

INNOVATIONS

Tax Assessment and Collection Problems of Category “A” Tax Payers: The Case of Gulelle Sub City Revenues and Customs Authority Branch Office in Addis Ababa City Administration

Aron Abraham Babulo (Ph.D Candidate) & Professor P.Viswanadham

Commerce and Management Studies (Accounting and Finance)

Andhra University

Andhra Pradesh, Vishakhapatnam -530003

Corresponding Email: haronne2@gmail.com

Abstract

Taxation is defined as government revenue to fulfill public necessities. Despite the fact that taxation is not favored by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens. Governments of developing countries struggle to create modern tax systems. However most of these developing countries are burdened with weak tax administration and tax payers' resentment towards taxes. The goal of this study is to investigate Tax assessment and collection problems regard to category “A” tax payers found in Gulelle sub-city. The researcher distributed questionnaires to selected tax payers and tax officers. In addition the researcher used in- depth interview with management bodies. The study was based on descriptive analysis. The findings indicated that most taxpayers lack sufficient knowledge of tax assessment and collection Procedures, rules and regulations. There is lack of clear, transparent and up-to- date information and training. Moreover, tax assessment and collection officers are inefficient and insufficient in relation to number of tax payers in the sub city, tax officers are non-motivated, lack adequate skills. Due to this and other factors mentioned in the analysis of this study, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment. This study suggests that the tax authority should provide continuous training both for tax payers and tax office employees, use advanced information technology (IT), make the collection procedures simple and transparent, and strengthen legal enforcement and penalties. In general, the tax authority should try to ensure tax fairness and equity so as to encourage voluntary compliance behavior.

Keywords: 1. Tax Assessment 2. Collection Problems 3. Tax Payers and the Authorit

Introduction

Background of the Study

Tax is a compulsory contribution payable by economic units to a government without expectation of direct and equivalent return from the government for the contribution made. Taxes have both micro and macroeconomic effects in a modern economy. Taxes have good as well as bad effect in the production, distribution of income and stabilization of the economy (Misrak, 2008).

A tax is a fee charged or levied by a government on a product, income, or activity. The purpose of taxation is to finance government expenditure (Gupta, 2001). One of the most important uses of taxes is to finance public goods and services, public goods like roads, power, municipal services, street cleaning and other public infrastructures. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes. Despite the fact that taxation is not favored by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens (Oberholzer, 2008).

If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. A tax payer doesn't expect direct and equivalent return from the government for the compulsory contribution made (Ethiopia Trade and Investment, 2015).

Steinmo (in Rakner, 2002) stressed the importance of revenue as the lifeblood of the state and that taxation is the primary mechanism of revenue generation. He further emphasized that taxation is considered the most economically efficient way of transferring resources from the private to the public sectors.

Business income, or business profit, includes any income which is derived essentially from business activity or activity recognized as trade. Business profit tax is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity. Taxable business

income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses the business income tax ranges from 10% - 35% (ECC and EBDSN, 2005).

With the aim of broadening the tax base and facilitating the overall development of the economy, the government of Ethiopia has undertaken a comprehensive tax reform program. The reform measures are intended to encourage trade, investment and development through transparent and stable functioning of the tax system and to increase government revenue to support social and economic development programs and thereby alleviate poverty, strengthen the enforcement capacity of the taxes and custom authorities, and promoting equity in the tax system (Derartu, 2007).

According to article third of the proclamation No.587/2008, the authority is looked upon as "an autonomous federal agency having its own legal personality". Authority came into existence on 14 July 2008, by the merger of the ministry of Revenue, Ethiopian Customs Authority and Federal Inland Revenue Authority who formerly were responsible to raise revenue for the federal government to prevent contraband. Reasons for merging are to provide the basis for modern tax and custom

administration, to avoid unnecessary and redundant procedures that results delay and are considered cost inefficient, to be much more effective and efficient in keeping and utilizing information, to promote law resource utilization and service delivery and to transform the efficiency of the revenue sector to a high level.

Ethiopian Revenues and Customs Authority (ERCA) have its headquarters in Addis Ababa. It is led by a Director General who reports to the Prime Minister and is assisted by five Deputy Director Generals. ERCA is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The above idea initiated the researcher to investigate the Tax Assessment and Collection Problems in the Case of Gulelle Sub City Revenues and Customs Authority Branch Office.

Statement of the Problem

From all sources of finance, tax is the major source of finance for the government; however, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to sufficiently finance its expenditures (World Bank, 1999).

Along with the growth in the overall Ethiopian economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collect significant amount of revenue including grants, which could not fully finance the total expenditure. Without grants, the deficit could have been also about significant. This makes the borrowing and grant element of government's total expenditure counts too much. Of the external grant that constitute part of government revenue, almost half comes in the form of grants in kind and the remaining comes in the form of untied cash (IMF, 2006).

Furthermore, due to the great encouragement and conducive environments like investment opportunities created by the Ethiopian government, new firms are emerging surprisingly, however, the amount of tax revenue for the government is not increasing proportionately even every so often a decreasing trend was observed. Accordingly, huge unfavorable variance is observed in the performance report. Consequently, huge amount of money that should have been paid is not really given to the government, which in turn can be used to meet the various objectives of a government. Moreover, the prevalence such significant deficit demands the government to improve internal revenue generating activities to reduce dependence on foreign funding. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. Perhaps the most commonly used is to take corrective measures on the potential problems of tax administration at each tax office.

In order to raise adequate revenue to minimize revenue shortfall, ERCA and the different sub cities are working together. Gulelle sub city tax authority has mandate to look into tax assessment, periodic declarations, records and books of accounts to be maintained and submitted by taxpayers. The authority conducts pre-audit assessment by the time these documents are submitted so as to perform timely collection. This low revenue yield of taxation can be attributed

to the fact that tax provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers (World Bank, 1999).

Tax administration has to secure compliance with the laws by applying an array of registration,

assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country.

Therefore, identifying the problems on tax assessment and collection at each tax office and taking corrective measures need attention since they have adverse effects on the overall revenue of the government. Accordingly, this study tries to identify tax assessment and collection problems of the Gulelle Sub-city Revenue and Customs Authority Branch Office.

Research Questions

To this effect the study was guided by the following basic research questions:

1. Do Tax payers have enough knowledge and awareness about taxation?
2. How effective and efficient is tax assessment and collection procedure for category 'A' tax payers in Gulelle Sub-city Customs and Revenue Authority Branch Office?
3. What challenges are there which impede tax assessment and collection procedure at Gulelle Sub-city Customs and Revenue Authority Branch Office?

Objectives of the Study

General Objective

The general objective of the study is to assess the tax assessment and collection problems in the case of Gulelle Sub City Revenues and Customs Authority Branch Office.

Specific Objectives

The specific objectives of this study are the following:-

1. To understand the status of tax payer's knowledge and awareness about taxation.
2. To assess the efficiency of tax assessment and collection procedure of Gulelle sub city Revenues and Customs Authority Branch Office.

To identify challenges that the authority faces with its customers with regard to collection of tax.

Significance of the Study

The findings of this study may give clear understanding of what type of tax assessment and collection procedures are there, what problems are there and how those problems were handled by both tax payers and Administrators. Thus, all the concerned body will be able to strength the tax collection and try to adopt a comprehensive strategy, and minimize the observed tax administration problems to increase tax revenue. The Sub-city revenue& customs bureau may use this finding to revise its strategies concerning tax assessment and collection. Furthermore the results of finding will serve as a reference for other researchers on this area.

Scope and Limitation of the Study

The researcher has found that it is very important to limit the scope of the study to a manageable size in order to investigate the issue thoroughly. Therefore, this research is confined to Gulelle Sub City Revenues and Customs Authority Branch Office for the sake of in-depth analysis with genuine

investigation on tax assessment and collection problems. Addis Ababa is classified in to ten sub-cities; out of these sub cities the researcher select Gulelle Sub-city.

Secondly, it is impossible and difficult to conduct a research on tax assessment and collection problems across citywide within such a short period of time together with limited financial resource owned by student researcher. Hence the focuses of this study is “Tax assessment and collection problems in Gulelle Sub City Revenues and Customs Authority Branch Office”.

Research Design and Methodology

Research Design

This research paper was designed in such way that enables the researcher to study problem more easily and clearly using quantitative and qualitative methods. It is structured to provide relevant information, both quantitative and qualitative, to sufficient level that would be essential for further processing. Quantitative data is expected to provide current stands and trends while qualitative one will be useful to understand people’s feelings and expectations which have linkage to the research questions raised at the beginning.

Research Approach

Inductive research Approach was employed in this study. Inductive approach starts with research questions and aims and objectives that need to be achieved during the research process. Inductive studies follow the following route observation, pattern, and theory.

Research Methodology

Descriptive survey method was employed in this study with the assumption that it is appropriate because it helps in obtaining large variety of data related to the problem under the study. The research methods have quantitative and qualitative nature. For the quantitative approach, the study use self-administered survey. The sampling design for this population is random sampling. The participants are Category “A” tax payers in Gulelle sub city. Under this category, there are importers and exporters; wholesalers and retailers; manufacturers; and service providers. For qualitative approach, the researcher use in-depth interview with executives of Gulelle sub city Revenues and Customs Authority Branch Office employees. The nature of this research is exploratory and open-ended. This research use both primary and secondary data sources. The primary data was collected through interview and self-administered semi structured questionnaires. The questionnaire was distributed to the selected tax payers and tax officers. To get primary data the questionnaire was comprised of both closed and open ended questions. Most of the closed ended questions were designed as ‘yes’ or ‘no’ questions. The secondary data was generated from tax related policies and guideline documents, reports of Ethiopian Revenues and Customs Authority’s (ERCA’s) web-site, books, Internet , handouts, other unpublished materials, and from the data base of the sub city’s tax authority.

Sample and Sampling Techniques

Addis Ababa consists of 10 sub cities. From these Sub-cities, Gullele Sub-Cities was selected using random sampling technique, which gives each of them an equal chance of being included in the study, because it was difficult and unmanageable to conduct a research on all of these sub- cities at a time. Due to their large size, tax payers were selected randomly and tax administration office workers were also selected on the basis of availability sampling techniques. Accordingly, 100 tax payers, 24 tax office works from the sample Sub-city were selected and participated in the study. In sum, the study has 124 sample respondents. Furthermore, three independent focus group discussions were

formed and conducted.

Data Collection Instrument

Questionnaire, interview and document analysis were employed to collect data from respondents. The data were collected from both primary and secondary sources through Questionnaire, interview and document analysis which enable the researcher to gain genuine information.

Validity and Reliability

Checking the validity and reliability of data collecting instruments before providing to the actual study subject is the core to assure the quality of the data (Yalew, 1998). To ensure validity of instruments, initially the questionnaires were prepared by the researcher with guidance from the advisor. The questionnaires were subjected to pilot test.

Procedures of Data Collection

In order to gather the necessary data three groups of respondents' were actively involved in the study. To this effect, different data collection instruments were developed by the researcher based on the review of related literatures. Tax payers and Tax Office Worker in one hand treated through questionnaire and executives of the branch office were treated through interview. The rationale behind selecting such variety respondents is perhaps to consolidate the reliability of information.

Method of Data Analysis

The data collected through questionnaire, semi structured interview and document analysis from the study representative sample were processed and subjected to a variety of analysis techniques. Simple arithmetic calculations and descriptive statistics were deployed to analyze and interpret the data. Summaries are presented as counts, and percentages in tables. The researcher use both qualitative and quantitative analysis in this study. Besides, the data gathered through interview and document review were analyzed in the form of narration or telling. Finally, the researcher enhances the reliability of the findings.

Ethical Considerations

The researcher addresses ethical considerations of confidentiality and privacy. A guarantee was given to the respondents that their names should not be revealed in the research report. Participation in the study was voluntary, and all participant responses were confidential and can quiet to respond the question anytime they like. Finally, a copy of the final report is available.

Summary, Conclusion and Recommendations

The previous chapter presented the data analyses of the study. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

Summary

This study was conducted aiming at the Tax Assessment and Collection Problems of category A tax payers: The Case of Gullele Sub-City Revenue and Customs Authority Branch Office with the intension to understand the issue from taxpayers, tax office workers, and tax office management bodies' perspectives. The study employed both qualitative and quantitative research design with the assumption that reality is socially constructed by participants and there are many truths. This research approach was appropriate as the researcher was trying to understand the complexity of the

issue under investigation through the lived experience, perceptions and perspectives from a holistic standpoint.

For the purpose of this study, a descriptive survey method was employed to disclose the understanding of respondents on the issue under study. This method was chosen with the assumption that it helps to conduct data as it exists and to gather several data related to the problem under study. Both primary and secondary sources of data were used. Data were gathered via questionnaire, interview and document analysis. The collected data were analyzed by descriptive statistics such as frequency count and percentage. The response rate was 75.8 % which clearly shows that the researcher has got adequate and representative responses to the intended research undertakings. The data secured through questionnaire are analyzed quantitatively and data secured through interview was thematically analyzed and organized in to themes to answer the research questions.

Conclusion

Since tax is the main source of public expenditure, the assessment and collection of tax at any category should be effective to generate adequate amount of funds that can cover all the capital that the government needs. The following conclusions were made based on analyzed data of quantitative and qualitative part of the study.

Gulelle sub-city tax office has faced different financial, operational and administrative problems and challenges. Tax payers have inadequate knowledge on the technical aspects of the income tax. Furthermore, the tax office does not offer sustainable training to create tax awareness for taxpayers. Most of them do not know the rules and regulations of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

Moreover, the tax collectors did not have adequate skills. The tax office does not offer sustainable training for employees. Training was not considered as vital activity. The emphasis of staff training is on teaching the contents of tax laws as opposed to applying the laws. Lack of clarity in tax law left room for interpretation. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training. The prevalence of poorly trained employees accompanied by perceived low remuneration packages and corruption have affected the tax administration.

There exists inefficient and insufficient number of tax assessment and collection officers in the sub city. Farther more some tax authority's employees lack integrity, honesties, transparency and professional ethics at the time of tax assessment. Besides, there are problems in relation to treating each and every taxpayer equally and fairly and bringing non taxpayers to tax system.

Taxpayers continuously complain on challenges existing in the tax office, The major causes for the aforementioned challenges on tax administration are poor understanding about tax proclamations, rules and regulations by taxpayers , Complexity of tax laws and proclamation, delayed tax assessment process by the authority due to lack of sufficient assessors, Lack of skilled and motivated management bodies and very frequent employee turnover , Inefficiency and ineffective computerized system in tax administration, redundant Electric power failure and inflexibility of the software in use, unfair tax rate.

Generally, taxpayers and tax offices have tax administration problems of different natures. The following section presents different recommendations as to which these observed tax administration problems can be solved.

Recommendations

Based on the study conducted it would be reasonable to give the following recommendations that may help tax payers, the tax authority and other policy makers to improve the problems associated with assessment and

collection of category “A” tax in general and at Gulelle sub city in particular. These are

- It suggests that the authority should continuously work on tax awareness creation and tax knowledge by giving adequate tax training and education to tax payers. The role of tax awareness and perception of tax payers towards the tax system is pivotal for voluntary tax compliance decision. If tax payers perceive the tax rate is high, their tax compliance level will decrease and vice versa. Fair and equitable tax system can encourage taxpayers to voluntarily obey with the tax system.
 - When the Authority arranged tax awareness program for managers, tax officers and taxpayers they should actively attend and get reliable information about the current tax rules, regulations, and procedures in order to improve their tax awareness. The most influential aspect of tax compliance is the increased knowledge and understanding of tax regulation because tax collection is based on a law that can be imposed.
 - The manner of tax payment needs to be fully convenient to taxpayers. Otherwise severity of penalty imposed on any tax evasion has negative impact on the level of voluntary tax compliance.
 - There is a problem in service delivery and transparency in the sub-city. If this remained unchecked, this will demolish the performance of the tax authority. Therefore the tax authority needs to avoid these issues by using extensive trainings. Employees need broader range of knowledge than customers do. This includes extended subject matter knowledge that is employees need to have additional knowledge that an agency makes available to its customers. This is essential for serving customers effectively. And also tax office employees should have customer knowledge. This means employees should have as much knowledge as possible about the customers they are assisting.
 - Tax payers should keep necessary source documents and prepare different financial statements in order to minimize complains with the tax authority.
- Taxpayers also should improve their culture or behavior such as hiding their true income to the tax authority, being careless to give receipt to their customers for the services or goods they sold, and seeing the tax authority employees as an enemy. Key measures to improve compliance are outreach and education. Outreach can be through business or civil society associations which allow discussion or bargaining between government and citizens on tax issues. Education can be through different forms of media and schooling, and can involve teaching tax payers their responsibilities, how to pay their taxes, and how tax money will be spent.
- It suggests that taxpayers should get incentives for their true tax amount and on time payment.
 - The authority should advance the information technology (IT), system like filling, payment system, recording system, registration and others related issues to improve revenue collection, accounting for taxes paid, monitoring of taxpayers, service delivery to taxpayers and compliance, and also to reduce the administration cost.
 - The management should work towards bringing the team spirit. Team members enhance the skills, knowledge and abilities while working in teams. Organizations which emphasize more on teams have results in increased employee performance, greater productivity and better problem solving at work. The core process must also give high attention on employee training and

personal development, to cop up the new science and technology.

- A common reason for turnover lies with the pay and benefits and the lack of appreciation. So the authority should pay a standard rate and provide appropriate incentives and awards to the best performing tax officials. Such as invest in learning and development programs. Learning and development programs can be excellent incentives for employees to improve their performance, and investing in these programs is a win-win for both the employer and employee. The second incentive could be showing heartfelt appreciation. Money and other forms of remuneration are definitely drivers and important, but the most immediate, and also the longest-lasting, tool to drive employee performance is showing a genuine, heartfelt appreciation for people's efforts, coupled with sincere compliments that reinforce the behavior you desire most. The other incentive could be offering better options for health and wellness.
 - Strong audit follow up is very important element. Tax audit affects revenue collection in that it promotes voluntary compliance of taxpayers which increases revenue. With tax audit tax liability can be easily declared and matters that need adjustment are identified. It also helps in collecting tax interests and penalties which thereby increase revenue collection. Tax audit also helps to implement changes to eradicate evasion. Thus, the authority should have audit follow up on tax payers.
 - The tax authority should make alliance with institutions like universities, external auditors ,audit firms, tax agents ,chamber of commerce, investment office, minister of trade, international tax advisors and like can conduct joint programs such as capacity building and researches that enable solve the tax administration problems and others.
 - The tax authority should provide continuous training, building an efficient system of operation that does not only focus on announcing about tax issues it should rather depict the benefits and impacts in a practical examples through different medias can solve the existing problem.
- The last but not the least, Gulelle sub city tax administration can achieve its goals if it allows taxpayers to give their genuine feedback on the process. Feedback gives all sorts of insights into what customers want. Here are some ways how to get feedback from customers. Feedback boxes, setting up a customer panel and explain how the feedback will be used, reaching out directly, putting a feedback button on website, responding to everyday feedback. Then customers problems will be taken due attention in order to have voluntary compliance.

References

1. Creswell, J W 2003, "Research design: qualitative, quantitative and mixed methods Approaches", 2nd ed., Sage Publications, California.
2. Chau, G. & Leung, P. 2009. A critical review of Fischer tax compliance model: A research synthesis. *Journal of accounting and taxation*. Vol.1 (2), July 2009.
3. Devos, K. 2005. *The attitudes of tertiary students on tax evasion and the penalties for tax evasion a pilot study and demographic analysis*
4. Douglas and Green Wald (1983): "The Thought of Tax Collection Practice," 6th Edition, Thomson South Western, Princeton University, Canada.
5. Ethiopian Chambers of Commerce (2005). "Taxation in Ethiopia: Direct and Indirect Taxes Categories of Taxpayers Declaration of Income and Assessment of Taxes Tax Incentives" Addis Ababa, Ethiopia.

6. ERCA, (2010): "Federal Government Tax Collection," Ethiopian Revenue and Custom Authority. Addis Ababa.
7. Gupta, A and Mookherjee, D .(1998). *Incentive and Institutional reform in tax enforcement: An analysis of developing country experience*. Oxford University Press, New York
8. Europe, *Towards Public Sector Reform in Post-Communist Societies*, Blackwell Publishers, Oxford, UK. And Cambridge, MA.
9. IMF Working Paper No. 05/218, IMF, Washington DC, available at <[http: imf.org/external/ 2005](http://imf.org/external/2005)>, accessed on December, 2013.
10. James, S. and Nobes, C. (2000). *The Economics of Taxation: Principles, Policy and Practice 7th ed*. Prentice-Hall.
11. Kaldor (1980): "The Role of Taxation in Economic Development", *Essays on Economic Policy I*, Duckworth, London.
12. Mansfield, C.Y. (1990): "Tax Reform in Developing Countries, the Administrative Dimension", *Bulletin International Bureau of Fiscal Documentation*.
13. Misrak, Tesfay (2008): "Ethiopian Tax Accounting: Theory and Practice", Senior Essay, School of Economics, Addis Ababa University, Addis Ababa.
14. Murphy, K., (2002). "Trust Me, I'm the Taxman: The Role of Trust in Nurturing Compliance". Centre for Tax System Integrity Working Paper No 43, Australian National University and Australian Taxation Office, Canberra.
15. Oberholzer, R. 2008. *Attitudes of South African Taxpayers towards taxation: A pilot Study. Accountancy business and the public interest*.
16. Rakner, L. 2002. *The politics of revenue mobilisation: Explaining continuity in Namibian tax policies*.
17. Richard M.Bird and Joseph L.Rotman (2005): *Value Added Taxes in Developing and Transitional countries: Lessons and Questions*.
18. Samuel Alemnew Belay and P. Viswanadham (2016). "Tax Fairness Perceptions and Compliance Behavior: Evidence from the Metropolitan Cities of the Amhara Regional State of Ethiopia." *International Journal of Science and Research* 5(4): 1173-1183.
19. Sjursen, I. (2012). *People's views of taxation in Africa: a review of research on determinants of tax compliance*, ICTD Working Paper 8, Brighton: International Centre for Tax and Development.
20. Temtime Debere (2014). *Business Taxpayers' Satisfaction with the Tax System in Addis Ababa, Ethiopia*. Master's thesis, Addis Ababa University, Department of Accounting and Finance.
21. Tulu, L. (2007). *Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case Study of Dire Dawa City*. Master's thesis, Addis Ababa University, Department of Management
22. Zelalem, Y. (1999). *Revenue Productivity of the Tax System in Ethiopia*. M.Sc. Thesis, Addis Ababa University.