

# Assessment of Tax Estimation and Collection System on Category “C” Tax Payers in Case of Goba Town Administration Revenue Office South East Ethiopia

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## Abstract

This study seeks to assess tax estimation and collection system on category “C” tax payers in case of Goba town administration revenue office. For the purpose of the study primary data was used. Information was obtained through interview and open-ended and closed-ended questionnaires. The study used purposive (judgmental) sampling technique to select 12 employees out of 16 office employees. The study found the potential problem that faced by the office on phase of tax estimation and collection. Some of them are; tax payers are involuntary to pay levied tax, tax payers intentionally delay payment, low quality and experience of tax estimators and unethical act of tax estimator’s. Finally, researcher forward his finding to office to provide continuous education to the tax payers mainly by the authority with its collaborators institution and to create awareness about the purpose and importance of tax and to create citizens who have better understanding of taxation which will stimulate honest and voluntary to pay appropriate levied amount and lastly to prepare training and experience share between tax estimator and collector from this branch of the authority tax estimator and collector should be provided for better quality and experience.

## Introduction

A tax is “a compulsory contribution by an economic unit to a government without expectation of direct and equivalent returns from the government for the contribution made” (BHATIA, 2003).

Tax administration refers to the identification of the liability based on the existing tax law, the assessment of this liability and collection, prosecution and penalty imposed on unruly tax payer.

In Ethiopia tax is administered at federal and regional level. The regional government of Ethiopia collect tax and revenue as proclamation number 33/1992 by bureaus of regional Inland Revenue authority from privately owned enterprise and organ of regional government. The tax assessment for those, who are required to maintain financial records, is based on the record that tax payers maintain. However if they fail to maintain financial records, it is based on the standard assessment methods. (Council of minister, 2002).

The revenue of Ethiopian government comes from different source such as tax, borrowing sales and public asset and transfer payment. The most common method of government finance is taxation. It is system of rising money to finance government expenditure.

Tax that is levied by central and regional government consists of direct and indirect tax. Direct tax are those tax which are paid entirely by those person on whom they are imposed which include employment income tax, business income tax and tax on royalty and chance winning while indirect tax are those whose the burden may not necessary assess s which means if shifted on the othis persons.

The law has classified business income tax payers on business profit on to 3 major category with respect to their legal personality and annual turnover as category “A” “B” and “C”. Category “A” includes: - Any company incorporated under the law of Ethiopia or in a foreign country, for example Private limited company, Share Company and any othis business having an annual turnover of birr 500,000 or more. Category “B” includes:-Any business has an annual turnover of over 100, 000. Finally, Category “C” includes, unless already classified in category “A” and category “B” whose annual turnover is estimated by the tax being to birr 100,000.

These study would be focused on category “C” tax payers that are found in Goba town administration revenue office that are engaged in estimating and collecting of category “C” tax payers.

## General objective

The General objective of the study is to assess tax estimation and collection system on category “C” tax payers, in case of Goba town administration revenue office.

## Significance of the study

This research is expected to provide empirical evidence to review and assess its tax collection and estimation system efficiency and effectively on category “C” tax payers in response to the employee.

## Scope of the study

The coverage of this paper would be limited to analysis of tax estimation and collection system of category “C” tax payers in case of Goba town administration revenue office.

### **Scope of study**

The scope of the study is limited to see the estimation and collection system of category “C” tax payers in case of Goba town administration revenue office.

### **Literature Review**

Taxation is source of government revenue by which individual, companies, goods and service to rise revenue for its operation and to promote social equity through the redistribution of income effect of taxation .(Anyanwu,1997)

Taxation is a compulsory levy payable by an economic unit to the government without any corresponding entailment to receive a defined and direct equivalent and taxation is an enforced contribution, exactly in accordance to the rule of legislative authority in the exercise of the taxing power, and imposed and collected for the purpose of rising revenue to be used for public or government purpose. (Bhatia, 2003)

Tax could be viewed as an involuntary contribution required by law to finance the function of government .The amount of contribution extracted the tax payers is unrelated to any privilege , benefit or service received from the government agency imposing the tax .(Morphyand Higgins,2001).

### **Classification of tax**

A tax is ordinary classified in to direct and indirect tax on the basis of assessment rathis than on the cover assessment tax.

#### **Direct taxes**

A tax is said to be direct tax when the impact and incidence of tax are rest up on the individual (firms directly through a deduction from earnings .These includes individual income tax, corporation taxes, tax on property and this employment income tax , business income tax, and taxes on royalty and chance wining

#### **Indirect taxes**

A tax said to be an indirect tax when the impact of the tax fall on person and the incidence up on this .Indirect tax are those tax that are paid to government by an intermediary and then passed on the final user by including tax in the final price .I t is changed from one person to another generally producer and ultimately paid by another.

In direct tax is mainly composed of value added tax “VAT” custom duty (export import duty) excise tax and local production (Gebre Worku, 2006).

### **Categories of tax payers in Ethiopia**

For its efficient and effective tax administration purpose, the Ethiopian government Classifies schedule “B” income tax payer (rental income tax).and schedule” C” income tax payer (business income tax payer or trade business ) in to categories .For categorization purpose ,the Ethiopian government uses two basis :-the legal personality /legal status / tax payers and their annual gross turnover (annual actual or expected gross sells revenue ).Accordingly schedule “B” and schedule “C” (without corporate business ) income tax payers are categorized in to three ,namely category” A” ,category” B” and category” C” tax payers (MISRAK ,2011).

#### **Category” A” tax payers**

Category of “A” of schedule “C” (without corporate business) income tax payer includes the following type of tax payers.

1. Business income tax payers or rental income tax payers formed under the law of Ethiopian or foreign laws that have separate legal personality.
2. Any business having annual gross turnover of birr 500,000 or more

Category “A” tax payer shall at the end of the year submit to the tax authority a balance sheet and a profit and loss statement and details of the following:-Gross profit and the manner in which it were computed, general and administrative expense, depreciation and provisions. .(MISRAK, 2011).

#### **Category” B” tax payers**

Category “B” tax payers includes, unless already classified in category “A” business income tax payers with no legal personality and whose annual gross turnover is more than birr 100,000 but less than birr 500,000.All category” B” tax payers whom are engaged in a business are also required to maintain proper books of account and the supporting documents which are like to category “A” tax payers.

#### **Category “C” tax payers**

It includes any business income tax payers which are not already classified under category “A” and “B”. Business income tax payers those have no legal personality and whose annual gross turnover is estimated up to birr 100,000.

Category” C” tax payers ,unlike category” A” and category “B” tax payers ,are not required to maintain books and records and to submit any financial statement to the tax authority .To determine the income tax liability of such tax payers, however , standard assessment presumptive taxation method is used.(Misrak , 2011)

### **Tax assessment**

A tax assessor is responsible for preparing and minting the assessment roll, the tax roll and collecting the tax

levies in accordance with the quality standards .the core service responsibility include:-preparing annual market value assessment for all properties, preparing the business assessment valuations for all business premises, defending assessment before municipal and provincial assessment tribunals, providing and mailing annual assessment and tax notice to tax payers.

#### **Assessment notification**

Every assessment notification should contain the following elements: - Gross income and deduction applicable, taxable income, rate applicable or percentage tax paid and due and any penalty or interest.

#### **Right of appeal against assessment of income**

Any tax payer who objects to an assessment may appeal to the tax appeal commission up on fulfilling the following requirements.

A deposit of 50% of disputed amount should be made to the tax authority and the appeal is lodged with the appeal commission within 30 days following the day of receipt of the assessment notice or from the date of decision of revenue committee.

#### **The appeal commission exists at different levels**

Federal appeal commission, Regional appeal commission, Zonal appeal commission, District appeal commission.

#### **Record keeping requirement**

All people who are engaged in a business or trade or who own buildings held all or in a part for rental, except for category 'C' tax payers shall keep book and records. Those businesses that are required to keep books of accounts and records are also required to keep the following information:-Record of the business asset and liability, including a register of fixed asset shows the date of acquisition, the cost of acquisition, and the current book value of each asset.

#### **Penalty for failure to keep proper records**

The tax payers shall be liable for penalty of 20% of tax assessed if he failed to keep proper books of account, records and other documents regarding certain tax year.

#### **Procedures for tax collection**

It is expected that people tax payment should be in line with their income and they are required to pay a tax in proportion to their level of income .On the other part of tax collector ,collection of tax should be time conscious and convenient and the cost of collecting the taxes should not high to discourage business

#### **Methodology**

##### **Data type and sources**

The research is would be use the primary source of data. The primary data will be collect by the investigator himself for a specific purpose and also the researcher would be using some secondary source such as reference books and internet.

##### **Data collection method**

This primary data would obtain from primarily through questionnaires and interview from employee, especially tax estimator, collector and manager of Goba town revenue office. The researchis would expect that primary data provide much-needed information to his.

##### **Target population**

The target populations of the study are the employee and manager of Goba Town Administration Revenue Office.

##### **Sampling techniques**

The researchis use non random sampling technique since non probability is not random; it enable researchis to provide better and sufficient information necessary to achieve the objective of study. Among non-random sampling techniques, the researchis is used judgmental (purposive) techniques.

##### **Sample Size**

The sample size would be the employee of Goba town administration revenue office selected. The researchis was selected from all (16) who are employed in the Goba town revenue office; researchis was select 12 as sample means 75% of office employee. In regards to the selection criteria of employee; the researchis would select based on their tax collection and estimation experience and also by their profession which they possess.

##### **Data analysis procedure**

For purpose of data analysis the study depends on descriptive method of analysis. By using this method, the researchis analyzes the collected data through tables and percentage method. Describing with necessary interpretation and findings the study give an over view tax revenue collection and estimation system in Goba town administration revenue office.

### Purpose of tax estimation

Variable	Description	Frequency	Percentage
Purpose of tax estimation used by the authority	To increase tax revenue	6	50%
	To investigate defective tax payers	1	8.3%
	To determine the real income of tax payers	1	8.3%
	To assess the competency of profitability tax payers	4	33.3%
	Total	12	100%

From the above table out of the total 12 respondents 6 (50%) of respondent said that the purpose of tax estimation used by the authority is to increase tax revenue through effective and efficient estimation 4 (33.3%) of respondents indicates that the purpose of tax estimation used by the authority is to assess the competency and profitability of tax payers .This refers to assess the tax payers efficiently in the business and its profitability in order to levy the appropriate amount of tax for the purpose of increasing tax revenue. Anothis 1(8.3%) respondent's response indicated that to determine the real income of tax payers the rest of 1(8.3) said that investigate defective taxpayer. Thus researchis can deduce that the purpose tax estimate used by the authority, it to increase tax revenue through proper assessing the competency and profitability of business

### Techniques of estimating business tax

Variable	Description	Frequency	Percentage
Techniques used by authority to estimate tax	Based on strategic position of the business	2	16.6%
	Based on size of business and volume of sale	1	8.3%
	Based on nature of product	2	16.6%
	Based on business environment	1	8.3%
	All of the alternative	6	50%
	Total	12	100%

From the above table 6 (50%) of respondent response indicate that the techniques used by the authority to estimate business tax is based on the strategic position of the business, the size of customer and volume of sale, the nature of product, and the business environment . 2(16.6%) of the respondent response indicate that tax is estimated based on strategic position of the business this implies that based on the business location the center of the town ,its nearest to supplier and the market place and anothis 2(16.6%) of respondent response indicate based on the nature of tax payers product .this is refers that the tax payers product is produced by himself or bought from othis wholesaler. Again 1 (8.3%) says based on the business environment situation like the living standard of the society, customers demand to consume the tax payers product and service in the environment .the rest of 1(8.3%) says based on the size of customer and volume of sale this is refer the tax payer is how much customers and how much in days, month, and year.

### Reaction of tax payers to pay the lived tax and the reasons behind

Variable	Description	Frequency	Percentage
Reaction of tax payers	Positive	5	41.67%
	Negative	7	58.3%
	Total	12	100%
The reason behind	Tax payers act of evasion	1	8.3%
	The levied amount is not appropriate	2	16.67%
	Lack of tax payers awareness about the importance of tax	6	50%
	Negligence behavior of tax payers	3	25%
	Total	12	100%

As it is shown in above table 7 (58.3%) of respondent said that the reaction of tax payers to pay the levied amount of tax by the authority is negative this implies that many tax payers are not satisfied for the amount of tax lived by the authority is lack of tax payers awareness about the importance of tax collection. 6(50%) of respondent replied that the reason for negative reaction to pay the levied amount of tax by the authority is their negligence and egoistic behavior to pay the levied amount of tax, anothis 2(16.67%) of respondent response also shown the lived amount is not appropriate and fair .this implies that the tax estimation procedure whise not satisfactory to tax payers due to estimator knowledge gap to understand circumstance, business environment and the real income of tax payers. The rest 1 (8.3%) says that tax payers act of evasion. From these it can be concluded that tax payer's negative relation to pay the levied amount of tax by the authority is low awareness of tax payers about the importance of tax, the negligence and egoistic behavior of tax payers and the levied tax is not appropriate in the mind of tax payers.

### Problems that authority faced during tax estimation

Variable	Description	Frequency	Percentage
Problem faced during tax estimation	Involuntary of tax payers	5	41.67%
	Low competency and experience of tax estimators	2	16.67%
	Flexibility of tax payers business environment	1	8.3%
	Unethical act of tax estimator and its exposed for corruption	2	16.67%
	Total	12	100%

The above table indicate that 5(41.67%) of respondent replied that the major problem that the authority faced during tax estimation is involuntary of tax payers to cooperate, to give essential information for tax estimation and to pay the levied amount of tax. 2(16.67)% of the respondent says low competency and experience of tax estimator ability to gathis holistic information from the tax payers is not as such satisfactory and also 2 (16.6%) of the respondent answer that the problem faced during tax estimation is unethical act of tax estimator. The rest of 1 (8.3%) says that flexibility of tax payers business environment from one source of business to othis business. Which is tax payer's seasonality in business, the rest replied the entire alternative respectively. From this the researchis realizes that the problem of authority face during tax estimation and collection is involuntary of tax payers, low competency and experience of tax estimator and unethical act of tax estimator.

### Potential problem the authority face during tax collection

Variable	Description	Frequency	Percentage
Problem face during tax collection	The unwillingness of tax payers to pay the levied tax	4	33.3%
	Tax payers intentionally delay payment	2	16.67%
	Discontinued operation of tax payers business	1	8.3%
	Shifting of business activity	1	8.3%
	Interruption or low internet service and Taxpayers come on end of the month	1	8.3%
	All of the alternative	3	25%
	Total	12	100%

The above table shows that 4(33.3)% of respondent replied that the potential problem faced by the authority during tax collection is the unwillingness of tax payers to pay the levied amount of tax ,this implies that tax payers comply on the estimated amount which is not fair as per tax payers state of mind and also2 (16.67)% of respondent replied that ,the problem the authority face during tax collection is tax payers intentionally delay of tax payment. Anothis 3 (25) %of respondent respond that, the major problem the authority face during tax collection is the unwillingness of tax payers to pay the levied amount of tax, tax payers intentionally delay of tax payment, discontinued operation of tax payers, shifting of the business and low internet service and the tax payers come on end of the month this implies that it's difficult to tax collectors to collect tax. The rest of respondent 1(8.3) is discontinued operation of tax payers after registration due to different reasons , shifting of business from one field of business to anothis due to seasonal income of business, low internet service and the tax payers come to end of the month. From the above table we can conclude that the potential problems faced by the authority during tax collection are: tax payers are unwilling to pay the levied tax, tax payers intentionally delay payment, discontinued operation of tax payers business, shifting of business activity, interruption or low internet service and the tax payers come to end of the month.

### Mechanisms that authority uses to solve potential problem faced in estimation and collection period.

Variable	Description	Frequency	Percentage
Mechanisms used to solve problem faced during estimation and collection	Creating awareness about the purpose of tax	6	50%
	Promoting or initiating tax payers	1	8.3%
	Forming compliant committee	3	25%
	Using modern mechanism	1	8.3%
	Opening othis windows for services	1	8.3%
	Total	12	100%

From the above table 6 (50%) of respondents replied that mechanisms that the authority use to solve potential problem faced during tax estimation and collection is creating awareness about the purpose of tax payers even though ,it is not as such satisfactory as of the authority face shortage of human resource and low facility. 3(25%) of respondents answered forming compliant committee for any unsatisfied tax payer against the levied amount. and the rest of respondents 1(8.3%) says promoting or initiating tax payer this means giving some rewards for tax payers and facilitate basic needs for society as he/she motivate to pay and also 1(8.3%) respondents answered opening othis windows for service in case of solve long queue, the othis is using modern mechanism this means purchasing high internet data service and working closely with Ethio-telecom. From this



we can conclude that the mechanism the authority use to solve the potential problem face during tax estimation and collection are primarily: creating awareness about the purpose of tax, forming compliant committee for unsatisfied tax payer and using modern mechanism.

**Compliant procedures for dissatisfied tax payer**

Variable	Description	Frequency	Percentage
Compliant procedure used by the authority	Yes	9	75%
	Neutral	3	25%
	No	0	0
	Total	12	100%
Those procedure used by	Forming appeal committee	9	75%
	Neutral	3	25%
	Total	12	100%

As shown in the above table .8 out of 12 respondent,9(75%)of respondent answered that the authority has compliant procedure for unsatisfied tax payer against the authority tax estimation though forming appeal committee within 10 days appeal and the tax payers can form appeal to anothis committee by paying half amount, the rest 3(25%)remain neutral.

**Efficiency and effectiveness of tax estimation and collection system procedure and the reason behind**

Variable	Description	Frequency	Percentage
Tax estimation and collection system and procedure are effective and efficient	Yes	5	41.67%
	No	7	58.33%
	Total	12	100%
The reason behind	Low awareness creation by the authority to tax payers	2	16.67%
	Tax estimators knowledge gap and low experience to gathis holistic information from tax payers	-	-
	The estimation is not made annually (once in four years)	-	-
	Training for tax estimators as well as tax payers is relatively low or none	-	-
	All of alternative	10	83.33%
	Total	12	100%

The above table show that 7(58.33%) of the respondent said that tax estimation and collection procedure are not effective and inefficient whiseas 5(41.67%) of them said that tax estimation and collection procedure are effective and efficient. Concerning the reason for non-effective and in efficient tax estimation and collection system are a combination of low awareness creation, knowledge gap and low experience of estimators, estimation is not made annually, and lack of training for estimator and payers 10(83.33%) while 2(16.67%) said the reason is low awareness creation of the authority.

**Depth interview result**

The interview with the manager of tax official in the authority showed that the authority use the following two criteria and precondition to employee an individual as tax estimator and collector. The first is the data must be collected and organized door to door. The second criteria are the committee is formed from different sectors for the fairness of the tax to be paid in both side. The quality and experience of tax estimator and collector in the authority is evaluated by first educational background which includes level of education and filled of study like management, accounting, marketing and economics. This means how much it is related with the tax and the general knowledge how much he/she knows the traders business activity during he/she lives in the town and when he/she administrate the town or that specific area. The second are work experience of an individual within the authority as well as out of organization in tax estimation and collection on different place. The last one is professional ethics this is mainly due to the work nature of the authority is highly related ethical conduct like free from any bias during tax estimation and collection.

As the manager said the level of tax payers tax awareness and compliance behavior with the tax system is medium level. This can be seen in two ways, the first is due to the lack of giving enough awareness by the authority in general as a town to address to all traders. The second is due to the lack of interest in the side of traders of traders majority of them are not willing for training when they are asked for trainers. The authority uses to aware tax law amendments to the tax payers by giving short term training by the department of education assigned in the authority even though it is not on time. The authority has currently collecting the potential amount of tax revenue low due to the following factors ;1,due to less human power as the structure 2, due to more of the traders are illegal and the controlling mechanism by the office of trade. The techniques that revenue

authority office basis to improve the tax estimation and collection system are dividing the traders according to their business category and dividing the traders according to their sectors and giving short term trainees. Regarding the tax collection system and estimate procedure are not efficient and effective. The reason behind is that the ability to gather holistic information from tax payers, not use modern system and ethical behavior of estimator is not as such satisfactory, it is difficult to say that they are well.

### Conclusion

The revenue of Ethiopian government comes from different source such as tax, borrowing sales and public asset and transfer payment. The most common method of government finance is taxation. It is system of rising money to finance government expenditure. The revenue rising system from tax is used to achieve a number of public service that the public wishes to acquire from the government. This study is used to assess tax estimation and collection system on category "C" tax payers, in case of Goba town administration revenue office

The authority conducts tax estimation and collection mainly to increase tax revenue for the government and to assess the competency and profitability of tax payers.

The reaction of tax payers to pay the levied amount of tax by the authority is negative. This is primarily of lack of tax payer's awareness about the purpose and importance of tax, negligence behavior of tax payers, and involuntary of tax payers. Authority provides the information when tax payers are coming to pay tax. This is due to the authority is responsible for most operational matter not capable to do such activity. The authorities face the following problems at the time of estimating business tax. These are, involuntary of tax payers, low quality and experience of tax estimators leads to corruption and unethical act of tax estimator's.

The quality and experience of tax estimators and collectors in the authority is low. The ability to gather holistic information from the tax payers and ethical behavior of the estimator is not as such satisfactory, low motivation, small in number compared with large size of tax payers and the estimator low ability and experience is the testimony to the law quality and experience.

The authorities face four problems during tax collection these are; Tax payers are not willing to pay the levied tax, Tax payers intentionally delay payment, discontinued operation of tax payers business, shifting of business activities, not use modern system such as internet service, some application, the tax payers come to the office on the end month.

The authority is not collecting the potential amount of tax. Even though, the revenue collected has a progress from year to year. This is due low tax payer's awareness, weakness of tax administration, low human resource, and shortage of facilities. The authorities primarily use two mechanisms to solve the potential problems faced during tax collection. First it tries to creating awareness about the purpose of tax. Even though, it is not as such satisfactory. Secondly, it forms compliant committee.

The authority has compliant procedures to serve unsatisfied tax payers through compliant committee of the authority. The authority tax estimation and collection system and procedures are not effective. This is because of the following reasons; Low awareness creation by the authority to tax payers, tax estimator's knowledge gap and low experience to gather holistic information from tax payers, the estimation is not made annually (which is conducted once in four years), training for tax estimators as well as tax payers is relatively low or none.

### Recommendations

In the light of tax estimation and collection system with a special reference to the Goba town administration revenue office the researchis forwarded the following recommendations.

- Continuous education should be provided to the tax payers mainly by the authority with its collaborators institution. The researchis recommend the office to create awareness about the purpose and importance of tax and to create citizens who have better understanding of taxation which will stimulate honest and voluntary to pay appropriate levied amount.
- Training and experience share between tax estimator and collector from another branch of the authority tax estimator and collector should be provided for better quality and experience
- For effective and efficient tax revenue collection, there should be enough human resources (tax estimator and collector) proportionate with the tax payers in the authority. Again adequate checks and controls must be put in place to manage the activities of tax estimators and collectors.
- The method of estimating tax at once in a year in authority needs to be amended for better estimation and collection system.

The authority should alleviate financial, time, economical and human resource constraints for effective and efficient tax estimation and collection system.

The authority should use high internet service and work closely with Ethio –telecom, and opening other windows to solve long queue for efficient and effective tax collection.

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