

MEKELLE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE



**Value Added Tax (VAT) Administration and Revenue Performance:  
Challenges and Opportunities in the Mekelle Branch of the Ethiopian  
Revenue and Custom Authority (ERCA)**

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**A THESIS**

**SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT  
FOR THE DEGREE OF MASTER OF SCIENCE IN FINANCE AND  
INVESTMENT**

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## **Declaration**

I, Markos Abraha, hereby declare that the project work entitled “Value Added Tax (VAT) Administration and Revenue Performance: Challenges and Opportunities in the Mekelle Branch the Ethiopian Revenue and Customs Authority (ERCA)” submitted by me for the Award of the degree of Master of Science in Finance and Investment of Mekelle University at Mekelle, is original work and it has not been presented for the award of any other degree, diploma, fellowship or other similar titles of any other university or institution.

Place: Mekelle

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

## **Certification**

This is to certify that Ato Markos Abraha has carried out this research work on the topic entitled “Value Added Tax (VAT) Administration and Revenue Performance: Challenges and Opportunities in the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA)” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MSc Degree in Finance and Investment.

G. Sirinivasa Rao (Ast. Professor)

Signature \_\_\_\_\_

Date \_\_\_\_\_

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## **Abbreviations:**

BPR: Business Process Reengineering

DTE: Developing and Transitional Economies

ERCA: Ethiopian Revenue and Customs Authority

IMF: International Monetary Fund

ITD: International Tax Dialogue

MDG: Millennium Development Goal

MoR: Ministry of Revenue

BoFED: Bureau of Finance and Economic Development

TOT: Turn Over Tax

TSRP: Tax System Reform Program

VAT: Value Added Tax

## **Abstract**

As most of the developing countries do, Ethiopia was highly dependent on external financial resources to finance its development activities. For many decades, the tax contribution to GDP was very less and this needs an improvement. On the other hand, the Ethiopian Government has a strong belief and commitment to eradicate poverty and assure sustainable development; and it is impossible to achieve such a goal without generating sufficient revenue that can cover at least the budget of the government. To narrow the gap, VAT was introduced before seven years and is showing dramatic changes in generating government revenue. Hence, this research tries to fill the gap that existed in VAT administration and revenue generation in the branch office.

The research had an objective of investigating how VAT was administered and performed in the last five year (in terms of efficiency and effectiveness) at the Mekelle Branch of the Revenue and Customs Authority. In order to attain the stated objective, after the taxpayers are stratified, 120 taxpayers were randomly selected using systematic random sampling and 20 tax officers were purposely selected and then all were required to fill the questionnaire that was prepared for that purpose. In addition, secondary data was used and analyzed, mainly to show the trend of the last five years. At federal level, a total amount of 13.78 billion birr was collected from the Inland Revenue in the form of VAT at Federal level in five years time. In the Mekelle Branch of the Revenue and Customs Authority, a total amount of 879.4 million birr is collected in the last five years (1997 E.C. – 2001 E.C.) and out of this, 782.36 million (88.96%) is collected from VAT.

In the process of VAT administration and revenue generation, different problems were observed, the main ones being attitudinal problem of the tax payers and implementation capacity of the government employees. As a result, the data show that there are many business men and companies that should be registered for VAT but are not. As a result, the branch office is losing millions of birr per year. The opportunities and challenges of the VAT administration of the branch office is well-studied and as a result recommendations are made on the issues. Changing the attitude of the taxpayers and building the implementation capacity of the employees of the branch office are some of the important recommendations made by the study. It is also suggested that further research on the area is needed and it is important and timely to make collaborations with the nearby universities such as the Mekelle University and Axum University.



# CHAPTER ONE: INTRODUCTION

## 1.1 Overall Background

Fifty years ago the Value Added Tax (VAT) was rarely heard outside of France and a few dry specialist texts. Now it raises about 20 percent of the world's tax revenue, and affects about 4 billion people (Keen and Lockwood, 2007). 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).

A tax is a liability imposed up on the tax assesses who may be individuals, groups of individuals, or other legal entities. It is a liability to pay an amount on account of the fact that the tax assesses have income of a minimum amount and from certain tangible or intangible property, or that they carry on certain economic activities which have been for taxation (Bhatia, 1996:39). Taxes are generally categorized into two as direct and indirect taxes. VAT is categorized under indirect taxes. VAT is defined as broad-based tax levied on commodity sales up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs-except perhaps on capital goods-against that due on outputs (Ebrill, et al, 2001 ). It is a tax levied and collected on sales of goods and services, with systematic offsetting of tax charged on goods and services purchased as inputs against that due on outputs. VAT is tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government. In other words, a taxpayer does not receive a definite and direct quid pro quo from the government.

Despite its name, VAT is not generally intended to be a tax on the value added; rather it is usually intended as a tax on consumption. The tax is charged at all stages of production and distribution chain, beginning with importers and producers and ending with retailers, with the provision of some mechanism enabling firms to offset the tax they have paid on their own purchases against the tax they charge on their sales. This feature of the tax makes VAT to be a

broad-based tax levied at multiple stages of production and distribution – unlike a retail sales tax that VAT replaced in most countries.

Some of the benefits of VAT include: Removing the tax content (on inputs) from exported goods makes the goods more competitive in international markets; domestically produced goods will be more competitive with imported goods; relief from tax on capital goods will encourage investment; and Value Added Tax (VAT) raises more government revenue than the replaced Sales Tax. In line with this, the vision of the Ethiopian Government is to bring rapid and sustainable development, which is essential to supporting the Millennium Development Goal (MDG) of reducing poverty by half by the year 2015. The achievement of this rapid and sustainable development objective mainly requires sustainable and dependable domestic revenue mobilization which otherwise will be a dream to realize the Government's vision depending on external finance sources, which is subject to uncertainty. Indeed, this does not mean external sources are not important; rather it is to stress the fact that domestic resource should take the largest share in financing development endeavors in developing economies.

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. 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.

Being major component of country's tax system the VAT has been seen as a key instrument for securing Macro-economic stability and growth by placing domestic revenue mobilization on a sounder basis, so that countries have attached considerable importance to its proper design and implementation. Considering these merits the tax system deserves, Ethiopia has adopted as a major component of the ongoing Tax System Reform Program (TSRP) since January 1, 2003. In

order to realize the above objectives the Ethiopian Government acknowledged that successful implementation of the overall Tax reform program including the VAT was vital to attaining the economic and social objectives, through the mobilization of its own domestic resources. The introduction of the VAT on January 1, 2003 to replace the sales tax is one of the components of the tax reform program.

The adoption of the VAT is also consistent with the direction that many countries have been taking in shifting away from the reliance on direct taxes towards a VAT. The successful implementation of the VAT was dependant upon the effective management of the process, the conveyances of a comprehensive understanding of the scope and benefits of the VAT to the business community, other stakeholders and the consumers; and the establishment of an effective tax administration.

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 inputs 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, Electricity 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.

Ethiopia introduced VAT on January 01, 2003 replacing the sales tax. So, it is only before seven years that VAT is introduced in our country. 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 producers of raw materials and ending with the retailers.

The Ethiopian Government has replaced the former sales tax so as to broaden the tax base and make the tax administration more efficient. VAT administration is expected to be efficient and effective so that taxpayers' compliance can be enhanced, investment can be encouraged and revenue generation can be increased. This research then had an objective of investigating the

VAT administration and revenue performance of the Mekelle Branch of the Revenue and Customs Authority in the last five years.

## **1.2 Background of the Ethiopian Revenue and Customs Authority**

In Ethiopia, the responsibility to collect revenue for the federal government rests with the Ethiopian Revenue and Customs Authority. According to article 3 of the proclamation No. 587/2008, the Authority is looked upon as "an autonomous federal agency having its own legal personality". The Authority came into existence on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and the Federal Inland Revenue Authority who formerly were responsible to raise revenue for the Federal government and to prevent contraband. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex.

A long process of study called "Business Process Reengineering" had taken place before any steps were taken to effect the merger of the foregoing administrations.

### **1.2.2 Vision and Mission Statements and Values of the authority**

Vision: The Authority's vision is to see “fair and modern taxes and customs administration system that enhances the proper and effective revenue collection”.

Mission: The ERCA shall promote the voluntary compliance of taxpayers, ensure integrity and develop the skill of the employees, support the modernization and harmonization of the taxes and customs administration system, contribute to economic development and social welfare through effective revenue collection.

Values: Some of the values of the Authority are: Customer focused service delivery (trust, respect, protect, support), Protect the well-being of the society, Integrity and transparency, Professionalism, Collaborative working

### **1.2.3 Organization of the Authority**

The Authority has its headquarters in Addis Ababa. The Authority is led by a Director General who reports to the Prime Minister and is assisted by four Deputy Director Generals, namely: Enforcement sector, Operations sector, Deputy Director General for Corporate functions sector, and Change Management and Support sector.

Both the Director General and the Deputies are appointed by the Prime Minister. The Authority, at the headquarters level, has 19 business processes and 2 directorates namely Women's Affairs Directorate and Ethics Directorate.

Apart from the 19 business processes and the 2 directorates at the headquarters level, the Authority has 17 field offices which can be divided as follows: 15 branch offices located in a regional state or city administrations and 2 coordination offices located outside of Ethiopia at the port of Djibouti and at the port of Burbera, Somalia. Each field office is directed by a manager who is accountable to the Director General of the Authority. Following are 4 tables that depict the list of sectors, business processes and directorates, branch offices, and coordination offices respectively. Mekelle Branch is one of the 15 branch offices and the study aims at assessing the VAT administration and revenue performance of this specific branch.

### **1.3 Statement of the Problem**

Most developing countries are currently dependent more on external financial resources to fund their development activities. The tax contribution to GDP is very less as compared to developed countries. In Ethiopia the tax revenue to GDP is less than 10%. Ethiopia being one of the least developing countries was depending on external financial resource to run its main governmental activities.

On the other hand, the Ethiopian Government has a strong belief and commitment to eradicate poverty and achieve the status of a democratic lower-middle-income country with good governance and where social justice prevails by the Ethiopian by 2020 E.C. It is impossible to achieve such a goal without generating sufficient revenue that can cover at least the budget of the government. Nowadays, encouraging results are observed as far as collecting revenue is

concerned. VAT was introduced before seven years and is showing dramatic changes in generating government revenue. Literature also shows that not all experiences gained by the VAT administration of the developing countries are studied and well-documented; and this problem is sever in Ethiopia in general and Mekelle branch in particular.

Hence, in the Mekelle branch office, there are so many things that have to be addressed mainly in terms of VAT administration and revenue performance. Hence, this research tries to fill the gap that existed in VAT administration and revenue generation in the branch office.

## **1.4 Research Questions**

The main research question of the study is “How is VAT administered and revenue generated in the Meklle Branch of the Revenue and Customs Authority? In addition, the research will also try to answer the following sub-questions.

- How was VAT administered in the last five years?
- What problems did the office encountered in administrating the VAT?
- How is the performance of the revenue generation?
- What are the main challenges in the implementation process?
- What are the opportunities in the implementation process of VAT?

The details of the objectives of the study are given below.

## **1.5 Objective of the study**

The study has both general and specific objectives.

### **1.5.1 General Objective**

The general objective of the research is to investigate how VAT was administered and performed in the last five year (in terms of efficiency and effectiveness) at the Mekelle Branch of the

Revenue and Customs Authority. To be more specific, the study has the following specific objectives:

### **1.5.2 Specific Objectives**

Some of the specific objectives of the research are:

1. To investigate whether the intended objective of broadening the tax base and increasing the revenue collection performance is achieved as a result of introducing VAT at least in the place where the branch office is operating.
2. To examine whether or not the intended high levels of voluntary compliance is achieved or not; in the place of the study.
3. To study the awareness level of the tax payers self assessment and investigate the effectiveness of tax payers' education and services in the process.
4. To study the level of total revenue generated in the last five years and then study the proportion contributed by VAT.
5. To identify the basic constraints and challenges those hinder the smooth implementation of the VAT at the branch office.
6. To suggest the possible remedial measures for the identified problems and discuss the opportunities for the implementation of VAT.

### **1.6 Significance of the Study**

The research is expected to identify the key problems that hinder the smooth administration and implementation of VAT in the branch office and then recommend mechanisms for improvement. In addition, it also has an aim of recommending mechanisms for enhancing the performance in the revenue generation process. Hence, the study will play key role in the development process of the nation by recommending mechanisms of enhancing the capacity of the branch office. Lessons can also be drawn to other similar branch offices.

## **1.7 Scope of the Study**

The scope of the study is limited to VAT only; it did not consider other types of taxes. In addition, it is going to be conducted in Mekelle Branch of the Revenue and Customs authority. Hence, the study doesn't include the revenues collected through the custom's part of the authority. The scope of the study is also limited to only five years time; and doesn't investigate the VAT administration since its establishment.

## **1.8 Limitations of the study**

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

## **1.9 Organization of the study**

The paper is organized in five chapters. General introduction is given in the first chapter. And the relevant literatures in the field are discussed in the second chapter. In chapter three research design and methodology is presented. Following this, chapter four contains results and discussion. Finally, summary, conclusions and recommendations are presented in the fifth chapter.



## **CHAPTER TWO: LITERATURE REVIEW**

Government revenues are sourced from various tax and non-tax receipts. The oldest – and ultimately the only sustainable source of development finance is taxation. As such, the longer term goal must be to put government revenues on a sustainable footing, consistent with the levels of expenditure demand. Domestic revenue mobilization is key to sustainable development finance, only self-sufficiency will allow the development of fully functioning states with flourishing systems of political representation and economies representing societies' expressed preferences in regard to, for example, inequality (Cobham, 2005).

The contribution of tax to development has been a major theme in the research programs and activities of different institutions, universities and colleges. This interest was originally stimulated by a range of literature indicating the important historical role of taxation in building stable governments. In order to put governments on a sustainable footing, a broad based taxation system called Value Added Tax was introduced by many countries including Ethiopia.

For centuries past (and indeed, today in many developing countries), taxation had a simple and narrow base. Governments taxed imports and commodities, especially luxuries, with excise duties, property offered on occasional but difficult source of revenue (Vincent, 2001). To solve the aforementioned problem, different countries introduced different taxation systems.

Value Added Tax was first introduced before 50 years ago, remained confined to a handful of countries until the late 1960s, however, most countries have a VAT, which raises, on average, about 25 percent of their tax revenue (Ebrill, et al, 2001). VAT is still a relatively new tax. It was first introduced as a comprehensive national tax 50 years ago in France. Since then it has been adopted as the main form of indirect taxation by many countries in different parts of the world and at different stages of economic development (Thorony; 1960). Value Added Tax has been introduced effectively in Ethiopia on January 1, 2003 replacing sales tax. The design of the VAT legislation is intended to achieve the expected revenue projections, support capital investment and development, simplify its administration for the tax authority and the business community, and, combined with the recent reductions in the income tax rates, minimize the tax burden for the lower income population.

Economists generally favor designing the VAT so that it is a tax on consumption, in the sense that its key effect is to drive a wedge between the price that consumers pay for their purchase and the price that suppliers receive from the corresponding sales (Ebrill, et al, 2001). Value Added Tax (VAT) is increasingly being used through out the world, including many African countries to raise government revenue with less administrative costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. A central claim made by advocates of the VAT is that it is a particularly efficient form of taxation - has that actually proved to be the case? One way of testing for this is to ask whether, all else equal, countries with a VAT raise more revenue, overall, than do those without (Richard, 2005:10).

The key features of the VAT are that it is a broad based tax levied at multiple stages of production, with-crucially-taxes on inputs credited against taxes on output. That is, while sellers are required to charge the tax on all their sales, they can also claim a credit for taxes that they have been charged on their inputs. The advantages of this is that revenue is secured by being collected throughout the process of production (unlike a retail sales tax) but without distorting production decisions (as a turnover tax does) (Richard, 2005:8).

The key claim made by advocates of the VAT is that it is particularly effective way of raising tax revenue. Cnossen (1990), for example, argues that “purely from a revenue point of view, VAT is probably the best tax ever invented. Advocates have also long recognized, of course, that the VAT, like any other tax, is vulnerable to evasion and fraud, but stress distinctive features of the VAT that may make it less vulnerable than other forms of taxation (Michael K and Stephen S., 2007).

The VAT can play a pivotal role in developing modern methods of tax administration, based on effectively monitored voluntary compliance (Ebrill, et al, 2001:138). Tax compliance could be defined as the ratio of official tax payment (actually collected) to tax due (the tax liability). Low compliance level may show administrative weakness or evasion (Daniel 2003). In the case of VAT, voluntary compliance is expressed as the ratio of VAT return filers plus VAT paid filers on time to the total VAT registrant (Christophe, 2003). High voluntary compliance ratio implies that

taxpayers are aware of the penalty system and believe in its inflexibility and immediate enforcement (MoR, 2004).

The issue of self-assessment reemerged in the early 1990s, as transition economies moved toward VAT implementation with little experience of tax administration and little appreciation of what would be required to administer an accounts-based tax (Ebrill, et al, 2001:139). Modern tax systems and their administration are built on the principle of “voluntary compliance,” meaning that taxpayers are expected to comply with their basic tax obligations with only limited intervention by revenue officials. In practice, voluntary compliance is achieved through a system of “self-assessment,” under which taxpayers, with reasonable access to advice from the tax administration, calculate their own tax liabilities; complete their tax returns; submit returns and payment to the tax administration; and are then subject to risk of audit. In most countries, the development of self – assessment is closely linked to the rise of the VAT. Indeed, the real question is not how to administer a VAT in a country without the capacity to administer self – assessment, but how to implement the basic principles of self–assessment in a country willing to introduce a VAT (Richard, 2005:22-23).

A review of experience in 31 developing countries found that VAT administration is based on the concept of self assessment in 26 of them. But further analysis of the data indicated that there has been less progress than would appear (ITD, 2005). Under a system of voluntary compliance (meaning that taxpayers comply with their basic tax obligations without the intervention of a tax official) taxpayers self-assess: that is, they calculate and pay their own tax liabilities. They must complete their returns and submit them with their payments to the tax administration. One way to appreciate why self-assessment is important to an effective VAT administration is to consider the impact of not having self-assessment (*Ebrill, et al, 2001:138 - 40*).

In many countries, especially developing and in transition, audit performance is reported to be a particularly poor aspect of VAT administration. The evidence is that several of the developing countries which adopted the VAT in the last 10 – 15 years do not yet have effective audit programs. And, for those that do have some elements of such a program, it is often dominated by a pre-refund verification. There is also a tendency for these countries to try to offset weak audit by adopting complex procedures, such as increased filing requirements and massive cross-

checking of audit. These compound administrative difficulties and add to compliance costs. Without effective audits, VAT compliance deteriorates and the credibility of tax administration suffers. Strengthening audit is thus a key challenge, particularly in developing countries (MoR, 2004:24).

The most common types of VAT evasion parallel those associated with traditional sales taxes – non registration of businesses, underreporting of gross receipts, abuse of multiple rates, and non – remittance of tax collected to the tax authorities – but there are additional types of evasions arising from the nature of the VAT. These include the use of fake invoices and the claiming of VAT credits for noncredit able purchases (MoR, 2004:25).

Advanced administrations have found that a well-designed audit program is critical to reducing the extent of VAT fraud and evasion, simply because potential fraudsters are deterred by the belief that they stand a reasonable chance of detection and punishment (MoR, 2004:25). According to Michael K. and Ben L. (2007), a key claim made by proponents of the VAT, especially for developing countries, has been that it would enhance efforts to mobilize much needed tax revenue, not only directly but through wider improvements in tax administration and compliance. Legislative approaches to dealing with administrative and procedural provisions of tax laws vary markedly from state to state. It is therefore difficult to provide any general form of provision for the procedure that must be associated with the collection of VAT by the tax authorities. In general, there are distinct advantages to combining, as far as possible, the procedure and administration of VAT with that of other taxes. If this is done, then the matter can be dealt with in common laws dealing with taxes generally and with compatible procedures. This is more efficient for the administration and easier for taxpayers to understand (IMF, 1996).

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

Recording of taxes and taxpayers, collection of taxes, duties and other government imposed statutory fees is the basic task of the tax administration activity. Collection of tax will be efficient if a possibly larger amount of tax payers is reached fulfilling their tax liabilities voluntarily (Riga, 2004).

Governments are introducing VAT mainly because it is important for the development process. But, to be specific, VAT has the following importance.

- Possibility of the evasion shall significantly be reduced under the VAT, since every transaction is made using VAT invoice that provides the means for varying VAT amounts due and payable;
- The introduction of VAT the problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden that exists with the sales tax it replaced in most countries;
- VAT replaces the existing system of inspection (and the harassment by the sales tax staff) by a built in self-assessment and auditing;
- VAT allows the tax system to be more broad based, getting the tax structure simpler and more transparent and, therefore, improves tax compliance and revenue growth will get a boost;
- VAT encourages export and investment, as these activities are, in most countries, zero-rated and exempted, respectively;
- VAT has also significant impact in curbing illegal/elicits trade.

A more fundamental question about VAT is whether there are better ways of specifying threshold than in terms of turnover. This is easily achieved under the subtraction form of VAT. One can simply tax value added above some threshold, exactly the same structure as in normal under the income tax (Ebrill, et al, 2001:13). In Ethiopia, the VAT registration threshold is based on annual turnover of taxable goods and services of Ethiopian Birr 500,000 on the premise that the taxpayers with this turnover level of business activity will maintain the required books and

records as a normal business practice and will be able to cope with the VAT requirements. The law also allows voluntary registration for those who regularly supply or render at least 75% of their goods and services to registered persons. This implies existence of both obligatory and voluntary registration for VAT.

According to Ebrill (2001), the choice of threshold has provided a crucial element of VAT design. These are:

“Experience indicates that setting too low a threshold can significantly compromise the political and administrative feasibility of a VAT. This, together with the remarkable degree to which the VAT base is concentrated among a relatively small number of taxpayers, and the limited administrative capacity in many countries, lends support to setting a relatively high threshold (especially at the time of introduction). On the other hand, countries appear more inclined to differential thresholds by sector. In addition, the tax treatment of those below the VAT threshold has received scant attention, and practice, varies, through countries quite frequently adopt simplified methods for small traders.”

Most developing countries are dependent on external resources to finance their development endeavors. As a result, the budget problem becomes more aggravated from time to time. To change this situation, they should exploit and strengthen their domestic resource base to bring about sustainable development. Otherwise, it is difficult to achieve profound growth depending on external sources. External sources, with their uncertainty, instability and unsuitability, couldn't be taken as the major sources of development.

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 many countries, the introduction of VAT has been seen to afford an opportunity to improve substantially the general tax administration through the introduction of more effective procedures, which can be extended to the entire tax system. On occasion, however, the introduction of the VAT has actually disrupted the existing administration because of inadequate preparations, including in establishing a proper VAT organization (Ebrill, et al, 2001:125). This shows that clear decisions regarding the organization of the tax administration are central to the effective operation of the VAT and the modernization of the entire tax system.

In developing countries the poor performance of taxes is likely to be due to weak tax administration (that is, the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. 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, 2005). One ought to consider the tax administration dimension discussing the importance of the tax administration in general, Bird (1989 and 2004) noted that the tax administration dimension ought to be placed at the center, not periphery, of tax reform. Jantscher (1990:179) also stated that "...in developing countries tax administration is tax policy."

Considering the significance of the 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). These papers assessed how VAT administrators in developing and transitional countries perform their duties and how the effective taxpayer requirements differ from the legislation. More specifically, the analyses focused on practices of different developing countries with respect to taxpayer identification, invoicing, filing and payment process, control of filing and payments, refunds, audits and penalties. In addition, the costs of VAT administration were briefly examined in the case of Jantscher's (1990) study. The main conclusion of the studies is that VATs prevailing in developing countries were quite different from the broad based tax discussed in public finance literature and that administrative

problems have a major contribution to this divergence. Administrative problems, in turn, may be partly caused by administrative resources constraint.

The VAT is administered by the domestic tax administration in the majority of the surveyed countries (29 out of 36), reflecting the uncontroversial decision of the authorities to administer the VAT in the same domestic tax department as the previous sales or turn over taxes. In these cases, discussions focused on the respective merits of establishing separate VAT offices or administering the VAT, with the income tax, in function based offices (Ebrill, 2001:126). In the Ethiopian case, based on the Business Process Re-engineering (BPR), offices and tasks are rearranged so that they can be process based instead of function based.

The Inland Revenue and Custom's Authority of the Mekelle branch has generated millions of birr within a relatively short period of time. But in order the concerned bodies to strengthen the strong points and then correct the weak points, there must be a sound research which is systematically conducted.

The objectives of this research is then to assess or examine the Value Added Tax (VAT) administration and revenue performance of Mekelle Branch of the Ethiopian Revenue and Customs Authority and to identify the basic constraints and challenges that hinder the smooth implementation of VAT at the Branch office and suggest possible remedial measures for the identified problems. In addition, it also has an objective of identifying the mechanisms that enable enhance revenue generation in the form of VAT.

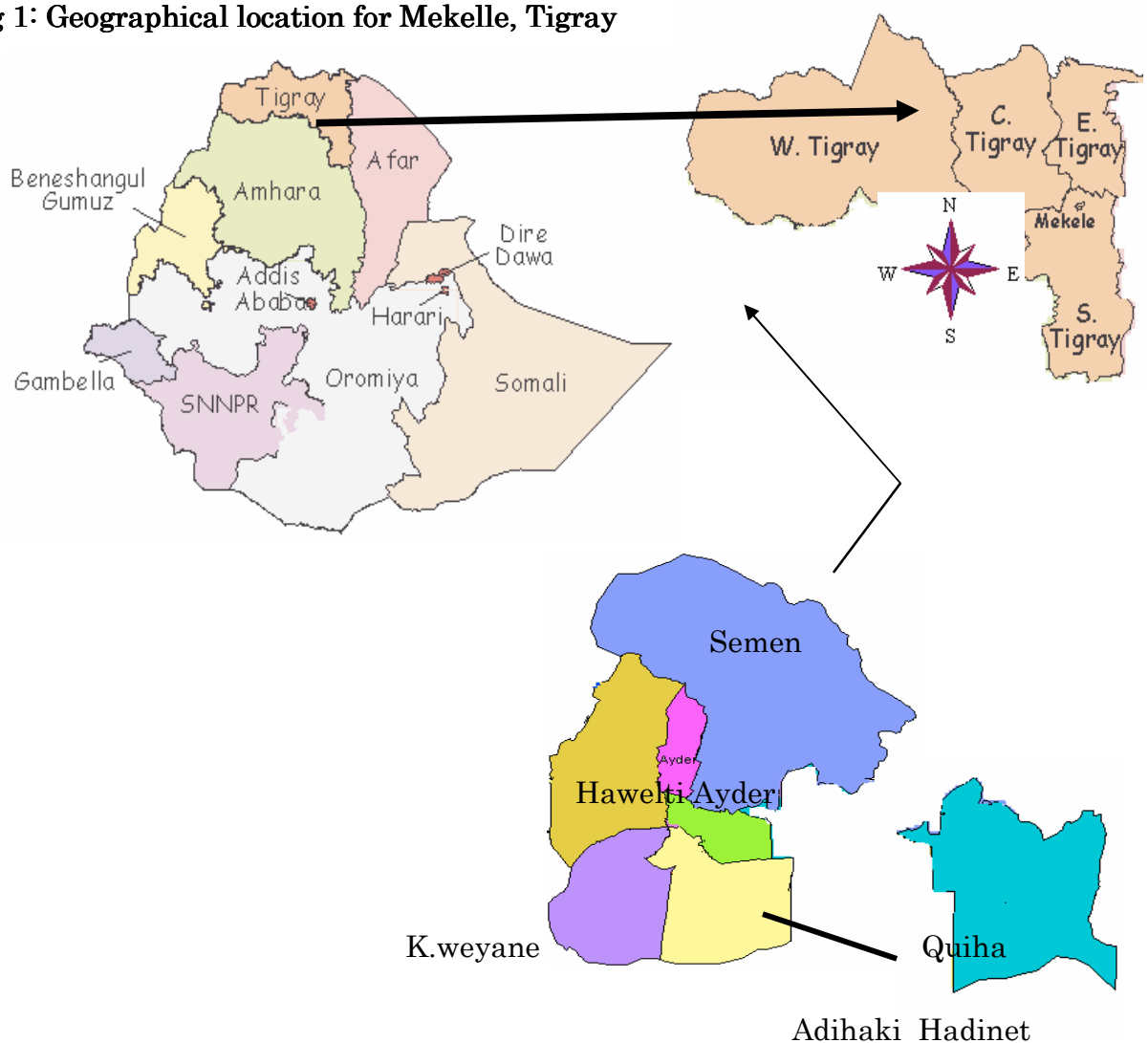


# CHAPTER THREE: DATA SOURCE AND METHODOLOGY

## 3.1 Site Selection and Description

The study site is Mekelle City, mainly because the researcher was working as a head of the Mekelle branch office of the Ethiopian Revenue and Custom Authority (ERCA) starting from its period of establishment. The geographic location of the Mekelle city is given below.

**Fig 1: Geographical location for Mekelle, Tigray**



Source: Tigray BoFED, GIS Department (Adopted from Tsega.009)

In the study, both primary and secondary data sources are employed. In addition, both qualitative and quantitative data are gathered and then analyzed. The following detailed methodologies show the procedures and techniques that the research used.

### 3.2 Primary data

**A. Target Population:** The target populations of the study are the people that are VAT registered and paying at the Mekelle branch office of the Revenue and Custom Authority.

**B. Sample Size:** The study was conducted by taking about 120 of the total VAT payers. These are taken using stratified random sampling technique from the overall list of VAT registered ones. In Mekelle zone there are 295 companies with legal entities and 208 sole-proprietors. Out of these, a **systematic random sample of 70** with legal entities and 50 sole-proprietors are taken and interviewed. From the tax officers also, 20 persons that are working in different positions were required to fill questionnaires. In addition, discussions were made with five persons working in the office focusing to the issue at hand.

**C. Sampling Technique:** The 120 VAT registered ones are selected using systematic random sampling after the VAT registered is stratified by their type (those that have legal entity and those that are sole-proprietors).

**D. Data Collection:** In the study, both primary and secondary data sources are used.

- **Methods of collecting primary data:** The researcher used the following methods of collecting primary data:
  - a) **Observation:** Observation is one of the important data collection techniques in a qualitative research. Therefore, a period of time was spent in the office observing how customers are treated, handled and how effective the services provided are. This enabled me to cross-check what the respondents reported about service delivery.
  - b) **Face-to-face Interviews:** In-depth interviewing was the other most important data collection technique of the study. Hence this study utilized quantitative and

qualitative interviews emphasizing on the active participation of interviewees, and the importance of giving the interviewee voice in the point of discussion.

### **3.3 Secondary Data**

Some of the methods used for collecting secondary data are: Reports, official documents, publications and other forms of literatures, that are available about VAT are be collected and integrated with the data obtained from the primary sources. The data from all available sources that were utilized during the research process and are integrated and collected, to conclude the data collection stage.

### **3.4 Data Analysis**

The data analysis started while the interviews are still under way. The preliminary analysis helped the researchers to redesign the questions to focus on central themes as he continues interviewing. After the interviewing is complete, the researcher has done a more detailed analysis of what the observational partners which are the VAT registered tax payers tell about the issue. A computer tool was used as an aid in the management of textual data, for processing, storage and retrieval of information, as well as other function that these programs offer. Different measures of descriptive statistics such as statistical tables, mean, median and mode are used as tools in the analysis. As part of trend analysis, data of the last five years (1997 – 2001 E.C) were gathered and analyzed and emphasis to trends.

### **3.5 Report Writing and Quality Assurance**

As part of the data quality assurance, the trustworthiness of the results was ensured by careful selection of informants using a scientific method and establishing good rapport by the researcher. The research also used a combination of methods or sources of data (triangulation) as a way of guarding against the Researchers' biases and checking out accounts from different informants. All the survey instruments were also pre-tested before actual data collection is administered.

# CHAPTER FOUR: RESULTS AD DISCUSSION

## 4.1 Responses from the Taxpayers

### 4.1.1 Background information

The socioeconomic and demographic characteristics of the respondents determine their attitude and their attitude in turn determines the way they react to policies and strategies. VAT is one of the newly introduced mechanisms of generating revenue and was introduced before seven years. At the beginning of the introduction of the VAT, some sort of resistance was observed. But, after exerting efforts, changes were observed. But still observations show that there are some members of the business community who resisted to get registered for VAT. Sex, age, educational level and other factors are expected to influence the attitude of the respondents towards such newly introduced policies and strategies.

In the study, 120 tax payers who are registered for VAT were interviewed. Out of these, 95 (79.2 percent) were males and 25 (20.8 percent) were females. Please refer table 1 for details.

**Table 1: Number of tax payers interviewed by sex and type of ownership.**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Type and ownership of the organization:	Sole-proprietorship	58	61.1%	12	48.0%	70	58.3%
	Have Legal Entity	37	38.9%	13	52.0%	50	41.7%
Group Total		95	100.0%			120	100.0%

When we look at the type of ownership of the organizations studied, 70 (58.3 percent) were sole-proprietorship and the remaining 50(41.7 percent) were having legal entity.

The age of the respondents varies from 19 years to 72 years. Refer table 2 for details.

**Table 2: Age of the respondents by sex.**

	Sex of the respondent:				Group Total		
	Male		Female		Count	Col %	
	Count	Col %	Count	Col %			
Age of the respondent:	19		1	4.0%	1	.8%	
	22	3	3.2%		3	2.5%	
	23	6	6.3%	2	8.0%	8	6.7%
	24	7	7.4%	7	28.0%	14	11.7%
	25	11	11.6%	4	16.0%	15	12.5%
	26	1	1.1%	1	4.0%	2	1.7%
	27	5	5.3%	2	8.0%	7	5.8%
	28	4	4.2%	1	4.0%	5	4.2%
	29	2	2.1%			2	1.7%
	30	9	9.5%			9	7.5%
	31	1	1.1%			1	.8%
	32	7	7.4%			7	5.8%
	33	1	1.1%	2	8.0%	3	2.5%
	34	4	4.2%			4	3.3%
	35	5	5.3%	3	12.0%	8	6.7%
	36	4	4.2%			4	3.3%
	38	3	3.2%			3	2.5%
	40	3	3.2%	1	4.0%	4	3.3%
	41	1	1.1%			1	.8%
	42	2	2.1%			2	1.7%
	43	3	3.2%			3	2.5%
	44	3	3.2%			3	2.5%
	45	2	2.1%	1	4.0%	3	2.5%
	48	2	2.1%			2	1.7%
	49	1	1.1%			1	.8%
	52	2	2.1%			2	1.7%
	68	2	2.1%			2	1.7%
	72	1	1.1%			1	.8%
Group Total		95	100.0%	25	100.0%	120	100.0%

The average age of the respondents was also calculated and results show that female respondents are younger (by at least 5 years) than the male respondents. The mean, median and modal ages of the respondents are 32 years, 30 years and 25 years respectively. Refer table 3 for details.

**Table 3: Average age of the respondents by sex.**

			Count	Col %	Maximum	Mean	Median	Mode	Minimum
Sex of the respondent:	Male	Age of the respondent:	95	79.2%	72	33	30	25	22
	Female		25	20.8%	45	28	25	24	19
Group Total			120	100.0%	72	32	30	25	19

The maximum age of the respondents is 72 years for males and 45 years for females. The mean age of the males and females is 33 and 28 years respectively. In addition, the median age of the males and the females is 33 and 28 years respectively. The modal age of the males and females is 25 years and 24 years respectively.

Educational level of the respondents was also studied and results show that out of the 120 respondents, 2(1.7%) are illiterate, 4(3.3%) elementary school, 19(15.8%) high school and 38(31.7%) are diploma holders. In addition, 55(45.8%) had first degree and 2(1.7%) had second degree and above. Refer table 4 for details.

**Table 4: Educational level of the respondents by sex.**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Educational level of the respondent:	Cannot read and write	2	2.1%			2	1.7%
	Elementary School [Grade 1 - 8]	4	4.2%			4	3.3%
	Secondary School [Grade 9 - 12]	17	17.9%	2	8.0%	19	15.8%
	Diploma	29	30.5%	9	36.0%	38	31.7%
	First Degree	42	44.2%	13	52.0%	55	45.8%
	Second Degree and above	1	1.1%	1	4.0%	2	1.7%
Group Total		95	100.0%			120	100.0%

30.5 percent of the males and 36 percent of the females had diploma. In addition, 44.2 percent of the males and 52 percent of the females had first degree. The educational level of those that have legal entity seems to be better than that of sole-proprietorship. Refer table 5 for details.

**Table 5: Educational level of the respondents by type of ownership.**

		Type and ownership of the organization:				Group Total	
		Sole-proprietorship		Have Legal Entity		Count	Col %
		Count	Col %	Count	Col %		
Educational level of the respondent:	Cannot read and write	2	2.9%			2	1.7%
	Elementary School [Grade 1 - 8]	4	5.7%			4	3.3%
	Secondary School [Grade 9 - 12]	11	15.7%	8	16.0%	19	15.8%
	Diploma	22	31.4%	16	32.0%	38	31.7%
	First Degree	29	41.4%	26	52.0%	55	45.8%
	Second Degree and above	2	2.9%			2	1.7%
Group Total		70	100.0%	50	100.0%	120	100.0%

31.4 percent of those that are sole-proprietorship and 32 percent of those who have legal entities have diploma. In addition, 41.4 percent of those who are sole-proprietorship and 52 percent of those who have legal entity have first degree.

The relationship of the respondents with the organization was also studied and results show 71(59.2%) are owners and 49(40.8%) are employees. Refer table 6 for details.

**Table 6: Relationship of the respondents with the organization by sex.**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Relationship with the organization:	Owner	64	67.4%	7	28.0%	71	59.2%
	Employee	31	32.6%	18	72.0%	49	40.8%
Group Total		95	100.0%			120	100.0%

When analyzed by the sex of the respondents, 67.4 percent of the males and 28 percent of the females are owners. In addition, 32.6 percent of the males and 72 percent of the females are employees of the organizations.

#### **4.1.2 VAT Registration and Attitude towards VAT Registration**

As stated in the background information, in Ethiopia VAT was introduced before 7 years and all of the organizations studied were VAT registered and they were asked about the number of years after the organization is registered for VAT. The number of years varies from 1 to 7 years. Out of the 120 respondents, 27(22.5 percent) were registered within one year time from the study period and 44.5 percent were registered within two years time from the time of the study. Details are given in table 7 below.

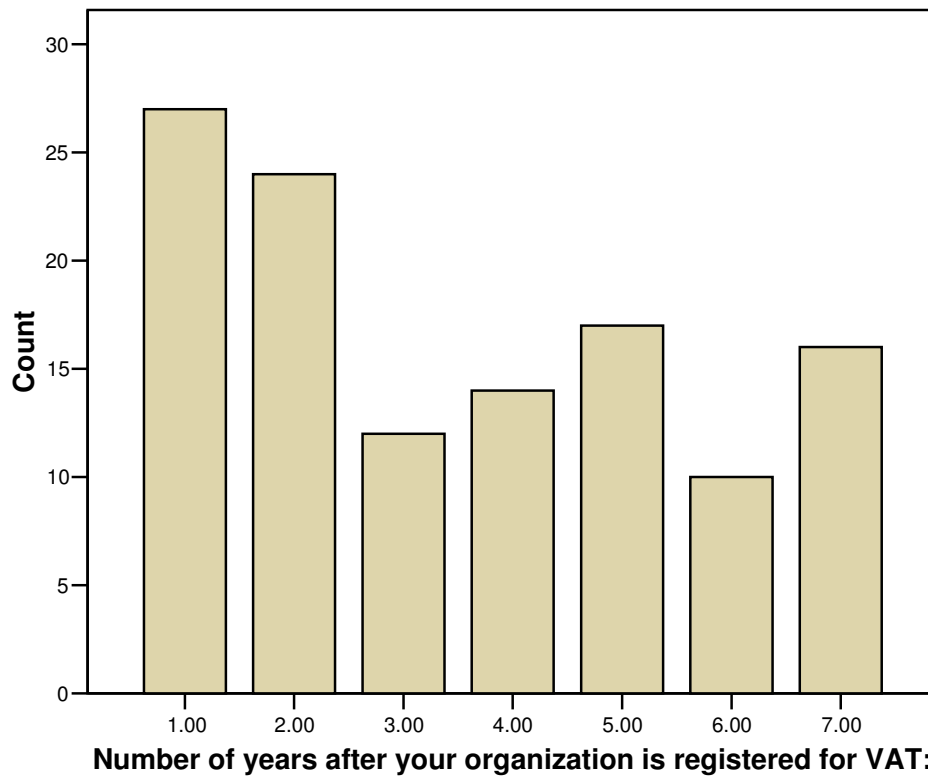
**Table 7: Number of years after the organization is registered for VAT.**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Number of years after your organization is registered for VAT:	1.00	24	25.3%	3	12.0%	27	22.5%
	2.00	18	18.9%	6	24.0%	24	20.0%
	3.00	7	7.4%	5	20.0%	12	10.0%
	4.00	12	12.6%	2	8.0%	14	11.7%
	5.00	15	15.8%	2	8.0%	17	14.2%
	6.00	8	8.4%	2	8.0%	10	8.3%
	7.00	11	11.6%	5	20.0%	16	13.3%
Group Total		95	100.0%	25	100.0%	120	100.0%

More than half of the organizations (52.5 percent) have registered for VAT within three years and nearly two-third (64.2%) have registered for VAT within four year time.

The bar graph representing the above table is given below.

**Fig 1: Number of years after the organization is registered for VAT.**





From the graph, it can easily be observed that many of the VAT registered ones are registered within one and two years time. This may show that many more have to still get registered for VAT, as it is a recent phenomenon.

The mean and median number of years after the organizations are registered for VAT is 3.53 and 3.00 years respectively. Refer table 8 for details.

**Table 8: Average number of years after getting registered for VAT by type of ownership.**

			Count	Col %	Mean	Median
Type and ownership of the organization:	Sole-proprietorship	Number of years after your organization is registered for VAT:	70	58.3%	3.81	4.00
	Have Legal Entity		50	41.7%	3.14	2.00
Group Total			120	100.0%	3.53	3.00

The mean and median number of years for the sole-proprietorship is 3.81 years and 4.00 years respectively. In addition, the mean and median number of years after the organizations that have legal entity are registered for VAT is 3.14 and 2 years respectively.

The attitude of the respondents towards the advantages of VAT registration was also studied. One-fourth (25%) of the respondents reported that their awareness is very high and 30(25%) others also rated their awareness towards VAT as high. Hence, out of the 120 respondents 60(50%) reported their awareness about VAT is either high or very high. Out of the 120 respondents, 51 (42.5%) reported that their awareness about VAT is somehow average. Only 7.5 percent of the respondents reported their awareness level as low or very low. Please refer table 9 for details.

**Table 9: Awareness of the respondents towards VAT.**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Your awareness about VAT:	Very high	23	24.2%	7	28.0%	30	25.0%
	High	25	26.3%	5	20.0%	30	25.0%
	Average	39	41.1%	12	48.0%	51	42.5%
	Low	4	4.2%			4	3.3%
	Very low	4	4.2%	1	4.0%	5	4.2%
Group Total		95	100.0%			120	100.0%

8.4 percent of the males and only 4 percent of the females reported that their awareness level about VAT is low or very low. The level of awareness was also studied by the type of ownership

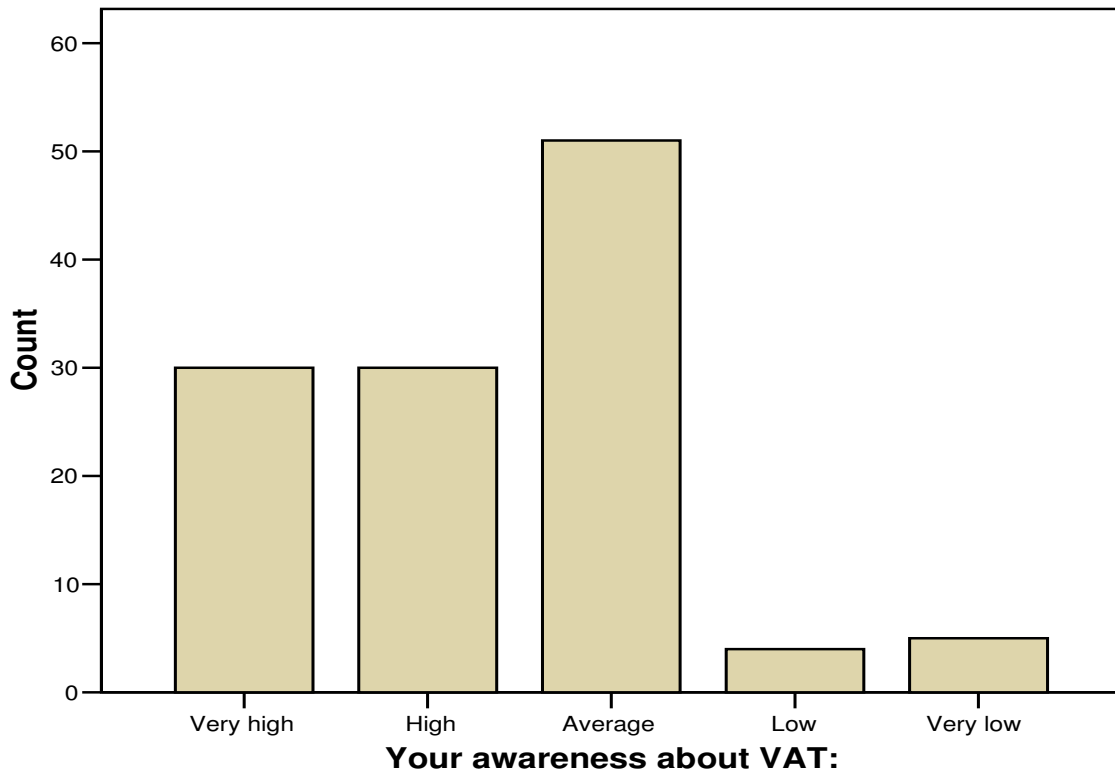
of the organizations and results show that the awareness of 94.9 percent of the organization that are sole-proprietorship and 88 percent of those that have legal personality reported that their awareness about VAT is average, high or very high, as depicted in table 10 below.

**Table 10: Awareness of the respondents about VAT by type of organization.**

		Type and ownership of the organization:				Group Total	
		Sole-proprietorship		Have Legal Entity		Count	Col %
		Count	Col %	Count	Col %		
Your awareness about VAT:	Very high	16	22.9%	14	28.0%	30	25.0%
	High	21	30.0%	9	18.0%	30	25.0%
	Average	30	42.9%	21	42.0%	51	42.5%
	Low	2	2.9%	2	4.0%	4	3.3%
	Very low	1	1.4%	4	8.0%	5	4.2%
Group Total		70	100.0%	50	100.0%	120	100.0%

On the other hand, 4.3 percent of those that are sole-proprietorship and 12 percent of those that have legal entity reported that their awareness about VAT is either low or very low. The bar graph depicting the awareness level of the respondents as reported by themselves is given below.

**Fig 2: Awareness of the respondents towards VAT as reported by themselves.**



The awareness of the respondents was also analyzed by the relationship of the respondents to the respective organizations. It seems that the employees have a better awareness about VAT than the owners; 46.4 percent of the owners and 55.1 percent of the employees have reported that their awareness about VAT is high or very high. Refer table 11 for details.

**Table 11: Awareness of the respondents about VAT by their relationship to the organizations.**

		Relationship with the organization:				Group Total	
		Owner		Employee		Count	Col %
		Count	Col %	Count	Col %		
Your awareness about VAT:	Very high	16	22.5%	14	28.6%	30	25.0%
	High	17	23.9%	13	26.5%	30	25.0%
	Average	32	45.1%	19	38.8%	51	42.5%
	Low	2	2.8%	2	4.1%	4	3.3%
	Very low	4	5.6%	1	2.0%	5	4.2%
Group Total		71	100.0%			120	100.0%

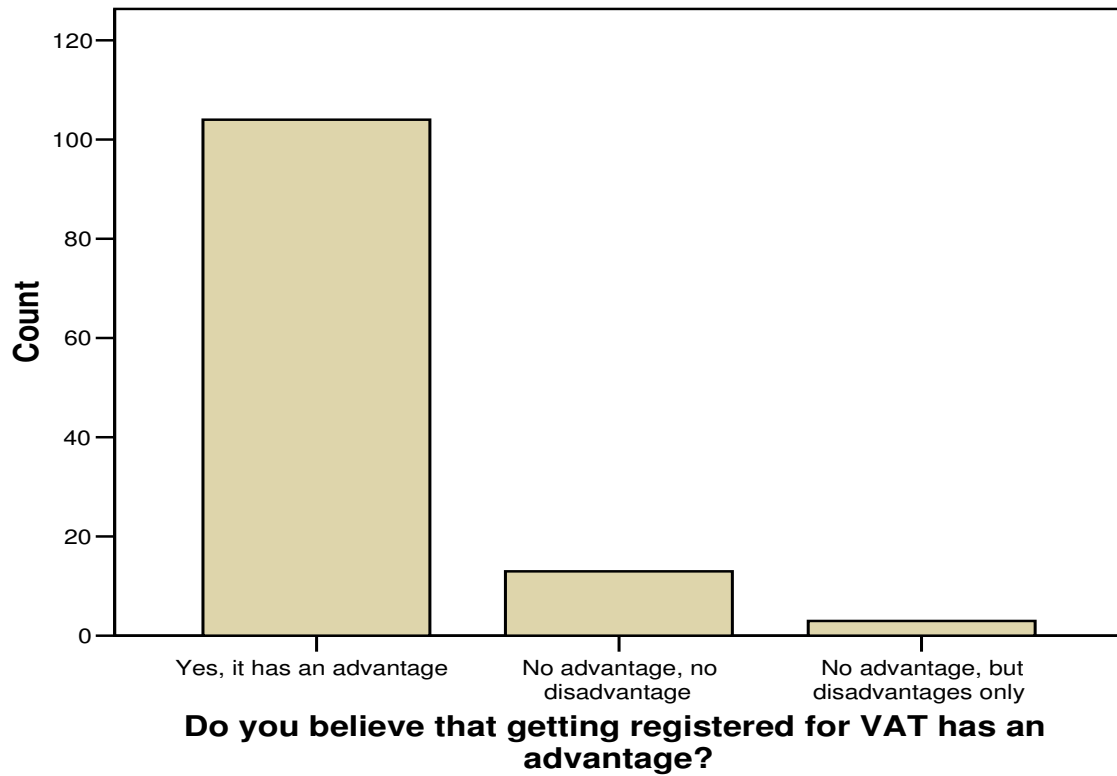
On the other hand, 8.4 percent of the owners and 6.1 percent of the employees reported that their awareness about VAT is either low or very low. Out of the 120 respondents 104 (86.7 percent) reported that getting registered for VAT has an advantage. It seems that the higher proportion of the employees (93.9%) do believe that getting registered for VAT has an advantage than the owners (81.7%). Refer table 12 for details.

**Table 12: Whether or not getting VAT registered has an advantage by their relationship to the organizations.**

		Relationship with the organization:				Group Total	
		Owner		Employee		Count	Col %
		Count	Col %	Count	Col %		
Do you believe that getting registered for VAT has an advantage?	Yes, it has an advantage	58	81.7%	46	93.9%	104	86.7%
	No advantage, no disadvantage	11	15.5%	2	4.1%	13	10.8%
	No advantage, but disadvantages only	2	2.8%	1	2.0%	3	2.5%
Group Total		71	100.0%			120	100.0%

2.8 percent of the owners and 2 percent of the employees explained that getting registered for VAT has no advantage and it only has a disadvantage advantage. The above table is presented on a simple bar graph as follows.

**Fig 3: Whether or not getting registered for VAT has an advantage.**



Some of the reasons why 86.7 percent of the respondents reported that getting registered for VAT has an advantage are:

- Priority is given to those who are VAT registered in tenders and bids,
- Has an advantage for the development of the nation,
- The money collected through VAT is used for infrastructure development and that in turn facilitates our business.
- It is an obligation of any body who is eligible for that,
- There cannot be a stable government with out tax and VAT is one of the main sources of tax,

- It is very useful for the development process and the development process also benefits business persons,
- It is a source of civilization; as the provision of education and other services can only be possible by collecting taxes,
- It gives freedom and freedom is the source of success,
- Enhances quality of services delivered by the government,

Out of the 120 respondents only 3 (2.5 percent) reported that getting registered for VAT has no advantage and it only has disadvantages. The reasons that they said for this is that:

- Not all business people are registered for VAT and competition becomes unfair,
- Not all people have similar awareness about the mode of its implementation,

The tax payers were also asked whether or not those who have to get VAT registered are registered or not. Out of the 120 respondents only 9(7.5%) reported that those who should get registered for VAT are registered. Refer table 13 for details.

**Table 13: Whether or not those who have to get VAT registered have registered or not.**

	Relationship with the organization:				Group Total		
	Owner		Employee		Count	Col %	
	Count	Col %	Count	Col %			
Do you think that all those who should get registered for VAT are registered?	Yes	6	8.5%	3	6.1%	9	7.5%
	No	65	91.5%	46	93.9%	111	92.5%
Group Total		71	100.0%			120	100.0%

91.5 percent of the owners and 93.9 percent of the employees explained not all of those who should get registered for VAT are registered.

The tax payers were also asked about the reasons why many organizations are not VAT registered. More than half (53.3%) explained that the main reason for at least some of them not to get registered for VAT is low awareness and lack of information on the side of the leaders of the organizations. 54.9 percent of the owners and 51 percent of the employees explained that low

awareness and lack of information are the reasons for many not to get registered for VAT. Refer table 14 for details.

**Table 14: Reasons why at least some of the organizations are not VAT registered.**

		Relationship with the organization:				Group Total	
		Owner		Employee		Count	Col %
		Count	Col %	Count	Col %		
What do you think is the reason for at least some of them not to get registered for VAT?	Low awareness and lack of information	39	54.9%	25	51.0%	64	53.3%
	Selfishness of the people	19	26.8%	11	22.4%	30	25.0%
	Poor capacity of the government bodies who are in charge of	9	12.7%	9	18.4%	18	15.0%
	Other (specify)____	4	5.6%	4	8.2%	8	6.7%
Group Total		71	100.0%			120	100.0%

One-fourth (25%) explained that the main reason for at least some of them not to get VAT registered is selfishness; 26.8 percent of the owners and 22.4 percent of the employees agree with this idea. 15 percent of the respondents also explained that poor implementation capacity of the government bodies who are in charge of VAT is the reason why at least some of the organizations are not VAT registered. The line graph depicting the above information is given below.

**Fig. 4: Reasons why many organizations and business people are not registered for VAT.**



From the above graph, one can easily understand that the main reason is lack of awareness and information followed by selfishness of the people and then poor capacity of the government bodies who are responsible for that specific task.

#### 4.1.3 Revenue that should be collected

From the findings discussed above, had all those who should get registered for VAT been registered, nearly one-third (32.5 percent) of the tax payers reported that income of the branch office would increase by more than fifty-percent. Table 15 presents the details.

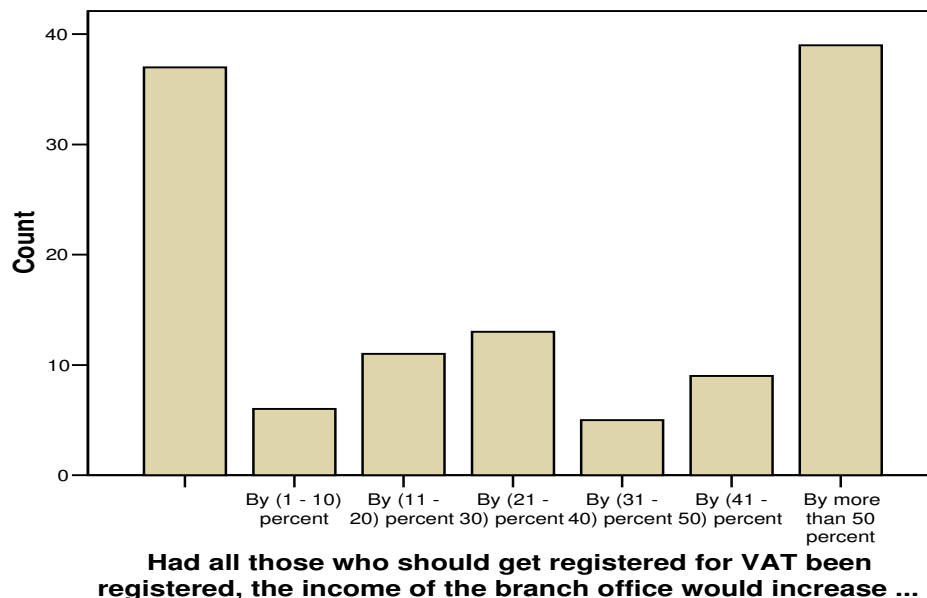
**Table 15: Had every organization eligible for VAT been registered, income of the branch office would increase by:**

	Relationship with the organization:				Group Total		
	Owner		Employee		Count	Col %	
	Count	Col %	Count	Col %			
Had all those who should get registered for VAT been registered, the income of the branch office would increase by:							
	By (1 - 10) percent	20	28.2%	17	34.7%	37	30.8%
	By (11 - 20) percent	2	2.8%	4	8.2%	6	5.0%
	By (21 - 30) percent	5	7.0%	6	12.2%	11	9.2%
	By (31 - 40) percent	8	11.3%	5	10.2%	13	10.8%
	By (41 - 50) percent	4	5.6%	1	2.0%	5	4.2%
	By more than 50 percent	7	9.9%	2	4.1%	9	7.5%
Group Total		25	35.2%	14	28.6%	39	32.5%
		71	100.0%			120	100.0%

55.2 percent of the respondents explained that had all those who should get registered for VAT been registered, income of the branch office would increase by more than 20 percent. 45.1 percent of the owners and 32.7 percent of the employees explained that had all those who should get registered for VAT been registered, income of the branch office would increase by more than 50 percent. This is presented using bar graph as follows.



**Fig 5: Percentage that income of the branch office would increase, as reported by the taxpayers.**



#### 4.1.4 VAT Vs Turn Over Tax

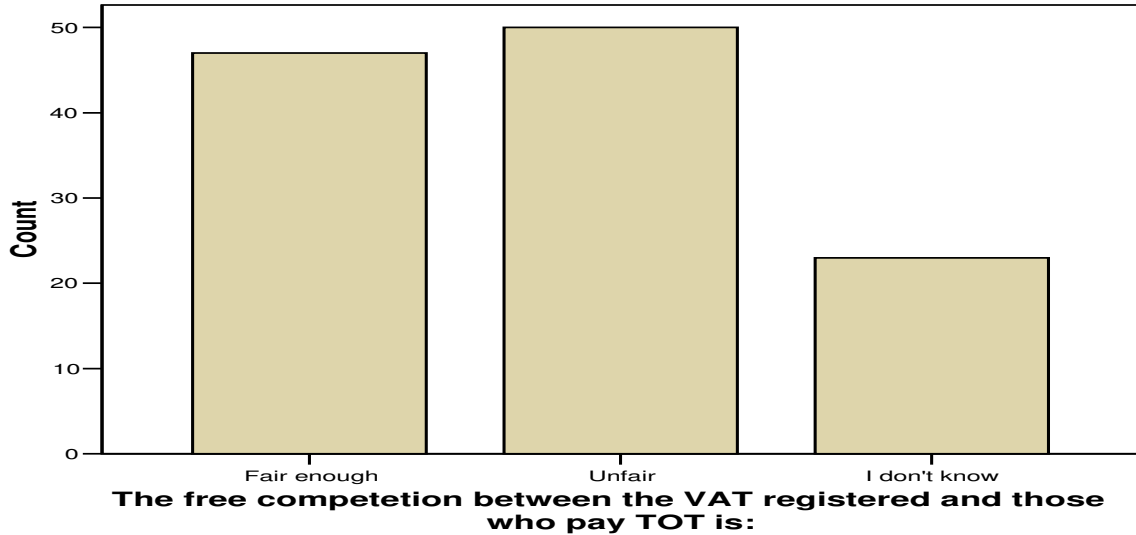
No doubt those organizations that have the same commodity but registered for VAT and TOT have some sort of competitions among themselves. Policy makers have to ensure that such competitions are fair enough. Out of the 120 taxpayers interviewed, 47(39.2%) reported that the free competition between those that are VAT registered and TOT payers is fair enough. Please refer table 16 for details.

**Table 16: Competition between the VAT registered and TOT payers.**

		Relationship with the organization:				Group Total	
		Owner		Employee		Count	Col %
		Count	Col %	Count	Col %		
The free competition between the VAT registered and those who pay TOT is:	Fair enough	25	35.2%	22	44.9%	47	39.2%
	Unfair	30	42.3%	20	40.8%	50	41.7%
	I don't know	16	22.5%	7	14.3%	23	19.2%
Group Total		71	100.0%			120	100.0%

On the other hand, 41.7 percent of the taxpayers explained that the competition between the VAT registered and the TOT payers is unfair. 42.3 percent of the owners and 40.8 percent of the employees explained that the competition is unfair.

**Fig 6: Competition between the VAT registered and TOT payers as reported by the tax payers.**



It can be observed from the graph that many taxpayers are reporting that the competition between the VAT registered and TOT payers is unfair. The reasons for that are explained below.

The taxpayers were asked about the reasons why they reported that the competition is unfair and some of the reasons are given as follows:

- The concerned bodies do not take it seriously,
- No tax specific awareness raising activities are made on the TOT payers,
- The awareness level of the VAT registered and TOT payers is not similar,
- The punishments and other consequences of not respecting rules and regulations such as deadline is not the same,
- For reasons that we do not exactly know,

The way the TOT payers use receipts was also another point of interest of the study. Accordingly, the respondents were required to evaluate the way the TOT payers use receipts in their day to day

activities. Out of the 120 tax payers, 10(8.3 percent) reported that the way the TOT payers use receipts is very good and 11(9.2 percent) reported that it is good. Please refer table 17 for details.

**Table 17: The way TOT payers use receipts.**

	Relationship with the organization:				Group Total		
	Owner		Employee		Count	Col %	
	Count	Col %	Count	Col %			
The way the TOT payers use receipts is:							
	Very good	15	21.1%	10	20.4%	25	20.8%
	Good	7	9.9%	3	6.1%	10	8.3%
	Average	9	12.7%	2	4.1%	11	9.2%
	Poor	18	25.4%	14	28.6%	32	26.7%
	Very poor	11	15.5%	16	32.7%	27	22.5%
		11	15.5%	4	8.2%	15	12.5%
Group Total		71	100.0%			120	100.0%

About one-fourth (26.7 percent) of the respondents explained that the way the TOT payers use receipts is average. On the other hand, more than one-third (35%) of the tax payers explained that the way TOT payers use receipts is poor or very poor. 31 percent of the owners and 40.9 percent of the employees reported that the way the TOT payers use receipts is poor or very poor.

The respondents were also asked to indicate the reasons for the poor usage of the receipts on the side of the TOT payers. Some of the reasons are summarized as follows.

- Lack of appropriate information,
- Low knowledge on how to use receipts,
- No enforcement is made on the side of the government so that they can use receipts appropriately,
- Some of them use two different types of receipts,
- They have a lot of complaints,
- Their knowledge and skill about tax and the way taxes are handled is limited,

Enhancing the awareness of the tax payers is a task that needs to be performed by every citizen. But, concerned offices and authorities have to play major roles in this regard. Out of the 120

respondents, 60 (50%) reported that trials are made by the branch office to raise the awareness of the respondents. Please refer table 18 for details.

**Table 18: Trials made by the branch office to enhance awareness.**

		Relationship with the organization:				Group Total	
		Owner		Employee		Count	Col %
		Count	Col %	Count	Col %		
Are there trials made by the branch office to enhance the awareness of the tax payers:	Yes	33	46.5%	27	55.1%	60	50.0%
	No	19	26.8%	10	20.4%	29	24.2%
	I don't know	19	26.8%	12	24.5%	31	25.8%
Group Total		71	100.0%			120	100.0%

Nearly one-fourth (24.2 percent) reported that no such an effort of awareness raising is exerted by the branch office. Above one-fourth (25.8%) also reported that they do not know whether or not such efforts of awareness raising are exerted by the branch office. As explained by the taxpayers, some of the reasons for those who reported that no such awareness raising efforts were exerted are:

- They don't care about the awareness of the customers. They only want to collect money without giving the needed services.
- There are things that need to be improved.
- They do not go to the public and they want the public to come to them.
- They should prepare short trainings to the taxpayers.
- There should be a coordination and joint effort between the taxpayers and the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA).
- We have never been invited to such forums,
- Most of the taxpayers have no needed information,
- The only source that we have is the Ethiopian Television and other medias,

#### 4.1.5 Service Delivery of the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA)

The taxpayers were given the chance to evaluate the overall the performance of the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA). Sixty percent of the respondents reported that the service delivery of the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA) is good or very good and 24.2 percent explained that it is average. Refer table 18 below for details.

**Table 19: Overall evaluation of the taxpayers to the the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA).**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Generally, how do you evaluate the service delivery of the branch office?	Very good	10	10.5%	2	8.0%	12	10.0%
	Good	26	27.4%	3	12.0%	29	24.2%
	Average	33	34.7%	10	40.0%	43	35.8%
	Poor	21	22.1%	8	32.0%	29	24.2%
	Very poor	2	2.1%	2	8.0%	4	3.3%
Group Total		3	3.2%			3	2.5%
		95	100.0%			120	100.0%

Only 5.8 percent of the respondents reported that the service delivery of the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA) is poor or very poor. 5.3 percent of the males and 8 percent of the females explained that the service delivery of the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA) is poor or very poor. The reasons why 5.8 percent reported that the service delivery is poor or very poor was also studied and results show the following.

- They have shortages of human-power.
- The service delivery doesn't encourage the taxpayers.
- It needs sustainability.

#### 4.1.6 Things that need to be improved

The respondents were also asked whether or not there are things that need to get improved in the tax administration. 61.7 percent of the taxpayers reported that there are problems that need improvement. 64.2 percent of the males and 52 percent of the females explained that there are problems that have to be improved. Refer table 20 for the details.

**Table 20: Things that need to get improved.**

		Sex of the respondent:				Group Total	
		Male		Female		Count	Col %
		Count	Col %	Count	Col %		
Are there problems in the VAT administration that needs to be improved?	Yes	61	64.2%	13	52.0%	74	61.7%
	No	22	23.2%	6	24.0%	28	23.3%
	I don't know	12	12.6%	6	24.0%	18	15.0%
Group Total		95	100.0%			120	100.0%

23.3 percent of the respondents [23.2 percent of the males and 24 percent of the females] reported that there are no problems that demand improvement. When analyzed by the type of ownership, 64.3 percent of the sole-proprietorship and 58 percent of those that have legal entity reported that there are problems that demand improvement.

**Table 21: Things that need to get improved.**

		Type and ownership of the organization:				Group Total	
		Sole-proprietorship		Have Legal Entity		Count	Col %
		Count	Col %	Count	Col %		
Are there problems in the VAT administration that needs to be improved?	Yes	45	64.3%	29	58.0%	74	61.7%
	No	16	22.9%	12	24.0%	28	23.3%
	I don't know	9	12.9%	9	18.0%	18	15.0%
Group Total		70	100.0%	50	100.0%	120	100.0%

12.9 percent of the sole-proprietorship and 18 percent of those that have legal entity reported that they don't know whether or not there are problems that demand improvement. Highest proportion of the owners (63.4 percent) seems to report that there are things that need to get improved than the proportion of the employees (59.2 percent). Please refer table 22 for details.

**Table 22: Things that need to get improved.**

		Relationship with the organization:				Group Total	
		Owner		Employee		Count	Col %
		Count	Col %	Count	Col %		
Are there problems in the VAT administration that needs to be improved?	Yes	45	63.4%	29	59.2%	74	61.7%
	No	14	19.7%	14	28.6%	28	23.3%
	I don't know	12	16.9%	6	12.2%	18	15.0%
Group Total		71	100.0%			120	100.0%

On the other hand, 19.7 percent of the owners and 28 percent of the employees explained that there are no things that need to get improved in the tax administration.

More than 60 percent of the respondents have reported that there are things that need to get improved and the respondents were required to list at least some of them. Their responses are summarized as follows.

- More has to be done till all the business people get convinced in the taxation system of the country.
- There are some confusions between the Ethiopian calendar and the European calendar that need to be scrutinized.
- All the necessary reporting formats should be given by the branch office (such as that of withholding tax).
- The gap in the performance between employs has to get narrowed down.
- Much effort is needed to raise the awareness of the taxpayers.
- Auditing takes time.
- They have to make the play ground similar. The branch office knows that there are people with the same capital, but not registered for VAT. So, serious measures have to be taken so that we all can play in more or less the same or similar play ground.
- Additional assessments have to be made in understanding the existing situation.
- Time management has to get improved.

- There is a need for giving timely and urgent solutions for the problems that may be observed associated with tax.
- There are some who add no value, but charge Value Added Tax and such individuals need serious follow up.
- Some tax payers get exposed to big punishments because of little mistakes. Such an un-appropriate measure has to get improved.
- There is a need to understand the problems of the tax payers.
- There is still a need for modernizing the system.
- Much more has to be done in enhancing the awareness level of the taxpayers.
- The office has to be strengthened by assigning trained personnel in different fields.
- The office has to trust taxpayers.
- There must be a clear plan on how to generate more and more revenue through the taxation system.
- More studies, investigations and assessments have to be made so that the government can have enough information and understanding about what is going on.

## **4.2 Responses from the Tax Officers**

Twenty tax officers were also given questionnaires about the VAT administration and Revenue generation. The specific job of the tax officers were also studied and it includes tax auditors, finance officer, tax refund supervisors, record team leader, complaints officer, accounts officer, process owner of tax collection and enforcement process, process owner of customer service center process.

Out of the 20 tax officers, 2 had diploma, 17 had first degree and one had second degree. Refer table 23 for details.



**Table 23: Educational level of the tax officers.**

		Count	Col %
Educational level of the respondent:	Diploma	2	10.0%
	First Degree	17	85.0%
	Second Degree and above	1	5.0%
Group Total		20	100.0%

It can be said that almost all of the tax officers have the needed educational background. The awareness of the tax payers towards VAT was one point of interest and results show that out of the 20 tax officers, only one reported that the awareness of the tax payers is high and 13 reported that the awareness is average. Refer table 24 for details.

**Table 24: Awareness of the tax payers towards VAT as reported by the tax officers.**

		Count	Col %
Awareness of the tax payers towards VAT:	High	1	5.0%
	Average	13	65.0%
	Low	5	25.0%
	Very low	1	5.0%
Group Total		20	100.0%

In addition, five tax officers reported that the awareness is low and one explained that the awareness of the tax payers towards VAT is very low.

Some of the reasons for the low awareness as explained by the officers are given below.

- The tax payers do not appear to the training sessions arranged by the office.
- Tax payers are not ready to read and then update themselves about new rules, regulations and proclamations about VAT and other forms of tax.
- Tax payers have low educational level and cannot cope up with the situations.

All of the 20 tax officers agree that there are at least some organizations who should get registered for VAT but are not registered till now.

**Table 25: Whether or not all those that should get registered for VAT are registered.**

	Count	Col %
Do you think that all those who should get registered for VAT are registered? No	20	100.0%
Group Total	20	100.0%

What is really important is the reason behind not getting registered for VAT. Out of the 20 officers interviewed, one fourth of them explained that low awareness and lack of the needed information on the side of the taxpayers is the main reason for the taxpayers not to get registered for VAT. Please refer table 26 for details.

**Table 26: Reasons for not getting VAT registered as explained by the officers.**

	Count	Col %
What do you think is the reason for at least some of them not to get registered for VAT? Low awareness and lack of information	5	25.0%
Selfishness of the people	7	35.0%
Poor capacity of the government bodies who are in charge of	4	20.0%
Other (specify)____	4	20.0%
Group Total	20	100.0%

Seven tax officers explained that many tax payers have the necessary information but some are not yet registered for VAT mainly because of their selfishness. The other four tax officers reported that the poor capacity of the government bodies who are in charge of VAT administration is the reason for it.

Out of the 20 tax officers, 4 reported that had all those who should get registered for VAT been registered, the income of the branch office would increase by more than 50 percent. Refer table 27 for details.

**Table 27: Revenues that would have been collected.**

		Count	Col %
Had all those who should get registered for VAT been registered, the income of the branch office would increase by:		3	15.0%
	By (1 - 10) percent	1	5.0%
	By (21 - 30) percent	4	20.0%
	By (31 - 40) percent	3	15.0%
	By (41 - 50) percent	5	25.0%
	By more than 50 percent	4	20.0%
Group Total		20	100.0%

Five officers (out of the 20) also explained that had all those who should get registered for VAT been registered, the income of the branch office would increase by more than 40 percent. In addition, had all those who should get registered for VAT been registered, one officer reported that income would increase by 1–10 percent, four said that income would increase by 21-30 percent and three reported that income would increase by 31-40 percent.

Such a forecasting may need a capacity and educational level is one way of showing the capacity of a person. The one who has got masters degree said that had all those who should get registered for VAT been registered, the income of the branch office would increase by more than 50 percent. Please refer to table 28 for the details.

**Table 28: Revenues that would have been collected by educational level of the officers.**

	Educational level of the respondent:						Group Total		
	Diploma		First Degree		Second Degree and above		Count	Col %	
	Count	Col %	Count	Col %	Count	Col %			
Had all those who should get registered for VAT been registered, the income of the branch office would increase by:	By (1 - 10) percent	1	50.0%	3	17.6%			3	15.0%
	By (21 - 30) percent			4	23.5%			4	20.0%
	By (31 - 40) percent			3	17.6%			3	15.0%
	By (41 - 50) percent	1	50.0%	4	23.5%			5	25.0%
	By more than 50 percent			3	17.6%	1	100.0%	4	20.0%
Group Total		2	100.0%	17	100.0%			20	100.0%

Out of the 17 tax officers that had first degree, 3 of them reported that had all those who should get registered for VAT been registered, the income of the branch office would increase by more than 50 percent.

Half of the tax officers reported that the competition between the VAT registered and those who are TOT payers is fair enough and nine of them explained that the competition is unfair. Refer table 29 for details.

**Table 29: Competition between the VAT registered and TOT payers as reported by the tax officers by educational level of the officers.**

		Educational level of the respondent:						Group Total	
		Diploma		First Degree		Second Degree and above		Count	Col %
		Count	Col %	Count	Col %	Count	Col %		
The free competition between the VAT registered and those who pay TOT is:	Fair enough	1	50.0%	9	52.9%			10	50.0%
	Unfair	1	50.0%	7	41.2%	1	100.0%	9	45.0%
	I don't know			1	5.9%			1	5.0%
Group Total		2	100.0%	17	100.0%			20	100.0%

Seven out of the 17 officers that had first degree and the one who has second degree reported that the competition between the VAT registered and TOT payers is unfair. The way the TOT payers use receipts may be one of the reasons why competition is becoming unfair. Some of the reasons for the unfairness as explained by the officers are:

- If similar commodities are available at both the TOT payers and VAT registered, these commodities are generally cheaper in organizations where they are TOT registered, provided both sellers bought it from non VAT registrants.
- TOT payers are poor users of invoice.
- No consistency is observed in the TOT payers.

Out of the 20 tax officers, only one reported that the way TOT payers use invoice is good and 8 said that it is average. Refer table 30 for details.

**Table 30: The way TOT payers use receipts as reported by the tax officers by educational level of the officers.**

		Educational level of the respondent:						Group Total	
		Diploma		First Degree		Second Degree and above		Count	Col %
		Count	Col %	Count	Col %	Count	Col %		
The way the TOT payers use receipts is:	Good			1	5.9%			1	5.0%
	Average	2	100.0%	6	35.3%			8	40.0%
	Poor			5	29.4%			5	25.0%
	Very poor			5	29.4%	1	100.0%	6	30.0%
Group Total		2	100.0%	17	100.0%			20	100.0%

Eleven of the 20 tax officers reported that the way the TOT payers use receipts is poor or very poor. The reasons for not using invoices properly as explained by the experts are:

- No strict control on the side of the government to the TOT payers.
- No motivating factor as compared to that of the VAT.
- The consumers have not developed a culture of asking invoices after they got the needed service.

One of the problems observed (as reported by the tax payers and tax officers) is that the taxpayers have low awareness about VAT. Out of the 20 officers interviewed, 19 of them explained that trials are made by the branch office to enhance the awareness of the taxpayers. Refer table 31 for the details.

**Table 31: Awareness raising activities by the branch office.**

		Educational level of the respondent:						Group Total	
		Diploma		First Degree		Second Degree and above		Count	Col %
		Count	Col %	Count	Col %	Count	Col %		
Are there trials made by the branch office to enhance the awareness of the tax payers:	Yes	2	100.0%	16	94.1%	1	100.0%	19	95.0%
	I don't know			1	5.9%			1	5.0%
	Group Total	2	100.0%	17	100.0%			20	100.0%

Only one tax officer reported that he doesn't know whether or not such efforts of awareness raising are exerted. But, unless and otherwise such trials are effective, it may not have the needed results. Out of the 20 tax officers, three reported that the trials made had good or very good results and 13 of them explained that the trial was average. Refer table 32.

**Table 32: Effectiveness of the awareness raising activities by the branch office.**

		Educational level of the respondent:						Group Total	
		Diploma		First Degree		Second Degree and above		Count	Col %
		Count	Col %	Count	Col %	Count	Col %		
The trials made by the branch office to enhance the awareness of the tax payers:	Very good	1	50.0%	1	5.9%			2	10.0%
	Good			1	5.9%			1	5.0%
	Average	1	50.0%	12	70.6%			13	65.0%
	Poor			3	17.6%			3	15.0%
	Very poor					1	100.0%	1	5.0%
Group Total		2	100.0%	17	100.0%			20	100.0%

Four of the tax officers also explained that the trails made by the branch office to raise awareness were poor or very poor. The reasons why most of the officers reported that the awareness raising efforts were not as successful as needed were:

- Lack of coordinating among the tax officers at different levels.
- No culture of doing things as planned and timely is developed.
- No specific officer such as public relations officer is assigned for this purpose.
- Becoming busy in routine and daily tasks.

The tax officers were required to evaluate the overall service delivery of the branch office. Four explained that the service delivery is very good and 15 said that it is good. Refer table 33 for the details.

**Table 33: Service delivery of the branch office.**

		Educational level of the respondent:						Group Total	
		Diploma		First Degree		Second Degree and above		Count	Col %
		Count	Col %	Count	Col %	Count	Col %		
Generally, how do you evaluate the service delivery of the branch office?	Very good	1	50.0%	3	17.6%			4	20.0%
	Good	1	50.0%	13	76.5%	1	100.0%	15	75.0%
	Poor			1	5.9%			1	5.0%
Group Total		2	100.0%	17	100.0%			20	100.0%

Only one officer explained that the service delivery is poor.

Five tax officers reported that the way the tax payers report their performance honestly and timely is good or very good and six reported that it is poor. Refer table 34 for details.

**Table 34: Honesty of the tax payers, as observed by the tax officers.**

	Educational level of the respondent:						Group Total	
	Diploma		First Degree		Second Degree and above		Count	Col %
	Count	Col %	Count	Col %	Count	Col %		
How do you evaluate the way VAT registered organizations report their performances honestly and on time?								
Very good			1	5.9%			1	5.0%
Good			4	23.5%			4	20.0%
Average	2	100.0%	7	41.2%			9	45.0%
Poor			5	29.4%	1	100.0%	6	30.0%
Group Total	2	100.0%	17	100.0%			20	100.0%

Nine out of the 20 tax officers explained that the way the tax payers report their performance honestly and timely is average.

Out of the 20 tax officers interviewed, eleven of them reported that there is always a gap between what the taxpayers declare and what the tax experts assess. Please refer table 35.

**Table 35: Gap between what is reported by tax payers and what is assessed by tax officers.**

	Educational level of the respondent:						Group Total	
	Diploma		First Degree		Second Degree and above		Count	Col %
	Count	Col %	Count	Col %	Count	Col %		
Is there any gap between what the taxpayers declare and what experts of your office assess?								
Yes, there is always a gap	1	50.0%	9	52.9%	1	100.0%	11	55.0%
Yes, but sometimes	1	50.0%	8	47.1%			9	45.0%
Group Total	2	100.0%	17	100.0%			20	100.0%

Some of the reasons for such gaps as explained by the tax officers are:

- Most of the tax payers undermine the volume of the sales and exaggerate expenses.
- Most of the tax payers are not assisted by professionals and experts.
- The educational level of the tax paers is low.

All of the tax officers do believe that there are things that need improvement in the VAT administration process.

**Table 36: Things that need improvement as reported by the tax officers.**

	Educational level of the respondent:						Group Total	
	Diploma		First Degree		Second Degree and above		Count	Col %
	Count	Col %	Count	Col %	Count	Col %		
Are there problems in Yes VAT administration th needs to be improved	2	100.0%	17	100.0%	1	100.0%	20	100.0%
Group Total	2	100.0%	17	100.0%			20	100.0%

Some of the things that need improvements as explained by the tax officers are:

- Register those who are not yet VAT registered.
- Enhance the capacity of the tax officers.
- Enhance the capacity of the tax payers.
- Introducing a well-established system in handling the tax payers profile.
- Introduce joint committee of the tax officers and tax payers as well as other relevant bodies.

### **4.3 Secondary Sources**

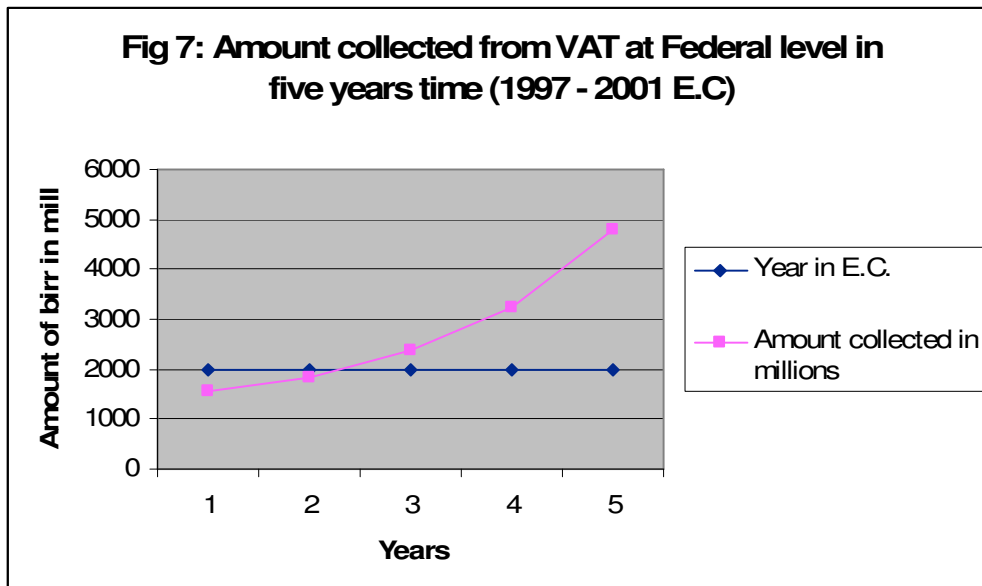
In the last five years(1997 E.C. – 2001 E.C.), at Federal level, a total of 13,780.17 millions or 13.78 billions of Birr were collected from the Inland Revenue in the form of VAT. The details are given below.



Table 37: Amount collected from VAT at Federal level.

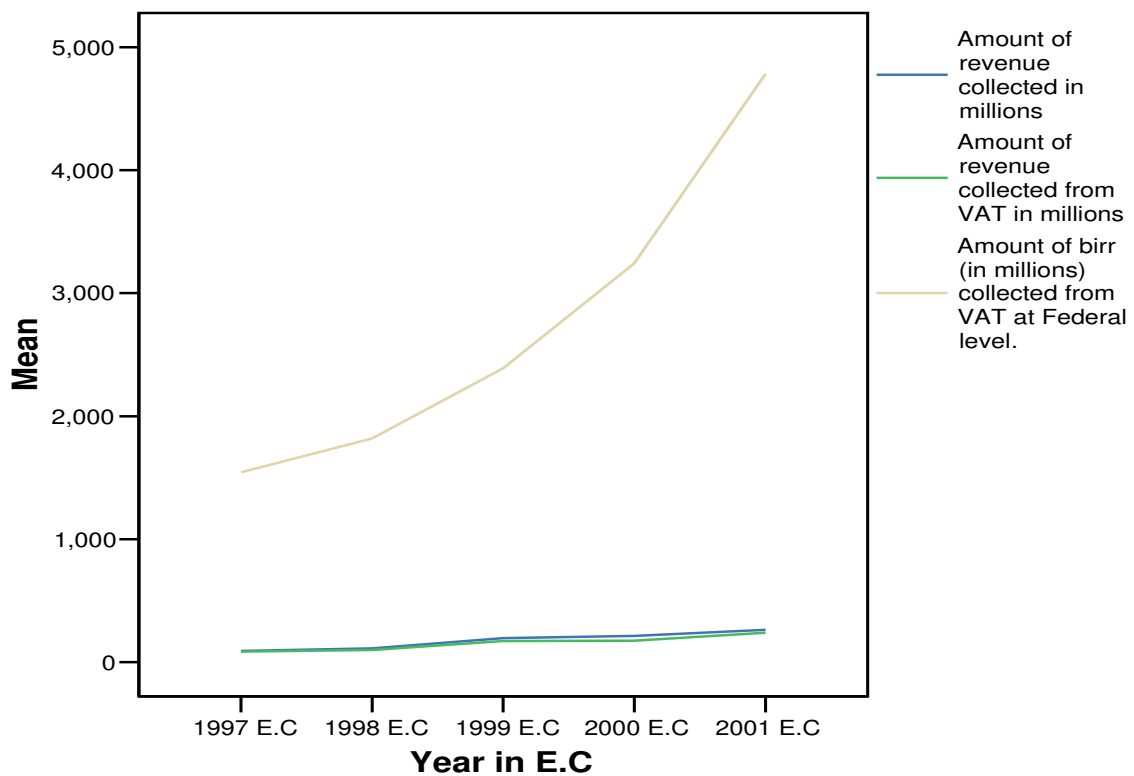
No	Year in E.C.	Amount collected in millions	percentage
1	1997	1,542.83	11.819%
2	1998	1,819.85	13.21%
3	1999	2,390.31	17.35%
4	2000	3,243.31	23.54%
5	2001	4,783.87	34.72%
Total	1997 – 2001	13,780.17	100%

The data given in the table above is depicted using a line graph



One can easily observe that there is a dramatic increase of the amount in the last five years [from 1.5 billion birr in 1997 E.C. to 4.8 billion birr in 2001] which is an increment by more than three-fold.

**Fig 8a: Amount of money collected at federal level and at the branch office.**



Value Added Tax (VAT) collection Performance of Mekelle Branch(Ethiopia Revenue and Customs Authority).

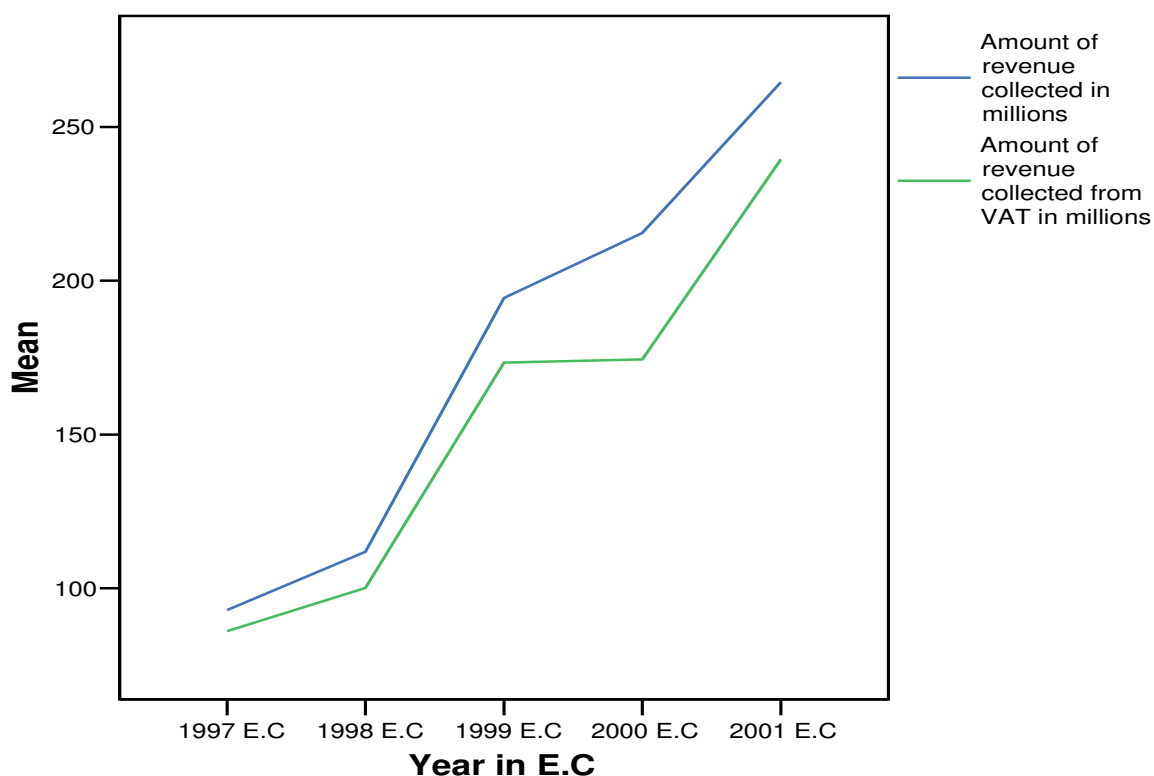
As stated in the objective, this study had an aim of studying the total revenue generated in the last five years and then study the proportion contributed by VAT. In the last five years (1997 – 2001 E.C) a total of 879,400,000 birr is collected by the Mekelle Branch of the Ethiopia Revenue and Customs Authority. Out of this total amount, 782.36 million is collected from VAT and this accounts for 88.96 percent of the overall revenue generated. This clearly shows how significantly VAT is contributing to the economic development of the country. Refer table 38 for the details.

Table 38: Value Added Tax (VAT) collection Performance of Mekelle Branch (Ethiopia Revenue and Customs Authority).

Year in E.C	Total revenue collected in Millions	Total VAT collected in Millions	VAT collected (in %s) of the total collected	Amount of VAT paid by the Sole-proprietorship in millions	Contribution of Sole-proprietorship (VAT) in percentages
1997	92.98	86.01	92.50%	8.31	9.66%
1998	111.87	100.09	89.46%	7.58	7.57%
1999	194.40	173.42	89.21%		
2000	215.58	174.46	80.92%	2.06	1.18%
2001	264.57	239.47	90.51%	7.58	3.17%
<b>Total</b>	<b>879.40</b>	<b>782.36</b>	<b>88.96%</b>		

Sources: Annual report of Mekelle Branch (Federal Inland Revenue Authority)

**Fig 8: Amount of revenue generated by the branch office.**



From Fig. 8, one can easily understand that the amount of revenue generated is increasing dramatically from year to year and is expected to increase in the coming years also.

At Federal level, the number of VAT registrant increased from 320 in 1997 E.C. to 772 in 2000 E.C.(more than doubled). Results show that a significant population, that is 36.25%, 50%,42.46% and 67.10% in 1997,1998,1999 and 2000 respectively, they do not report their monthly declaration either with payment (or credit or nil). Out of those who are registered for VAT, only 20.6% in 1997 E.C., 12.29% in 1998 E.C., 11.4% in 1999 E.C. and 5.96% in 2000 E.C. submitted their monthly declaration with payments. At this point, one can easily observe that there is a sharp decline in the proportion of the taxpayers that declaring with payments. (Refer the table annexed for details.

If we consider the views of the taxpayers and tax officers, it can be clearly shown that had those who had to be registered for VAT been registered for it, revenue would increase by millions. The details of the calculation are given in table 39 below.

Table 39: Average amount of money that should be collected.

Percent	Mid-point	Number of taxpayers	Product	Number of tax officers	Product
1 – 10	5.5	6	33	1	5.5
11 – 20	15.5	11	170.5	0	0
21 – 30	25.5	13	331.5	4	102
31 – 40	35.5	5	177.5	3	106.5
41 – 50	45.5	9	409.5	5	227.5
Above 50%	50	39	1950	4	200
Total		73	3072	17	641.5

As in any interval data, each class has to be represented by its class mark and the usual formula of calculating the mean will be applied.

# CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Conclusion

In the study, two main sources of data are used; primary and secondary data. For the primary data, two main target groups were identified; taxpayers and tax officers. In addition, personal observation was used just to observe the service delivery. After stratifying the tax payers as sole-proprietors and those that have legal identity; a systematic random sample of 50 sole-proprietors and 70 of those who have legal identity were asked set of carefully designed questions (called schedule) using the method of enumeration. In the process, five enumerators were used and the enumerators were given detailed training about what each question intends to mean and on how to present it in-front of the informant. Questionnaires were also distributed to the purposely selected tax officers that are chosen deliberately because of their positions in the taxation system.

From the socio-demographic background of the 120 taxpayers, it was observed that the average age of the respondents was mean (33 years), median (30 years) and modal age (25 years). The maximum age of the respondents is 72 years for males and 45 years for females. The mean age of the males and females is 34 and 28 years respectively. The educational level of the respondents was also studied and results show that out of the 120 respondents, 2(1.7%) are illiterate, 4(3.3%) elementary school, 19(15.8%) high school, 38(31.7%) are diploma holders and 55(45.8%) had first degree and 2(1.7%) had second degree and above. It can generally be seen that more than three-fourth (77.5%) of the tax payers have either diploma or first degree. This is a good opportunity for them to get updated with the possible changes that the government may make. On the other hand, out of the 20 tax officers who are included in the study, 2 had diploma, 17 had first degree and one had second degree.

The relationship of the respondents with the organization was also studied and results show 71(59.2%) are owners and 49(40.8%) are employees. The number of years after the companies got registered for VAT varies from one year to seven years and on an average, the companies

studied were registered VAT before 3.5 years which is half of the time since the introduction of VAT.

The attitude of the respondents towards the advantages of VAT registration was also studied by asking both the taxpayers themselves and the tax officers. One-fourth (25%) of the taxpayers reported that their awareness towards VAT is very high and 30(25%) others also rated their awareness as high. Hence, out of the 120 taxpayers, 60(50%) reported their awareness about high is either high or very high. On the other hand, none of the tax officers rated the awareness of the taxpayers towards VAT as very high and only one rated their attitudes as high. This shows that there is a high gap in understanding the attitude of the taxpayers between themselves and the tax officers. The main challenge in the VAT administration process is the attitude of the taxpayers. Both the taxpayers and tax officers reported that there are attitudinal problems and the observation of the researcher also reveals this fact. Hence, giving all the necessary information to the taxpayers using appropriate methods needs due attention.

All of the tax officers and 92.5 percent of the taxpayers reported that not all of those who should get registered for VAT are registered. It seems that there is an agreement between the taxpayers and tax officers that there are many companies or individual business men that should get VAT registered but are not registered. As a result of this almost all of the respondents agree that the government is losing revenue that should be collected from VAT. In the last five years the branch office has collected 782.36 million birr from VAT. But, according to 32.5 percent of the tax payers and four out of twenty of the tax officers, had all those who should get registered for VAT been registered for it, the income of the branch office would increase by more than fifty-percent. According to them, in the last five years, the government has lost 391.18 million birr which should be collected in the form of VAT. This is the opportunity that the branch office has to use. By letting every member who should be registered for VAT, there is an opportunity of collecting millions of Birr. According to the VAT proclamation, these enterprises whose annual turnover is more than Birr 500,000 have the responsibility to be registered for VAT. In some countries, this threshold is lower than that of Ethiopia and in other countries it is higher. If the threshold is reduced from Birr 500,000 to Birr 400,000 or even 300,000, there is an opportunity of collecting additional millions of Birr in the form of VAT. The only disadvantage of reducing such an

amount of the threshold is the administrative issue and this can be solved by enhancing the capacity of the branch office.

On an average, the taxpayers agreed that had all those who should get registered for VAT been registered for it, the income of the branch office would increase by  $3072/73 = 42.98$  percent. This means that the government has lost 42.98 percent of 782.36 million which amounts to 336.26 million birr. On the other hand, by taking the view of the tax officers into account, it can be seen that an average  $641.5/17=37.73$  percent. This implies that the government has lost 37.73 percent of 782.36 million which amounts to 295.18 million birr. Again, by taking just a rough average of these two views [tax payers and tax officers] it can be said that had all those who should get registered for VAT been registered, the government would collect a total of 315.72 million birr in the last five years which is an average of 63.14 million per year.

Always there is a competition between the VAT registered and TOT payers. 41.7 percent of the taxpayers and nearly half (9 out of the 20) of the tax officers explained that the competition between the VAT registered and the TOT payers is unfair. They reported that the playground for these two types of taxpayers is not the same. Results of the study clearly show that there are complaints about the rate difference between the turn over tax (2%) and VAT rate (15%), though it is known that TOT is an equalizing rate with VAT. If two enterprises procure their inputs from non-VAT registrants and sale adding different tax rate of VAT and TOT, then the two enterprises are not in equal footing in the market and hence, a 2% TOT cannot be an equalizing rate for VAT. Another reason for the complaint is also the way the TOT payers use invoices. More than one-third (35%) of the taxpayers and 11 out of the 20 tax officers explained that the way TOT payers use invoices is poor or very poor.

One of the main problems in the VAT administration process is observed to be the awareness of the taxpayers. Out of the 120 taxpayers, 60 (50%) reported that trials are made by the branch office to raise the awareness of the taxpayers. In addition, out of the 20 tax officers, 19 of them explained that trials are made by the branch office to raise the awareness of the taxpayers. It seems that there are gaps in understanding the efforts exerted in awareness creation in the taxpayers.



60 percent of the taxpayers and 19 out of the 20 tax officers reported that the service delivery of the Mekelle branch office of Revenue and Custom's Authority is good or very good. At the same time, 61.7 percent of the taxpayers and all of the tax officers reported that the VAT administration of the Mekelle branch office of Revenue and Custom's Authority have problems that demand improvements or changes.

The study result reveals that there are people and companies who are VAT registered but are not declaring with payments. This number is increasing from day to day. This needs serious attention by the implementing body. In general, one can clearly observe that attitudinal problem on the side of the taxpayers and the poor implementation on the side of the branch office is the main constraints and challenges for the smooth implementation of VAT. In fact, in Tigray business and investment is flourishing and this is the main opportunity that the government in general and the branch office in particular have to use in generating revenue.

## **5.2 Recommendations**

Based on the findings given above, the following recommendations are made.

1. In Ethiopia, VAT is a recently introduced taxation system and was introduced before seven years. Within this very short period of time, the experience gained and the revenue generated is very encouraging. This is a big achievement that has to be celebrated. At this point in time, it is necessary to document and share the best practices that the country gained within the last few years so that we can capitalize our strong points and then correct the weaknesses that we may have. Hence, it is important to organize experience sharing sessions for such a purpose.
2. Different types of problems are observed during the implementation process of the VAT. One of the main problems as explained by the taxpayers and tax officers is attitudinal problem. It seems that the tax payers have some attitudinal problems towards VAT. Results show that most of the problems emanate from lack of awareness and information. This is the main challenge that the VAT administration has faced in the process. Hence, coordinated efforts **must be exerted** (at all levels) to enhance the awareness of the tax payers and other members of the community.

3. The study shows that not all companies and business people who should get registered for VAT are registered. This is a very serious problem. Therefore, **urgent action has to be taken** in letting those who should get VAT registered to get registered on time. This also demands a coordinated effort of all the concerned government bodies.
4. There are also business people and companies who are registered for VAT but not declaring with payments at the given time. This needs continuous follow up and actions have to be taken to such individuals. But, continuous efforts have to be exerted to make attitudinal changes first.
5. The respondents [both the taxpayers and tax officers] agreed that had all those who should get registered for VAT been registered, the government would collect an additional amount of 315.72 million birr in the last five years which is an average of 63.14 million per year. This is a rough calculation, but it shows that the government is losing millions of birr per year. This is the money which should be collected from the VAT of the Inland Revenue of Mekelle branch only. It is possible to conclude that at country level, we are losing hundreds of millions of birr from VAT, mainly because not all who should get registered are registered for VAT. This calls for the attention of the government. The concerned bodies have to be aware that this is a great opportunity that needs to be exploited on time.
6. For administrative purposes, a threshold has been put in place for VAT. According to the VAT proclamation, these enterprises whose annual turnover is more than Birr 500,000 have the responsibility to be registered for VAT. But, broadening the base of tax payers is one objective of any taxation system. In some countries, this threshold is lower than that of Ethiopia and in other countries it is higher. One mechanism of broadening the base may be reducing the threshold from Birr 500,000 to Birr 400,000 or even 300,000. Of course, unless the capacity of the implementing offices is improved, the excessive number of taxpayers may lead to a mismanaged VAT administration. But still, studies have to be made and the threshold which is already in place has to be revisited so that the base of taxpayers can be broadened. This also is another opportunity that needs serious attention.

7. Results showed that the play ground of those who are VAT registered and TOT payers is not similar. The rate difference between the turn over tax (2%) and VAT rate (15%), If two enterprises procure their inputs from non-VAT registrants and sale adding different tax rate of VAT and TOT, then the two enterprises are not in equal footing in the market. There must be a mechanism of narrowing down the difference between the 2% and the 15% may be by increasing the rate of TOT from 2% to may be to 10% or so; or any other mechanism that makes the market of equal footing has to be devised.
8. Nearly two-third of the taxpayers and all of the tax officers have reported that the branch office has so many problems that demand change and improvement. At the same time, it is clear that the branch office has already introduced the Business Process Re-engineering (BPR) as a management tool. It is the belief of the researcher that if the recommendations included in the designing stage of the BPR are properly implemented, radical changes would be observed. Therefore, the branch office has to study and assess possible reasons that hinder the full implementation of the BPR and then take appropriate measures.
9. There is need to enhance the capacity of the employees of the branch office. Of course, the study shows that both short term and long term trainings are given. But still, there is a need for changing the attitude towards customer handling and other service giving methodologies. Each employee has to be convinced that developing his/her own capacity is a continuous process and each of them has to take responsibility of doing so using different mechanisms.
10. Observations show that there are gaps in the VAT administration process between in the regional offices and federal offices. Such gaps exist in both the VAT administration and the TOT invoice uses. There is a need for coordinated effort among all concerned bodies so that the implementation gaps can be narrowed.
11. Further research is needed in the area mainly in identifying those who are not getting registered for VAT and other problems associated with it. It is the belief of the researcher that allotting a certain amount of money for research works will have a significant return to the nation. Hence, the government has to introduce such research budget line in the

branch offices and at Federal level so that possible problems can be identified on time and then solved timely.

12. The branch office has to make collaborations with the nearby institutions such as Mekelle University and Axum University so that they can conduct joint programs such as capacity building and researches that enable solve the problems of the society in general and branch office in particular.

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## Annex 1: Questionnaire for taxpayers

General Introduction: This questionnaire is prepared for the study of MSc thesis in Finance and Investment. In addition, the findings of the research will be submitted to the concerned government bodies so that they can make use of the recommendations made. Hence, your responses are will be of much importance to the betterment of the VAT administration and the enhancement of the revenue generation. Accordingly, you are expected to give genuine and honest answers that you believe are realistic.

1. Name of the Organization: \_\_\_\_\_

2. Ownership: 1. Sole-proprietorship 2. Have legal entity

3. Sex 1. Male 2. Female

4. Age \_\_\_\_\_ years

5. Educational level:

- |                                     |                            |
|-------------------------------------|----------------------------|
| 1. Cannot read and write            | 4. Diploma                 |
| 2. Elementary school (grades 1 – 8) | 5. First Degree            |
| 3. Secondary School (grades 9 – 12) | 6. Second degree and above |

6. Relationship of the respondent with the organization:

- |          |             |
|----------|-------------|
| 1. Owner | 2. Employee |
|----------|-------------|

7. Number of years after your organization is registered for VAT \_\_\_\_\_

8. Your awareness about VAT:

- |              |             |
|--------------|-------------|
| 1. Very high | 4. Low      |
| 2. High      | 5. Very low |

3. Average

9. Do you believe that being a VAT registered has an advantage?

1. Yes, it has an advantage

2. No advantage, no advantage

3. No advantage, but disadvantages only

Explain: \_\_\_\_\_

---

10. Do you think that all of those who should get registered for VAT are registered?

1. Yes 2. No

11. If your answer to question 12 is no, what do you think is the reason behind?

1. Low awareness and lack of information

2. Selfishness

3. Poor capacity of the government offices that deal with VAT

4. Others (explain) \_\_\_\_\_

12. Had any organization eligible for VAT registration been registered, the income of the branch office would increase by:

1. By 1 – 10 percent

2. By 11 – 20 percent

3. By 21 – 30 percent

4. By 31 – 40 percent



5. By 41 – 50 percent

6. By more than 50 percent

13. How do you see the competition between the VAT registered and TOT payers?

1. Fair enough

2. Unfair

3. I don't know

Explain: \_\_\_\_\_

\_\_\_\_\_

14. The way TOT payers use invoice:

1. Very good

4. Poor

2. Good

5. Very poor

3. Average

Explain: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

15. Have the branch office made trials to enhance awareness of the taxpayers?

1. Yes

2. No

3. I don't know

Explain: \_\_\_\_\_

\_\_\_\_\_

16. Overall evaluation of the tax payers efforts made to improve the level of awareness by Mekelle Branch of the Ethiopian Revenue and Customs Authority;

- 1. Very good
- 2. Good
- 3. Average
- 4. Poor
- 5. Very Poor

Explain: \_\_\_\_\_

\_\_\_\_\_

17. Generally, how do you evaluate the service delivery of Mekelle Branch Office of the Revenue and Customs Authority;

- 1. Very good
- 2. Good
- 3. Average
- 4. Poor
- 5. Very poor

Explain: \_\_\_\_\_

18. Are there problems in the VAT administration that needs to be improved?

- 1. Yes
- 2. No
- 3. I don't know

19. If your answer is yes; List top three problems below

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_

20. Generally, in order to improve VAT administration and maximize revenue of the country; List top three ideas that needs action;

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

## **ብኸፈልቲ ግብሪ ዝምላእ መጠይቕ**

**፩:- ሓፈሻዊ መእተዊ፤** እዙ መዕናዕቲ'ዙይ ብቐንዱ ንመማልኢ መመሪቕ ዕሉፍ ካልኣይ ዲግሪ /ማስተርስ ዲግሪ/ እዙ መዕነዓይ ዉልቀ ሰብ ዝወዕል ኮይኑ ጎኒ ንጎኒ'ውን ከም ዝኾነ ዉዕኢት መዕናዕቲን ምርምርን ንዝምልከቶም ኣካላት ሰብ መዚ እቶትን ጉምሩክን ክበፅሕ ብምግባር ክመሓየሽ ዝግበኦም ነገራት/እንተሃልዮም/ ክመሓየሹ ምእንቲ ናይ ባዕሉ ግደ ክፃወት እዩ ዝብል እምነት ኣሎ። ስለዙይ ንሶም/ንሰን ዝህቡና/ዝህባና ትኸክለኛ መረዳእታ እቶት ብምድንፋዕን ስራሕቲ ብምፅፋፍን ኣቢልካ ንዕቤት ሃገር ዘለዎ እጃም ልዑል እዩ'ሞ ንዝህቡና/ባና ሓበሬታ ኣቐዲመ ከመስግን እፈቱ።

**፪:- ከይዲ ኣመላልኣ እዙ መጠይቕ፤** እዙ መጠይቕ ብዛብዝሓ መልሲ ክኾነ ዝኸእሉ መማረቂታት ቀሪቦም እቱ ዝሓሸ ወይ ዝበለፀ ትኸክል ኢሎም/ለን ዝኣምኑሉ/ዝኣምናሉ ብምኸባብ ዝምለስ ኮይኑ ኣብ ገለ ገለ ኡኡ ኸዓ መብራህርሂ ወይ ምኸንዩት እንትሓተት ሓሳቦም/ባን ዘርዚረን ኣብ'ቱ ተዋሂቡ ዝኒህ ቦታ ንክፀሓፈልና ንላቦ።

1. ሽም ትካል፤ \_\_\_\_\_
2. ዓይነት ዋንነት ትካል፤ 1. ዉልቀ ነጋዳይ 2. ሕጋዊ ሰብነት ዘለዎ
3. ስታ መላሲ 1. ወዲ ተባዕታይ 2. ንል ኣንስተይቲ
4. ዕድመ መላሲ \_\_\_\_\_ ዓመት
5. ብርኪ ትምህርቲ መላሲ፤
  1. ኣይተመሃርኩን
  2. ቀዳማይ ብርኪ /1ይ ክሳዕ 8ይ ክፍሊ/
  3. ካልኣይ ብርኪ /9ይ ክሳዕ 12 ክፍሊ/
  4. ዲፕሎማ ተመሪቕ
  5. ቀዳማይ ዲግሪ ኣለኒ
  6. ማስተርስ ዲግሪ ኣለኒ
6. መላሲ ምስ ትካል ዘለዎም ረኽቢ፤ 1. እምበዓል ዋና 2. ተቐፃሪ

7. ትካሎም ካብ ተወሳኺ እሴት ታክስ ዝምዘገብ ክንደይ ዓመት ገይሩ? \_\_\_\_\_

8. ንሶም/ትካሎም ብዛዕባ ተወሳኺ እሴት ታክስ ዘለዎም ግንዛብ ብኸመይ ይግለፅ?

- 1. ብጣዕሚ ልዑል                      3. ማእኸላይ                      5. ኣዝዩ ትሑት
- 2. ልዑል                                      4. ትሑት

9. ከም መጠን ነጋዳይ/ኢንቨስተር ወይ እምበኣል ትካል ብኸፋልነት ተወሳኺ እሴት ታክስ ምምዘጋብ ረብሓ ኣለዎ ዶ ይብሉ?

- 1. እወ ረብሓ ኣለዎ    2. ረብሓ የብሉ፣ ጉድኣት የብሉ    3. ጉድኣት'ምበር ረብሓ የብሉን

ብኸመይ? መልሶም ዝርዝር ኣቢሎም ይግለፁልና። \_\_\_\_\_

10. ብኸፋልነት ገብሪ ተወሳኺ እሴት ታክስ ክምዘገብ ዝገበኦ ኹሉ ተመዝጊቡ እዩ ዝብል እምነት ኣለዎምዶ? 1. እወ ኹሉ ተመዝጊቡ 2. ክምዘገቡ ዝገበኦም ዘይተመዘገቡ ኣለዉ፣

11. መልሶም ክምዘገቡ ዝገበኦም ዘይተመዘገቡ ኣለዉ ዝብል እንተኾይኑ እዞም ዘይተመዘገቡ ትካላት ዘይተመዘገቡሉ ምኽንያት እንታይ ይመስሎም?

- 1. ምትሓት ግንዛብን ሕፅረት ሓበሬታን
- 2. እቶም ዘይተመዘገቡ ኮነ ኢሎም ዉልቀ ጥቕምም ክቐድሙ ስለዝደልዩ፣
- 3. ድኸመት ዓቕሚ ምፍፃም ኣካላት መኸፈሊ ግብሪ
- 4. ካሊእ /ይገለፅ/ \_\_\_\_\_

12. ብኸፋልነት ግብሪ ተወሳኺ እሴት ታክስ ክምዘገቡ ዝገበኦም ኩሎም እንተዝምዘገቡ በዓል መዚእቶትን ጉምሩክን ጨንፈር መቐለ ዘእትዎ እቶት ብእንታይ ዝኣክል ንወሰኽ?

- 1. ካብ 1 - 10 ምኡታዊ                      4. ካብ 31 - 40 ምኡታዊ
- 2. ካብ 11 - 20 ምኡታዊ                      5. ካብ 41 - 50 ምኡታዊ
- 3. ካብ 21 - 30 ምኡታዊ                      6. ልዕሊ 50 ምኡታዊ

13. ከፈልቲ ተወሳኺ እሴት ታክስን ከፈልቲ ተርን ኦቨር ታክስን ኣብ ዕዳጋ ዘለዎም ተወዳዳሪነት፤ 1. ፍትሓዊ እዩ 2. ፍትሓዊ ኣይኮነን 3. እንድሂ

ብኸመይ? \_\_\_\_\_

\_\_\_\_\_

14. ንክፋልነት ተወሳኺ እሴት ታክስ ብቐዓት ዘይኮኑ ከፈልቲ ተርን ኦቨር ታክስ ደረሰኝ/ቅብሊት/ ናይ ምጥቃም ኩነታቶም እንትግምገም፤

- 1. ብጣዕሚ ዕቡቕ'ዩ
- 2. ዕቡቕ'ዩ
- 3. ደሓን'ዩ
- 4. ደኸም'ዩ
- 5. ብጣዕሚ ደኸም'ዩ

ብኸመይ? \_\_\_\_\_

15. በዓል መዚ እቶትን ጉምሩክን ጨንፈር መቐለ ግንዛቤ ከፈልቲ ግብሪ ክብ ንምባል በቢእዎኑ ዝገብሮም ዝተፈላለዩ ፃዕሪታት ኣለዉዶ?

- 1. እወ ኣለዉ
- 2. የለዉን
- 3. እንድሂ

መልሶም ዝርዝር ኣቢሎም ይግለጹ፤ \_\_\_\_\_

16. በዓል መዚ እቶትን ጉምሩክን ጨንፈር መቐለ ግንዛቤ ከፈልቲ ግብሪ ክብ ንምባል ዝገብሮ ፃዕሪ እንትግምገም

- 1. ብጣዕሚ ዕቡቕ'ዩ
- 2. ዕቡቕ'ዩ
- 3. ደሓን'ዩ
- 4. ደኸም'ዩ
- 5. ብጣዕሚ ደኸም'ዩ

መልሶም ዝርዝር ኣቢሎም ይግለጹ፤ \_\_\_\_\_

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17. ብሓፈሽኡ እንትረኣ ኣዋህባ ግልጋሎት በዓል መዚ እቶትን ጉምሩክን ጨንፈር መቐለ እንትግምገም፤

- 1. ብጣዕሚ ፅቡቕ
- 2. ፅቡቕ
- 3. ደሓን'ዩ
- 4. ደኅኡም'ዩ
- 5. ብጣዕሚ ደኅኡም'ዩ

ብኸመይ? \_\_\_\_\_

18. ኣብ ክሊ ምሕደራ ተወሳኺ እሴት ታክስ ክእለዩ ዘለዎም ፀገማት ኣለዉዶ?

- 1. እወ ኣለዉ
- 2. የለዉን
- 3. እንድዒ

19. መልሶም ክመሓየሹ ዝገበኦም ፀገማት ኣለዉ ዝብል እንተኾይኑ እቶም ዝዓበዩ ሰለስተ ፀገማት ዘርዚሮም ይፅሓፉልና።

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_

20. ብሓፈሽኡ ምሕደራ ተወሳኺ እሴት ታክስ ንኸመሓየሹን እቶት ሃገር ንኸድንፍዕን ክግበሩ ዘለዎም ሰለስተ ዓበይቲ ነገራት የዘርዝሩ።

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_

## Annex 2: Questionnaire for tax administrators

General Introduction: This questionnaire is prepared for the study of MSc thesis in Finance and Investment. In addition, the findings of the research will be submitted to the concerned government bodies so that they can make use of the recommendations made. Hence, your responses are will be of much importance to the betterment of the VAT administration and the enhancement of the revenue generation. Accordingly, you are expected to give genuine and honest answers that you believe are realistic.

1. Type of Job \_\_\_\_\_

2. Educational level:

1. Diploma

2. First Degree

3. Second degree and above

3. Awareness of the taxpayers towards VAT:

1. High

3. Low

2. Average

4. Very low

Explain:

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4. Do you think that all of those who should get registered for VAT are registered?

1. Yes    2. No

Explain:

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5. If your answer to question 4 is no, what do you think is the reason behind?

1. Low awareness and lack of information

2. Selfishness

3. Poor capacity of the government offices that deal with VAT

4. Others (explain) \_\_\_\_\_

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6. Had any organization eligible for VAT registration been registered, the income of the branch office would increase by:

1) By 1 – 10 percent

2) By 11 – 20 percent

3) By 21 – 30 percent

4) By 31 – 40 percent

5) By 41 – 50 percent

6) By more than 50 percent

7. How do you see the competition between the VAT registered and TOT payers?

1. Fair enough

3. I don't know

2. Unfair

Explain: \_\_\_\_\_

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8. The way TOT payers use invoice:

- |              |              |
|--------------|--------------|
| 1. Very good | 4. Poor      |
| 2. Good      | 5. Very poor |
| 3. Average   |              |

Explain: \_\_\_\_\_

\_\_\_\_\_

9. Have the branch office made trials to enhance awareness of the taxpayers?

- |        |       |                 |
|--------|-------|-----------------|
| 1. Yes | 2. No | 3. I don't know |
|--------|-------|-----------------|

Explain:

\_\_\_\_\_

\_\_\_\_\_

10. The trials made by the branch office to enhance the to the taxpayers;

- |              |              |
|--------------|--------------|
| 1. Very good | 4. Poor      |
| 2. Good      | 5. Very Poor |

Explain: \_\_\_\_\_

11. Generally, how do you evaluate the service delivery of Mekelle Branch Office of the Revenue and Customs Authority?

- |              |              |
|--------------|--------------|
| 1. Very good | 4. Poor      |
| 2. Good      | 5. Very poor |
| 3. Average   |              |

Explain: \_\_\_\_\_

12. How do you evaluate the way VAT registered organizations report their performances honestly and on time?

1. Very good

4. Poor

2. Good

5. Very poor

3. Average

Explain: \_\_\_\_\_

13. Is there any gap between what the taxpayers declared and assessed by the tax officers?

1. Yes, there is always

2. Yes, but sometimes

3. Not at all

4. Others, specify \_\_\_\_\_

14. Are there problems in the VAT administration that needs to be improved?

1. Yes

2. No

3. I don't know

15. If your answer is yes; List top three problems below

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

16. Generally, in order to improve VAT administration and maximize revenue of the country; List top three ideas that needs action;

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

\_\_\_\_\_

## ብመማሓደርቲ ግብሪ ዝምላእ መጠይቕ

**፩፡- ሓፈሻዊ መእተዊ፤** እዙ መዕናዕቲ'ዙይ ብቐንዱ ንመማልኢ መመሪቕ ዕሑፍ ካልኣይ ዲግሪ /ማስተርስ ዲግሪ/ እዙ መዕናዕይ ዉልቀ ሰብ ዝዉዕል ኮይኑ ጎኒ ንጎኒ'ውን ከም ዝኾነ ዉዕኢት መዕናዕቲን ምርምርን ንዝምልከቶም ኣካላት ሰብ መዚ እቶትን ጉምሩክን ክበዕሕ ብምግባር ክመሓየሽ ዝግበኦም ነገራት/እንተሃልዮም/ ክመሓየሹ ምእንቲ ናይ ባዕሉ ግደ ክፃወት እዩ ዝብል እምነት ኣሎ። ስለዙይ ንሶም/ንሰን ዝህቡና/ዝህባና ትኸክለኛ መረዳእታ እቶት ብምድንፋዕን ስራሕቲ ብምዕፋፍን ኣቢልካ ንዕቤት ሃገር ዘለዎ እጃም ልዑል እዩ'ሞ ንዝህቡና/ባና ሓበሬታ ኣቐዲመ ከመስግን እፈቱ።

**፪፡- ከይዲ ኣመላልኣ እዙ መጠይቕ፤** እዙ መጠይቕ ብዛብዝሓ መልሲ ክኾነ ዝኸእሉ መማሪቂታት ቀሪቦም እቱ ዝሓሸ ወይ ዝበለፀ ትኸክል ኢሎም/ለን ዝኣምኑሉ/ዝኣምናሉ ብምኸባብ ዝምለስ ኮይኑ ኣብ ገለ ገሊኡ ኸዓ መብራህርሂ ወይ ምኸንያት እንትሕተት ሓሳቦም/ባን ዘርዚረን ኣብ'ቱ ተዋሂቡ ዝኒሀ ቦታ ንክፀሓፈልና ንላቦ።

10. መደብ ስረሐም፤ \_\_\_\_\_

11. ብርኪ ትምህርቲ መላሲ፤

- 4. ዲፕሎማ ተመሪቕ
- 5. ቀዳማይ ዲግሪ ኣለኒ
- 6. ማስተርስ ዲግሪ ኣለኒ

12. ከፈልቲ ግብሪ ብዛዕባ ተወሳኺ እሴት ታክስ ዘለዎም ግንዛብ ብኸመይ ይገልፁዎ?

- 3. ብጣዕሚ ልዑል                      3. ማእኸላይ                      5. ኣዝዩ ትሑት
- 4. ልዑል                                      4. ትሑት

መብርሂ \_\_\_\_\_

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4. ብኸፋልነት ግብሪ ተወሳኺ እሴት ታክስ ክምዝገብ ዝግበእ ኹሉ ተመዝጊቡ እዩ ዝብል እምነት ኣለዎምዶ? 1. እወ ኹሉ ተመዝጊቡ 2. ክምዝገቡ ዝግበእም ዘይተመዝገቡ ኣለዉ፤

መብርሂ \_\_\_\_\_

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5. መልሶም ክምዝገቡ ዝግበእም ዘይተመዝገቡ ኣለዉ ዝብል እንተኾይኑ እዞም ዘይተመዝገቡ ትካላት ዘይተመዝገቡሉ ምኽንያት እንታይ ይመስሎም?

- 5. ምትሓት ግንዛብን ሕፅረት ሓበሬታን ነጋዶ
- 6. እቶም ዘይተመዝገቡ ኮነ ኢሎም ዉልቀ ጥቕምም ከቐድሙ ስለዝደልዩ፤
- 7. ድኸመት ዓቕሚ ምፍፃም ኣካላት መኸፈሊ ግብሪ
- 8. ካሊእ /ይገለፅ/ \_\_\_\_\_

መብርሂ \_\_\_\_\_

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6. ብኸፋልነት ግብሪ ተወሳኺ እሴት ታክስ ክምዝገቡ ዝግበእም ኩሎም እንተዝምዘገቡ በዓል መዚእቶትን ጉምሩክን ጨንፈር መቐለ ዘእትዎ እቶት ብእንታይ ዝኣክል ንወሰኸ?

- 4. ካብ 1 - 10 ምኡታዊ
- 4. ካብ 31 - 40 ምኡታዊ
- 5. ካብ 11 - 20 ምኡታዊ
- 5. ካብ 41 - 50 ምኡታዊ
- 6. ካብ 21 - 30 ምኡታዊ
- 6. ልዕሊ 50 ምኡታዊ

7. ከፈልቲ ተወሳኺ እሴት ታክስን ከፈልቲ ተርን ኣብኸ ታክስን ኣብ ዕዳጋ ዘለዎም ተወዳዳሪነት፤ 1. ፍትሓዊ እዩ 2. ፍትሓዊ ኣይኮነን 3. እንድዒ

ብኸመይ? \_\_\_\_\_

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8. ንክፋልነት ተወሳኺ እሴት ታክስ ብቅዓት ዘይኮኑ ከፈልቲ ተርን ኦቨር ታክስ ደረሰኝ/ቅብሊት/ ናይ ምጥቃም ኩነታቶም እንትግምገም፤

- 1. ብጣዕሚ ዕቡቕ'ዩ
- 2. ዕቡቕ'ዩ
- 3. ደሓን'ዩ
- 4. ድኻም'ዩ
- 5. ብጣዕሚ ድኻም'ዩ

ብኸመይ? \_\_\_\_\_

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9. በዓል መዚ እቶትን ጉምሩክን ጨንፈር መቐለ ግንዛብ ከፈልቲ ግብሪ ክብ ንምባል በቢእዋኑ ዝገብሮም ዝተፈላለዩ ፃዕሪታት ኣለዉዶ?

- 1. እወ ኣለዉ
- 2. የለዉን
- 3. እንድዒ

መልሶም ዝርዝር ኣቢሎም ይግለፁ፤ \_\_\_\_\_

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10. በዓል መዚ እቶትን ጉምሩክን ጨንፈር መቐለ ግንዛብ ከፈልቲ ግብሪ ክብ ንምባል ዝገብሮ ፃዕሪ እንትግምገም

- 1. ብጣዕሚ ዕቡቕ'ዩ
- 2. ዕቡቕ'ዩ
- 3. ደሓን'ዩ
- 4. ድኻም'ዩ
- 5. ብጣዕሚ ድኻም'ዩ

መልሶም ዝርዝር ኣቢሎም ይግለፁ፤ \_\_\_\_\_

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11. ብሓፈሽኡ እንትረከ ኣዋህባ ግልጋሎት በዓል መዚ እቶትን ጉምሩክን ጨንፈር መቐለ እንትግምገም፤

- 1. ብጣዕሚ ፅቡቕ                      3. ደሓን'ዩ                      5. ብጣዕሚ ድኹም'ዩ
- 2. ፅቡቕ                                      4. ድኹም'ዩ

ብኸመይ? \_\_\_\_\_

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12. ተመዝገብቲ ተወሳኺ እሴት ታክስ ወርሓዊ ምንቅስቃሳቶም ብቕንዕና፣ ብዓርሰ ተበግሶን ብሓቅነትን ንዝምልከቶ ኣካል ኣብ ምፍላጥ ዘለዎም ተበግሶ ብኸመይ ይግምገም?

- 1. ብጣዕሚ ፅቡቕ                      3. ደሓን'ዩ                      5. ብጣዕሚ ድኹም'ዩ
- 2. ፅቡቕ                                      4. ድኹም'ዩ

ብኸመይ? \_\_\_\_\_

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13. ተመዝገብቲ ግብሪ ምንቅስቃሳቶም ብዝምልከት ባዕልቶም ኣቕሪቦም ዝኸፍሉዎን ዝምልከቶም ሰብ ሞያ ዝግምገሙዎን ኣፈላላዮት ይረከዱ?

- 1. እወ ኩሉሻዕ ይረከ
- 2. እወ ግን ሓልሓሊፉ እዩ ዝረከ
- 3. ፈጻሙ ኣየጋጥምን



4. ካሊእ፤ ይገለፅ \_\_\_\_\_

መልሶም ዝርዝር ኣቢሎም ይገለፁ፤ \_\_\_\_\_

\_\_\_\_\_

14. ኣብ ክሊ ምሕደራ ተወሳኺ እሴት ታክስ ክኣለዩ ዘለዎም ፀገማት ኣለዉዶ?

- 1. እወ ኣለዉ
- 2. የለዉን
- 3. እንድዒ

መልሶም ዝርዝር ኣቢሎም ይገለፁ፤ \_\_\_\_\_

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15. መልሶም ክመሓየሹ ዝገበኑም ፀገማት ኣለዉ ዝብል እንተኾይኑ እቶም ዝግበዩ ሰለስተ ፀገማት ዘርዚሮም ይፅሓፉልና።

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

16. ብሓፊሽኡ ምሕደራ ተወሳኺ እሴት ታክስ ንክመሓየሹን እቶት ሃገር ንክድንፍዕን ክገበሩ ዘለዎም ሓሙሽተ ግባይቲ ነገራት የዘርዝሩ።

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

Annex 3: Table 39: VAT Filing practices at Mekelle branch office(Revenue and Customs Authority)

Year	Total No. of registrant (a)	Total number of filers in 12 months (b)	Monthly average number of filers (c)=(b/12)	Monthly total filers in %s (d)=(b/a)	filers with Payment (e)	Monthly average number of Filers with payment (f)=(e/12)	Filers with payment (in %s) of the total registrant (g)=(e/a)	filers with Credit (h)	Monthly average number of credit filers (i)=(h/12)	Filers with Credit (in %s) of the total registrant (j)=(h/a)	Filers with Nil (k)	Monthly average number of Nil filers (l)=(k/12)	Nil filers (in %s) of the total registrant (m)=(k/a)	non filers (monthly) (n)=(a-b)	VAT non filers (monthly) in %s (o)=(n/a)
1997	320	2452	204	63.75%	792	66	20.63%	885	74	23.00%	775	65	20.12%	116	36.25%
1998	594	3573	298	50.17%	880	73	12.29%	1395	116	19.57%	1298	108	18.21%	296	49.83%
1999	676	4664	389	57.54%	908	76	11.24%	1929	161	23.78%	1822	152	22.46%	287	42.46%
2000	772	3044	254	32.90%	550	46	5.96%	1273	106	13.74%	1221	102	13.18%	518	76.09%
Average	590.5	3433.25	286.25												

Sources: Annual report of Mekelle Branch (Federal Inland Revenue Authority)

