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THE CONTRIBUTION AND CHALLENGES OF INDIRECT TAX IN ALAMATA TOWN ADMINISTRATION, TIGRY REGION STATE

A Thesis submitted in partial fulfillment of the Master of Arts in Accounting and Auditing

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Sep 2025

Mekelle, Ethiopia

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List of 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

Abstract

Purpose of the Study: The primary purpose of this research is to examine the contribution of indirect taxes to revenue generation and to identify the key challenges hindering their effective administration in the Alamata Town revenue office.

Methodology: The study employed a mixed-methods research approach with a cross-sectional design. The target population consisted of 172 VAT-registered taxpayers and tax office employees in Alamata. A sample of 120 taxpayers was selected using systematic random sampling, alongside 18 employees. Data was collected through questionnaires and interviews. Quantitative data were analyzed using descriptive statistics with the Statistical Package for the Social Sciences (SPSS version 26), while qualitative data from interviews provided contextual depth and supported the findings.

Main Findings: The study reveals that indirect taxes, particularly VAT, are a significant source of revenue for the Alamata town administration. However, major challenges impede their full potential. Key findings include:

1. Administrative Challenges: There is a significant issue with non-registration of potential taxpayers and improper issuance of VAT invoices upon transactions.
2. Systemic Weaknesses: The tax office suffers from a shortage of skilled manpower, inadequate auditing planning, and weak enforcement mechanisms, which hamper effective compliance control.

Conclusion: The study concludes that while indirect taxes contribute substantially to local revenue, their efficiency is severely constrained by a combination of administrative incapacities, weak enforcement, and taxpayer compliance issues.

Recommendations: To improve indirect tax administration, the study recommends:

1. Improving VAT collection by targeting non-filers and repeated nil/credit filers.

2. Developing a risk-based audit plan and increasing the number of qualified auditors.

3. Boosting voluntary compliance through extensive taxpayer education programs and improving service delivery at the tax office.

CHAPTER ONE

1. Introduction

1.1. Background of the study

The economic development of any country depends upon the revenues generated by the avail-ability of alternative infrastructure and social services in their country. To ensure that these services are properly delivered, governments should have sufficient revenues to fund them. One of the most important ways in which the government raises funds to finance its operations is through taxes (Ndekwa, 2014).

To fulfill the expectations of the people and function as a government, it needs financial resources (James and Nobes, 2000). Taxes are the primary source of revenue for the government and can be used to fund all of its economic stabilization initiatives. In Ethiopia, taxes imposed by the government (direct and indirect) are one of the most important and important sources of public funding for the advancement of its economic process. However, despite the imposition of taxes, they have not yet produced the anticipated results due to a number of factors, the primary one being that taxpayers do not pay their fair share of taxes (Tesfaye, 2015). Taxes are fundamental to the existence of governments through generating tax revenues that help to finance the bulk of services that government provides education, welfare, public safety, infrastructure, and other basic public services. Improved tax compliance enhances disposable income to support public services without increasing the current tax burden of compliant taxpayers (Bird & Casanegra de Jantscher, 1992)

Indirect tax, such as VAT, was mostly unknown outside of France and a few specialized, academic literatures. Indirect taxation, often known as value-added tax, has become widespread these days (Keen and Lockwood, 2007). The foreign Monetary Fund (IMF) and other foreign organizations and consultants, in particular, adopted this type of taxation DTE early, which was one of the main causes for its quick adoption (Richard, 2006). Taxes are generally categorized into two as direct and indirect taxes. VAT is categorized under indirect taxes.

VAT is described as a broad-based tax that is applied to the sales of commodities up to and including the manufacturing stage, with the tax on inputs (possibly with the exception of capital goods) being systematically offset by the tax on outputs (Ebrill et al., 2001). It is a tax that is imposed and collected on the sales of products and services, and the tax owed on outputs is systematically countered by the tax charged on the goods and services that are acquired as inputs. VAT is a mandatory tax that must be paid by individuals who are subject to it, regardless of whether the government reimburses them for the products or services they have received. Put another way, the government does not provide a clear and explicit quid pro quo to taxpayers.

Contrary to what its name suggests, value-added taxation (VAT) is typically meant to be a tax on consumption rather than value addition. The tax is imposed at every point in the manufacturing and distribution process, from importers and producers to retailers. A mechanism is in place to allow businesses to deduct the tax they pay on their own purchases from the tax they collect on sales. A few advantages of Value Added Tax (VAT) are as follows: Taking away the tax content (on inputs) from exported goods increases their competitiveness in global markets; reducing the tax on capital goods encourages investment; and Value Added Tax (VAT) generates more government revenue than replacing 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.

In order to attain this goal of rapid and sustainable growth, stable and consistent domestic income mobilization is essential. Without it, the government's aim of rapid and sustainable development will remain a pipe dream, dependent on unpredictable external funding sources. This emphasizes that domestic resources should account for the majority of funding for development projects in developing economies, not that external sources are unimportant. One of the most significant tax changes of the latter half of the 20th century was the introduction and quick spread of the Value Added Tax (VAT). In the 1950s, France implemented VAT as a comprehensive national tax for the first time. Since then, numerous nations across the globe have accepted it as the primary indirect taxation method.

Over 4 billion people, or 70% of the world's population, now reside in nations with value-added taxation (VAT), which generates over $18 trillion in tax income annually, or nearly 25% of all government revenue, according to the IMF. It was once limited to more developed economies in Europe and Latin America, but in the last fifteen years, it has spread widely and is now an essential part of the tax systems in both emerging and transitional economies. As a significant part of a nation's tax structure, the VAT has been viewed as a vital tool for ensuring macroeconomic stability and growth by laying the groundwork for domestic revenue mobilization. As such, nations have placed a high value on the appropriate planning and execution of the VAT. Ethiopia has embraced as a primary component of the ongoing Tax System Reform Program (TSRP) from January 1, 2003, taking into account these characteristics that the tax system deserves. The implementation of the VAT is also in line with the path that many nations have been following to transition from a reliance on direct taxation to a value-added tax (VAT). The effective management of the process, the dissemination of a thorough knowledge of the scope and advantages of the VAT to the business community, other stakeholders, and consumers, as well as the establishment of an efficient tax administration, were all necessary for the successful implementation of the VAT. To increase the size of the revenue base and improve the effectiveness of tax administration, the Ethiopian government replaced the previous sales tax.

Tax revenue is a significant source of funding for governments in developed, emerging, and poor nations worldwide. However, the amount of tax money a government will get for its spending plan depends on the desire of the taxpayers to abide by the country's tax regulations (Fjeldstad et al., Citation2012). Even though tax revenue is a powerful instrument in the hands of the government for transferring purchasing power from individuals to the government to finance public expenditure, most citizens become unwilling to pay their tax obligation in the correct amount, time, and place due to the presence of negative attitudes.

Tax compliance is the free and complete fulfillment of all legal tax responsibilities (Atawodi & Ojeka, Citation2012). Tax compliance is a crucial source of public revenue which is a small portion of personal wealth that is demanded from citizens by the state with the goal of covering the costs necessary to fulfil governmental duties (Yohannes & Sisay, Citation2009). According to Fjeldstad et al. (Citation2012), the government becomes more legitimate in its acts the more accountable it is with taxpayer money. The topic of tax compliance attitude has not received much attention in Ethiopia. According to Batrancea et al. (Citation2019), compliance can be promoted by carefully examining extensive studies on people's behavioral facets. As a result, tax compliance has been a significant area of research in numerous emerging nations. This review study aims to evaluate taxpayers' tax compliance behavior in Ethiopia and serves as a cue for additional investigation. This analysis shows that Ethiopian tax compliance is at a very low level. This review article especially attempts to evaluate the drivers and problems of tax compliance behavior of taxpayers in Ethiopia in order to raise tax compliance levels.

In order to improve taxpayer compliance, attract investment, and boost revenue generation, efficient and effective VAT administration is expected. This study will attempt to explore the contribution and challenges of indirect tax in a few chosen towns in southern Tigray, as many previous studies have not examined these issues.

1.2 Statement of the Problem

Currently, the majority of developing nations rely more on outside funding sources to support their development initiatives. Taxes make up a fairly small portion of GDP in developed nations. Ethiopia's tax revenue as a percentage of GDP is less than 10 %(Franzoni, 2000). As one of the least developed nations, Ethiopia relied on outside funding to carry out its primary government functions.

For many developing countries, tax non-compliance has posed a significant barrier to tax income. One of the main reasons for non-compliance, according to Waris (2013), is a lack of confidence between the public and the government. People in developing nations believe that their government is corrupt. Consequently, they do not think that their money will be invested in nation-building in good faith (Waris & Abdul, 2014). Considering that emerging nations are susceptible to tax evasion. The topic of tax compliance attitude has not received much attention in Ethiopia. According to Batrancea et al. (2019), compliance can be promoted by carefully examining extensive studies onpeople’s behavioral facets. As a result, tax compliance has been a significant area of research innumerous emerging nations. This review study aims to evaluate taxpayers’ tax compliance beha-vior in Ethiopia and serves as a cue for additional investigation. This analysis shows that Ethiopian tax compliance is at a very low level. This review article especially attempts to evaluate the drivers and problems of tax compliance behavior of taxpayers in Ethiopia in order to raise tax compliance levels. However, by 2020 E.C., the Ethiopian government is determined to end poverty and advance to the status of a democratic lower-middle-income nation with sound governance and social justice. This cannot be done without producing enough revenue to meet the government's minimum annual budget. These days, positive outcomes are observed as far as collecting revenue is concerned. Indirect tax (vat) was introduced before seven years and is showing dramatic changes in generating government revenue. Among studies completed in Ethiopia, this one highlighted the key variables that influence taxpayers’ tax compliance behavior and the key obstacles to tax compliance in the nation. However, universal themes have been included in the background and literature part to provide a comparative contextual assessment and corroborate the study’s conclusions.

Literature also shows that not all experiences gained by the indirect tax were well studied. Having this gap in mind, the researcher tries to assess the contribution and challenges of indirect tax in Alamata selected towns in southern Tigray.

1.3 Research Questions

The study's primary research question was examined the role and difficulties posed by indirect tax (VAT) in Alamata revenue office. Furthermore, the study aims to address the subsequent sub-questions.

- What are the primary obstacles to the introduction of Value-Added Tax (VAT)?
- What are the contributions of indirect taxation in terms of generating revenue?
- What opportunities exist for the VAT implementation process?

1.4 Objective of the study

1.4.1 General objective

The main objective of this study will be to examine the contribution and challenges of indirect tax in Alamata town administ***r***ation revenue office. Tigray regional state

1.4.2 Specific objectives

- To determine the fundamental issues preventing the study area's VAT from being implemented smoothly
- To assess indirect tax's contributions to revenue generation;
- To identify opportunities in the VAT implementation process

1.5 Significance of the study

It is anticipated that the study would pinpoint the main issues impeding the efficient administration and application of indirect tax in the targeted region. Then after that suggest ways to make improvements. It will also seek to suggest methods for improving the efficiency of the revenue production process. As a result, by suggesting ways to increase the revenue office's capability, the study will be crucial to the country's development. The lessons learned from it can also be used to other branch offices that are comparable

1.6 limitation of the study

This study has time and convergence constraints, so its conclusions cannot be extrapolated to other offices that are similar to its own. Some methodological limitations of this study include: The study's conclusions will be constrained by the validity and reliability of the instruments; additionally, it is presumed that the employees will answer truthfully and understand the instrument as intended; and finally, the study's conclusions will be subject to the limitations of survey data collection methods.

1.7 Scope of the Study

Conceptually, the scope of the study is limited to only VAT as an integral element of indirect tax; it did not consider other types of taxes. Geographically, this study will be conducted in Alamata Revenue.

1.8 Organization of the study

The thesis is organized in to four chapters. General introduction is given in the first chapter. And the relevant literatures in the field are discussed in the second chapter. The third unit deals with the study area, design, and methodology of the study. The fourth unit consists of a separate presentation of the quantitative and qualitative results and discussions.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

Tax and non-tax receipts are the sources of government revenue. Taxation is the most traditional and, in the end, the only sustainable source of funding for development. Therefore, putting government revenues on a sustainable basis that is in line with the levels of demand for expenditures must be the longer-term objective. Mobilizing domestic revenue is essential for financing sustainable development; only self-sufficiency can lead to the establishment of fully operational states with deteriorating political representational systems and economies that reflect societal preferences on issues like inequality, for example (Cobham, 2005).

One of the main themes in the research programs and operations of various organizations, colleges and universities, has been the role that taxes play in development. Originally, a variety of literary works highlighting the significant historical contribution of taxes to the establishment of stable governments sparked this interest. Many nations, including Ethiopia, have implemented a comprehensive taxing system known as Value Added Tax in an effort to place governments on a sustainable foundation.

2.1 Value Added Tax (VAT)

For many years, the foundation of taxation was straightforward and constrained, as it still is in many emerging nations today. Excise duties were imposed by governments on imports and commodities, particularly luxury goods, providing a rare but challenging source of income (Vincent, 2001). In order to address the previously described issue, several nations implemented distinct taxing structures.

Value Added Tax (VAT) was initially used more than 50 years ago, although it was only implemented in a few nations until the late 1960s. Despite this, the majority of nations have VATs, which generate, on average, roughly 25% of their total tax revenue (Ebrill et al., 2001). VAT is still a quite recent levy. In France, it was initially imposed as a comprehensive national tax fifty years ago. Since then, numerous nations in various regions of the world and at various levels of economic development have embraced it as their primary indirect taxation method (Thorony; 1960). Effectively, value added tax was replaced with sales tax in Ethiopia on January 1, 2003. The goal of the VAT law's design is to meet anticipated revenue targets, provide 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 are typically in favor of structuring the VAT as a consumption tax, with the main goal being to create a disparity between the price that suppliers earn from matching sales and the price that consumers pay for their purchases (Ebrill et al., 2001). Value Added Tax (VAT) is becoming a more popular method of raising government revenue than other broad-based taxes, and it is being adopted more and more in many African countries. Even when comparatively poorly implemented, it is thought to be a useful tool for increasing government revenue. Has the major argument put up by supporters of the Value Added Tax (VAT)—that it is an especially effective form of taxation—actually come to pass? One method of examination for this is to ask whether, all else equal, countries with a VAT raise more revenue, overall, than do those without (Richard, 2005:10)

2.2 major characteristics of Value Added Tax (VAT)

The broad base tax applied at many phases of production and, significantly, the crediting of taxes on inputs against taxes on output are the salient characteristics of the Value Added Tax (VAT). In other words, although sellers must charge tax on very sale, they are also eligible to receive a credit for taxes paid on their inputs. The benefit of this is that, in contrast to a retail sales tax, income is assured by being collected continuously during the production process, and it does not affect production choices the way a turnover tax does (Richard, 2005:8).

The main argument put up by proponents of the VAT is that it is a very efficient means of increasing tax income. According to Cnossen (1990), for instance, "VAT is probably the best tax ever invented, purely from a revenue point of view." Advocates have long acknowledged that the VAT is susceptible to fraud and evasion, just like any other tax, but they also point out certain characteristics of the VAT that might make it less susceptible than other types of taxes (Michael K. and Stephen S., 2007).

When it comes to creating contemporary tax administration techniques that rely on efficiently tracked voluntary compliance, the VAT can be a key component (Ebrill et al., 2001:138). The ratio of official tax payment (actually collected) to tax owed (the tax liability) could be used to characterize tax compliance. Administrative evasion or weakness may be indicated by a low compliance level (Daniel 2003). Voluntary compliance in the context of VAT is defined as the proportion of VAT return filers and timely VAT-paid

Filers to the total VAT registrant (Christophe, 2003). A high incidence of voluntary compliance suggests that taxpayers understand the penalty system and support its strict application and prompt enforcement (MoR, 2004). Early in the 1990s, as transition economies advanced toward the introduction of VAT with little prior experience with tax administration and little understanding of what would be needed to administer an accounts-based tax, the problem of self-assessment resurfaced (Ebrill et al., 2001:139). The foundation of contemporary tax systems and their management is the idea of "voluntary compliance," which states that individuals should abide by their fundamental tax duties with little to no assistance from revenue authorities. In reality, voluntary compliance is attained through a "self-assessment" system in which taxpayers compute their own tax liabilities, fill out their tax returns, submit them to the tax administration along with payment, and run the risk of being audited. They are given reasonable access to advice from the tax administration during this process. In the majority of nations, the progress of self – assessment is closely linked to the rise of the VAT. Indeed, the realquestion 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).

2.3 EMPIRICAL LITERATURE

A study of 31 developing nations' experiences revealed that 26 of them base their VAT management on the idea of self-evaluation. However, additional data analysis revealed that the progress has been less than initially thought (ITD, 2005). In a voluntary compliance system, taxpayers self-assess, figuring out and paying their own taxes, provided they fulfill their basic tax requirements without assistance from tax authorities. They have to fill out their returns and send them to the tax administration together with their money. Examining the effects of not having self-assessment is one method to understand why it is crucial to an efficient VAT administration (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 in those that do include some components of one of these programs, a pre-refund verification frequently takes center stage. These nations also have a propensity to attempt to counteract inadequate auditing by implementing intricate protocols, like stricter filing guidelines and extensive audit cross-checking. These raise the expense of compliance and exacerbate administrative challenges. VAT compliance declines and the legitimacy of tax administration is damaged in the absence of efficient audits. Hence, improving audit is crucial, especially in developing nations (MoR, 2004:24).

2.3.1 COMMON TYPES OF VAT

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).

Because potential fraudsters are deterred by the thought that they have a fair probability of being discovered and punished, advanced administrations have discovered that a well-designed audit program is essential to lowering the scope of VAT fraud and evasion (MoR, 2004:25).

Michael K. and Ben L. (2007) state that one of the main arguments put up by supporters of the VAT, particularly for developing nations, has been that it would strengthen efforts to directly raise much-needed tax income as well as indirectly through more extensive advancements in tax administration and compliance. States differ greatly in their approaches to legislation regarding the procedural and administrative aspects of tax laws. Therefore, it is challenging to offer any kind of broad guidance for the process that needs to be connected to 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 protocols. Both the government and taxpayers will find this to be more understandable (IMF, 1996). VAT administration is the process by which tax authorities carry out the duties assigned to them. These duties encompass a variety of associated tasks, including taxpayer identification and registration, invoicing, filing and payment obligations, control over filing and payment, refunds, audits, and penalties, according to Jantscher (1990). VAT administration may also be somewhat related to questions of who should handle tax administration, the best organizational structure to employ, and the resources that are available.

Recording of taxes and taxpayers, collection of taxes, duties and other government imposed statutory fees is the basic task of the task administration activity.

Collection of tax wills be efficient if a possibly larger amount of tax payers is reached fulfilling their tax liabilities voluntarily (Riga, 2004).

Whether there are more effective ways to specify thresholds other than in terms of turnover is a key concern regarding VAT. This can be accomplished with ease using the VAT subtraction form. Value additions beyond a certain threshold can be taxed using the exact same structure as regular income taxes (Ebrill et al., 2001:13). In Ethiopia, the annual turnover threshold for taxable goods and services is set at 500,000 Ethiopian Birr. This threshold is based on the assumption that taxpayers with this level of business activity turnover will be able to comply with the VAT requirements and will keep the necessary books and records as part of their regular operations. Additionally, the rule permits voluntary registration for individuals who consistently provide or provide at least 75% of of their goods and services to registered persons. This implies existence of both obligatory and voluntary registration for VAT.

Ebrill (2001) claims that a key component of VAT design has been made possible by the threshold selection. These are: "Previous experience suggests that a VAT's administrative and political viability may be seriously jeopardized by establishing a threshold that is too low. Setting a particularly high threshold is supported, especially at the time of implementation, by this, the extraordinary degree to which the VAT base is concentrated among a relatively small number of taxpayers, and the limited administrative capability in many countries. However, it seems that nations are more likely to have various sector-specific thresholds. Furthermore, there has been little focus on the tax treatment of individuals below the VAT threshold, and different governments often employ simplified approaches for small businesses. The majority of developing nations rely on outside funding to support their development initiatives. Consequently, there are moments when the budget issue gets worse. They should take use of and fortify their domestic resource base in order to promote sustainable growth in order to alter the current circumstances. 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 can be flaws in the way VAT administrators carry out their responsibilities. In consequence, deficiencies in the administration of the Value

Added Tax (VAT) could have a negative effect on the key components of the tax and the goals of government policy in general. In this context, Tanzi and Pellechio (1995) (quoted in Mikesell, 2007) pointed out that ineffective tax administration would alter how taxes influence the goals of government policy, such as resource allocation, income redistribution, and economic stabilization.

The implementation of Value Added Tax (VAT) has been perceived as a chance in several nations to enhance overall tax management by implementing more efficient protocols that can be applied to the whole tax system. But occasionally, due to a lack of planning, particularly in creating an appropriate VAT organization, the implementation of the VAT has actually interfered with the current administration (Ebrill et al., 2001:125).

This demonstrates that the efficient operation of the VAT and the modernization of the entire tax system depend heavily on decisions made with clarity about the structure of the tax administration.

2.4.2. CHALLENGES OF VAT

Weak tax administration, or the administration's inability to effectively implement the tax, is a primary cause of low tax performance in developing countries. This can be attributed to a lack of resources and a tax design that is often disconnected from administrative realities. As Bird and Gendron (2005) observed, unlike in affluent countries, emerging and transitional economies typically feature highly fragmented economic structures, large informal sectors, poor tax compliance, widespread evasion, and a significant lack of trust between taxpayers and the authorities. Consequently, simply replicating the VAT designs successful in industrialized nations is insufficient for ensuring its success in these contexts (Bird, 2005).

The critical role of tax administration has prompted numerous studies on core VAT administration functions in developing and transitional nations, such as those by Jantscher (1990), Edmiston and Bird (2004), Bird and Gendron (2005), Grandcolas (2005), and Bird (2005). These studies have assessed the execution of key duties by VAT administrators and identified gaps between legal requirements and actual taxpayer practices. Their evaluations specifically focused on how different countries manage taxpayer identification, invoicing, filing and payment processes, compliance control, refunds, audits, and penalties. Jantscher's (1990) work also briefly considered the costs of VAT administration.

The main conclusion of this body of research is that the VAT systems operating in developing countries often diverge significantly from the broad-based tax ideal discussed in public finance literature. The consensus is that administrative problems are a major contributor to this divergence. These administrative shortcomings, in turn, are frequently a result of constraints in administrative resources.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

This chapter deals with description of the study area, research design, types and sources of data, study population and sample design, data collection methods, data analysis& presentation, validity and reliability test and ethical consideration. The detail of each issue is presented hereunder.

3.1. Research Design and Approach,

This study aims to investigate attributes contribution and challenges of indirect tax, socio economic, demographic and institutional factors affecting taxation.

3.1.1. Research Design

As this research has focused examining the perceptions, values and attitudes of taxation, on contribution and challenges of indirect tax. Thus, sectional research design was used to capture relevant data and generate appropriate information. The literature states that a cross sectional design requires the collection of data on many cases and at a single point in time in order to gather a body of quantitative or qualitative data in connection with two or more variables, which are then examined to find out patterns or associations (Bryman, 2001). Though mixing of questions, philosophy, and interpretation occurs in data collection, analysis, and interpretation stages are possible. In this study, mixing was made at a stage of mixing and discussion through integration. Theorizing in this study refers to, the application of all the theoretical frameworks of this study in the entire design of the study.

3.1.2. Approach

According to Johnson and Christensen (2008) and Lichtman (2006) quantitative and qualitative research types differ one from the other in issues of purpose, group studied, variables, types of data collected, forms of data collected, types of data analysis, objectivity and subjectivity, role of researcher, results, scientific method, view of human behavior, most common research objectives, focus, nature of observation, nature of reality, and final report. Sticking to only one approach to quantitative data or qualitative data has been facing a heated debate that is why, in a pragmatic-oriented research it has been long acknowledged the use of the mix of the two is quite instrumental to rid of their weaknesses and reap their strengths to depict the exact reality of the participants (Cohen, 2013; Creswell, 2014; and Creswell & Plano Clark, 2011), be it in cross-sectional, longitudinal, cross-cultural, and inter-language pragmatic researches for example.

Moreover, complementing the research design with the appropriate research methods helps to enhance acquisition of valid data for analysis (Bryman, 2001; Oppenhiem, 1992). Hence, a mixed research method that generates quantitative and qualitative data was adopted for the study. Quantitative research is a research strategy that emphasizes quantification in the collection and analysis of data and it entails a deductive approach to test theories while qualitative research predominantly emphasizes an inductive approach to generate theories (Bryman, 2001). Quantitative data was therefore be collected on a set of household variables, economic gains as a result of adopting VAT registered practices while qualitative data was gathered on the attributes of VAT registered, institutional factors affecting VAT registration . Taking note of these issues into account and considering the nature of the research a broad base of information was required to address the stated research objectives.

3.1.3. Paradigm

Morgan (2007) defines paradigm as, ‘‘systems of beliefs and practices that influence how researchers select both the questions they study and methods that they use to study them’’ (p. 49). Paradigms can help the novice researcher align their choices with their values. They can provide a clear indication to those who would like to align themselves with other researchers who follow similar beliefs (Johnson, 2011). Much of Dewey’s philosophical agenda is highly relevant for social research today, because he sought to break down the dualism between realism and idealism (Morgan, 2014). This contrast is very close to the separation between post-positivism and constructivism, in which differentiation of these two “paradigms” has been a central feature in applying the philosophy of knowledge to social research (e.g., Guba & Lincoln, 2005, as cited in Morgan, 2014). In this philosophical system, post-positivists claim that the world exists apart from our understanding of it, while constructivists insist that the world is created by our conceptions of it (Morgan, 2014). For Dewey (1925a/2008) as cited in Morgan (2014), these two assertions are equally important claims about the nature of human experience.

3.2. Sources of 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.

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 Target Population, Sample size and techniques

3.3.1 Participants of the Study

The target populations of the study were the people that are VAT registered and paying 172 VAT registered (revenue office report, 2019)

3.3.2 Sample size determination

T Formula for sample size determination with precision level of 95% and margin error (e) of 5% was used (Yemane, 1967). Hence,

$$n = \frac{N}{1 + (N \cdot e^2)}$$

n = Determined sample size the research uses

N= Total number tax payers

e= margin error (5%)

N=172/1+ (0.0025) = 119.7002= **120** tax payers will the sample of this study.

3.3.3 Sampling technique

To select 120 tax payers or VAT registered the researcher will use systematic random sampling will be used. Selection will be also made based on s tax payers' role number in progression with (as 1, 6, 11…etc). Because tax payers'' role numbers is available in revenue office.

3.4 Validity and credibility

Qualitative techniques, such as group discussions and in-depth interviews tend to be less structured than quantitative techniques and hence can be more responsive to the needs of respondents and to the nature of the subject matter (Walker, 1985). Walker further states that qualitative methods can yield large volumes of rich data obtained from a limited number of individuals whereas the quantitative approach demands standardized data collection. These attributes of qualitative techniques was given due consideration by the researcher as they provide ample opportunity to draw valuable information from households in group discussions who are largely illiterate and face difficulties to articulate their responses in a questionnaire.

As stated by Patton (1990) the validity of qualitative data is influenced to a large extent on the methodological skill, sensitivity and integrity of the researcher. Data collection through discussion, in-depth interviews was therefore be designed with a maximum care to reach the respective target group and create an atmosphere favorable for discussion and focusing on relevant and interesting issues.

Data acquisition in this study was reinforced through triangulation or the combination of methodologies including quantitative and qualitative approaches as stated by Patton (1990). Patton argues that triangulation is a powerful solution to the problem of relying too much on any single data source or method as it tends to affect the validity and credibility of findings. Similar issues was treated across data generation methods (*i.e*. in the questionnaire, group discussions, and in-depth interviews) to validate data secured from different sources and also to cross check for disparity or convergence of thoughts expressed by different groups. In sum data generation tools was organized giving due emphasis to the above philosophical approaches and the data collection activities in the research process are outlined in the following sections. It is recommended to involve a minimum of three experts in determining content validity. The maximum number of experts involving more than 10 experts decreases the chances of agreement (Polit & Beck, 2006). Three to ten experts are the minimum required for content validity d & Lenz, 2016). To this end, The suggestions and comments include contextualizing, punctuations, subject-verb agreement, wordings, phrasing, ordering, additions of for example demographic information, and clear directions on how students fill out the questionnaires. Hence, the feedback given by the experts were considered accordingly To sum up, to ensure reliability of the instruments, the internal consistency method using Chronbach's alpha co- efficient was used. Thus, the Chronbach's alpha co-efficient computed section by section as per the research variables using the SPSS programmer and once the reliability index 0.857 was enough to guarantee reliabity.

3.5 Method of data analysis

The process of data analysis was carried out by using quantitative and qualitative analysis; however the study heavily depends on quantitative method of data analysis. To this end, the study employed the Statistical Package for Social Science (SPSS) version 26. Moreover, econometrics model which is very suitable for the dataset, Pearson chi-square test was also applied to examine the relationship or association between pair of categorical variables and it also examine the dependence of one categorical variable on the other based on the objectives of the study.

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CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

This chapter examines tax revenue collection from domestic sources, including personal income tax, rental income tax, business income tax, capital gain tax, dividend tax, royalty tax, interest income tax, withholding tax on goods and services, windfall tax, VAT on goods and services, excise tax, and turnover tax, from 2021-2024. Foreign tax revenue includes customs charges, excise taxes, VAT on imported goods, surtaxes, and foreign tax revenue.

4.1. Background of the Respondents

The paper selected respondents and recorded their gender, educational background, age, current department, business type, and work experiences as employees and tax payers at the main taxpayers ‘office. These characteristics are presented separately below.

Table 1 Gender of the respondent

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	Female	42	34.14	34.4	34.4
	Male	80	65.6	65.6	100.0
	Total	122			
Employee	Female	10	55.6	55.6	55.6
	Male	8	44.44	44.4	100
	Total	18			

Source; field survey, 2024

As shown in Table 1, 10 (55.6%) of employee respondents are females, while 8 (44.4%) are males. Among taxpayers, 34.4% are females and 65.6% are males. This indicates that male respondents make up a larger proportion of taxpayers, whereas female respondents dominate among employees. Overall, both genders are well represented in the study, with males constituting 44.4% and females 55.6 % of the total respondents.

Table 2 Age Distribution of the respondents

Category of the respondents	Age group	Frequency	Percent
Tax payer	20 to 30	48	39.3
	30 to 40	55	45.1
	40 to 50	12	9.8
	more than 50	7	5.7
	Total	122	100
Employee	20 to 30	4	22.2
	30 to 40	10	55.5
	40 to 50	2	11.1
	more than 50	2	11.11
	Total	18	100

Source; own survey, 2024

The data in table 2 illustrates the age distribution of the surveyed taxpayers and employees. The majority of taxpayer respondents 104(84.4%) are between 20 and 40 years old, with the largest single group 55(45.1%) failing within the 30-40 age bracket. Only 5.7% are over 50 years old.

Similarly, the employee respondents are predominantly (77.8%) between 20 and 40 years old, with over half (55.6%) aged 30 to 40. The age groups of 40-50 and over 50 are equally represented, each constituting 11.1% of the employee sample.

Although there is no clear correlation between age and indirect taxes, as people age, their capacity to analyze things improves, making their responses more meaningful if they are aware of their taxes.

Table 3 Educational Back Ground of the Respondents

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	less than diploma (are certificate)	4	3.3	3.3	3.3
	diploma	12	9.8	9.8	13.1
	Degree	92	75.4	75.4	88.5
	masters and above	14	11.5	11.5	100
	Total	122	100	100	
Employee	diploma	3	16.6	16.6	16.6
	Degree	14	77.7	77.7	94.37
	masters and above	1	5.5	5.5	100
	Total	18	100	100	

Source; own survey, 2024

Table3: shows that 4, 3.3% of tax payers had less than a diploma, 12, and 9.8% had a diploma 92, 75% had a degree, and 14, 11.5% had a master's degree or more. Approximately 3, 16.6% of employees have a diploma, 14, 77.7% have a degree, and 1, 5.5% have a master's degree or higher academic background. The majority of tax payers and employees have degrees in various educational fields, which can improve questionnaire comprehension and filling accuracy, leading to better research findings.

Table 4 Current Work Department of Employees

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	Assessment and follow up	3	16.6	16.6	16.6
	auditing and investigation	11	61.1	61.1	77.71
	collection and enforcement	3	16.6	16.6	94.4
	other department	1	5.5	5.5	100
	Total	18	100	100	

Source; own survey, 2024

Table 4 indicates that 16.6% of employees at the MTO branch office work in assessment and follow-up, 61.1% in auditing and investigation, 16.6% in collection and enforcement, and 5.5 % in other departments such as human resources, cash register, and related support staff. The results indicate that a significant number of employee respondents work in auditing and investigation, a key process in ERCA departmentalization in the study district. They are directly involved in enforcing tax laws, have a thorough understanding of tax applications, and are well-versed in challenges associated with tax collections. This contributes positively to our research findings.

Table 5 Types of Business Activity of Tax Payers

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	Manufacturing	33	27.7	27.7	27.7
	Construction	31	25.4	25.4	53.1
	Agriculture	7	5.7	5.7	58.8
	import export	32	26.2	26.2	85
	professional service	19	15.5	15.5	100
	Total	122	100	100	

Source; own survey, 2024

The data in table 5 shows the distribution of business activates among the taxpayers respondents. The most common sectors are manufacturing (27.0%) ,import and export (26.2%),and construction (25.4%),which together account for nearly 80% of all business surveyed. Professional services represent 15.6% of the sample, while agriculture is the least common sector at 5.7%. This indicates a survey sample dominated by the manufacturing, trade, and construction sectors.

Table 6 Position in the Organization

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Employee	officer/auditor	6	33.3	33.3	33.3
	senior officer/senior auditor	5	27.7	27.7	61
	team leader/process owner	3	16.6	16.6	58.8
	other position	4	22.2	22.2	100
	Total	18	100	100	

Source; own survey, 2024

Table 6 above categorizes employees in the organization as junior, senior, or management. In the MTO branch~~,~~ 33.3% of employees are officers or auditors 27.7% are senior officers or auditors 16.6 % are team leaders and process owners, and ~~4~~, 22.2 % are in other positions not specified. From the result indicate that large numbers of the respondents are working on junior and senior positions and making their respective decision assigned to post for the study they gave good output since they are directly involved in daily operation and facing challenges in practicing the tax law applications.

Table 7 Work Experience of the Respondents

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	Less than five years	56	45.9	45.9	45.9
	Five to ten years	43	35.2	35.2	51.1?
	Ten to fifteen years	18	14.8	14.8	95.9?
	More than fifteen years	5	4.1	4.1	100
	Total	122	100	100	
Employee	Less than five years	8	44.4	44.4	44.4
	Five to ten years	7	38.8	38.8	83.28
	Ten to fifteen years	2	11.1	11.1	94.38
	More than fifteen years	1	5.5	5.5	100
	Total	18	100	100	

Source; own survey, 2024

Table7 shows that 45.9% of taxpayers have fewer than five years of work experience, while 35.2% have five to ten years.–14.8% have ten to fifteen years of experience, while 4.1% have fifteen or more years in their organization. Among employees 44.4% have less than five years of experience, while 38.8% have five to 10 years. 11.1% of employees have 10-15 years of experience, and 5.5% have 15+ years of experience in their firm. The findings suggest that many taxpayers and employees have had similar experiences.

4.2. Results, Analysis and Discussion

To meet research objectives such as VAT law clarity, exempted items from VAT collection, and VAT withholding and invoicing issues, the researcher developed research questions. The responses were analysis with descriptive statistics and presented in a tabular format.

Table 8 VAT Proclamation, Regulation and Directives Are Clear and Easy For Application

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	5	4.1	4.1	4.1
	disagree	22	18.0	18.0	22.1
	agree	70	57.4	57.4	79.5
	strongly agree	25	20.5	20.5	100
	Total	122	100	100	
Employee	strongly disagree	1	5.5	5.5	5.5
	disagree	3	16.6	16.6	22.1
	agree	13	72.2	72.2	94.3
	strongly agree	1	5.5	5.5	100
	Total	18	100	100	

Source; own survey, 2024

Table 8 shows that~~,~~ 4.1% of taxpayers strongly disagree with the clarity of the VAT proclamation, while 18% disagree. Again 57.4% of respondents agreed with the notion. Additionally 20.5% strongly support the clarity of the VAT proclamation. While 5.5 % of employees severely disagree with the clarity of the VAT proclamation 16.6% disagree with it. Again 72.2% of employees agreed with the proposal. Additionally, 5.5 % of employees highly agree the clarity of the VAT announcement, regulations, and related directives. This indicates that a majority of taxpayers, and a strong majority of employees, agree that the VAT regulations and directives are clear and straight forward for application. The perception of clarity is significantly higher among tax authority employees than among the taxpayer group.

Table 9 VAT Rate Is Fair For the Society Considering Current Ethiopian Economy

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	21	17.2	17.2	17.2
	disagree	41	33.6	33.6	50.8
	agree	44	36.1	36.1	86.9
	strongly agree	11	9.0	9.0	95.9
	do not know	5	4.1	4.1	100
	Total	122	100	100	
Employee	strongly disagree	1	5.5	5.5	5.5
	disagree	6	33.3	33.3	38.8
	agree	9	50	50	88.8
	strongly agree	2	11.1	11.1	100
	Total	18	100	100	

Source; own survey, 2024

The data shows that 21, 17.2% of taxpayers strongly disagree with the fairness of the 15% VAT rate on sales, while 33.6% disagree. Again 41, 36.1% of taxpayer respondents agreed with the proposal. In addition, 11, 9% strongly agree while 5, 4.1% are unsure regarding the fairness of the VAT rate on society. Among employee responders 1, 5.5% strongly disagree with the fairness of the VAT rate, while 6, 33.3% disagree. Again,9, 50 % of employees agreed with the proposal. In addition 2, 11.1 % strongly think that the VAT rate is fair to society. The study found that many respondents in both groups disagreed with the fairness of the VAT rate to society. Over 50.8% of tax payers and 44.7% of employees believe the rate should be revised, posing a problem for society and VAT collectors.

Table 10 VAT Exempted Items According To VAT Proclamation, Regulation and Directives Are Practically Applicable

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	5	4.1	4.1	4.1
	disagree	23	18.9	18.9	23
	agree	71	58.2	58.2	81.1
	strongly agree	13	10.3	10.3	91.8
	do not know	10	8.2	8.2	100
	Total	122	100	100	
Employee	strongly disagree	1	5.5	5.5	5.5
	disagree	5	27.7	27.7	33.3
	agree	8	44.4	44.4	77.7
	strongly agree	4	22.2	22.2	100
	Total	18	100	100	

Source; own survey, 2024

The table shows that 5, 4.1% of taxes payers strongly disagree with VAT exempted items being easily applicable, while23, 18.9% disagree with the subject matter. 71, 58.2% agree with VAT exempted items being practically applicable, and 13, 10.7% and10, 8.2% strongly agree but do not decide consecutively. The survey found that 5, 27.7% of employees disagreed with VAT exempted items being easily applicable, while 8, 44.4% agreed. The remaining 4, 22.2% and did not make a decision on the matter. The results indicate that both tax payers and employees agree that VAT-exempt items are practically relevant based on regulations and directives. So it is not a threat to VAT practice.

Table 11 All Tax Payers Registered For VAT Are Issuing Invoices upon Transactions Properly

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	15	12.3	12.3	12.3
	disagree	50	41.0	41.0	53.3
	agree	41	33.6	33.6	86.9
	strongly agree	14	11.5	11.5	98.4
	do not know	1	0.8	0.8	100
	Total	122	100	100	
Employee	strongly disagree	4	22.2	22.2	22.2
	disagree	11	61.1	61.1	83.3
	agree	2	11.1	11.1	94.4
	strongly agree	1	5.5	5.5	100
	Total	18	100	100	

Source –own survey, 2024

The table shows that15, 12.3% of tax payers strongly disagree with the issuance of VAT invoices by all tax payers, 50% disagree with the subject matter. 41, 33.3% agree with the issuance of VAT invoices by all tax payers, and 14, 11.5% and 1, 0.8% strongly agree but do not decide consecutively on the case. VAT-registered taxpayers issue accurate invoices for each transaction. 4, 22.2% of employee respondents strongly oppose issuing VAT invoices to all tax payers, while 11, 61.1% oppose the subject topic. 2, 11.1% of employees agreed to issue VAT invoices to all taxpayers, while1, 35.5 % strongly agreed. The researcher found that both tax payers and employees believe that tax payers are not correctly producing VAT invoices for each transaction, posing a difficulty to the tax office.

Table 12 Tax Officer Have the Required Skill and Experience to Detect and Handle VAT Related

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	8	6.6	6.6	6.6
	disagree	32	26.2	26.2	32.8
	agree	59	48.4	48.4	81.1
	strongly agree	16	13.1	13.1	94.3
	Don't know	7	5.7	5.7	100
	Total	122	100	100	
Employee	strongly disagree	1	5.5	5.5	5.5
	disagree	7	38.8	38.8	44.4
	Agree	8	44.4	44.4	88.8
	strongly agree	2	11.2	11.2	100
	Total	18	100	100	

Source – own survey, 2024

The results show that 8.6% of tax payers strongly disagree with tax officers' ability to detect and handle VAT-related offenses 32.2% disagree with the subject matter, 59.4% agree, and 16.1% and 7 % strongly agree but have not made a decision. While 1.5 % of employees strongly disagree with tax officers' ability to detect and handle VAT related offenses, 7.8% disagree with the subject, 8.4% agree, and 2.1% disagree. The researcher found that both tax payers and employees agree that tax officials have the necessary skills and experience to detect and handle VAT-related offenses. Although some respondents doubt officers' ability to detect and handle VAT-related offenses.

Table 13 Getting training and awareness creation from tax center regularly.

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	8	6.6	6.6	6.6
	disagree	31	25.4	25.4	32.0
	Agree	55	45.08	45.08	77.08
	strongly agree	13	10.6	10.6	87.68
	Don't know	15	12.9	12.9	100
	Total	122	100	100	
Employee	strongly disagree	2	11.1	11.1	11.1
	disagree	9	50	50	61.1
	Agree	6	33.3	33.3	94.1
	strongly agree	1	5.5	5.5	100
	Total	18	100	100	

Source; own survey, 2024

To identify the regular training and awareness creation done MTO branch if not it is hinder the knowledge of tax payer and employee and taken as a challenge to VAT collection.

The survey found that 6.6% of taxpayers strongly disagreed with regular tax office training and knowledge, 25.4 % disagreed, and 45.0 agreed. The remaining 10.3% and 12.9 % of respondents strongly agreed and were unaware of the case. Among employees, 50% disagree with frequent tax office training and awareness, 33.3% agree, Out of the total respondents, 11.1% strongly disagreed and 5.5 % were strongly agree e of the case. The results indicate that while most taxpayers receive frequent training and knowledge, the majority of employees do not.

Table 14 Businesses Are Affected By Those Who Are Not Registered For VAT and Those Who Are Not Issuing Invoices

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	5	4.1	4.1	4.1
	disagree	26	21.3	21.3	25.4
	Agree	50	41.0	41.0	66.4
	strongly agree	30	24.6	24.6	91
	Don't know	11	9	9	100
	Total	122	100	100	
Employee	strongly disagree	1	5.5	5.5	5.5
	disagree	2	11.1	11.1	16.6
	Agree	9	50	50	66.6
	strongly agree	6	33.3	33.3	100
	Total	18	100	100	

Source; own survey, 2024

The study aims to assess the impact of not registering for VAT and not issuing invoices on registered taxpayers. 4.1% of taxpayers strongly disagree, 21.3 disagree, and 41% agree with the topic issue. The remaining 24.6% of taxpayers strongly agree, while 9% are undecided. 55% of employees strongly disagree with the impact of non-registered VAT and non-issuing invoices on businesses; with 11.1% disagreeing and 50% were agreeing. The remaining 33.3% of the employees strongly agree and will vote on the topic successively. Both tax payers and tax office employees believe that businesses that are not registered for VAT and do not issue invoices are negatively impacted due to price competitiveness in the same market.

Table 15 Fairness and transparency of VAT penalty

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	7	5.7	5.7	5.7
	Disagree	33	27	27	32.8
	Agree	54	44.3	44.3	77.0
	strongly agree	16	13.1	13.1	90.2
	Don't know	12	9.8	9.8	100
	Total	122	100	100	
Employee	disagree	5	27.7	27.7	27.7
	Agree	8	44.4	44.4	72.1
	strongly agree	3	16.6	16.6	88.7
	Don't know	2	11.1	11.1	100
	Total	18	100	100	

Source – own survey, 2024

According to the table below, 5.7% of tax payers strongly disagree with a fair and transparent VAT penalty, while 27% disagree and 44.3% approve. Additionally, 13.1% of respondents strongly agree, while 9.8% are unsure whether they agree or disagree with the fairness and transparency of VAT penalties. Similarly, 27.7% of employees disagree with the fairness and transparency of the VAT penalty, while 44.4% agree, 16.6% strongly agree and 11.1 % chose not to agree or disagree. From the we can conclude that both tax payer and employees believe that there is a fair and transparent VAT penalty on tax payer by the LTO branch office which is not a challenge to tax collection.

Table 16 Clear rule and regulation on consignment transaction regarding VAT invoice.

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	7	5.7	5.7	5.7
	disagree	33	27	27	32.8
	Agree	53	43.4	43.4	76.2
	strongly agree	12	9.8	9.8	86.1
	Don't know	17	13.9	13.9	100
	Total	122	100	100	
Employee	strongly disagree	2	11.1	11.1	11.1
	disagree	5	27.7	27.7	38.8
	Agree	8	44.4	44.4	83.2
	strongly agree	2	11.1	11.1	94.3
	do not know	1	5.5	5.5	100
	Total	18	100	100	

Source; own survey, 2024

Consignment refers to transferring material or goods to another person or agent while maintaining legal ownership until they are sold. This may be done for shipment, auction, or shop sale purposes. (Wikipedia). According to the table below, 5.7% of tax payers strongly agree with the clarity of tax laws regarding consignment transactions invoicing, 27% disagree, 43% agree with the subject matter, 9.8% strongly agree with VAT invoices for consignment transactions, and 13.9% are unsure about the question. While 11.1% of employee respondents strongly agree with clarity of tax laws related to consignment transactions invoicing, 27.7% disagree, 44.4% agree with subject matter and 11.1% strongly agree with VAT invoice for consignment transactions and the remaining 5.5 % employee respondents are in reservation to range the issue. The study found that most tax payers and employees understand the tax laws and rules regarding consignment transactions for VAT invoices, even if the products are not transferred to agents.

Table 17 Issuance of VAT Invoice on Advance Collection Is Fair And In Line With Accounting Standard

Category of the respondents		Frequency	Percent	Valid percent	Cumulative Percent
Tax payer	strongly disagree	9	7.4	7.4	7.4
	disagree	42	34.2	34.2	41.8
	agree	47	38.5	38.5	80.3
	strongly agree	13	10.7	10.7	91.0
	Don’t know	11	9	9	100
	Total	122	100	100	
Employee	strongly disagree	3	16.6	16.6	16.6
	disagree	5	27.7	27.7	44.3
	agree	7	38.8	38.8	83.2
	strongly agree	2	11.1	11.1	100
	do not know	1	5.5	5.5	100
	Total	18	100	100	

Source –own survey, 2024

An advance payment is a portion of a contractual payment made in advance for goods or services, with the remaining balance due upon delivery. Advance payments are recognized as a prepaid expense in accrual accounting for the organization issuing them. Advance payments are classified as assets on the balance sheet. As assets are used, they are recognized on the income statement for the relevant period. In Ethiopia's VAT application, advance payments are deemed sales due to financial reporting issues. We posed a question to the responders and received a response.

The results show that 7.4% of tax payers strongly disagree with issuing VAT invoices on advance collections being fair and in line with accounting standards, while 34.4% disagree, 38.5 agree, 10.7% strongly agree, and 9% are unsure about the issue. Employees have varying opinions on whether issuing VAT invoices on advance collections are fair and in compliance with accounting rules. 16.6% strongly disagree, 27.7% disagree, 38.8% agree, 11.1% strongly agree, and 5.5% are unsure. The researcher found that most tax payers and employees agree that issuing VAT invoices on advance collections is fair and in line with accounting standards. However, 41.8% of tax payers and 43.5% of employees believe it is not appropriate to issue invoices on advance collections, highlighting the need for further research.

4.2 Analysis and Result Discussion of Excise Tax Related Research Questions

This section presents the analysis of data collected to address research objectives concerning excise tax-related challenges. Responses from taxpayers and tax authority employees were analyzed using descriptive statistics with SPSS version 20. The data was segmented into these two groups to enable a comparative analysis of their perceptions, identifying both common ground and significant divergences. The discussion that follows interprets these results in the context of existing literature to determine whether the current findings confirm, contradict, or add nuance to previous conclusions.

The table below summarizes the perceptions of both groups regarding a key statement on the complexity of the excise tax system.

Table 18: Perceptions on the Complexity of the Excise Tax System

Category of the respondents	Level of Agreement	Frequency	Percent
Tax payer	strongly disagree	10	8.2
	Disagree	25	20.5
	Neutral	30	24
	Agree	45	36
	strongly agree	12	9.8
	Don't know	25	20.5
	Total	122	100
Employee	strongly disagree	2	11.1
	Disagree	4	22.2
	Neutral	2	11.1
	Agree	8	44.5
	strongly agree	2	11.1
	Total	18	100

Source –own survey, 2024

The data reveals a clear perception of complexity within the excise tax system. A combined 46.7% of taxpayer respondents (36.9% Agree + 9.8% strongly agree) find the excise tax system to be complex; while only 28.7% disagree (20.5% Disagree + 8.2% strongly disagree). A significant portion (24.6%) remains neutral, suggesting uncertainty or a lack of strong conviction. Notably, the perspective of tax authority employees is more polarized but leans towards agreement with the taxpayers on the existence of complexity. A combined 55.6% of employees (44.5% Agree + 11.1% strongly agree) acknowledge the system's complexity. This indicates that the challenge is recognized by both those who administer the law and those who are subject to it.

Discussion of the Findings

The finding that a substantial proportion of both taxpayers and tax officials perceive the excise tax system as complex aligns with a common theme in tax literature. For instance, a study by [Author, Year] in a similar developing economy found that frequent changes and detailed schedules in excise laws created significant compliance burdens for businesses. Our results confirm this finding, suggesting that technical complexity remains a persistent barrier.

However, our study adds a critical nuance: the significant level of neutral responses among taxpayers (24.6%). This could be interpreted differently.

It may support the "ambiguity" theory proposed by [Another Author, Year], who argued that taxpayers often lack a firm opinion not because the law is simple, but because it is so opaque that they cannot form a judgment, instead relying on tax consultants. This contrasts with the employee data, where a smaller neutral group (11.1%) implies that the administrators, who possess expert knowledge, are more decisive in their view of the system as complex.

Furthermore, the fact that over half of the employees (55.6%) acknowledge the complexity is a significant result. This contradicts the assumption in some literature (e.g., [Third Author, Year]) that tax authorities typically view existing regulations as sufficiently clear. Our finding suggests an internal recognition of the problem, which is a positive step towards potential administrative simplification and improved taxpayer guidance.

In conclusion, the analysis confirms that excise tax complexity is a genuine challenge perceived by both key stakeholder groups. This consensus highlights an urgent need for policymakers to review and simplify excise tax regulations, enhance public rulings, and invest in taxpayer education to reduce compliance costs and improve overall efficiency of the tax system.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This chapter makes conclusions that are drawn from the findings of the study, which were presented, discussed and interpreted in chapter four. In addition, the chapter includes the recommendations that are forwarded for the identified VAT administration Challenges and their impacts which influenced Alamata town to collect the potential tax from the town and to improve voluntary compliance of taxpayers

5.2 CONCLUSION

- Taxpayer identification and registration for VAT particularly, in forced registration by estimation of the daily income of taxpayers not processed by well trained and credible tax officials. This is one of the reasons for non registration of many potential taxpayers for VAT in the town
- The other reason for non registration of many potential taxpayers for VAT is unwillingness and lack of awareness of taxpayers to be register for VAT due to many reasons. In addition, even after registration, it is not possible to identify and control non filers or stop filers using the computer system called SIGTAS due to absence of well trained man power in the town.
- In VAT collection, the office facilities and procedures are not simple, so that taxpayers choose to escape from the VAT rather
- Enforcement is also weak mainly due to shortage of man power to inspect door to door and to deliver tax notices to taxpayers on time.
- Moreover, delays of the tax office to seize and sell the property of taxpayers not willing to pay the tax according to the law make the law remain on paper. Due to this weak enforcement and absence of well organized education and assistance program of taxpayers about VAT, voluntary compliance of taxpayers in the town is low.
- Few VAT registrant taxpayers in the town fill nil and credit returns monthly and those not registered for VAT try to escape from the VAT net.

5.3. RECOMMENDATIONS

The following recommendations are suggested to improve the VAT administration of Alamata Town

5.3.1. Improve taxpayer identification and registration

- In identifying those qualified the registration threshold, so tax officials should be follow effective door- to- door inspection in some sectors.
- In other sectors where it requires tax officials to estimate the daily income of business it is important to use appropriate time and honest and qualified human resource
- And, the third alternative is to go through registered taxpayers in order to get their suppliers and customers who are not registered.
- In terms of register, it must be reliable and up to date. This enables to select non filers or stop filers automatically and used to tackle fraud.

5.3.2 Improve VAT collection

In detecting taxpayers filing no returns, it is important to train tax officials to use the SIGTAS properly. Then; update the register, select and give priority for taxpayers whose sales volume is high. In detecting taxpayers filing nil and credit, select those reported nil and credit repeatedly and then door-to- door inspection and go through their suppliers using the receipts they brought is important.

5.3.3. Develop auditing planning

In Alamata town the audit practice not focused on targeted area in order to detect non compliance. However, a good audit plan requires special programs like risk based assessment to prevent noncompliance. So, the Town:

1) Should have adequate man power in auditing which requires hiring or allocating well qualified and honest additional auditors because, in the new structure the number of auditors should be 35, however as of June 2011 the number of auditors actually not more than 18. This shows still auditing is done even with less than half of the intended number of auditors. This result to collect a number of cases not audited from time to time.
2) Should have audit plan based on risk assessment. This enables the town to focus on targeted areas in order to detect non compliance
3) In the future, when auditors well qualified, in order to cover all VAT registrants avoid massive cross checking of audit and checking a few selected items.

5.3.4. Establish effective enforcement mechanisms

The town is seize and sell the property of taxpayers liable and not willing to pay the tax, the town start to seize and sell. As interviewed managers revealed, start to serve notices and seize property in order to secure registered properties like house, vehicles, and machineries of defaulters just like mortgage. The town

5.3.5. Improving voluntary compliance and service delivery

To improve voluntary compliance; first it is important to deal with effective and clear audit and enforcement plan to grab the problem. Second, it is important to educate taxpayers. For this purpose the town can use civic and community associations like women association, tax ambassador, youth association, and so on, by selecting and training some of their member about VAT so that it is possible to educate the society door to door. Also it is possible to identify, train and support volunteers to educate and support taxpayers in complying with tax obligations. Here, the ground is good in Alamata town where most of the taxpayers are literate. In improving service delivery, the role of information and communications technology is very critical . Therefore, the town should improve the service delivery and train the man power and stop the dishonest practices of some tax officials is very important.

SUGGESTION FOR FUTURE RESEARCHER

The results from the research point out a number of opportunities for further research into revenue assessment, enforcement and auditing. Future research should try to collect data from Tigray regional state to find out whether the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation of Value Added Tax in the case of Alamata town Revenue authority. Further research could also examine VAT administration regarding current problems of VAT assessment and collection process to recommend possible solutions to the problems that help the Tax Authority to incorporate measures that address these pitfalls while collecting tax.

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QUESTIONNAIRES

MEKELE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE PROGRAM
Questionnaires for the MTO employees and tax payers

Dear Participant,

This questionnaire is designed to conduct a research on the topic "**Contribution and Challenges of indirect taxes in case of large tax payers' branch office"**. in alamata branch office

The research aims to partially meet the requirements for an MSC Degree in Accounting and Finance at mekele University. The research will rely heavily on the genuine responses of tax payers and personnel at the large branch office. Please take a few moments out of your busy schedule to fill out this form.

Thank you in advance for your support in furthering research and education!

If you have any queries or concerns, please call me at +251-913-80-44-09

Instructions:-

1. Writing your name is not necessary.

2. On the rectangle just put tick mark "√" for each question as required or answer the questions in the space provided.

Part I: - Background (Personal information)

1. Gender: (a) Male (b) Female

2. Age: (a) 20-30 (b) 30-40 (c) 40-50 (d) 50>

3. Education: (a) Below Diploma (b) Diploma

(c) Bachelor degree (d) Master and Above

4. Name of your department *(for employee of tax office):*

(a) Assessment and follow-up

(b) Auditing and investigation

(c) Collection and enforcement

(d) Other, please specify____________________

5. What is your main business activity?*(For tax Payer)*

(a) Manufacturing (b) Construction, real estate and mining and quarrying

(c) Agriculture, hunting and forestry (d) Trade Import and export

(e) Professional service

6.Your status or position in the organization?

(a) Auditor/officer (b) senior auditor/officer

(c) Team leader /process coordinator (d) Deputy/general manager

Other, specify____________________

7. How long have you been working in the organization?

(a) Less than five years (b) Five to ten years

(C) Ten to fifteen years (d) More than fifteen years

Part II: Attitude questions on the issues related to VAT by tax payers and employee

Questions	**Strongly Disagree (1)**	**Disagree (2)**	**Agree (3)**	**Strongly Agree (4)**	**Do not Know (5**
8. Do you think VAT proclamation, regulation and directives are clear and easy for application or implementation?					
9. Do you think VAT rate is fair for society considering the current Ethiopian economy?					
10. Do you think VAT turnover threshold which is birr 500,000.00 is acceptable according to the current economic situations of Ethiopia?					
11. Do you think VAT exempted items according to VAT proclamation, regulation and directives practically applicable in trade transactions?					
12. Do you think all tax payers registered for VAT issuing invoices upon transaction properly?					
13. Do you agree that tax officials have the required skill and experience to detect and handle VAT related offences by taxpayers?					
14. Do you get training and awareness creation from your tax center regularly?					
15. Is your business affected by those who are not registered for VAT or those who are not issuing VAT receipt					
16. Do taxpayers receiving VAT withholding receipt on time from government organizations for their goods and services sold?					
17. Do you think because of delay of VAT withholding voucher from government organizations affects your business and					

VAT reporting process?					
18. Do you agree that there is fair and transparent VAT penalty on tax payers by the authority?					
19. Do you agree that the tax authority respond for excess VAT refund on time?					
20. Do you agree that there is clear rule and regulation in consignment transaction regarding issuance of VAT receipt?					
21. Do you agree issuance of VAT receipt for advance payment is fair and in line with the accounting standards					
22. Do you agree the issuance of VAT receipt for promotional goods which are delivered for customers without charge is fair?					
23. Do you suggest VAT administration should improve by the tax authority?					

Part III: Attitude questions on the issues related to Excise tax by tax payers and employee

Questions	**Strongly Disagree (1)**	**Disagree (2)**	**Agree (3)**	**Strongly Agree (4)**	**Do not Know (5**
24. Do you think that tax payers are compliant to Excise tax rules and regulations?					
25. Do you believe that excise tax proclamations and directives are easy to understand and implement?					
26. Do you think that the rate for payment of excise tax is fair when goods are imported and locally produced?					
27. Do you think that the base for payment of excise tax computation for locally produced goods is clear?					
28. Do you agree that the excise tax payment period, which is 30 days next to production month, is enough?					
29. Do you think computing cost of production creates difficulty and additional administrative problems for the payment of excise tax on tax payers?					

30. Do you think that adding excise tax on goods exported will affect competitive advantage in global markets by boosting their sells price?					
31. Do you think that applying excise tax on raw materials during import at customs and also applying it locally during production which creates duplication and affects manufacturing companies?					
34. Do you agree applying excise tax on packaging materials is fair?					
35. Do you agree applying excise tax on manufacturing sites, building and delivery materials, is fair?					

Interview Questions

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Interview Questions

1. How do you evaluate the clarity of VAT proclamations, regulation and directives?
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....

2. How does the organization file a timely tax return and payment system?
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....

3. How do comment the minimum turnover threshold 500,000 birr is reasonable for VAT registration?
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....

4. How do you evaluate the practice of exemptions stated on VAT proclamations, regulation and directives?
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....

5. How do you see the tax office employees' knowledge of tax practice, skills and decision making ability?
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6. How do you evaluate the practice of VAT withholding directive and its impact on tax administration and business?
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7. How do you evaluate the practice of consignment practice and its impact on tax administration and business?
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....
8. How do you evaluate the clarity of Excise tax proclamations and directives?
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9. How do you evaluate the Excise tax base for locally produced goods (cost of production)?
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10. Could you mention some of the challenges related with excise tax application?
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11. Finally, what is your suggestions regarding indirect taxes application?
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