

A Study on Assessment of Tax Administration System on Category 'B' Tax Payers, Gamo Gofa Zone, Snnpr, Ethiopia

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Abstract

Taxation is a system of raising money to finance government. without taxes to funds its activities, government could not exist. Currently, in Ethiopia revenue collected from tax is increasing due to improvement in tax collection methods and decrease evasion. Besides, tax administration system in Ethiopia is still facing many problems. The aim of the present study were tried to investigate variety of problems in "tax administration system of category "B" tax payers" in Arba Minch and Sawula towns from tax payers as well as tax collector point of view. In order to achieve the objective of the study, the researcher used stratified random sampling to select 286 respondents out of the 1006 category B tax payers. Moreover, quantitative and qualitative data were collected through open and close ended questionnaires and through interview respectively. The finding of the present study showed that Low level of awareness of tax payers to VAT and profit tax, resistance against VAT registration, lack of ethics are identified a major problems in identifying those category B potential taxpayers. In addition, unwillingness of taxpayers to pay their tax liability timely is major problems hindering the effective tax assessment and collection practice of the authority. Taxpayers rather than being silent and refrain due to the poor services they have been rendered they would be beneficiary if they are keen to consult the authority's concerned officials in any issue related to tax matters and problems they are being facing.

Keywords: Compliant cost, Category B tax payers, Tax administration

INRTODUCTION

1.1 Background of the study

Tax is the compulsory payment payable by an economic unit to government without expectation of direct equivalent return from the government for contribution made (Gupta, 2001). Public goods such as roads, power, municipal services, and other public infrastructures are normally supplied by public agencies due to their natures 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).

Different types of taxes existing in Ethiopia and mainly comprised of direct and indirect taxes levied by both central and regional government (Ethiopia Trade and Investment, 2015). The main types of direct taxes are taxes including business profit taxes, personal income tax, withholding tax, rental tax and other taxes. The indirect taxes applicable are VAT, TOT and Customs duty. Tax administration can be affected by attitude of people and the attitude can in turn be affected by tax administration (Bird and Oldman, 1967). In Ethiopia Tax administration reform includes the proper registration of taxpayers, assessing taxable income and timely collecting of the assessed tax. An efficient and proper tax administration requires the prevalence of clear and transparent rules and regulations. Since the business owners do not have simplified access to and clarification on information of the tax laws, they lack awareness on tax rules and regulations and this has an impact on the practicability of the regulations. Based on the annual turnover (volume of sales) and form of business the Ethiopian income tax proclamation no.286/2002 categorizes business income taxpayers into three major categories based on their as category A, B and C. Therefore, taxpayers with annual turnover of Birr 500,000 and above are categorized under Category "A" taxpayers, business income taxpayers with annual turnover between Birr 100,000 and Birr 500,000 are under category "B" and business profit taxpayers with annual turnover less than Birr 100,000 are under category "C" taxpayers.

They stated that category B tax payers are expected to have a simple report only recording their profit and expenditure with no need to record payable and receivable and the law was approved and applied in January, 2016. Based on this fact the researcher wants to assess tax administration system on category B tax payer after amendments are made.

1.2 Statement of the Problem

In Ethiopia, people need to pay taxes based on rationales of vertical and horizontal equities. However, the

business owners complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. According to Wellela and Fieldstad (2014), perceived problems in the tax administration includes that, most tax officers in Ethiopia lack of a good understanding about tax laws and the real business environment. Major complaints concerning tax administration is shifting tax collection burden to taxpayers, tax collection expense to taxpayers, compulsory hiring of accountants and business unfriendly enforcement. Moreover, high staff turnover, officer's view all tax payers as evaders, lack of transparency and inconsistency of compliant procedure, redress mechanisms, public information and education programs by different branches / individuals (even by an individual over time) mentioned as a problem in tax administration system in Ethiopia.

In Ethiopia category "B" taxpayers has higher compliance cost burden than category "A" taxpayers (Wellela, 2016). Evidently the compliance cost burden rises with business size while the relative cost burden is remarkably higher for small businesses. Therefore, as already stated in the literature (see Evans, 2003) for a literature review), the compliance costs of taxation are mainly a problem for small businesses.

Ethiopian business income taxpayers, as in other developing countries, tax non compliance is a serious challenges facing income tax administration and hindering tax revenue performance. Different studies conducted in Ethiopia related to income taxation. Currently, Wollela Abehodie and Odd- HelgeFjeldstad (2016) conducted research on Business Peoples View of Paying Taxes in Ethiopia based on data obtained from business tax payers in Addis Abeba. The study finds a statistically significant relationship between tax compliance and factors such as the perception of probability of audit, corruption, satisfaction with tax administration, peer influence, gender and education.

As per the study of Esay Solomon (2014) on Factors Affecting fairness of taxation on Category "B" tax payers in Hawassa city and the study only relies on the levels of tax administration system on fairness of taxation, taxpayers perception and impacts of level of education on taxpayers perception. Another study conducted by Redae Berhe and ShailinderSekhom (2015) on Taxpayers Knowledge and Tax Compliance Behavior in Ethiopia: A study of Tigray State focuses on individual basis by identifying different factors that can potentially tax payers' tax. A study conducted by Netsanet Bibisso (2014) on Assessment of Tax Audit Practice: In case of Hawassa city Administration. Tries to focus on types of audit frequently used, tax audit selection; factors hinder effective tax audit program and performance of tax audit.

As per the study of Asamnew Gebresilasse (2012), on Tax Assessment and Collection Problems on Category "A" taxpayers in the case of Yeka Sub city studied about taxation from the point of tax collection problems and describes factors affecting tax administration system but it lacks performance measurement criteria of tax administration system either it is strong or weak.

Moreover, as research knowledge and access there is no studies conducted in tax assessment on category "B" taxpayers in Arba Minch and Sawula Tax and Revenue Authority Office and other studies conducted in the study area other aspects of taxation is also limited. Based on the above research gap to the knowledge of the researcher even a hand full of researchers has worked different factors affecting tax administrations system.

Due to the development of business activities in the Gamo Gofa zone particularly in Arab Minch and Sawula towns, the number of category "B" taxpayers is increasing from year to year. However, delayed registration of taxpayers, termination of business organization as they start the activities due to high compliant cost of burden and over taxation by tax laid by tax and revenue authority initiate the researcher to conduct research on tax administration system. The present study focuses on assessment of tax administration system on category "B" taxpayers in Arba Minch and Sawula towns Tax and Revenue Authority office from perspective Tax payers as well as Tax officers.

1.3 Objective of the Study

The general objective of the study is to assess tax administration system on Category "B" tax payers, Evidence from Gamo Gofa Zone Tax and Revenue Authority office (In Case of Arba Minch and Sawula Town) and specific objectives are:

1. To describe the major problems on identifying those category "B" potential taxpayers.
2. To identify factors affecting tax compliance of category "B" potential taxpayers.
3. To identify factors affecting revenue performance of category "B" potential taxpayers.
4. To identify factors affecting tax administration system
5. To identify factors that affects taxpayers' perceptiveness on tax administration system.
6. To identify drawback and limitation of tax collection from category "B" tax payers by tax collectors.

1.4. Significance of the Study/Benefits and Beneficiaries

The present study at Gamo Gofa Zone particularly in Arab Minch and Sawula Tax and Revenue Authority office were very important in identifying how the tax administration system works, the major problem in tax administration system on category "B" taxpayers. The study further enables to understand category "B"

taxpayers' perceptiveness on tax administration system, if taxpayers do not trust the tax administration to collect tax fairly.

1.5. Delimitation/Scope

Tax is very crucial issue to study however taxation being a wide subject time and resources bound to constitute a bottle neck for its coverage. Similarly assessing all aspects of tax administration system and all revenue authority office requires more effort. So this study will focus merely on assessment of tax administration system on category "B" taxpayers by examining the major problems in administering category "B" taxpayers, factors affecting tax compliance of taxpayers and perceptiveness of category "B" taxpayers on tax administration system. These indicate that the scope selected by the researcher can easily explain the tax administration system of category "B" taxpayers in Gamo Gofa Zone Arba Minch and Sawula Tax and Revenue Authority Office.

1.6 Limitation of the Study

As far as limitation is concerned there are many constraints which can have an impact on the quality of the study. Most of the constraint are arises from the case of targeted population in which 36 respondents had not returned the questionnaire and others filled the questionnaires carelessly. Targeted population of the study does not understand how one variable of the study is connected to other variable of tax administration system and that makes answers to be contradictory. Therefore, in the future it is advisable that other researchers should explain how one variable is related to other before filling questionnaires.

2. LITERATURE REVIEW

2.1. Definition of Tax Administration

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave 2005). The primary objectives of tax administrations are to ensure compliance with tax laws and improve customer service satisfaction for taxpayers and an improved understanding of taxpayer behavior (and attitudes to taxation) can help tax administrations to develop stronger and more effective compliance risk treatments (Walsh, 2012).

2.1.1 Revenue Performance as indicator of Tax Administration System

The low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers (World Bank 1999). Since taxes are an involuntary payment for government services (Parameswaran, 2005), taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures.

The present study focuses on assessments of tax administration system on category "B" tax payers in Gamo Gofa zone in case of Arba Minch and Sawula town after the previous tax laws was reformed. This study was particularly focuses on factors affecting revenue performance of category "B" tax payers. Since most categories "B" taxpayers in both towns shut down their business and complying that the tax administration is inefficient. So the study were tries to investigate the reason low revenue performance is due to the tax payers own weakness or due to the overall tax administration system. Moreover, the present study will try to focus on either category "B" taxpayers' perceptiveness on the overall tax administration

Table 2.1: A summary of empirical studies regarding the performance of the tax administration system

Studies	Performance criteria	Performance measures /indicators
Ishi Japan	Efficiency and productivity	Cost–revenue ratio and employee productivity ratio
Mustafa Malaysia	Efficiency and productivity	Cost–revenue ratio and employee productivity ratio
Tayib— Malaysia	Efficiency and productivity	Cost–revenue ratio and employee productivity ratio; tax employee organizational commitment and high commitment work system
Gonzalez and Miles — Spain	Efficiency of tax office	Input: ratio of tax inspectors to tax personnel Outputs: number of actions performed to total taxpayer, and ratio of debt to gross added value
Moesen and Persoon — Belgium	Efficiency of tax office	Input: number of tax personnel Output: number of audits returns
Taliercio — Africa and Latin America	Efficiency and effectiveness	Input: personnel management and collection costs Output and outcome: tax/GDP ratio, taxpayer registration, compliance, taxpayer services
Klun — Slovenia	Efficiency and effectiveness	Simplicity, costs, voluntary compliance (taxpayer attitude, rights and service quality), tax audit, labour productivity
Aizenman and Jinjark — various countries	Tax collection efficiency	VAT revenue/consumption, and annual VAT revenue/GDP
Serra — Chile	Tax revenue collection	Customer satisfaction, tax revenue collection, compliance rate, enforcement
von Soest — Zambia	Revenue raising capability I	Information collection and processing, merit orientation, administrative accountability, and revenue performance
Tennant and Tennant — Jamaica	Efficiency of revenue collections	Tax/GDP ratio, cost of administration, administrative procedures, technical staff, auxiliary input
James, Svetalekth and Wright— Thailand	Tax collection performance	Productivity, good practice, tax employee attitudes and perceptions of collection process

Reflecting on the studies in Table 1, three main limitations are derived. First, most of the empirical studies concentrated on the performance measurement and ignored the importance of performance management to improve a tax administration. Although measurement is a critical component of performance management, measuring and reporting alone have rarely led to organizational learning and improved outcomes (USPMAS, 2009).

Second, previous empirical studies disregarded the importance of diagnosing the problems faced by a tax administration when aiming to improve its performance. Silvani and Baer (1997) suggested that one of the first steps reformers need to take in initiating a tax administration reform is to diagnose existing problems and to develop an appropriate strategy for improvement.

Third, empirical studies on tax administration performance focused on the quantitative part of the performance measures. Radnor and McGuire (2004), suggested that if public sector organizations are going to use performance management systems in an interactive way and develop coherent sets of performance measures, they need to embrace the system on a behavioral instead of just operational level.

3. RESULT AND DISCUSSION

As it was explained in the methodology section, the information's were gathered by distributing, 57 questionnaires to the employees of Arba Minch and 31 Sawula Town Tax and Revenue Authority Office. Among which 5 and 3 questionnaires were unreturned from Arba Minch and Sawula tax and revenue office. In other way from the total 248 questionnaires distributed to Arba Minch town category B tax payers and 38 questionnaires were distributed to Sawula town tax and revenue authority office from which 28 and 8 questionnaires were unreturned respectively. Accordingly the analysis and finding of the data's were based on a number of respondents of questionnaires and interview conducted with the administrative body of the office. The researcher used tables to present and interpret the data by using descriptive data analysis method.

3.1. Demographic Characteristics of Category B tax payers

As indicated in table 3.1, most of tax payers (47.2) percent were under the age category of 26-30 years and from which 29.2% were males and 18% were females. In general the tables below showed that 54.4% were males and 45.6% females. This indicates that Arba Minch Tax and Revenue Authority more males category "B" tax payers than females.

Table.3.1 Back ground information of tax payers

		sex of respondents				Total	
		Male		Female		Count	%
		Count	%	Count	%		
Age of respondents	<25	10	4	16	6.4	26	10.4
	26-30	73	29.2	45	18	118	47.2
	31-35	38	15.2	32	12.8	70	28
	above 35	15	6	21	8.4	36	14.4
Total		136	54.4	114	45.6	250	100

Source: *Survey result, 2017*

3.1.2 Educational Background of category B tax payers

As per table 3.2, Q.1 34.8% of category B tax payers were diploma holders followed by 29.6% of certificate holders. Finally, 21.2% of the respondents were degree holders and the remaining 14.2% had less than grade 12. Increase in the availability of diploma and degree holders can be correlated to expansion and strengthen of poly-technique college and launching of different private colleges. Moreover, the involvement of first degree graduates in service and manufacturing industries may indicate university students after completion launch their own business and expecting job from the government is getting minimized.

Table.3.2 Educational status of category B tax payers

ϕ	Educational background	Frequency	Percentage
	<= 12	77	14.4
	Certificate	50	29.6
	Diploma	65	34.8
	Degree	33	21.2

Source: *Survey result, 2017*

3.2 Major Problems in identifying those Category "B" Potential Tax Payers

As indicated in table 3.3, 65.4% of respondents positive about the presence of problems in identifying those potential category B tax payers and the remaining 34.6% of respondents respond negative about the presence of problems in identifying those potential category B tax payers. Low level of awareness of tax payers to VAT and profit tax, resistance against VAT registration, lack of ethics (unwillingness to pay tax, suppression of taxable income, failure to issue invoices during transactions, use of identical invoices are identified a major problems in identifying those category B potential tax payers.

Table 3.3: Problems in identifying those potential categories B tax payers

S.No	Is there any Problems in identifying those Potential category "B" tax payers?	Frequency	Percent
A	Yes	51	65.4
B	No	27	34.6
	Total	78	100.0

Source: *Survey result, 2017*

3.3 Major problems in relation to tax collection from those categories B Tax Payers

As indicated below in table 3.4, 44.9% and 38.5% of respondents respectively respond that tax payers are not willing to pay their tax liability timely and low awareness of category B tax payers how tax estimation takes place and low awareness of category B tax payers how tax estimation is takes place. The remaining 16.7% of respondents respond that tax payers diverse their business for tax advantages. The present study reveals that low awareness of category B tax payers and unwillingness of tax payers to pay their tax liability timely due to the appearance of large number of tax payers on the dead line are major problems hindering the effective tax assessment and collection practice of the authority.

Table 3.4: Problems observed in relation to tax collection from those category B tax payers

2	What problems do you observe in relation to tax collection from those category "B" tax payers'?	Frequency	Percentage
A	Low awareness of category "B" tax payers how tax estimation is takes place	30	38.5
B	Tax payers are not willing to pay their tax liability timely	35	44.9
C	Tax payers diverse their business for tax advantage	13	16.7
	Total	78	100

Source: *Survey result, 2017*

3.4. Awareness of Category “B” tax payers on Taxation and Tax Administration System

As indicated in table 3.5 Q.1, 55.1 % of respondents respond positive and satisfied by awareness creation on those category B tax payers and the remaining 44.9% of respondents respond negative and they are not satisfied by awareness creation on those category B tax payers. Out of those respondents responds negative, 14.1% of respondents respond that low interest of tax payers to take training on taxation and the other 15.4% of respondents respond that there is no seminar intended to create awareness and no strict follow up tax officers on those category B tax payers. The result implies that the tax and revenue authority office are not too much satisfied and more is expected from to create complete awareness on those category B tax payers.

Table 3.5: Awareness of category B tax payers on taxation

	Are you satisfied with the awareness of those category “B” tax payers’?	Frequency	Percent
1	Yes	43	55.1
2	No	35	44.9
	Total	78	100.0
	If your answer for Q. 9 is “No”, which one do you think is the reason?		
1	Low interest of tax payers to take training on taxation	11	14.1
2	There is no seminar intended to create awareness	12	15.4
3	The is no follow up of tax officers on those category "B" tax payers	12	15.4
	Total	35	44.9

Source: *Survey result, 2017*

3.5 Factors Affecting Tax Administration System on category B tax payers

3.5.1 Tax knowledge of category "B" tax payers

As per table 3.6 Q1 out of the total respondents 32% and 11.2% of respondents agreed and strongly agreed about understanding about the Ethiopian tax system. The remaining 46% and 10.8% of disagree and strongly disagree that they don't understand much about Ethiopian tax system. This implies that most of category B tax payers don't understand the Ethiopian tax system. As indicate in table 3.6 Q2. Below 14% and 33.2% of respondents of were strongly agreed and agreed about their awareness about the tax laws and regulations to business income tax. The remaining 44.8% and 5% of respondents were disagreeing and strongly disagree about awareness of the laws and regulations to business income. Those respondents who disagreed and strongly disagree might be resulted from lack of giving attention or lack of understanding about the complexity of tax system. In other way those respondents agreed and strongly agreed can be due to their educational qualification (in the present study most tax payers are diploma and degree holders) and interests for better understanding of the Ethiopian tax system. The result implies that most of the category B tax payers have no awareness the tax laws and regulation about business income tax. In the same table 3.6 10.4% and 26.8% of respondents respectively respond that strongly agree and agree about they can easily interpret tax laws in computing tax. The remaining 47.6% and 15.2% of disagree and strongly disagree that they cannot easily interpret tax laws in computing their tax liability. Those respondents who disagreed and strongly disagreed can be based on the reality in which taxpayers can theoretical will know about tax laws but when they come to practice or application they can be confused and got difficulties when they compute taxes. Moreover, those respondents who disagreed and strongly disagreed about difficulties in interpretation of tax laws when computing taxes can be lack of giving attention or tax knowledge. From the present study it was concluded that most of category B tax payers got difficulties in interpretation of tax laws. Moreover, in the same table in Q4. 12% and 27.6% of respondents respectively strongly agree and agree about they don't encounter any problems while they are filling their tax returns. The remaining 49.6% and 10.8% of respondents respectively disagreed and strongly agreed respond that they encounter problems when they are filling their tax returns. This implies that most of category B tax payers have encountered problems while they are filling their tax return.

Finally in the same table Q5 9.2% and 36.4% of respondents were strongly agreed and agreed about they know all what is expected from their business profit tax obligations respectively and the remaining 39.6% and 14.8% of respondents were strongly disagreed and disagreed about they don't know all what is expected from their business profit tax obligations. This implies that most category B tax payers don't know all what is expected from their business profit tax obligations

Table 3.6: Assessment of tax knowledge of category "B" taxpayer

Sl.No.	Assessment of Tax knowledge of category "B" tax payers	Percent (%)			
		Strongly agree	Agree	Strongly disagree	Strongly disagree
1	I understand the tax system of Ethiopia	11.2	32	46	10.8
2	I aware most of the laws and regulations relating to business income tax	14	33.2	44.8	5
3	I am able to interpret taxation laws when computing taxes	10.4	26.8	47.6	15.2
4	I do not have any problem with completing and filing the tax return form(s), if they are required	12	27.6	49.6	10.8
5	I know all what is required from me in respect of my business profit tax obligations	9.2	36.4	39.6	14.8

Source: *Survey result, 2017*

3.5.2 Reason of Category B tax payers in paying taxes

As indicated in table 3.7 below 42.4% and 29.2 % of respondents respond that they were paying taxes to avoid disturbances (penalties, sanctions) and due to no opportunity to evade

taxes respectively. The other 17.2% of respondents were paying taxes in the anticipation of public services and the remaining 11.2% of respondents were paying taxes because tax is an obligation towards the government. The result indicates that most of category B tax payers pays tax to avoid disturbances or to escape from penalties and sanctions. This indicates that tax payers attitude towards taxation is still not well developed and they don't deeply understand why tax is very crucial and important in the development of a country and its role the anticipation of public structures like development of social services such expansion of education and health sectors, extraction of pure water, development of infrastructures like construction of road, electricity and transportation services to connect rural and urban areas of the country.

Table 3.7: Reason of category B tax payers in paying taxes

S.No	Reasons of category B tax payers in paying taxes	Frequency	Percent
1	To avoid disturbances (penalties, sanctions)	106	42.4
2	In the anticipation of public services	43	17.2
3	There is no opportunity to evade	73	29.2
4	It is an obligation towards the government	28	11.2
	Total	250	100.0

Source: *Survey result, 2017*

3.5.3. Problems Encountered while keeping Accounting Records

According to table 3.8 below 52% and 28% of respondents respond that high professional fee to hire accountants and lack of accounting or recording how as problems encountered while keeping accounting records respectively. The other 8% and 12% respondents respond that no problem encountered and lack of accounting professional in the market respectively. Lack of accounting or recording knowhow by the tax payers might be resulted from their inability to higher accountants and tries to do by them. This result implies that most category B tax payers encountered cost of high professional fee to higher accountants and lack of accounting or recording knowhow while keeping their accounting records.

Table 3.8 Problems encountered by category B tax payers while keeping accounting records

S.No	What are the problems encountered while keeping accounting records?	Frequency	Percent
1	No problem encountered	20	8
2	High professional fee to hire accountants	130	52
3	Lack of accounting or recording knowhow	70	28
4	Lack of accounting professional in the market	30	12
	Total	250	100.0

Source: *Survey result, 2017*

3.5.4 Problems of Tax Administration System on Category B Tax Payers

As indicated in the table 3.9 below 52% of respondents respond that methods of assessment is simple guess or subjective and the other 20% of respondents respond that no fair tax among similar business in same proximity.

The remaining 16% and 12% of respondents respond that inflated daily/ annual income in tax estimation and no trust of taxpayers' statement of volume of daily sales as problems of tax administration system respectively. The result of the present study reveals those methods of assessment by simple guess or subjective methods of estimation and no fair tax payment system among similar business in the same proximity as the major problems tax administration system on Category B Tax payers.

Table 3.9: Problems of tax administration system

S. No	Problems of tax administration system	Frequency	Percentage
1.	Methods of assessment is simple guess or subjective	130	52
2.	Inflated daily / annual income in tax estimation	40	16
3.	No fair tax among similar business in same proximity	50	20
4.	No trust of tax payers statement of volume of daily sales	30	12
	Total	250	100

Source: *Survey result, 2017*

3.5.5 Change or benefit to category B tax payers after the tax reform in 2016

As indicated in table 3.10 below 56.4% and 43.6% of respondents respond positive and negative about the change or benefit they got after the tax was reformed in 2016. Those respondents who respond "yes" replayed that before the tax reforms tax officers can reject the financial statements of the tax payers on their own discretion, subjectively. However, after the taxes have been reformed unless they have varied reasons, they cannot reject financial reports prepared by tax payers. Moreover, they responds that they were allowed to use cash basis of accounting and they are required to maintain books and documents only for two years as opposed to the five years period in the existing law before the tax were reformed.

Table 3.10 Change or benefit to category B tax payers after the tax reform in 2016

S.No	Changes or benefits to category B tax payers after the tax reform in 2016	Frequency	Percent
1	Yes	141	56.4
2	No	109	43.6
	Total	250	100.0

Source: *Survey result, 2017*

3.6 Factors that Affect Taxpayers' Perceptiveness on Tax Administration System

3.6.1 Fairness of Equity

As per table 3.11 below in Q1.9.2% and 20.8% of respondents strongly agreed and agreed that tax burden imposed up on category B tax were fair. The other 45.2% and 24.4% of respondents respectively strongly disagreed and agreed that the tax burden imposed up on them were not fair. In the same table Q2. 7.2% and 22.8% of respondents respectively strongly agreed and agreed that the tax that they personally paying were fair and the remaining 46.8% and 23.2% of respondents respectively disagreed and strongly disagreed about the tax they personally paying were unfair. In the same table Q3. 16.4% and 28% of respondents respectively strongly agreed and agreed and respond that the tax they are paying were based on their ability to pay taxes.

On the contrary the remaining 46.8% and 23.2% of respondents respectively disagreed and strongly disagreed and respond that the tax they are paying were not based on their ability to pay taxes. Those respondents who respond unfair tax administration system might be due to lack of awareness on tax administration system that might be affected by educational level of respondents or lack strong of awareness creation by the tax and revenue authority on how the tax administration system works. Moreover, the idea of unfairness might be came from the reality in which some tax officers was biased in tax estimation process and which resulted in tax payers to pay taxes beyond their capacity. The present study revealed that the business income tax burden imposed on those category B tax payers as well as individual tax payers was unfair and it is not based or not consider the ability of the category B tax payers to pay tax.

Table 3.11: Perceptiveness of category B tax payers on fairness of tax administration system

S.No.	Fairness of equity	Percent			
		Strongly agree	Agree	Disagree	Strongly disagree
1	In general, would you agree that the business income tax burden imposed upon category B tax payer is fair?	9.2	20.8	45.2	24.4
2	Personally, would you agree that the business income tax burden imposed upon you is fair?	7.2	22.8	46.8	23.2
3	Would you agree that tax payers including you are paying tax based on your ability to pay?	16.4	28.0	36.4	19.2

Source: *Survey result, 2017*

3.6.2 Cultural factors Affecting Perceptiveness of Category B Tax Payers

As per table 3.12 Q1 below 38.4 % and 51.6 % of respondents were strongly agreed and agreed about societies with a tradition of high compliance with tax law a few tax payers would attempt tax evasion strategies respectively. The remaining 5.6% and 4.4% of respondents were disagreed and strongly disagreed about even it a tradition of higher compliance there will be higher attempt of tax evasion by using different strategies. Those individuals who agreed about societies tradition with high compliance with taxation helps to prevent tax evasion by the tax payers is mainly due to a combination of personal values and morals as well as the society's influence on individual tax payers in his/her activities. On the contrary those respondents disagreed about societies tradition of high compliance helps to minimize tax evasion can be due to the fact that not few many tax payers can use max of society's tradition in order to cheat and would attempt tax evasion strategies. Moreover as indicate in table 3.12 Q2. Below 24.8% and 58.4% of respondents strongly agreed and agreed as the culture of paying tax is high, the level of tax compliance is also high. On other side 14% and 2.8% of respondents disagreed and strongly disagreed about even the culture of paying tax is high sometimes the level of tax compliance is can't be very high. Those respondents who agreed is based on the positive relationship between culture of paying tax is high; the level of tax compliance is also high. But those respondents who disagreed about the positive relationship between culture of paying high tax and high level of tax compliance might be due to some tax payers can use the opportunities of culture of paying high taxes by many tax payers and high level of tax compliance for performing non compliance in which the tax revenue retained from those tax payers can strongly affects the tax administration system. The present study finds out a tradition of high compliance with tax law would helps to reduce tax evasion strategies and facilitates tax compliance behavior. Moreover, the culture of paying tax is high; the level of tax compliance is also high.

3.6.3. Attitude of taxpayers towards the government

As indicated in table 3.12 Q.6 31.2% and 44.8% of respondents strongly agreed and agreed about the tax payers behavior including him or her is affected by lack of satisfaction with trading with the government. The remaining 14.8% and 9.2% of respondents disagreed and strongly disagreed about the tax payers behavior including him or her is not affected by satisfaction or lack of satisfaction with trading with the government. Those respondents agreed can be due to tax administration system as parts of the government system in efficient tax administration system can negatively changed the attitude of tax payers towards the government and on other way when the tax if the tax administration system is effective can positively changed the attitude of tax payers towards the government.

In the same table Q.6 23.6% and 45.6% of respondents were strongly agreed and agreed about taxpayers' attitude including him/her towards the general level of taxation and tax compliance attitude about your desirability with the government. The remaining 22% and 8.8% of respondents disagree and strongly disagreed that the level of taxation and tax compliance attitude is not depend up on the desirability of tax payers. The present study implies that the behavior of tax payers is affected by lack of satisfaction with trading with government and general level of taxation and tax compliance attitude depends up on the individual desirability with the government.

3.6.4. Tax Compliance Behaviour

In table 3.12 Q7.out of the total respondents 14.4% and 11.6% of respondents strongly agreed and agreed about tax payers should evade tax if a large proportion of money from tax is wasted. The remaining 52% and 22% of respondents respectively disagree and strongly disagree and respond that tax payers should not evade tax whatever the condition is and this is might be due to how the tax payers knows the tax collection is wasted since development of public service expanded in the town. In the same table Q8. 45.6% and 24% of respondents

strongly agreed and agreed that tax payers should evade taxes if the tax rates are too high, the remaining 11.2% and 19.2% of respondents respectively disagreed and strongly disagreed that even the tax rates are too high the tax payers should not evade taxes.

In table 3.12 Q9. 8% and 10.4% of respondents respectively strongly agreed and agreed tax evasion should not be considered as a crime. The remaining 56% and 25.6% of respondents disagreed and strongly disagreed that tax evasion is always should be considered as crime. Finally in the same table in Q10. 30% and 45% of respondents respectively strongly agreed and agreed that tax payers should evade tax if the tax system is unfair. The remaining 18.4 % and 6% of respondents respectively disagreed and strongly disagreed that tax payers should not evade tax if tax system is unfair. The presence study reveals that higher tax rate and unfairness in the tax administration system facilitates tax evasion and affects the tax payers' perceptiveness on tax compliance behaviors.

Table 3.12: Taxpayers awareness about taxation and tax administration system

Source: *Survey result, 2017*

S.No.	Cultural factors	Percent			
		Strongly agree	Agree	Disagree	Strongly disagree
1	In societies with a tradition of high compliance with tax law, few tax payers would attempt tax evasion Strategies?	38.4	51.6	5.6	4.4
2	As the culture of paying tax is high, the level of tax compliance is also high	24.8	58.4	14.0	2.8
	Social factors				
3	As tax payers knows many people in group important to them are evading taxes, their commitment to comply will be weaker	44.0	46.4	6	3.6
4	Do you agree that tax payers including you may commit non compliance as long as your non compliance is consistent with in group expectations & norms	12.8	40	30.8	15.6
	Attitude of taxpayers towards the government				
5	Do you agree that tax payer's behavior including you is affected by your satisfaction or lack of satisfaction with your terms of trade with the government?	31.2	44.8	14.8	9.2
6	Do you agree that tax payers attitude including you towards the general level of taxation and tax compliance are dependent on attitudes about your desirability of government	23.6	45.6	22.0	8.8
	Tax compliance				
7	Tax payers should evade tax if a large portion of the money collected from tax is wasted	14.4	11.6	52.0	22.0
8	Tax payers should evade tax if tax rates are too high	45.6	24	11.2	19.2
9	Generally, tax evasion should not be considered as a crime	8.0	10.4	56.0	25.6
10	Tax payers should evade tax if tax system is unfair	30.0	45.6	18.4	6.0

4. CONCLUSION AND RECOMMENDATIONS

4.1. Recommendation

Based on the above analysis and discussions what are the problems identified researcher forwarded the following recommendation as to be considered by the concerned people.

For the Authority

- The low awareness of category B tax payers on tax rules and regulations being major problems that can be raised from low educational background and insufficient training by the tax and revenue authorities. Since educating taxpayers is the crucial to solve the problems from their root. Therefore it is better if the tax authority tries to educate and improve the taxpayer's awareness level by arranging seminars on tax and tax related issue by giving adequate and sustainable training session regarding about tax payers obligation and awareness creation conferences. In order to change taxpayers' perceptions and their tax reporting behavior and the overall perception of tax administration system, it is recommended that if the authorities used media to transmit about tax rules and regulations as a means of educating taxpayers.

- As concluded in the present study most of category B taxpayers for fearing of penalty and sanction not considering taxes they paid is not on the development of the country and spend on public services. So it is better if the government have to address where and how the collected are spent by using different media. Moreover, it would be very essential for the tax and revenue authorities to give credit and recognition for those category B tax payers for the contribution they made and that makes them feel they have ownership of their country growth and which in turn makes taxpayers to act ethically.
- In order to develop tax fairness to bring equity by encouraging and protecting honest and loyal category B tax payers by adopting fair competition and efficient tax administration system. Based on this it is recommended that the authority to adopt efficient tax assessment and collection practices, by effectively creating awareness for taxpayers and full disclosure on the tax assessment.
- **For the Tax payers**
A trend of expecting direct benefit from paying tax, tax compliance attitude depends up on the individual desirability with the government, the taxpayers behavior is affected by lack of trading with the government, knowing many people helps to evade taxes and decrease their commitment to compile with tax rules and regulations and committing non compliance with group expectation and norms this can be lack of awareness of taxpayers. These can be achieved not only by enriching academic background but also by actively participating in seminars and training sessions and by asking and getting information how and where the government is using the fund collected through tax. The more involvement on the tax formation system help taxpayers learn more about the rules and regulations concerning the different taxes how and when they are expected to declare.

4.2. Conclusion

From the present study it was concluded *that* low level of awareness of tax payers to VAT and profit tax, resistance against VAT registration, lack of ethics (unwillingness to pay tax, suppression of taxable income, failure to issue invoices during transactions, use of identical invoices are identified a major problems in identifying those category B potential tax payers. Moreover, low awareness of category B tax payers and unwillingness of tax payers to pay their tax liability timely due to the appearance of large number of tax payers on the dead line were identified as major problems hindering the effective tax assessment and collection practice of the authority. In addition high amount of tax rates and the presence of dishonest tax collectors are also the major problems in tax system.

In the present study it was concluded that category B tax payers don't understand the Ethiopian tax system, got difficulties in interpreting of tax laws in computing their tax liability and as a result they don't know all what is expected from their business profit tax obligations. In addition result implies that most category B tax payers encountered cost of high professional fee to higher accountants and lack of accounting or recording knowhow while keeping their accounting records.

The result of the present study reveals that method of assessment by simple guess or subjective methods of estimation and no fair tax payment system among similar business in the same proximity as the major problems tax administration system on Category B Tax payers. This in turn affects tax administration system on those category B tax payers. However, after the taxes have been reformed unless they have varied reasons, they cannot reject financial reports prepared by tax payers. Moreover, they responds that they were allowed to use cash basis of accounting and they are required to maintain books and documents only for two years as opposed to the five years period in the existing law before the tax were reformed.

In the process factors that affect taxpayers' perceptiveness on tax administration system, the present study revealed that the business income tax burden imposed on those category B tax payers as well as individual tax payers was unfair and it is not based or not consider the ability of the category B tax payers to pay tax. In the present study it was concluded that tradition of high compliance with tax law would helps to reduce tax evasion strategies and facilitates tax compliance behavior and when the culture of paying tax is high, the level of tax compliance is also high. Moreover, it was concluded that the behavior of tax payers is affected by lack of satisfaction with trading with government and general level of taxation and tax compliance attitude depends up on the individual desirability with the government. Further, this study is useful as a source of data for further research studies can be done by the other researchers in their respective areas also in future.

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