

CHAPTER ONE: INTRODUCTION

1.1 Back ground of the Study

One of the major intentions of most governments in developing countries is to stimulate and guide their economic and social development. These governments continue to reach out for the goal of government promoted and directed development. A value added tax is a tax on the value that business firm adds to the things it buys from other firms in producing its own product (Thronyi,1996) . Emergence and rapid spread of Value Added Tax (VAT) is one among the most important tax developments of the later twentieth century. VAT was first introduced as a comprehensive national tax in France in the 1950s and implemented in France in 1954. Indirect taxes such as VAT generate a substantial part of tax revenue in many countries. Its spread has accelerated since, with strong support from the IMF, as it has now been implemented in 159 countries and in these countries it typically accounts for about one quarter of all tax revenue (Lejeune,2011). Despite its name , the VAT is not generally intend to be a tax on value added as such, rather it is usually intended as a tax on consumption.

Since then it has been adopted as the main form of an indirect taxation by many countries in different parts of the world and at different stages of economic development. These days it is a key source of government revenue in over 130 countries. According to IMF more than 4 billion, 70 percent of the world's population now lives in countries with VAT, and it raises about \$ 18 trillion in tax revenue, roughly one quarter of all government revenue. Much of its spread has taken place over the last fifteen years from having been the preserve of more developed economies in Europe and Latin America; it has become a pivotal component of the tax systems of both developing and transition economies Wellela(2008). In the developing countries like Ethiopia, where there is a large number of informal sectors, low tax moral, rampant evasion, and total distrust between tax administration and taxpayers may not make the tax successful. One of the reasons is lack of simplified procedures. In VAT

administration, there should be a concern for small businesses because as compared to the burden of VAT administration on large businesses, the cost of administering VAT is proportionally high for small businesses. To that effect, many countries adopt simplified procedures for small and medium businesses like, allowing accounting for VAT on a cash basis rather than accrual basis and filling within reasonable accounting period, however this is not the case in Ethiopia. Few fiscal issues are more important in developing and transitional economies (DTE) than the Value Added Tax (VAT). Over the last few decades, VAT has swept the world. The principal reasons for the rapid of this form of taxation were, first, the early adoption of this form of taxation DTE by the International Monetary Fund (IMF) in particular and by international agencies and advisors in general (Richard, 2006).

Value added tax (VAT) is introduced in Ethiopian 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). To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually generated at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the incapatown 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. (Yesegat, (2008).

According to the VAT proclamation cited, supply of goods and rendition of services are subject to standard 15% tax rate except those exempted and zero – rated by the tax law. The standard rate is the same as the repealed sales tax, which applied only to imports and domestically manufactured goods. Unlike the sales tax, the VAT provides for the relief of tax on all business in puts including capital goods, operating and administrative expenditures, and will further encourage investment by the zero rating of exports and the international transport of goods and passengers. VAT exemption has been extended to the

basic necessities such as Education, Medical services, Electric town and Water, Kerosene, Basic foods, Transportation Services, the sales of a used dwelling or the lease of dwelling, the supply of goods and rendering services in the form of humanitarian aid, etc.(FDRE VAT Proclamation No. 285/2002)

The VAT administration practices is not adequately studied so far as indicated in the problem statement discussed below.

1.2. Statement of the Problem

Several studies have been undertaken on the response of tax revenue to change on GDP (Wawire, 2003). The Ethiopian Government has a strong belief and commitment to eradicate poverty and achieves the status of a democratic lower-middle-income country with good governance and where social justice prevails by the Ethiopian by 2020 E.C. (Report of ERCA 2005). It is impossible to achieve such a goal without generating sufficient revenue that can cover at least the budget of the government. . According to Yesegat (2008) the VAT administration is poor due to many factors, particularly in developing countries of tax authorities to implement the attributes of the tax to practice. Nowadays, encouraging results are observed as far as collecting revenue is concerned. VAT is showing dramatic changes in generating government revenue. (Markos, 2010)

ERCA has an authority to administer the VAT. In order to collect VAT, it uses different office offices. The office officers have a number of problems relating with collecting and administering VAT that makes ORCA not to collect the intended tax(Annual Report of Oromiya state revenue and custom authority, 2009). To the best of my knowledge none of the exiting literature has studied the assessment of VAT administration practice in Nekemet revenue and custom office .

In response to the above problem, the purpose of this research is therefore, to assess the VAT administration practice in Nekemet office.

1.3 RESEARCH QUESTIONS

The study attempts to answer the questions outlined below:

- 📌 How efficient is the authority in practicing VAT administration in the last five years
- 📌 What are the problems that Nekemet revenue and custom office countenances in practicing VAD administration in the last five years?
- 📌 How is the refunding procedure implemented by the office in line with the systems set
- 📌 How Nekemet revenue and custom office is effective in monitoring and auditing VAT registration
- 📌 What are the trends of Nekemet revenue and custom office in VAT administration in last five years

To guide the attempt to respond to these questions, several research objectives are developed below.






1.4 RESEARCH OBJECTIVES

In order to successfully respond to the research problem, study objectives are set. According to Auriacombe (2001: 49) the research objectives have to explain how the researcher plans to solve a research problem. The objectives of the research must be precise and clearly defined. In view of the foregoing, the following are the aim and objectives of the study.

The aim of the study is to:

- 📌 Assess the VAT administration practices and its problem in the last five years in Nekemet town revenue authority.

Objectives of the study are to:

-  Present the current VAT the current VAT administration practices in Nekemet town revenue authority.
-  Determine how efficient Nekemet revenue and custom office is in overcoming the problem
-  Outline the refunding procedure implemented by the office
-  Identify the frequent problem that Nekemet revenue and custom office faces concerning the VAT administration practices.
-  Analyze how Nekemet revenue and custom office effective in monitoring and auditing VAT registration

1.5. Significance of the study

The output of the study will benefit the management, employees, tax payers, other researchers, and the government. The management of ERCA can use the study to evaluate their operation and tax payers' reaction so that they can make an informed management decision. The employee of Nekemet revenue and custom authority can also get much awareness about what exactly they are doing and how they can maximize their effort. The study will also benefit the vast number of tax payers to create and strengthen their awareness on paying their tax liability. Besides, it may also be used as an input for other interested researchers for conducting further study and relates their knowledge with the real practice. Furthermore, the government can see the big pictures of the area of problems that need immediate corrective actions and possible area of weakness so that it can examine operational policies and guidelines.

1.6 .Scope of the Study

The scope of the study will be embraced to accomplish a study on Oromiya region particularly in Nekemet revenue and custom office on the assessment of VAT administration Practice. The study will leverage the most recent five years data of those entities whose annual sales are more than birr 500,000 from the fiscal year 2005E.C-2009 E.C which assists the researcher to manipulate it successfully.

1.7. Limitation of the Study

In order for the research to be more effective it is necessary to get adequate, convenient, and reliable data from both the Nekemet revenue and custom office and tax payers as well. Hence, while discharging their duty the major challenges that the researchers face are:-

- Time and cost constraint
- Office work load of the researchers own job
- Inability of finding enough number of business owner respondents
- Lack of willingness of the respondents to fill the questionnaire, some of the respondents who took questionnaire may not fill and return on time they promised to return. Lack of organized data and documents that are important to the study will be confronted and challenges the researchers. However, we will pay a maximum possible effort to tackle the challenges.

1.8. Organization of the Paper

The paper will be organized in five chapters: In the first chapter are the background of the study, the objectives, the research questions, the significance, the scope and limitations of the study. Chapter two is Research methodology; Chapter three is review of related literature. Chapter four is aimed at dealing with results and discussions. The last chapter five deals with the conclusions and recommendations depending.

CHAPTER TWO: RESEARCH METHODOLOGY

This chapter will primarily describe the methods to be used to gather and analyze data. This research is descriptive and inferential. Quantitative, qualitative and mixed approaches in relation to this research paper are going to be used. In this part, research approach and design, research method, research instrument, sampling design, data type and method of data analysis will be presented.

2.1. Research Approach

The researcher will follow descriptive. Descriptive research is aimed at casting light on current issue or problem through a process of data collection. This study will use mixed approach. Qualitative and quantitative methods are to be used in order to answer the research questions.. A quantitative approach is one in which the researcher primarily uses postpositive claims for developing knowledge (i.e., cause and effect thinking, variables and hypotheses and questions, use of measurement and observation, and the test of theories), employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data. (Creswell,2009). Qualitative approach will be used for subjective assessment of attitudes, opinion and behavior of respondents in the field on problem of VAT administration.

2.2. Population of the study

According to Diamantopoulos (2004), a population is a group of items that a sample will be drawn from. The target population defined as suitable for this study is employees of Nekemet revenue and custom office and VAT register taxpayers, in Nekemet Revenue and custom office to collect different information and data on practice in relation to VAT administration.

The sampling frames are manufacturing companies, construction companies, service companies and general merchandise trade. Nekemet office is the sampling frame. The total population of VAT payers whose annual sales are more birr 500,000 are 220 and the total number of employees are 80. (Information acquired from the office of the Human resource office). So, the total populations are 300.

2.3 Sample size and sampling technique

Determination of the sample size

One of the most important tasks for the researcher is to select the participants or respondents (Steyn and Van Wyk, 1999). This study will be based on a sample frame of four entities to be drawn from the population of the companies based on their proportionality. The four entries are manufacturing companies, construction companies, service companies and General merchandise trade.

Table 1 population distribution of sample entities

No.	Entities	Total Population
1	Nekemet revenue and custom office	80
2	Manufacturing companies	30
3	Construction companies	40
4	Service	50
5	General merchandise Trade	100
	Total	300

Source: Researcher's Field survey 2010 E.C (2004E.C-2008 E.C)

In order to determine the sample size the researcher will use the formula by Kejcie and Morgan 1970, 95% confidence level and 5.0% margin of error. By contemplating this formula 169 will be a sample size for this research.

Sampling Technique

Stratified random sampling technique will be used for this study. It is a probability sampling method and a form of random sampling in which the population is divided into two or more groups (Strata) according to one or more common attributes. Because of the nature of the population of the study, the researcher will use this technique. In addition the reason of using this sampling is to ensure that the entities with their different number of the staff will be well represented.

Table 2 Stratified sampling procedure

Going by the information on the population of the entities as shown in the Table 1 the procedure will be given below.

No.	Entities	Total Population	Proportional Sample
1	Nekemet revenue and custom office	80	45
2	Manufacturing companies	30	17
3	Construction companies	40	22
4	Service companies	100	85
5	General merchandise and trade	50	28

Source: Researcher's Field survey 2010 E.C

2.4 Method of data collection

It is important to distinguish between two kinds of data, namely, primary data and secondary data. Secondary data refers to the data that is available in published literature while primary data refers to the data which is obtained from the original source (Hanekom, 1987: 28). This research will use both of them. The collection of primary data will be deemed necessary because the researcher will seize the view that there are not sufficient or accessible primary data available on the topic under investigation.

A study relies on the quality of the facts on which it is based (Bless *et al.* 2006: 97). It therefore means that an excellent research design and a representative sample are not sufficient to guarantee a reliable result if an analysis is based on the incorrect data. It is necessary to ensure that data collected is accurate, so that analysis and results are reliable. The methods of data collection to be used in this study include the distribution of a semi-structured questionnaire and documentary analysis. The methods of data collection to be used are discussed in detail below.

2.4.1 Semi-structured questionnaire

A questionnaire is a set of written questions and/or statements to which the research subjects are to respond in order to obtain data which is relevant to the research topic (Jacobs, 1996: 341). A semi-structured questionnaire is a questionnaire consisting of both open-ended and closed questions, and provides a greater depth than is possible with a structured questionnaire (O'sullivan, Berner & Rassel 2008: 216). For the purpose of this study, a semi-structured questionnaire will be distributed to employees and customers of the Nekemet revenue and custom office. The semi-structured questionnaire will be used to understand the view and perceptions of staffs and customers members on the VAT administration practices. The questions will be posed to answer research questions as generated in Chapter one. The semi-structured questionnaire also included (as part of its components) the identity of the researcher and the aims of the study in order to encourage participation. A letter of permission will be obtained from the concerned organ to conduct a study in this office. So that it provides this study with the legitimacy it deserves.

The kind of questionnaire to be used in this study contains semi-structured (open-ended and closed) questions. The main reason these semi-structured questions is going to be used is that it gives respondents freedom to express their opinions the way they understand the situation, and it is unlike in the structured questions (quantitative) where answers are restricted. The questionnaire will be prepared in English language for Nekemet Town Revenue Office employees, whereas, for VAT registered taxpayers translated in Amharic and it will classified into two sections. The first part of the

questionnaires will be designed to collect participants' profile (background information), whereas, the second part of the questionnaire will focus on VAT related issues that addresses the research questions. The researcher doesn't want to restrict the views of the respondents in relation to the VAT administration practice in the town.

2.4.2 Documentary analysis

As a way of ensuring multiple collections of data to produce reliable results, documentary analysis will be applied. For the purposes of this study, relevant documents in the These documents include ERCA magazines and brochures in relation to VAT administration practices from a period 2004 E.C to 2008 E.C.

2.4.3 Observations

There are varieties of data sources available for social science research and they include physical sources, documentary sources, indirect and direct observation (Mouton 1996: 175). Observation is a fundamental and important method in qualitative inquiries (Marshall & Rossman 2006: 99). Observations referred to in this study include the observation of individual behavior, social interactions and necessary observable characteristics of the Nekemet town community. Observation entails the systematic noting and recording of events, behaviour and objects in the social setting chosen for the study (Marshall & Rossman, 2006: 98). Even in studies using in-depth interviews, observations play a pivotal role as the researcher notes the interviewee's body language in addition to the words. The researcher undertaking this study is a head at the Nekemet revenue and custom authority. This position of the researcher makes it easier to observe the behavior. Mouton (1996: 143) also maintains that it is desirable to use observation techniques that elicit as little reactivity as possible in order to ensure the highest level of validity. It is equally desirable to employ observation techniques that make it possible to exercise as much control on the research as possible.

2.5 Method of data analysis

Data analysis usually involves two key steps, namely, (a) reducing the collected data to manageable proportions and (b) identifying patterns and themes in the data (Mouton, 1996: 161). Babooa (2008: 152) agrees that the first step in the analysis of data is a critical examination of the collected data. In this study, analysis includes data to be collected through distributing semi-structured questionnaire, and documents. To address the objective of the research and to analyze the data researcher will use the descriptive statistic and statistical analysis to be conducted based on Tables and Percentages. In case of descriptive statistics, a quantitative method of data analysis will be adopted. The data collected from survey questionnaires will be carefully coded and checked for consistency and entered in to the Statistical Package for Social Scientists (SPSS) statistical package. The analysis will be performed with a method of SPSS version 17. Descriptive statistics is employee to analyze data and the results will taste with non-parametric tests of significance.

CHAPTER THREE: REVIEW OF RELATED LITERATURE

3.1 INTRODUCTION

Various researchers, authors, business and political experts wrote different academics and professional scenarios about taxation in different area. All have their own contributions towards strengthening in creating tax awareness even if they all argue their own findings and recommendations weigh high position. In order for us not to be in a situation of information overloaded we tried to select and refer only materials which we believe relevant for our study especially with our country context. So a brief review of existing theoretical and empirical literatures of the “VAT administration practices and its problem” will be presents in this section. The major differences and gaps that will possibly be narrowed by further studies, of the existing empirical studies have been tried to be identified and summarized at the end.

3.2 Conceptual Framework

This framework is a theoretical base which identifies knowledge frontiers on the subject under study.

3.3 Nature of Tax

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

I). Direct Taxes

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

Rental of Property Tax on Income, and Rendering of Technical Services outside Ethiopia Tax on income) (Misrak, 2008).

II).Indirect Taxes

Indirect taxes are imposed by government and collected by taxpayers assigned by law from consumers for the transaction service they get goods or service from market. These taxes are turnover, Value Added, Excise, Customs duty, and Stamp Duty, (FDRE IT Proclamation No. 286/2002). Yohannes, M and Sisay, B(2009)

From these categories researcher focuses on value added tax (VAT), which is under the category of indirect tax.

3.4 What is Value Added Tax?

As the student researcher tried to mention earlier that VAT replaces the sales tax on manufactured and imported goods and services in Ethiopia January 2003 (FDRE VAT Proclamation No. 285/2002). According to this proclamation, VAT in Ethiopia is payable if they are supplies make in Ethiopia, made by a taxable person, made in the course of furtherance of a business, are not specifically exempted or zero rated. Supplies, which are made in Ethiopian, not exempt known as taxable supplies. As it was also tried to mention earlier that, VAT is an indirect tax type, which is imposed on consumption or spending. VAT is collected from sales of the value added of goods and services, starting form importers and producers ending with consumers through the conditions of whole selling and retailing. VAT applied on the value added meaning a producer for example provides final product to sell, performs different activities like spending direct and indirect costs and administrative cost except VAT and prepaid income tax. Doing that, value is created. This value is liable to tax, (FDRE VAT Proclamation No. 285/2002).

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

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

As we see the case of our country, one of the developing countries of Africa commonly tax is classified in to direct tax and indirect tax, the major types of direct taxes are personal income tax, rental tax, business profit tax, withholding tax and others such as taxes from royalties, from games of chance and dividend or property taxes. The indirect tax includes: value added tax (VAT), custom duty, stamp duties, excise tax and turn over tax (TOT) Yohannes and Sisay (2009).

This is a sales tax based on the increase in value or price of 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. The rate and impose of VAT: The rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services; The export of taxable goods or services to the extent provided in regulations for zero tax rate are:

- The export of goods or services to the extent provided in the regulation;
- The rendering of transportation or other services directly connected with international transport of goods or passengers, 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; and A supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern, provided a notice in writing, signed by the transferor and transferee, is furnished to the authority within 21 days after the supply takes place and such notice includes the details of the supply.

Input tax: Registrants claim a credit for VAT charged on business purchases and expenses. This input tax includes not only the VAT on the purchases of raw materials or on goods purchased for resale, but also the VAT on things like, office equipment of the business, commercial vehicles used in the business for the carriage of goods, the telephone bill for the

business, and payments for services in connection with the business, Accountants, Lawyers fee's. It does not include VAT paid on goods or services for someone else's business or VAT on private purchases, such as furnishings for the home of the proprietor. VAT charged in these circumstances is not considered as input tax, (FDRE VAT Proclamation No. 285/2002).

Input tax are credited, however there are cases of purchasing which cannot be allowed as credit passenger automobiles, the repair and maintenance of passenger automobiles unless the business is dealing in or hiring such automobiles entertainment. Credit for input tax needs supporting documents original copy of a tax invoice, or certified customs import declaration-warehousing entry to substantiate a claim for input tax credit. (FDRE VAT Proclamation No. 285/2002)

Output Tax:The VAT charged on customers. It is only the taxable person who charges VAT in the course of effecting supplies. It is applied on taxable supplies. The rate, which is used for calculating for VAT on output, is standard rate. In Ethiopian case, standard rate is 15%, as the proclamation stated, (FDRE VAT Proclamation No. 285/2002).

Taxable supplies: According to VAT proclamation, VAT is chargeable on all taxable supplies. The sales of goods or service in the businesses for which are tax paid on them are taxable supplies. It is possible to supply goods and service in the reference of VAT, if supplier has right to make such activities.

Rate of VAT: - There are two rates of VAT, which are standard rate and zero rates 15% and 0% respectively. Tax rates are applied to tax base to determine a taxpayer's liability, (Willis, Eugene et.al, 2007).

Gifts: The proclamation also stated that VAT is accounted on any gift of goods or services from the business based on the fair market value of the goods or services at the time the supply is made.

Broad baseness: VAT is a broad based tax on the consumption of goods and services. It is collected at all stages in the production and distribution process beginning with the importers and products of raw materials and ending with the retailers. Cascading of the tax, tax on tax, is avoided by providing credit the tax paid at the preceding level. Unlike the current sales tax

system, where by relief is granted only to raw materials used directly in the production of goods, under a VAT, relief is granted for tax paid on capital goods, distribution and administration inputs. Sales of exported are not subjected to the VAT, (FDRE VAT Proclamation No. 285/2002).

Benefit: VAT removing the tax content, on input, from exported goods makes the goods more competitive in international markets, domestically produced will be more competitive with imported goods. In addition, relief from tax on capital goods will encourage investment; potential investors consider VAT legislation as one of the factors in making favorable investment decisions. VAT is less easily evaded, and the minimizing of tax avoidance supports the maintenance of equality and fairness in the application of tax legislation, (Misrak, 2008).

VAT reduces unfair burden, has not been placed on the lower burden like the sale and transfer or lease or immovable property the rendering of medical services, the rendering of educational services, the supply of electricity and water and post office operations and the provision of public transport permits and license fees. VAT includes concessions to small-scale business to lessen the administrative burden, such as relief from the requirement to register, to collect VAT, (FDRE VAT Proclamation No. 285/2002).

3.5 Registration for VAT

Registration for VAT is categorized in to three. These are obligatory, voluntary and special business categories. The first category obligatory registration is made for any person conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However if the taxable turnover of the enterprise, that is gross income for 12 calendar months exceeds or is likely to exceed birr 500,000 in Ethiopia, the person conducting the enterprise must register for VAT, (VAT proclamation No 285/2002 Article 8).

A person refers for VAT registrant sole proprietor, company, partnership, trust, incorporate persons, unincorporated body, club or association. Authority determine whether a person obligatory registrant if it makes (Ethiopia VAT proclamation No.285/2002 Art. 16) birr 500,000 taxable turn over within 12 months of a year. If one reasonably expects that during 12

months the total value of taxable supplies excluding tax is likely to exceed birr 500,000, in Ethiopia, then the person needs to be registered for VAT.

A registrant, the turnover on an ongoing basis, makes calculation of VAT. Two periods need to be considered the past 12 calendar months and the next 12 calendar months on a month-by-month basis. There is the need to estimate at the end of each trading calendar month the total value of taxable goods and services supplied by all the business for the past 12 months. Where the total exceeds Birr 500,000, in Ethiopia, then there is the requirement to register for VAT.

The second category of registration is voluntary registration the total of twelve months business transaction turnover may not necessarily be birr 500,000 in Ethiopia case, however, if customers of a registrant are at least 75 % for supplies provided, a person is allowed to be registered voluntarily. Things to be recognized in voluntary registration are: Those who are involved in export advised to be registered voluntarily in order to get refund. This is practical through zero rated purchases that enable the person to ask credit on input tax. Otherwise, the person voluntarily registered, there may be the loss of customers who are VAT registrants that need invoice from their provider in order to claim input tax credit. Therefore, voluntary registration here is compulsorily required. Revenue Authority needs prerequisites like: Permanent residential; proper accounting records; Bank account and; the one who obeys tax law and that must have capital to do what the Authority requires.

The third category of registration, special business categories that also have the following features: Those who are involved in export are advised to be registered voluntarily in order to get refund. This is practical through zero rate purchases that enable the person to ask credit on input tax. These categories are defined as forced registrants regardless of the threshold. This is done in order to get fair market competition between the special business categories. If registration by special business categories not implemented, market competition difference would be seen among registrants and non-registrants within them. Such forced special business category registrants are: Gold, Electronics, Importers, Shoe factories, Level ten and above constructors, Computers and their accessories, Leather and leather products, Plastic and plastic products. (Proclamation No. 285/2002).

3.6 Values Added Tax Administration

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

The Value added tax which works by proclamation No 285/2002EC throughout the country including Oromia special zone surrounding Finfine Nekemet town revenue authority is taken from developed countries experience as it will be expressed in the following sections and its importance is expressed by the proclamation as , the former sales tax does not allow collection of the tax on the added value created wherever a sales transaction is conducted; the value added tax minimizes the image that may be caused by attempts to avoid and evade the tax and helps to ascertain the profit obtained by the taxpayers, the tax enhances saving and investment as it is a consumption tax and does not tax capital, placement of the current sales tax by value added tax enhances economic growth and improves the ratio relationship between Gross Domestic Product and Government Revenue .Proclamation NO. 285 (2002)

In Ethiopia the policy for the application of VAT is proclaimed in 2002EC and it states the following Articles:-

❖ For the purposes of Sub-Article (9), a taxable activity or a part of a taxable activity capable of separate operation is disposed of as a going concern where:-

- (a) All the goods and services necessary for the continued operation of that taxable activity or that part of the taxable, activity are supplied to the transferee; and
- (b) The transferor carries on, or is carrying on, that taxable activity or that part of the taxable activity up to the time of its transfer to the transferee. Proclamation No. 285 (2002)

❖ Subject to Sub-Article (12), where-

- (a) The disposal of a taxable activity, including a disposition of a part of a taxable activity capable of separate operation by a registered person is a supply of goods under Sub-Article (9); and
- (b) the supply was charged with tax at the rate of zero percent in terms of Sub-Article (2)(d) of Article 7 and
- (c) The goods and services comprising the taxable activity were acquired by the recipient wholly or partly for a purpose other than for consumption, use, or supply in the course of making taxable transactions; the acquisition of the taxable activity is a supply by the recipient in the course or furtherance of a taxable activity carried on by the recipient to the extent that the goods and services comprising the taxable activity were acquired for a purpose

other than consumption, use, or supply in the course of making taxable supplies. Proclamation No. 285 (2002)

- ❖ Sub-Article (11) does not apply where that part of the taxable activity referred to in Sub-Article (11) (c) is less than 10% of the taxable activity.
- ❖ The Council of Ministers may provide in regulations for the treatment of other transactions

As supplies of goods or rendition of services or neither supplies of goods or rendition of services, Proclamation 284(2002). Every region in the country and every zone and town are applying this rule. Considering this importance of VAT researcher wants to assess the problems in the process of administering it which will be seen from the side of employees of the Oromia special zone surrounding Finfine Nekemet town Revenue Authority.

3.7. Importance of VAT Administration

VAT is important tax imposed on all transactions that show additional value on each stage of either production or distribution of goods or services. The tax is collected on the value, which is added during each stage of transaction. Thus it has broad revenue bases as the result of this its revenue generating capacity is high. This tax system encourages self-assessment that helps taxpayers to assess VAT themselves. It promotes the trend of using accounting records principle. Because of this, it reduces administrative cost of tax collection as well as evasion. Since the tax bases the records and collected on transaction, it gets the administration is achieving the main objective that is voluntary compliance. VAT refunds for taxes paid on charges of production, distribution and administrative activities. It encourages investment and saving by crediting capital input tax. Stimulates foreign trades because it is applied zero rate on export productions and services in order to get them efficient competent in the world market. It attracts foreign investments, as it is accepted modern tax type by many countries in the world, (Misrak, 2008).

3.8 Supplies and Rates for VAT Computation

For VAT administration purposes in Ethiopia, the rates are computing in the following ways:

I). Taxable Supplies

VAT is collected from taxable supplies, which are imported or sold domestically. Transactions on which the tax is paid up on are where supplies: Made in the territory and produced or provided by VAT registrants that are not exempted or zero-rated. Aid or exchanging similar supplies from the business are liable to VAT. These values of supplies are estimated by current market price. In case the value increases, tax should be calculated on the supplies given in the form of aid or exchanging, (Abebe, 2008),

II) VAT on Import

According to VAT proclamation of Ethiopia, all goods imported in to country are liable to VAT, except zero-rated goods and exempt goods. The imported goods regardless of the goods are private or for business purposes, and whether or not the importer is registered for VAT. The VAT for importation is paid at the point of clearing the goods in the customs division of ERCA of Ethiopian case.

VAT is paid that is due. However, VAT and TIN number should be provided on customs import entry and declared if the goods imported are for the given business. If they are imported for taxable business purpose, credit is claimed for the tax paid on the VAT tax return. The value on which the VAT will have to be paid at importation is in accordance with the VAT law as the CIF (cost, Insurance and Freight) duty plus the customs duty plus the cost of any service supplied incidental to the delivery of the goods. The customs division will give the basis of value for VAT purposes, as proclamation stated.

Import credits are claimed for the VAT paid on imports are applicable if, client is VAT registrant, the import must be for the business and not for private use, the copy of the customs bill must of entry certified by customs as to the amount VAT paid. This amount must entered in appropriate box on the VAT return and claim it as a credit. A copy of customs bill of entry must be retained. Service business conduct to give service in the country and registered for

VAT then pays VAT. If the service supplied by foreign who is not registered for VAT in Ethiopia, then Ethiopia registrant must be accounted for VAT of service received from abroad. (Misrak,2008).

III). Zero rated Supplies

Supplies of zero-rate goods or services are business transaction, which VAT is chargeable as 0% (Zero rate). Supplies are taxable although no VAT is charged and the value of these supplies forms part of the taxable turnover for registration purpose. Input tax could be claimed in full, tax paid on purchases, credit related to zero rated supplies .If zero rated supplies are only transacted, it should be able to be claimed refund from Authority, (FDRE VAT Proclamation No. 285/2002, Art. 8).

The supplies of export of goods or services treated by zero-rate. Goods are treated as exported from Ethiopia if the goods are delivered to or made available at all address outside Ethiopia as evidenced by documentary proof from customs acceptable by the concerned official of ERCA. Services are treated as exported of the services are supplies for use or consumption outside Ethiopia as evidenced by documentary proof from customs by concerned official of ERCA. The rendering or supply of transaction or other services directly connected with international transport of goods or passengers, as well as the supply of lubricants and other consumable technical supplies taken on aboard for consumption during international flights. International transport of goods or passengers occur where the goods or passengers are transported by road, rail, water, transportation from a place outside Ethiopia or another place outside Ethiopia where the transport or port of the transport is across the territory of Ethiopia, or outside to a place of Ethiopia, the Ethiopia to outside. In addition, supply of gold to the National Bank of Ethiopia from abroad. (Misrak,2008).

IV). VAT on Exports

Exports are subjected to VAT at zero rates. VAT has no to be charged for the goods and service would be exported, however, credit or input tax is claimed upon those supplies purchased to produce the exports. The one who is making taxable supplies even if it a nil rate

and law requires that it will be registered if the turnover exceeds the registration limits. Secondly it will be entitled to refund of VAT from the authority if it exports, goods or services, and it will therefore be its interest to register regardless of the level of turnover, to be able to claim VAT refunds, (Proclamation No. 285/2002).

V). Exempt Supplies

Supplies of exempt goods and services are business transactions on which VAT is not chargeable at either the standard or zero-rate. Exempt supplies are not taxable supplies and do not form part of the taxable turnover for VAT registration purposes. Making only exempt supplies transaction gets not is registered for VAT payer. Credit claim for input tax is impossible if the supplies are, VAT exempted, (Proclamation No. 285/2002).

VI). Powers and Duties of VAT Administration

The implementation and enforcement of VAT collection powers and duties has been given to Authority by Proclamation. Not with standing anything to the contrary in any other law, the Authority is empowered to investigate any statements, records and books of account submitted by any person at any time by: (a) Sending duly accredited inspectors to check the statements, records and books of account, or any vouchers, stocks or other material items at the person's place of business or practice; (b) Requiring the person or any employee who has access to or custody of any information, records or books of account to produce the same and to attend during normal office hours at any reasonable convenient tax office and answer any questions relating thereto; (c) Requiring any person including a municipality, body, financial institution, department or agency of federal or regional government to disclose particulars of any information or transactions, (FDRE vat proclamation no.285/2002, art. 30).

3.9 Seizure of Property to Collect VAT

A person who has liability to pay VAT imposed by the law has to pay properly. However, this may not be implemented as per expected. During this Authority is lawful to collect the tax by seizing property equivalent to tax and administrative cost of managing seizure of property, as per the proclamation. Seizure extends only to property possessed and an obligation existing at the time the seizure is made. Whenever the seizure properties are sold, the procedure to be

followed is with public auction or any other approved method by Authority after ten days of the seizure.

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

3.10 Filling of Tax Return and payment of VAT

Every registered person is required to file a VAT return with the Authority for each accounting period, whether or not tax is payable in respect of that period; and to pay the tax for every accounting period by the deadline for filing the VAT return. The VAT return for every accounting period is filed no later than the last day of the calendar month following the accounting period. VAT on taxable imports is collected by the ERCA accordance with VAT as per the customs legislation of Ethiopia under the procedure contemplated for customs duty, (FDRE VAT Proclamation No.285/2002, Art. 26).

3.11. VAT Refund

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

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

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

3.12 VAT Assessment

After review by the Authority, it appears that a person has understood his tax obligation. The Authority issues an additional assessment within 5 years after the end of the accounting period concerned; and in the case of fraud or willful negligence, notwithstanding any limitation in any other law, assessment make at any time. If the Authority makes an additional assessment within 30 days of the notice and demand, the person assessed does not pay the additional assessment or appeal the assessment as provided in VAT proclamation, the person is in default, (Proclamation No.285/2002, Art. 29).

3.13 VAT Investigation

Authority gets to mitigate VAT evasion through investigation activities. This is done through qualified professionals in different disciplines. These help to investigate various tax offences easily because most activities are identified through diverse expertise capatown. Tax evasions mainly made by high taxpayers who are involved with VAT, such activities are due to deep understanding of corruption seeking and supported by well experienced and skilled workers capable to fraud the system. VAT evasion offence can be treated with criminal penalty. The ordinal court treats the offence made by taxpayers through the prosecuting. Such activities are processing with layers of the Authority. Offenders of tax evasion penalized in money as well by imprisonment as per the criminal law states. Their names with offence they commit also publicized through mass media. Exposing such offenders pertains to aware others keep the tax law as stated to be implemented. Therefore, the Authority focuses investigations of VAT evasions in order to reduce corruption in this sector. Ethiopia is treating such problem with VAT proclamation. Following the proclamation, regulation and directives have been designed and issued by the respected bodies.

3.14. VAT Appeal Administration

This procedure enables taxpayers to reveal their grievances. They are allowing providing what they are not satisfied in receiving VAT administration service. Here, the power and duties of

Authority with individual professionals stated explicitly. On the other side, customers right to forward their complaints in order to get satisfaction. In relation to appeal procedure activities like reviewing, waive ring, appealing and burden of proof are being practiced. Member of the review committee are appointed by Authority at each level of administration up on the recommendation of the head of the authority. The Review Committee waives administrative penalties as per the law. Any person who objects to an additional assessment made by the Authority has the right to appeal within 30 days from the receipt of that assessment notification or from the date of decisions of the Review Committee to the Tax Appeal commission by depositing in cash with the Authority an amount equal to 50% of the additional tax assessed. If a person appeals in accordance with mentioned above and the Tax Appeal Commission determines that the person is liable for the additional assessment, the person be in default unless he pays within thirty 30 days of the decision of the Commission. Otherwise, no appeal is made within the period prescribed, the Additional assessment of the tax made by the Authority is deemed correct, final, and immediately payable. The burden of proving that an assessment is excessive or that the decision of the Authority is wrong is on the person objecting to the assessment or decision, (Proclamation No.285/2002, Art. 42- 44).

3.18 VAT Administrative Penalties

A person who should be involved in Value added Tax has to respect the law states otherwise, the person is penalized with such illegal action of: registration, invoice receiving or issuing, using accounting records and filing the period turn over.

Penalties

The following penalties are imposed for violations of Value Added Tax, where: Any person engages in taxable transactions without VAT registration; VAT registration is required 100% of the amount of tax payable for the entire period of operation without VAT registration; Any person issued incorrect tax invoice resulting in a decrease in the amount of tax or increase in accredit or in the event of the event of the failure to issue a tax invoice, 100% of the amount of tax for the invoice or on the transaction; A person who is not registered for VAT issues a tax invoice, a penalty of 100% of the tax which is indicated in the tax invoice and is due for transfer to the budget but has not been transferred; and A person fails to maintain records

penalized 2,000 Birr for each month or portion thereof that the failure continues (proclamation No.285/2002, Art. 45).

Penalties for Late Filing

A person who fails to file a timely return is liable for a penalty equal to 5 percent of the amount of tax under payment for each month or portion thereof during which the failure continues, up to 25 percent of such amount. The penalty mentioned for the first month or portion thereof should not be greater than 50,000 Birr in which no return is filed. In any event, the penalty should not be less than the smaller of the two amounts: 10,000 Birr or 100 percent of the amount of tax required to be shown on the return. Under payment of tax is the difference between the tax required to be shown on the return and the amount of tax paid by the due date (proclamation No.285/2002, Art.46).

Late Payment Interest

Interest is paid for late payment as penalty. This is based on the tax amount that has been made late. Here under the manners of interest punishments are explained. 1) If any amount of tax is not paid by the due date, a person liable thereof is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. 2) The interest rate under number (1) is set at 25% (twenty five percent) over and above the highest commercial lending interest rate that prevailed during the preceding quarter, (proclamation No.285/2002, Art.47).

3.16 VAT Criminal Offences

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

Tax Evasion

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

Making False or Misleading Statements

During VAT activities, a person makes or misleads statements by making a statement to a tax officer of the Authority. Where the statement or omission is made without reasonable excuse, and if the inaccuracy of the statement were undetected may result in under payment of tax by an amount not exceeding 1,000 birr, to a fine of not less than 10,000 Birr and not more than 20,000 Birr. In addition, imprisonment for a term is not less than one year and not more than three years. If the under payment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 20,000 Birr and not more than 100,000 Birr and imprisonment for a term of not less than three years and not more than five years. Where the statement or omission is made knowingly or recklessly: (a) if the inaccuracy of the statement were undetected may result in an underpayment of tax by an amount not exceeding 1.000 Birr, to a fine of not less than 50,000 Birr and not more than 100,000 birr. On the other hand, imprisonment for a term of not less than five years and not more than ten years. (b) if the underpayment of tax is in an amount exceeding 1,000 Birr, to a fine of not less than 75,000 Birr and not more than 200,000 Birr, or imprisonment for a term of not less than ten years and not more than fifteen years, (proclamation No.285/2002, Art.50).

Obstruction of Administration

1. A person who, obstructs or attempts to obstruct an officer of the Authority in the performance of duties under this Proclamation, or otherwise impedes or attempts to impede the administration, of the Proclamation, commits an offence and is liable on conviction to a fine of not less than 1,000 Birr and not more than 100,000 Birr, and imprisonment for a term of two years; 2. For purposes of number (1), the following and similar other actions are considered to constitute obstruction: refusal to satisfy a request of the Authority for inspection of documents/ reports, or other information related to a taxpayer's income producing activities;

noncompliance with an Authority request to report for an interview; Interference with a taxation officer's right to enter the taxpayer's business premises, (proclamation No.285/2002, Art.51).

Failure to Notify

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

Offenses by Tax Officer

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

2.Atax officer or former tax officer employed in carrying out the provisions of this Proclamation, except such information is required by the Commercial Code of Ethiopia to be published in the Trade Gazette, who, (a) Discloses to any person or that person's representative, any matter in respect of another person, that may, in the exercise of the taxation officer's powers of the performance of the taxation officer's duties under the said provisions, come to the taxation officer's knowledge; or (b) Permits any other person to have access to records in the possession or custody of the Authority, except in the exercise of the taxation officer's powers or the performance of the officer's duties under this Proclamation or by order of a court; commits an offence and is liable on conviction to a fine of not less than 10,000 Birr and to imprisonment for a term of not less than two years and not more than five years.

3. Nothing in VAT proclamation prevents a taxation officer from disclosing (a) Any document or information to: (i) any person where the disclosure is necessary for the purposes of this Proclamation or any other fiscal law; (ii) The Auditor-General where the disclosure is necessary for the performance of duties entrusted to it by law. (iii) The competent authority of the government of another country with which Ethiopia has entered into an agreement for the avoidance of double taxation or for the exchange of information, to the extent permitted under the agreement; (b) The Ethics and Anti-Corruption Commission where the disclosure is necessary for the performance of duties entrusted to it by law. (c) Law enforcement agency not described above where the Minister of Revenue issues written authorization to make disclosures necessary for the enforcement of the laws under the agency's authority; or Information, which does not identify a specific person to any person in the service of the State in revenue, or statistical department where such disclosure is necessary for the performance of the person's official duties, (proclamation No.285/2002, Art.53).

Unauthorized VAT Collection

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

Aiding or Abetting

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

Offences by Entities

1) Where an entity commits an offence, every person who is a manager of that entity at that time is treated as having committed the offence and is liable to a penalty.

2) where an entity commits an offence by failing to pay an amount of tax, including an amount treated by VAT Proclamation as though it were tax, every person who was manager of that

entity at that time or was a manager within six months prior to the date of commission is jointly and severally liable with that entity and that other person to the Authority for the amount.

3. Number (1) and (2) do not apply where, (a) The offence is committed without that person's knowledge or consent; and (b) That person has exercised the degree of care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances to prevent the commission of the offence, (proclamation No.285/2002, Art.56).

Improper Tax Debit and Tax Credit Notes

A registered person, who fails to provide a tax credit note or tax debit note as required by VAT Proclamation commits an offence and is liable on conviction, to a fine of 10,000 Birr and to imprisonment for one year. A person who provides a tax credit note or tax debit note otherwise than as provided for in this Proclamation commits an offence and is liable on conviction, (a) Where the failure was made knowingly or recklessly, to a fine of 20,000 Birr to imprisonment for three years; or (b) In any other case, to a fine of 10,000 Birr and to imprisonment for one year, (proclamation No.285/2002, Art.58).

Publication of Names

The Authority publishes by notice in the Gazette a list of persons who have been convicted of criminal offences. Every list published in terms of convicting of criminal offences specifies: (a) The name, address, and principal enterprise of the person; (b) Such particulars of the offence as the Authority may think fit; (c) The tax period or tax periods in which the offence occurred; (d) The amount or estimated amount of the tax evaded; and (e) The amount, if any, of the additional tax imposed, (Proclamation No. 285/2002, Art.59).

3.17 Consequences of De-registration

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

3.18. Empirical literature on Ethiopia

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

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,¹ control of filing and payments, refunds, audits and penalties.² 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. There may be weaknesses in how VAT administrators perform their duties. Weaknesses in VAT administration, in turn, may adversely impact on the salient features of the tax and government's 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 government's policy objectives, namely economic stabilization, resource allocation and redistribution of income. In developing countries the poor performance of taxes is likely to be due to weak tax administration (i.e., 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. Concerning the latter, Bird and Gendron (2005) noted that developing and transitional countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. In these countries, thus, simply adopting a successful VAT's design attributes of developed countries would not make the tax successful (Bird and Gendron 2005).

The design ought to consider the tax administration dimension and the socio-economic realities of the developing country in question. In discussing the importance of tax administration in general, Bird (1989 and 2004) noted that tax administration dimension ought to be placed at the

centre, not periphery, of tax reform. Jantscher (1990: 179) also stated that “in developing countries tax administration is tax policy.” Considering the significance of tax administration, many studies have been conducted in some developing and transitional countries with respect to the main VAT administration tasks. These studies include Jantscher (1990), Edmiston and Bird (2004), Bird and Gendron (2005), Grandcolas (2005) and Bird (2005).

In addition, the costs of VAT administration were briefly examined in the case of Jantscher’s (1990) study. The main conclusion of these 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. Wellela (2008). VAT administrative costs can include costs incurred by tax authorities in performing the tasks entrusted to them. In developing countries, estimates of VAT administrative costs are scant. In fact, as a measure of efficiency some governments attempted to develop percentages of administrative costs to the revenues generated by taxes. In the case of VAT, Jantscher (1990) indicated that fragmentary data, supplemented by the impressions of administrators, suggest that administrative costs usually range between one and two per cent of the VAT revenues collected. In addition to the administrative activities and the availability of administrative resources, VAT administration deals with issues such as administrative organs (who should administer the tax) and their mode of organization. Of particular importance for this paper is the VAT administrative organ. It suffices, however, to note that for a successful VAT the significance of appropriate institutional setup with proper human and material deployment must not be under estimated. Wellela (2008).

In respect of the VAT administrative organs, as Martinez-Vazquez and Timofeev (2005) noted the assignment of responsibilities ought to be seen as an element that must interact and be compatible with the rest of the design of a decentralized financial system. The decision (who should administer VAT) should be made within the framework of the overall fiscal system, particularly the assignment of VAT. In this context, examination of the theory of fiscal federalism shows the guidelines for the assignment of functions and fiscal instruments to different levels of government.

According to this theory, the central government should have the basic responsibility for macroeconomic stabilization, income redistribution and resource allocation (Musgrave 1959 and Oates 1972 cited in Oates 1999). In view of this conventional theory and the practical difficulties of implementing the tax, sub-national VATs were considered to be unfeasible. In this regard, Bird and Gendron (1998) quoted that the usual understanding was not to assign the VAT to sub-national governments (McLure 1993) and that the simplest practical way to run a federal state sales tax system including VAT was to adopt a revenue sharing scheme similar to the federal republic of Germany (Tait 1988). As a result, in most countries that have already introduced VAT, the tax has been assigned to central (federal) governments.

However, against the above supposition that sub-national VATs are unworkable, recently, tax experts including Bird and Gendron (1998), Bird (2001), McLure (2000), and Keen and Smith (1996 and 1999) argued that sub-national VATs are feasible. Their arguments used the Canadian dual VATs and the VATs in the European Union member states as evidence. They suggested different structures of sub-national VATs including dual and compensating VATs, which require a good administration and information exchange among tax authorities. More specifically, Bird (2001) suggested that compensating VAT would be fairly feasible and potentially attractive in developing countries – at least in large countries in which states have major expenditure roles, the VAT is the major source of actual and potential revenue, and tax administration is not up to developed countries' standards. In general according to Bird and Gendron (2005) in the context of developing and transitional countries a centralized VAT with some of the revenues shared with regional governments on a formula basis is the best approach to finance regional governments. Following the assignment of VAT revenue, the question would be who should administer VAT? On this issue there are different possibilities, the extreme ones being central government only (centralized) or regional governments only (fully decentralized). Between these two extremes there may be different arrangements. There are arguments, at least conceptually, on the advantages and disadvantages of centralized and decentralized tax administration in terms of economies of scale and cost efficiency. Mikesell (2007) noted that innovation of new approaches and techniques are cited as advantages of decentralized administration while economies of scale and expertise are for a centralized administration. Martinez-Vazquez and

Timofeev (2005) also indicated that the final decision may depend on how the objectives of the tax administration and the constraints involved are weighted and also on the nature of the trade-off among them. Wellela(2008).

In general, it will be concluded that although there have been studies on VAT administration in some developing countries, in Ethiopia there are no comprehensive studies that examine the administrative practices.

CHAPTERFOUR

DATA ANALYSIS AND INTERPERATION

4.1 Introduction

The primary focus of this chapter is to present the findings and also to analyze the research data obtained. This has been done on the employees and the tax payers' point of view. The analysis is based on the research data collected through the various methods discussed in chapter two including a questionnaire and documentary analysis. Response from several questions asked in the semi structured questionnaire discussed in detail. This chapter intends to also provide possible solutions to the problem statement as highlighted in chapter one which seeks to understand the VAT administration practices. The profile of the respondents is also briefly discussed.

4.2 Response Rate of the employees of Nekemet town revenue authority

Forty five respondents were targeted for the survey hence the same numbers of questionnaires were sent to the participants. In all a total number of 40 questionnaires were used for employees of Nekemet revenue and custom officeand this represents 88.9%. The response rate of 88.9% was deemed adequate for both the analysis and interpretation of the data and hence used in that regard.

4.2.1 Socio-demographic Characteristics of Employees 'Respondents

Table 1

Socio-demographic Characteristic		Frequency	Percent
Gender	Female	9	22.5
	Male	31	77.5
	Total	40	100.0
Age	below 30	15	35.7
	30-39	20	47.6
	40-49	3	7.1
	50 and above	2	4.8
	Total	40	100.00
Current position		9	21.4
	Officer		
	Assistant officer	4	9.5
	Audit officer	5	11.9
	Finance officer	4	9.5
	Tax officer	15	35.7
	head officer	3	7.1
	Total	40	100
Level of education	Grade 12	5	11.9
	Diploma	2	4.8
	Degree	29	69.0
	Masters	4	9.3
	Total	40	100.0
Experience	0-5	7	16.7
	6-10	22	52.4
	11-15	8	19.0
	16-20	3	7.9
	Total	40	100.0

Source: Fieldwork, 2010 E.C

Socio-demographic Characteristics of Respondents (Employees of Nekemet Revenue authority)

Descriptive statistics such as frequencies and percentages relating to the socio- demographic characteristics of respondents are presented in Table 1. Majority of there respondents(77.5%)were males comparing with the female i.e. 22.5%.

The majority of employees (47.6%)were in the economically active age group of (30-39years) with only 4.8% being 50 years or more. The level of education of respondents was mostly bachelor's degree(69%).Most of the respondents(52.4%)has been working in their organization's for b/n 6-10. Only 7.9%hasbeenworkingforbetween16-20years. In terms of current position,35.7%wereatthetax officer level,11.9%ataudit officer level. Only 7.1% is at the head level.

Table 4.2.2 Tax payers' awareness toward VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Average	10	23.5	23.5
	Low	18	42.9	42.9
	very Low	12	28.6	28.6
Total	40	100.0		100.0

Source: Fieldwork, 2010 E.C

Table 4.2.2 depicts that 42.9% of the respondents replied that their awareness degree of taxpayers is low. Whereas 28.6% and 23.8% of the participants regarding their level of awareness responded that it

is very low and average respectively. From the table above the researcher can conclude that tax payer's awareness of the employees is low. This reveals that a lot has to be done the level of awareness.

Table 4.2.3 All clients who get register for VAT is registered in the system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No all clients are not registered	40	100.0	100.0	100.0
Total		40	100.0		

Source: Fieldwork, 2010 E.C

As can be seen from table 4.2.3 100% of the employees of Nekemet revenue and custom office confirmed that all clients are not registered in the system. This is happed due to not getting the relevant information of the taxpayers.

Table 4.2.4 Reason of tax payer not being registered

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid low awareness and lack of information	15	40.5	40.5	40.5
Poor capacity of the government offices that deal with VAT	25	59.5	59.5	100.0
Total	40	100.00	100.0	

Source: Fieldwork, 2010 E.C

Table 4.2.4 shows that the majority of the employee's i.e 59.5% retorted that there is poor capacity of the government offices that deal with VAT, 35.7% replied there is low awareness and lack of information on the tax payers address. the reasons of tax payer not being registered

Table 4.2.5 Tax payers who are not willing to be registered for VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Many	26	61.9	61.9
	Insignificant	2	4.8	4.8
	Few	12	28.3	28.3
	Total	40	100.0	100.0

Source: Fieldwork, 2010 E.C

As can be seen from Table 5, 61.9% of the respondents' answered that the mainstream of the tax payers are not willing to register for VAT, 28.3% is few and 4.8% is insignificant. This reveals that a great deal has to be prepared to increase their willingness.

Table 4.2.6 Reason of tax payers not willing to register

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Due to problems from their suppliers	15	41.3	41.3
	Due to fear of competition from unregistered similar business	25	63.5	100.0
	Total	40	100.0	100.0

Source: Fieldwork, 2010 E.C

The most interesting point found in table 6 above is that majority of the respondents' looks fear of competition from unregistered similar business i.e. 59.5%. However, 40.5% of the respondents is due to problems from their suppliers.

Table 4.2. 7 Service delivery of Nekemet town

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Good	7	14.3	14.3	14.3
Average	10	27.8	27.8	27.8
poor	20	47.6	47.6	47.6
very poor	3	7.1	7.1	100.0
Total	40	100.0	100.0	

Source: Fieldwork, 2010 E.C

As it is indicated in table 7, 47.6% of the respondents replied that the service deliver is poor, 23.8% is average, 16.7% is good and finally 7.1% is very poor. From this analysis we can say that the service delivery is poor.

Table 4.2. 8 Honest report of VAT registered companies performance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Good	5	11.9	11.9	11.9
Average	18	42.9	42.9	42.9
poor	11	28.6	28.6	28.6
very poor	6	16.4	16.4	100.0
Total	40	100.0	100.0	

Source: Fieldwork, 2010 E.C

Response on honest report of VAT registered companies' performance above indicated that majority i.e. 42.9% of the respondents is average but the rest 28.6%, 11.9%, 16.4% is poor, good and very poor respectively.

Table 4.2.9 Report of VAT registration companies on time

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very good	18	31.1	42.9	42.9
Good	10	23.8	23.8	23.8
Poor	12	42.9	31.1	100.0
Total	40	100.0	100.0	

Source: Fieldwork, 2010 E.C

Table 4.2.9 portrays that as far as report of VAT registration companies on time is concerned, the respondents replied that the majority i.e. 42.9% reported the VAT registration didn't report on time. Whereas 31.1% is good and 23.8% is good.

Table 4.2.10 Gap b/n what the taxpayers 'declare and what the tax officers assess

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes, there is always	29	69.4	69.4	69.4
yes, but sometimes	11	30.6	30.6	100.0
Total	40	100.	100.0	

Source: Fieldwork, 2010 E.C

Table 10 indicated that 69.4 % answered that there is always a gap **b/n** what the taxpayers' declare and what the tax officers assess. However, 30.6 % replied that there is but sometime.

Table 4.2.11 System of registering unregistering tax payers for VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid door to door	27	64.3	64.3	64.3
checking purchase invoice	13	35.7	35.7	100.0
Total	40	100.0	100.0	

Source: Fieldwork, 2010 E.C

Table 4.2.11 above reveals that 64.3% of the respondents replied that door to door is the system if registering unregistering tax payer for VAT. Nevertheless, 35.7% replied checking purchase invoice.

Table 4.2.12 Strength of Nekemet office

With respect to			
		Frequency	Percent
Appeals system			
	Good	15	35.7
	Fair	11	6.2
	Poor	14	33.3
	Total	40	100.0
Appropriate penalties			
	Excellent	25	59.5
	Good	5	11.9
	Poor	10	23.8
	Total	40	100.0
Filing & payment Procedure			
	Good	15	35.7
	Poor	25	59.5
	Total	40	100

Source: Field work, 2010 E.C

According to table 4.2.12, the respondents were asked about the strength of the Nekemet revenue authority. 35.7% answered that the appeal system is good. But 33.3% of the respondent replied that it is poor and finally 6.2% responded fair. Concerning penalties 59.5% replied that it is excellent. Meaning the office will penalize them as long as the date of the payment is passed. The rest responded as good, 11.9% and poor 23.8%. Regarding the filing and payment procedure of the officer, the majority of the employees (59.5%) retorted that their system of filling is poor. However, 35.5% replied good. This analysis tells us that it needs improvement..

Table 4.2.13 Effectiveness of the office in auditing and enforcement of VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	5	11.6	11.6	11.6
Disagree	28	66.7	66.7	66.7
Strongly disagree	7	21.7	21.7	100.0
Total	40	100.0	100.0	

Source: Field work, 2010 E.C

The table shows that majority of the employees seem to be disagree. 21.7% of the respondents is strongly disagree and 11.6% is neutral. The most essential point found in this table is that Nekemet revenue authority is not effective in auditing and enforcement of VAT.

Table 4. 2. 14 Questions of VAT registrant customers in terms of honesty and loyalty

		Frequency	Percent
Providing fake invoice to secure more	Many	2	2.0%
	Few	38	98.0
	Total	40	100.0
Manipulate cash register machine	Many	25	75.0
	Few	15	25.0
	Total	40	100.0
Sales of goods and service	Many	10	10.0
Without tax invoice	Few	30	90.0
	Total	40	100.0

Source: Field work, 2010 E.C

The respondents were asked regarding customers in terms of honesty and loyalty in table 4.2.14 that portrays 64.3% replied only few customers provide fake invoice. However, 2% replied many. From this table almost all customers didn't provide fake invoice. As far as cash registration machine is concerned 75% of the respondent answered that many of them manipulate the machine. Only 25% of them didn't manipulate the systems. Regarding sales of goods and service without tax invoice, the employees responded that 90% of them replied there are few and 10% retorted that there are many.

Table 4.2.15 Problems regarding VAT Administration practice that needs to be improved

	Frequency	Percent	Valid Percent	Cumulative Percent
yes, there are problems	25	40.5	40.5	40.5
Valid No, there are no problem	15	59.5	59.5	100.0
Total	40	100.0	100.0	

Source: Fieldwork, 2010 E.C

As can be seen from table 4.2.15, the employees responded that 59.5% replied that there are problems that need to be improved, whereas 40.5% of them responded that there are no problems.

Table 4.2.16 Advantage of having VAT registration

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes, it has an advantage	40	100.0	100.0	100.0
Total	40	100.0		

Source: Field work, 2010 E.C

According to table 4.2.16, another questions posed to the respondents were about the advantage of being a VAT registrant. 100% of the respondents elucidated that customer has an advantage when they register for VAT.

Table 4.2.17 problems to be faced when collecting VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes, there are problems	40	100.0	100.0	100.0
Total	40	100.0		

Source: Field work, 2010 E.C

Table 4.2.17 portrays that 100% of the participants' responded 'Yes'. This tells us that there are problems in the branch when they will collect the VAT.

Table 4.2.18 effectiveness of the VAT collection practices in the last five years(2005 E.C-2009 E.C

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid low	100	100.0	100.0	100.0
Total	40	100.0	100.0	

Source: Field Survey 2010 E.C

Table 4.2.18 reveals that the majority of the employees' i.e. 100% replied that the branch was not effective in collecting VAT for the last five years.

4.3 Analysis of the tax payers

This is going to tell us the profound analysis done on the side of the tax payers.

Table 4.3. 1 Gender of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	32	40.2	40.2	36.8
Male	55	59.8	59.8	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

According Table 4.3.1 above, 59.8% of the respondents are male whereas 40.2% were female. From this analysis we can say that the majority of the participants are male comparing with that of female.

Table 4.3 2 Age of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 15-25 years	20	21.7	21.7	21.7
26-36 years	30	38.1	38.1	38.1
37-47 years	27	27.0	27	27.0
Above 47 years	10	10.9	10.9	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

As can be seen in table 2 above, the majority of the respondents were the age b/n 26-36 years 29.3% ,21.7% and 10.9% were the age b/n 15-25 years above 47 years respectively. This analysis tells us that most of the respondents were in active age.

Table 4.3.3 Qualification of the respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Grade 12	25	27.2	27.2	27.2
Diploma	15	16.3	16.3	16.3
Degree	30	37.4	37.4	37.4
Masters	10	10.9	10.9	10.9
below Grade 12	7	7.6	7.6	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

As portrayed in table 4.3. 3 above from the questionnaires' distributed to the respondents majority of the participants had degree i.e 37.4% , grade 13 completed were 27.2%, Diploma 16.3%, masters level were 10.9% and below grade 12 were 7.6%. In order to make articulate those respondents whose educational level below grade 12 were mostly found in service and trade companies.

Table 4.3.4 Main business Activity

	Frequency	Percent	Valid Percent	Cumulative Percent
construction companies	15	16.3	16.3	16.3
Manufacturing	12	13.0	13.0	13.0
Service	40	43.9	43.9	43.9
General merchandise trade	20	27.8	27.8	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

Table 4.3.4 shows that 43.9% of the questionnaires were distributed to the service companies, 27.8%, 16.3% and 13.0% were distributed to general merchandise trade, construction companies and manufacturing companies.

Table 4.3. 5 ownership of the respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid partnership	30	37.6	37.6	37.6
sole proprietorship	45	48.9	48.9	48.9
private limited company	12	13.5	13.8	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

Table 4.3.5 reveals that from the questionnaires distributed 48.9% of the respondents were sole proprietorship, 37.6% was partnership and finally 13.5% was private limited company. The most important point found here is that the majority of the participants were sole proprietorship.

Table 4.3.6 position of respondent

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid owner	35	38.8	38.8	38.8
Employee	32	36.8	36.8	36.8
Manager	20	29.4	23.0	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

According to the above table the mainstream of the respondents i.e. 38.8% were the owners of the organization. However, 36.8% and 29.4% were employees and managers of the companies.

Table 4.3.7 Respondents years of experience

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-10	45	53.9	53.9	53.9
11-20	42	46.1	46.1	100.0
Total	87	100.00	100.0	

Source: Field Survey 2010 E.C

Table 4.3.7 indicates that concerning the respondents' years of experience in the business, the majority of the participants i.e. 53.9% were from 1-10 years of experience and the rests 46.1% i.e. from 11-20.

Table 4.3.8 Tax payers awareness toward VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid High	5	5.8	5.8	5.8
Average	30	32.6	32.6	32.6
Low	52	61.6	61.6	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

As indicated from the above table the tax payers awareness about VAT is low i.e. 61.6%.

However 32.6% are average and 5.8% are high. This analysis furnishes that the majority of the taxpayers' awareness regarding VAT is low.

Table 4.3.9 No. of years being a VAT registrant

	Frequency	Percent	Valid Percent	Cumulative Percent
1-10	37	40.6	40.6	40.6
10-20	20	21.7	21.7	21.7
Valid Didn't register	30	37.7	37.7	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

From the above the majority i.e. 40.6% of the respondents said that they are VAT registered companies. Nevertheless, 37.7% didn't register it. Finally 21.7% of the respondents are b/n 10-20 years of being VAT registrant.

Table 4.3.10 Advantage of registering VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes, it has an advantage	87	100.0	100.0	100.0
Total	87	100.0		

Source: Field Survey 2010 E.C

Table 4.3.10 shows a response of the advantage of registering VAT. So, according to this table 100% of the participants replied that registering VAT has an advantage.

Table 4.3.11 Those who should get register is registered in the system

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	87	100.0	100.0	100.0
Total	87	100.0		

Source: Field Survey 2010 E.C

As refer from the above table about those who ought to get register is registered in the system about VAT answered as follows by respondents 87 i.e. 100% of the respondents confirmed that those who should get register is registered in the system. For confirmation they explained that by their TN no. every company can check in the system.

Table4.3. 12 possibility that may not be registered for VAT if there is no penalty

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	35	38.8	38.8	38.8
Valid No	52	66.6	66.6	100.0
Valid Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

As depicted in Table 4.3.12, the majority of the respondents i.e. 61.5% replied that there is possibility that may not be registered for VAT as long as there is no penalty and the remaining i.e. 38.4% replied the possibility.

Table 4.3. 13 Negative impact of non-registration of other tax payers for VAT

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	65	71.0	71.0	71.0
No	22	28.9	28.9	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

According to table 4.3.13 above 71.0% of the participants answered the negative impact of non-registration of other tax payers for VAT. However 28.9% of them replied it doesn't have impact.

Table 14 Skill employees of Nekemet revenue and custom officeto identify tax payers identification and process

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid moderately agree	65	75.7	75.7	75.7
Disagree	22	24.3	24.3	100.0
Total	87	94.6	100.0	

Source: Field Survey 2010 E.C

As it is portrayed in Table 4.3.14, regarding the skill of the employees 75.7% of the respondents replied moderately agree and 24.3% answered disagree. From this analysis the essential point found is that majority of the employees are skillful to identify tax payers' identification and process.

Table 4.3.15 Strength of Nekemet office With respect to the parameter given below

Parameter		Frequency Percent	
Office facility	Good	10	15.9
	Fair	26	28.7
	Poor	51	55.4
	Total	87	100.0
Honest human resource	Good	8	8.7
	Fair	32	34.8
	Poor	47	56.4
	Total	87	100.0
Creating awareness for tax payers	Good	10	10.9
	Fair	14	15.2
	Poor	63	73.9
	Total	87	100.0

Source: Field Survey 2010 E.C

Table 4.3.15 depicted that 55.4% of the participants said that the office facility is poor. 28.7% replied that it is fair and 15.9% of them responded that it is good. This tells us that the majority of the respondents answered that the office facility is poor. As far as the honesty of human

resource is concerned the respondents answered as 56.4% is poor, 34.8% is fair and 8.7% is good. This indicated that most of the employees are not honest. Regarding the creation of awareness for tax payers, 73.9% said that it is poor, 15.2% replied it is fair and 10.9% answered that it is good. This analysis informs that awareness creation of the branch poor.

Table 4.3. 16 confidence of tax payers on Nekemet revenue and custom office on VAT assessment and auditing

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	19	21.1	21.1	21.1
no	68	75.9	75.9	100.0
Total	87	100.00	100.0	

Source: Field Survey 2010 E.C

Table 4.3.16 shows that 75.9% of the participants replied 'no' and 21.2% answered 'yes'. This indicates that the majority of the tax payers don't have confidence on the branch assessment and auditing on VAT.

Table 4.3.17 Service delivery of Nekemet town revenue authority

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid poor	50	54.3	54.3	54.3
very poor	37	45.6	45.6	100.0
Total	87	100.0	100.0	

Source: Field Survey 2010 E.C

As can be seen from table 4.3.17 above 54.3% of the respondents replied that it is poor. However, 45.6% of the participants answered that it is very poor.

Table 4.3.18 Problems that needs to be improved in VAT administration practice

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes, there are problems	87	100.0	100.0	100.0
Total	87	100.0		













Source: Field Survey 2010 E.C


As it is depicted in table 4.3.18 above 100% of the respondents replied 'yes'. Meaning there are problems that needs to be improved in VAT administration practice in this branch.


CHAPTER FIVE CONCLUSION AND RECOMMENDATION


5.1 CONCLUSION


It is obvious that VAT plays a crucial role in economic development so, by contemplating the analysis and discussion both on employee and the tax payers made, the followings are the conclusion and recommendations made.


-  The awareness creation of the offices for taxpayers is low
-  The employees of the branch attached that the taxpayers are not registered in the system.
-  The branch employees confirmed that there is poor capacity of the government offices that deal with VAT
-  The tax payers in the branch are not willing to register for VAT.
This is due to the fact that similar businesses are not registered for VAT. Based on this the client of the tax payer's will lose their customers since they increase price and don't compete with similar business
-  The service delivery of the offices is poor.
-  The honest report of VAT registered companies' performance is average.
-  There is a gap b/n what the taxpayers' declare and what the tax officers assess.
-  VAT registrant of the branch didn't report their sales on time.
-  The employees ratified that door to door is the system of registering unregistering tax payer for VAT.
-  As it is substantiated by the employees the filling system of the branch is poor.
-  The auditing and enforcement of VAT is not effective in the offices.
-  The majority of the employees affirmed that their clients manipulate (if they don't know, their employee will know it) the cash registration machine.


 The employees of the branch manifested that there are problem that needs to improve. Those problems are time management; there is not trust b/n the office and tax payers, weak methods of controlling the center and the taxpayers incorrect revealing of their income.


 The office doesn't understand the problem of the tax payers and due to little mistake the tax payers are exposed to a big punishment.


 100% of the respondents elucidated that customer has an advantage when they register for VAT. One of the clients advantages is VAT registered company will get priority in tender and bid. For the government, it will help for infrastructure and development of a nation.


 100% of the participants' responded there are problems in the branch when they will collect the VAT. These are there is no consistent procedure that can handle the clients and not creating awareness i.e. tax payers awareness about VAT is low.


 As far as tax payers' analysis is concerned the majority of the respondents were sole proprietorship.


 The tax payers awareness about VAT is low i.e. 61.6%.


 The majority i.e. 40.6% of the respondents said that they are VAT registered companies


 All tax payers asserted that being a VAT registrant has a merit.

 The tax payers affirmed that there is a negative impact of non-registration of other tax payers for VAT.

 The majority of the tax payers manifested that employees in the branch has a skill.

 As it is said by the most tax payers the office facility given by the branch is poor.

 As far as the honesty of human resource is concerned the tax payers asserted that majority of the employees are not honest.

 The majority of the tax payers replied that the awareness creation of the branch for the tax payers is low.

As it is certified by the tax payers the majority of them don't have confidence on the branch assessment and auditing of VAT.

It is corroborated from the tax payers that Service delivery of Nekemet town revenue authority is poor.

As it is validated from the tax payers all of them explained that there are problems in VAT administration practice in this branch. The problems they mentioned are not having clear and consistent procedure for all tax payers and not having motivating factors for those tax payers who pay a substantial amount.

Result of Semi structured interviews

In order to make aware about the VA administration and collection practices, interview was made with three heads of the branch namely; tax assessment collection and control coordinator, managers of the branch and customer service coordinator. The offshoots acquired from the interviews are outlined below.

- ✓ Lack of awareness on both side i.e. on tax payers and on employees side. Even if the office invites the tax payers and employees, especially some of the tax payers don't come and use this opportunity. Due to this the tax payers don't know the rule and regulation of the authority.
- ✓ There is low customer service delivery due to a substantial load of the employee's i.e. shortage of manpower.
- ✓ Even if employees are skillful, job related training is not given in their respective position.
- ✓ In order to serve the tax payers as they needed one of the factors which hamper the branch is internet connection problem.
- ✓ Some tax payers are abusers. Due to corruption there is a problem on both side.
- ✓ The office has a simplified laws and procedure for small business.
- ✓ For the last five years i.e. 2005-2009 the collection practices for VAT was poor as compared to the target.

5.2 RECOMMENDATION

In line with the research finding and conclusion made the research gives the following possible recommendation as being essential to the branch office for taking corrective action on the specified.

- The office ought to establish a consistent procedure that can handle all the tax payers in a way to develop trust in all clients.
- The office should make awareness creation . This creation should e by no means e neglected and more attention ought to be given for this thing. The current program set by the authority to both parties i.e. employees ad tax payers are not sufficient. So, this branch should exert maximum effort to go through.
- The client ought to aware that the tax to be collected from is employed for government infrastructure and it benefits the nation at large.
- The backbone of the every organization is the employees. So as to enhance branch performance, employees should get training on a respective position and provide a reward. As long as they get this, the customers' service and tax payers self-compliance is going to be boost.
- The branch should encourage the tax payers to register for VAT through media and newspaper.
- In order to fill the gap b/n what tax payers declare and what the tax officer assess, the branch should make a strategy for incentive which inspires the clients not to do fraud.

- The office should clearly inform his client the amount of money to be penalized in case they don't submit their sales on a specified date. Moreover, the office has to follow the rule and regulation set by the government.
- The branch should monitor the door to door registering unregistered tax payers through committee. This methods helps the branch to prevent unnecessary activities like fraud.
- The filling system of the branch is poor due to the fact that the files are traditional and manual which is exposed to the theft and create unnecessary delay. So, the branch should make this filing system computerized.
- The day to day transaction of the tax payers should be checked regularly.
- The branch should take time and understand the problem of its client rather than not giving attention for their problem and expose them for a big punishments.
- Convincing the tax payers being a VAT registrant has an advantage. For instance getting priority for tender and bid.
- Serious action should be taken for those who didn't register for VAT
- Attention should be given and swift action should be taken requiring office facility by consulting with the concerned government bodies
- Internet connection is a problem which hinders the branch to provide a fast service for the customers. So, the office should communicate with the concerned organs by contemplating its objectives.
- The branch should close the tax collection procedure that invites for corruption.
- The branch should demonstrate its service that makes the tax payers reliable on it.

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