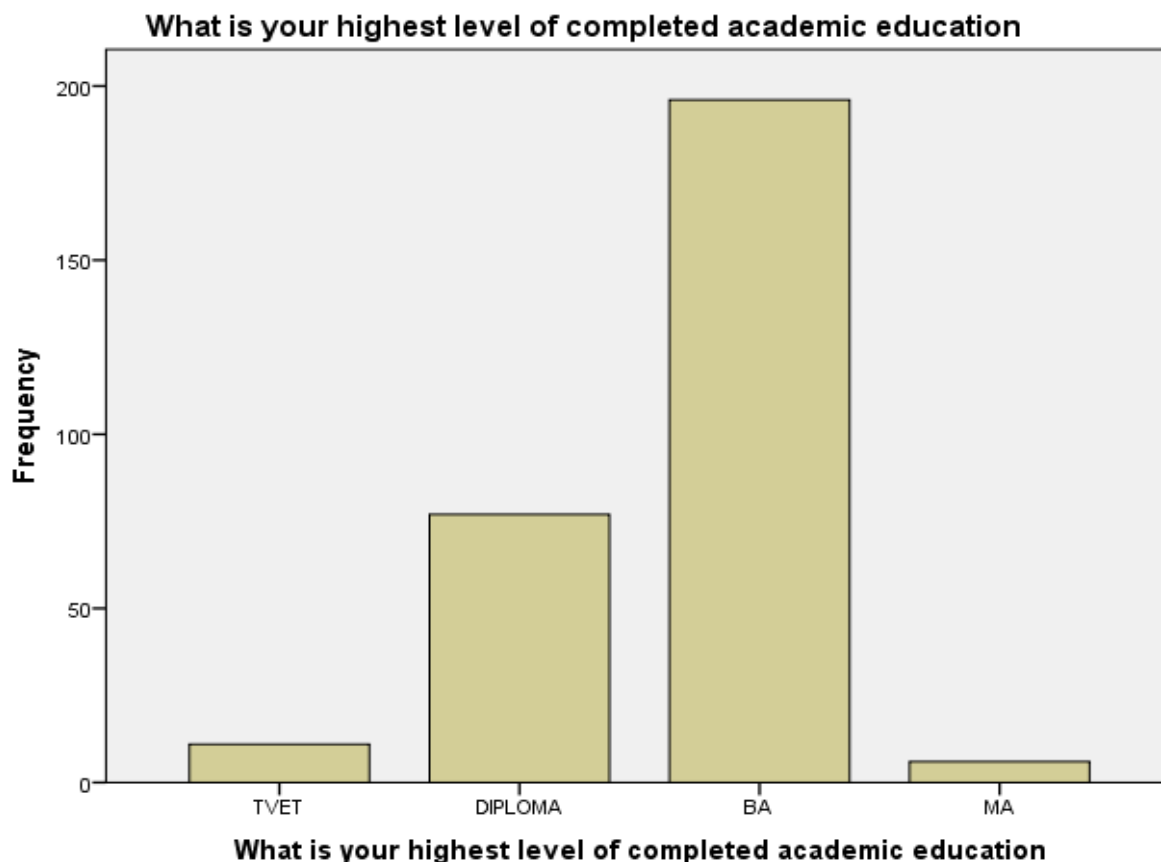
Please indicate your gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	151	64.5	64.5	64.5
Valid Female	83	35.5	35.5	100.0
Total	234	100.0	100.0	

Source: Field Survey Result 2020

As shown in Table 4.1, the major characteristics of the questionnaire respondents are presented in terms of gender. In term of gender, the study respondents can be classified into 64.5 % as male and 35.5 % as female which suggests that high status jobs in trade areas are male-dominated and this is an indication that both genders were involved in this study.

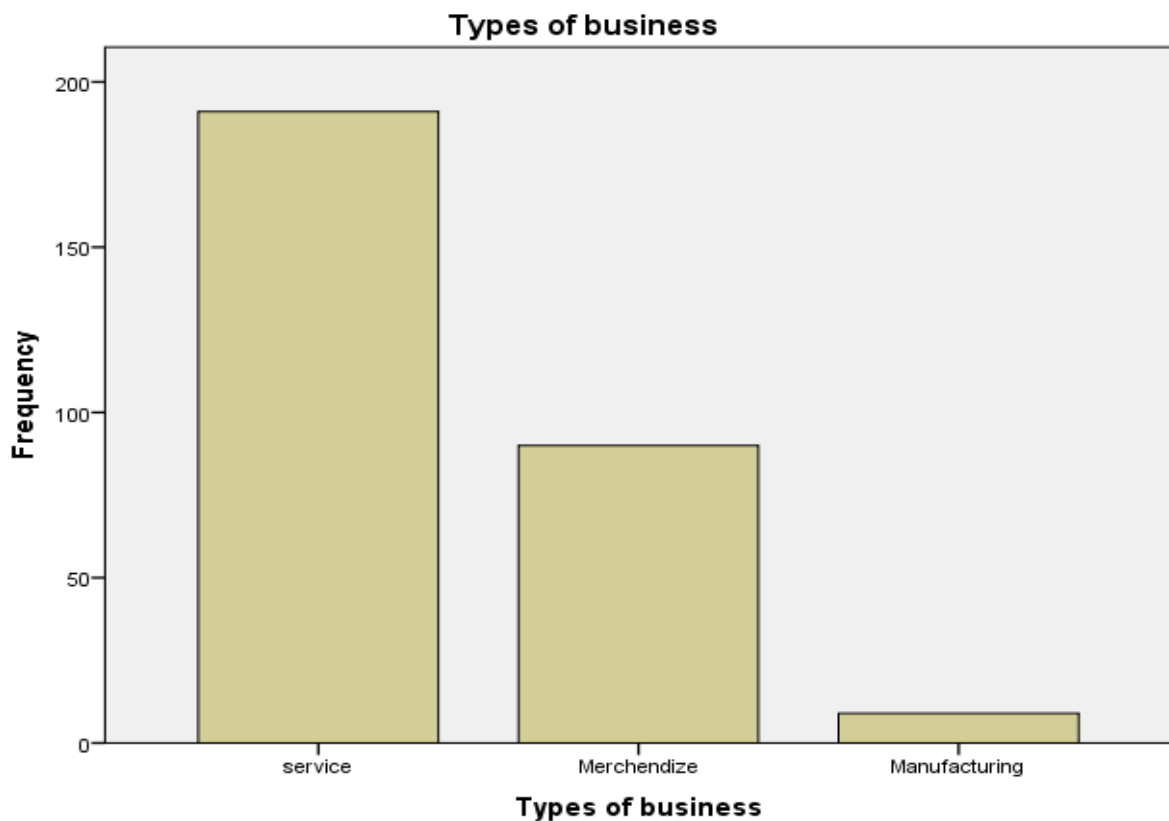
Figure 4.1: Level of education of VAT registrant taxpayer respondents



Source: Field Survey Result 2020

As the figure shows, among 234 respondents of VAT registrant taxpayers, 3.8 % were TVET; 26.6 have a Diploma 67.6 have First Degree, 2.1 were Master. These shows the majorities of the respondents have bachelor degree which enables them to provide more reliable information for this study and enable the respondents to have idea on the area of VAT administration and challenges and also shows that the respondents are qualified enough to easily understand and respond the questionnaire correctly.

Figure: 4.2 Business types of VAT registrant taxpayer respondents



Source: Field Survey Result 2020

The survey was made by grouping the taxpayers in three business sectors. As shown in the table above from 234 taxpayers around 8.62 percent of the respondents were manufacturing, 23.28 percent were wholesalers and retailers, and 68.01 percent were service provider. This implies that majority of VAT payer are Service providers.

Figure: 4.3. Experience distribution of VAT registrant taxpayer respondents



Source: Field Survey Result 2020

As indicated in the figure, most of the respondents registered for VAT in the last six years. This implies that majority of the respondents do have adequate experience and knowledge of VAT. So, Tax payers in jimma town have enough experience and knowledge of about VAT.

4.3.2 Backgrounds of Tax Officials

The response of tax officials of the Town was also very important to evaluate the effectiveness of their office in VAT administration and also to understand the thought of taxpayers towards VAT. They were composed of 12 from tax assessment; tax collection 12 employees, Tax Enforcement 12 employees and 12 process owners from tax audit. All of them which accounted for 100% did respond their position.

The remaining part of this section reveals the gender, level of education and their experience.

Table: 4.2. Genders of tax official respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	30	62.5	62.5	62.5
Female	18	37.5	37.5	100.0
Total	48	100.0	100.0	

Source: Field Survey Result 2020

As shown in Table 4.2, the major characteristics of the questionnaire respondents are presented in terms of gender. In term of gender, the study respondents can be classified into 62.5 % as male and 37.5 % as female, So that this implies that the majority of the office was dominated by male. This leads to the level of involvement in the government office has a significant difference between male and female tax officials. Educational background of tax official respondents, all have first degree. As indicated in the result more of the respondents, which accounted for 61%, were in their position not more than three years. This implies that the tax officials' respondents have not enough experience and idea about the VAT Administration.

4.4 Findings of the Study

4.1.1 The Existing Tax Collection Performance

The Oromia Revenue Authority Jimma-Town Revenue authority tax collection during 2007 to 2011 were as follows .However the Town collects tax and non tax revenues, the study dealt with only tax revenue collection performance of the Jimma Town Revenue Office.

4.1.2 The Jimma-City tax collection performance trends

Table 4.5 TAX Collection performance

Year	2007	2008	2009	2010	2011
Amount	108,220,746.02	133,999,822.53	119,405,885.16	167,329,873.23	200,688,864.00

Table 4.5 shows that the Tax collection has dramatically increased from 2007 of 108,220,746.02 Birr to 200,688,864.00 Birr in 2011. Its share to total VAT revenue in Jimma town has grown from the level of about 16 percent in 2007 to level of 54 percent in 2011 This is because of the sources of VAT expansion made by the government of Ethiopia. In 2007, the tax collection performance was increased from 108 million birr to 2011 of 200 million birr dramatically at the growth rate of 54 % on the performance of 2007; and as a result of this, more than 92 million birr was collected over the performance in the year 2007. The increase in the performances of the Tax revenues indicates us that the maximum efforts were taken to create and ensure the necessary awareness about the Tax Law in the minds of the community or tax payers, to register all illegal tax payers and used efficient and effective tax collection system and used appropriated enforcement mechanisms.

4.2 The Existing VAT Administration and its Main Constraints in Jimma Town

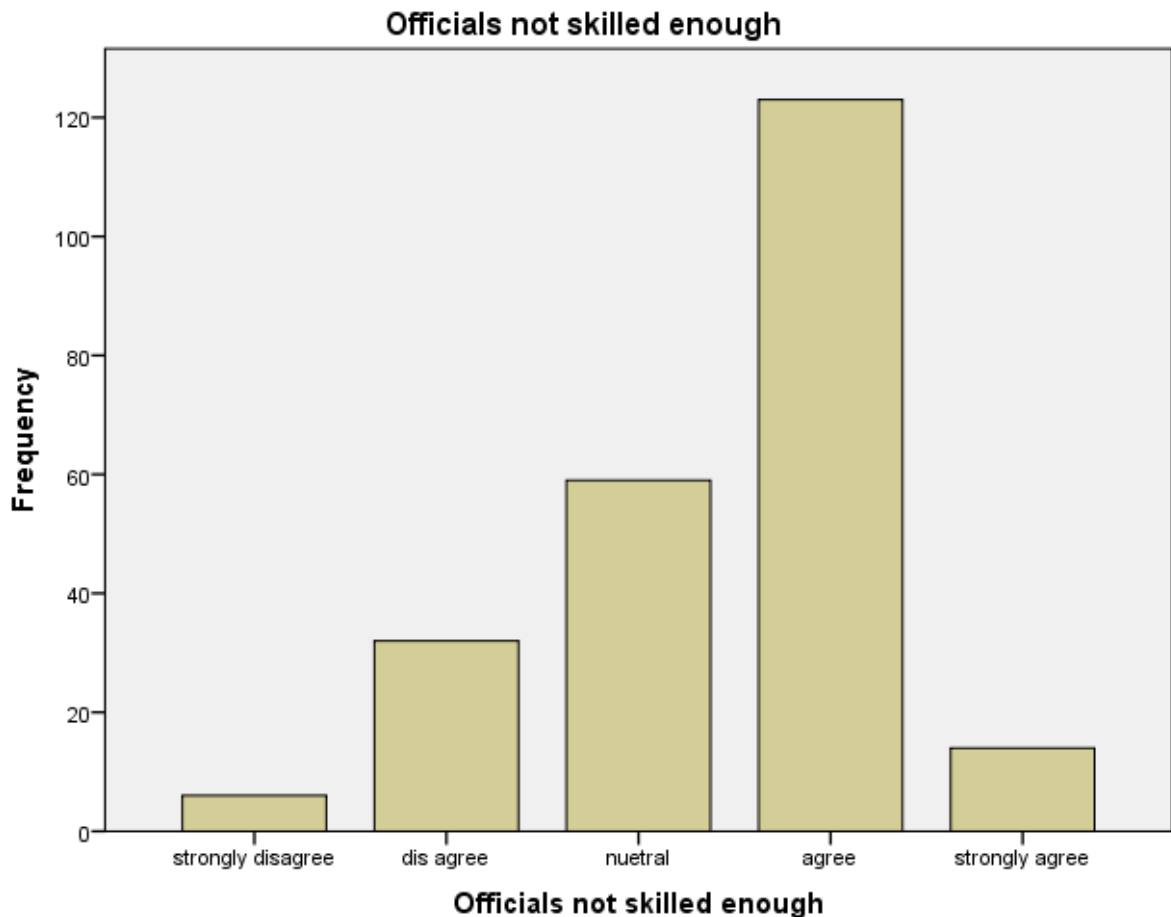
The following section presents the findings of the study on the existing VAT administrative practices and the main challenges at Jimma-Town in VAT administration. Particularly, the practices and constraints in taxpayer identification and registration, VAT collection, VAT auditing and enforcement activities as well as voluntary compliance practices of taxpayers in the Town.

a), Taxpayers identification and registration practices and its constraints

The VAT legislation of Ethiopia revealed that businesses undertaking taxable activities in Ethiopia with an annual turnover of ETB 1,000,000 and more required filing an application for VAT registration. In addition to this, according to the discussion with the managers, to bring those required to register but did not do so in to the VAT net, the authority devised two types of forced registration schemes. First, compelling all businesses in a specific sector regardless of the level of their annual turnover based on some criteria. For instance, importers, gold smiths, contractors above grade 10 are some of them. The second scheme was by estimating the daily income (sales) of taxpayers to calculate their annual turnover in door to door inspection by tax officials.

However, survey of responses revealed several problems in taxpayer identification and registration process for VAT. For instance, 52.6percent of VAT registrant taxpayer respondents agreed that tax officials are not skilled enough to identify and register taxpayers for VAT particularly in forced registration by estimation.

Figure 4.4: Evaluation of tax officials in taxpayer identification and registration



Source: Field Survey Result 2020

According to the outcomes of interviews with managers, in forced registration which are based on estimation of daily income of taxpayers, some tax officials may create problems intentionally or negligently. In examination of the survey responses of VAT registrant taxpayers, 46.6percent of the respondents agreed that some tax officials intentionally leave potential taxpayers required being register for VAT.

Therefore, as survey responses indicated, one of the problem in taxpayer identification and registration is lack of uniformity. Due to many reasons like indicated above, still there are many potential taxpayers did not registered for VAT. According to the outcomes of interviews with managers, this is true so that the Authority recently issued a directive to encourage those required to register but did not do so. This is proved by survey responses of VAT registrant taxpayers as indicated below.

Table 4.6 Potential taxpayers who should to register for VAT

Still there are many potentials should be register but didn't do so				
	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	28	12.0	12.0	12.0
Nuetral	51	21.8	21.8	33.8
Valid Agree	146	62.4	62.4	96.2
strongly agree	9	3.8	3.8	100.0
Total	234	100.0	100.0	

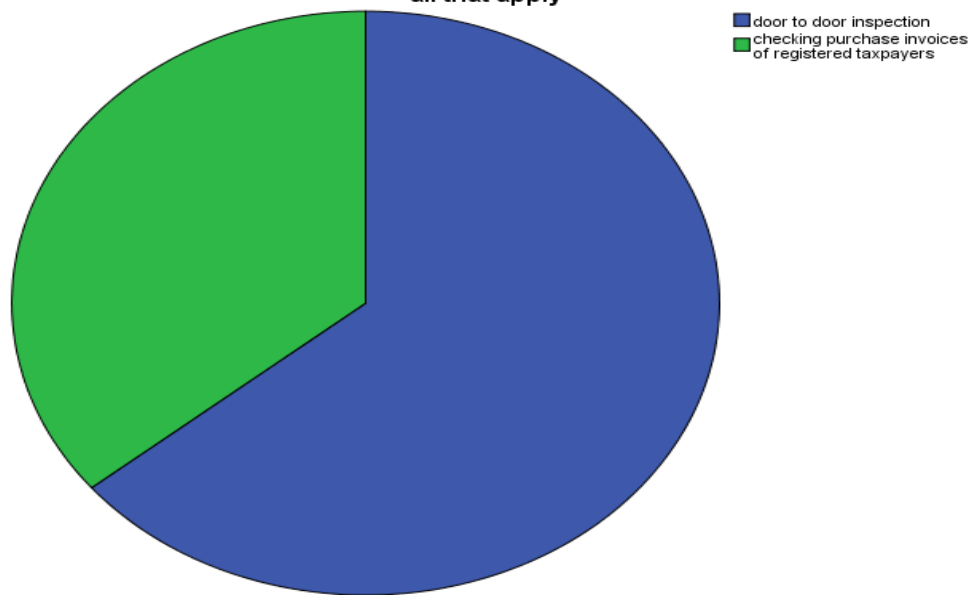
Source: Field Survey Result 2020

As indicated in the figure above, 234 respondents which accounted for 62.4 percent of the total respondents agreed still there are many potential taxpayers required to register for VAT but are not.

According to the outcomes of interviews with managers, the other problem in registration is lack of reliable registration list in the office. Interviewed managers revealed there are two type of computer programs SIGTAS (System Integrated Government Tax Administration System) which is used to maintain Taxpayer Identification Number (TIN) and to register and process VAT collection and assessment. However, due to lack of training about the systems particularly SIGTAS, it is not possible to know the exact number of VAT registrants and to differentiate stop filers (non filers) and deregisters using the SIGTAS. In registering unregistered taxpayers forVAT, examination of survey responses of tax officials revealed the following.

Figure: 4.5. Systems to register unregistered taxpayers for VAT

In registering unregistered taxpayers for VAT, what system do you follow? (tick all that apply)



Source: Field Survey Result 2020

As indicated in the figure above, the revenue office mostly uses door-to-door inspection to register unregistered taxpayers for VAT.

b), Collection practices and its main constraints

In Jimma town, according to the outcomes of interviews with managers, to collect VAT they use a computer program called SIGTAS. However, to detect taxpayers who stop filing returns they identify manually. In the town as shown below the 3 month (January to March, 2011) report indicated the number of payment filers is higher than nil and credit filers and no report available about stop filers.

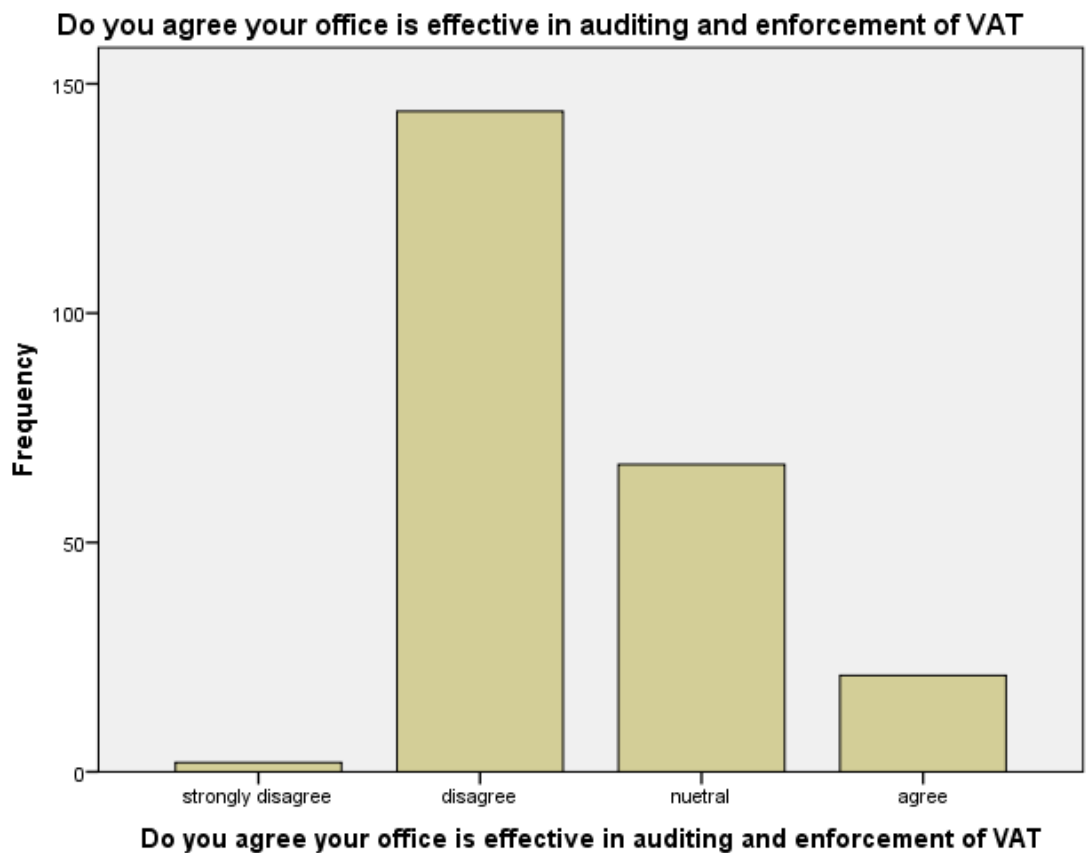
Examination of survey responses of the tax officials revealed that 57.3% and 17.1% of the respondents strongly and moderately agreed respectively that one of the reasons for the huge number of nil filers in the town is lack of effective control.

c), VAT auditing and refund practices and its main constraints

In respect of VAT audit in Jimma town, the interviews with managers showed there was no appropriate audit program based on risk management. It was rather planned to give better service for the customers. The audit task was also only comprehensive auditing. No door to door inspection to check inventories and other things which need to be checked. As they revealed, this is mainly due to shortage of manpower.

In terms of refund, as the outcomes of interviews showed, all refund claims should be audited and may take long time. In addition to this, survey responses of tax officials' opinion about the effectiveness of their office in respect to VAT auditing and enforcement presented show that 61.5% respondents strongly disagree about auditing and enforcement of VAT Effectiveness.

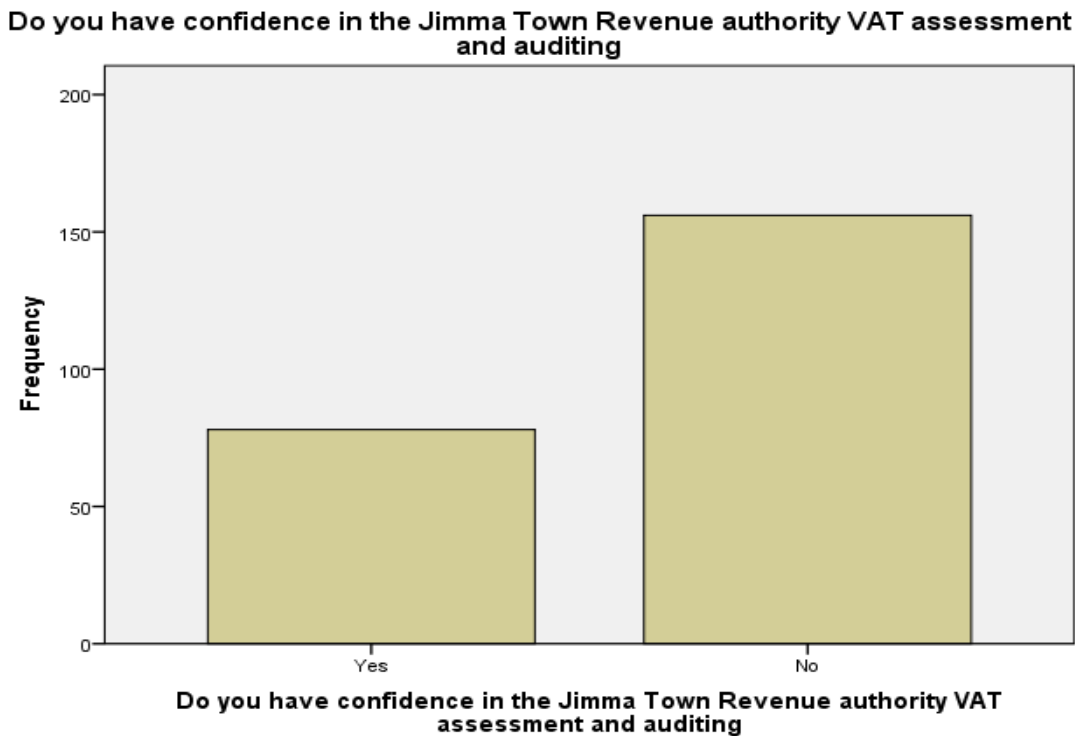
Figure: 4.6. VAT auditing and enforcement effectiveness



Source: Field Survey Result 2020

To understand the opinion of VAT registrant taxpayers they were asked whether they have confidence or not in Jimma town Revenue Office VAT assessment and auditing practices. The respondents' position was as followed:

Figure 4:7: Respondents' confidence on VAT assessment and auditing practices



Source: Field Survey Result 2020

As indicated in the above figure, of the total respondents 66.7percent not have confidence on Jimma town Revenue Office VAT assessment and auditing practice. This means, 66.7% of VAT registrant taxpayer the respondents not have confidence on auditing practices of the town due to incompetency of auditors, fraud and other different reasons. All these show the audit practice of the town is not effective which enable to collect the potential tax and detect non compliance.

d), Enforcement practices of the office

In terms of enforcement, according to Section 8 of the VAT Proclamation Number 285/2002; the main collection enforcement tool is seize of property to collect tax. This means if any person is liable to pay any tax imposed by the VAT law is in default in

accordance with the provisions of the law, it shall be lawful for the Authority to collect such tax by seizing any property belonging to such person and sell the seized goods at public auction or in any other manner approved by the Authority.

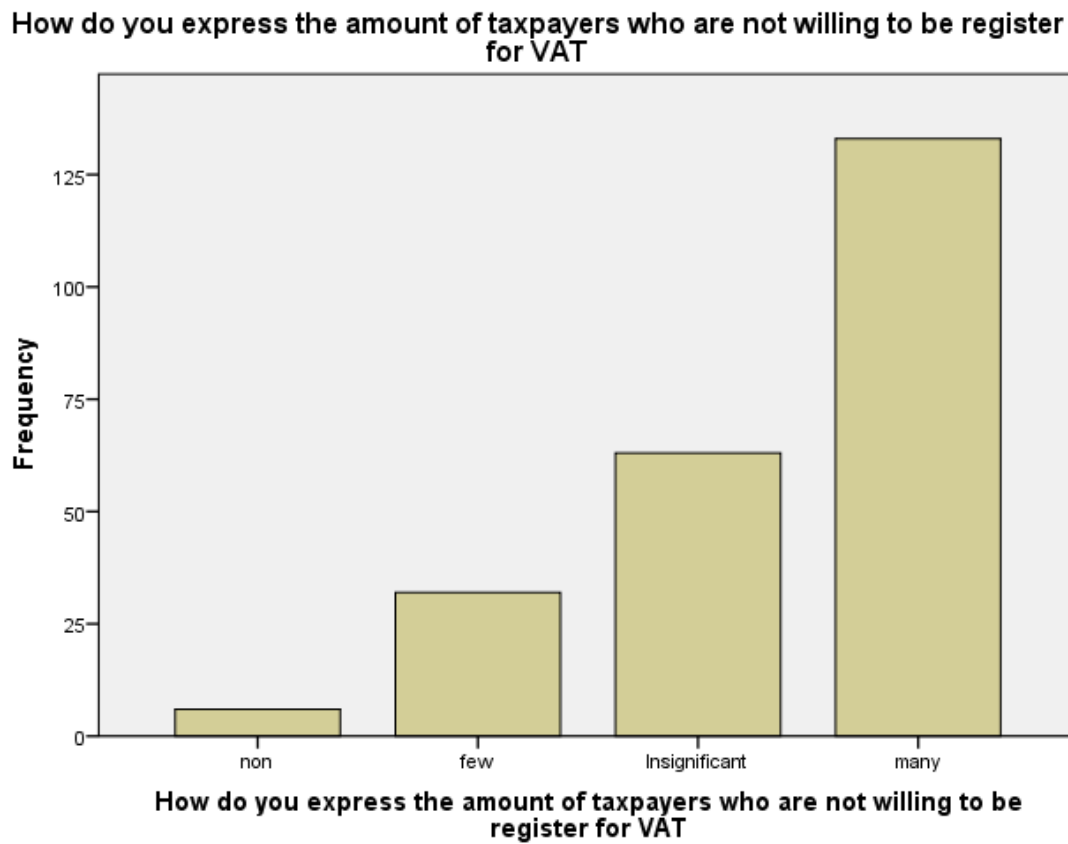
According to the outcomes of interviews with managers, in order to apply the law a directive issued by the Oromia Regional state Finance and Economic Development Bureau recently issue a regulation and started to seize and sell. Regarding penalties, tax officials were asked whether the penalties are appropriate, and 40.6percent of the respondents revealed it are excellent and the rest 53.4 percent and 6.0percent said good and fair respectively. To know the presence of fair and efficient appeals system they were asked and the respondents equally distributed in to three. 29.9% said it is excellent, 42.3% good and 27.8% judge it is fair.

e), Voluntary compliance of taxpayers and service delivery practice of the office

According to the outcomes of interviews with managers, voluntarily compliance of the taxpayers in the town is not good due to three reasons. First, taxpayers' thought towards VAT is one of the reasons. That means, there are taxpayers who think VAT increases the price of goods and services they sell so that they lose their customers. Others think if they sale goods and services with VAT invoices at the end of the year the tax office know their annual turnover and forced to pay more amount of income tax than what they have paid before. However, there are taxpayers who do not voluntary comply due to lack of awareness. Second, lack of uniform registration of similar businesses within the same area and "equal" businesses activities. Third, lack of effective control and enforcement were the main reasons.

According to the survey responses of VAT registrant taxpayers, if there is no penalty 56.8percent of the respondents revealed they may not be register for VAT, while 40.6percent may registers and 2.6percent were not respond. They were also asked to guess the amount of taxpayers who are not willing to be register for VAT. Their response was as follows:

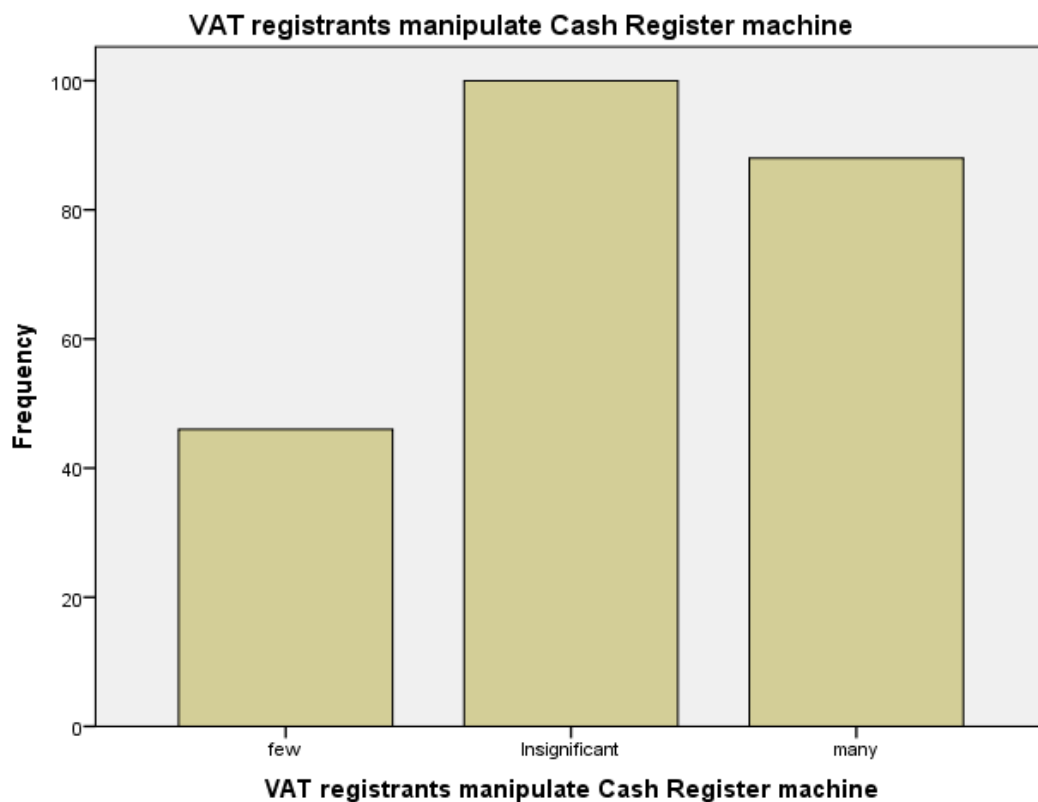
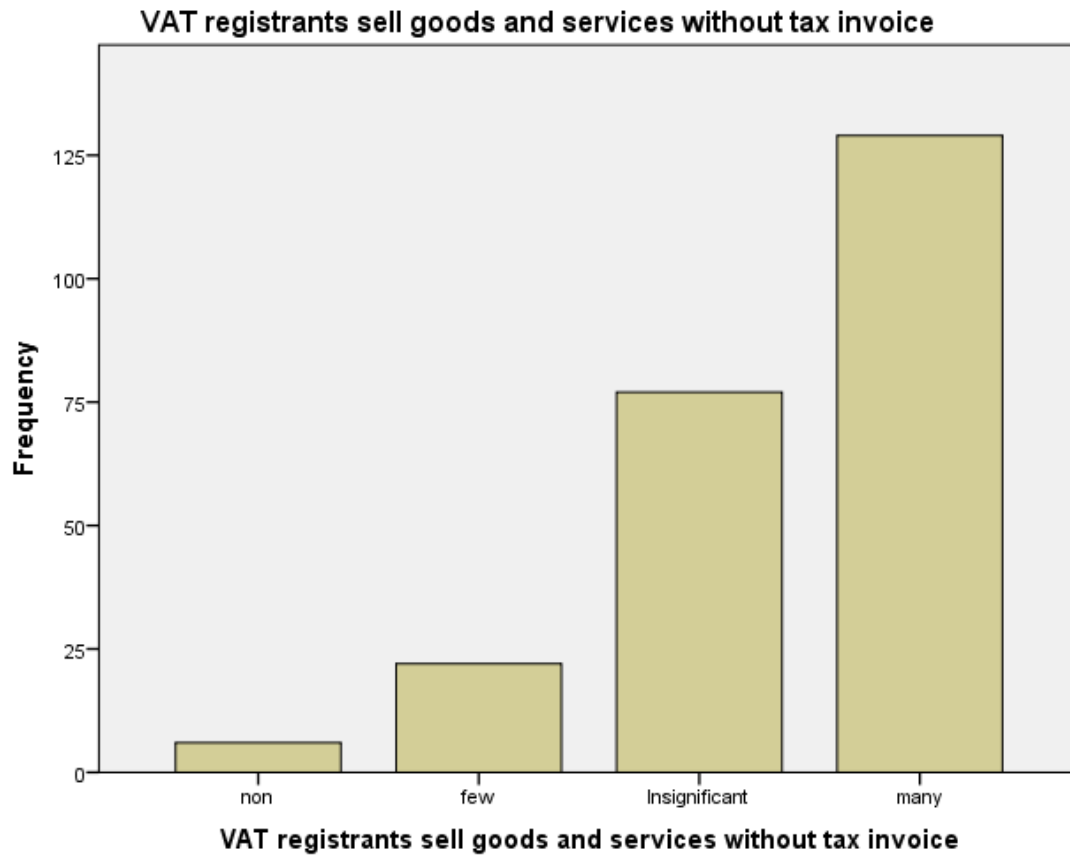
Figure: 4.8. Taxpayers not willing to be register for VAT.

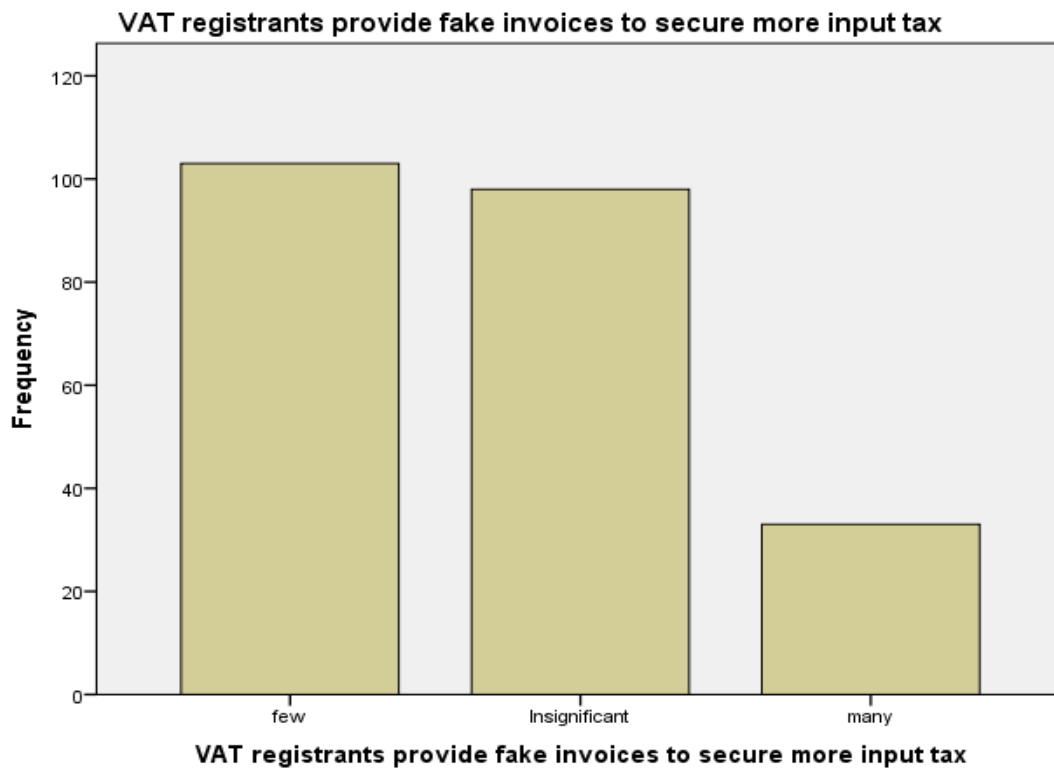


Source: Field Survey Result 2020

VAT registrant taxpayers respondents' reasons behind unwillingness to be register for VAT are poor and irritating VAT administrative system, fear of competition from unregistered similar businesses, problems from their suppliers. In terms of honesty and loyalty of VAT registrants, 67.5% of the total respondents revealed many VAT registrants sell goods and services without tax invoices. In addition to this, 20.5 of the respondents revealed some taxpayers manipulate manual receipt and cash register machines and many VAT registrants provide fake invoices to secure more input tax. The same question was provided for tax officials of the office and the respondents' response showed the following.

Figure: 4.9. Honesty and loyalty of VAT registrants





Source: Field Survey Result 2020

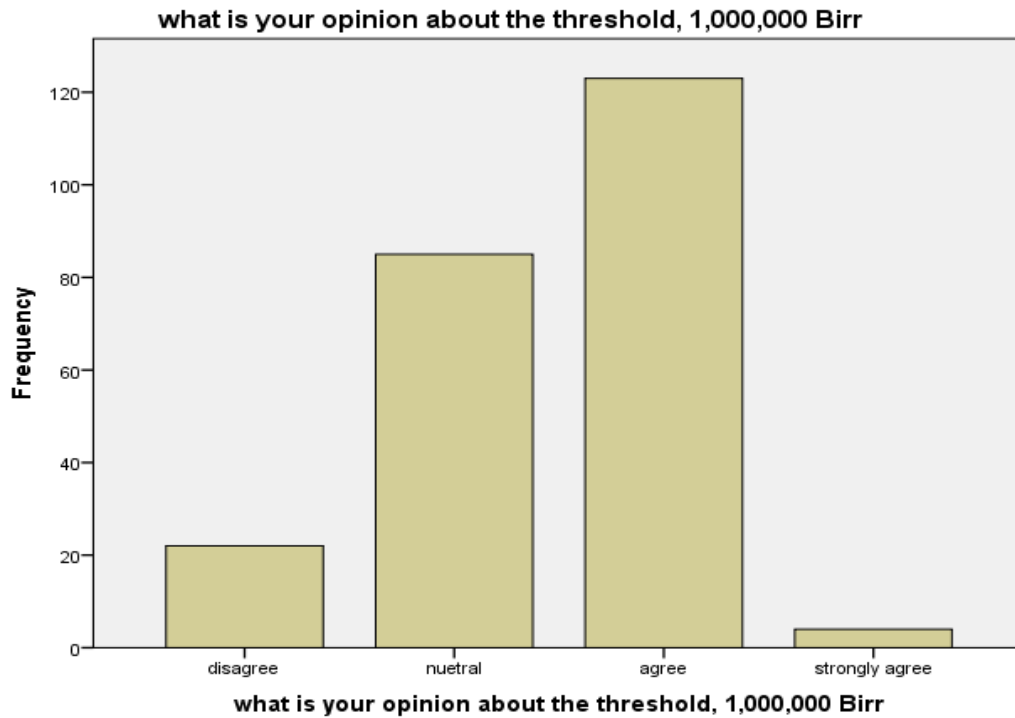
In terms of service delivery practice of the office surveyed tax officials, 31.2, 62.0, and 6.8 percent of the respondents revealed it is excellent, good, faire and poor respectively. They were also asked whether there is simple filing and payment procedures and 41.9, 52.1 and 6.0 percent of the respondents said it is excellent, good, and faire respectively. Even though most of the respondent tax officials concluded it is good, according to 43.2% of VAT registered taxpayer respondents the office facility is poor. In addition, the summary response of open-ended questions given to VAT registrant taxpayers showed that the computer system which repeatedly cut-off and delay is one of the problem in the Office.

4.3 Impacts of the constraints

The presence of unregistered businesses according to 79.1 percent of the total respondents of VAT registrant taxpayers, have negative impact on their fulfilment behaviour. According to the survey respondents, fear of uneven market competition is one of the reasons for unwillingness of taxpayers to be register for VAT. Therefore, as indicated below, 52.6% of VAT registrant

taxpayers respondents need to be decreased the minimum forced registration threshold, 1,000,000 ETB annual turnovers.

Figure: 4.10. Respondents' opinion towards the threshold 1,000,000 ETB

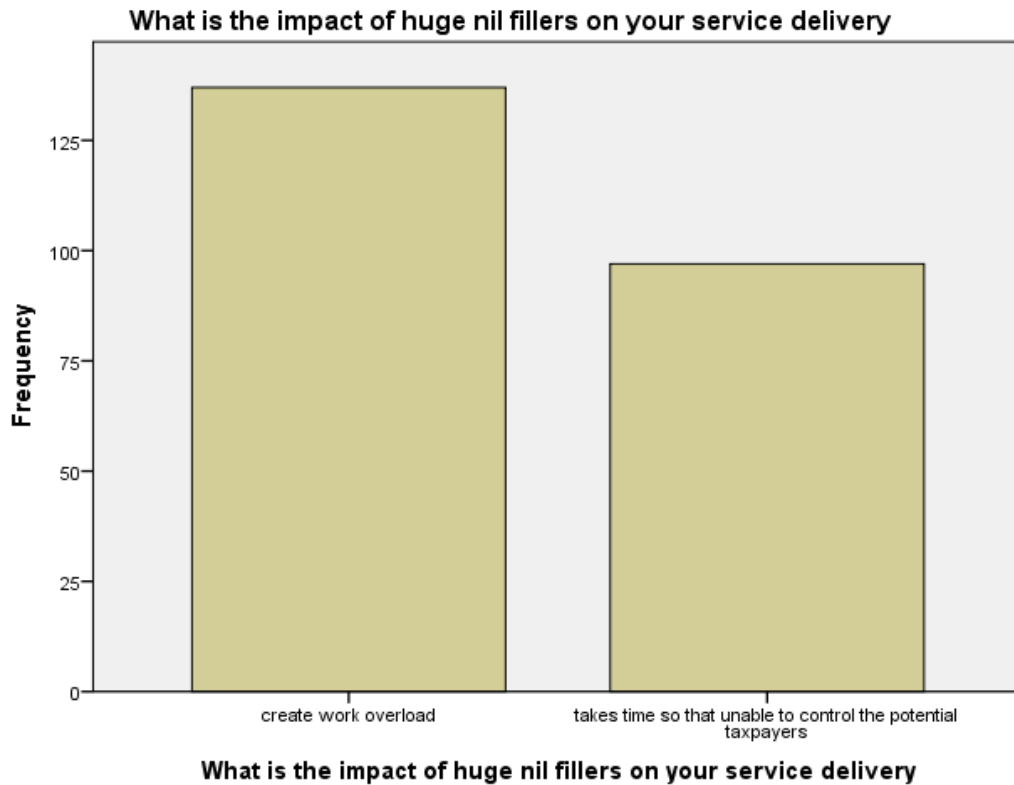


Source: Field Survey, Result 2020

The same question was provided to the tax officials. However, the response of the respondent tax officials was different from that of VAT registrant taxpayer respondents. that, 10.3 percent of the respondents' opinion was the threshold is high and 76.1 percent revealed it is moderate.

As shown in the figure below, the huge numbers of nil filers create negative impact on the service delivery and effective control of potential taxpayers.

Figure: 4.11. Impacts of the huge numbers of nil filers



Source: Field Survey Result 2020

4.4 Interpretation and Discussion

In this section, the results of the study are interpreted and discussed.

4.4.1. Background of VAT administration in jimma town

Even though Jimma town has more than eight years' experience in VAT administration, survey responses shown most of VAT registrants were registered for VAT in the last five years. In terms of type of business, most of the registrants were from construction, retail trade and hotel service sectors. These are specific sector with forced registrants regardless of the level of their annual turnover. This shows that the town has strengthened its enforcement in registration of unregistered taxpayers for VAT during the last five years. However, it needs to look for potential taxpayers who are not registered still other than specific sector forced registrants like construction, retail trade and hotel service sectors.

According to Cnossen in Shirazi and Shah (1991), VAT requires literate taxpayers to maintain basic accounts. In this regard among 234 VAT registrant taxpayer respondents,

only 3.8% were grade 12 and below and all tax official respondents were first Degree holders. This shows there is a good ground to improve the VAT administration in Jimma town. On the other hand, 30% of tax official respondents were in their position for not more than three years which shows the lack of experience. In terms of collection performance, in the last four years (2010 to 2011) Jimma town has performed more than 100% of its plan. But this does not mean it is effective because, as it is discussed here under, many potential taxpayers are not registered for VAT rather the town was planning under its potential.

4.4.2. VAT Administrative activities in Jimma town

In terms of taxpayer identification and registration for VAT, the field survey result indicates that tax officials are not skilled enough to identify and register taxpayers for VAT particularly in forced registration of door to door estimation of the daily income of taxpayers. The survey result also showed there is problem of fraud by some tax officials so that they intentionally leave to register for VAT some potential in door to door inspection. According to Tompson and Green (1988), one of the shortfalls in VAT administration is lack of registering those who should be registered. This is true in Jimma town where the survey result indicated there is lack of registering threshold is register. Therefore, this is one of the shortfalls in VAT administration of the town. The presence of potential taxpayers unregistered for VAT; according to 59.5% of VAT registrant taxpayer respondents have a negative impact on their fulfilment behaviour. In addition, this shows the office cannot collect the potential tax from the town and created problem of uniformity which lead to distrust between the office and the taxpayers.

Moreover, even though literature indicate that an information system should be reliable, comprehensive, and must be up to date (Tait, 1988) and (World Bank, 2005), the field survey result indicated in Jimma town due to lack of well trained man power no reliable list of VAT registrants exists and unable to control stop-filers or non-filers using the system called SIGTAS. Therefore, registering those should be register for VAT and controlling the VAT registered taxpayers is shall a problem. These remains the office cannot collect the potential tax from the Town.

As the survey result indicates in Jimma town few taxpayers manipulate cash register machines. This is obvious because according to Gillis et al (1990) in family operated enterprises cash register machines do not provide a reliable check of gross sales. So it needs effective control. In Jimma town the tax office requires VAT registrant taxpayers to have a cash register machine which is a good alternative solution for tax collection. However, survey results indicated lack of effective control which resulted in manipulation of the cash register machines by some taxpayers.

In terms of auditing, literature suggests a good audit plan with special programs to prevent non compliance (for instance; Hillman, 2003 and Bird and Jantscher, 1991). In Jimma town survey results indicates there is no audit program based on risk management. Interviewed managers revealed that due to lack of man power the audit was planned to give better service for taxpayers and as much as possible priority given to big transactions in order to collect more tax. This shows the audit was not focused on targeted area in order to detect non compliance. In this regard, 61.5% of respondent tax officials believe their office is not effective in auditing and enforcement. In addition, 66.7% of VAT registrant taxpayer the respondents not have confidence on auditing practices of the town due to incompetency of auditors, corruption and other different reasons. All these show the audit practice of the town is not effective which enable to collect the potential tax and detect non compliance.

According to the computer registry, as of July 1/ 2011, there are 9,033 taxpayers in Jimma town including those 1,061 VAT registrants (Office brusher, 2011). On the other hand according to employee registry of the town as of July 2011, there were only 18 auditors out of 30 employees (Office brusher, 2011). This shows unbalanced proportion of taxpayers to auditors in order to cover all taxpayers in auditing to detect non compliance. So that as interviewed managers revealed no door to door inspection to check inventories and other things which need to be checked in auditing. In the new organizational structure, the number of auditors is 35 (that includes 21 auditors, 10 junior auditors and 4 coordinators) out of 157 employees. However as of June 2012 no significant change in the number actually. Therefore, the number of auditors is under what literature suggest. For instance Silvani noted it is 40% of the total employee of a tax administration in countries where there is low level of evasion (Bird and Jantscher 1991).

In terms of enforcement, even though the New number 203/2011 proclamation give power to the town to seize and sell the property of taxpayers liable and not willing to pay the tax, the town start to seize and sell. As interviewed managers revealed, start to serve notices and seize property in order to secure registered properties like house, vehicles, and machineries of defaulters just like mortgage.

Regarding penalties, as survey results indicated taxpayers think that penalties are irritating. According to the VAT Proclamation No 285/2002 administrative penalties extend and sometimes more than 100% of the amount of tax payable and criminal penalties extends to 15 years imprisonment with 200,000 birr fines. These show penalties are stiff which is in line with the Country's economic development even though taxpayers think that it is irritating because, according to Hillman (2003) increasing penalty is less costly than increasing the probability of detection. Therefore, for country like Ethiopia stiff penalties are advisable.

4.4.3 Voluntary compliance of taxpayers in Jimma town

In terms of voluntary compliance of VAT registrant taxpayers in Jimma town, the survey results show that it is poor. 56.8% of VAT registered taxpayer respondents revealed that many tax payers are not willing to be register for VAT due to many reasons they raised. Even 40.6% of the respondents expressed that if there was no penalty they would not be have registered for VAT. In addition as the surveyed taxpayers revealed many VAT registrants sell goods and services without tax invoices and few registrants manipulate cash register machines. Surveyed tax officials also revealed the same truth. In this regard in Bird and Jantscher (1991) Silvani noted that the effectiveness of the tax administration is the key factor to determine the level of voluntary compliance. In other words one of the signs of effective VAT administration is voluntary compliance. Therefore as the survey result showed the VAT administration in town is not effective.

4.4.4 Service delivery in Jimma town revenue office

In this regard 6.8% of the surveyed tax official respondents revealed that the service delivery in their office is poor, and 6% concluded there is no simple filing and payment procedure. Even though this is not the opinion of most of the respondents it needs to be considered for improvement. One of the components of good service delivery is the presence of good office facilities (including effective computer system), which it is poor

according to 52.6% of VAT registrant taxpayer respondents. According to Hogue (2000) the complexity and difficulty of tax administration causes taxpayers to incur costs that lead them to tax evasion and avoidance. Therefore, striving for improving the service delivery including office facilities enable to decrease tax evasion and avoidance.

4.4.5 Some major Impacts of the constraints

In Jimma town, lack of skilled and honest man power in taxpayer identification and registration for VAT is one of the reasons for problem of uniformity. So that many potential that required being register for VAT not did so. As well as due to fear of computation from those unregistered businesses and lack of confidence on the town, others tried as much as possible to escape from the VAT net. In addition, lack of training to use the computer program called SIGTAS to identify non fillers, enable some registrants to run their business at least for a year as long as their license require to renew then leave the business. Therefore the office cannot collect the potential tax from the town.

A number of nil filers which required filling returns monthly in person has a negative impact on service delivery of the office as well as increases administrative and compliance costs. In terms of audit, absence of audit program which based on risk management enables potential evaders to escape. This means, as the office delay to audit such businesses they get time to shift their property to other places and escape. Lack of effective control and enforcement is also one of the reasons for low level of voluntary compliance. Therefore some VAT registrants sale goods and services without tax invoices, manipulate cash register machine and so on. As a result the office not able to collect the potential tax which the town can generate and improve voluntary compliance.

CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1. INTRODUCTIONS

This chapter makes conclusions that are drawn from the findings of the study, which were presented, discussed and interpreted in chapter four. In addition, the chapter includes the recommendations that are forwarded for the identified VAT administration Challenges and their impacts which influenced Jimma town to collect the potential tax from the town and to improve voluntary compliance of taxpayers.

5.2. CONCLUSIONS

- ✓ Jimma town tax collection performance in the last four years (2006/7 to 2009/10) has been more than 100% of the plans. However, this does not mean that it has been planning based on the actual economic activity of the town. This is proved by this study; many potential taxpayers who are required to be registered for VAT are not. Therefore, the plans were under estimating the potential.
- ✓ Taxpayer identification and registration for VAT particularly, in forced registration by estimation of the daily income of taxpayers not processed by well trained and credible tax officials. This is one of the reasons for non registration of many potential taxpayers for VAT in the town.
- ✓ The other reason for non registration of many potential taxpayers for VAT is unwillingness and lack of awareness of taxpayers to be register for VAT due to many reasons. In addition, even after registration, it is not possible to identify and control non filers or stop filers using the computer system called SIGTAS due to absence of well trained man power in the town.
- ✓ In VAT collection, the office facilities and procedures are not simple, so that taxpayers choose to escape from the VAT rather.
- ✓ In terms of audit, there is no audit program based on risk assessment, so that groups or sectors that could be potential risks for the tax administration could not be given priority in auditing and reduce evasion.
- ✓ Enforcement is also weak mainly due to shortage of man power to inspect door to door and to deliver tax notices to taxpayers on time.

- ✓ Moreover, delays of the tax office to seize and sell the property of taxpayers not willing to pay the tax according to the law make the law remain on paper. Due to this weak enforcement and absence of well organized education and assistance program of taxpayers about VAT, voluntary compliance of taxpayers in the town is low.
- ✓ Few VAT registrant taxpayers in the town fill nil and credit returns monthly and those not registered for VAT try to escape from the VAT net.

5.3. RECOMMENDATIONS

The following recommendations are suggested to improve the VAT administration of Jimma Town.

5.3.1. Improve taxpayer identification and registration

- In identifying those qualified the registration threshold, so tax officials should be follow effective door- to- door inspection in some sectors.
- In other sectors where it requires tax officials to estimate the daily income of business it is important to use appropriate time and honest and qualified human resource.
- And, the third alternative is to go through registered taxpayers in order to get their suppliers and customers who are not registered.
- In terms of register, it must be reliable and up to date. This enables to select non filers or stop filers automatically and used to tackle fraud.

5.3.2 Improve VAT collection

In detecting taxpayers filing no returns, it is important to train tax officials to use the SIGTAS properly. Then; update the register, select and give priority for taxpayers whose sales volume is high. In detecting taxpayers filing nil and credit, select those reported nil and credit repeatedly and then door-to- door inspection and go through their suppliers using the receipts they brought is important.

5.3.3. Develop auditing planning

In Jimma town the audit practice not focused on targeted area in order to detect non compliance. However, a good audit plan requires special programs like risk based assessment to prevent noncompliance.

So, the Town:-

- 1) Should have adequate man power in auditing which requires hiring or allocating well qualified and honest additional auditors because, in the new structure the number of auditors should be 35, however as of June 2011 the number of auditors actually not more than 18. This shows still auditing is done even with less than half of the intended number of auditors. This result to collect a number of cases not audited from time to time.
- 2) Should have audit plan based on risk assessment. This enables the town to focus on targeted areas in order to detect non compliance.
- 3) In the future, when auditors well qualified, in order to cover all VAT registrants avoid massive cross checking of audit and checking a few selected items.

5.3.4. Establish effective enforcement mechanisms

The town is seize and sell the property of taxpayers liable and not willing to pay the tax, the town start to seize and sell. As interviewed managers revealed, start to serve notices and seize property in order to secure registered properties like house, vehicles, and machineries of defaulters just like mortgage. The town should coordinate with other concerned body, like police.

5.3.5. Improving voluntary compliance and service delivery

To improve voluntary compliance; first it is important to deal with effective and clear audit and enforcement plan to grab the problem. Second, it is important to educate taxpayers. For this purpose the town can use civic and community associations like women association, tax ambassador, youth association, and so on, by selecting and training some of their member about VAT so that it is possible to educate the society door to door. Also it is possible to identify, train and support volunteers to educate and support taxpayers in complying with tax obligations. Here, the ground is good in Jimma town where most of the taxpayers are literate. In improving service delivery, the role of information and communications technology is very critical.

Therefore, the town should improve the service delivery and train the man power and stop the dishonest practices of some tax officials is very important.

❖ SUGGESTION FOR FUTURE RESEARCHER

The results from the research point out a number of opportunities for further research into revenue assessment ,enforcement and auditing. Future research should try to collect data from oromia regional state to find out whether the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation of Value Added Tax in the case of Jimma town Revenue authority. Further research could also examine VAT administration regarding current problems of VAT assessment and collection process to recommend possible solutions to the problems that help the Tax Authority to incorporate measures that address these pitfalls while collecting tax.

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Annex No.1

**JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF BANKING AND FINANCE
MSc IN BANKING AND FINANCE**

**Questionnaire for VAT registrant taxpayers in Jimma town revenue authority
on the title: - Challenge of Value Added Tax administration in Jimma town: An
Assessment of Its Effectiveness.**

Dear respondents

This study is conducted in partial fulfilment of the requirements for the MSC Degree in Banking and finance. I am carrying out a study on the Value Added Tax administration in Jimma town revenue authority. The purpose of this questionnaire is to obtain your perceptions and views regarding the existing Value Added Tax administrative activities of the Town and its main Challenges against effective tax administration. This study will help the Town to identify its problems and improve its VAT administration.

The information you will give will enable me to critically analyze the subject matter.

Therefore, please answer all questions.

Confidentiality

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire.

I thank you very much in advance for your cooperation.

Data collector's name-----

Researcher's name –Seifu Kemal.

Instruction:- put (√)mark in the box of your choice.

Part I: Personal information of Taxpayers.

1. Please indicate your gender: Male (_____) Female (_____)
2. Types of business Service (_____), Merchandize (_____), Manufacturing (_____) Other specify_____
3. What is your highest level of completed academic education: TVET certificate (____), Diploma (_____), Bachelor's Degree (____), Master's Degree (____) or others specify_____
- 4), for how many years you are known as VAT registrant? Less than 2 years (_____), 3 - 5 years (____) 6-10 years (_____), More than 10 years(_____)

Section B Questions related to the tax office

5), what do you consider in taxpayers identification and registration process for VAT?

Please indicate the extent to which you agree or disagree with the statement based on the scale below: 5=Strongly Agree (SA); 4= Agree (A); 3= Neutral (NEU); 2= Disagree (DA); 1= Strongly Disagree(SD)

List of possible considerations	5	4	3	2	1
Officials not skilled enough					
Some tax officials intentionally miss to register for VAT some potential taxpayers					
Still there are many potentials should be register but didn't do So					

If you have any, mention it here_____

6), what is your opinion about the threshold, 1,000,000 Birr?

- A. Very high (_____), B.High (_____), C. Moderate (_____), D. Low (_____), E. Very Low (_____)

7. What are the major problems you have experienced related to VAT application?

A. Unwillingness of tax payers_____ B. fraud off tax collectors_____ C. lack of awareness about VAT_____ D. if others, specify_____

8. How do you evaluate VAT registered parties feeling while they registered for VAT?

A. VAT is an obligation _____B. VAT is debt _____C. VAT is useful _____D. VAT is bad_____ E. Other, please specify _____

9), How do you evaluate the strength of Jimma town Revenue Office with respect to the following parameters?

List of parameters	Excellent	Good	Fair	Poor
Education and assistance program for taxpayers				
Qualified human resource				
Honest human resource				
Office facility				

10), Do you have confidence in the Jimma Town Revenue authority VAT assessment and auditing?

A. Yes_____ B. No_____

11), For question number 10, if your answer is 'No', tick the reason(s) of your choice

a), Incompetency of auditors_____

b), Corruption_____

c), Hard to secure refund_____

If you have any, mention it here_____.

12), How do you express the amount of taxpayers who are not willing to be register for VAT?

a), Many_____ b), Insignificant _____c), Few_____ d), Non_____

13), For question number '12', if your answer is 'a', 'b', or 'c' why they are not willing?

(Tick all that apply)

a), Poor VAT administrative system_____

b), Due to problems from their suppliers_____

c), Due to fear of competition from unregistered similar businesses_____

14), Does the non registration of other taxpayers for VAT have a negative impact on your fulfilment behaviour?

a), Yes _____ b), No _____

15), In terms of honesty and loyalty of VAT registrants, how do you express the following?
(Tick all that apply)

	Many	Insignificant	Few	Non
VAT registrants sell goods and services without tax invoice				
VAT registrants manipulate Cash Register Machine				
VAT registrants provide fake invoices to secure more input tax				

If you have any mention it here _____

16), Give your general comment on the overall Challenge of VAT administration of the Town revenue authority.

Thank you again

Annex No.2

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF BANKING AND FINANCE
MSc IN BANKING AND FINANCE

**Questionnaire for VAT registrant taxpayers in Jimma town revenue authority
on the title: - Challenge of Value Added Tax administration in Jimma town: An
Assessment of Its Effectiveness.**

Dear respondents

This study is conducted in partial fulfilment of the requirements for the MSC Degree in Banking and finance. I am carrying out a study on the Value Added Tax administration in Jimma town revenue authority. The purpose of this questionnaire is to obtain your perceptions and views regarding the existing Value Added Tax administrative activities of the Town and its main Challenges against effective tax administration. This study will help the Town to identify its problems and improve its VAT administration.

The information you will give will enable me to critically analyze the subject matter. Therefore, please answer all questions.

Confidentiality

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire.

I thank you very much in advance for your cooperation.

Data collector's name-----

Researcher's name –Seifu Kemal.

Instruction:- put (√)mark in the box of your choice.

Section A: Personal information of Tax officials.

- 1. Please indicate your gender: Male (_____) Female (_____)
- 2. What is your highest level of completed academic education: TVET certificate (____), Diploma (_____), Bachelor's Degree (_____), Master's Degree (_____) or others specify_____
- 3), your position Tax Assessment (_____), Tax collection (_____), Tax enforcement (_____) Tax audit_____
- 4), For how many years you are in this position? Less than 2 years (_____), 3 - 5 years (_____) 6-10 years (_____), More than 10 years(_____)

Section B Questions related to the tax office

- 5), In registering un registered taxpayers for VAT, what system do you follow? (tick all that apply)
 - a), door to door inspection_____
 - b), checking purchase invoices of registered taxpayers_____If any other, mention it here_____

6), what is your opinion about the threshold, 1,000,000 Birr?

A. Very high (_____), B. High (_____), C. Moderate (_____), D. Low (_____), E. Very Low (_____)

7, Reports indicate huge number of nil filler in your Town. Some say it is due to lack of effective control._____

- A. strongly agree_____ c), disagree_____
- B. moderately agree_____ d), strongly disagree_____

If any other, mention it here_____

8), What is the impact of huge nil fillers on your service delivery? (tick all that apply)

- a), create work overload
- b), takes time so that unable to control the potential taxpayers

If any other, mention it here _____

9), How do you evaluate the strength of your office with respect to the following parameters?

	Excellent	Good	Fair	Poor
simple and stable tax laws				
good service to taxpayers				
simple filing and payment procedure				
appropriate penalties				
faire and efficient appeals system				

10), Do you agree your office is effective in auditing and enforcement of VAT?

a), very strongly _____ b), strongly _____ c), not sure _____
d), not at all _____

11), How do you express the number of voluntary VAT payers in your Town?

a), very high _____ b), high _____ c), moderate _____ d),
low _____ e), very low _____

12), What do you think about taxpayers thought towards VAT?

a), excellent _____ b), good _____ c), faire _____
d), poor _____

13), In terms of honesty and loyalty of VAT registrants, how do you guess the following?

(Tick all that apply)

	Many	Insignificant	Few	Non
VAT registrants sell goods and services without tax invoice				
VAT registrants manipulate Cash Register Machine				
VAT registrants provide fake invoices to secure more input tax				

If you have any mention it here _____

14), Give your general comment on the overall VAT administration of the Jimma
Town_____

Thank you again

Interview Guide

(Queries on general issues to be answered by the heads of Jimma Town Revenue authority and Process owner of The Department)

1), How do you evaluate the trends of Jimma Town Revenue authority in Challenge of VAT administering in the last five years?

2), What are the main constraints in administering VAT in your Town Revenue authority in terms of; registration, collection, auditing, refund and enforcement activities?

3),How do you express the voluntary compliance of taxpayers in your Town Revenue authority and if any effort or plan to improve it?

4), Do you have simplified laws and procedures for Tax Payer's?

5), What about your service delivery in terms of; office facilities, qualified and honest human resource, sufficient man power and so on?

6), Finally, please, generalize the degree of effectiveness of the Town Revenue authority in VAT administration.

Thank you very much