

ST. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

AN ASSESSMENT OF PROBLEMS ON TAX
COLLECTION IN THE CASE OF ERCA MERKATO
BRANCH OFFICE

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JUN, 2014
ADDIS ABABA

**AN ASSESSMENT OF PROBLEMS ON TAX COLLECTION IN
THE CASE OF ERCA MERKATO BRANCH OFFICE
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LIST OF ACRONYMS

Art	Articles
CCRA	Canada Customs and Revenue Agency
ERCA	Ethiopian Revenue and Customs Authority
FDRE	Federal Democratic Republic of Ethiopia
IC	Information Circular
IT	Information Technology
PLC	Private Limited Company
Proc. No	Proclamation Number
TIN	Tax Identification Number
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation is the system of raising revenue by the government through tax or it is a system of collecting money by the government to finance the government operation and other purposes. It is the compulsory form the person or business to the government to pay the expenses incurred in the common interest without reference to especial benefits given (Misrak, 2008:15).

Tax can be defined as a compulsory contribution (levy) payable by economic unites to a government without of direct and equivalent return from the government for the contribution made .tax is burdening came that reduce the economic welfare of the individual and business organization. But activities that are financed from taxes will bring benefits to individual, business organization public at large (Misrak, 2008:15).

Tax is one of the major and most important sources of revenue for the government of the given country. In most cases as people of developed countries are having clear understanding about tax and its uses the probably of facing problems regarding tax collection is very less but when we see the experience of developing countries like Ethiopia we see many problems due to many reasons . Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods. Despite the fact that people need to pay tax based on rational of vertical and horizontal equities, it is not always the case that tax system are comprehensible and transparent for tax payers especially for less illiterates' business operators (Misrak, 2008:16).

Tax systems are usually not elaborated after proper consultations with the business community. The Business owners complain that the tax assessment method is based on the business estimation as a result of which they are frequently subjected to over – taxation, since the business owners did not have simplified access to the clarification on the information of the tax laws. They lack awareness on tax and regulations and this has an impact on the practicality of the regulation (Gebries, 2008).

The Ethiopian Revenues and Customs Authority (ERCA) is the organization responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The ERCA traces its origin to July 7, 2008 as a result of the merger of the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenues into one giant organization. According to article 3, of the proclamation No.587/2008, the Authority is looked upon as "an autonomous federal agency having its own legal personality". Reasons for the merge of the foregoing administrations into a single autonomous authority are varied and complex. Some of those reasons include:

- To provide the basis for modern tax and customs administrations.
- To cut through the red tape or avoid unnecessary and redundant procedures that results delay and considered cost-inefficient etc.
- To be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery.
- To transform the efficiency of the revenue sector to a high level.

Merkato Number One Branch Office is one of the branches of ERCA found in Addis Ketema sub city. Formerly it was administered by Addis Ababa city administration yet the tax administration and collection was takeover by ERCA for effective and efficient collection of taxes. The branch administers almost all domestic taxes including: business income tax, employment income tax, rental income tax, value added tax, withholding tax and others.

1.2 Statement of the Problem

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income in to government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many families, business enterprises, industries and the general public. Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always

the case that tax systems are comprehensible and transparent for taxpayers especially for less literate business operators.

The tax system in Ethiopia is not only meant to raise revenue for current expenditures but also aims at directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws. If the investments are of high priority in-terms of the country overall development goals, then they are entitled to better tax incentives like tax holidays and the vice versa if otherwise. By doing so, the government can direct the allocation of resources into areas of its priority. Through the tax system, government can protect domestic industries from competing imported goods through levying high tariff on the later. Taxation is also used for non-fiscal purposes such as reducing the inequalities in income distribution; encouraging certain industries and discouraging others depending on how useful and appropriate they are at that particular economic stance. To achieve the above and other different objectives of the government good tax administration (i.e. efficient and effective tax assessment and collection) is required.

Hence, the major concern of this study is to assess and investigate the major problems and challenges of tax assessment and collection on Merkato number one branch office.

1.3 Basic Research Questions

The basic research questions that should be answered by this study were as follows:

1. Is there clear rules and regulation to undertake tax assessment and collection?
2. How the branch offices use modern technology for the purpose of assessment and collection of taxes?
3. How the branch office uses competent personnel to perform tax assessment and collection?
4. Does the taxpayer and employees have adequate awareness about tax assessment and collection laws and regulations?

1.4 Objective of the Study

General Objective

The general objective of the study was to assess, investigate and identify problems and recommend possible solution in the tax collection problems of the branch

Specific Objective

The specific objectives of the study were:-

- To identify whether there is clear rules and regulation to undertake tax assessment and collection activities
- To make sure that whether the office use modern technology for the purpose of assessment and collection of taxes.
- To ensure whether the staff of the office are skilled and qualified especially in tax assessment and collection activities.
- To examine the level of taxpayers and employees awareness towards tax assessment and collection laws and regulations.

1.5 Significant of the Study

The study may benefit stakeholders of the branch for which it will provide information about the weaknesses and strength of the branch tax collection service that leads to take appropriate decision. The researcher also believes that the findings of the study would provide the basis for planning and control of procedures and policies in the tax collection services system. Thus, the study is delimited to study only the tax collection service system of the branch.

1.6 Delimitation of the Study

The scope of the research is limited to one of the branches of ERCA which is Merkato number one branch office. The study also limited to identification and analysis of the level of branch tax collection, level of quality service rendering, educational level and awareness of employees related with tax collection.

1.7 Research Design and Methodology

1.7.1 Target Population and Sampling Techniques

The populations of the research are tax payers (customers) of the branch and employees of the branch. And the researchers considers that the population is large to address them and to gather data, due to this applying of judgmental sampling technique on data collection is the better approach to represent the population.

1.7.2 Sample Size

From the entire population of tax payers and employees in the branch (Merkato) the target sample is expected to be about 20 employees and 30 customers. These employees and customers have direct or indirect relation with branch tax payment and collection service. So the researcher believes that these collections of elements from the population will help the study to draw conclusions about the entire population.

While doing this study the researchers could not make questionnaires' and interview for the whole targeted population because of scope limitation and scarcity of time and other resources'. Rather the researcher gathers data from 30 customers and 20 employees as a sample and uses those responds to make inference about the entire population.

1.7.3 Data Collection Method

The researcher were gathers both primary and secondary data types. The primary data was collected through questionnaires. Besides, direct observation also used in order to see how ' Really' the branch is working and also to cheek the validity of data collected by questionnaires. The secondary data obtained through review of different literatures including books, manuals, Polices, procedure, rules, pamphlets, magazines and browsing websites.

1.7.4 Method of Data Collection

The researchers use questioner and observation as method of collecting primary data and collection of reference books and literature, internet as collection method of secondary data

1.7.5 Method of Data Analysis and Interpretation

In the data analysis step all the data collected by the researcher were analyzed in descriptive and analysis manner will be composed against the theoretical aspect of tax collection services provision quality, character and other measurement values.

1.8 Limitation of the Study

The findings of the research would be more fruitful if it were conducted widely by including all the collection and administration system of the branch that may have impact on the services rendering quality. But due to time and money constraints it would be too boring and out of the reach of the researcher to include each problem of the branch. The other limitation of the research may be lack of previous experience on the researcher that may lead to challenge in management of the research quality and schedule

1.9 Organization of the study

The study will be organized in four chapters: the first chapter will be the general introduction which incorporates scope, limitation and other basic issues of the paper. The second chapter will be the related literature review which presents principles, theories and concepts related with assessment and collection of taxes. The third chapter, which is the central part of the stud, will be data analysis and presentation regarding tax assessment and collection in Merkato number one branch office of ERCA using information provided by the taxpayers and tax offices. The last chapter will provide summary of major findings, conclusion and recommendation for the previous findings.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

The following part of this study reviews the relevant literature that is meaning of tax, principles and concepts of taxation categories of business income taxpayers, business income taxpayers which helps to analyze the problems and challenges of tax assessment and collection.

2.2.1 What is tax?

Tax is a compulsory contribution to government imposed in order to raise revenue. It can be difficult to pin down in specific cases what is and what is not a “tax” classification can be attempted from a legal or an economic point of view. The legal definition of tax depends on the context and the legal system. Typical elements that define a tax are that it is compulsory (in distinction to voluntary payment, particularly for a service provided by government, required by law) although some times the issue is whether a particular charge is in the nature of a tax and hence an illegal because it is not imposed by a law as required), made to the government for revenue purposes (thus distinguishing it from “non tax revenues” such as fines, penalties and regulatory charges) and not made in return for a service or other benefits (Joseph et al, 2005:2).

2.2 Objective of Taxation

The objectives of taxation behind the levy of tax is to raising revenue is only one of the many goals of taxation. The tax laws foster many economic and social goals such as wealth redistribution, price stability, economic growth, full employment, home ownership, charitable activities, and environmental preservation. For example, the government encourages contribution to charities through the charitable contribution deduction. If the charitable organization did not exist, the government would have to undertake many of the activities the charities provide. Thus, the tax law is used to achieve this social objective (Karen, 2008:9).

In addition, governments imposed taxes for three basic purposes: To cover the cost of administration, maintaining law and order in the country and for defense (Gebrie, 2008:21).

As Gebrie (2008:21):-states that, taxations have the following objectives:

- Raising revenue: To render various economic and social activities, a government need large amount of revenue and to meet this government imposes various types of taxes.
- Remove of inequalities in income and wealth: Government adopts progressive tax system and stressed on canon of equality to remove inequalities in income and wealth of the people.
- Ensuring economic stability: Taxation affects the general level of consumption and production. Hence, it can be used as an effective tool for achieving economic stability.
- Reduction in regional imbalances: If there is imbalance with in the country, government can uses taxation to remove such imbalance by tax exemption and tax concessions to investors who made investment in under developed regions.
- Capital accumulation: Tax concession or tax rebates given for saving or investment in shares and debentures lead to large amount of capital accumulation, which is essential for the promotion of industrial development.
- Creation of employment opportunities: Governments might minimize unemployment in the country by giving tax concessioner exemptions to small enterprises and labor-intensive industries.
- Preventing harmful consumptions: Governments can reduce harmful things on the society by leaving heavy excise tax on cigarettes, alcohols and other products, which worsen people's health.
- Beneficial diversion of resources: Governments impose heavy tax on non-essential and luxury goods to discourage products of such goods and give tax rate reduction or exemption on most essential goods. This diverts producer's attention and enables the country to utilize the limited resources for production of essential goods only.
- Enforcement of exports: Government enhances foreign exchange requirements through export-oriented strategy. These provide a certain tax exemption for those exports and encourage them with arranging a free trade zones and by making a bilateral and multilateral agreement.
- And, enhancement of standard of living.

2.3 Principles of Taxation

A good tax system should achieve various objectives, in order to achieve such objectives; the tax system chooses and adheres to certain accepted principles. According to Smith () principles of taxation includes: - equity, certainty, convenience and economy

2.3.1 Canons of Equity

This canons of taxation states that “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state”. Thus, countries have to observe the objective of economic justice. It dictates that in absolute terms the richer should pay more taxes because with out the protection of the state they could not have earned and enjoyed that extra income. If we in target this principle interims of disutility which the tax payers suffer from by paying the taxes, it follows that the tax should impose equal marginal disutility up on every tax payer. Two possibilities emerge in this case. If incomes are subject to constant marginal utility, then both the rich and the poor should be subjected to proportional taxation each person paying a given percentage of his income as tax. On the other hand, if we agree with the more realistic proportion that income is subject to dimensioning marginal utility, then the richer should pay a larger proportion of their incomes as taxes (that is the taxes should be progressive).

2.3.2 Canons of Certainty

This canon is meant to protect the tax payers from unnecessary harassment by the 'tax officials'. “The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, and the quantity to be paid, all to be clear and plan to the contributor and to every other person”. The tax-payers should not be subject to arbitrariness and discretion the tax officials, in which case where will be a scope for a corrupt tax administration. Adam Smith points out that if a scope for arbitrariness exists, then under such circumstances even honest tax machinery will be unpopular. Therefore it is as emphatic about these principles

as to claim “that a very considerable degree of inequalities is not near so great an evil as a very small degree of uncertainty”.

2.3.3 Canons of Convenience

The mode and timings of tax payment should be, so far as possible, convenient to the tax-payer. This canon recommends that unnecessary trouble to the tax-payer should be avoided; otherwise various ill-effects may result.

2.3.4 Canons of Economy

And finally this canon of taxation defines that, every tax has a cost of collection. It is important that the cost of collection should be the minimum possible. It will be useless to impose taxes which are too wide spread and difficult to administer. These taxes entail unnecessary burden upon the society in the form of additional administrative expense. The productive efforts of the people suffer due to a waste full use of its resource on the salary of the officials. Realizing that the tax collections are being wasted, the taxpayers are likely to evade them. These canons of taxation have a sound philosophy experience of tax administration and its effect.

2.4 Business Income Tax

2.4.1 Meaning of Business Income Tax

Tax imposed on the taxable business income realized from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of profit and loss account or income statement which shall be drawn in compliance with the general accepted accounting standards. At the end of each tax year or accounting period, business income tax-payers submit an income tax return (tax declaration form) to tax authority which shall continue full and true information about the income (profit) earned by the business tax payers (Misrak, 2008:87).

2.4.2 Tax Rates and Bases

As Hyman (2005:185) states that, the tax rate structure describes the relationship between the tax rate structure: proportional tax rate structure is one which the average tax rate expresses a percentage of the value of the tax base does not vary with the tax base in this system, all incomes are taxed at a uniform rate and it does not matter if the taxpayer's income is high or low. For progressive taxation, the marginal rate of taxation eventually exceeds the average rate of

taxation, as the marginal tax rate increases. In general, a tax is said to be progressive, if the larger the taxpayer income or property, the greater is the proportion that they pay as tax. A sharply progressive tax system need to reduce inequality in the distribution of income and wealth, sharper the progressive the stronger is the tendency to reduce inequalities. Regressive tax rate structure is one for which the average tax rate applied. Higher income groups are taxed higher tax rate, middle income group taxed lower tax rate and the lower income groups are exempted. It does not provide for a uniform and fixed percentage rate of tax for all income levels.

2.4.3 Categories of Taxpayers

According to Ethiopian Revenue and custom authority, income tax proclamation No. 286/1994 and its amendment proclamation No. 608/2001 EC tax payers are classified into three major categories.

A. Category “A” Taxpayers

B. Category 'B” Taxpayers

C. Category 'C” Taxpayers

A. Category “A” Taxpayers

This category of taxpayers includes:

- a) Any company incorporated under the laws of Ethiopia or in a foreign country;
- b) Any other business having an annual turnover of Birr 500,000 or more.

Category “A” taxpayers are required to submit to the Tax Authority, at the end of the year, a balance sheet and a profit and loss statement and the following details:

- a) Gross profit and the manner in which it is computed;
- b) General and administrative expense;
- c) Depreciation expense; and
- d) Provisions and reserves.

In addition, these taxpayers should register with the Tax Authority the type and quantity of vouchers they use before having such vouchers printed. Any printing press before printing

vouchers of taxpayers shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.

B. Category “B” Taxpayers

Unless already classified in category “A”, any business having an annual turnover of over Birr 100,000 would be classified under Category “B” taxpayers. This category of taxpayers should submit to the Tax Authority profit and loss statement at the end of the year.

C. Category “C” Taxpayers

Unless classified in Categories “A” and “B”, those businesses whose annual turnover is estimated up to Birr 100,000 are classified under this category of taxpayers.

2.4.4 Tax Year

Unless otherwise provided, the period for tax assessment “tax year” shall be the fiscal year, that is, the one-year period from 1st Hamle to 30th Sene. The tax year of a person in the case of an individual or an association of individuals is the fiscal year; whereas in the case of a body, the accounting year of the body (<http://information.eaglelook.com/tax>).

2.4.5 Declaration of Income

1) Category “C” taxpayer shall declare within the period prescribed under article 68(2) of the proclamation declare to the tax authority

A) His annual turnover;

B) The amount derived from a source other than his regular operations;

C) The type of business cared on is changed.

2) The tax authority may, on the bases of declaration submitted by category “A”, “B” and “C” taxpayers, and on the bases of other information and surrounding circumstances, determines whether the tax payer shall continue in the same category or his category, be change for the following tax year.

3) If a non resident person operates his business activity through or agents shall be jointly responsible for submitting the declaration of income and payment of the tax there on.

Time of declaration of income and payment of tax

- 1) Category “A” tax payer within four months from the end of the taxpayer’s tax year. For example (as in the case usually), if a tax payer follows the fiscal year, the one-year period from 1st of Hamle to 30th of Sene (8th of July to 7th of July), the income has to be declared and paid till 30th of Tikmit (that is 9th of November and the 10th of November during a leap year according to the Ethiopian calendar)
- 2) Category “B” taxpayers within two months from the taxpayers tax year. for example (as in the case usually), if a tax payer follows the fiscal year period, from 1st of Hamle to 30th of Sene (8th of July to 7th of July), the income has to be declared and paid till 5th of Pagume (or 6th of Pagume during a leap year according to the Ethiopian calendar (that is 10th of September or 11th of September during a leap year to the Ethiopian calendar).
- 3) Category “C” taxpayers shall pay the tax determined in accordance with standard assessment on the 8th of July (1st of Hamle) to the 6th of August (30th of Hamle) every year (<http://information.eaglelook.com/tax>).

2.5 Tax Assessment and Collection Procedure

2.5.1 What is Tax Assessment?

Tax Assessment is the process of establishing the basics for calculating tax liability. That means adding up the taxable income, property, turnover, etc. From data supplied by the tax payers himself in his tax return, or third parties such as employers. Once the taxable amount is known, the appropriate tax rate can be applied to calculate the tax liability (Hogye, 2000:270).

Tax Assessment is fundamental to the tax collection. Every country that taxes income has laws to impose the tax and a system to assess and collect it. An assessment is the end result of the process of ascertaining a tax payer's taxable income and calculating the tax payable on that income (<http://information.eaglelook.com/tax>).

2.5.2 Ways of tax assessment

Like many tax regimes in Ethiopia income tax is assessed in three forms; Assessment of income tax on the bases of taxpayer's records and books, assessment of income tax on the bases of

standard assessment method, and assessment of income tax on the bases of estimated assessment method.

1) Assessment of income tax by books and records

Assessment of schedule “A” income tax-payers

Withholding agents for schedule “A” income (employers) are required to maintain payroll records, which refer to a separate record for each employee regarding the earnings and other fringes benefits during each payroll period and, the income tax declaration is prepared based on the detailed information of such records. Hence, the assessment of schedule “A” income tax is based on records.

Assessment of schedule “B” income tax and schedule “C” income tax are required to maintain books of accounts and the assessment of tax is based on their books of accounts and records. As a result the income tax declaration is prepared based on the books of accounts and records maintain by the taxpayers as per the tax law requirements. However, for category rental and business income taxpayers who are not required by law to maintain books of account, the assessment of tax is based on the standard assessment (estimation method)

Like other schedule of incomes, the assessment of schedule “D” income tax is also based on the records maintained by the taxpayer or withholding agent. As a result, the amount of schedule “D” income tax liability and payable for the tax year as stated in the declaration of income by the taxpayer himself or by the withholding agent, determined based on records, shall be considered as the amount of tax assessed by the tax authority determines that an error or omission has been made and thus requires amendment.

2) Assessment of income tax by standard assessment method

Category “C” business income taxpayers, unlike category “A” and category “B” taxpayers, are not required (not obligatory) to maintain books and records and prepare and submit any financial statement to the tax authority determine the taxable income and income tax liability of such taxpayers, however, standard assessment presumptive taxation method is used.

3) Assessment of income tax by estimation

Normally assessment of income tax is the review and verification of the tax liabilities declared by the tax payers before they make payments. It also refers to the determination of taxable income and income tax liability of a tax payer for a given tax assessment year (Misrak, 2003:90).

2.5.3 Tax Collection

Tax, (including with held or collected tax) that to be paid to the tax authority by stated date shall be payable on that date. Failure to make a timely payment shall result in the imposition of interest and the late payment penalty (Aforementioned proclamation article 74).

A. Procedures for tax collection

According to Tanzi (2000:255) it is expected that people's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income. On the other part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries.

The procedures undertaken by tax authority to ensure compliance are discussed as follows:

B. Identification and registration of taxpayers

Tax Identification Number (TIN) is used to identify taxpayers. Every taxpayer has a unique TIN, which he or she is supposed to use in all his or her correspondence with the tax authority, and no taxpayer should have more than one TIN.

C. Filing returns

Taxpayers are required to file returns with in specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayer has their file.

D. Returns processing

Up on receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer. The officer then allocates an assessment number to the return and issues the taxpayer with a Bank Payment Advice Form, stating the tax payable.

E. Payment of taxes

Taxes are due on the due date of the submission of the self-assessment returns. Tax should be paid to an authorized bank, using the Bank Payment Advice Form.

F. Audit and examination

The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits.

The paragraphs that follow give a detailed discussion on the criteria that the Canada Customs and Revenue Agency (CCRA) uses in selecting returns for audit. The criteria are laid out in Information Circular IC 71-14R3, dated 18 June 1984.

The Screening Process: The majority of cases for audit are selected during this process. Here, comparison is made between returns of taxpayers who engage in similar businesses or occupations, and between information contained in returns of current and previous years for a taxpayer. Where inconsistencies are detected, CCRA officials put the returns aside for possible audit and specific returns are selected for audit. The selective and careful scrutiny not only saves resources but also increases the chances of detecting evasion.

Auditing Projects; under this project, CCRA tests the compliance of a particular group of taxpayers. If the test results show that the group is non-compliant, the group members may be audited.

Leads: The CCRA at times uses information from investigations or external sources, such as informers, to select cases for audit. Since these audits are not conducted arbitrarily, it is almost always likely that cases of noncompliance will be discovered.

Secondary Files: Here, a file is selected for audit because of its association with another file that has already been chosen for audit. For instance, where taxpayers conduct business in the same area and under the same control, if the CCRA decides to audit one taxpayer, it may decide to audit all the other taxpayers in that place of business.

Random Audits: At times the CCRA randomly picks returns for audit. These returns are then periodically audited to check whether the audits affect compliance in any way.

G. Audit and examination Collection and enforcement

When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The Commissioner may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's movable property. In a wider context, the issue of enforcement includes offenses committed by the taxpayer, and the penalties for these offenses.

2.6 Tax Administration Reform

The two main tasks of any tax administration reform are achieving higher effectiveness (i.e., the capability to achieve high level of tax compliance) and efficiency (i.e., the capability to make administrative costs per unit of tax revenue as small as possible (Hogye, 2000:277).

2.6.1 Basic Elements of Tax Administration Reform

Hogye (2000:277) states that tax administration trends are towards independence and professionalism. Therefore, considering the basic elements of tax administration reforms are the following requirements needed:

- ⤴ Firm and continues political commitment.
- ⤴ A staff capable of concentrated work over a long period.

- ⤴ A well defined and appropriate strategy.
- ⤴ Personnel training and education.

In addition the constitution of federal income democratic republic of Ethiopia (FDRE) states that the federal governments and the states all collect tax and shall share revenue taking the federal arrangement into account. The sharing of revenue between the central government and the national government has the following objectives.

- ✓ Enables the central government and the National/Regional governments, efficiency to carry out their respective duties and responsibilities
- ✓ Assist national/Regional government to develop their regions on their own initiatives
- ✓ Narrow the existing gap in developing and economic growth between regions
- ✓ Encourage activities that have common interest to regions

It has also the power to decide, the house of the federation and the house of people's representatives shall in a joint session, determine by a two-thirds majority vote on the exercise of powers of taxation, which have not been specifically provided for in the constitution (Misrak, 2008:102).

2.6.2 Tax reform in Ethiopia

In Ethiopia tax reform program has got momentum in 1999 when the "revenue board" scaled up to the level of ministry "Ministry of revenue" and the reform expanded from tax policy measures to administrative reform.

The government of Ethiopia is modernizing the tax and custom administration by overhauling the legislative and improving administration. The reform measures and intended to encourage trade, investment and hence development; broadening the tax base and government revenue to support social program and alleviate poverty, strengthen the enforcement capacity of the tax and custom authorities; and promoting equity in the tax system. The tax reform consists of six projects these are:

1. Tax policy and legislation project
2. Taxpayer identification(TIN)project
3. Presumptive tax program

4. Value added tax program
5. Reorganization and work producer development

2.6.3 Tax administration inputs

According to Misrak (2008:105) several challenges confront in tax administration due to inadequate tax administration inputs (resources). In order to make a tax administration efficient and effective, the following are critical inputs required by the tax administration authorities.

A) Budget/finance

One of the critical inputs to enforce the tax laws by the tax administration budget. In order to collect tax revenues from taxpayers, a tax administration organization surely incurs administration costs. So as to meet its administration costs, the tax administration organization either retains a certain portion/percentage of the tax revenues that it collects or the government needs to allocate adequate tax administration budget for the tax administration organization.

B) Physical facilities

In order to discharge its responsibilities, a tax administration authority needs adequate physical facilities such as, office equipment, office furniture and vehicles.

c) Human resource

To make a tax administration efficient and effective, availing competent and qualified manpower in the required quantity is also a critical input. Hence, a tax administration authority has to properly evaluate and place well-trained personnel required for each essential tax administration function.

d) Salaries and Incentives

To motivate tax administration, retain and attract competent staff and act in accordance with the interest of the government, attractive salaries and incentives are required by the tax administration organization.

E) Automation

Since automated system, compared to manual system, enhance information processing, information exchange and enforcement of tax laws, the use of modern and update information technology (IT) is also an important input improving efficiency and effectiveness of tax administration.

2.6.4 Computerization and its role in tax assessment and collection

The use of information technology in management has varied in parallel with the development of new applications. Their use by various managers has also differed, since all managers are not uniformly enthusiastic about computerization. Appropriate action needs to be taken to promote the use of this technology, this is one of the challenges currently facing tax data processing, and there is little sign of any major successes on the immediate horizon (Rechard and Milka, 1992:187).

As Hogue (2000:278) noted that, the registration of taxpayers takes place via a computer-assisted application for both the formal activities of taxpayers and for current accounts. Registration is linked with other functions, such as receipt of tax returns and payments, tax collection, and statistical analysis. This link ensures the key information on taxes is readily available. There is a software application at some financial offices that makes it possible to product period reminders for taxpayers. Computers are mutually connected to a centralized system. The existing database is generally considered efficient and appropriate to the requirements of tax administration at the majority of financial offices. It must be pointed out, however, that is yet financial offices are not connected to national information system and databases. On-screen information is not available for taxpayer, but he has the right to have a statement prepared for him relating to his tax return by an official from the financial office. The ability of the present informatics system to provide comprehensive information to an individual taxpayer on his tax case varies depending on the financial office.

Tax collection is not functioning properly without an effective and efficient tax administration. To change the situation, a well-designed computer system is an important tool of tax administration. Naturally, computerization is useful to improve efficiency and reduce cost. In the current information technology age, computers and their widespread application allow tax collectors to provide efficient, timely and accurate services. Computer application is equally

important to save taxpayers time and promote tax equity. However, such benefits of computers are not easily accessible to developing countries due to high associate with purchasing of hardware and software and shortage of computer are hindered from enjoying the advantages of computers (Fantahun, 2002:12).

In Ethiopian tax administration system, there is no virtually automated systems; all accounting was done manually on ledger cards and there was no master files of taxpayers, or lists of delinquent tax files; there was a distinct lack of qualified computer staff with computer knowledge (Biniyam, 2010:16).

2.7 Tax Laws and Regulations

For the presence of good and effective tax administration, the laws and regulations governing the tax administration play significant role. Thus, inefficiency in the tax administration can originate from the prevailing tax laws and regulations. The tax laws are expected to be clear and simple. When the tax laws are differently interpreted by the tax administration and the taxpayers it creates incentive for litigation. Excessively high penalties for delinquent taxpayers could encourage collusion.

The current income tax law, dating back to 1961 and supplemented by numerous amendments, has become complex to administer, and confusing for the taxpaying community to understand. A part from these shortcomings the tax law fails to give proper power to the collecting institution required for enforcement, i.e. the tax administrating authorities do not have the necessary enforcement power to collect tax arrears, support and it and investigation for tax fraud. It fails to give the proper power to enforce tax delinquents to tax institutions. Moreover, it doesn't reflect the current business and investment environment since it existed for the last 50 years without radical improvement (Fantahun, 2002:17).

2.8 Taxpayers' Education and Awareness

2.8.1 Taxpayers' Education

In order to comply with the tax law, authorities must provide their citizens such programs as developing clear forms and instructions, providing points of contact to request and secure

information about their duty, and developing educational programs to inform taxpayers. Taxpayers' education and training is very essential in promoting compliance. Taxpayers must receive clear and concise information on what is taxable, how to calculate their tax liabilities and procedures for calculating and paying taxes and where and when they pay taxes. In addition, forms and procedures for calculating and paying taxes should be as simple as possible. Moreover, tax offices are expected to develop training and education programs to inform the business community of the requirements to make declaration, the basis for the declarations and the penalty provisions for non-compliance. The program could utilize information pamphlets to be made available at key locations and public gathering such as post offices, trade licensing bureaus, chambers of commerce, and media (Gorman, 2001:127).

2.8.2 Taxpayers' information

Information should relay be available to serve users in language(s) they understand. Customers with full, accurate and up-to-date information about public institution will have a better understanding of what and where service provided and are thus in a better position to benefit from available services (MOCB 2001). As also noted by Bird and Casangra de Jantscher(1992) in money countries of the world taxpayer assists, information and education is one of the fundamental concerns of tax administration in their efforts to achieve the maximum possible level of voluntary compliance taxpayers. In an effective taxpayer service program, compliance, problem resolution, and dissemination of information are the three most important elements of tax administration functions. In order to comply with the law tax authority must provide their citizens such programs as developing clear forms and instructions, providing points of contact to request and secure information about their duty, and developing educational programs to inform taxpayers. In providing taxpayers service by the government to inform the public of their duty and responsibilities under the tax laws such as rulings, regulations decisions, and other notifications, to foster a reasonable high level of compliance and minimize problems. Thus function has objectives to help the citizens conform to the needs of the government by sending clear messages to taxpayers.

As per the National Taxpayer Advocate (2004) complexity in the tax law and its administration can easily baffle taxpayers and lead to compliance problems. In educate planning for taxpayer

education and outreach many significantly impact compliance in an ever-changing, complex tax environment. With the tax authority placing more emphasis on enforcement, and shifting resources from pre-filing to post-filing activities, taxpayers may not receive the education and assistance they require to comply with tax obligations. The tax authority must set forth identifiable and quantifiable objectives, actively utilize available sources of research, and provide for a method of measuring the effectiveness of its initiatives.

To many taxpayers the tax authority notes sent to taxpayers annually do not satisfy the standard set forth by legislation-that notice must sufficiently clear to enable a taxpayer to understand the tax authority question about a tax return or any adjustment or penalties applied to a return.

2.8.3 Awareness

The principle awareness refers to the idea that the taxpayer should be aware of the taxes he is paying. The more he is aware of the tax burden, the better he is able to judge the amount of public and merit goods and redistribution he wants against their tax costs, and the better equipped he is to vote for the size of the public sector he wants. Thus, the personal income tax that is assessed direct up on individuals is more evident than the corporation income tax whose incidence is uncertain (Miller, 1984:157).

CHAPTER THREE

DATA PRESENTATION AND ANALYSIS

3.1 Introduction

This chapter describes the result of the study starting from summary of the survey, response rate and respondents background. The responses of the taxpayers are presented analyzed, and interpreted. The Researchers tried to assess the problem and challenges of tax assessment and collection in ERCA the case of Merkato Number One Branch Office. The response of the taxpayers and tax officials towards the challenges and problems in tax assessment and collection process are: tax filling and payment system, awareness creation, tax rules and regulation, IT system, competent and skilled man power, taxpayer education and awareness in tax assessment and collection.

3.2 Response Rate

As it has been shown in the Table 3.1 Presented below, the response rate of respondents and enumerators collected 100% of the questioners from tax employees and 80% from taxpayers, only 6 respondents from the taxpayers don't give their responses for the questioner delivered. Therefore, this analysis was intended and tried to present and analyzed the problems and challenges of tax assessment and collection on ERCA involved in business activities focusing on the case of Merkato number one branch office by keeping the statement of the problems and challenges.

Table 3.1 Response rate

Types of respondents	No. of questioners distributed	No. of questioners returned	No. of questioners invalid	Response rate
Taxpayers (Customers)	30	24	6	80%
Tax employees	20	20	0	100%

Source: Researchers Field Survey, 2014

Therefore, the collected data was adequate and has a capacity to address the objectives of the study. For this reason, the data was collected from the representatives of the concerned parties and it was possible to conduct data analysis and interpretation.

3.3 Data presentation and analysis on response of tax employees

A. Respondent's profile

Table 3.2 Demographic data of Merkato number one branch office tax employees' respondents.

Item	Descriptions	Response	Frequency	Percentage
1	Sex	Male	13	65
		Female	7	35
		Total	20	100
2	Age	20-30	12	60
		31-40	8	40
		41-50	-	-
		Above 50	-	-
		Total	20	100
3	Academic qualification	Below 12	-	-
		Certificate	-	-
		Diploma	1	5
		Degree	16	80
		Second Degree and above	3	15
		Total	20	100
4	Currently work position	Tax officer	8	40
		Tax auditor	10	50
		Tax accountant	2	10
		Total	20	100
5	Work experience	1-3 years	10	50
		4-6 years	3	15
		7-10 years	3	15
		Above 10 years	4	20
		Total	20	100

Source: Researchers Field Survey, 2014

Table 3.2 depicts the demographic information of the tax office employees' respondents, it shows that, 65% of the total respondents are male, while 35% are females. It also reveals that, 40% of the respondents' age is between 20 and 30 and 60% are between 31 and 40 respectively. With regard to their academic qualification of the respondents, 5% have Diploma, 80% have Degree and 15% Second degree respectively. Similarly, 40% of the respondents are working tax officer, 50% of the respondents were tax auditor, and 10% of the respondents tax accountant respectively. Besides 50% of the total respondents are, 1-3 years work experience, 15% were 4-6 years and 15% of the respondents have 7-10 years while, the remaining 20% were 10 years and above.

In summary, from the above figures obtained, the gender proportion of employees indicated, and the majority of the respondents were males. Hence gender wise distribution the percentage of females in the office relatively lower, when compared to males. While the researchers searching the age distribution of the tax officers, most of the respondents are the age between, 20-30 and the age of 31-40. This indicates that majority of the tax officers are active age. In addition to the qualification of most of the respondents are Degree holders, this indicates that most of the workers have well upgrade. Regarding the employee's current work position majority of the respondents were tax auditors. And with reference to their work experience shows, more than half of the respondents have an experience of 1-3 years, and hence, the majority of the employees have not enough experience on their current positions.

B. Rewards and performance evaluation criteria

Table 3.3 Tax responses of branch office tax officials

Descriptions	Response	Frequency	Percentage
Does the branch office Provide rewards based on their performance evaluation?	Yes	8	40
	No	12	60
	Total	20	100
If "yes" What are the bases for the reward?	Seniority and member ship	2	10
	Job status	8	40
	Performance	8	40
	Skills	2	10
	Total	20	100

Source: Researchers Field Survey, 2014

As indicated in the above Table 3.3 the respondents rewards based on their performance evaluation, 40% were agree and 60% disagree, which implies that most of the employees were not reward by the performance evaluation taken by ERCA. From the same table the action indicates that, 10% of the respondents' seniority and membership, 40% job status, 40% performance and the remaining, 10% were skills. This indicates that, the branch does not have uniform performance evaluation criteria.

C. Competency and skilled man power

Table 3.4 Tax responses of revenue office tax employees

Descriptions	Response	Frequency	Percentage
Do you believe that, sufficient skilled and competent manpower in your office?	Yes	12	60
	No	8	40
	Total	20	100
Does the organization policy and procedure attractive to initiate employees for better performance?	Highly attractive	-	-
	Low attractive	5	25
	Attractive	5	25
	Moderate attractive	5	25
	Un attractive	5	25
	Total	20	100

Source: Researchers Field Survey, 2014

The responses as shown from the Table 3.4 above mentioned that, sufficient skilled and competent manpower in their office, 60% of the respondents agree and the remaining 40% were disagree on the competency of revenue office employees. From the same table indicates that, to initiate employees for better performance, 25% were low attractive, 25% attractive, 25% moderate attractive, and 25% were unattractive. In addition to the above questioners summarized, the respondents to give their opinion on the same basic issue most of the assessment and collection workers are new employees, with low work experience with a qualification of first Degree.

The researchers infer that, almost more than half of employees are competent and skilled. While, trying to look at the administrative rules, were attractive to initiate employees.

D. Competency and skilled man power

Table 3.5 Response of customer handling training of the tax officer

Descriptions	Response	Frequency	Percentage
Have you ever had any training pertaining to customer client handling?	Yes	11	55
	No	9	45
	Total	20	100

Source: Researchers Field Survey, 2014

As the data collected from taxpayers through questionnaires from the Table 3.5 above reveals that, 55% of the respondents agree on the training opportunities provided by the revenue office, and the remaining 45% of the respondents disagree on training facility. As per the data, the researchers infer that most employees get trainings which is provided by the revenue office.

E. Satisfaction of employees

Table 3.6 Response of tax officers, satisfaction in tax assessment and collection

Description	Respondents interest	Yes	No	Total
Are you happy with your work in tax assessment and collection?	No of respondents	10	10	20
	Percentage	50	50	100

Source: Researchers Field Survey, 2014

As shown in the Table 3.6, the employees level of job satisfaction tends to be average that is 50% of the respondents agree and the remaining 50% are disagree. This indicates majority of employees are dissatisfied with their work.

In addition to the above questions summarized in the respondents to give their opinion on the same basic issue, half of the respondents, have reason out for their dissatisfaction, such as: work overload, lack of transparent, discrimination, tax revenue accounting and refund process, lack of experience, lack of taxpayers awareness, non fillers (don't handle book of records), lack of integrity in the taxpayers and within the department, some of tax officers lacks decision making and these creates problems in service delivery because they fear to decided fast, if they made mistake, they dismiss automatically, lack of coordination between branches and others related to tax issue

F. Major Problems facing the branch office

Table 3.7 Major Problems facing to pay your tax regularly and influence your business Activity

Descriptions	Response	Frequency	Percentage
What is/are the major problems facing you to pay your tax regularly and influence your business activity?	They are many traders that do not register	12	60
	Tax payers identification number violation	8	40
	Tax Fraud/Evasion	0	0
	Total	20	100

Source: Researchers Field Survey, 2014

As shown from the Table 3.7 above indicates that from the data finding, the respondents violation of the rules and regulations of the tax law, it can be see that, 60% of traders that do not register, 40% of respondents said taxpayer identification number violation and no one were reason out due to tax fraud /evasion. This shows that, majority of the taxpayers do not properly register as per the rules and regulation.

The respondents commented that, in order to collect adequate tax revenue from all sources of tax, enforcement should be applied to those taxpayers who fail to declare at all or announce by reducing income and to those who involves in delaying payment. The income tax proclamation No.286/02 allows law enforcement for those who not pay their taxes on time, penalized them with a specified amount or seizing their property or imprisoning them not less than five years.

G. Awareness of taxpayers and tax employees

Table 3.8 Responses of the tax officers about taxpayers aware of the rules and regulations

Descriptions	Response	frequency	Percentage
Are the taxpayers aware of the rules and regulations?	Yes	8	40
	No	12	60
	Total	20	100
Do you know the rules and regulations?	All in all	5	25
	I don't know	15	75
	Partially	-	-
	Total	20	100

Source: Researchers Field Survey, 2014

As Table 3.8 reveals that 60% of the respondents disagree, and the remaining 40% were agree, taxpayers were not aware of the rules and regulations. From the same table indicate that, 75% of employees did not have adequate knowledge about the tax rules and regulations. However, 25% of them conformed that, they knew the rules and regulation all in all.

From the above table, opinions of the respondents, some of the reasons for the poor performance of the awareness creation program are, when the taxpayers invited for discussion by the office they were not willing to come and participate in the discussion; this creates a great information gap among taxpayers.

From this the Researchers analyses that, the employees did not have any information about the level of taxpayers understanding regarding tax rules and regulation.

H. Timely declaration and payment of taxes

Table 3.9 Practices of the tax collection responses from the taxpayer and employs of Merkato number one branch office

Descriptions	Response	frequency	Percentage
Do the taxpayers declare their income as stated in the proclamation?	Yes	12	60
	No	8	40
	Total	20	100
If your answer is 'No' for the above question, what Administrative measures have been taken by the office?	Announcing and noticing	4	50
	Written warning	2	25
	Penalty	2	25
	Total	8	100

Source: Researchers Field Survey, 2014

From the above Table 3.9, it can be observed that, very significant proportion (60%) of the respondents were agreed, declared tax as stated as the proclamation. On the other hand, only 40% were disagreed. From the same table indicate that, regarding the administrative measures taken by the office, 50% of the respondents were replied that by announcing and noticing, 25% by the written warning and the remaining 25% with penalty, who pay their tax.

This implies that, majority of the respondents were declared and paid their taxes as stated as the tax law, majority of the taxpayers in the branches are seems legal and well aware of the tax law. However; some taxpayers (i.e.) 25% of the respondents were not declared and paid their tax liabilities due to different reasons and hence researchers infers from the above table that it decreases the revenue collection performance of the office.

I. Improvement in tax collection

Table 3.10 Responses of the tax officials Merkato number one branch office for further improvement

Descriptions	Response	Frequency	Percentage
What changes do you think for further improvement to enhance revenue collection and assessment, as your opinion?	Assessment and Collection	9	45
	Tax collection and follow up	3	15
	IT development	8	40
	Total	20	100

Source: Researchers Field Survey, 2014

Tax officers were asked for further improvement to enhance revenue collection and assessment, as shown in the above Table 3.10, 45% were assessment and collection, 15% the tax collection and follow up, 40% of the remaining IT development.

Majority of respondents says that periodic assessment and collection is best solution to enhance the improvement in revenue collection and assessment. As the tax employees commented, improve tax audit coverage to minimize evasion and to enhance revenue collection: work with IT to facilitate Service delivery, create motivation for employees, up grading knowledge and skills of tax employees especially on the modern system, strong integration must be created, ideas and experience should be exchange between ERCA branches.

3.4 Data presentation and analysis on response of taxpayers

A. Respondent's profile

Table 3.11 Demographic data of Merkato number one branch office taxpayer respondents.

Item	Descriptions	Response	Frequency	Percentage
1	Sex	Male	13	54
		Female	11	46
		Total	24	100
2	For how long do you pay tax?	0-5 years	9	38
		6-10 years	11	46
		11-15 years	4	16
		16-20 year	0	0
		+20 year	0	0
		Total	24	100
3	Types of your business?	Share Company	0	0
		Cooperative/Partnership	0	0
		Government Enterprise	2	8
		Private Limited Company	22	92
		Total	24	100

Source: Researchers field survey, 2014

As per the above Table 3.11 data results, 54% of taxpayers were male, while the rest of 46% are female. It also reveals that, 38% of the respondents pay tax for 0-5 years, 46% were pay tax for 6-10 years, and 16% are 11-15 years. Besides on this survey, 8% Government enterprise and 92% were private limited company. From the demographic information the researchers infers most of the respondents seem fit for the study. While, trying to look at their payment of tax indicates, number of taxpayers increases from year to year. When we see the type of business, more than half taxpayers registered in the branch, is private limited companies.

B. Implementation of modern technology

Table 3.12 Utilization of modern system in response of the tax payers

Descriptions	Response	Frequency	Percentage
Does Merkato number one branch office implement modern technology for the purpose of tax assessment and collections?	Yes	9	37%
	No	15	63%
	Total	24	100

Source: researchers Field Survey, 2014

In regard to the modern IT system utilization, the data finding Table 3.12 shows that, 37% of the respondents agree and 63% of the respondents were disagree this indicates that most of taxpayers tax assessment and collection process/activities are not fully supported by “IT”.

C. Tax officers’ adequacy and effectiveness of the branch

Table 3.13 Responses of tax officers’ adequacy and effectiveness of branch office in providing timely information to the taxpayer.

Descriptions	Response	Frequency	Percentage
How do you rate the adequacy and effectiveness of Merkato number one branch office in providing timely information to the taxpayer?	Highly attractive	0	0
	High	9	37
	Law	14	59
	Very law	1	4
	Total	24	100

Source: Researchers Field Survey, 2014

Table 3.13 indicates that, the adequacy of tax officers and effectiveness of the branch in providing timely information to the taxpayer, 37% of the respondents were high, 4% very low, and the remaining, 59% were low. As it indicates more than half of the taxpayers have no any information timely, this shows, there is an information gap between taxpayers and employees.

D. Tax assessment

Table 3.14 Tax assessment response of the taxpayers

Descriptions	Response	Frequency	Percentage
Do you think that, the tax assessment audits are fair?	Yes	5	20
	No	19	80
	Total	24	100

Source: Researchers Field Survey, 2014

As it has been explained by Table 3.14 above around 20% of the surveyed business profit income taxpayers stated that, their payment is fairly assessed by the branch office. However, around 80% of the respondents claimed that, the tax burden is high, and the assessment is not based on the financial statement and other supplementary documents they provide. And most of the time they are taxed based on estimated assessment. From the table above indicate that, most of the taxpayers do not have books of accounts according to the law.

E. Awareness of tax payers

Table 3.15 Information gained awareness of taxpayers' response

Descriptions	Response	frequency	percentage
From where do you get awareness about tax laws and technical advance of it?	Tax officials	3	14
	Consultants	5	20.5
	Television and radio	11	45
	Books Magazines News papers	5	20.5
	Total	24	100

Source: Researchers Field Survey, 2014

The response of taxpayers from the above Table 3.15 revealed that, 45% of the taxpayer's awareness gained, from television and radio(mass media), 20.5% that have gained awareness from Consultants, 14% were the tax officials, and the remaining 20.5% were books, magazines, and news papers. This indicates that most of the taxpayers gained awareness through television and radio (mass media).

From the above opinion of the respondents, the Researchers infers that, awareness of taxpayer's regarding to the tax laws, regulations and procedures is an important factor for the existence of an efficient and effective tax assessment and collection functions.

F. Awareness creation program

Table 3.16 Awareness creation program and building capacity of taxpayers in the revenue office

Descriptions	Response	frequency	percentage
How often you are attending education session or others related to tax?	Three times per year	1	4
	Twice a year	1	4
	Once a year	4	16
	Not at all	18	76
	Total	24	100

Source: Researchers Field Survey, 2014

With respect to the taxpayers' education and awareness creation, the result presented in the Table 3.16 above, 76% of the respondents said that, "not at all" in attending education session related to tax. However, the respondents agreed that, 4% attend three times a year, 4% attend twice a year and 16% once a year. From this, the frequency of tax education given by the authority showing majority of the respondents do not attend tax education session related to tax.

The Researchers further explored the reason, in addition to the above questions, on some basic issues, the tax officials themselves lack of awareness, and they emphasize more on the enforcement part of the tax law. However, the respondents claimed that the approach of tax education delivery with only one way (from the tax officials to taxpayers) not particularly and haphazard, they also argued that, the frequency of the tax education was low.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In chapter Three, the primary and secondary data has been analyzed and interpreted in relation with the statement of the problem and objectives of the study. In this chapter first the major findings of the study, which is presented in chapter three, are summarized, next to that conclusion will be undertaken based on the researchers opinion and finally some supportive ideas are suggested.

4.1. Summary of Major Findings

Based on the samples taken by the researcher major findings of the study after analysis and interpretation of data are presented as follows:

- As it is supported by chapter three most of the taxpayers tax assessment and collection process are not fully supported by IT system.
- 60% of the respondents from sample employees believe that the branch does not have uniform performance evaluation criteria.
- The samples taken show that, 60% believe that Merkato number one branch office employees are competent and skilled.
- As per the responses from the sample of employees, majority which is around 55% of respondents are dissatisfied with their work.
- The result of the study show that 45% of respondents gained awareness of tax laws through television and radio (mass media), 20.5% through their consultants and the remaining 34.5% through tax officials, book, magazine, and newspapers.
- As per the response of tax employees, 40% of the taxpayers declare their taxes subsequent to the period stated in the proclamation; this shows there is an information gap between taxpayers and employees. On the other hand, the remaining 60% of tax

employees response show that taxpayers declare their tax timely as per declared in the proclamation.

- In related with violation of the rules and regulations of the tax law by taxpayers 60% of the respondent believe that it is because of not properly register as per the rules and regulation and most of the time due to violation of tax payers identification number.
- In related with tax education given by the authority, 74% of the respondents do not attend tax education session which is prepared by the branch office.
- Related with competency of tax employees, 25% of employees respond as they know the tax rules and regulations all in all whereas, 75% of branch tax employees respond as they did not have adequate knowledge about the tax rules and regulations.
- The response of tax employees' show that majority of the taxpayers, which is 60%, in the branches are not legal and well aware of the tax law.
- Majority of respondents, which is 45%, believe that periodical assessment and collection is best solution to enhance the improvement in assessment and collection of revenues.

4.2. Conclusions

- The result of the study indicates that, in order to undertake tax assessment and collection the branch office put clear rules and regulations. Whereas the major problems that the taxpayers have been influenced while performing their business activities are: the existence of many unregistered traders and fraudulent activities. This shows that the branch office is not apply effective legal enforcement to those illegal taxpayers.
- Automation is an essential element for modernizing tax administration. For the tax administration to perform its functions effectively, it must keep up with the pace of computerization. However, as the study results shows, the branch's assessment and collection process is not fully supported by modern technologies.
- According to the research results, the majority of employees are degree holders with Tax, accounting, and auditing field of study. However, half of the employees have an

experience of 1-3 years. This implies their experience is not enough to perform their duties effectively and efficiently. Therefore, the Researchers conclude that even if the majority of the employees have good professional background they were faced with challenges due to lack of enough experience on their current positions.

- Training and awareness is the basic necessity for both taxpayer's and employees. In addition, awareness of taxpayers regarding to the tax laws, regulations and procedures is an important factor for the existence of an efficient and effective tax assessment and collection. Furthermore, training also helps to improve employees' capacity towards fulfilling their duties and responsibilities effectively and efficiently. However, as the research findings revealed from the previous chapter, most of the taxpayers and employees do not have adequate knowledge about the existing tax rules and regulations.

4.3. Recommendation

This section presents the appropriate suggestions that can be utilized to minimize the problems and challenges of tax assessment and collection in Merkato number one branch office.

- The tax office should offer adequate and sustainable training in Ethiopian merkato number one branch office for the employees in related with timely registration and declaration of tax returns. In addition to that including discussion is useful to upgrade their skill, experience sharing, and in taking corrective actions.
- To make the tax administration more efficient and effective the revenue office should fully implement modern technologies in each work processes. Particularly, the researchers suggest the branch office to modernize the administration systems in order to facilitate its tax assessment and collection function.
- The branch office should give better training opportunities for the taxpayers about how to maintain books of accounts, preparation of financial statements and other tax related issues. In addition, the researchers recommend the branch office to maintain adequate management information system. So that, taxpayers must receive clear, concise and up-to-date information on describing what is to be taxable, how to calculate their tax

liabilities and procedures for calculating paying taxes, where and when they pay tax.

- In order to collect adequate tax revenue from all sources of tax and detecting non fillers or illegal traders and bring to the tax net the branch is recommended to apply effective enforcement to those taxpayers who fail to declare at all or announce by reducing income and to those who involves in other fraudulent activities.

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ST MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

Questioner

Research Questioner for an Assessment of Problems on Tax Collection In The Case Of ERCA Merkato Number one Branch Office

(To be filled by tax officer. . .)

Purpose: This Questionnaire is designed with the intention of assessing and analyzing of problem on tax Collection in the case of ERCA Merkato no one Branch Office. Today, effective tax administration and operation results in timely response to tax payers inquires, its main objective is to identify the determinant factors of tax Assessment and Collection.

The study is initiated with the view of securing your opinions and comments pertaining to the process, problem and challenges of problems on tax Assessment and Collection. Undoubtedly the outcome of the research will serve as valuable input for the understanding of tax Assessment and Collection.

The research takes this opportunity to express heartfelt gratitude for your unreserved and sensor cooperation to take part in the questioner survey. Your genuine response and comments are vital ingredients for the successful completion of the research.

Notice here that:

- Please, honest and strict for your cooperation.
- Do not write your Name.
- You are kindly, request to offer the real and accurate information.
- You can also add, Amharic Language.
- Please, Use thick mark “√” in the box or write your comment on the space provided.

Thank you in Advance.

Section I: Personal Profile

1.1 Age: 20_30 31_40 41_50 +50

1.2 Sex: M F

1.3 Educational Level < 12 grade
 Certificate
 Diploma
 Degree
 Master PhD/Md
Others (please Specify) _____

1.4 At What position are you currently working?

Tax officer

Tax auditor

Tax accountant

Others (please specify) _____

1.5 For how long have you been worked assuming Current position in this organization?

1_3 Years

7_10 years

4_6 Years

+10 Years

Section II: Issues related to Tax Assessment and Collection.

2.1 Have you ever had any training pertaining to customer's Client handling?

Yes

No

2.2 Does ERCA provide rewards based on their performance evaluation?

Yes

No

2.3 If your answer For Question #2.2 above is "Yes", what are the bases for the reward?

- Seniority and membership
- Job Status
- Performance
- Skills

If other, please Specify _____

2.4 How much do you know the rules and the regulations of Tax?

- All in All
- Partially
- I Don't Know

2.5 If your Answer for Question #2.4 is "I Don't Know" How Do You Carry out Your Work?

- Referring Rules and Regulations
- Working with Sometime who have better knowledge experience and education and training
- As per the Knowledge gained through

Others, Please specify _____

2.6 Does the Organization Policies and Procedures attractive to initiate employers for better Performance?

- Highly Attractive
- Attractive
- Law Attractive
- Moderately Attractive
- Un attractive

2.7 How do you rate the adequacy and effectiveness of Merkato Number One Branch Office in providing timely information to the taxpayer?

- Very high
- high
- low
- very low

2.8. Do you believe that sufficient, skilled and competent manpower in your office?

- Yes
- No

2.9 If your answer for question # 2.8 is "No" why? _____

2.10. Are the taxpayers aware of the rules and regulations of tax?

Yes

No

2.11 If your answer for question # 2.10 is "No" what is the problem? _____

Section III General Questions Related to Tax Assessment and Collection.

3.1 Do the tax Payers Declare their income as stated as the proclamation?

Yes

No

3.2 If your answer for Question #3.1 is "No" What Action do you suggest to Declare on time?

Announcing and noticing

Written warning

Penalty

Others, please Specifay _____

3.3 What Changes do you think for further improvement to enhance revenue Collection and Assessment, as your opinion?

Assessment and Collection

Tax Collection and follow up

IT development

Others, Please specify _____

3.4 Are you happy with your work in tax assessment and collection?

Yes

No

3.5 If your answer for question # 3.4 is "No" please specify. _____

3.6 If you have additional comments or suggestions, please specify.

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**Research Questioner for an Assessment Of Problems On Tax Collection In The Case Of
ERCA Merkato Number one Branch Office**

(To be filled by tax payer. . .)

Purpose: This Questionnaire is designed with the intention of assessing and analyzing of problem on tax Collection in the case of ERCA Merkato no one Branch Office. Today, effective tax administration and operation results in timely response to tax payers inquires, its main objective is to identify the determinant factors of tax Assessment and Collection.

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- Please, Use thick mark “√” in the box or write your comment on the space provided.

Thank you in Advance.

Section I: Personal Profile

1.1 Sex M F

1.2 Types of Your Business

- Share Company
- Corporation/Partnership
- Government Enterprise
- Private Limited Company (PLC)

Others Please Specify _____.

1.3 For how long do you pay tax?

- 0_5years 6_10years 11_15years 16_20Years +20 Years

Section II Related Questions

2.1 Do You Know Why you pay tax? Yes No

2.2 Do you think that the taxes Assessment Audit are fair? Yes No

2.3 IF your Answer for Question #2.2, Above is "No", Why it is not fair,

Please Specify _____

2.4 How often you are attending education session or others related to tax?

- Three times per year
- Twice a year
- Once a year
- Not At all

2.5 From where do you get knowledge about tax laws and technical advance of it?

Tax Officials

Television and radio (mass media)

Consultants

Books Magazine News papers

2.6 Is there any mechanism you think that the assignment is to be improved?

Yes

No

2.7 If your answer for question # 2.6 is "yes" in what way the Tax Assessment improved please specify

2.8 Do you know the rules and regulations? Yes No

2.9 If your answer for question # 2.8 is "No" why? _____

2.10 Do you penalized for not paying tax to the government? Yes No

2.11 If your answer for question # 2.10 is "yes" whom do you believe will be liable for the penalties?

Section III General Questions

3.1 Do you believe that the illegal trading and Non fillers tax payers have a negative impact on your tax filling and payment behavior? Yes No

3.2 If your Answer for question #3.1 is "yes" What do you think the main reason for not willing to pay tax? (You may tick more than alternatives)

Lack of Awareness

Lack of ability to pay

Negligence

Collection System

Complexity of tax laws

Low level of integrity and competent professionalism of tax officer employee's

Lack of fairness of application of the penalty system

3.3 What action do you suggest that effective and efficient tax assessment and collection?

- Law Should be simple and clear to understand
- Awareness' creation
- Integration with large tax payers
- Conferencing workshop related to tax

Others, please specify _____

3.4 What is/are the major problems facing you to pay your tax regularly and influence your business activity?

- They are many traders that do not register
- Taxpayer identification number violation
- Tax Fraud /evasion

Others, (please specify) _____

3.5 Does Merkato Number One Branch Office implement modern technology for the purpose of tax assessment and collections? Yes No

3.6 If your answer for question # 3.5 is "yes" please specify? _____

3.7 Generally, what do you suggest or recommend to the ERCA Merkato Number One Branch Office to improve revenue Collection and Assessment Service delivery and to enhance willingness Based tax payment and tostrength enforcement? _____

DECLARATION

Advisee's Declaration

We, the under signed, declare that this senior essay/project is our original work, prepared under the guidance of (Ato Habtamu .E). All sources of materials used for the manuscript have been duly acknowledged.

Name:

Signature

Date of submission

Advisor's Declaration

The paper has been submitted for examination with my approval as the University advisor.

Name

Signature

Date
