Problems Associated with Tax Payers and Revenue Authority in Case of Dessie Town, Northern Ethiopia

Mesele Kebede   Tesfahun Tegegn*
Wolaita Sodo University and University of Wallo, Wolaita Sodo
College of Business and Economics, Department of Accounting and Finance

Abstract

This study aimed at to identify problems associated with tax payers and revenue authority in Dessie town. The research used descriptive research design. The target population included taxpayers and tax authority of Dessie town among which questionnaires were administered to a selected sample. The questionnaires were organized into sections including respondents' profiles, problems associated with tax payers and revenue authority. The statistical treatment of data was done using the frequencies and percentages through SPSS software. The identified problems facing tax payers were tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, cultural factors and provision of social services by the government. It was also discussed the challenges facing tax authority of Dessie town included mainly poor tax payers' perception on the relevance of tax payment, taxpayers' delay in tax declaration, starting business activity without trading license and traditional mode of tax collection. Finally, based on the findings possible recommendations were given. These include, maintaining tax fairness and equity, building capacity of the tax authority, conducting extensive awareness creation programs, and providing social services to the general public.
Keywords: Tax Payers and Revenue Authority

Introduction

Tax revenue collection is one significant issue of economic development among others. Taxation is defined as government revenue to fulfill public necessities. That is for social, economical and political aspect of the society. Generally tax revenue is an important for the improvement of the living standard of the general public for a country growth and for implementing policies and strategies. Taxation is one of the best instruments to boost the potential for public sector performance, to finance the social insuran0ce program and for the repayment of public debt (Parameswaran, 2005). Taxation, even if often ignored, is a central component in the development of both low and middle income nations (Russell, 2010). Taxation has led to tax structures throughout the developing world that are largely complex, inelastic, inefficient, inequitable, and quite simply unfair (Khalilzadeh-Shirazi and Shah, 1991).

A country's revenue generation primarily depends upon its sufficient capacity to tax more in both economic and administrative term, lack of homogeneity across time and culture, the existence of gap between the tax payments required by the law and those actually surrendered to the state because of the inadequacy of the tax authority manpower, institutionally weak and lack in potential support are not in a position to collect the amounts outstanding (Cheibub, 1998). The two important components of revenue tax administration and tax system reforms (Brondolo *et al.* 2008). Indeed corruption functions like a tax itself, and likely a particularly regressive one as are other governance indicators (weak rule of law, political instability). The other problem of low revenue generation is political instabilities in developing countries. One of the important characteristics of the political instability is unstable and shifting behaviors of government, which hinders the process of long-term reforms in the system, Gupta, (2007).

In Ethiopia the authorized body to collect tax (ERCA) has three taxpayers' categories). They are: category of taxpayer A, B and C. Category A tax payers whose annual turnover $\geq$ 500,000 and category B tax payers whose annual turnover in between 100,000 – 500,000 have a mandate to prepare financial statements. Whereas, category C tax payers may not have. But revenue come from those tax payers are not sufficient to finance the government expenditures because the tax revenue performance is low in developing countries due to various problems. Therefore, developing countries receive a very low amount of revenue from taxation because these countries face a number of problems in the process of revenue generation.

The situation of South Wollo where Dessie town is found is not different from the above situations (as part of Ethiopia). The study town namely Dessie is currently facing daunting challenges in relation to the overall taxation system, tax assessment, collection and service delivery of tax authorities. Hence, the town may not able to collect tax efficiently which is a serious problem that has the possibility to result in the failure of providing basic social services and infrastructure to the community.

Statement of the problem

Revenue generated from taxation has got the attention of governments as a major source of funds necessary for the countries overall development. According to (Brautigam et al. 2008), taxation is the new frontier for those

concerned with state building in developing countries. But revenue come from tax are not sufficient to finance the government expenditures because the tax revenue performance is low in developing countries due to various problems.

As per Crandall and Bodin (2005), the developing countries tax revenue is in a weak position because of both a complex tax system and widespread corruption. Complex and fragmented tax administration has its source in part in developing countries.

According to Gupta (2007), tax revenue is affected by corruption, political and economical stability, and structural factors such as tax system, tax administrative procedures, capacity to collect taxes. (Iman and Jacobs, 2007), also reported that tax revenue is explained by corruption, share of per capita income to GDP, trade openness and tax system.

On the other hand, Emran and Stiglitz (2005), state that tax revenue is affected by the existence of informal sector and inflation. Similarly, Phillips and Sandall (2008), reported that tax revenue is explained by many factors that causes for poor tax revenues generation and they argue that there is significant difference between developing and advanced economies that must be accounted as a factor for tax revenue collection. Because of this, studies made regarding taxation are several all over the world. But most studies made regarding taxation are, therefore, focused on the effect of corruption, governance, tax evasion, tax system and tax administration on tax revenue generation in developed and developing nations of the world.

It is obvious that the output or findings of such researches may not help much to our country Ethiopia in general and in Dessie town in particular. Because as pre the findings of Gupta (2007), the determinants of tax revenue efforts in one country may not the determinants of tax revenue for the other country in terms of source of the factors and level of effect tax revenue.

Moreover, most research works focused on national level, but factors at lower levels get little attention, i.e. minor attention is given to the cultural background of tax payers, their awareness level, compliance behavior and its determinants when designing a given tax system, etc. Hence, researches must be done at town levels to identify and examine the causes for poor tax revenue collection and problems associated with tax administration at the grass root level. Thus, identification of location specific factors and problems is essential to fill the gap in the field and assist the efficient tax collection endeavours of the zone in general and the town in particular. Thus, the first motive to undertake this research was to fill the research gap that were not addressed by any one of the earlier studies, specifically problems associated with tax payers and revenue authority in Dessie town. By having the above mentioned reasons to do, the following basic research questions were tried to be answered by the research:

- *What are tax payers problems that causes for poor tax revenue collection?*
- *What are tax Administration problems that causes for poor tax revenue collection?*

Objective of the Study

The main objective of the study was to identify problems associated with tax payers and revenue authority in Dessie town.

The specific objectives were:

- To identify the problems associated with tax payers
- To identify the problems associated with tax revenue authority of the town

Research Methodology

Data Sources and Collection Method

The data used in this study consists of both primary and secondary data. The primary data were collected through standard questionnaire. The demographics of the respondents were firstly established in the questionnaire. The questionnaire comprised of both closed and open ended questions to allow the respondents to write their opinions without restrictions and to include ideas that might not been indicated in the questionnaires. To make it convenient, two set of questionnaires were prepared and used.

Secondary data was also collected from official documents and records relating to the case under study; proclamations about the taxes, policies and procedures of the taxes and other taxing systems magazines, brochures that have been approved and issued by ERCA.

Sample Size and Sampling Technique

Multi-stage sampling technique was used to select sample tax payers. Tax payers were first stratified into three strata according to their categories: Category "A", 'B', and 'C' tax payers. Then, a proportional random sampling method was employed to select the sample tax payers from each stratum. According to 2005 E.C record of Dessie town Trade and Transport Office, there are a total of 7530 tax payers out of which 553 under category of tax payer A, 1350 under category taxpayer B and 5627 under category taxpayers C. The sample size

was determined based on precision rate and confidence level as follows:

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

Where: n=sample size, p= the maximum population proportion, q=p-1, N= number of population size, Z= standardized normal variable and its value that corresponds to 95 % confidence interval equals 1.96p = 0.5 and e = allowable error (0.05).

Therefore, n = 366 of which 553/7530x366=27 was taken as a sample from tax payer A, 1350/7530x366=65 was taken as a sample from tax payer B and 5627/7530x366=274 was taken as a sample from tax payer C.

In addition to the tax payers, 20 tax officials from Dessie town Revenue Office were selected purposively aiming that they are key informants.

Method of Data Analysis

The research used descriptive statistics to analyze the collected data with the aid of Statistical Package for Social Scientists (SPSS) version 16.0. Accordingly, frequencies, percentages, mean and standard deviation were used to analyse the quantitative data. Flick (2002) argues that quantitative and qualitative methods of analysis should be viewed as complementary rather than mutually exclusive. Supporting this, in this research the qualitative information from open ended questioners were also narrated.

Results and Discussion

Awareness/Knowledge about taxation

The following table shows the response of the respondents regarding their reason of paying taxes.

Table 2: reasons why taxpayers pay taxes

no	Response	№	%
1	In the anticipation of public services	151	47.7
2	To avoid disturbances (penalties, sanctions,)	127	40.2
3	There is no opportunity to evade.	35	11
5	Don't know	3	1.1
	Total	**316**	**100**

Source: Survey result, 2014 and own computation

As it is summarized above, most respondents (47.7%) replied that they pay tax because it is compulsory payment and it will be used for provision of public services by the government. However, significant number of respondents (40.2%) also replied that they pay taxes in order to avoid disturbances (penalties, sanctions,). Hence, from this result it is possible to conclude that there is lack of willingness to be abided by the tax rules and concepts in some taxpayers. Though not that much significant (11%), some respondents also replied that they pay taxes because they don't have opportunities to evade. This response is also an indication of respondents' tendencies to engage in tax evasion activities. Lastly, very few respondents (1.1%) don't know why they pay taxes.

Tax assessment

Table 1: Fairness tax liability determination

Response	Category of tax payers			
	A	B	C	Total
Yes	16(69.5%)	32(61%)	48(20%)	96(30.4%)
No	7(30.5%)	22(39%)	191(80%)	220(69.6%)
Total	23(100%)	54(100%)	239(100%)	316(100%)

Source: Survey result, 2014 and own computation

As summarized above in table 4, majority of the respondents (69.6%) believe that the tax they are paying is not fair and not based on their ability to pay.

Majority of the respondents/taxpayers that provide this information are from category "C" taxpayers (80% of them). This category provided many reasons for this situation. Among the reasons they provide include their tax liability is based on presumptive estimation, the tax estimation standard committee members being only from the tax collecting authority, inconvenient and tiresome complaint procedure, etc.

Categories "A" and "B" taxpayers were not 100% free of complain regarding the fairness of the procedure; there were some respondents from categories "A" and "B" (30.5%, and 39%, respectively) who believe that the tax they are paying is not fair and not based on their ability. In explaining the unfairness of the procedure, some category "A" and "B" taxpayers claimed that the authority rejected some of the expenses they included in their expenditure summary reports such as loading and unloading expenses, expenditures related to daily laborers, etc.

Key informants from the Dessie Chamber of commerce and sectorial association have also asserted that

the actual practice of tax assessment by Tax and Revenue Authority is very hard to tolerate and practically very difficult to fulfill mainly by the taxpayers of category 'C'. In their defense, key informants from the tax authority have firmly stated that category 'C' tax payers have never been honest to the tax assessment officers. They also added that most of the business communities are not even willing to declare their daily sales when they are told to do so. Category 'A' and 'B' tax payers, who are legally obliged to keep accounting record, were also asked whether they are facing problems while keeping records. In their responses, though not severe as category C, they faced problems in keeping records.

Administration factors
The respondents were asked to evaluate the tax authority with respect to certain parameters. The following table shows their response to these questions in percentages.
Table 2: evaluation of the tax authority by respondents

№	Parameters	Excellent		Good		Fair		Poor	
		№	%	№	%	№	%	№	%
1	Awareness creation	10	3.17	38	12.03	54	17.09	215	68.04
2	Convenience of manner of payment	42	13.3	95	30.1	118	37.4	61	19.2
3	Convenience of time of payment	117	37	145	46	35	11	19	6
4	Law enforcement	6	2	25	8	69	22	215	68
5	Honest collectors	22	6.4	53	17	86	27.4	155	49.2
6	Impartiality of review committees	29	9.2	43	13.7	39	12.3	205	64.8
7	Timely response of tax review committees	33	10.4	158	50.1	101	32	24	7.5
8	Treatment of taxpayers with due respect	73	23.2	114	36.1	72	22.6	57	18.1

Source: Survey result, 2014 and own computation

From the above table, only 3.17% of the respondents from all categories rated the authority excellent in its initiation to create awareness among its taxpayers. Similarly, still few respondents (12.03% and 17.09%) rated the authority good and fair, respectively. However, majority of the respondents from all categories (68.04%) rated the authority as poor in awareness creation. Regarding tax collection effectiveness, which refers to the ability of the Authority in establishing trustworthy tax system (honest collectors and impartiality of review committees), law enforcement and fairness of the taxing system, respondents from all categories, on average rated excellent (5.33%), good (13%), fair (20.57%), and poor (61.10%). These results clearly indicate that the tax authority is not relatively being effective in providing satisfactory service for all categories taxpayers.

Most respondents (80.8% and 94%, respectively) rated the manner of payment and time of payments adopted by the authority fair and above fair. This indicates that there was not severe problem observed in the authority's manner of payment and tax payment schedule convenience.

From the table it is clear that the majority of the respondents rated the tax authority from excellent to fair except for awareness creation where 68% of them rate the authority poor. In most parameters, most of the respondents rated the authority's effort as fair and below that. This clearly shows that the tax authority is not effective and not providing satisfying service for taxpayers. On the other hand, the effort of the authority in creating awareness was rated by far poor (68%). This can be cited as the root cause for all the problems as far as voluntary compliance is concerned.

Behavioral/cultural factors
Attitude of taxpayers toward taxation and its administration is the other key factor that has been considered and analyzed duly. Accordingly, the respondents were asked for various questions to know their attitude and their responses are summarized as follows.
Table 3: reason for evading the taxable income/tax

№	Response	№	%
1	Lack of awareness	50	15.82
2	It is unfair/ beyond my ability	207	65.5
3	Intentional	24	7.7
4	Negligence	10	3
5	Poor and tiresome collection procedure	25	8
	Total	316	100

Source: Survey result, 2014

As generalized above, majority of respondents (65.5%) hide their taxable income because they feel that the tax amount levied on them is unfair and beyond their ability/capacity. The above table also provides information that 15.82% of the respondents evade their taxable income because of lack of awareness of the

taxable income, deductions and tax calculations. 8% of the respondents replied that they evade their taxable amount because of the poor and tiresome collection procedures of the authority. 7.7% of the respondents replied that they intentionally hide their taxable income because they looked their neighbor taxpayers doing so. Insignificant numbers (3%) of respondents are found negligent towards payment of tax.

The above result strengthens previous respondents results discussed earlier. i.e unfair tax burden distribution by tax authority is the prominent reason for them to hide/evade their taxable amounts. Furthermore, as discussed earlier, majority of the respondents rated the tax collecting authority poor in awareness creation to its taxpayers. Here in this question also significant number of taxpayers responded that they evade/reduce their taxable income because the lack skills for calculating the taxable income and related deductions.

Issues Related to the Tax Authority
Table 4: Summary of descriptive statistics of primary data

№	Variables highlighted in the questionnaire	N	SA	A	Nu	D	SD	MIS	STD
			5	4	3	2	1		
1	The employees of Dessie town revenue office capable enough by in number, ability and ethics to be the tax system transparent, equitable and modern.	20	(2) 10%	(11) 55%	(3) 15%	(4) 20%	(0)	3.08	1.51
2	Dessie town revenue office gives sufficient awareness creation training (tax education) to tax payers.	20	(0)	(7) 35%	(2) 10%	(10) 50%	(1) 5%	3.21	1.38
3	The current condition (reality) of Dessie town, tax assessment and implementation is comfortable for tax authority.	20	(4) 20%	(12) 60%	(2) 10%	(2) 10%	0	3.68	1.07
4	The treatment of tax authorities of the town is equally and independent for all tax payers.	20	(0) 0%	(12) 60%	(3) 15%	(2) 10 %	(3) 15%	3.18	1.42
5	Dessie town revenue office collects sufficient tax revenue from tax payers.	20	(2) 10%	(4) 20%	(2) 10%	(9) 45%	(3) 15%	3.8	1.16
6	The town tax payers have got sufficient benefits from infrastructures facilities what they have expected and made by tax revenues collected by the government.	(20)	(2) 10%	(4) 20%	(2) 10%	(9) 45%	(3) 15%	4.25	.77

Source: survey result, 2014
Where: N=Respondents: SA=strongly agree: A= Agree: D=Disagree: NU=neutral: SD= strongly disagree: MIS=mean item score: STD=standard deviation. № =question number

About 65% of tax officials survey respondents indicated that they agreed or strongly agreed with the statement that the employees of Dessie town revenue office are capable enough by in number, ability and ethics to be the tax system transparent, equitable and modern, while about 20% of the respondents disagreed to the above statement and the remaining 15% is uncertain respondent for the above statement (mean = 3.08 σ= 1.51 and *n* =20).

In the same table, the research forwarded the statement to tax officials to know their agreement or disagreement on the office efforts on awareness creation program (tax education) to tax payers. About 55% of tax official's survey respondents indicated that they disagreed or strongly disagree with the statement that Dessie town revenue office gives sufficient awareness creation training (tax education) to tax payers, while about 35% of the respondents agreed to the above statement. The remaining 10% is uncertain respondent for the above statement (mean = 3.21, σ= 1.38 and *n* =20). This implies that lack of strong education programs is one of the challenges to the tax revenue collection.

About 80% of tax officials survey respondents indicated that they agreed or strongly agreed with the statement that the current condition (reality) of Dessie town, tax assessment and implementation is comfortable for tax authority while 20% disagreed and strongly disagree and there is no uncertain respondents for the above statement (mean = 3.68, σ= 1.07 and *n* =20). From the above discussion we conclude that, the current condition of the town tax assessment and implementation is comfortable for tax authority.

About 60% of tax officials survey respondents indicated that they agreed with the statement that the treatment of tax authorities of the town is equally and independent for all tax payers while 20% disagreed or strongly disagree and the remaining 15% uncertain respondents for the above statement (mean = 3.18, σ= 1.42 and *n* =20). From the above discussion we conclude that, the employees treatment of tax authorities of the town

is equally and independent for all tax payers.

About 60% of tax officials survey respondents indicated that they disagreed or strongly disagree with the statement that Dessie town revenue office collects sufficient tax revenue from tax payers while 30% agreed or strongly agree and the remaining 10% uncertain respondents for the above statement (mean = 3.8, σ= 1.16 and *n* =20). From the above discussion we conclude that, town revenue office is not collecting sufficient tax revenue from tax payers.

About 60% of tax official's survey respondents indicated that they disagreed or strongly disagree with the statement that the town tax payers have got sufficient benefits from infrastructures facilities what they have expected and made by tax revenues collected by the government while 30% agreed or strongly agree and the remaining 10% uncertain respondents for the above statement (mean = 3.8, σ= 1.16 and *n* =20). This implies that, the tax payers are not getting sufficient benefits from infrastructures facilities what they have expected and made by tax revenues collected by the government.

In addition to the above results, the respondents also put the following as the major challenges facing tax authority, poor tax payers' perception on the relevance of tax payment, due to this the attitude of the society towards the tax system is negative, taxpayers 'culture to evade and avoid taxes (they to try to get high profit without paying tax), social disapproval among taxpayers against tax offences, taxpayers' delay in tax declaration, starting business activity without trading license, the level of awareness condition is low this implies the authority do not make sufficient effort in creating awareness among tax payers before laying and collecting tax, the government also did not make sufficient effort in creating awareness among tax payers and other concerned bodies.

From this one can understand that since awareness creation on the existence of tax laws and regulation and its enforceability are none at all or very poor, it is one of a serious cause or constraint for the performance of tax revenue collection in the study area. This finding coincides with what have been found by (Abed and Gupta, 2002). They stated that lack of awareness and enforcement of existing legislation and by-laws are the main cause for low level of tax revenue of the governments in many developing countries.

Table 5: Evaluation of the tax authority by respondents

Parameters	Excellent		Good		Fair		Poor	
	№	%	№	%	№	%	№	%
Reduction of tax payers complain	3	15	4	20	8	40	5	25
Service delivery	3	15	4	20	8	40	5	25
Tax collection efficiency	3	15	5	25	6	30	6	30
Law enforcement	2	10	4	20	8	45	6	30
Awareness creation	1	5	3	15	5	25	11	55

Source: survey result, 2014

From the table it is observed that the respondents rated reduction of tax payers complain and service delivery by the tax authority as excellent (15%), good 20%), fair (40%), and poor (25%). Regarding tax collection efficiency, they responded excellent (10%), good (25%), fair (35%), and poor (30%).

Similarly, they rated the authority with respect to law enforcement activity as an excellent (15%), good (25%), fair (30%) and poor (30%). On the other hand, concerning awareness creation, they said excellent (5%), well (15%), fair (25%) and poor (55%).

From the table it is clear that the majority of the respondents rated the tax authority from excellent to fair except for awareness creation where 55% of them said poor. In all the parameters most of the respondents rated the authority's effort as fair and below that. This clearly shows the tax authority is not effective and not providing satisfying service for taxpayers. On the other hand, the effort of the authority in creating awareness was rated poor (55%). This can be cited as the root cause for all the problems as far as voluntary compliance is concerned.

On other question, 55% of the respondents said that the tax authority and the city administration are jointly responsible for tax payers turn over for another and poor tax compliance and only 30% of the respondents said taxpayers are responsible. This can be directly related to the authority's strength and effectiveness in reduction of tax payers complain, providing services, information, and creating awareness. Five respondents additionally commented on this issue and they reasoned out that both the tax authority and the town government didn't play their role well in improving the tax administration, reduction of tax payers complain, creating awareness, providing social services, and other information regarding taxes and other activities of the town government.

Conclusions and Recommendations
Conclusions
Based on the above discussion and analysis, the researchers concluded the following facts in relation to taxpayers in the study area:

- ➢ Most of category ''A'' and ''B'' taxpayers are convinced for the fairness the tax assessment in Dessie town. However, some of the above group taxpayers and most of category ''C'' taxpayers do not agree with about the fairness of the tax assessment in Dessie town. This might be because some of category ''A'' and ''B'' taxpayers lack to prepare acceptable and accurate financial statements and necessary supportive documents for their transactions, as a result the tax authority will assess their tax liability by estimation. Regarding to category ''C'' , since they are not required by the tax law to prepare financial statements for their transactions, such problem might be occurred either due to lack of impartiality or independence by the tax authority's employees with taxpayers or due to lack of the taxpayers experience in paying tax to the government.
- ➢ Regarding to the relationship of the taxpayers and the tax authority employees, the researchers identified and summarized facts below:
    - i.   There is no strong effort by the tax authority to create tax awareness to taxpayers.
    - ii.   The manner of tax payment is not fully convenient to taxpayers specifically for low taxpayers or category ''C'' taxpayers.
    - iii.   There are many citizens in Dessie town that are running their business without legal trade license and the tax authority has poor law enforcement on such type of business persons.
    - iv.   The tax authority's employees lack integrity, honesties, and professional ethics at the time of tax assessment.
    - v.   The tax appeal committee has partiality problem. This might be the improper composition of the appeal committee from different government office.
    - vi.   Even though the tax authority in Dessie town improved the quality of customer handling, still there are problems in relation to treating each and every taxpayers equally and fairly.
- ✚ The researchers also identified behavioral or cultural problems of the taxpayers such as great resistance to take or attend the tax awareness training or panel discussion arranged by the tax authority, hiding their actual taxable income intentionally and not to pay the true amount of tax to the government, lack of understanding the tax authority's employees work burden at the time of taking the tax authority's service, gossiping, running their business illegally.

- ✚ Further, it can be noted that the key challenges and their causes identified among both tax authority and tax payers revolve around one and pivotal variable, which is lack of tax education. It is lack of tax education that entails poor tax payers' perception on the relevance of tax payment, the taxpayers' culture to evade and avoid taxes and social disapproval among taxpayers against tax offences. It is in this regard that strategies to overcome these challenges should build on boosting tax payers' morality, and this explains the necessity to develop tax education policies including reach out programs.

Recommendation

This study indicated that, both the tax authority and the city tax authority didn't play their role well to collect adequate amount of revenue to the government.
Hence the researchers provided the following recommendations to each party:

- ❖ Since it is the time of globalization, taxpayers in Dessie town better update and modernize themselves in relation to running their business transactions.
- ❖ At time when the city tax authority arranged tax awareness program, they should actively attend and get reliable information about the current tax rules, regulations, and procedures in order to improve their tax awareness.
- ❖ Category ''A'' and ''B'' tax payers should keep necessary source documents and prepare different financial statements like Income statement and Balance sheet based on the established criteria for their business transactions either with the help of their professional accountants or using external licensed accountants who got permission from the government to do this professional service in order to avoid assessment of tax by estimation to minimize complain with the tax authority.
- ❖ Taxpayers also should improve their culture or behavior such as running business without getting trade license from the concerned government body, hiding their true income to the tax authority, being careless to give receipt to their customers for the services or goods they sold, and seeing the tax authority employees as an enemy.

Regarding the authority, it must involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity and also the authority has to try its level best in ensuring tax fairness and equity so that voluntary compliance behavior can be developed. An effective compliance program requires that tax administration has sufficient powers that enable it to enforce compliance effectively. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment, but also by clear, simple and user friendly administrative systems and procedures. Tax

systems that depend on ad hoc administrative procedures rapidly become discredited and endanger compliance. To encourage compliance it is equally important that tax authority administers the law fairly. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently.

Hence, to create an efficient tax administration, the tax authority needs to strengthen itself by educating and training its employees, by computerizing its operations, devoting additional resources. Training should include customer service training and cross functional training for employees so they have an understanding of the entire system of tax administration. In addition to this, the authority should make the tax law and procedures simple, understandable, and transparent.

Reference

Adams, T.S., 1921. Fundamental problems of Federal Income Taxation. Quarterly Journal of Economics 35(4), 527-557.

Bhatia, H.L.,1976. Public Finance, 19th edition. New Delhi, India: Vikas Publishing House Pvt Ltd.

Bird, R. M. and Oldman, O. , 1967. Readings on Taxation in Developing Countries, Revised. edition. Baltimore, USA: The John Hopkins Press.

Bird, et al., 2004. Societal Institutions and Tax Effort in Developing Countries, *International Studies Program Working Paper 04–06.*

Bodin Jean-Paul, 2010. Revenue Administration: Developing a Simplified Tax Regime for Small Businesses, FAD Technical Notes and Manuals (Washington: Monetary Fund).

Bornhorst , F., Gupta,S., and Thornton,j., 2008. Natural Resource Endowments, Governance and the Domestic Revenue Effort: Evidence from a Panel of Countries, *IMF Working Paper WP/08/170 Fiscal Affairs Department.*

Brautigam, D., Fjeldstad, O-H.,and M.P.Moore, 2008. *Taxation and State Building in Developing Countries: Capacity and Consent*, Cambridge: Cambridge University Press.

Brondolo,J., Silvani,C., Borgne, E., and Bosch, F., 2008. Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001-07). *IMF Working Paper No. 08/129.*

Brooks, N. ,2001. Key Issues in Income Tax: Challenges of tax administration and compliance. Asian Development Bank Tax Conference.

Brooks, N. ,2001. Key Issues in Income Tax: Challenges of tax administration and compliance. Asian Development Bank Tax Conference.

Chaudhry, S. I. and Munir, F., 2010. Determinants of Low Tax Revenue in Pakistan*, Pakistan Journal of Social Sciences (PJSS) Vol. 30, No. 2 (December 2010), pp. 439-452.*

Cheibub,J.A., 1998. Political Regime and Extractive Capacity of Government: Taxation in Democracies and Dictatorships. *World Politics 50:349-376.*

Crandall, William, and Jean-Paul Bodin, 2005. Revenue Administration Reforms in Selected Middle Eastern Countries, 1994–2004 IMF Working Paper 05/203 (*Washington:* International Monetary Fund).

Due,J.F. and Friedlaender, A.F. , 1981. Government Finance: economics of the Public Sector 7th ed. Illinois, USA: Richard D. IRWIN, INC.

Emran, M.S.and J.E.Stiglitz., 2005. On Selective Indirect Tax Reform in Developing Countries *Journal of Public Economics,* Vol. 89, Issue 4, April, pp. 599-623.

Fjeldstad, O., 2004. To Pay or Not to Pay? Citizens' Views on taxation in local authorities in Tanzania. Working paper, Bergen, Norway: Chr.Michelsen Institute.

Fjeldstad,O. and Ranker, L. , 2003. Taxation and Tax Reforms in Developing Countries: Illustration from sub-Saharan Africa. Bergen, Norway: Chr.Michelsen Institute.

Fuest, Clemens,and Nadine Riedel, 2010. Tax Evasion and Avoidance in Developing Countries: The Role of International Profit Shifting, Oxford University Centre for Business Taxation, Working Paper No. 10/12.

Ghura, D., 2006. Tax Revenue in sub-Saharan Africa: Effects of Economic Policies and Corruption, IMF Working Paper 98/135 (Washington: International Monetary Fund).

Gupta,S.A., 2007. Determinants of Tax Revenue Efforts in Developing Countries: *International Monetary Fund WP/07/184.University Press), pp. 267–281.*

Imam, P. A., and Jacobs, D., F., 2007. Effect of Corruption on Tax Revenues in the Middle East: *IMF Working Paper No.07/270. IMF Institute and Fiscal Affairs Department.*

James, S. , 2003. Tax Compliance Policy: An International Comparison and New Evidence on Normative Appeals and Auditing: Unpublished manuscript.

James, S. and Nobes, C., 2000. The Economics of Taxation: Principles, Policy and Practice 7th edition. Prentice-Hall.

Khalilzadeh- Shirazi, J. and A., Shah, 1991). Tax Policy in Developing Countries: A World Bank Symposium, Washington DC: *The International Bank for Reconstruction and Development.*

Lemessa, B., 2005. Federal Income Tax Administration in Ethiopia: The Case of Employment and Business Income Taxes, Unpublished Msc. Thesis, AAU.

Negarit Gazette, 2002. Income tax proclamation 286/2002, FDRE: Addis Ababa, BSPE.

_____ ,2002. Income Tax Regulation 78/2002, FDRE: Addis Ababa, BSPE.

Phillips and Sandall, 2008. Tax revenue in Sub Saharan African: Effects of Economic Polices and Corruption, *IMF Working Paper 08/185*.

Russell, Barrie, 2010. Revenue Administration: Developing a Taxpayer Compliance Program, IMF Technical Note 10/17: International Monetary Fund.

Smith, K.W. and Kinsey, K.A., 1987. Understanding Tax Paying Behavior: A conceptual framework with implications for research. Law and Society Review, Vol. 21, No.4. Law and Society Association.

Tanzi and Dvoodi, 1997. Inflation Lags in Collection, and the Real Value of Tax Revenue. *Staff Papers International Monetary Fund, Vol. 24, No. 1, pp. 154-167.*