EFFECTIVENESS ON TAX ASSESSMENT AND COLLECTION PRACTICE OF CATEGORY “C” TAX PAYERS: THE CASE OF HALABA CITY ADMINISTRATION

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ABSTRACT

The study was conducted to assess effectiveness of tax assessment and collection practice of category “C” tax payers at Alaba City. Although, the data collected from the tax payers’ and key informants were the main sources of data for the study. In this regard, a total of 96 tax payers have participated in the study as a source of information. In addition, key informants from Alaba Town Revenue Authority (ATRA) and Employees were interviewed to support and checkup the reliability of the data collected using survey method. Descriptive statistics such as percentages, frequency, charts, and graphs were used to summarize the study findings and present the results. Generally, findings of the study revealed that most of the taxpayers, those in the category “C”, have been facing various problems related to the taxation system. Despite the business community’s positive attitude towards the general concept of taxation, most of the surveyed tax payers stated that what they are paying is beyond their ability to pay and that they neither have trust in the employees of the authority nor in the overall tax estimation, assessment and collection procedures. In light of these facts, the study concluded that the tax authority of the city administration is not being effective or is being reluctant in making the tax procedures objective, transparent and understandable to taxpayers. Thus, it is recommended that the responsible tax authorities should revise their working system and promote transparency, so that trust of tax payers on the tax system will gradually develop.

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INTRODUCTION

1.1. Background of the Study
Taxes are important sources of public revenue. Public goods such as roads, power, municipal services, and other public infrastructures are normally supplied by public agencies due to their nature of non-rivalry and non-excludability (Joseph, 2008). Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (Fjeldstad, 2004). Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009: 1). Tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return’ (Lymer and Oats, 2009). However, not all payments to government are considered tax payments: for example, charges, tolls and other levies are paid to obtain a specific service and are not strictly tax payments. According to the current federal income tax proclamation no.286/2002 taxpayers are categorized into three categories, namely category “A”, “B”, and “C” based on their volume of sales and form of business. Category “A” includes any company incorporated under the tax law of Ethiopia or in or a foreign country and other entities having annual turnover of Birr 500,000 and more. Category ‘B’ includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. These categories of taxpayers must submit profit and loss statement at the end of the year. Category “C” unless already classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. Unlike the case for category “A” and “B” tax payers, the income tax liability of Category ‘C’ taxpayers is determined using standard assessment. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area (Lemessa, 2007). Category ‘C’ tax payers, the main targets of this study, will be to those who pay their taxes on the basis of tax assessment by estimation. To this effect, they will be asked whether they have faced any problems when their tax is assessed using standard tax assessment scheme. Therefore, this research will be designed to study the consequences of tax assessment on tax collection of category “C” taxpayers in Alabakulo city.

1.2. Statement of the Problems
Taxation in developing countries is a challenging topic and has attracted increasing attention in the last two decades. Many problems observed like poor administration, failing to collect sufficient tax revenues, tax structures where tax horizontal and vertical equity considerations are not integrated, lack of government and economic stability. In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among taxpayers (Tanzi, 2000). Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. To address this problem, the government introduced the imposition of tax (direct and indirect), among others; as major and important sources of public revenue. However, this imposition of tax couldn’t still bring the required result due to a number of reasons such as lack of clear understanding about the tax system by the taxpayers, taxpayers don’t comply with their tax obligation, hostility between the taxpayers and tax authorities due to their natures of non-rivalry and non-excludability.
officials, negative attitude of taxpayer towards the tax system, that is, understating their taxable income by significant amount,... etc. For these reasons, the actual amount of tax couldn’t be collected properly (Tadele, 2010). Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for category “C” taxpayers especially for those who are less literate individuals. Tax systems are usually not elaborated properly with the society. Consequently, the Category ‘C’ taxpayers complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. The extent of the impact of attitudes and attitudinal change on tax compliance behavior was not well understood and studies in this area have not been carried out in Alaba city. Therefore, addressing this attitudinal or knowledge gap among the Category ‘C’ taxpayers is the primary purpose of this study. It is for this reason that this study attempted to find out the Effectiveness on tax assessment and collection practice of category “C” tax payers in Alaba city administration, SNNPRS.

1.3. Objectives of the study

1.3.1. General objective
The general objectives of the study was to examining the effectiveness of tax assessment and collection practice with respect to category ‘C’ tax payers in Alaba City Administration, SNNPRS.

1.3.2. Specific objectives
a. To discuss tax collection practice in the study area.
b. To assess effectiveness of tax assessment in the study area.
c. To identify the challenges faced in the tax assessment and collection practice.
d. To identify factors that affect effectiveness of tax assessment.
e. To identify determinants of tax collection practices in the study area.

1.4. Research Questions
The major questions that, this study were attempted to address are:

a. What look like effectiveness of tax assessment?
b. What is tax collection practice?
c. What are the challenges faced in the tax assessment and collection practice?
d. What are the factors that affect effectiveness of tax assessment?
e. What are determinants of tax collection practices?

1.5. Significance of the study
Taken as a whole, this study were examined the effectiveness of tax assessment and collection practice on category “C” tax payers, in order to provide meaningful insight and contribute to tax collectors and even to tax payers. Therefore it believed that the study had the result of strengthening the tax authority and awareness of tax payers. The main barriers between them were also avoided.

1.6. Scope of the study
The study was delimited to the Alaba city revenue office specifically on effectiveness of tax assessment and collection system. The scope of this study was spread across to Alaba city Administration specifically business were included like merchandize, producers and service providers.

1.7. Limitations of the study
Shortages of adequate secondary data and the reluctance of some officials to provide the required data were some of the limitations of the findings. Shortage of time and absence of research fund were also other limiting factors of the findings of the study. However, necessary precautions were made so that these limitations was not affect the findings of the study through taking appropriate sample size and triangulating different data collection methods.

2.1. Meaning and concepts of Tax
Tax has been defined by various authorities and professionals in various ways. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (Uremadu, 2000). According to Adesola (1998), tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for
which the taxpayer receives nothing specific in return.

2.2 Category of Taxpayers
Taxpayers are grouped into different categories under the law. According to Ethiopian proclamation number 285/2002, Taxpayers are classified into the following three major categories: Category “A” Taxpayers, Category “B” Taxpayers and Category “C” Taxpayers

2.2.1 Category “A” Taxpayers:
Ethiopian Tax proclamation 285/2002 describes category ‘A’ taxpayers as any company incorporated under the laws of Ethiopia or in a foreign country and any business having an annual turnover of Birr 500,000 or more. They are required to submit to balance sheet and profit or loss statements to Revenue Authority at the end of the year. Balance sheet, profit and loss statement incorporate gross profit and the manner in which it is computed, general and administrative expense depreciation expenses and provisions and reserves (ECC, 2005).

2.2.2 Category “B” Taxpayers:
Unless not already classified in category ‘A”, any business having an annual turnover of over Birr 100,000 would be classified under Category “B” taxpayers. This category of taxpayers should submit to the Revenue Authority profit and loss statement at the end of the year similar to category ‘A’ taxpayers.

2.2.3 Category “C” taxpayers are taxpayers:
That are not classified under Categories “A” and “B”, and businesses whose annual turnover is estimated up to Birr 100,000 are classified under this category of taxpayers. A standard assessment method should be used to determine the income tax liability of category C taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment (ECC 2005).
The main objective of imposing certain taxes on the public is to generate revenues for the government for public expenditure (Singh, 1999; Shammugam, 2003; Lymer and Oats, 2009: 2). However, there are other functions of taxes as suggested by Lymer and Oats (2009: 2) including to reduce inequalities through a policy of redistribution of income and wealth so that income gap between the rich and the poor is not as significant. Tax systems are also designed for social purposes, such as discouraging certain activities which are considered undesirable and protecting the environment. For instance, the excise taxes on alcohol and tobacco are (at least partly) exercised to decrease consumption and thus encourage a healthier lifestyle Taxes are also expected to ensure economic goals through the ability of the taxation system to influence the allocation of resources including transferring resources from the private sector to the government to finance the public investment programme, the direction of private investment into desired channels through such measures as regulation of tax rates and the granting of tax incentives. In addition, import duties could be used to protect local industries from foreign competition. This has the effect of transferring a certain amount of demand from imported goods to domestically produced goods. The law requires all entries in the records and accounts to be supported by appropriate vouchers (Council of Ministers Regulation no. 78/2002: Category ‘C’ unless already classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. Unlike the case for category “A” and “B” tax payers, the income tax liability of Category ‘C’ taxpayers is determined using standard assessment. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. In this regard, this category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group.

This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area (Lemessa, 2007).

Many scholars have explained taxation in different ways. For instance, Cobham (2005) explained that tax is a fundamental issue, but neglected element of the development policy. The structure and administration of taxation are frequently omitted from discussion and research agenda. Questions of primarily redistributive nature may be believed political, and so unsuitable for neutral economic...
analysis, and moreover as questions to be resolved by the democratic process in individual countries. On the other hand, many questions are posed in terms of system reform and these may instead be considered as purely ‘technical’ matters of economic and bureaucratic efficiency to be settled by experts. Adams (2006) said that taxation has been a best measurement of the social need and orders. There is nothing that can reflect the nation other than the tax system and society is being evaluating accordingly who pays taxes and why for pays taxes, how tax is assessed, collected and consumed. Generally, the human being history is very related and linked with the history of taxation.

2.3. Organizational Strength of Tax Authorities

According to Bird and Oldman (1967), no tax will work effectively, unless its administrators maintain an aggressive attitude with respect to the correctness of the taxpayers’ actions. Some taxpayers will fail to file or make mistakes through ignorance or neglect; others will deliberately cheat. A passive attitude by the authorities towards these errors and falsifications will soon undermine the entire structure, since the diligent and honest taxpayers will almost in self-defense be forced to the level of the careless and dishonest. A tax administration which seeks compliance must protect those who comply or else compliance will not be forthcoming.

Bird and Oldman (1967) further state that the sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of taxpayer respect for the tax system. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite. These writers argue that in large part the solution for the large delinquency lies in providing the bite. In this sense effective tax collection is a facet of the larger problem of providing adequate penalties, to which reference will later made. In other words tax is evaded to the extent that tax authorities are perceived as weak by taxpayers. A tax system doesn't function in a vacuum. Its relationship with at every turn are with the public, and since the combination of taxes reaches nearly every individual in one way or another, the administration finds itself dealing with the nation as a whole. Hence, inevitably its operations and effectiveness are affected by the attitudes of the nation towards the tax system (Bird and Oldman, 1967).

But while tax administration is thus affected by these national attitudes (Bird and Oldman, 1967), it is equally true that the attitudes can in turn be affected by tax administration. Rational and efficient procedures, higher personnel standards, better management, improvement in relation with the public and in the daily contacts between tax official and taxpayer, can operate to increase the public respect for the tax administration. Moreover, once the tax administration has been placed on a sound basis, it is in a position to assert that compliance must be forthcoming. Such an assertion would hardly be tolerated or even taken seriously, as long as tax officials were themselves inefficient and corrupt. But if the administration has brought stability and honesty to its own operations, the self-respect thus achieved can form the foundation for its demand of respect and compliance from the taxpayer.

Lemessa (2005) states that tax systems that depend on ad hoc administrative procedures rapidly become discredited and endanger compliance. To encourage compliance it is equally important that tax authorities administer the law fairly. This implies both an absence of arbitrary or corrupt behavior on the part of the officials, and “normative standards” to ensure that the same laws are applied and administered in a standard fashion across the board.

2.4. Definition of Tax Compliance

The definitions of tax compliance frequently used in the literature might be considered to be too simplistic. As cited by James et al (2003), a more comprehensive definition has been developed by James and Alley (1999). The most common previous approach has been to conceptualize compliance in terms of the ‘tax gap’. This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance, though there are some variations.

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. James (2000) describes tax avoidance as the legal
manipulation of an individual’s affairs in order to reduce tax. However, if taxpayers go to inordinate lengths to reduce their tax liability, this could hardly be considered ‘compliance’, even if it were within the letter of the law. Since taxation is not always precise, Seldon (1979) in James et al (2003) has also coined the term ‘tax aversion’ to describe circumstances where the law might be unclear.

2.5. Factors determining tax compliance behavior
The problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of tax non-compliance, and ultimately finding ways to reduce it, are of obvious importance to nations around the world (Andreoni et al, 1998).

The attitudes of the taxpayers (Bhatia, 1976) in this regard are influenced by a host of other factors like the political situation, natural calamities, economic situations, socio cultural and so on. Due and Friedlaender (1981) also state that a person’s preference for a tax may be influenced if the tax- or an increase in it- is tied directly to the expenditures he strongly favors. Generally, attitudes toward choice of taxes and tax structures are greatly influenced by various criteria- often called principles- of taxation that have come to be widely accepted.

2.6. Ethiopian Cases
The tax authority has a decisive role in the tax administration and what has been implemented, in the Ethiopian context also shown like the other countries. Lemessa (2007) conducted a research on ‘determinants of Taxpayers’ voluntary compliance with taxation on category “C” tax payers:. He concluded that the tax authority was the responsible body for assessing and collecting the city’s tax revenue. The amount of revenue collected is directly depending on the efficiency and effectiveness of the authority. Similarly, Araya (2011) found that majority of the respondents have low understanding about their responsibility and accountability in relation to tax collection. As a result, they did not perform their obligations related to tax collection activities, and the required tax has not been collected even from governmental bodies.

According to Araya (2011), the survey result showed the tax authority of the city administration is not efficient and effective in various aspects such as improving the tax assessment and collection system, creating awareness, enforcing the tax law, providing services, and information regarding tax. Furthermore, Wbshet (2011) concluded that there is no administrative consistency in respect of the provisions of business profit tax system and this contradicts the principles of administrative fairness across business profit taxpayers.

Accordingly, Hagos (2011) shown that the respondents of the category “C” tax payers were more associated with challenges than of the other categories. This was answered by the open ended questions and interviews. The respondents answered that lack of experience of paying tax, problems related tax collectors, a lack awareness of tax payers were associated problems of category “C” tax payers during the tax collection. Regarding to the simplicity or complexity of the tax laws, Amin (2010) found that Over 80 percent of the sample considers the laws to be either complex or very complex, with only a very small or minority believed as it is simple. It is interesting to note that even though the tax official’s interview did not consider the tax laws as simple as for effectiveness of tax law, transparency was a critical issue. Taxpayers should know that a tax exists and how and when it is imposed upon them and others. However, the majority of respondents (70 percent) considered the tax system was lacking to some extent in transparency. The manipulation of the tax system is not as simple as the tax payers expected. World Bank Group (WBG) (2007) argued that the challenge of designing a simplified (presumptive) tax system for (micro & small enterprise) MSEs often is underestimated. Good presumptive systems need to be: well-coordinated with the standard tax administration to avoid a conflict of rules, as well as obstacles for the move from one system to the other, in particular for the presumptive to the standard regime; based on thorough data analysis to avoid both over as well as under-taxation of small businesses; transparent and fair to be accepted by the small business community and to avoid disputes between tax administration and small businesses over the amount of tax due. According to IMF (2010), the findings that the tax reform measures comprehensively cover key tax assessment (TA) and envisage swift implementation. Specifically, the efficiency of tax collection is
expected to be significantly improved by (i) transferring the collection of direct (business and personal income taxes) and indirect taxes (VAT and excise duty) from Addis Ababa City to the Ethiopian Revenues and Customs Authority (ERCA), (ii) reviewing current exemptions and exemption approval procedures, and (iii) increasing the large tax payers office (LTPO) audit and enforcement and capacity. Concerning to the business income tax collection procedures, Hagos (2011) analyzed about identifying how the business income tax procedure was operated and implemented. In this case, the tax assessment provision was not good; on the other hand the procedures of applying and selection of review committee make dissatisfied by the respondents.

Hence, it calls for further action from tax authorities. On the other hand, Ministry of Economic Development and Cooperation (MEDC) (1999) found that the sales tax is too much for the tax payers and as much as possible they try to evade by trying to hide from the tax collectors. The traders (tax payers) also openly admit the fact that they bribe the tax collectors and assessors to partially evade sales tax. Thus, the traders get receipts for the lower amount of the actual tax payment made to the tax collectors and the tax collectors apparently retain the differences. It is also possible that for the tax collectors pocket that the whole amount of tax collected from traders.

In another case, tax should encourage investment. (EBDNSN)(2005) proved that the organized business community is unanimous about some basic principles: Tax policy should promote investment and production so as to broaden the economic tax base of the country and not only aims at over imposing taxes on existing incomes. Taxes must be fair, i.e., citizens should be taxed in proportion to their abilities to pay “in proportion to the benefit they derive from the government”(principle of equity). The possibilities and mechanisms to appeal should be improved and entrepreneurs be regarded as partners who contribute their share to the national revenue (and not as objects that need to be controlled first with a general suspicion that they are evading their civic duty); Tax penalties should be aimed at correcting and guiding the business community and not be regarded as a source of additional revenue for the government. The prevailing tax penalties are considered to be beyond the common businesses ability to pay, which makes it very hard for government as well to enforce payment and leads to the closure of enterprises, which otherwise could have continued to provide income and jobs to the national economy.

In 2008, Mesfin found that there were two types of tax assessment in the Ethiopian context. These are administrative assessment and self-assessment. It is clear that administrative assessment is basically based on estimation which may either complain on behalf of the tax payer or a revenue decline on behalf of the government. It is unquestionable that tax assessment based on estimation without evidences creates inconvenience on either the tax payer or the government. Accordingly, he found that the Ethiopian tax authority faces many challenges in the massive task of tax collection. Such as, lack of a taxpaying culture, weak accountability, lack of transparency, weak audit performance, and unstable tax amendments.

To date, regarding to the Ethiopian tax legislation concerning to the tax laws, Taddese (2012) analyzed that the Ethiopian tax legislation field is chaotic, disorganized, uncoordinated and worse, making it difficult for an average taxpayer to make sense of their obligations under the various tax laws in force. As he said this was because tax laws are uncoordinated, most tax legislations repeat certain provisions as if they were not already defined for in other tax legislations. He mentioned that one area where so many links could surely have been saved is in the definition sections, where certain terms appear repetitively as if they were not already defined in another tax law. One can, for example, take the definition of “body” for tax purposes which is found in many tax proclamations of Ethiopia. There is reason to believe that the definition of “body” should be uniform for all tax laws, but because of the absence of a tradition of having certain general tax laws, we find ourselves reading the same definition repeated in so many tax laws of Ethiopia. The same can be said for the definition of terms like “person,” “related person,” and “authority” in different tax laws of Ethiopia. To summarize, the empirical findings found that the determinants of the tax assessment and tax collection problems were lack of equity and fairness of the tax system, low level of awareness of taxpayers, inefficacy and inefficiency of tax the authority, poor service...
delivery, lack of trust of the tax payers on tax collectors and tax assessment system procedures.

RESEARCH METHODOLOGY

3.1. Description of the study area/organization
Alaba Kulito (also known as Kulito or Kulito) is a town in southern Ethiopia. Located in the Alaba special woreda of the Southern Nations, Nationalities, and Peoples Region (SNNPR), this town sits on the left bank of the Bilate River, with an elevation of 1726 meters above sea level. Alaba Kulito is the administrative center of the Alaba special woreda. According to the SNNP's Bureau of Finance and Economic Development, as of 2003 Alaba Kulito's amenities include digital telephone access, postal service, 24-hour electrical service, and a bank service.

History:-Alaba Kulito is believed to have been founded towards the end of the 19th century, around 1895. Kulito was known as a center of Muslim settlement, with over 1,000 students in Koran schools in 1974. Ethiopian radio reported in 29 October 1996 that the remains of five youths alleged to have been killed between 1978 and 1979 through the direct involvement of senior Derg officials had been exhumed in the premises of the police station by a team of Argentine archaeologists by order of the special prosecutor.

Demographics:-Based on figures from the Central Statistical Agency in 2005, this town has an estimated total population of 27,359 of whom 13,741 were males and 13,618 were females. The 1994 census reported this town had a total population of 15,101 of whom 7,608 were males and 7,493 were females. The five largest ethnic groups reported in Alaba Kulito were the Amhara (18.77%), the Kambaata (18.01%), the Alaba (12.91%), the Silte (11.83%), and the Welayta (11.18%); all other ethnic groups made up 22.32% of the population. Amharic is spoken as a first language by 53.39%, 12.91% speak Alaba, 10.85% Kambaata, 7.83% Welayta, and 6.62% speak Silte; the remaining 8.4% spoke all other primary languages reported. Concerning migration patterns, the municipality reported that after the harvest time in December/January, there were influxes of rural people to the town, predominantly men, who come to work trade or build houses. They return to their villages in June at the beginning of the planting season. It was estimated that between five and ten thousand people migrate to the town from the countryside every year.

Economy:-Alaba Kulito is an important marketing and communication center, connected by asphalt road to the capital Addis Ababa, Shashamane and Arba Minch, and by gravel road to Hosaena. In addition, a new asphalt road through Alaba from Butajira to Addis Ababa emphasizes the town’s economic importance. The area around Alaba Kulito is famous for its production of red pepper (Berbere); hundreds of quintals of this crop are transported every week to Addis Ababa, Dessie, and other urban centers. The other cash crops include maize and teff, which are also transported to other towns including Hawassa, Dilla and Shashamane.

3.2. Research Design
The research design in this research was both qualitative and quantitative method of descriptive survey research to analyze the effectiveness of tax assessment and collection practice of the category ‘C’ taxpayers in Alaba Town. For the quantitative approach, sample surveys were used and for the qualitative approach an in-depth interview were used. The study was applied a sample survey study. This is because the total populations of Alaba city category “C” tax payers are large, so complete surveys are not used for this large number.

3.2.1. Quantitative Method
Quantitative research approach carried out for this study. The reason for the adoption of this approach includes; there is the cause and effect relationship in the study, to make generalization from a sample to a population, it is an efficient way of collecting information from a large number of respondents, Statistical techniques used to determine validity, reliability, and statistical significance, because they are standardized they are relatively free from several types of errors, they are relatively easy to administer, there is an economy in data collection due to the focus provided by standardized questions (Creswell,2002).

3.2.2. Qualitative Method
Qualitative research approach is the one in which the investigator often makes knowledge claims based on the multiple meanings of individual experiences,
socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern. In contrast to quantitative research design, qualitative approach is rooted on the philosophy constructivist.

To sum up, quantitative and qualitative research methods investigated and explored the different claims to knowledge and both methods were designed to address a specific type of research question. While the quantitative method provides an objective measure of reality, the qualitative method allows the researcher to explore and better understand the complexity of a phenomenon.

3.3. Population and Sampling Techniques

The determination of sample size is resolved by means of Slovin’s sampling formula with 90 percent confidence level. Populations for quantitative data collection for this study were Category “C” tax payers of Alaba City Administration. So, it is 1,650 Category “C” tax payers representing 96 from Alaba City Administration. The sample size for collecting quantitative data for this research was determined using Cochran’s (1977) formula as indicated on Bartlett Kotrlik and Higgins (Bartlett and Higgins, 2001). This study uses the following formula to calculate sample size:

\[ n = \frac{N}{1+N(e)^2} \]

The following step is used to determine sample size derived from the above formula to collect quantitative data using questionnaire:

\[ n = \frac{N}{1+N(e)^2} \]

n= sample size for the research use
N= total number of SME’s in the study area
e = margin of errors at 10%

Therefore:

\[ n = \frac{1658}{1+1658(0.1)^2} = 96 \]

Sum of sample sizes that was taken from Alaba city category “C” tax payers become 96 payers.

With regards to key informants interview the researcher was purposively select 9 key informants like 1 head of tax revenue office, 1 revenue and tax collection work process coordinator and vice head of the office, 3 tax collectors and 4 tax assessors of town tax revenue office based on their administrative position and experience on the subject under study.

3.3. Types and sources of data

In this study the researcher were employ both primary and secondary data. Primary data was collected from two sources: category “C” taxpayers and from Key informants from tax authority officials. Secondary data was also collected from published and unpublished sources like reports, magazines, journals, web sites, brochures, books, and thesis.

3.4. Data collection methods

Primary data was collected through semi structure interview which may include closed and open ended questions for the tax payers. The questions prepare for the tax payers were included close ended; that may have greater than four alternatives, three alternatives and with two alternatives. On the other hand, some questions were designed to open and this type of question may prepare to gather information freely which is not covered by the close ended questions.

Check list was prepared to collect data from tax collection officials and this was design to gather information from the respective bodies and to strengthen the data which may be collects from tax collectors.

3.5. Data analysis and interpretation

In accordance with the data types, quantitative and qualitative data analyses were employed. The quantitative data were analyzed by Statistical Package for Social Science (SPSS) version 20, whereas the qualitative data analysis described qualitative data by themes. The quantitative data was analyzed using descriptive statistics (frequency, percentage, means, standard deviation and multivariate regression (logit regression). Data were presented using tables, charts and graphs. Qualitative data were also analyzed through transcription and organization of the themes and will be used to supplement the quantitative information.
3.6. Variables of the study
3.6.1. Dependent Variables
1. Effective Tax assessment (ETA): In order to provide evidence on who gets Effective Tax assessment overestimation. If the firm answered “Yes”, they are classified as non-constrained firms. If they answered “No” there may be two possibilities. One possibility may be that they do not need credit or did not apply credit due to religious or cultural reasons (voluntary exclusion). Others may not have a loan due to the reason that they applied for a bank loan and rejected by the bank or did not apply for a loan thinking it will get rejected by the bank. All of these types of firms are classified as non-borrowers and categorized as constrained firms in this research.

Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is given by:

\[
ETA = \alpha_0 + \alpha_1 OE + \alpha_2 TR + \alpha_3 UTL + \alpha_4 ETA + \alpha_5 EB + \alpha_6 TFP + \alpha_7 CR + \alpha_8 PR + \alpha_9 TMA + \upsilon
\]

2. Tax Collection practice (TCP): is the ability of revenue office in establishing trust worth tax system, loan enforcement and fairness of taxation system. It is measured as 1) excellent 2) good 3) poor 4) very poor.

For the test of Tax Collection practice is an independent variable which takes a value (0= do not maintain any records, 1= maintain minimum records and 2= maintain a formal accounts.

Depending on the theoretical model and the measurements of the variables explained above, the empirical model that this study employs is given by:

\[
TCP = \beta_0 + \beta_1 RS + \beta_2 AC + \beta_3 CS + \beta_4 AGP + \beta_5 UP + \beta_6 DL + \beta_7 EP + \beta_8 CM + \beta_9 AC + \beta_{10} TR + \beta_{11} DL + \beta_{12} PRC + \beta_{13} TA + \epsilon
\]

3.6.2 Independent variables
1. Over Estimation (OE):- an excessively high estimate.
2. Training (TR):- The action of undertaking a course of exercise and diet in preparation for a sporting event.
3. Unstandardized tax levy (UTL):- over levies of charged as a return for any services provided.

4. Experience on tax assessment (ETA):- Familiarity with a skill or field of knowledge acquired over months or years of actual practice and which, presumably, has resulted in superior understanding or mastery on tax assessment.

5. Transparency and non participatory (TNP): - It is pointed out by Adams (1921) that the success of income tax rests primarily upon the honesty of taxpayers. Some authors (Brooks, 2001) indicated that tax morality has declined over the past few decades and this is attributed to wasteful, inefficient, and even perverse governments. Adams further states that one of the factors that contribute to the dishonesty of the taxpayers is the complexity of the tax system, as it may lead to administrative failures.

6. Educational Background (EB):- any prior schooling you've successfully completed.

6. Lack of Ability to pay (LAP): - Some observers (Fjeldstad and Ranker, 2003) argue that in African countries like Namibia and South Africa, the non payment is due to poverty or inability to pay. This issue holds true in Ethiopia also where several small business operators (category ‘c’ taxpayers) are accumulating their annual tax obligations due to lack of ability to pay. Generally when taxpayers have no enough disposable income and they used to consume the return from sales, it is clear that tax evasion is inevitable and leads to tax arrears.

7. Tax fraud among tax payers (TFP):- wrongful or criminal deception intended to result in financial or personal gain.

8. Corruption (CR):- is honest or fraudulent conduct by those in power, typically involving bribery.

9. Perception/culture (PRC): - According to Fjeldstad and Ranker (2003), increased efficiency of the tax administration, however, is not enough. Many observers conclude that a lack of 'taxpaying culture’ is the largest obstacle to building a firm long-term revenue base. The opposite may, however, also be the case: as long as the tax administration culture is perceived to be influenced by sectarianism, nepotism, and corruption, it is unlikely to contribute to the fostering of a more conducive taxpaying culture.

10. Traditional mode of tax assessment (TMA)
11. Responsiveness (RS) the specific ability of a system or functional unit to complete assigned tasks within a given time.

12. Absence of collectors (AC):- the state of being away from a place or person.
13. Customer service (CS):- the assistance and advice provided by a company to those people who buy or use its products or services.

14. Attitude to Government policies (AGP): - Attitudes towards the government (Levi, 1988) may affect the taxpayer’s normative commitment to comply with law. Similarly, Due and Friedlaender (1981), also argue that, attitudes toward the general level of taxation and tax increases are dependent, of course, on attitudes about the desirability of governmental programs and on attitudes toward the government itself. On the other hand, (Fjeldstad, 2004) citizens’ willingness to pay taxes voluntarily rests on the local government’s capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise non-compliant.

15. Understanding of proclamation (UP)

16. Dalliance (DL):- that is not lasting or serious or not paying on time.

17. Educational promotion (EP):- giving training about tax benefit.

18. Experience (EX):- Familiarity with a skill or knowledge acquired over months or years

19. Competency and Motivation (CM):- It is important for tax administrations to assess and evaluate the competencies of their staff. The direct manager commonly performs.

20. Tax awareness (TA): - James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such tax payers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons.

Dependent variable (binomial) = the tax collection (the tax collection efficiency)

The study focus here is Alaba city Administration Category “C” tax payers residing in the city administration. In the city administration, tax assessments and collections are carried out according to income tax regulation No. 78/2002. Category “C” tax payers are those having annual turnover is estimated by the Tax Authority as being up to Birr 1000,000 (One hundred thousand Birr). Category "C" taxpayer shall within he period prescribed under Article 68(2) of the Proclamation declare to the Tax Authority:

a) His annual turnover;
b) The amount derived from a source other than his regular operations;

The independent variable = the tax assessment variables affecting the tax collection

The logit model is specifies as follows:

\[ Y_i = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + e \ldots (1) \]

Where,

\[ Y_i = \text{Tax collection efficiency}; \ a = \text{Constant}; \ b_i = \text{Vector of unknown parameters}; X_1= \text{Service delivery by officials.} \]
\[ X_2= \text{the law enforcement}; \ X_3= \text{trust on assessment procedures}; \ X_4= \text{Tax assessment awareness creation}; \]
\[ X_5= \text{convenience}; \ X_6= \text{trust on tax collectors}; \ X_7= \text{fairness of the tax assessment and collection}; \ X_8= \text{gender}; \text{ and } e = \text{error term.} \]

4. RESULT AND DISCUSSION

In this chapter findings from descriptive statistics and inferential analysis are presented in detail. The first section describes background characteristics of respondents; the second section shows tax collection practices; the third section deals with tax effectiveness. The fourth one discusses with challenges of tax assessment and tax collection. The fifth one discusses on factors that affect tax assessment in the study area. Determinants of tax collection system have been discussed in detail in section six.

4.1. Background Characteristics of Sample Respondents

The tax administration in Ethiopia is divided on two levels as federal and regional. At the lowest level are a number of kebeles in different regions. The tasks of Kebeles are assessment and collection of taxes and other liabilities of Category “C”. The others are the different sub cities that are in charge of tax assessment, collection, and control of veracity of the tax bases declared by Category “A” and “B” taxpayers in their jurisdiction. At the federal level ERCA is in charge of collecting revenues, both tax and none tax, from different organizations owned by federal government and from customs duties.

The tax administration in Ethiopia is divided on two levels as federal and regional. At the lowest level are a number of kebeles in different regions. The tasks of Kebeles are assessment and collection of taxes and other liabilities of Category “C”. The others are the different sub cities that are in charge of tax assessment, collection, and control of veracity of the tax bases declared by Category “A” and “B” taxpayers in their jurisdiction. At the federal level ERCA is in charge of collecting revenues, both tax and none tax, from different organizations owned by federal government and from customs duties.
c) The type of business carried on is changed; Category “C” taxpayers in city Administration include: wholesalers, retailers, bookshops, sales agents, photo shops, manufacturers, hotel, restaurant, café, provision of construction materials, electronics, super market, boutique, butcher shops, internet café, coffee house, stationary… etc.

Employment income tax from their employee category “C” taxpayers are required to submit balance sheet profit and loss statement to the tax office within Hamle to Tikemt 30 of Ethiopian calendar. Next the Auditors receive the documents and then it is reassessed based on proclamation No. 286/2002 and 311/2003, during the period of Hamle to Tikemt 30 and then assessment notification will be distributed to tax payers for payment.

A total of 96 questionnaires were distributed across category ‘C’ tax payers in Aalaba City Administration, SNNPRS. All questionnaires were completed, retrieved and fully returned. This representing 100% response rate.

Table 1: Percentage distribution of respondents by sex

<table>
<thead>
<tr>
<th>Sex of household head</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>64</td>
<td>66.7</td>
</tr>
<tr>
<td>Female</td>
<td>32</td>
<td>33.3</td>
</tr>
</tbody>
</table>

Source: Computed from own survey data (2015)

The Study was conducted using 180 sample respondents, of which, 64(66.7%) were male and the remaining 32(33.3%) were female.

Table 2: Percentage distribution of respondents by age

<table>
<thead>
<tr>
<th>Age of household head</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-28 years</td>
<td>33</td>
<td>34.4</td>
</tr>
<tr>
<td>29-37 years</td>
<td>43</td>
<td>44.8</td>
</tr>
<tr>
<td>38-41 years</td>
<td>18</td>
<td>18.8</td>
</tr>
<tr>
<td>42-50 years</td>
<td>2</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Computed from own survey data (2015)

The average age of the respondents was 36.4 with the standard deviation 14.2. Of the total respondents ages (rages from 20 to 49), ages from 29-37 were 44.8% followed by the age group 18-28 years (34.4%). Respondents age from 38-41 years accounts 18.8% and the rest 2.1 percent was between 42-50 years. The survey result indicated that the majority (44.8%) of the respondents fall at young adulthood category (in productive age group).

Table 3: Percentage distribution of respondents by marital status

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>48</td>
<td>50.0</td>
</tr>
<tr>
<td>Married</td>
<td>42</td>
<td>43.8</td>
</tr>
<tr>
<td>Widowed</td>
<td>4</td>
<td>4.2</td>
</tr>
<tr>
<td>Divorced</td>
<td>2</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Computed from own survey data (2015)

Concerning marital status revealed that, 48(50.0%) of sample respondents are single followed by 42(43.8%) married, 4(4.2%) are widowed and the remaining 2(2.1%) are divorced. The survey result indicated that, half of the respondents are single who did not engaged in any form of marriage engagement.
Regarding educational status of sample respondents, 31.3 percent were graduates of TVET/Diploma and 26 percent were less than grade nine. However, 27.1 percent were first degree graduates and 10.4 percent were grade 12 completes and 5.2 percent were illiterate, respectively. Moreover, out of those who were TVET/Diploma and above, 9.4 percent have professional qualifications in Accounting, 12.5 percent in management, 8.3 percent in Economics, and almost one third of the respondents (28.1 percent) were graduates of non-business fields like sociology, Governance, law, Education, Engineering, applied sciences, agriculture, secretariats, etc. This increased entitlement has impact on tax importance in the study area and it also widened the chance of paying tax regularly and efficiently, due to that educational background of the sample respondents is believed to be an importance on having effective tax assessment and collection system in the study area.

### Table 4: Percentage distribution of respondents by Educational status

<table>
<thead>
<tr>
<th>Educational status</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>5</td>
<td>5.2</td>
</tr>
<tr>
<td>Less than grade nine</td>
<td>25</td>
<td>26.0</td>
</tr>
<tr>
<td>Grade 9 to 12 complete</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>TVET/diploma</td>
<td>30</td>
<td>31.3</td>
</tr>
<tr>
<td>BA/BSc and above</td>
<td>26</td>
<td>27.1</td>
</tr>
</tbody>
</table>

**Source:** Computed from own survey data (2015)

The average monthly income distribution of sampled respondents was presented in Table 3. As can be seen on Table 3, the mean income of sampled respondents was 1930 birr per month. Of the total respondents, 82.3 percent earn between 1000-25,000 ETB, 10.4 percent earn between 50,001-75,000 ETB, 4 percent earn between 25,000-50,000 ETB birr and the remaining 3.1 percent earn between 75,000-100,000 ETB. Category ‘C’ tax payers earn this income from formal employments and informal employments were the main sources for income generating ways of respondents remittances, pension, asset rents … etc are also an important source of income for non-employed in the study area.

### Table 5: Percentage distribution of respondents by average annual sale/income

<table>
<thead>
<tr>
<th>Average income/income</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000-25,000 ETB</td>
<td>79</td>
<td>82.3</td>
</tr>
<tr>
<td>25,001-50,000 ETB</td>
<td>4</td>
<td>4.2</td>
</tr>
<tr>
<td>50,001-75,000 ETB</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>75,001-100,000 ETB</td>
<td>3</td>
<td>3.1</td>
</tr>
</tbody>
</table>

**Source:** Computed from own survey data (2015)

### Table 6: Percentage distribution of respondents by Awareness of taxation

<table>
<thead>
<tr>
<th>Awareness of taxation</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>65</td>
<td>67.7</td>
</tr>
</tbody>
</table>

**4.2. Tax collection practices**
In response to this question, majority of the respondents (67.7%) have said that they have awareness about taxation and its importance. However, the remaining 32.3 percent of the sample respondents replied that without having any awareness they pay taxes since it is an obligation to the government”. Generally, the results indicate that, majority of respondents have awareness about tax and taxation and why they pay tax.

**Table 7: Percentage distribution of respondents by awareness on the reasons of paying tax**

<table>
<thead>
<tr>
<th>Awareness on the reasons of paying tax</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not have awareness</td>
<td>30</td>
<td>31.3</td>
</tr>
<tr>
<td>In the anticipation of public services</td>
<td>20</td>
<td>20.8</td>
</tr>
<tr>
<td>There is no opportunity to evade</td>
<td>19</td>
<td>19.8</td>
</tr>
<tr>
<td>It is an obligation towards the government</td>
<td>27</td>
<td>28.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Computed from own survey data (2015)

In response to this question, 31.3% of the respondents have said that they do not have awareness on taxation. Among those who have awareness, 20.8 percent of the respondents paid tax because of the anticipation of public services, 19.8% also responded that they paid taxes since they do not have an opportunity to evade tax and the rest 28.1percent argued that they are paying tax “it is an obligation to the government”. Generally, the results indicate that there is a positive understanding as to why the tax payers are paying taxes.

**Table 8: Percentage distribution of respondents by awareness on the reasons of not paying tax**

<table>
<thead>
<tr>
<th>Awareness on the reasons not paying tax</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay tax obligation</td>
<td>69</td>
<td>71.9</td>
</tr>
<tr>
<td>Unfair/ beyond my ability</td>
<td>8</td>
<td>8.3</td>
</tr>
<tr>
<td>I face no problem by doing so</td>
<td>3</td>
<td>3.1</td>
</tr>
<tr>
<td>I have no sufficient disposable income</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>afraid of the penalty due to passing of payment of time</td>
<td>2</td>
<td>2.0</td>
</tr>
<tr>
<td>Expecting amnesty or write off</td>
<td>4</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Computed from own survey data (2015)

Tax payers who were unable to pay their tax regularly were also asked about their opinion on the reasons of not paying tax regularly. As expected, they indicated unfair/beyond my ability (8.3%), I face no problem by of education of doing so(3.1%), I have no sufficient disposable income(10.4%), afraid of penalty due to passing of payment of time(2%), and expecting amnesty or write off(4.2%) are major reason behind not paying tax regularly factors.

**Table 9: Percentage distribution of respondents by paying tax fairness and reasonableness**

<table>
<thead>
<tr>
<th>Tax fairness and reasonableness</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>6.3</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Ayele Bogale Fikade1, Getnet Begashaw, Bekalu Tefera/Management, Science and Technology/2017/
As shown in the above Table 9 above, about 39(40.6 percent) and 31(32.3 percent) of the tax payers were disagree and strongly disagree, respectively by the fairness and reasonableness of the tax they are paying. However, substantial numbers of tax payers are believed the tax they pay is fair and reasonable. For instance, 10(10.4 percent) of the respondents replied that they are strongly agree and 6(6.3 percent) are agree with tax fairness and reasonableness. The remaining 10(10.4 percent) of the tax payers are neither agreed nor disagreed tax fairness nor reasonableness on the tax they are paying.

Table 10: Percentage distribution of respondents by perception of amount of tax payed based on the principle of ability to pay

<table>
<thead>
<tr>
<th>Amount of tax payed based on the ability to pay</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overstated</td>
<td>80</td>
<td>83.3</td>
</tr>
<tr>
<td>Moderate</td>
<td>6</td>
<td>6.3</td>
</tr>
<tr>
<td>Understated</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Computed from own survey data (2015)*

When respondents were asked whether the tax they are paying is based on their ability-to-pay or not, 83.3 percent of tax payers responded that the tax is not fair and not based on their ability-to-pay (overstated), 6.3 percent were believed that the tax they are paying is moderate (fair and equitable tax) and the remaining 10.4 percent of the respondents from this category believed that what they are paying understated tax.

Table 11: Percentage distribution of respondents by perception of tax fraud and evasion

<table>
<thead>
<tr>
<th>Perception on tax fraud and evasion</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>89</td>
<td>92.7</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Computed from own survey data (2015)*

Tax payer’s perception has its own impact on tax assessment and tax collection. As shown in the above Table 11, 92.7 percent of the tax payers underlined that, tax fraud and evasion has impact on tax assessment and tax collection and the rest 7.3 percent of the respondents did not have information on the impacts on tax fraud and evasion on tax assessment and tax collection.

4.3. Tax collection effectiveness

Survey respondents evaluated the Tax Authority with respect to certain parameters. The following table shows their response to these questions in percentages by category.

Table 12: Percentage distribution of respondents by tax collection effectiveness of tax authority

<table>
<thead>
<tr>
<th>Effectiveness of tax collection practices</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>10</td>
<td>10.4</td>
</tr>
<tr>
<td>Good</td>
<td>28</td>
<td>29.2</td>
</tr>
<tr>
<td>Poor</td>
<td>53</td>
<td>55.2</td>
</tr>
</tbody>
</table>

*Source: Computed from own survey data (2015)*
Concerning efforts being made by tax authority to promote tax awareness, the respondents said excellent (10.4%), well (29.2%), poor (55.2%) and very poor (5.2%). Generally, the result indicated that, majority of respondents agreed that the tax collection practice in Alaba City administration Tax revenue office.

Table 13: Percentage distribution of respondents by tax awareness and promotion by tax authority

<table>
<thead>
<tr>
<th>Tax awareness and promotion</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>34</td>
<td>35.4</td>
</tr>
<tr>
<td>No</td>
<td>62</td>
<td>64.6</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Computed from own survey data (2015)

The majority of participants highly stressed that, the tax authority has not provided sufficient tax education to taxpayers to boost awareness. Furthermore, some of the tax payers said that they were often called for trainings like 1 percent for three times a year, 8.3 percent attained twice a year and 26 percent once a year but the authority uses the opportunity to intimidate/threaten the tax payers, by referring to penalties as the sole weapon to make people comply with tax laws, rather than using tax education as a tool to bring more people into the tax network. Key informant also added that the revenue office broadcasts tax awareness creation programs in two languages (Amharic and Alabegna) using the available local Medias (FM radio). They confirmed that has expressed that various efforts were made by the office to build the capacity of the business community, through provision of trainings, distributing reading materials such as broachers and booklets, construction of billboards and broadcasting messages in two languages (Amharic and Alabegna) using the local medias. For instance, the informant added, in the last year, six awareness creation discussion sessions were conducted with tax payers selected from the various sectors by category. Despite, they confessed that the efforts made so far are not enough and that more should be done to bring sustainable behavioral change among the business community. However, they admit that the efforts made so far are not enough and that more should be done to bring sustainable change But still, some positive results has been observed, especially, the late coming habit of tax payers was seen decreasing from year to year. This issue was also a major area of concern in the focus group discussion held among tax payers of all categories. The majority of participants in each category highly stressed that the tax authority has not provided sufficient tax education to taxpayers to boost awareness.

Table 14: Percentage distribution of respondents by penalties or imposition of sanctions by tax authority for tax failures

<table>
<thead>
<tr>
<th>Penalties/sanctions for failure to pay tax</th>
<th>Freq</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>93</td>
<td>96.9</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>3.1</td>
</tr>
<tr>
<td>Total</td>
<td>96</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Computed from own survey data (2015)

As shown in the above table 14, 96.9 percent of the tax payers underlined that there is no penalties/sanctions in tax failure in the revenue office and the rest 3.1 percent of the respondents agreed that, there is well designed...
penalties/sanctions in the revenue office. Generally, one can conclude that majority of respondents understood that the tax office imposed well designed penalties.

Survey respondents evaluated the Tax Authority with respect to certain parameters especially taxation principles. The following table shows their response to these principles in percentages by category.

**Table 15: Percentage distribution of respondents by principles of taxation**

<table>
<thead>
<tr>
<th>Taxation principles and standards</th>
<th>Yes</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility</td>
<td>26</td>
<td>27.1</td>
<td>16</td>
<td>72.9</td>
<td>96</td>
</tr>
<tr>
<td>Adequacy</td>
<td>26</td>
<td>27.1</td>
<td>16</td>
<td>72.9</td>
<td>96</td>
</tr>
<tr>
<td>Broad basing</td>
<td>26</td>
<td>27.1</td>
<td>16</td>
<td>72.9</td>
<td>96</td>
</tr>
<tr>
<td>Compatibility</td>
<td>23</td>
<td>23.9</td>
<td>19</td>
<td>76.1</td>
<td>96</td>
</tr>
<tr>
<td>Convenience</td>
<td>31</td>
<td>32.3</td>
<td>65</td>
<td>67.7</td>
<td>96</td>
</tr>
<tr>
<td>Ear marking</td>
<td>31</td>
<td>32.3</td>
<td>65</td>
<td>67.7</td>
<td>96</td>
</tr>
<tr>
<td>Efficiency</td>
<td>11</td>
<td>11.45</td>
<td>85</td>
<td>88.55</td>
<td>96</td>
</tr>
<tr>
<td>Equity</td>
<td>32</td>
<td>33.3</td>
<td>64</td>
<td>66.7</td>
<td>96</td>
</tr>
<tr>
<td>Neutrality</td>
<td>10</td>
<td>10.41</td>
<td>86</td>
<td>89.59</td>
<td>96</td>
</tr>
<tr>
<td>Predictability</td>
<td>8</td>
<td>8.33</td>
<td>88</td>
<td>91.67</td>
<td>96</td>
</tr>
<tr>
<td>Simplicity</td>
<td>13</td>
<td>13.54</td>
<td>83</td>
<td>86.46</td>
<td>96</td>
</tr>
<tr>
<td>Restricted exemption</td>
<td>44</td>
<td>45.83</td>
<td>52</td>
<td>54.17</td>
<td>96</td>
</tr>
</tbody>
</table>

**Source:** Computed from own survey data (2015)

Flexibility, which means the taxation system, should be flexible and dynamic enough to ensure they keep pace with technological and commercial development. In this regard, majority of the respondents (72.9%) believed that, the tax collection system of the revenue office lacks flexibility whereas, and the remaining 27.1percent believed that the tax collection system is having the principle of flexibility. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of flexibility. Similarly, Adequacy, which refers to tax should be spread just enough to generate revenue required for provision of essential public service. In this regard, majority of the respondents (72.9%) believed that, the tax collection system of the revenue office lacks adequacy whereas, and the remaining 27.1percent believed that the tax collection system is having the principle of adequacy. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of flexibility.

Broad basing, which refers to tax should be spread over as wide as possible section for the population of all sector of the economy to minimize individual tax burden. In this regard, majority of the respondents (72.9%) believed that, the tax collection system of the revenue office lacks broad basing whereas, and the remaining 27.1percent believed that the tax collection system is having the principle of broad basing. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of broad basing. Similarly, compatibility, which refers to a tax should be spread just enough to generate revenue required for provision of essential public service. In this regard, majority of the respondents (72.9%) believed that, the tax collection system of the revenue office lacks compatibility whereas, and the remaining 27.1percent believed that the tax collection system is having the principle of compatibility. This result indicated that, majority of the respondents conclude that the revenue office do not principle of compatibility. Convenience which refers to a tax should be enforced in manner that facilitates voluntary compliance to the maximum extent possible. In this regard, majority of the respondents (67.7%) believed that, the tax collection system of the revenue office lacks convenience whereas, and the remaining 32.3percent believed that the tax collection system is having the principle of convenience. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of convenience. Similarly, ear marking, which refers to tax revenue from specified source, should be deducted to specific purpose only when
there is a direct cost and benefit link between tax sources of expenditure. In this regard, majority of the respondents (67.7%) believed that, the tax collection system of the revenue office lacks ear marking whereas, and the remaining 32.3 percent believed that the tax collection system is having the principle of ear marking. This result indicated that, majority of the respondents believed the revenue office do not principle of ear marking. Efficiency which refers to tax collection effort should not cost inordinarily high per anlagen of tax revenue. In this regard, majority of the respondents (88.55%) believed that, the tax collection system of the revenue office lacks efficiency whereas, and the remaining 11.45 percent believed that the tax collection system is having the principle of efficiency. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of efficiency. Similarly, equity which refers to tax should equally burden to all individuals in similar economic circumstance. In this regard, majority of the respondents (66.7%) believed that, the tax collection system of the revenue office lacks equity whereas and the remaining 33.3 percent believed that the tax collection system is having the principle of equity. This result indicated that, majority of the respondents believed the revenue office do not principle of equity. Neutrality which refers to tax should not favor any one group or sector over another and should not be designed interfere with or influence individual decision making. In this regard, majority of the respondents (89.59%) believed that, the tax collection system of the revenue office lacks neutrality whereas, and the remaining 10.41 percent believed that the tax collection system is having the principle of neutrality. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of neutrality. Similarly, predictability which refers to collection of tax should reinforce their inevitability and regularity. In this regard, majority of the respondents (91.67%) believed that, the tax collection system of the revenue office lacks predictability whereas, and the remaining 8.33 percent believed that the tax collection system is having the principle of predictability. This result indicated that, majority of respondents believed the revenue office do not principle of predictability. Simplicity refers to tax assessment and determination should be easy to understand by majority of tax payers. In this regard, majority of the respondents (86.46%) believed that, the tax collection system of the revenue office lacks simplicity whereas, and the remaining 13.54 percent believed that the tax collection system is having the principle of simplicity. This result indicated that, nearly three fourth of respondents believed the revenue office do not principle of simplicity. Similarly, restricted exemption which refers to tax exemption must not be for specific purpose and for limited period. In this regard, majority of the respondents (54.17%) believed that, the tax collection system of the revenue office lacks this principle whereas, and the remaining 45.83 percent believed that the tax collection system is having the principle of restricted exemption. classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. Unlike the case for category “A” and “B” tax payers, the income tax liability of Category ‘C’ taxpayers is determined using standard assessment. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. In this regard, this category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area.

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary
Taxes are important sources of public revenue. Public goods such as roads, power, municipal services, and other public infrastructures are normally supplied by public agencies due to their nature of non-rivalry and non-excludability. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods. According to the current federal income tax proclamation no.286/2002 taxpayers are categorized into three categories, namely category “A”, “B”, and “C” based on their volume of sales and form of business. Category ‘C’ unless already classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. Unlike the case for category “A” and “B” tax payers, the income tax liability of Category ‘C’ taxpayers is determined using standard assessment. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. In this regard, this category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area.
According to Alaba city administration revenue office the currently prevailing condition of taxation, in Alaba city administration, has been causing wide spread complain over unfairness and overstated tax by the majority of traders especially by the tax payers of category “C”. The same source also indicated that, Tax payers of category A and B are not also free of such complaints which are related to accounting procedure and validity of receipts and business related expenses.

In this part of the thesis, the summary of findings of the study is derived from the analysis of both the primary and secondary data. However, the data source is mainly emphasized on the primary data that had been collected from different respondents through questionnaires and interviews.

5.2. Conclusion
The major concern of this study is examining effectiveness of tax assessment and collection practices with respect to category ‘C’ tax payers in Alaba City Administration, SNNPRS. To do so, both the primary and the secondary data were gathered by using structured questionnaire, key informant interviews and written documents. On the whole 96 structured questionnaires were distributed to category ‘C’ tax payers by using PPS sampling techniques and structured questionnaires and interview guides were prepared to gather data from tax payers and key informants, respectively. Both qualitative and quantitative descriptions were applied on the data gathered to analyze the information obtained. By undertaking a detailed analysis of the situation the study the following conclusions have been made:

I. Most of the taxpayers (67.7%), have know how about tax and taxation and why they pay tax while the remaining 32.3percent are not objectively understood tax and taxation.

II. Concerning those who have awareness on reason to pay tax, 20.8 percent pay for anticipation of public services, 19.8percent pay because of there is no opportunity to evade tax and 28.1percent pay since it is an obligation to the government.

III. Most of the tax payers (40.6%) and 32.3percent were strongly disagree and agree respectively on the tax they pay is fair and reasonable whereas, 10.4percent were strongly agreed and 6.3percent were agreed by idea that tax they pay fair and reasonable.

IV. Majority of tax payers (83.3%) replied that the tax they payed is overstated or beyond their ability to pay. However, it was only 6.3percent and 10.4percent were paying moderate and under stated tax, respectively.

V. Majority of tax payers (92.7%) replied that they have awareness about tax fraud and evasion has impact on tax assessment and the rest 7.3percent replied that they have no idea about tax fraud and evasion impact on tax assessment.

VI. The respondents said excellent (10.4%), well (29.2%), poor (55.2%) and very poor (5.2%) regarding effectiveness of tax collection practices.

VII. Majority of tax payers (64.6%) replied that the office did not provided awareness and promotion on taxation and the rest 35.7 percent replied that office provided awareness and promotion on taxation. VIII. Substantial number tax payers agreed that tax assessment, collection and administration of the revenue office did not followed principles and canons of taxation like flexibility, simplicity, adequacy, broad basing, efficiency, equity, neutrality, predictability and so on. IX. The respondents listed different challenges of tax assessment and collection practices in the study area like over taxation, lack of transparency and non participation taxation, having different tax rate on the same and equal business, lack of tax experience among tax assessors, tax fraud/evasion among tax payers, corruption among tax assessors, lack of responsiveness in revenue office, absence of collectors in their work place, unorder customer service, lack of frequent follow up of government policies, absence of willingness and poor understanding of tax proclamations, deliance in tax assessment… etc.

VIII. Training for tax payers, perception of tax payers, delay in tax declaration, lack of tax taxpayers’ awareness on tax relevance, failure to understand the relevance of paying taxes and unbalanced tax estimation were factors significantly affect tax assessment.

XI. Perception of tax payers, lack of responsiveness, unordered customers service, lack of frequent follow up on government policies, poor understanding of tax proclamations, absence or poor tax collection technology and tax payers awareness on tax relevance were factors significantly affect effective tax collection.
5.3. Recommendations
Based on the findings of the study, the following recommendations can be drawn:

1. The tax authorities should revise their system not only to ensure that equal taxes are levied on individuals who have equal income but also to make sure that each taxpayer is paying according to his/her ability to pay;
2. The authority must also actively involve taxpayers or their representatives while estimating the daily sales or revenue of taxpayers so that trust of taxpayers on the tax system will develop gradually.
3. The tax authority needs to strengthen itself by recruiting qualified manpower, educating and training its employees, computerizing its operations and devoting additional resources.
4. The city Administration revenue office should design a mechanism to bring more accounting professionals into the business of private auditing, so as to reduce the high professional fees of certified accountants that the tax payers are being charged.
5. Human resource administration of revenue office should be revised in order to enhance the overall organizational effectiveness of the authority
6. Creation of sustainable system through which tax payers will be well informed as to how their money is being utilized.
7. Awareness creation should not only be giving tax education to taxpayers but should also participate Influential groups in the society (elderly, religious leaders, prominent personalities).
8. An efficient and proper tax administration is required by setting clear and transparent rule and regulation. Beside all these, tax offices should be equipped with new technology and adequate skilled human resources.
9. The core process should establish appropriate procedure and system of tax collection and assessment procedure and assigning relatively best and capable professionals. The management of the revenue office should work towards bringing the team spirit by solving internal problem. The core process must also give high attention on employee training and personal development, to cop up the new science and technology.

Finally, it is recommended that a joint effort should be made by the tax payers and all concerned bodies of the Government to bring about a spirit of team work, so that sustainable growth and development will be ensured in the nearest future.

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