

Assessment of Tax Collection Problems

(A Case Study on Legambo Woreda)

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Chapter - 1

1. Introduction

1.1 Back ground of the study

Typically taxes are the primary source of government revenues. Taxation policies depend of the socio economic and political structure of a country. In Ethiopia though taxation came into being with the emergence of state and government, but, there is no reliable documentary evidence exists as to when exactly taxation was introduced.

In the 15th century written stories of Atse Zera Yacob indicates that taxation was introduced previously in Ethiopia. In these eras tax was paid by different social groups to government, feudal lords and priests. Besides, these documents approve that Atse Zera Yacob had for the first time enacted regulation can be taken as an evidence for the presence of taxation system before and on Zera Yacob government.

In general a kind of traditional tax system was practiced on those days this traditional tax system was expresses in two forms of payment in kind and unstructured tax system. In traditional tax system, much burden was laid on farmers. Though such burden was tried to lessen by emperor Tewodrosse's government, strong change had been taken place by emperor Menelik.

Towards the end of the imperial period the majority of the population living at subsistence level. There was limited opportunity to increase taxes on personal or agricultural income. Consequently, the imperial government relied on individual taxes (customs, excise and sales to generate revenue for instance in the early 1970s taxes on foreign trade accounts for close to 2/5th of the tax revenue, and one third of all government revenues. At the same time, direct taxes accounted for less than one third of tax revenue. During the "Dergue" regime the taxes were similar to those imposed during Haile Selassie regime except that wider tax base and increased tax rates.

The "Dergue" regime partially alleviated the tax collection problems that existed during the imperial period by delegating the responsibility for collecting the fee and tax on agriculture to peasant association which received a small percentage of revenue as payments.

The main purpose of generating revenue from various sources is to finance public expenditures. The governments generate are revenue from tax and other non-sustainable sources. The collection of money from available sources of revenue by government needs the availability of democratic government, foreign and domestic creditors and donors, efficient tax system and awareness of the society regarding the use of tax payment for government and its contribution for the development of the country's economy.

In our country payment of tax is considered by the society as a debt imposed by government to increase the wealth of the government officials. To avoid the negative attitude of the taxpayer a well-designed tax system is necessary. In addition educate the society regarding its obligation and the purpose of tax collection minimizes the wrong attitude of the taxpayer. So, this study is designed to minimize problems that face during assessment and collection and to minimize wrong attitudes of tax payers.

1.2 Back ground of the organization

Legambo is one of the woredas in the amhara region of Ethiopia. This woreda is named one of the houses or subgroups of the wollo Oromo, who was located there. Parts of Dehub wollo zone, legambo is bordered on the south by legahida and kelala, on the south west by wedge, on the North West by sayint, on the north by tenta, on the north east by Dessie Zuria and on southeast by wereilu. Towns in this woreda include Akesta, Genete and Gimba and elevation in this woreda range from 1500 to 3700 meters; the highest point in this woreda, as well as the Dehub wollo zone, is Mount Amba Ferit, which lies on the border with saint.

Based on the 2007 national census conducted by the Central Statical Agency of Ethiopia (CSA), this woreda has a total population of 165,026, an increase of 3.93% over the 1994 census, of whom 81,268 are men and 83,758 women; 7,327 or 4.44% are urban inhabitants. With an area of 1,017.35 square kilometers, Legambo has a population density of 162.21; which is greater than the zone average of 147.58 persons per square kilometer. A total of 39,078 households were counted in this woreda, resulting in an average of 4.22 persons to a household, and 37,384 housing units. The majority of the inhabitants were Muslim, with 93.34% reporting that as their religion, while 6.5% of the population said they practiced Ethiopian orthodox Christianity.

The 1994 national census reported a total population for this woreda of 158,785 in 38,182 household, of whom 78,087 were men and 80,698 were women; 4,286 or 2.7% of its population were urban dwellers. The largest ethnic group reported in legambo was the Amhara (99.9%). Amharic was

spoken as a first language by 99.92%. The majority of the inhabitants were Muslim, with 92.99% of the population having reported they practiced that belief, while 6.82% of the population said they professed Ethiopian Orthodox Christianity.

1.3 Statement of the problem

The role of taxation in well-functioning governmental operation is so high. Development of infrastructures, basic social services institution is apparently build by government. Moreover, the public servants, defense forces and police forces are employee of the state, to cover these and other developmental costs the states uses tax as principal source of revenue.

The need to build speedy economic progresses and overall developmental activities call for strong tax revenue. If no arguments in the above assertion therefore the Ethiopia government ought to adopt sound taxation policy on collection system and in making awareness on tax payer societies.

No doubt that the existence of better tax collection system is decisive for the existence of well-developed and economically strong states. If no complain that better tax collection system is decisive in one Country's overall capacity that is the main reason motivate the researcher to study the constraint of tax collection system with title "assessment of problem related with tax collection in legambo woreda".

In the researcher study area there are some problems of tax collection for instance in 2003 E.C the proposed amount of tax was greater than the amount that actually collected and also some problems related with awareness and willingness of taxpayers. So in this paper the researcher tried to or answers the following basic questions of tax collection problems. In the woreda.

1. What are the major bottlenecks affecting tax collection system in the woreda?
2. What are the problems and weaknesses in the side of government bodies (tax collectors) or the system?
3. What are the gap and weakness in the side of tax payer societies?

1.4 Objectives of the study

1.4.1 General objective

The general objective of this study is to find out the major constraints that affecting the tax collection system in the woreda.

1.4.2 Specific objective

Specific objective of this study focused on assessment of

- Internal factors affecting tax collection system.
- Environmental (external) factors that influencing tax collection system.
- To put some possible recommendation and to make this study's result base for further investigation.

1.5 Significance of the study

The researcher believe that the followings are the significance of the study

- Paved the way for improvement of tax collection system.
- Encourage compliance of tax payers.
- To create fairly clear image how the tax collection and problems with tax collection are taking place.
- Enable revenue bureau to find out whether its strategy are effective or not.
- The result of this study will serve as a reference for further investigation.

Lack of sufficient secondary data and failure of respondents to return the questionnaires were the major limiting factors of the study.

1.6 Scope and limitation of the study

Though tax is very vast and curial issue, standing its nature of study the tax policy at a higher level is time consuming and need long term study so, this research paper restricted only in problems of tax collection in legambo woreda. The major limiting factors of the study were lack of sufficient secondary data and failure of respondents to return the questionnaires.

1.7 Organization of the study

This paper consists of five chapters the first chapter consists the introductory parts which includes. Background of the study, back ground of the organization, statement of the problem objective of the study, significance of the study scope and limitation of the study, the second chapter consist only the literature review.

The third chapter includes the term research design. Sources of data, data collection techniques, method of data analysis and presentation, target population and sampling methods. Chapter four of this research deals with

analysis of data that gathered from tax payers and employees of the revenue bureau. The fifth and the end chapter of this research deals with summary, conclusion and recommendation, questionnaires and references that used to conduct this study.

Chapter - 2

2. Literature review

2.1 Introduction

Taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Government uses taxation to encourage or discourage certain economic decisions.

Tax is a fee charged (levied) by a government on product, income, or activity 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 services, then it is named an indirect tax. One of the most important uses of taxes is to finance public goods and services since public goods and services don't allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or services and so they need to be provided by the government or quasi government agencies, which tend to finance themselves largely through taxes. (WWW. Investor words.com)

Meaning of tax

Taxes are burdensome thus reduce the economic welfare of individuals and businesses (public) organization. But activities that are financed from taxes will bring benefits to individuals or organizations, the net burden of tax then, must take the nature of government expenditures in to account. (Www. Business dictionary.Com)

Purpose of taxation

According to American economist Richard Musgrave. A purpose of tax action is to distinguish between objectives of resource allocation income redistribution and economic stability (economic growth) or development and competitiveness listed as separate goals, but they can generally be subsumed under the other three. The other main function of taxation is to permit the state to provide services for the population. Infra-structure and services are what we expect from taxation (www.Yahoo Answers.Com).

2.2 Role of taxation in development strategy

The role of taxation in fiscal policy and the development strategy has to be viewed in the back ground of the function which a taxation system

performs, its main function in relation to economic development are as follows. The primary function of tax system is to raise revenue for the government for its public expenditure. So the first goal in the development strategy as regards taxation policy is to ensure that this function is discharged adequately.

The second function of taxation is to reduce inequalities through a policy of redistribution of income and wealth. Higher rate of income taxes, capital transfer taxes and wealth tax are some means adopted for achieving these ends.

The 3rd role of taxation is for the social purposes such as discouraging certain activities which are considered undesirable. The excise taxes on liquor and tobacco. The special excises duties on luxury goods. Betting and gambling levy are example of such taxes.

The 4th is to ensure economic goals through the ability of the taxation system to influence the allocation of resources. This includes.

- A. Transferring resource from the private sector to the government to finance the public investment program.
- B. To distribute the direction of private investment in to desired channels through such measures as regulation or tax rates and the grant of tax incentives etc. this includes investment incentive to attract foreign direct investment (FDI) into the country.
- C. Influencing relative factor prices for enhanced use of labor and economic use of the capital and foreign exchange.

The fifth function of tax action on is to increase saving and capital formation in private sector partly for borrowing by the government and partially for enhancing investment resources within the private sector for economic development. (B.P herber, 1999).

2.3 Characters of good tax system

1. **Tax is compulsory contribution:** It is a compulsory payment from the person to the government without expectation of any direct returns from it.
2. **Taxes are levied by the government:** No one has the right to imposes taxes except the government. Only the government has the right to impose taxes and collect tax proceeds from the people.
3. **Common benefit to all:** The tax collected by the government is spending for the common benefits of all people.
4. **No direct benefit:** The government compulsorily collects all types of taxes and does not give any direct benefits to the tax payers for the

taxes paid and the tax payers cannot demand any direct benefits against the payment of taxes.

5. **Certain taxes levied for specific objectives:** Though taxes are imposed for collecting revenue for the government to meet its expenditure on social wants and merit wants for example heavy taxes are levied on luxury goods to reduce their consumption.
6. **Attitude of the taxpayers:** The attitude of the tax payers is an important variable determining the contents of good tax system.
7. **Good tax system should be in harmony with national objectives:** A good tax system should run in the same direction with important national objectives.
8. **Tax system recognizes basic rights of tax payers:** A good tax system recognizes the basic rights of tax payers. The tax payer is exacted to pay the tax but not undergo the harassment. (Tax system manual by Addis chamber 2004)

2.4 Taxation principles

Taxation principles are basic concepts by which government is meant to be guided in designing and implementing all equitable taxation regimes these includes.

1. **Adequacy:** Taxes should be just enough to generate revenue required for provision of essential public services.
2. **Broad basing:** Taxes should be spread over as wide as possible section of the population or sector of economy to minimize the individual tax burden.
3. **Compatibility:** Taxes should be coordinated to ensure tax neutrality and over all objectives of good governance.
4. **Convenience:** Taxes should be enforced in a manner that facilitates voluntary compliance to the maximum extent possible.
5. **Ear marking:** Tax revenue from specific source should be dedicated to a specific purpose only when there is a direct cost and benefit like between the tax sources and expenditures such as use of motor fuel tax for road maintenance.
6. **Efficiency:** Tax collection efforts should not cost an inordinately high percentage of tax revenues.
7. **Neutrality:** Taxes should not favor only one group or sector over another and shouldn't be designed to interfere with or influence individual decision making.

8. **Equity:** Taxes should equally burden all individuals or entities in similar economic circumstances.
9. **Predictability:** Collection of taxes should reinforce their inevitability and regularity.
10. **Restricted exemptions:** Tax exemptions must only be for specific purpose (such as to encourage investment) and for limited period.
11. **Simplicity:** Tax assessments determination should be easy to understand by an average tax payers. (www.Taxation dictionary.com).

2.5 Canons of taxation

Canons of taxation are the main basic principles (i.e. rules) set to build a “Good tax system”.

Canon of taxation were first originally laid down by economist Adam Smith in his famous book “the wealth of nations” in this book, Adam Smith only gave four canons of taxation. These original four canons are now known as the “original main canons of taxation”.

As the time changed, governance expanded and became much more complex than what it was at the Adam Smith’s time soon a need was felt by a modern economists to expand Smith’s principles of taxation and as a response they put forward some additional modern canons of taxation.

Adam Smith gave the following four important canon of taxation

1. **Canon of equity:** The principles aim at providing economic justice and social justice to the society. According to this every person should pay depending on the ability to pay. The rich should pay higher taxes to the government, because without the protection of the government authorities (police, defense etc.). They could not have earned and enjoyed their income. Adam Smith argued that tax should be proportional to income.
2. **Canon of certainty:** According to Adam Smith the tax w/c an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much, at what time and in what form the tax to be paid to the government. At the same time a good tax system also ensure that the government is also certain about the amount that will be collected by way of tax.
3. **Canon of convenience:** The mode and timing of tax payment should be as far as possible, convenient to the tax payers for example and revenue is convenient tax located at time of harvest income tax is

deducted at source. System will encourage people to pay tax and will increase tax revenue.

4. **Canon of economy:** This canon implies that the administration cost of tax collection should be minimum, i.e. the difference between the money, which come, out of the pockets of people and that which is deposited in the public treasury should be as small as possible. (Gebrie worku mengesha, 2008).

Additional canons of taxation by other

1. **Canon of productivity:** It is also known as the canon of fiscal adequacy according to this principle, the tax system should be able to yield enough revenue for the treasury and the government should have no need to resort to deficit financing. This is a good principle to follow in developing country (economy).
2. **Canon of elasticity:** According to this country, every tax imposed by the government should be elastic in nature. In other words the income from tax should be capable of increasing or decreasing according to the requirement of the canary. For example, if the government needs more income at time of crises, the tax should be capable of yielding more income through increase in its rate.
3. **Canon of flexibility:** It showed be easily possible for the authorities to revise the tax structure both with respect to its coverage and rates, to suit the changing requirements of the economy with changing time and conditions the tax system needs to be engaged without much difficulty. The tax system must be flexible and not rigid.
4. **Canon of simplicity:** The tax system should be complicated. That makes it difficult to understand and administer and results in problems of interpretation and disputes.
5. **Canon of diversity:** This principle states that the government should collect taxes from different sources rather than concentrating on assignee source of tax. It is not advisable for the government to depend up on single source of tax. It may result inequality to certain section of the society, and uncertainty for the government to raise nudes. If the tax revenue comes from diversified source then any rendition in tax revenue on account of any one cause is bound to be small.

2.6 Major types of taxes in Ethiopia

1. **Direct taxes:** Direct taxes are those which are paid entirely by that person whom they are imposed. A direct tax is one paid directly to

the government by the persons on whom it is imposed. Examples include some income taxes, some corporate taxes and transfer taxes such as estate (inheritance) tax and gift tax.

2. **Indirect taxes** are computed indirectly in the cost of goods or service you purchase such as taxes imposed on companies for doing business. A good example of indirect tax would be shipping cost which are included in the cost of merchandise you buy at the store. Cost on commodities like custom duties, sale taxes, excise taxes etc. included in types of indirect taxes. (Gebrie worku mengesha, 2004).

1. Types of indirect tax

A. Employment personal income tax

Every person deriving income from employment is liable to pay tax on that income at the rate specified in schedule. Employment income shall include any payment origins in cash or in kind received from employment by an individual. Employees have an obligation to withhold the tax from cash payment to an employee, and pay the tax authority the amount withheld during cash calendar month in applying the procedure, income attributable to the month of Nihassie and Pagume shall be aggregated and treated as the income of one month. If the tax on income from employment, instead of being deducted from the salary or wage of the employee is paid the employer in whole or in part, the amount so paid shall be added to the taxable income and shall be considered as part thereof (Gebrie worku Mengesha, 2008).

B. Business profit tax

This 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 accounting standard. Corporate business are required to pay 30% of fiat rate of business income tax. For with incorporated or an individual business are taxed in accordance with the determined schedule and rate. In the determination of business income subject tax in Ethiopia, deductions would be allowed for expense incurred for the purpose of earning, securing and maintaining that business income to the extent that the tax payer can prove the expenses.

The following expenses calculating shall be deductible from gross income in calculating taxable income.

- The direct cost of producing the income such as the direct cost manufacturing, purchasing, importation, saving and such other similar cost.

- General and administrative expense connected with the business activity.
- Premium payable on insurance directly connected with the business activity.
- Expenses incurred on connection with the promotion of the business inside and outside the country. Subject to the limits set by the directive issued by the minister of revenue.

2. Types of indirect taxes

A. Turn over tax

The turn over tax would persons not registered for value added tax render payable on good sold and services. The rate of turn of over tax is

- 2% on good sold locally.
- For service rendered locally.
- 2% on contractors, grain mills, tractors and combine harvesters.
- 0-50% on other.

B. Value added tax

Value added tax is tax on consumer expenditure: it is collected on business transactions and imports. A taxable person can be an individual firms company, as long as such a person is required to be registered for VAT most of transactions, inviolable supplies of goods or services, VAT is payable if they are:

- Supplies made in Ethiopia.
- Made by a taxable person
- Made in the course or further once of business.
- Every import of goods, other than an example import and import of service.

The registered person is required to issue the VAT invoices to the purchaser of goods or services up on the supply or rendering, but not later than 5 days after the transaction. (Tax system Manual by Addis Chamber, 2004).

C. Excise tax

Excise tax in Ethiopia is imposed and payable on selected goods, such as luxury goods and on goods that are hazardous to health which are cause social problems, so excise tax will reduce the consumption of such goods.

Rate of excise tax

The excise tax shall be paid on goods mentioned under the schedule of the proclamation.

1. When it is imported
2. When produced locally at prescribed in the schedule

Base of computation of exercise tax

1. In respect of goods, produced locally the cost of production
2. In respect of goods imported cost of insurance and freight (CIF)

Payment of excise tax

The excise tax shall be paid within the time prescribed according to proclamation no 307 sub article 12)

1. In respect of goods produced locally, by the producer
2. In respect of goods imported by the importer (www.Addis chamber. eom)

Time of payment

According to the proclamation, excise tax on goods shall be paid under the schedule.

1. When imported at the time of clearing the goods from customs area.
2. When produced locally, not late than 30 days from the date of production.

2.7 Classification of taxes based on their effect on income

Taxes, based on their impact on income can be classified as progressive proportional and regressive.

2.7.1 Progressive taxes

If the tax system is progressive, the proportion of income taken in tax (the tax rate) rises with income or spending power, here as the income or spending in case, the marginal rate of tax for the increased income or spending also rises.

It is also possible to have a progressive expenditure tax where the rate of tax rises with increment to consumption expenditure. There is some empirical evidence that the UK Value Added Tax (VAT) is actually progressive: people with higher incomes tend to increase their spending on items subject to the tax to such an extent that the payment becomes a bigger proportion of income (W. pearce; 1984, 358).

In developed countries they use a progressive income tax, for example the USA income tax is the most progressive tax in the world Progressive taxes the most equitable than repressive or proportional taxes in the sense that they are lived according to the ability to pay. Some criticize progressive taxes that too much degree of progression discourages work effort and risk taking, but some egalitarian economists and politicians tend to favors progressive taxes.

In Ethiopia some of the progressive taxes are personal income taxes of proclamation 30/1992 and 107/1994 and the rental income taxes of proclamation 64/1993. The income level will be categorized in different income brackets and taxed by progressive rate

2.7.2 Proportional taxes

This kind of tax is a tax whose rate remains constant as the size of the base increases. A proportional tax rate is usually stated as a flat percentage of the base regardless of its size. For example, the property tax usually operates with proportional rates, and the tax might be expressed as 1% of the assessed property. Sales and excise taxes, payroll taxes, and most customs duties are also levied on the basis of proportional rates (Douglas and Greenwald; 1983; 275).

These kinds of taxes in Ethiopia are seen in the mining income tax proclamation 23/1996, which states that both large and small – scale miners shall pay 35% of their mining income.

2.7.3 Regressive taxes

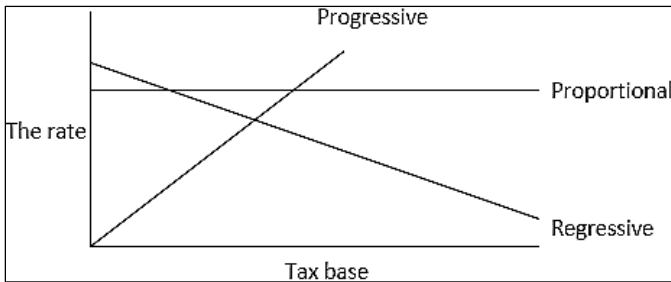
In these kinds of taxes the marginal rate of tax decreased, as the income or consumption increases. This tax a larger share of income from the low-income tax payer than from the high income tax payer.

A tax which is technically proportional in terms of the tax base, can often be considered regressive in terms of tax payer's income. Common examples of such regressive taxes are sales taxes, excise taxes and property taxes. For example an excise tax on cigarettes is based on the number of cigarettes sold and thus by definition is proportional since the number of cigarettes consumed may rise as income rises, as income rises, however, the rate of the tax decreases with increasing income and thus can be called regressive. The effect of regressive tax is to increase inequalities of income, by placing a larger burden on the poor than of the rich. (Greenwald; 1983, 1127).

Most of the indirect taxes are regressive, for example excises and sales taxes, the same amount of tax is paid per unit purchases. This amount of tax represents a higher proportional of income to the poor. Some people argue that

regressive taxes encourage people to work harder to be elevated above the lower income group.

As stated in the above illustration taxes can be progressive, proportional or regressive. They can be used for different objectives, to achieve their own goals. As Green wald put as a diagram the relationship between tax rates and tax base as follows.



2.8 Categories of tax payers

Tax payers are classified in to three major categories.

1. Category “A” tax payers: This category tax payers are include

- A. Any company incorporated under the laws of Ethiopia or in a foreign country.
- B. Any other business having an annual turnover of birr 500,000 or above.

These category tax payers are required to submit to the tax authority, at the end of the year.

2. Category “B” payers unless already classified in category ‘A’ any business having on annual turnover of birr 100,000 would be classified under category “B” tax payers. This category of tax payers should submit to the tax authority profit and loss statement at the end of the year.

3. Category “C” tax payers: unless classified in category “A” and ‘B’ those businesses as whose annual turnover is estimated up to birr 100,000 are classified in category “C” of tax payers.

2.9 Procedures of tax collection

Tax from category “A” and “B”, tax payer is collected based on tax payers declaration of the annual, sales/income to the tax authority. Based on this the authorized official approves the declaration. Following this approved, tax is collected from tax payers and they will be delivered receipt and clearance

letter. The tax assessment for category “C” tax payers is made based on the subjective estimation of daily sales by district assessment committee. After the assessment was made, the committee will decide on the daily or annual sales of the taxes payers while considering different factors which will inters provide a basic in determining the amount to be paid by the tax payer. (Ministry of finance and economic development Addis Ababa 1996).

Chapter - 3

3. Research design and methodology

3.1 Research design

The study focused on the problem associated with tax collection problem in legambo woreda which is found in south wollo Zone. The study was conducted, by using both qualitative and quantitative research approach.

3.2 Source of data and collection method

To conduct this study both primary and secondary data was collected. The primary data was collected by using questionnaires from tax payers, employees of revenues bureau and personal interview with the manager of the bureau. The secondary data was collected from the previous year reports of the bureau, from different books, and related published materials.

3.3 Target population and sampling methods

There are different tax base and tax payers in the woreda such as employees, traders and farmers. From 8000 registered tax payers in the woreda the study was conducted, on 100 registered tax payer of all sector from 18 kebeles of the woreda. Among different sampling techniques the researcher selects simple random sampling technique. The sample size (100) is determined by using the following formula which came from statistics subject, as following using 90% confidence level. (Source kottari 2004).

$$n = \frac{Z^2 pqn}{e^2}$$

$$e^2 = (N-1) Z^2 pq \text{ where}$$

n = Sample size

Z² = from table of using confidence level

P = Probability to be selected

q = Probability not to be selected

N = Total population in woreda

e = Error of confidence level

Therefore the sample size of the researchers is

$$N = \frac{(1.6)^2 (0.5 \times 0.5) 8000}{(0.1)^2 (8000-1) + 1.6^2 (0.5 \times 0.5)}$$

$$= \frac{5379.2}{100}$$

$$= 53.785$$

53.785

3.4 Data analysis method and presentation

After gathering all required qualitative and quantitative information data analysis was performed and presented through table, percentage and frequencies. Then the data was analyzed by using descriptive analysis method.

Chapter - 4

4. Data analysis, interpretation and presentation

This chapter deals with analysis and interpretation on the base of data gathered through questionnaires and interview. In order to acquire information for the study totally 115 questionnaires were distributed to tax payers and employees of tax bureau. From randomly selected 100 tax payers only 87 were correctly filled and returned the questionnaires. From 15 employees of the revenues bureau all are correctly and actively participated in responding the questionnaires. Furthermore, to gather additional data the researcher was held interview with manager of the revenue bureau.

4.1 Analysis of data gathered from tax payers

Table 1: General profile of tax payers

Gender	Male	Female	Total			
No of respondents	46	41	87			
Percentage	52.9%	47.1%	100%			
Age group	20-30	32-41	41-50	Above	Total	
No of respondents	18	24	30	15	87	
Percentages	20.7%	27.6%	34.5%	17.2%	100%	
Educational back ground	1-6	6-12	Certificate	Diploma	Degree	Total
No of respondents	35	20	14	15	7	87
Percentage	40.2%	22.9%	16.1%	12.6%	8.2%	100%

The data collected through questionnaires indicate that almost about 53% of the respondents were male and 47% was female all respondents age lie above 20 years. The age group from 41-50 cover the highest ration with 34.5%. With regard to educational back ground 40.2% of the sampled respondents learned primary Schools, 22.9% secondary school, 16% have certificate, 12.6% have diploma and 8.2% have degree.

Table 2: Types of tax payers take parts in responding the questionnaires

Types of tax payers	No of respondent	Percentage
Employment in come tax payer	15	17.2%
Business income tax payers	55	63.2%
Agricultural income tax payers	17	19.6%
Total	87	100%

From the whole respondents 63.2% are engaged in different types business, 19.6% engaged on agricultural activity and 17.2% are public servants.

Response of tax payers

Table 3: Do you face any problem when you pay your tax liability?

Response	Total No of respondent	Percentage
Yes	59	67.8%
No	28	32.2%
Total	87	100%

For the above question 67.8% of the tax payer tell us that a problems when they pay their tax liability. As the data gathered from questionnaires indicate major problems mentioned by tax payers are in efficiency of tax collectors (by 60%), the existence of over taxation (22.8%) and problem of procedure of tax collection with 17.2% of respondents.

Table 4: Is your annual tax liability based on your income?

Response	Total No of respondent	Percentage
Yes	59	17.2%
No	72	82.8%
Total	87	100%

As tried to show in above table above 82.8% of the tax payers have complain on tax amount imposed on them because the tax they paid is not based on their income.

Table 5: When do you pay tax?

Response	Total No of respondent	Percentage
When receive assessment notification	14	16.5%
Before due date	42	48.3%
After due date	32	35.6%
Total	87	100%

As the data gathered implies that 51.7% (16.5% + 35.6%) of the tax payers are not paid their tax liability on time for the same question the response of revenues bureau employees was almost nearest to this percentage with 53.3%. The late payers reason out some problems for the late payment like of cash on hand on exact time of payment and etc.

Table 6: Does the tax rate imposed by government is fair?

Response	Total No of respondent	Percentage
Yes	31	35.6%
No	56	64.4%
Total	87	100%

From the total sampled respondents 64.4% have complain on the tax rate imposed on them because they feel it is above their capacity

Table 7: Is the payment period enough?

Response	Total No of respondent	Percentage
Yes	77	88.5%
No	10	11.5%
Total	87	100%

Among the respondents 88.5 of the tax payer's answers indicate that the payment period is enough. The remaining 11.5% say the payment period is not enough. This realizes that range of time that given for payment is enough.

Table 8: Do you know why tax is compulsory?

Response	Total No of respondent	Percentage
Yes	40	45.9%
No	47	54.1%
Total	87	100%

Knowledge of tax payers about taxation is still not adequate about 54.1% of tax payers have no idea why they pay tax. Some tax payers when ask why they pay tax they reply that only they pay tax because it is obligatory.

Table 9: How do you see present taxation system?

Response	Total No of respondent	Percentage
Good	35	40.2%
Not bad	27	31%
Need restatement	25	28.8%
Total	87	100%

From all respondents 71.2% (40.2% + 31%) almost have positive about present taxation system and the remaining 28.8% feel not good. For the same question submitted for employees the majority of them have good feeling.

Table 10: How do you feel about taxation?

Response	Total No of respondent	Percentage
As an obligation	30	34.4%
As a debt	37	42.5%
As useful	20	23.1
Total	87	100%

As indicated in above table only 23.1% of taxpayer sees taxation as useful about 76.9% the tax payer considered tax as debt and obligation this implies that the knowledge of tax payer is poor.

Table 11: Are you satisfied with the method of assessment?

Response	Total No of respondent	Percentage
Yes	47	54.1%
No	40	45.9%
Total	87	100%

Based on the above table 45.9% of the respondents are not satisfied with the method of assessment. The following are some of the reasons mentioned by the tax payers are the tax system are not modernized; the appointed tax collectors are not feel responsible or have no interest on their position.

4.2 Analysis of data gathered from employees

This part of the analysis discussed with question that offered for the employees of revenues bureau and their answers 15 employees of the bureau and their manger were actively participated in answering the questionnaires and stringy assist me by giving all necessary data for my study.

Table 12: General profile of the employees

Gender	No of employees	Percentage	Educational qualification	
			diploma	Percentage 53.3
Male	9	60%	Degree	46.7%
Female	6	40%	M.A	-
total	15	100%	Total	100%

As it is shown in the above chart the total of employees in so koru worda revenues bureau are only 15. 9 are males and the remaining 6 are females. Educational back ground of the employees tells us that about 54.3% of them have diploma and 46.7 of the employees graduated from college by degree.

Table 13: Do most tax payer pay their tax liability on time

Response	Total No of respondents	Percentage
The policy	2	13.3%
Tax payers	-	-
Tax office	4	26.7%
All	9	60%
Total	15	100%

Only 60% of the respondents answered that tax collection and assessment is the responsibility of all the remaining 40% answered different answer.

Table 14: How do you evaluate the coordination of your office with others?

Response	Total No of respondents	Percentage
Excellent	2	13.4%
Very Good	3	20%
Good	5	33.3%
Hess	5	33.3%
Total	15	100%

For the question above about 66.7% of the respondents to tally answered excellent good and very good only 33.3% said less this averagely implies us the offices coordination with others office is good.

Table 15: What do you think about the bureaus structural adjustment?

Response	Total No of respondents	Percentage
Complete the work quickly	9	60%
Complete the work moderately	5	33.3%
Complete the work excessively	1	6.7%
Total	15	100%

According to data gathered from the respondents about bureaus structural adjustment 60% of the employees believe that it is good and complete the work quickly, 33.3 of respondents feel that its Complete the work moderately and the remaining 6.7% believe its complete the work excessively.

Table 16: How do you evaluate the knowledge of tax payer about taxation?

Response	Total No of respondents	Percentage
High	-	-
medium	3	20%
Low	12	80 %
Total	15	100%

The response of employees concerning knowledge of tax payers describe that 80% of the respondents come out with the knowledge of tax payer is low, and the remaining 20% respond that their knowledge is medium.

Table 17: What do you feel about the Position you have assigned?

Response	Total No of respondents	Percentage
Is the right position	6	40%
Beyond my capacity	-	-
Under my capacity	9	60 %
Total	15	100%

From total employees only 40% of the employee's feel the right about their position the majority of the respondent (60%) feel their position is under their capacity this implies that they have no satisfaction on their position.

Table 18: What is your idea about present tax collection and assessment system?

Response	Total No of respondents	Percentage
Is effective	9	60%
Show discrimination	4	26.7
Have in sufficient manpower	2	13.3%
Total	15	100%

Among the respondents 60% of the tax payers approve that the present tax collection and assessment system is effective 26.7% of the respondents said it shows discrimination while the remaining 13.3% of the respondents answered have insufficient power of man.

4.3 Analysis and presentation of secondary data

Table 19: The five years budgeted and actual amount of tax collected in legambo woreda

Year	Budgeted amount of tax	Actual amount of tax collected	Percentage
2007	4,000,000	4,187,552	104.65%
2008	4,448,000	5,801,536	130%
2009	5,200,000	4,925,234	94.71%
2010	5,620,265	5,024,441	89.39%
2011	6,789,000	5,322,161	78.39%
Total	26,057.265	25,260,924	96.94%

Source: Legambo Woreda Revenues Bureau

As presented in the above table the actual amount of tax collected in 2007 and 2008 was above budgeted tax amount with 104.68% and 130%

respectively. But, this result is reversed for the next consecutive years of 2009, 2010, and 2011 with 94.71%, 89.39% and 78.39%. The declined amount of tax collected in these three years also resulted in the decreased amount of actual tax collected for cumulative five years from the budgeted tax by 96.94%.

The data gathered via interview with the manager of the revenues bureau indicate that the two major factors for decreased amount of actual tax collected from the budgeted amount of tax are:

1. As the manager explained, even after the referendum of 2009 approved Akesta town for legambo, some parties who were not satisfied by the result was not paid the tax until the last year. However, currently with the intervention of federal government everything is settled.
2. The other factor that understates the actual tax collected from the budgeted tax is bankruptcy of the registered tax payers.

Chapter - 5

5. Summary conclusion and recommendation

5.1 Summary

The major findings that included in this research summarized as follows.

- In both questionnaires for employees and for tax payers to tally 55 males and 47 females were participated.
- The educational background of employees of tax bureau is diploma and above.
- Both employees and tax payers were agreed that the tax payment period is enough.
- The tax payers are satisfied on the present tax assessment and collection system.
- Knowledge of tax payers about tax is poor.
- Employees of revenues bureau are not satisfied on their position and on their working environment.
- Almost the majority of tax payers are suggested that the tax rate is not fair.
- The coordination of revenues bureau with other offices is good.
- Lack of training and education concerning tax for employees of revenues bureau.
- The major factors for diminished amount of tax collected from the budgeted are conflict between ethnic group and bankruptcy of the registered tax payers.

5.2 Conclusion

To conduct these study questionnaires were distributed for 100 tax payers and 15 questionnaires were distributed for employees of revenues bureau. In addition to this, different opinions were collected from manager of the office and the previous year report of the office. As the result of the study indicate that the prominent problems of tax collection in legambo woreda are the following.

- The other significant problem identified by the study is poor knowledge of tax payers concerning tax.
- The annual tax payment (the tax rate) imposed by government is not fair or not comparable with their income.
- Lack of adequate training and education with respect to tax laws and amendment of tax law which improve knowledge of employees
- The revenues bureau faced a problem in service delivery by reason of dissatisfied employees on their position and their working environment.

5.3 Recommendation

To stamp out the distinguished problems and improve (sustain) the strength which shown in the woreda, with respect to tax collection and assessment, the woreda's revenues bureau should take the following measures.

- The revenues bureau should extend awareness regarding tax to the community by using different media, flyers, and pamphlets and by face to face training.
- The revenues bureau should try to smooth the way that the annual tax payment (tax rate) and income of the tax payers become balanced. By informing the complain of tax payers to concerned body.
- It should necessary to create the spheres which upgrade the knowledge of the employees. And different training relating to tax law and amendment of tax law must be provided.
- To reduce dissatisfaction of employees on their position job rotation is one way and the revenues bureau should try to make the working environment attractive and comfortable by making the environment green, by providing refreshment center for worker and by creating duties that improve friendly relation between the workers.

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Appendix

Questionnaires

First of all I would like to thank for your willingness to respond this questionnaire form for study of assessment of tax collection problems in case study of legambo worda.

- I. Dear respondent you are not required to write your name to give you freedom, to respond confidently and to keep your secret safely.
- II. Please put \surd mark in the place provided for you in box for both open and close questions.

Appendix I

Questionnaires related to tax payers

- Personal information
- Age
 - A. 20-30
 - B. 31-40
 - C. 41-50
 - D. Above 50
- Sex
 - A. Male
 - B. Female

Education background:

- A. Primary school (5-6)
- B. Secondary school (7-12)
- C. Technical school
- D. College (diploma)
- E. College (degree)

Types of business:

1. How do you feel about taxation?
 - A. As an obligation
 - B. As debt
 - C. As useful
2. Is the tax payment period enough?
 - A. Yes
 - B. No
3. When do you pay tax?
 - A. When I receive assessment notification
 - B. Before due data

- C. After due date
4. Is your annual tax liability based on your income?
- A. yes
- B. No
5. Do you face any problem when you pay tax liability?
- A. yes
- B. No
6. If your answer is “yes” for question number 5 what is your possible reason?
- A. Problem of procedure of tax collection system
- B. Weakness among tax collector
- C. The existence of over taxation
- D. If any other specify _____
7. How do you see present tax system?
- A. Good
- B. Not bad
- C. Need restatement
8. Do you know why tax is compulsory?
- A. Yes
- B. No
9. If your answer is “no” for question no 8 what is your reason?
- A. No awareness creation by concerned body
- B. Because tax is not so far contribute for one’s country’s development
- C. I am not obliged to pay tax because it is not my responsibility.
- D. If any other specify _____
10. Are you satisfied with the method of assessment?
- A. Yes
- B. No
11. If your answer is “no” for question no 10 because of what?
- A. Power to collect tax is not delegated on the woreda
- B. Tax collection system is not modernized one

C. Appointed tax collectors are not feeling responsible

D. If any other specify _____

12. Does the tax rate imposed by government is fair?

A. Yes

B. No

Appendix II

Questionnaires related to revenues bureau employees personal information

- Personal information
 - Age
 - A. 20-30
 - B. 31-40
 - C. 41-50
 - D. above 50
 - Sex
 - A. Male
 - B. Female
 - Education Qualification:
 - A. Technical school
 - B. College (diploma)
 - C. College (degree)
 - D. MA/MSC
- 1. Who is responsible for tax collection and assessment?
 - A. The policy
 - B. Tax payer
 - C. Tax office
 - D. All
- 2. How do you evaluate the coordination of your office with the other office?
 - A. Excellent
 - B. Very good
 - C. Good

- D. Less
- 3. How do you feel about the position you have assigned?
 - A. Is the right position
 - B. Beyond my capacity
 - C. Under my capacity
- 4. What do you think about the bureau's structural adjustment?
 - A. Will complete the work quickly
 - B. Will work
 - C. Excessively
 - D. will work moderately
- 5. What is your idea about the present tax collection and assessment?
 - A. Effective
 - B. Show discrimination
 - C. Have in sufficient man power
- 6. How do you evaluate the knowledge tax payer about taxation?
 - A. High
 - B. Low
 - C. Medium
- 7. Do most tax payer pay their tax liability on time?
 - A. Yes
 - B. No