

**CHALLENGES OF VAT ADMINISTRATION IN ETHIOPIAN REVENUE
AND CUSTOM AUTHORITY (ERCA) IN CASE OF JIMMA CITY**



**A RESEARCH REPORT SUBMITTED IN A PARTIAL FULFILLMENT
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Declaration

I hereby declare that this research “Challenges Of Vat Administration In Ethiopian Revenue And Custom Authority (ERCA) In Case Of Jimma.” has been carried out by me under the guidance and supervision of my advisor Abiy Getahun (Asst. Prof)The research is original and has not been submitted for the award of any masters to any university or institutions.

Researcher’s Name

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Signature

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ABSTRACT

Taxes are important sources of public revenue. Value Added Tax (VAT) is a tax on consumer expenditure. It is collected on business transactions and imports. A taxable person can be an individual, firm, company, as long as such a person is required to be registered for VAT. Even if VAT is one of the most important sources of revenue and it's in Ethiopia is infant Most developing countries are currently dependent more on external financial resources to fund their development activities. The tax contribution to GDP is very less as compared to developed countries. The objective of this study is to investigate challenges of VAT administration in the last five year at the Jimma Branch of the Revenue and Customs Authority. The study used descriptive and analytical research design. VAT Register tax payers were the target population of this study. A sample of 212VAT Register tax payers were drawn from the population using simple random sampling technique (lottery) method using their register number taken from the authority. The study used primary and secondary data sources. Primary data were collected through questionnaire and secondary data were collected from reports and manuals of Ethiopian Revenue and Customs Authority (ERCA) Jimma branches. Quantitative data analysis was supported by SPSS. Descriptive Statistics, correlation and multiple linear regression analysis were used to analyze the survey and thematic analysis was done with good interviews. This result also leads us to state a Complex tax system has significant impact on VAT administration. Cultural backgrounds have significant impact on VAT administration. Low awareness about taxation and government spending also affect VAT Administration in the study area. Respondents who have poor awareness about government spending rarely comply tax. This shows that the authority should empower taxpayers regarding the role of tax in national development.

ACRONYM

ERCA	Ethiopian Revenue Custom Authority
VAT	Value Add Tax
TPR	Tax Payers respondent
WEAK	Weak follow up and control
COMPLEX	complex tax system
CULTURE	Cultural Background
AWERNESS	A wariness level
SPSS	Statistical Package for Social Sciences

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A tax is a compulsory charge imposed by the government without any expectation of direct return in benefit. The duties of government to provide social amenities depend on the volume and effective tax collection. Tax redistributes resources from private to public sector with the aim of maximizing social equity. Tax revenues provide income for a government which it may use to distribute as welfare transfers to reduce extreme poverty (Marandu and Mbekominze, 2014).

Tax is one of the most important sources of revenue to every government. In the earlier days, payment of taxes was optional. A choice was given to the people to pay the tax and to avail the benefit of social amenities in the form of education, health and sanitation, utilities and recreation facilities. Naturally, everyone interested in availing social amenities used to evaluate the benefit derived by him in exchange for the tax to be paid by him. But the option in the payment of tax created lot of problems for the government in fulfilling their obligations to society. Hence, in modern times, option was withdrawn and tax became a compulsory contribution by every citizen to the government to enable the government to fulfill its commitments towards society.

A tax, in the modern times, therefore is a compulsory levy and those who are taxed have to pay the sums irrespective of corresponding return of services or goods by the government. It is not a price paid by the tax-payer for any definite service rendered or a commodity supplied by the government. The tax-payers do get many benefits from the government but no tax-payer has a right to any benefit from the public expenditure on the ground that he is paying a tax. The benefits of public expenditure may go to anyone irrespective of the taxes paid. Therefore, we may say that taxes are compulsory payments to government without expectation of direct return or benefit to the tax-payer.

Based on the basis of impact (immediate burden) and incidence (ultimate burden) of tax, taxes are classified in two broad categories i.e. direct and indirect tax Direct taxes are those which are paid entirely by that person on whom they are imposed. Or it is a tax that cannot be shifted to others, Indirect taxes are those taxes whose impact (immediate) burden and incidence (ultimate)

burden is levied on importer of the goods and the ultimate burden is levied on the consumer of goods vat is one type of indirect tax (YohannesMesfin & SisayBogale, 2009)

The emergence and rapid spread of value added tax is among the most important tax development of the late 20th century. The concept of value added tax was generated in 1954 by a French economist Maurice Laurie who was joint director of the French tax authority. 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).

Ethiopia introduced value added tax (VAT) in the year 2003 as a replacement to sales tax. VAT is the principal source of revenue for the Ethiopian government. For instance, in the 2006–07 fiscal years, federal VAT revenue (on domestic transactions) accounted for about 41 per cent of total federal revenues from domestic sources (EFIRA 2007). Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra 2004).

According to International Monetary Fund report in the year 2004, about 136 countries have made Value Added Tax part of their tax system, and from 53 member of countries of African Union 33 of them introduced Value Added Tax as their tax system (Wotku, 2008). 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 Value Added Tax in January 2003. However, weak tax administration, particularly in developing and transitional economies is the principal impediment to the successful implementation of Value Added Tax. The same is true in Ethiopia (IMF, 2003).

1.2 Statement of the Problem

Government finances its expenditures through the fund acquired from the service given by the government, tax, loan and donation. From all sources of finance, tax is the major source; however, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to sufficiently finance its expenditures. Along with the growth in the overall Ethiopian economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collected significant amount of revenue including grants, which could not fully finance the total expenditure. Without grants, the deficit could have been also about significant. This makes the borrowing and grant element of government's total expenditure counts too much. Of the external grant that constitute part of government revenue, almost half comes in the form of grants in kind (or earmarked) and the remaining comes in the form of untied cash (IMF, 2006).

The major source of government income is tax in most economies, especially in developing countries like Ethiopia. Tax revenue is the principal domestic revenue for the Ethiopian government. Tax revenue is mainly generated by indirect taxes such as VAT, excise taxes and foreign trade taxes (Yesegat, 2009). By using different mechanism which means through imposing high tax rate government try to reduce the living standard gap between the poor and rich all government country plan to collect tax revenue from the taxpaying society.

Value Added Tax (VAT) is the basic source of income. Ebeke and Ehrhart (2011) argued that VAT does indeed have a stabilizing effect on the tax revenue ratio. Countries which have adopted the VAT system enjoy much more stable tax revenue than other countries. VAT is, therefore, less vulnerable to evasion than a retail sales tax, for which collection occurs during the final stage of production. However, Aizenman and Jinjark (2008) emphasize that VAT collection efficiency remains largely dependent on the quality of enforcement and the efficiency of monitoring, both increasing with political stability and the ease and fluidity of political participation. Moreover, increased expenditure on the administration of VAT and more experience with VAT has been found to be significantly associated with increased compliance (Agha and Haughton, 1996). On the other hand, that VAT has actually reduced efficiency, for it

clearly has potential weaknesses. The VAT has also proved vulnerable to high profile criminal attack: “carousel fraud,” for example, which exploits arrangements for the taxation of intra-community trade within the European Union, has amounted to around 1.5 – 2.5 percent of net revenue, or more, in the United Kingdom (Keen and Lockwood, 2007).

The Ethiopian tax has classified the business income tax payers on business profit in to three major categories with respect to their legal personality and annual turnover they generate during particular year such as category A, B and C. those three categories means Category "A", category "B" and category "C" taxpayers are classified as follows: (source: Income tax proclamation number 979/2008). Category "A" tax payers, include the following persons and bodies: Any company incorporated under the laws of Ethiopia or in a foreign country, for example Private Limited Companies and Share Companies And Any other business having an annual turnover of Birr 1,000,000 (One million) and above Category "B" tax payers, unless already classified in category "A" tax payers includes: any business having an annual turnover that lies between over birr (500,000-1000,000) (Five hundred thousand Birr) up to 1,000,000 (One million birr). Category "C" tax payers, unless already classified in Categories "A" and "B", Whose annual turnover is estimated by the Tax Authority as being up to Birr 500,000 (five hundred thousand Birr).

For fiscal year 2016-17 through May 2017, the ERCA generated \$315.3 million which was surpassed in April 2017 by \$33.9 million (12%) from the estimated amount of \$281.4 million. So it must be advocated to enhance the economic activities of the country to boost the national development.(:Report to the General Assembly on the Enhanced Revenue Collection Account2017).

Poor administration (Aizenman and Jinjarak, 2008), increase in administrative expenditure and compliance costs (Agha and Haughton, 1996; Yesegat, 2009), miss understanding of taxpaying community, poor technology management; especially Electronic Tax Register (ETR) (Taye, 2011). Empirical studies further reveal challenges related to consumers` awareness, taxpayers misunderstanding and evasion act, tax authority commitment and organizational inefficiency, unfair competition due to unregistered but fall in the domain of the criteria (Tareke,S. H and Kassa, 2013) and (Dheressa, K.K Reddy, and Yadeta, 2015).

Most research paper works will conduct the area of study at different country specially at national level, but challenges at lower so it's need more attention but minor attention is given to the cultural background of tax payers, their awareness level, compliance behavior and its determinants when designing a given tax system, Therefore the main purpose of the researcher must be done at city levels to identify and examine the challenges of VAT administration at the grass root level. Thus, identification of location specific challenge is essential to fill the gap in the field and assist the efficient tax collection of the zone in general and the town in particular. Thus, the first motive to undertake this research would be to fill the research gap that were not addressed by any one of the earlier studies, specifically challenges of value added Tax in Ethiopian revenue and custom authority Jimma city

1.4 Objectives of the study

1.4.1 General Objective

The general objective of the research is to investigate challenges of VAT administration in the last five year at the Jimma Branch of the Revenue and Customs Authority.

1.4.2 Specific objectives:

The specific objectives of the research are:

1. To determine the practice and VAT administration of in the ERCA branch office of Jimma.
2. To identify the basic constraints and challenges those hinder the smooth implementation of the VAT at the branch office
3. To identify the cultural background of taxpayers.
4. To examine the awareness level of the tax payers self assessment and to identify the effectiveness of tax payers' education and services in the process.
5. To examine whether or not the intended high levels of voluntary compliance is achieved or not; in the place of the study.

1.5 Hypothesis of the Study

To achieve the objective of this study, the research presents five hypotheses concerning the determinants of challenges of VAT administration in Ethiopia revenue and custom authority ERCA in Jimma branch office

H: 1 Weak follow up and controlling mechanism against those unregistered and registered VAT payers has no significant impact on VAT administration

H: 2 Complex tax systems has no significant impact on VAT administration

H: 3 Cultural backgrounds has no significant impact on VAT administration

H: 4 Awareness of tax payers has no significant impact on VAT administration

H: 5 Compliance has no significant impacts on VAT administration

1.6 Significance of the Study

Research encompasses help policy makers to understand better the challenges and opportunity of VAT a administration in Ethiopian case of Jimma town Secondly, the study will help the tax authorities to identify their challenges and opportunity to take corrective action, to improve VAT administration within the authority. Hence, the study will play key role in the development process of the nation by recommending mechanisms of enhancing the capacity of the branch office. Lessons can also be drawn to other similar branch offices. In addition, the study will add something to the existing literature and it will serve as a reference for those who will conduct further study on this area.

1.7 Scope of the Study

The scope of the study has delimited to VAT registered taxpayers only. It does not consider other types of taxes and hence, the study doesn't include the revenues collected through the customs part of the authority. In addition, it was conducted in Jimma Branch of the Ethiopia Revenue and Customs authority. Furthermore, the scope of the study is also delimited to only the past five years ago.

1.8 Limitations of the study

The study was conducted in the Jimma branch and the tax payers that are used as primary sources of the data are only from Jimma city. It is the belief of the researcher that it would have been more comprehensive and difficult to conduct the study from tax payers and tax administration of all the zones of the region. This limitation mainly emanates from the shortage of finance for research activities as the researcher is a self-sponsored one. But, to cope up this limitation, the selected samples were decided to be large enough so that conclusions can be drawn confidently.

1.9 Organization of the study

The research is organized in five chapters. General introduction is given in the first chapter. And the relevant literatures in the field are discussed in the second chapter. In chapter three research design and methodology is presented. In chapter four result and discussion is presented and the last chapter, in chapter five, recommendation and conclusion was clearly given.

CHAPTER TWO

REVIEW OF LITERATURES

2.1 Theoretical Literature Review

Tax is defined as an amount of money levied by a government on its citizens and used to run the financial activities of the government. A tax is an unrequited payment by individuals or businesses to a government without Quid Pro Quo. This means tax is an involuntary payment without any expectation of direct return in benefit. In the private sector you get what you pay for. But in public sector with regard to tax you don't get what you pay for. In short there is no direct relationship between the tax payment and the benefit to be received by the taxpayers. Government revenues are sourced from various direct and in direct tax receipts from indirect taxes the major one is Value Added Tax (VAT). This tax increasingly being used throughout the world, including many African countries to raise government revenue with less administrative costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. Countries with a VAT raise more revenue, overall, than do those without VAT. Modern tax systems and their administration are built on the principle of "voluntary compliance," meaning that taxpayers are expected to comply with their basic tax obligations with only limited intervention by revenue officials. In practice, voluntary compliance is achieved through a system of "self-assessment," under which taxpayers, with reasonable access to advice from the tax administration, calculate their own tax liabilities; complete their tax returns; submit returns and payment to the tax administration; and are then subject to risk of audit. In most countries, the development of self – assessment is closely linked to the rise of the VAT. Indeed, the real question is not how to administer a VAT in a country without the capacity to administer self –assessment, but how to implement the basic principles of self–assessment in a country willing to introduce a VAT (Richard, 2005).

2.1.1 Concepts and Definition

2.1.2 Value added tax (VAT), Sales tax, VAT Rate

VAT is a tax levied on the increase in value of commodity that has been created by the Tax payer's stage of the production or distribution cycle. It is a sales tax based on the increasing

value or price of the product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer (Harrison and Krelove 2005).

"VAT" - value added tax - has spread throughout the world since its introduction in 1955. France is credited with first implementing VAT. It did so in 1955. The tax spread through Europe, South America and parts of Africa in the 1960s and 1970s before taking a hold in other regions. Today, it is a key source of government revenue in more than 130 countries. About 70 percent of the world's populations now live in countries with a VAT (Keen & Lock Wood, 2007).

Value Added Tax has also become an essential component of tax reform in developing countries. It is the most important tax innovation of the second half of the twentieth century. In line with this perception, an increasing number of developing countries have converted their sales tax to Value Added Tax (VAT). The continuing introduction and evolution of general sales taxes, especially of the value added tax has been the outstanding feature in development taxation in recent years (Keen and Lockwood, 2007).

The tax is computed as a Percentage of the total sales price. Sales tax may be imposed on the purchaser or on the seller; in the former case they are charged on each transaction and in the latter they are collected as a percentage of the gross receipts during a given period. A sales tax also can be imposed at more than one but less than all levels of production or distribution. (ERCA, Annual Bulletin, 2014).

In Ethiopia VAT law contains two VAT rates. One is the standard fifteen percent rate and the other is zero rated.

The following taxable transactions are charged with tax at a rate of zero percent. The export of goods or services, the rendering of transportation or other services directly connected with international transport of goods or passenger, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights, The supply of gold to the National Bank of Ethiopia (Yesegat W. (2008).

Zero rating is the mechanism under a VAT system by which the tax can be completely removed from a particular product or service or from a particular transaction. Under a credit invoice VAT, a seller of a zero-rated item does not charge VAT on the sale. The sale is classified as a taxable

sale subject to a zero rate. As such, the seller is entitled to recover as input credit the tax included in the cost of taxable purchases attributable to that sale Eric (2008).

Since zero-rating increases the number of VAT refunds, most developing countries wisely have limited it to exports. Under a sales-subtraction VAT, zero rating is accomplished by excluding the designated sales from gross receipts and allowing the business to deduct taxed purchases attributable to these zero-rated sales (Gills et al, 1990).

Exemption means that no VAT is charged on the supply and no credit can be taken for VAT paid on purchases used to make the supply. If particular enterprises are exempted, the tax applies to their purchases and they received no credit for or refund of this tax since they are not taxpayers (Bird and Bahl 2008 cited in Edmiston and Bird 2006).

In Ethiopia under the VAT Law, the following types of supplies of goods or rendering of services as well as the following types of imports of goods are also exempt from payment of The sales or transfer of a used dwelling, or the lease of a dwelling, The rendering of financial services, The supply or import of national or foreign currency, and of securities, The import of good to be transferred to the National Bank of Ethiopia, The rendering by religious organizations of religious or church related services, The import or supply of prescription drugs and the rendering of medical services, the rendering of educational services provided by educational institutions, as well as childcare service for children at preschool institutions, The supply of goods and rendering of services in the form of humanitarian aid.

The supply of electricity, kerosene, and water; Goods imported by the government, organizations, institutions or projects exempts from duties and other taxes to the extent provided by law Supplies by the post office; The provision of transport, Permits and license fees, The import of goods to the extent provided under schedule two of the customs tariffs regulations, The supply of goods or services by a workshop employing disabled individuals if more than 60 percent of the employees are disabled and The import or supply of books and other printed materials (ERCA, Annual Bulletin 2014).

2.1.3 Principal components of VAT

Two principle component of VAT .These are input VAT and output VAT (Abate: 2008).

2.1.4. Input VAT

Input VAT is the VAT payable by a taxable person on goods and services supplied to him and on goods which he imports for the purpose of a business carried on by him and which registered for VAT. Viewing the concept from the other angle, it is the VAT payable on purchase on taxable supply including capital goods and operating and advertisement expenditures. For VAT registered persons (taxable person) input VAT is not a component of the cost of purchase /import rather the registered person is entitled to take input VAT deduction against the VAT charge on sales or is recoverable from the tax authority. Hence, input VAT is a receivable for a registered person.

2.1.5. Output VAT

Output VAT is the VAT collectable by a taxable person at the time of sale of taxable goods and services (supply). It is the VAT chargeable on sales of taxable goods and service whenever a taxable person supplies taxable goods or services to other person. VAT must be included in the price charged for those taxable goods or service. This is output VAT for the supplier. Output VAT is not a component of the sales price rather it is a liability to the taxable person which is collected on behalf of the tax authority.

The logic of VAT is that during a VAT accounting period, a VAT reregistered person pays VAT on its purchase, which is called input VAT, and the person charges vat on its sales, which is called output VAT. At the end of the VAT accounting period, the difference between the amount of output tax and input tax represents either VAT payable to the tax authority or VAT refundable from the tax authority.

2.1.6 VAT Practice in Ethiopia

The Value Added Tax (VAT) proclamation No 285/2002 which has replaced the sales tax which have come into force as of January 1st, 2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered persons, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia Teferra (2004) To sustain VAT's revenue role in the governments finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT

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

The potential problem of Value Added Tax implementation of ERCA 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. The general objective of this study is to investigate the challenges of Value Added Tax Administration 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 Ethiopia (Dheressa, K, Yadeta 2015).

VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. According to Jantscher (1990) these responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Perhaps peripherally, VAT administration is also concerned with issues of who should administer the tax, what organizational setup to use and what resources are available On the VAT administration practices the following compounds were key deterrents.

2.1.7 VAT Registration

In Ethiopia any person who carries on a taxable activity and at the end of any period of 12 calendar months has made, during that period, taxable transactions the total value of which exceeds 500,000 Birr or at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during the period will exceed 500,000 Birr, has the obligation to register for VAT Yesegat W. (2008).

On the other hand sector specific (selected) registration requirement, to encourage VAT registration, government institutions are obliged to transact with VAT registered businesses for transactions valued ETB 100,000 and above. In general, according to discussion with tax

officials, these schemes were designed to help the administration in bringing taxpayers registered for VAT (EFIRA 2008).

After the VAT was operational with such a registration requirement, the authority devised forced-registration schemes. These schemes include selective registration requirements that compel all businesses engaged in a specific sector/form of ownership to register for VAT regardless of the level their annual turnover Abehodie (2008).

2.1.8. VAT filing and payment

According to Jantscher (1990) cited in (Micheal 2015) noted, in some developing countries taxpayers effect provisional payments monthly and file returns annually; while most developing countries require monthly filing and payment of VAT and do not require taxpayers to furnish a yearly return. In the case of Ethiopia, taxpayers are required to file VAT returns accompanied by the appropriate payments on monthly basis and there is no year-end reconciliation requirement. Further, the VAT legislation allows taxpayers a 30-day period within which to file returns and make payments. In practice, there are three VAT reporting periods depending on whether taxpayer is a nil, credit or payment filer. The reporting time from the end of the accounting period is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers but these activities is not supported by any legal ground. In administering VAT in Ethiopia tax authorities use computer programs, namely Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCUDA). The computer programs are used to maintain taxpayer register and process VAT returns.

Detection of non-filers seems to be carried out mainly through system. In addition, tax authorities Endeavour to follow-up non-filers identified by the computer programs. However, such follow-ups are made usually carried out once in month. The above practices pertaining to controlling VAT filing and payment delay the collection of the tax and jeopardize the government's revenue. Potential impact of non-filers on the revenue performance of the tax, strengthening the administration capacity of the tax authorities, and effectively using the computer programs coupled with timely follow-up of non-filing taxpayers are worthwhile to consider LTO training manual (2015).

2.1.9 VAT invoicing

According to Jantscher (1990) cited in (Micheal 2015) noted that most developing countries require some form of invoicing for all transactions subject to VAT including sales to final consumers. Ethiopia, the VAT related invoice there are different problems mainly two of them are , These problems include the difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices (by giving the option of buying with or without invoices to customers) and using duplicated invoices. The second problem is that optional issuance of VAT invoices in some sectors reveals that invoices are being used as a negotiation tools between customers and VAT registered businesses. That is, full VAT is chargeable if a customer needs invoices. Such a practice can jeopardize the use of invoices as a revenue safeguarding tool.

According to Abehodie (2008) there are various factors contributing to the invoicing problems mentioned below some of these factors include lack of tax administrators' follow-up and control, lack of awareness among the society and the prevalence of poverty. To mitigate these problems, enhancing tax education and follow-up programs are worthwhile to consider.

2.1.10 Penalties and Penalties

As stated by Gruber and Saez (2002) cited in (Micheal , 2015) it is a fact that if many persons are given the chance they may not pay taxes unless there is a motivation to do so. Tax experts have a perception that the best way is to increase tax incentives while others believe the best way is to increase tax penalties. Stopping non compliance requires applying penalties effectively. The most appropriate strategy is to combine various measures so as to maximize their effects on tax compliance as it were, in order to move the country from a low level of tax compliance to a higher level.

According to (Kirchler et al., 2008) cited in Misu,(2011) in an antagonistic climate, fines can be a part of the game of "cops and robbers"; in a synergistic climate, they can be perceived as an adequate retribution for behavior that harms the community. Fines are therefore connected to trust and power. Fines that are too low could be perceived as indicator that the authorities are weak and unable to control the wrongdoers, undermining trust among honest taxpayers. Fines that are inappropriate because a taxpayer involuntarily made a mistake resulting from ambiguous tax laws, or fines that are exorbitantly high, would undermine the perception of retributive justice

and induce tax evaders to try even harder to regain their “losses” incurred by those fines. The most extreme penalties will have no effect, if it is common knowledge that audits virtually do not occur. The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective.

On the one hand fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on tax payers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes (Kirchler et al., 2007).

As stated by Hyun (2005) the structure of penalty system may be different in the countries: can be various types of penalty rate by the different tax subjects or different structure of penalty rates by the types of taxpayer. So, penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, value added tax etc. Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no bookkeeping of invoices, receipts etc

.According to Abehodie (2008) In Ethiopia, the VAT legislation proclaims that taxpayers that fail to fulfill the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment. The tax authority started enforcing the penalty provisions although the legislation in general stipulates a penalty of 5 per cent of the amount of VAT unreported/underpaid, a late filing penalty of ETB 10,000 for each accounting period the tax remained reported is imposed. In addition, there are cases where taxpayers convicted of VAT evasion have been fined Further, the lack of consistency and transparency in administratively imposing the penalty may open a room for corruption.

2.1.11 VAT refund

Grandcolas (2005), Jantscher (1990) and Abehodie (2008) noted that managing VAT refunds is one of the challenges of VAT administrations in developing countries. In managing refunds and combating refund frauds, different countries use schemes including denial of refund claims (except to exporters), carrying forward of refund claims, demanding a third party certification of the claim, demanding guarantee, requiring taxpayers to have separate VAT bank accounts, zero rating of supplies to exporters and remission of input VAT on certain goods (mainly capital goods). Some of these schemes are not only to combat refund frauds, but are also intended to

reduce the strain on business cash-flows. Looking closely at the practices concerning VAT refunds in developing countries shows that all developing countries give refunds to exporters and some require other VAT taxpayers to carry forward their excess credits indefinitely

According to ERCA practical application the VAT legislation allows refunds to be made to mainly for exporters within two months from the time applications are lodged. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed (at least in the legislation) to be refunded within two months from the time of lodging applications. In Ethiopia, for the purpose of refunds, the VAT legislation categorizes taxpayers into two groups: zero rated businesses (mainly exporters) and other (non-exporting) businesses like construction, manufacturing and others. The tax authority makes refunds mainly to exporters in addition to employing voucher system. It is therefore important to briefly assess the resources available for the administration of VAT in Ethiopia. In this respect, Yesegat (2008) estimated VAT administrative costs in Ethiopia in the 2005–06 fiscal year to be in the range of 0.66 to 0.8 per cent of VAT revenue. Further, Yesegat (2008) through comparative analysis with similar estimates in other countries suggested that in Ethiopia VAT administrative costs are at a low level.

2.2 Empirical Evidence

2.2.1 Non-compliant tax payers

According to Dheressa, K, Yadeta (2015) there is Lack of strong and follow up for non-complaints, lack of human resources specially Value Added Tax auditors, lack of taxpayers awareness, In some lack of fairness, lack of Imposing penalty, lack of education and assistance for taxpayers , lack of qualification of tax office, fair and square appeal system, fair taxation mechanism, and good awareness creation for Value Added Tax collectors and conducted comprehensive trainings on the Value Added Tax law, regulation, directives and administration techniques for tax officers are also poor. The non-compliance with VAT Proclamation failure to register for VAT as, failure to issue a tax invoice, failure to maintain recorder such as original tax invoices received and a copy of tax invoices issued and failure to file timely return shall be liable to administrative penalties ranging from a fine 100 percent of the amount of tax payable and a fine of up to 50,000 Birr. In addition to administrative penalties tax offenders such as tax evasion, making false or misleading statement and failure to notify are all criminal offences. This

penalty ranging from 1000 Birr to 100,000 Birr and an imprisonment ranging from 3 years to five years where the making of false or misleading statement is made knowingly or recklessly such an offence is punishable by a fine of up to 200,000 Birr of an imprisonment of up to 15 years. Large tax payer office branch training manual (2015)

2.2.2 VAT Administration

As Bird (2004) noted that the basic tasks of tax administration consist of three distinct activities, i.e. identification, assessment and collection. Further, Bird and Gendron (2005) noted tax administration consists of several related but separable processes registration, filing, payment, audit, and enforcement. In accordance with Tait (1988) the introduction of VAT is usually the best change in tax system of a country and there is also a possibility to perform tax administration system. According to Bird and Jantscher (1992), a very important precondition for effective work of tax administration is canceling all additional duties out of the process of taxation. Besides, in some countries in transition, tax administration also performs many analyses and realizations of forecasting, which are in completely inconsistent with its duties in countries with ground economies. As Bird (2004 10(3) p.135) noted in a very real sense, “tax administration is tax policy”.

Maximizing revenue for a given administrative outlay is only one dimension of the task of tax administration. Revenue outcomes may not always be the most appropriate basis for assessing administrative performance. How revenue is raised, i.e. the effect of revenue generation effort on equity, the political fortunes of the government, and the level of economic welfare, may be equally (or more) important as how much revenue is raised. As Grandcolas (2008) noted VAT performance in Africa may depend on significant variations to the conventional view of VAT practice, and that the main objective of a tax administration should be to improve voluntary compliance. Grandcolas (2008) also suggests that the level of VAT compliance is particularly influenced by the design of the VAT and the quality of the tax administration; and discusses that the lack of skilled tax administrator spouses a struggle for developing countries, including those in Africa. Grandcolas (2008) suggests that the overall performance of the VAT systems in Africa depends on three main factors: “The capacity of policy makers to take into consideration the structural weaknesses of the tax administration; commitment to apply the designed penalty system; and development of a client-oriented tax administration and an effective audit Program.

According to Kefela (2009), the real tax system facing people and businesses in most developing countries is not how the tax law is designed but rather the outcome from how that system is actually put into practice and very importantly how the tax administration and its impact affects the tax reform. As Tanzi (1991) cited in Kefela (2009) has pointed out tax administration has a crucial role in determining the real (or effective) tax system, as opposed to the statutory tax system. During the process of deciding whether to introduce a VAT, the tax administration's weakness should be a concern, but not an overriding factor. If such weaknesses are a real problem, they will have to be tackled under any scenario. Since preparation for VAT introduction takes approximately two years; this time could and should be used to strengthen tax administration. In fact, some countries have used the VAT introduction to set up a new, more modern tax administration. With the correct perspective and commitment, this process can naturally lead to a strengthening of the tax administration (Santos, 2002).

According to Bird (2003) unfortunately, tax administration is a difficult task even at the best of time and in the best of places, and conditions in few developing countries match these specifications. Accordingly, The "best" tax administration is not simply that collects the most revenues; tax administration depends on private and public actions (and reactions), various environmental factors, substantive and procedural tax law and the outcome of a given administrative effort. All this makes tax administration a complex matter. According to Kefela (2009), Maximizing revenue for a given administrative outlay is only one dimension of the task of tax administration. Revenue outcomes may not always be the most appropriate basis for assessing administrative performance. How the revenue is raised -the effect of revenue generation effort on equity, the political fortunes of the government, and the level of economic welfare - may be equally or more important in some contexts. Similarly, private as well as public costs of tax administration must be taken into account and due attention given to the extent to which revenue is attributable to "enforcement" (the active intervention of the administration) rather than "compliance"(the relatively passive role of the administration as the recipient of revenues generated by other features of the system).Assessing the relation between administrative effort and revenue outcome is thus not a simple task (Jantscher 1990 cited in Kefela 2009).

The major activities in VAT administration are identifying taxpayers, processing returns, controlling collections, making refunds, auditing taxpayers and levying penalties (Purhoit,2000).

On the part of administration, preparation of a single master file, based on unique tax identification number (TIN) is crucial and this ensures that each taxpayer's account contains all the relevant tax and payment data for that taxpayer alone. On account of requirements of VAT, the even functioning of VAT would depend upon tax payers keeping careful and complete records (Purhoit, 2000). To minimize the likely amount of high compliance costs, however, sellers are expected to maintain sufficient details to have information on the following aspects. These are particulars of invoices giving details of tax on sales and credit on purchases, detail of accounts giving information of all purchases and sales and interaction between invoices, purchases and sales account with the tax return form (Purhoit, 2000).

VAT execution is also part of VAT administration. This includes identifying tax payers and tax evaders as well as the registered and unregistered tax payers among the business community. It follows that the concerned tax authorities would take legal measures against people who do not comply with the VAT law. It is not only the authorities should be responsible in assessment of execution of VAT but the consumers themselves have a key role to play (Purhoit, 2000). As Tanzi and Pellechio (1995) cited in Ott (1998) noted the main tasks of VAT administration involve: (1) information and instruction to taxpayers, (2) registration, organizing and processing tax returns (input of data, processing declarations and payments), (3) coercive collection (closely connected with registration, accounting and return processing), (4) control and supervision (discovering lacking and insufficient tax returns and controls of books and papers in tax administration offices or business activities and books of taxpayers, while routine check-ups had already been done in the registration, accounting and return processing department), (5) legal services and complaints (taking cases to court, defending tax administration in court, explaining procedures which are or are not in accordance with the law).

According to Andic (1994) cited in Ott (1998) transition countries most definitely need changes in VAT administration, and its adjustment to modern accounting, control, assessment, collection, coercive collection, compliant procedures and the growing number of individual taxpayers. VAT is administered and managed by the FIRS, a federal agency responsible for the administration of federal taxes with power to do such things as may be deemed necessary and expedient for the assessment and collection of the tax due. At the planning stage, some reservations were expressed about the competence and desirability of the FIRS to effectively administer VAT. The

Federal Government rejected the recommendation that a fully independent and self-sustaining Commission should be established to administer (Sanni,2012).

The VAT has compliance advantages over a retail sales tax, which is intended to collect all revenue at the point of sale from a business to a household. Since revenue collection for the VAT is spread across stages of production, with producers receiving a credit against taxes paid as an incentive for compliance, the VAT in practice is less likely to be evaded (Gale and Harris, 2011).

The VAT is in theory a tax on consumption, but in practice, calculating the amount of VAT due is as complex as calculating the amount of income tax due, a tax administrator in the UK, notes when describing the administration of the UK's VAT. To see how administrative and compliance costs arise, one needs to understand some of the details regarding the way a VAT is administered (Gale and Harris, 2011)

2.2.3 Awareness of Tax Payers

James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. At the last but not the least, the association between tax payer's awareness and tax compliance behavior is strong and positive according to collected data result.

2.2.4 Challenges on VAT Administration

VAT administration challenges adversely impact on the salient features of the tax and governments policy objectives as a whole. In this regard, Tanzi and Pellechio (1995) (cited in Mikesell, 2007) noted that poor tax administration would change the manner in which taxation affects governments policy objectives, namely economic stabilization, resource allocation and redistribution of income. Challenges rise from the following facts taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties are challenges. In developing countries the poor performance of taxes is likely is to be due to weak tax administration (that is, the incapacity of the administration to implement the tax

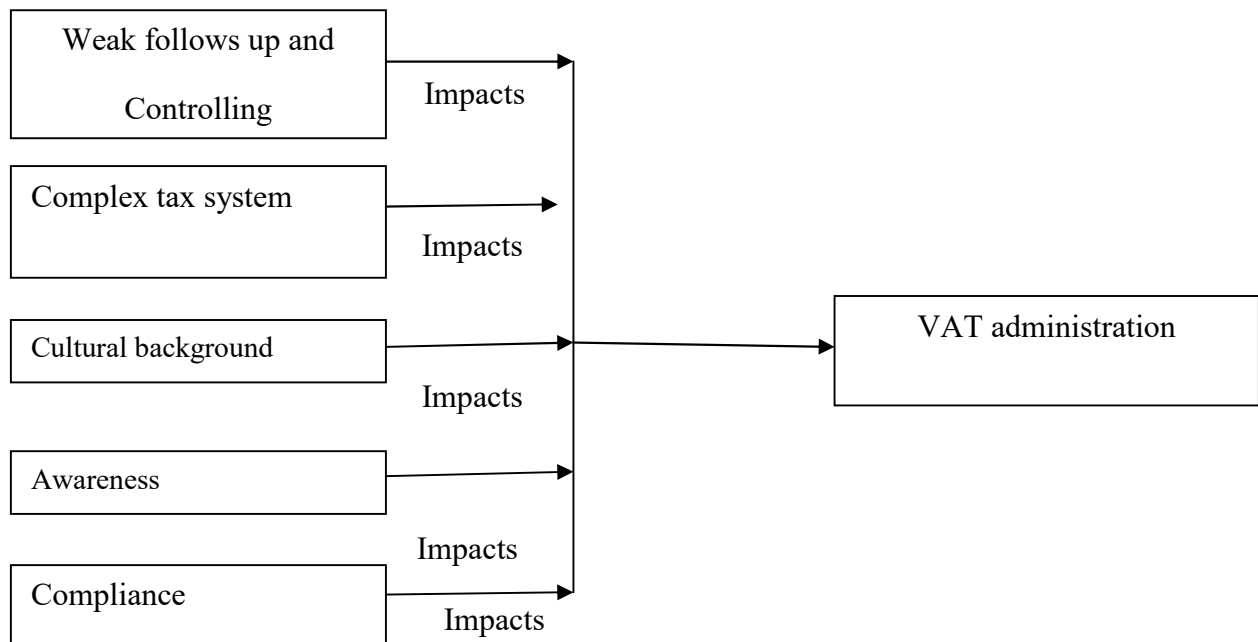
in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. according to Dheressa, K.K Reddy, and Yadeta (2015 Value Added Tax administration there are many challenges have, Such challenges include: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax

The conceptual framework

Conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. As indicated in the literature, it is tried to show that challenges of VAT administration like; tax payer awareness, complex tax system, Cultural background, weak follow up and controlling and compliance

INDEPENDENT VARIABLES

DEPENDENT VARIABLE



2.3 Summary and Research Gaps

In the principle of taxation there is no direct relationship between paying tax and gating direct benefit. Tax is a major source of income for the government, tax can be classified in to two direct

and indirect tax, VAT is one of type of indirect tax that collect on the sale of a given commodities at all type of production and distribution level or final consumer.

Value Added Tax administration there are many challenges have, Such challenges include: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax

The main conclusion of the studies is that VATs prevailing in developing countries were quite different from the broad based tax discussed in public finance literature and that administrative problems have a major contribution to this divergence. Administrative problems, in turn, may be partly caused by administrative resources constraint.

Moreover, most research works focused on national level, but challenges at lower levels get little attention, i.e. minor attention is given to the cultural background of tax payers, their awareness level, compliance behavior, complex tax system, weak follow up and control and its determinants when designing a given tax system, etc. Hence, researches must be done at city levels to identify and examine the challenges and opportunity of VAT administration at the grass root level. Thus, identification of location specific challenge and opportunity is essential to fill the gap in the field and assist the efficient tax collection endeavors of the zone in general and the town in particular. Thus, the first motive to undertake this research was to fill the research gap that were not addressed by any one of the earlier studies, specifically challenges and opportunities of value added Tax in Ethiopian revenue and custom authority Jimma city.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This section presents the methodology part of the research. It includes the research design, data type, data source, sample design, data analysis technique and model specification.

3.1 Research approaches

The study was conducted using mixed research approach. The rationale for combining both quantitative and qualitative data was to better understand a research problem by combining both numeric values from quantitative research and the details of qualitative research in order to neutralize limitations of applying any of a single approach. According to Creswell (2011), the mixed research approach uses separate quantitative and qualitative methods as a mean to offset the weakness inherent within one method with strengths of the other method.

3.2 Source of data and method of data collection

The researcher obtained data from primary and secondary sources in order to obtain a reliable data and achieve the stated objectives of this study. The researcher used one set of questionnaire for the survey which was answered by selected branch officials, process coordinators and team leaders of tax assessment and collection department. Most of the questions were close ended with 3 and 5 point scales, Yes and No question

3.2.1. Primary Sources of Data

A period of time was spent in the office observing how customers are treated; handled and how effective the services were provided. This enabled the researcher to cross-check what the respondents reported about service delivery. Face-to-face interviews were utilized for the tax officials.

3.2.2. Secondary Sources of Data

Secondary data was obtained from source of literature such as books, journals, newspapers, publication, reports, articles and other research related to this study.

These sources are very useful in the literature review about VAT administration and challenges sections, and categorical scaled questions.

3.3 Target Population,

The population of the study includes the entire set of all business income taxpayers particularly VAT register taxpayers and the tax collection department employees of the Ethiopian revenue and customs revenue Jimma branch office. Accordingly, the target groups for the study were 900 business income taxpayers, these populations consist of business income taxpayers who are categorized based on their annual sales volume and 20 tax assessment and collection employees of the Authority office which are regarded as key informants.

3.4 Sampling Technique

The researcher used simple random sampling method (lottery) method using their register number taken from the authority. The number of tax payers and their addresses were obtained from Ethiopian Revenue and Customs Authority Jimma branch offices and as well as under the city. In year 2017/18 there were about 900 VAT register tax payers in ERCA under Jimma cities. Hence, samples of 212 business tax payers were selected and equal numbers of tax payers were taken to conduct this research.

3.5 Sample Size

The equation to determine sample size is:

$$n = \frac{N}{1 + Ne^2}$$

Where

n = corrected sample size

N = population size = 900 (Total number of category A tax payer under Jimma city)

e = margin of error (0.05) and 95% Confidence interval

$$n = \frac{N}{1 + Ne^2} = \frac{900}{1 + 900 * (0.05)^2} = \frac{900}{1 + 900 * 0.0025} = \frac{900}{4.25} = 211.764 \sim 212$$

The second set of sampling unit comprised 20 key informants which are engaged directly with tax collection departments in the branch office.

3.6 Method of Data Analysis

The data analysis started while the interviews are still under way. The preliminary analysis helped the researcher to redesign the questions to focus on central themes as the researcher continues interviewing. After the interviewing is completed, the researcher did a more detailed analysis of what the observational partners which are the VAT registered tax payers tell about the issue. A computer tool was used as an aid in the management of textual data, for processing, storage and retrieval of information, as well as other functions that these programs offer.

Different measures of descriptive statistics such as statistical tables, mean, median and mode were used as tools in the analysis. As part of trend analysis, data of the last five years (2006-2010 E.C) were gathered and analyzed and emphasis to trends. The data collected from survey questionnaires were carefully coded and checked for consistency and entered into the Statistical Package for Social Sciences (SPSS). The analyses were carried out with a method of SPSS. The raw data was analyzed, presented, and interpreted to give solutions for the research problem.

Finally regression factor score was used to compute for the items identified to represent the challenges of tax and determinants. Using this regression factor score linear regression was used to identify candidate variables for multivariate linear regression based on P-values less/equal to 0.25 and multivariate linear regression analysis was performed and the effect of independent variables on the regression factor score was quantified.

3.7 Model specification

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + E$$

Where: Y=VAT administration; $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are Constant terms.

X_1 is weak follows up and Controlling,

X_2 is complex tax system,

X_3 is cultural background,

X_4 is awareness,

X_5 is compliance and

E is Error term.

CHAPTER FOUR

DATA ANALYSIS FINDING AND DISCUSSION

In this study, both primary data and secondary data were collected by the researcher. Primary data was collected by use of questionnaires presents data collected from 212 from VAT register taxpayers and analyses the major findings to address the general objective. The questionnaire was structured, open ended and closed ended which were dropped and then picked later. Primary data was also coded and tested for completeness. Secondary data was mainly collected from the ERCA's office Jimma Branch (city) by analyzing official documents and by past records inferences

Table 4.1 Socio-demographic characteristics of tax payers

Variables		F	%	Variables		F	%
Age Category	18-29	32	15	Sex	Male	127	60
	30-40	42	20		Female	85	40
	41-50	127	60				
	>50	11	5				
Types of Business	Service giving business	38	18	Educational status	Illiterate	64	30
	Merchandise business type	170	80		Below diploma	74	35
	Manufacturing business Type	4	2		Degree	53	25
	Total	212	100%		Masters and above	21	10

Source: own survey, VAT Register tax payers (ERCA) Jimma branch revenue and customs office2019.

4.1.1 Socio-Demographic Characteristics of Tax Payers

In this study out of 220 taxpayers planned to be interviewed 212(96.5%) of them respond completely yielding 96.5% of response rate. One hundred eighty seven (60%) of respondents were male the reminder or (40%) of the respondent would be female. Regarding age group 11(5%) were in the age group of (>50) and 127(60%) were in the age group of (41-50) whereas 42(20%), 32(15%) were in the age group of (30-40) and (18-29) respectively. Regarding Types of Business 38(18%) were in the group of Service giving business and 170 (80%) and 4 (2%) were in the type of Merchandise business type and Manufacturing business Type respectively. In the regarding to their educational status 64 (30%) were in the group of Illiterate and 74 (35%) Below diploma, 53(25%) were in the group of Degree and 21(10%) were in the group of Masters and above

Table 4.2 Annual average incomes, experience in year and audit history of taxpayers

Additional Variables	Category	F	%
Average annual income	<500000	102	48
	500000-1000000	49	23
	1000000-5000000	31	14.6
	5000000-10000000	26	12.4
	>10000000	4	2
Stay of respondent in the business in year	<2	64	30
	(2-4)	106	50
	(5-7)	21	10
	>7	21	10

Source: own survey, VAT Register tax payers (ERCA) under Jimma Branch office 2019.

4.2. Analysis measure assumption

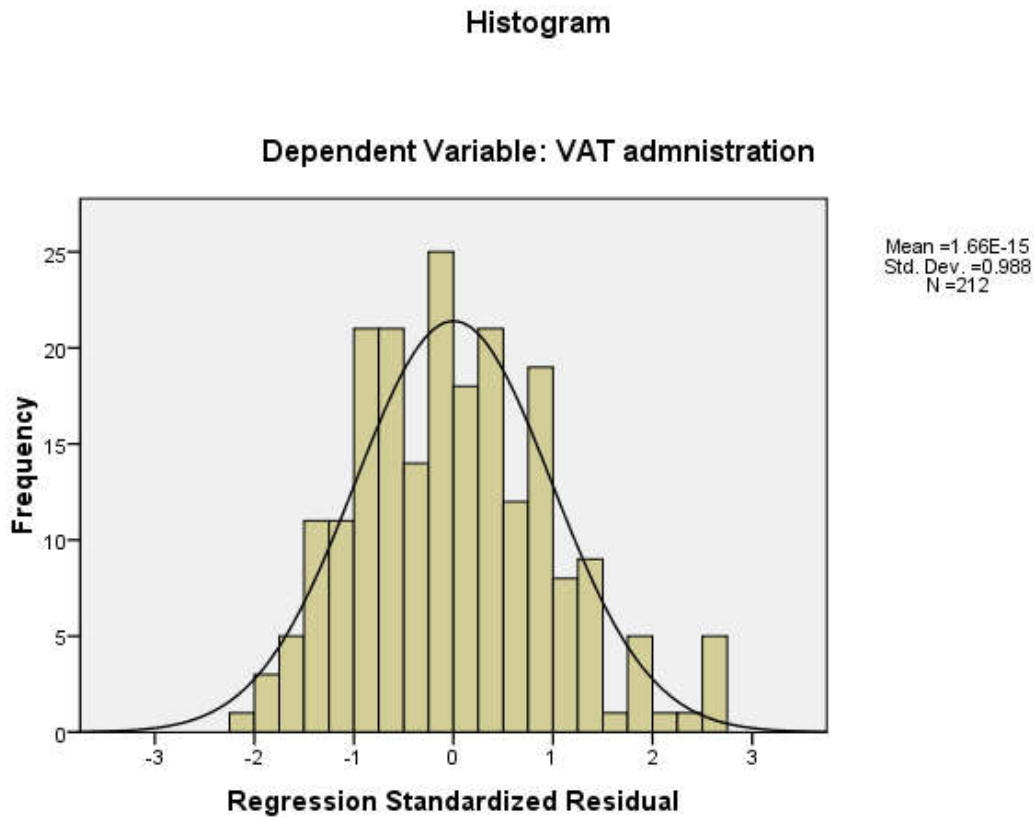
Linearity of the regression

Linear regression needs the relationship between the independent and dependent variables to be linear. The linearity assumption can best be tested by P-P plots. For linearity of the multiple regression see appendix-BI. As we see from the figure illustrates the true relationship form of linear (Y is a linear function of X, plus random error)

Test of normality

The rationale behind hypothesis testing relies on having something that is normally distributed in some cases; it's the sampling distribution, in others the errors in the model (Field, 2009). Whether the distribution is normal/or not is one of the basic assumptions in parametric test: As such, if we

draw a vertical line through the center of the distribution it displays a mirror image distance on both sides. This kind of distribution is known as a normal distribution and is characterized by the bell-shaped curve. This shape basically implies that the majority of the scores lie around the center of the distribution (so the largest bars on the histogram are all around the central value).



The residuals are distributed normally from both sides and their distribution is considered as normal curve. Because without probability sampling, error estimates cannot be constructed (Shavelson, 1988).

Normal P-P Plot of Regression Standardized Residual

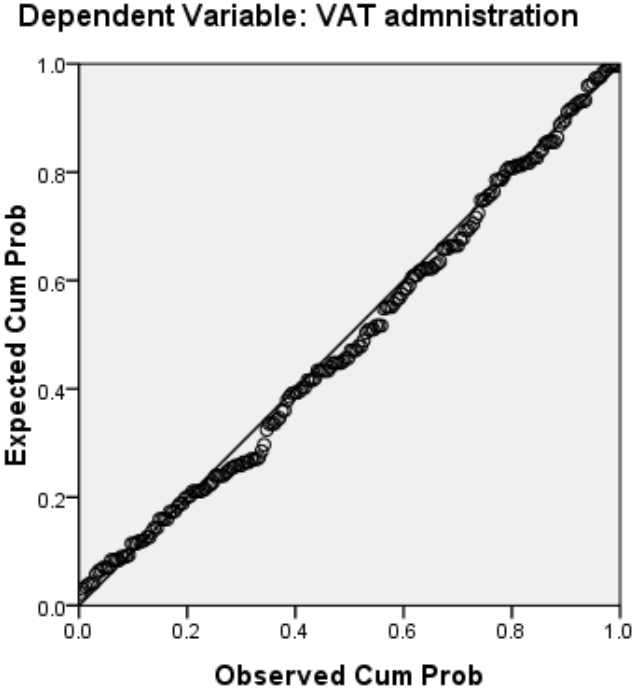


Table shows the degree of multicollinearity in the model.

Model	Collinearity Statistics	
	Tolerance	VIF
Weak follow up and control	.516	1.936
Complex Tax system	.473	2.115
1 Cultural background	.377	2.653
Awareness level	.776	1.288
Compliance	.877	1.141

a. Dependent Variable: VAT Administration

Multicollinearity test

According to Gujarati (2003), multicollinearity test helps to identify the correlation between explanatory variables and to avoid the double effect of the independent variable from the model. If an independent variable is an exact linear combination of the other independent variables, then we can infer that the model suffers from perfect Collinearity. This may lead to paradoxical effect, where by the regression model fits the data well, but none of the explanatory variables (individually) has a significant impact in predicting the dependent variable. For this purpose, variance inflation factors (VIF) and tolerance test were employed to check whether or not multicollinearity problem, tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculating using the formula for each variables.

As shown in above table 4.3 the variance inflation factor for all variables is significantly less than the rule of thumb that is ten (10). Therefore the researcher concludes that multicollinearity is not series problem in the model (Field, 2009).

Heteroscedasticity test

Heteroscedasticity statistical checked was used to measure model fitness. The variance of the residual for every set of values for the independent variable should be equal and violation is called heteroscedasticity. This means that investigators assume that error are spread out consistently between determinants of an effective performance management system. Scatter plot of more than 3.3 or less than -3.3 indicate a heteroscedasticity problem Tabachnick and Fidwell, (2007). Therefore as shown in the figure below the data did not violate heteroscedasticity assumption and instead, it was homoscedastic.

Scatterplot

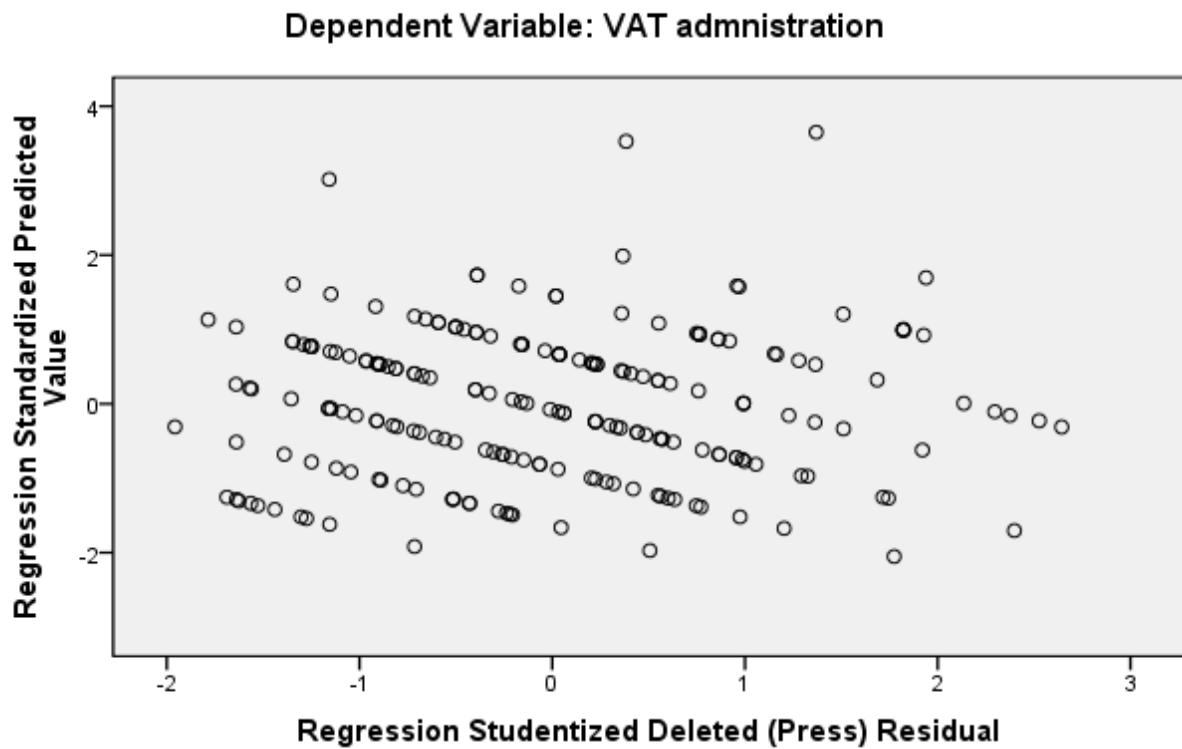


Table 4.4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.809 ^a	.654	.646	.31089	1.736

- a. Predictors: (Constant), Weak follow up and control, Complex Tax system, Cultural background Awareness level of tax payers, and Compliance

b. Dependent Variable: VAT Administration

The test for this model is made by R² and F-statistics. R² measures the proportions of variation in the dependent variable (Y) = VAT Administration, that is explained by explanatory variables or independent variables such as Weak follow up and control, Complex Tax system, Cultural background Awareness level of tax payers, and independent variable explained the dependent variable. As we can see from the above table 4.4 model summaries the result of R² showed that all independent variable explained the dependent variables with 64.6% and which confirm that the model is good.

Test of ANOVA

We use ANOVA to see the share of regression in the total sum of squares by splitting the model into regression and residual.

Table 4.5 ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	37.702	5	7.540	78.016	.000 ^a
Residual	19.910	206	.097		
Total	57.612	211			

a. Predictors: (Constant), COMPLAINCE, COMPLEX, AWERNESS, WEAK, CULTURE

b. Dependent Variable: VAT administration

ANOVA (analysis of Variance) also explains the regression by splitting the total sum of squares into regression (explained) sum of squares and error (unexplained) sum of squares. If a regression model is adequate, the explained variance (RSS) should be considerably higher than the unexplained variation (ESS). In the ANOVA table the SPSS output illustrates, the total sum of squares (57.162) is split into regression (37.702) and residuals (19.910) which ascertain the condition, $F = 78.016, p (.000) < \alpha (.05)$

Pearson correlation

A Pearson Correlation coefficient is used when we are interested to measure the strength of the linear relationship between variables or, to be more precise, how the value of one variable changes when the value of another variable changes. The correlation, (often measured as a correlation coefficient), indicates the strength and direction of a linear relationship between two random variables. In general, it refers to the departure of two variables from independence. A number of different coefficients are used for different situations and Coakes and Steed (2007) explanation were cited by (kassa, 2010).

Pearson correlation coefficient ranges from +1 to -1. A correlation of “+1” means that there is a perfect positive linear relationship between variables and a correlation of “-1” means that there is a perfect negative linear relationship between variables. A correlation of “0” means there is no linear relationship between two variables.

Table 4.6 Correlations

		WEAK	COMPLE X	CULTURE	AWERNESS	COMPLAINC E	VAT administration
WEAK	Pearson Correlation	1	.604**	.630**	.356**	.278	.558**
	Sig. (2-tailed)		.000	.000	.000	.257	.000
	N	212	212	212	212	212	212
COMPLEX	Pearson Correlation	.604**	1	.686**	.350**	-.003	.636**
	Sig. (2-tailed)	.000		.000	.000	.969	.000
	N	212	212	212	212	212	212
CULTURE	Pearson Correlation	.630**	.686**	1	.465**	.199**	.742**
	Sig. (2-tailed)	.000	.000		.000	.004	.000
	N	212	212	212	212	212	212
AWERNESS	Pearson Correlation	.356**	.350**	.465**	1	.095	.550**
	Sig. (2-tailed)	.000	.000	.000		.167	.000
	N	212	212	212	212	212	212
COMPLAIN CE	Pearson Correlation	.278	-.003	.199**	.095	1	.241**
	Sig. (2-tailed)	.257	.969	.004	.167		.000
	N	212	212	212	212	212	212
VAT administratio n	Pearson Correlation	.558**	.636**	.742**	.550**	.241**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	212	212	212	212	212	212

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

As a Pearson correlation table 4.6 above illustrates that there is a significant positive and strong correlation between dependent and each independent variables. Accordingly

1. The correlation between VAT administration and Weak follow up and control is positive and strong (.558) with p value of .000 <alpha value 0.05.

2. The correlation between VAT administration and complex Tax system is positive and strong (.604) with p value of $.000 < \alpha < 0.05$.
3. The correlation between VAT administration and Cultural background is positive and strong (.630) with p value of $.000 < \alpha < 0.05$.
4. The correlation between VAT administration and Awareness level compliance cost is positive and strong (.356) with p value of $.000 < \alpha < 0.05$.
5. The correlation between VAT administration and compliance is strong and positive (.278) with p value of $.000 < \alpha < 0.05$.

The compressed analysis result of Pearson correlation also illustrates the strength of the relation between VAT administration, Weak follow up and control, Complex Tax system, Cultural background Awareness level of tax payers, and Compliance.

Table 4.7 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	.264	.106		2.487	.014		
	WEAK	.059	.031	.110	1.928	.055	.516	1.936
	COMPLEX	.179	.046	.231	3.876	.000	.473	2.115
	CULTURE	.263	.047	.371	5.560	.000	.377	2.653
	AWERNESS	.209	.040	.243	5.235	.000	.776	1.288
	COMPLAINC E	.092	.026	.153	3.502	.001	.877	1.141

a. Dependent Variable: VAT administration

Dependent Variable: VAT administration

Significant variables, Complex Tax system, Cultural background Awareness level of tax payers, and Compliance. Insignificant variable: Weak follow up and control.

The above table, demonstrates that VAT Administration (VA). The coefficient of value of weak follow up and control of p value is 0.055 and the Beta coefficient is positive 59%. This indicates that 99% of weak follow up and control not affect VAT administration. The researcher concluded that weak follow up and control have no significant influence on VAT Administration.

Table 4.7 shows that complex tax system of the organization (Beta =17.9%), $t = 2.115$, P value = 0.000. this indicates that 100% of complex tax system affect VAT Administration. therefore the researcher conclude that the complex tax system have significant influence on VAT Administration.

Table 4.7 shows that cultural background of tax payers. The coefficient of value of cultural background is 0.000 and beta coefficient is positive 26.3%. This shows that taxpayers did not understand the main motive of tax or this shows us our culture not develop yet concerning over all about tax.

Table 4.7 shows that awareness level of taxpayer's coefficient is 20.9% and p value is 0.000. This shows that the awareness affects the VAT Administration is accepted at 99% confidence interval. The beta coefficient of awareness is positive 20.9% this showed that as awareness increases the VAT Administration increase. That is as awareness increases the VAT Administration increases by 20.9% of awareness.

Table 4.7 show that compliance (beta = 9.2%), $t = 3.50$ positively and significantly influences VAT Administration (p value 0.001). It implies that a frequency of compliance increases VAT Administration

Table 4.8 TPR Official not skilled enough

	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
<i>Valid Strongly agree</i>	46	21.7	21.7	21.7
<i>Moderately agree</i>	63	29.7	29.7	51.4
<i>Disagree</i>	52	24.5	24.5	75.9
<i>Strongly disagree</i>	51	24.1	24.1	100.0
<i>Total</i>	212	100.0	100.0	

The respondents were asked to the official not skilled enough and 46(21.7%) of the responded take strongly agree with the tax official not skilled enough 63(29.7%) moderately agree, 52(24.5) were disagree and 51(24.1) strongly disagree. The results indicate that, the tax officials skilled is not enough this shows us a problem made in VAT administration this open door for tax officials to take training and update them

Table 4.9TPR some tax official intentionally miss to register VAT some potential taxpayers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly agree	148	69.8	69.8	69.8
Moderately agree	36	17.0	17.0	86.8
Disagree	19	9.0	9.0	95.8
Strongly disagree	9	4.2	4.2	100.0
Total	212	100.0	100.0	

The respondents were asked to the some tax official intentionally miss to register VAT some potential taxpayers and 148(69.8%) of the responded take strongly agree with the some tax

official intentionally miss to register VAT some potential taxpayers 36(17.0%) moderately agree, 19(9.0) were disagree and 9(4.2) strongly disagree. The results indicate that, the tax officials intentionally miss to register some potential tax payers do you to different personal need rather than the rule and regulation of the tax authority as soon as the law of the country this shows us a problem made in poor VAT administration.

Table 4.10 TPR still there are many potentials should be register but didn't do so

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly agree	64	30.2	30.2	30.2
Moderately agree	78	36.8	36.8	67.0
Disagree	50	23.6	23.6	90.6
Strongly disagree	20	9.4	9.4	100.0
Total	212	100.0	100.0	

The respondents were asked to the still there are many potential should be register but didn't do so and 64(30.2%) of the responded take strongly agree with the still there are many potential should be register but didn't do so 78(36.8%) moderately agree, 50(23.6) were disagree and 20(9.4) strongly disagree. The results indicate that, still there are a lot of people or a lot of business organization should be register but not this shows us a problem made in VAT administration

Table 4.11 TPR VAT registrants sell goods and services without tax invoice

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	46	21.7	21.7	21.7
moderately agree	63	29.7	29.7	51.4
Disagree	52	24.5	24.5	75.9
strongly disagree	51	24.1	24.1	100.0
Total	212	100.0	100.0	

The respondents were asked to the VAT registrants sell goods and service without tax invoice and 46(21.7%) of the responded take strongly agree with the most of VAT registrants taxpayers intentionally sell goods and service without tax invoice 63(29.7%) moderately agree, 52(24.9) were disagree and 51(24.1) strongly disagree. The results indicate that, the taxpayers intentionally sell goods and service without tax invoice do you to different personal need like having high profit without the rule and regulation of the tax authority as soon as the law of the country this shows us a problem made do you too weak fellow up and control.

Table 4.12 TPR VAT registrants manipulate Cash Register Machine

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	148	69.8	69.8	69.8
moderately agree	36	17.0	17.0	86.8
Disagree	19	9.0	9.0	95.8
strongly disagree	9	4.2	4.2	100.0
Total	212	100.0	100.0	

The respondents were asked to the VAT registrants manipulate cash register machine and 148(69.8%) of the responded take strongly agree with the most of taxpayers intentionally

manipulate cash register machine 36(17.0%) moderately agree, 19(9.0) were disagree and 9(4.2) strongly disagree. The results indicate that, the taxpayers intentionally manipulate cash register machine do you to different personal need rather than the rule and regulation of the tax authority as soon as the law of the country this shows us a problem made do you too weak fellow up and control.

Table 4.13 TPR VAT registrants provide fake invoices to secure more input tax

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	60	28.3	28.3	28.3
moderately agree	79	37.3	37.3	65.6
Disagree	49	23.1	23.1	88.7
strongly disagree	24	11.3	11.3	100.0
Total	212	100.0	100.0	

The respondents were asked to the VAT registrants provide fake invoices to secure more input and 60(28.3%) of the responded take strongly agree with the most of taxpayers registrants provide fake invoices to secure more input 79(37.3%) moderately agree, 49(23.1) were disagree and 24(11.3) strongly disagree. The results indicate that, the taxpayers intentionally registrants provide fake invoices to secure more input do you to different personal need rather than the rule and regulation of the tax authority as soon as the law of the country this shows us a problem made do you too weak fellow up and control

Table 4.14 TPR Monthly returns for small firms is costly

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	46	21.7	21.7	21.7
moderately agree	63	29.7	29.7	51.4
Disagree	52	24.5	24.5	75.9
strongly disagree	51	24.1	24.1	100.0
Total	212	100.0	100.0	

The respondents were asked to the monthly returns for small firms is costly and 46(21.7%) of the responded take strongly agree with the monthly returns for small firms is costly 63(29.7%) moderately agree, 52(24.5) were disagree and 51(24.1) strongly disagree. The results indicate that, the monthly returns for small firms is costly this shows us a problem made do you too complex tax system.

Table 4.15 TPR Laws and procedures not clear and simple

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	148	69.8	69.8	69.8
moderately agree	36	17.0	17.0	86.8
Disagree	19	9.0	9.0	95.8
strongly disagree	9	4.2	4.2	100.0
Total	212	100.0	100.0	

The respondents were asked to the laws and procedures not clear and simple and 148(69.8%) of the responded take strongly agree with the laws and procedures not clear and simple 36(17.0%) moderately agree, 19(9.0) were disagree and 9(4.2) strongly disagree. The results indicate that,

the laws and procedures not clear and simple this shows us a problem made do you too complex tax system.

Table 4.16 TPR Monthly massive cross checking takes long time

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	93	43.9	43.9	43.9
moderately agree	56	26.4	26.4	70.3
Disagree	35	16.5	16.5	86.8
strongly disagree	28	13.2	13.2	100.0
Total	212	100.0	100.0	

The respondents were asked to the laws monthly massive cross checking takes long time and 93(43.9%) of the responded take strongly agree with the laws monthly massive cross checking takes long time 56(26.4%) moderately agree, 35(16.5) were disagree and 28(13.2) strongly disagree. The results indicate that, the laws monthly massive cross checking takes long time this shows us a problem made do you too complex tax system.

Table 4, 17 TPR how do you express the amount of taxpayers who are not willing to be register for VAT?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Many	46	21.7	21.7	21.7
Insignificant	63	29.7	29.7	51.4
Few	52	24.5	24.5	75.9
None	51	24.1	24.1	100.0
Total	212	100.0	100.0	

The respondents were asked to How do you express the amount of taxpayers who are not willing to be register for VAT and 46(21..7%) of the responded take many with How do you express the amount of taxpayers who are not willing to be register for VAT 63(29.7%) insignificant,

35(16.5) were few and 52(24.1) none. The results indicate that, How do you express the amount of taxpayers who are not willing to be register for VAT. more than 50% of business organization or their annual turnover is > 500000.00 so many company have no interested to register VAT this shows us a problem made do you too cultural background of taxpayers .

Table 4.18 TPR if your answer is Many, Insignificant, or none, Few why they are not willing?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Poor VAT administrative system	148	69.8	69.8	69.8
Due to problems from their suppliers	36	17.0	17.0	86.8
Due to fear of competition from unregistered similar businesses	19	9.0	9.0	95.8
Doe to the cultural background of taxpayers	9	4.2	4.2	100.0
Total	212	100.0	100.0	

The respondents were asked to if your answer is Many, Insignificant, or none, Few why they are not willing and 148(69.8%) of the responded take poor VAT administrative system this tell us the poor VAT administrative system have negative impact 36(17.0%) due to problem from their suppliers, 19(9.0) were due to fear of competition from unregistered similar business and 9(4.2) doe to the cultural background of taxpayers. The results indicate that, your answer is Many, Insignificant, or none, Few why they are not willing this shows us a problem made do you too cultural background of taxpayers.

Table 4.19 TPR Qualified human resource

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	75	35.4	35.4	35.4
moderately agree	55	25.9	25.9	61.3
Disagree	58	27.4	27.4	88.7
strongly disagree	24	11.3	11.3	100.0
Total	212	100.0	100.0	

The respondents were asked to the laws monthly massive cross checking takes long time and 93(43.9%) of the responded take strongly agree with the laws monthly massive cross checking takes long time 56(26.4%) moderately agree, 35(16.5) were disagree and 28(13.2) strongly disagree. The results indicate that, the laws monthly massive cross checking takes long time this shows us a problem made do you too luck of awareness level by the tax officers to VAT register taxpayers

Table 4.20 TPR Education and assistance program for taxpayers

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	120	56.6	56.6	56.6
moderately agree	50	23.6	23.6	80.2
Disagree	22	10.4	10.4	90.6
strongly disagree	20	9.4	9.4	100.0
Total	212	100.0	100.0	

The respondents were asked to the Education and assistance program for taxpayers and 120(56.6%) of the responded take strongly agree with the Education and assistance program for taxpayers 50(23.6%) moderately agree, 22(10.4) were disagree and 20(9.4) strongly disagree. The results indicate that, the laws Education and assistance program for taxpayers this shows us a problem made do you too luck of awareness level by the tax officers to VAT register taxpayers

Table 4.21 TPR Honest human resource

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	46	21.7	21.7	21.7
moderately agree	63	29.7	29.7	51.4
Disagree	52	24.5	24.5	75.9
strongly disagree	51	24.1	24.1	100.0
Total	212	100.0	100.0	

The respondents were asked to the Honest human resource and 46(21.7%) of the responded take strongly agree with the Honest human resource 63(29.7%) moderately agree, 52(24.5) were disagree and 51(24.1) strongly disagree. The results indicate that, the Honest human resource this shows us a problem made do you too luck of awareness level by the tax officers to VAT register taxpayers

Table 4.22 TPR Office facility

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly agree	148	69.8	69.8	69.8
moderately agree	36	17.0	17.0	86.8
Disagree	19	9.0	9.0	95.8
strongly disagree	9	4.2	4.2	100.0
Total	212	100.0	100.0	

The respondents were asked to the Office facility e and 148(69.8%) of the responded take strongly agree with the Office facility 36(17.0%) moderately agree, 19(9.0) were disagree and 9(4.2) strongly disagree. The results indicate that, the Office facility this shows us there is a problem with regarded to the office facility which means the office condition is not convertible for taxpayers.

Table 4.23 TPR Do you have confidence in the Jimma City Revenue Office VAT assessment and auditing

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	108	50.9	50.9	50.9
moderately agree	44	20.8	20.8	71.7
Disagree	30	14.2	14.2	85.8
strongly agree	30	14.2	14.2	100.0
Total	212	100.0	100.0	

The respondents were asked to the Do you have confidence in the Jimma City Revenue Office VAT assessment and auditing and 108(50.9%) of the responded take strongly agree with the Do you have confidence in the Jimma City Revenue Office VAT assessment and auditing 44(20.8%) moderately agree, 30(14.2) were disagree and 30(14.2) strongly disagree. The results indicate that, this shows us majority or 72% of taxpayers have no confidence in ERCA Jimma branch

Hypothesis testing and discussion with literature

H0: Weak follow up and controlling mechanism against those unregistered and registered VAT payers has no significant impact on VAT administration

Above table show that compliance cost ($\beta = 0.059$, $t = 0.516$ p value is $.055 > .05$) is insignificant. This means that Weak follow up and controlling has no significant effect on VAT Administration. Therefore the researcher accepts the null hypothesis.

HO: Complex tax systems has no significant impact on VAT administration

As can be observed in from above table the coefficient of complex tax system ($\beta = 17.7$, $t = 2.115$ p value of $0.00 < 0.05$) is positive and statistically significantly influence VAT Administration This means that the coefficient of Complex tax systems (β) also indicates that if revenue office creates one more comfortable condition to the tax payer or simple and short way of collection of tax from tax payers this would increase or improve the VAT Administration by 17.9%. This

result also leads us to reject a null hypothesis that stated a Complex tax system has no significant impact on VAT administration.

Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd and Ahmad,2011)

HO: Cultural backgrounds has no significant impact on VAT administration

As can be observed in from above table the coefficient of Cultural backgrounds ($\beta = 26.3$, $t = 2.653$ p value of $0.00 < 0.05$) is positive and statistically significantly influence VAT Administration This means that the coefficient of Cultural backgrounds (β) also indicates that if revenue office or ERCA Jimma city creates one more ways of training to all people with different culture and norms this would increase or improve the VAT Administration by 26.3.9%. This result also leads us to reject a null hypothesis that stated Cultural backgrounds has no significant impact on VAT administration

Taxpayers are very sensitive about where there tax many go. If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade(Mohd . and Ahmad ,2011).

H0: Awareness of tax payers has no significant impact on VAT administration

As can be observed in from above table the coefficient of Awareness of tax payers ($\beta = 20.9$, $t = 1.288$ p value of $0.00 < 0.05$) is positive and statistically significantly influence VAT Administration This means that the coefficient of Awareness of tax payers (β) also indicates that if revenue office prepared the training or brain wash for counties period of time this would increase or improve the VAT Administration by 20.9%. This result also leads us to reject a null hypothesis that stated Awareness of tax payers has no significant impact on VAT administration

According to (Taye, 2011) tax knowledge is essential in order to increase VAT collection and VAT income. Hence, it is very important to have knowledgeable and competent taxpayer's tax and education is one of the suggested tools to induce taxpayers to pay more. In other word, taxpayers are more willing to comply if they understand the basic concept of taxation.

HO: Compliance has no significant impacts on VAT administration

As can be observed in from above table the coefficient of Awareness of tax payers ($\beta = 9.2$, $t = 1.141$ p value of $0.01 < 0.05$) is positive and statistically significantly influence VAT Administration This means that the coefficient of Compliance of tax payers (β) also indicates that if revenue office prepared time schedule to hear and give feedback to the taxpayers this would increase or improve the VAT Administration by 9.2%. This result also leads us to reject a null hypothesis that stated Compliance has no significant impacts on VAT administration

Tadesse Getachew et.al (2014) attempted to reveal determinants of taxpayers' compliance with the tax system. This study examined nine tax compliance determinants; the examined tax compliance determinants were: probability of being audited; perception of government spending; perception of equity and fairness; penalty, financial constraint; changes to current government policies; referral group; the role of the tax authority; and tax knowledge. This study used a cross-sectional survey method of research design. Given the scaled ranking information of the dependent variable (tax compliance), an ordered profit was applied to examine determinants of tax compliance in Mekelle city, Ethiopia. The study indicates that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy

CHAPTER FIVE

CONCLUSSION AND RECOMMENDATION

The main objectives of this research is to investigate challenges of VAT administration in Ethiopian revenues and customs authority under Jimma branch office. In reaching to the conclusion and recommendation both the taxpayers and the revenue authority officials were asked with structured and semi structured questionnaires to investigate the existing problem of the tax administration of the selected officers of Authority. Based on the presentation and analysis of the data obtained, conclusions and recommendations drawn are discussed in this chapter.

5.1. Conclusion

According to findings of this study, taxpayers encounter different problems. Among the major factors influencing taxpayers perceived VAT Administration include complex tax system, cultural background, awareness and compliance. According to perceived level of VAT Administration, about seventy five percent of relative response of taxpayers to overall perceived VAT administration measure was not satisfactory. This could lead to poor actual VAT Administration problem. On average, complex tax system, cultural background, awareness and compliance are those relative factors studied in this research. These have significant effect on VAT Administration, reduce government income and hinder country's development progress in general.

It was found that having less experience in a given business has visible effect on VAT Administration. Complex tax system has positive and significant impact in influencing VAT Administration. Another important factor contributing to VAT Administration is the capacity of the authority to investigate tax system. Capability of authority to investigate actual taxable income or improving chance of detection, significantly affect VAT Administration.

Awareness of taxpayers regarding why the citizen pays tax also impact VAT Administration. Positive perception of the citizen to pay tax also affects VAT Administration. Contrarily, weak follow up has no significant impact. Cultural backgrounds of taxpayers have significant impact on VAT Administration.

5.2. Recommendation

Based on the findings, this study suggest to Ethiopian revenues and customs authority, Jimma branch office, the following issues to mitigate the problems associated with VAT administration.

Since having less experience in a given business has visible effect on VAT Administration, the authority/government has to give attention less experienced VAT registered organization and support them in different aspect. Because of complex tax system has positive and significant impact on VAT Administration, the authority has to improve its capability to enhance VAT Administration level.

With regard to awareness, the tax authority of ERCA Jimma branch office has to give updated and proper awareness on VAT Administration with its benefits and related consequence. Hence, if the authority puts some enforcement and properly follow on the simplicity of tax system it can easily improve VAT Administration.

The role of tax awareness and perception of tax payers towards the tax system is pivotal for voluntary VAT Administration decision; hence, the Ethiopian Revenue and Customs authority Jimma branch office should continuously work on tax payer's awareness creation and tax knowledge by giving adequate tax training and education to tax payers especially by giving clear feedback for taxpayers. The ERCA shall provide continuous problem solving and practical trainings to tax payers by using media such as Television, Radio, and Newspaper etc and by arranging training sessions through integration with universities. It is also recommendable to incorporate tax course in educational curriculums as a common course just to create tax awareness to citizens. ERCA should also encourage devoted or committed employee through different mechanisms such as by giving recognition for them, by giving some additional incentive; this will ultimately encourage VAT Administration. Government should ensure accountable and transparent so that taxpayers are willing to pay tax and understand its outcome. Unless taxpayers understand the result of their contribution to pay tax, they are not willing to register to VAT.

Particularly, Jimma revenue office has to give training to the whole society starting from elementary school in the form of education. Jimma revenue office should carry out monthly and quarterly monitoring and evaluation and the reports should be well analyzed for continuous improvement. Jimma revenue office needs to embark on sensitization, education and training programs in order to address the challenges still affecting the VAT Administration. Ethiopian revenues and customs authority, Jimma branch office, should design more robust VAT Administration that can show gaps in tax problems. This could contribute to timely tax payment and declaring exact amount expected from each business.

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