

Assessments of Value Added Tax (VAT) Administration in Guraghe Zone Revenue Authority

LAKECH ESTIFANOS AYITENEW TEMESGEN*

Lecturer, Department of Accounting and Finance, Wolkite University, Wolkite, Ethiopia

Abstract

The main objective of the study is to assess VAT administration in Guraghe zone revenue authority. In doing so, the paper further assesses the VAT revenue performance to total revenue and the planed VAT. The study used both qualitative and quantitative research methods to collect and analyze both primary and secondary data. Questionnaires and schedule was used to collect primary data from employees and VAT registered respectively. Secondary data was collected from Guraghe zone revenue authority. The Statistical Package for Social Sciences (SPSS) version 20 was the method used for data analysis. The study paper discovered that lack of awareness about vat, Laws and procedures not clear and simple, Fraud off tax collectors and Unwillingness of tax payers to register for VAT are the main challenge in Vat implementation and Consumers unwillingness to buy goods and services with VAT, Poor tax enforcement capacity of the authority, Use of fraudulent invoices and non-issuance of invoices and VAT tax payers are less competition in the market than non VAT tax payers are the main challenge in Vat administration process. The study also find-out that vat revenue is increasing from year to year and it will contribute a lot to economic growth of the country but actual VAT collection performance is not as the authority planed. The paper suggests that the authority should maintain intensified awareness creations programs and enforcement and it should teach the business community about the concept of VAT, the authority should increase the number of qualified employees, strengthen its controlling mechanisms, and improve its administrative systems, and the society should also have knowledge about the VAT rules and regulations and accept and obey the existing VAT rules and regulations.

Keywords: Value Added Tax, Tax Administration,

DOI: 10.7176/RJFA/10-7-01

Publication date: April 30th 2019

1.1. INTRODUCTION

Government performs many activities to fulfill social welfare in a given country. Common expenditure programs include health and welfare programs, defense spending, social security, and interest and repayment of principal on government debt (Eric, 2008). Many countries of the world generate most of their government's revenues from taxes. A tax is "a *compulsory charge imposed by the Government without any expectation of direct return in benefit*" (Parameswaran, 2005).

The achievement of economic growth is crucial for countries sustainable development. Recently, Value Added Tax (VAT) becomes a major worldwide tax instrument which enhances economic growth. Being a tax levied on the final consumption of goods and services, VAT is collected at each stage of production and distributions when value is added up on them. VAT is up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs-except perhaps on capital goods-against that due on outputs (Ebrill, 2001).

Fifty years ago the Value Added Tax (VAT) was rarely heard outside of France and a few dry specialist texts. Now it raises about 20 percent of the world's tax revenue, and affects about 4 billion people (Keen and Lockwood, 2007). Value added tax (VAT) is one of indirect tax that applied on consumption of goods and services (Bird, 2005). Accordingly, it has introduced a uniform standard rate of 15% VAT system on most of goods and services

Ethiopia introduced value added tax (VAT) in the year 2003 as a replacement to sales tax. VAT is the principal source of revenue for the Ethiopian government. For instance, in the 2006–07 fiscal years, federal VAT revenue (on domestic transactions) accounted for about 41 per cent of total federal revenues from domestic sources (EFIRA, 2007). Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra, 2004). To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large.

Ethiopia has implemented the Value Added Tax primarily to raise more revenue, modernizing its tax administration and encourage investment and trades. Ethiopian Government has a strong belief and commitment to eradicate poverty and assure sustainable development; and it is impossible to achieve such a goal without

generating sufficient revenue that can cover at least the budget of the government. To narrow the gap, VAT was introduced and is showing dramatic changes in generating government revenue.

VAT has a significant role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible. Nevertheless, in Ethiopia revenues generated by VAT are usually gathered at the expense of a concession in its salient features. This is usually caused by factors including weaknesses in the administration, that is, the incapacity of the administration to put the attributes of VAT in practice.

Sales tax has been operated for more than four decades in the history of Ethiopian taxing system. But it does not contribute what the government required from it to meet with the recently provoked expenditures. So the Ethiopian government replaced the outdated sales tax with VAT by proclamation No 285/2002 that has been effective by January 1st 2003 (Mosisa, 2014).

A good VAT administration is critical in fully implementing the design attributes of the tax and reducing gaps between the effective taxation and what it is purported to be in the legislation. More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objectives of a government from this the study focused particularly on to assessment of VAT administration in Guraghe zone revenue authority.

1.2. Need of the Study

Literatures everywhere shows that the administration of VAT has a multidimensional advantage for one country's social, political and economic development. While the, Economic merit deals with boosting of the revenue, Accumulating the capital and investment in the country, Political aspect deals with creating harmonized relations such as trade agreement with external countries, Social attribute deals with benefiting the society of marginalized states through collecting tax revenue from where the abundant resource existed and encouraging the standard of living among the states. (Teferra, 2004)

According to Mosisa (2014) study VAT boosts the general economic growth of Ethiopia and the average ratio of VAT to GDP becomes 2.95%. Since its introduction, VAT has been more revenue productive than sales tax (Teferra, 2004). In order to sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. In despite of its importance in boost up the country economy, it is observed that VAT administration process encountered different challenges (Abraha, 2010).

The main challenges that encountered are: Misunderstanding of the public in general and business community in particular regarding the VAT laws, Resistance against registrations for VAT by some traders, administration inefficiency, Accounting record, Non-issuance of invoices or issuance of illegal invoices exercised by registered business enterprises.

Most of the previous studies were focused on the contributions of VAT for economic growth and GDP. Few studies were conducted with reference to Ethiopia on Vat assessment; for example Birhan (2011) analyze VAT administration problems in case of ERCA in Gondar branch and it tries to assess VAT effectiveness in generating more government revenue (VAT revenue performance in the authority). The study analyzes the VAT revenue performance of the authority and identifies VAT administration problems. Bizualem (2015) examined the nature, practices, and challenges of VAT implementation in Ethiopia and identified areas of weaknesses and strengths towards the achievement of VAT Objectives. In doing so, the paper further assesses the impact of VAT to gross domestic product and total government revenues. The study discovered that during the implementation of Valued Added Tax since the year 2003 till to date; the major challenges hindering ERCA from generating what was initially planned are: lack of sufficient number of skilled personnel, limited staff capacity, no responsiveness by the management, limited awareness creation, problems related with invoicing, unfair competition, and control centered management tendency. The paper suggests that in Ethiopia, attempting to implement what is legislated in the main areas deserves the Government's due attention. Hailemariam (2015) was focused particularly on identifying and assessing the problems rose in association with the implementations of VAT by the Ethiopian Revenue and Customs Authority. To achieve this objective, the researcher used both qualitative and quantitative descriptive research designs and a sample of taxpayers and employees of the authority were selected using stratified random sampling method. The researcher used questionnaires, Interviews and relevant documents to collect primary and secondary data from the data sources. Pie charts, graphs, table, Percentages were used in analyzing the collected data (findings).finally the study find-out that there are constraints hinder the smooth implementations of VAT and achieve the desired objectives as possible and forward some possible recommendation.

From this the study rests its major interests on assessing the Challenges and opportunities in association with the administration and implementation of VAT in the Guraghe zone. Generally In order to make up sufficient revenue from VAT it needs efficient and effective tax administration, therefore, this paper aims at scrutinizing the challenges and opportunities that the VAT administration have and it will give some insight in

VAT administration and revenue generation in Guraghe zone revenue authority.

1.3. OBJECTIVES OF THE STUDY

- ✍ To investigate the challenges that VAT registered tax payers encountered in administrating the VAT
- ✍ To assess the attitudes of taxpayers towards VAT rate and threshold in Guraghe zone.
- ✍ To identify the main challenges in the implementation process in Guraghe zone revenue authority.
- ✍ To assess whether the tax payers do their work with the compliance of the current rules and regulations of the VAT.
- ✍ To assess VAT revenue performance of the Guraghe zone revenue authority.

2. RESEARCH METHODOLOGY

The nature of this research is descriptive type that incorporates fact finding inquiries and surveys with regard to the Value Added Tax administration. The study used both primary and secondary data. The primary data were collected through questionnaires which include both open ended and closed ended question. The secondary data was collected from Reports, and official documents. The collected data was process and analyze by using SPSS 20

Tax officers in Guraghe zone revenue authority and tax payers were target population of the study. Samples were drawn using cluster sampling method. First the study area was divided into a number of smaller non-overlapping areas, generally called geographical clusters, then a number of these smaller areas were randomly selected. Based on this, seven Woredas were randomly selected. The total numbers of tax payers in these seven Woredas were 792 and the total number of employee is 187 from this total population sample size was determined.

Regarding sample size the study used Yamene (1967), it provide a simplified formula to calculate sample size. At 95% confidence interval and P= 5%, were assumed for the equation.

$$n = \left(\frac{N}{1 + N(e)^2} \right)$$

Where n is the sample size, N is the population size and e is the level of precision.

- From total number of respondents of 792 the sample size is

$$n = \frac{792}{1 + 792(0.05)^2} = 271$$

- From total 187 employees the Sample size

$$n = \frac{187}{1 + 187(0.05)^2} = 127$$

Target population of the study was including a sample of taxpayers and employees of the Guraghe zone revenue authority. From the total population of the VAT registered tax payers of the Guraghe zone, the study select about 271 tax payers and from employees the study selected 127 employees. Furthermore the study was take proportionate sample size from the selected woredas and cities administration.

3. RESULTS AND DISCUSSION

The questionnaire was distributed to both employees and VAT registered taxpayers. Out of 398 (127 for employees and 271 for VAT registered taxpayers) questionnaires physically distributed to the target population, 372 usable responses were collected (272 collected from employees and 110 from VAT registered taxpayers). The response success rate of employees is 86.6%, while the remaining 13.4 % of the questionnaires were not resumed. On the other hand, the response success rate of VAT registered respondents is 96.7% of them were returned, while the remaining 3.3% of the questionnaires were not returned at all because of the reluctance of respondents to complete and give back the questionnaires.

3.1. Demographic Data

VAT registrant taxpayers and the tax officers are the main witnesses to explain the VAT administrative activities of the tax office. The survey result in this section reveals the gender, level of education, nature, the type of business that they engaged and the relation to the business.

➤ **Characteristics of respondents**

Table 1: Gender of tax payers and tax officers

		Gender			
		Tax payers		Tax officers	
		Frequency	Percent	Frequency	Percent
Valid	Male	189	72	77	70
	Female	73	28	33	30
	Total	262	100.0	110	100.0

Source; survey data (tax payers)

As indicated above in the table 1, 72 percent of VAT registrant taxpayer respondents were male and 28 percent were female. Furthermore it is obvious that the response of tax officials of the zone was very important to assess VAT administration and also to understand the thought of taxpayers towards VAT. Out of 110 respondents 77 were male and the rest 33 were female furthermore as indicated on the open ended question respondents were composed of auditors, lawyers, tax intelligence, team leaders, and tax assessment and collection officers.

➤ **Level of education of respondents**

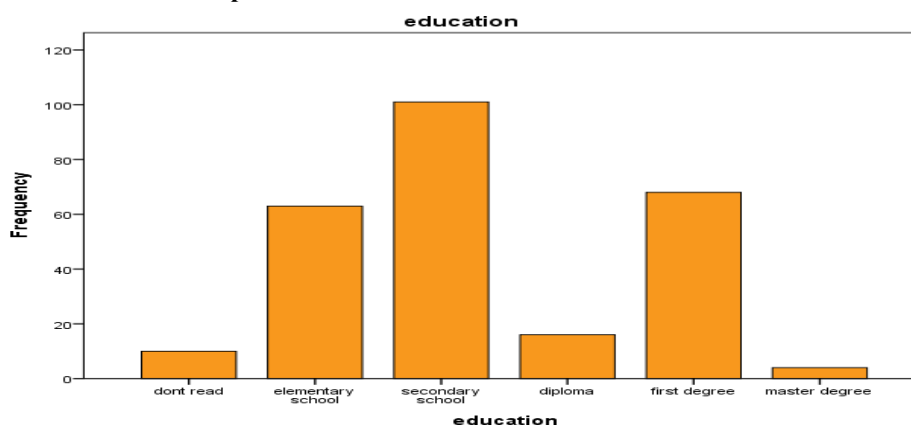


Figure 1: Level of education of VAT registrant taxpayer respondents

As the figure 1 shows, among 262 respondents of VAT registrant taxpayers, 24% (63) were finish elementary school, 39% (101) were finish grade 12 and below, of which 6% (16) were have a Diploma; 26% (68) have First Degree 1.5% (4) were Master holder.

Table 2: Level of education of tax official
Education status

		Frequency	Percent
Valid	Diploma	52	47
	First degree	57	52
	Master degree	1	1
	Total	110	100.0

Source; survey data (tax officials)

As shown on the above table 47% of the respondents were having diploma, 52% and 1% of the respondents have first and master degree respectively. Therefore, the authority should encourage those tax officials who want to pursue for masters or above in order to increase the number of tax officials having qualifications of masters.

Business nature, Business type, Relation of respondents

Out of 262 respondents 71% were engaged in sole proprietorship business and the rest 29% are engaged in partnership business. This shows most of the respondents maintain their business as sole proprietor.

		Frequency	Percent	
Business nature	Sole proprietorship	186	71	
	Partnership	76	29	
	Total	262	100.0	
Business types	Hotel/restaurant/café	63	24	
	Manufacturing	53	22	
	Retail	57	20	
	Construction	41	16	
	Electronics	18	7	
	Importer	8	2	
	Other	22	9	
	Total	262	100.0	
	Relation	Owner	158	60
		Employee	104	40
Total		262	100.0	

Source; survey data (tax payers)

As the above table shows 24% of the respondents were engaged in Hotel/restaurant/café business; 22% are engaged in manufacturing business and the rest retail, construction, electronics, importer, and other (electronics, rental and printing business) constitute 20%, 16%, 7%, %, 2%, and 9% respectively.

Majority of respondents(60%) are owners of the organization and the rest 40% are employees of the organization.

3.2 Tax payer's awareness of the VAT proclamation, source of information and advantage of Vat

➤ Respondents awareness regarding VAT proclamation

The issue is how the VAT rules and regulations are simple in order to taxpayers to understand the rules and comply with them cost effectively so as to reduces the number of errors, improves compliance, and increases respect for the system; promotes transparency and cost effective collection.

Table 3: Respondents awareness regarding VAT proclamation

Degree of awareness of the taxpayers

	Frequency	Percent
High	52	19.8
Average	80	30.6
Low	130	49.6
Total	262	100.0

Source; survey data (tax payers)

The majority respondents opinion on the awareness of VAT proclamation (rules and regulations) is low (49.61%). This indicated that taxpayers and the society in general do not know much about VAT. The taxpayer survey respondents further noted that the tax authority has not made sufficient effort in increasing the awareness about the tax. This means that the authority should have to strengthen the tax education program.

➤ Source of information about VAT

Tax payers were asked the Source of VAT Related Information and is 50% of respondents clearly stated that they have developed the idea of VAT through different means, such as by radio, TV, 30% were have information by reading brochures, and from other VAT payers, which accounts 19%. This implies that the business Traders have enough source of information to understand the VAT rules and regulations.

Table 4: Respondents source of information about VAT

Source of information about VAT		
	Frequency	Percent
From media	136	51
Reading brochures	80	30
From other Vat payer	49	19
Total	265	100.0

Source; survey data (tax payers)

3.3 Reasonability of the single VAT rate

According to Dakito (2011) the government uses differentiated rates by lowering the tax rate on necessities and imposing high rate in luxury goods this may increase the administration cost and will lead to reduced revenue but this creates equity. Conversely, if the government uses a single rate on broader base, like Ethiopian VAT, this will reduce the administration costs and will increase the revenue but a single rate will affect the poorest in the country (high tax burden on the poor). This is basically the main problem is in Ethiopia VAT tax system. So the government is supposed to choose the most suitable tax rate so that the burden of tax will not be too regressive to the poor and should not lead to reduced revenue. However, the government of Ethiopia is in favor of reducing the administration cost rather than creating equity that is why the tax authority implemented a single rate, 15%, with broader tax basis and few exemptions which are against the main target of taxation, from this both tax payer and employees were asked about the reasonability of single 15% tax rate and it is summarized in the table below.

From the summarized table 4.8 more than half respondents which of 63.7 % replied that the single rate 15% is reasonable because it treat the whole business equally and let them to compete in the market; 25.5% respond no because the single rate is regressive in nature and it has made goods and services expensive and results in noncompliance of tax payer and the rest 10.8 % have no idea whether it is reasonable or not. Though a VAT turns out to be regressive, the overall impact on the poor can be neutralized or reversed if the public expenditure financed by that tax effectively targets the poor.

Table 5: reasonability of the single VAT rate

Vat rat reasonability		
	Frequency	Percent
Indifferent	40	10.8
No	95	25.5
Yes	237	63.7
Total	372	100.0

Source; survey data (tax payers and tax officers)

3.4 Business that is not register for VAT and reason behind and solutions to reduce involuntary VAT registration

➤ Business that is not register for VAT and reason behind

The government of Ethiopia has been introduced and effectively implemented the Value Added Tax on January 1, 2003 by replacing the sales tax after the VAT proclamation No. 285/2002 has been ratified by the parliament and the council of ministers has issued VAT registration no. 79/2002 as pursuant to the Value Added Tax proclamation for the implementation. A VAT proclamation declares that a person who runs an enterprise or activity where the value of his taxable transaction Birr 500,000 and above in any period of 12 months immediately preceding his application to the tax authority or his turnover in respect to taxable transactions is expected to exceed the threshold in the following 12 months is liable to register for VAT. A person applying to register for VAT is required to do so in such a form as is established by the implementation directives issued by the Ethiopian Revenue and Customs Authority; When a person carrying out taxable transactions files an application to be registered for VAT, the authority is required to register the person in the VAT register, and to issue a certificate of registration within 30 days of the registration; A person registered for VAT is required to use his taxpayer identification number on all VAT invoices, and on all tax returns and official communications with the authority. Having this in mind, the survey was conducted by asking the taxpayers whether they agree with the idea that most of the taxpayers are registered for VAT or not.

Figure 2; Business that is not register for VAT

Source; survey data (tax payers)

Based on the above figure out of 262 respondents 185 were believe that all tax payers that should be register for vat are registered for real and the rest 77 tax payers didn't believe that. Furthermore table below shows tax officers attitude regarding vat registration.

Table 6; tax officer attitude regarding vat registration

Vat registration		
	Frequency	Percent
No	22	20
Yes	88	80
Total	110	100.0

Source; survey data (tax officers)

As on the tax officers side we see on the above table 80% of the respondent agree that tax payers that should be registered for vat are register for vat but some 20% respondents replied that tax payers that should be registered for vat did not registered. In order to know the reasons why the taxpayers did not registered the study asked them to explain their reasons. Accordingly their reasons why they are not registered are lack of knowledge (awareness) of the business community, selfishness, and the poor capacity or VAT registration system followed by the government, are the reason behind non registration.

➤ **Solutions to reduce involuntary VAT registration**

In the survey both tax payers and employees were asked about possible solution in order to reduce involuntary VAT registration. Therefore, the outcome of the survey was summarized in table 10.

Table 7; possible solutions to reduce involuntary VAT registration on some traders

Solution		
	Frequency	Percent
The tax authority should create awareness taxpayers	143	38.4
The tax authority should improve its control over non vat registered businesses	117	31.5
Makes tax laws understandable, communicate changes very well	83	22.2
Business enterprises which are eligible but not registered for VAT should obey for VAT rules and regulations	59	15.9
Total	372	100.0

Source; survey data (tax payers and tax officers)

As indicated in table 10, both tax payers and employees were asked the solutions that used to reduce involuntary VAT registration on some traders about 38.4% of respondents revealed that the solution to reduce involuntary VAT registration was creating taxpayers awareness by the authority. But, about 31.5 % of the respondent's response that the tax authority should improve its control over non vat registered businesses a major solution for the problem. Further, 22.2% the respondents noted that making tax laws understandable, communicating changes very well as a solution to reduce involuntary VAT registration. Lastly, 15.9% of the respondents indicated that business enterprises should obey VAT rules and regulations as a solution for the problems identified.

3.5. The Market Competition between VAT Registered and Non-Registered

Table 8; Market competition between VAT registered and non-registered

Market competition			
	Frequency	Percent	
Valid	Vat register	140	53.4
	Non- Vat register	122	46.6
	Total	262	100.0

Source; survey data (tax payers)

The survey data responses of 53.4% of the respondents were argued that VAT registered traders are benefited from the market competition, since registered traders have privileged to compete for different government bids. Whereas, 46.6% of the respondents claimed that the non-registered traders are benefited because they can sale more goods and service by lowering unit prices at least by the amount of VAT and there is additional costs to deduct and collect from customers, record keeping, training and hiring external accountants and other professionals.

3.6. Service delivery performance of the office

As shown on the table 12, 30.2% of the respondents revealed that the service delivery in the branch office is very

good, and 45.4 % concluded there the service delivery by the office is good. Even though this is not the opinion of most of the respondents it needs to be considered for improvement so 20.6% and 3.8% of the respondents replied the service delivery is average and poor furthermore it has mean value of 1.83 and standard deviation of 0.887. According to Hogye (2000) the complexity and difficulty of tax administration causes taxpayers to incur costs that lead them to tax evasion and avoidance. Therefore, striving for improving the service delivery including office facilities enable to decrease tax evasion and avoidance

Table 9; service delivery of the office

		Service delivery			
		Frequency	Percent	Mean	Standard deviation
Valid	very good	79	30.1	1.83	0.887
	Good	119	45.4		
	Average	54	20.7		
	Poor	10	3.8		
	Total	262	100.0		

Source; survey data (tax payers)

3.7. Response about the threshold

According to the VAT proclamation of Ethiopia, the enterprises whose annual turnover is half a million (500,000) birr and above are compulsory to register for VAT. A threshold for VAT registration has been put in place for administrative purpose. VAT registered tax payers and tax officers were asked to forward their views whether the existing threshold is fair or not for VAT registration.

Table 10; Opinion regarding the threshold

		Opinion regarding the threshold	
		Frequency	Percent
Valid	Not fair	70	18.8
	Fair	243	65.3
	Indifferent	59	15.9
	Total	372	100.0

Source; survey data (tax payers)

As we see from table 13 out of 372 respondents, 243 (65.3%) replied that the threshold is fair, while 70(18.8%) taxpayer respondents replied that the threshold level is not fair and 59(15.9) respondents replied indifferent. As can be understood from the responses provided by the respondents, the majority said that the current threshold level (500,000 birr) is fair because it allows most business communities whose annual return is 500,000 can actively participating in the market competition by registering for vat and annual return below 500,000 can operate with-out any tax burden on the customer. Therefore the current threshold no need of adjusting the threshold.

3.8. The Importance of VAT

For effectiveness of VAT proclamation, transparency is a critical issue. Taxpayers should know that a tax exists and how and when it is imposed upon them and its importance. This suggests that efforts by the tax authority to improve the transparency of the tax system would be beneficial.

Table 11; Importance of vat

		Importance of vat			
		Tax payers		Tax officers	
		Frequency	Percent	Frequency	Percent
Valid	Indifferent	24	22.7	6	2.3
	No	34	8	10	9.2
	Yes	204	69.3	94	84.5
	Total	262	100.0	110	100.0

Source; survey data (tax payers)

From out of 262 respondents 204 respondents do believe that VAT is important for the development of investment and international trade. Nevertheless, 34 of the respondents do not believe that vat has an importance. The remaining 24 is not sure whether or not the VAT is important for the development of investment and international trade. From the employees point of view 84.5% of the respondents believe that VAT is important

for the development of investment and international trade, on the other hand 9.2% of the respondents do not believe that vat has an important and 2.3% of the respondents have no clue.

3.9. Do the Business Communities Perform Their Business Activities on the Basis of the Current VAT Laws?

➤ Loyalty of taxpayers to issue vat receipt to all buyers

VAT is considered as a credit invoice method because it is a tax system in which issuance of invoice serves as a cornerstone for the tax collection process. VAT proclamation No. 285/2002 Article 22/1 stipulates that a person registered for VAT is required to issue a VAT invoice for a taxable transactions, but a person who is not registered for a VAT does not have the right to issue a tax invoice. Therefore VAT registered enterprises perform their business transactions using an invoice. Hence the tax administration would not be expected to estimate the total sale or purchase made for levying the tax rather the invoice would depict the taxable sales and the buyer claims on what he has paid on his input.

Table 12; Loyalty of tax collection

Loyalty of taxpayers			
		Frequency	Percent
Valid	Sometimes	24	9.2
	Yes	238	90.8
	Total	262	100.0

Source; survey data (tax payers)

From the above table out of 262 tax payers 90.8% were issue receipts fairly while selling and delivering service; 9.2% were sometimes they didn't issue VAT receipts to all customer, didn't report to the government the reason they state on the space provided is shortage of finance, absence of strong follow-up by the authority, serving for self-benefits rather than governing for the rules, duties and responsibilities This cause the tax collected by taxpayers is not paid to the tax authority and the normal tax operation system becomes jeopardized as the buyers could have no evidence for offsetting the tax paid in the course of business activities.

➤ Tax Payers Practice of VAT Reporting

This is actually, to see whether the tax payers were practicing of VAT reporting as stated in VAT proclamation or not. The business traders have the responsibility to maintain proper recording system, so that they can have the required information as needed. Otherwise, it is very difficult to properly manage the operations of the business, i.e. their incomes and expenses of the business. Besides, failure to maintain records of the business transactions is considered as non-compliance with VAT proclamation, which is against the current VAT law. Based on this, the majorities of the respondents from the revenue office replied that on average most of the business communities were paying VAT regularly and declared their income timely to the authority. As per the summarized data of respondents, 37.4% of the respondents replied "good", 44.3% of the respondents said "fair", 14.5% of the respondents selected "not good". The remaining 6.8% of the respondents responded as "worse". This result showed that there is still a gap to fully comply on the basis of the current VAT laws. Some of the reasons stated by these respondents were the culture that they have in financial record keeping, fear of government and lack of confidence, cheating of the tax authority, lack of awareness and trained professionals to maintain their financial operations.

Table 13; Tax payers Practice VAT Reporting

Practice of vat reporting			
		Frequency	Percent
Valid	Good	68	61.8
	Fair	28	25.5
	Not good	10	14.5
	Worse	4	9.2
	Total	110	100.0

Source; survey data (tax officer)

3.10. challenges in VAT implementation

For the question what are the major challenges you have experienced related to VAT? The tax officer's response looks like as follows

Table 14; Challenges faced in Vat implementation
Challenges in Vat implementation

	Frequency	Percent
Lack of awareness about VAT	70	63.6
Laws and procedures not clear and simple	23	20.9
Valid Fraud off tax collectors	11	10
Unwillingness of tax payers to register for VAT	6	5.5
Total	110	100

Source; survey data (tax officer)

As shown on the above table out of 110 respondents 70 were respond that lack of awareness about vat by tax payers is the main challenge, 23 were respond that the challenge is laws and procedures not clear and simple, 11 were respond Fraud off tax collectors and the rest 6 respond Unwillingness of tax payers to register for vat. From this we can generalize that Guraghe zone revenue authority face different challenges in implementation of vat within the zone so in order to alleviate these challenges, the authority has to recruit sufficient and capable employees, devote time on consistently educating the taxpayers through different Medias, improve the collection network and strengthen in the areas of auditing, follow-up and enforcement as well as consistently follow the implementation procedures and taking serious actions over those who provide understated financial statements and forgery VAT invoices.

3.11. Challenges in VAT Administration

In the survey taxpayers were asked about challenges in VAT administration and their responses were summarized table 18. The table indicates 81.3% of taxpayers stated that consumers are not willing to buy goods and services with VAT as the major problem in VAT administration. However, 3.4% of taxpayers noted that poor tax enforcement capacity of the authority as problem in VAT administration. Moreover, the above table revealed that 4.6% of tax payers stated that the use of fraudulent invoices and non-issuance of invoice as the problem in VAT administration. But, 6.67% of tax payers noted that poor tax enforcement capacity of the authority as problem in VAT administration.

Table 18; challenges in VAT Administration

challenges in vat administration		
	Frequency	Percent
VAT tax payers are less competition in the market than non VAT tax payers	28	7.6
Consumers are not willing to buy goods and services with VAT	213	81.3
Use of fraudulent invoices and non-issuance of invoices	12	4.6
Poor tax enforcement capacity of the authority	9	3.4
Total	262	100

Source; survey data (tax payers)

3.12 The Institutional Capacity of the office in Managing the VAT Application

VAT in particular requires administrative capacity both within the tax authority and on the part of the private sector through accounting and reporting. It is clear that the capacity of much of the private sector is so low that it forms a major obstacle to effective implementation of the law. Given that tax authorities are not generally held in high regard in any jurisdictions around the world, this should be considered to be a fairly positive assessment of the revenue office. A good VAT administration is critical in fully implementing tax and reducing gaps between the effective taxation and what it is supposed to be in the proclamation. In general, a good VAT administration is important to achieve the policy objectives of a government. From this the respondents were asked about the Institutional Capacity of the office and their response summarized on the table 19 as follows.

Table 19; Institutional Capacity of the office
Institutional Capacity of the office

	Frequency	Percent
Valid		
Very good	52	19.8
Good	189	72.2
Poor	21	8
Total	262	100.0

Source; survey data (tax payers)

From the above table almost 92% of the respondents indicated that the institutional strength of the revenue office is adequate (good and very good), but the remaining 8% of the respondents said it is poor.

3.13. Contribution of VAT

The main reason for adopting the VAT differ from one country to another, the main argument is that a properly designed VAT raises more revenue with less administrative and economic costs than other broadly based taxes. Hence money collected from taxes and custom duties is one of the major sources of the government revenue. So the respondents of the authority employees were asked whether they believe that the current VAT contribution to the governments revenue is sufficient or not and their response is summarized in the table 20 as follows

Table 15; Contribution of VAT

<i>Contribution of VAT</i>		
	Frequency	Percent
Yes	27	20.9
No	83	75.1
Total	110	100.0

Source; survey data (tax officer)

As the above table 20, shows 75.1% of the respondent response that VAT contribution to the government revenue is not sufficient and the rest 20.9% of the respondent's response the opposite.

3.14. VAT Revenue Performances

VAT revenue as a percentage of total tax revenue. For analysis purpose, VAT collection with its respective total tax revenue collection (2003-2009) for Guraghe zone revenue authority showed in table 21.

Table 16; VAT revenue to total tax revenue ratio of (2003-2009)

Year	VAT revenue (ETB)	Total tax revenue (ETB)	Percentage of VAT revenue to tax revenue
2003	842,367.83	81,118,545.49	1.04%
2004	3,883,746.01	166,805,047.35	2.33%
2005	17,175,140.65	225,557,007.40	7.61%
2006	29,463,159.05	309,591,477.02	9.52%
2007	35,584,657.51	435,380,577.79	8.17%
2008	46,462,253.61	520,045,875.19	8.93%
2009	55,551,539.82	584,939,225.51	9.50%

Source; secondary data (report)

VAT is the principal source of revenue for the Ethiopian government as the same to other VAT implementing countries. As Yesigat's (2008) study on administration problem indicate, VAT has a significant role in the revenue system of the Ethiopian government. Regarding revenue raised by VAT, the Federal Inland Revenue Authority (2007) indicated that VAT is the principal source of revenue for the country. For instance, at the Federal level, from 2007/8-2009/10, on average in each year, the share of the VAT to total tax revenue is about 38.55% (FRCA, 2010). In Addis Ababa, in the same year, it amounts to 21.43% (AACRA, 2010).

To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible, when we came to Guraghe zone table 4.20 showed that the share of VAT in total tax revenue ranges from 0.15% in the year 2003 to 9.5% in 2009. Indeed, the average for the seven years was 6.6%. However, from the year 2006 onwards the share of VAT to tax revenue was higher than the average value of the seven years. For example, the share of VAT in total tax revenue in 2006 (9.52%) was higher than the average value and percentage of the whole year even if the total amount of revenue and vat is increase throughout the year from 2003 until 2009 from this we can conclude that vat revenue is alarmingly increasing from year to year and it will contribute a lot to the GDP and economic growth of the country. To summarize the share of VAT to tax revenue was highest in the year 2006 and lowest in the year 2003.

4.1 CONCLUSION

Based on the results of the findings, VAT administration has faced different problems when it comes to the ground. The major ones are: Consumers are not willing to buy goods and services with VAT, VAT tax payers are less competition in the market than non VAT tax payers, Use of fraudulent invoices and non-issuance of invoices and Poor tax enforcement capacity of the authority are the major challenges of vat administration.

Besides, the survey responses of most of taxpayers and tax officials indicate that the single VAT rate is reasonable because it treat the whole business equally and let them to compete in the market. Regarding the threshold As can be understood from the responses provided by the taxpayers, the majority, tax payers said that the current threshold level (500,000 birr) is fair because it allows most business communities whose annual return is 500,000 can actively participating in the market competition by registering for vat and annual return below 500,000 can operate with-out any tax burden on the customer. Therefore the current threshold no need of adjusting the threshold.

The study was revealed that most of taxpayers do not have much awareness about vat. The taxpayer survey respondents further noted that the tax authority has not made sufficient effort in increasing the awareness about the tax. This means that the authority should have to strengthen the tax education program. Further-more the service delivery capacity of the office as analyzed in chapter four most of the respondents replied it is good.

Some of the respondents still are not register for vat the reason behind is lack of knowledge (awareness) of the business community, selfishness, and the poor capacity or VAT registration system followed by the government. The solution forwarded by the respondents to reduce involuntary VAT registration was creating taxpayers awareness by the authority, the tax authority should improve its control over non vat registered businesses a major solution for the problem, making tax laws understandable, communicating changes very well as a solution to reduce involuntary VAT registration and business enterprises should obey VAT rules and regulations as a solution for the problems identified.

The study finds out that lack of awareness about vat, Laws and procedures not clear and simple, Fraud off tax collectors and Unwillingness of tax payers to register for VAT are the main challenge in Vat implementation and Consumers unwillingness to buy goods and services with VAT, Poor tax enforcement capacity of the authority, Use of fraudulent invoices and non-issuance of invoices and VAT tax payers are less competition in the market than non VAT tax payers are the main challenge in Vat implementation process.

The study also reveals that the vat revenue is increasing from year to year and it will contribute a lot to the GDP and economic growth of the country but actual VAT collection performance to the planed it is not in good position and it happened because of different implementation and administrative problems.

4.2. RECOMMENDATION

To sustain the VAT system as a good means to raise government revenue, the authorities should have to take the following measures:

- The authority should maintain intensified awareness creations programs and enforcement and it should teach the business community about the concept of VAT intensively by prepare seminars, workshop, magazines or new papers do disclose current issue and the revenue collected from VAT so that the tax payers and the public become aware of VAT.
- To provide quality services the authority should increase the number of qualified employees, strengthen its controlling mechanisms, improve its administrative systems.
- The society should also have accept and obey the existing VAT rules and regulations develop the culture of taxpaying as a sign of modern thinking, pay attentions towards the government effort to collect and fund the long run projects carrying out all through the country, take into account as the government main source of income to fund to the social and public affairs is the wealth collected and accumulated from taxes, consider paying tax as a means of directly or indirectly putting one own contribution on changing the life of each citizen and they perform their activities according to the current VAT laws as well as start to work in cooperation with the authority in fighting against those enterprises that are violating the rules and regulations of VAT
- The authority should take actions such as: train the taxpayers about the rules and regulations of VAT continuously, recruiting new employees and give continuous training for the existing once, it should also increase its follow-up and investigation to control noncompliance enterprises, as well as effectively and efficiently performing the tasks of identification of VAT taxpayers, processing of returns controlling collections, making refunds, auditing taxpayers, and levying penalties to tackle the problems it has encountered

REFERENCE

Alemu, D. (2011). Empirical Analysis of the Contribution of VAT For Economic Development and Social Spending in Ethiopia. Addis Ababa University, Accounting and Finance. Addis Ababa: Addis Ababa

- University.
- Alex C. (2005). *Tax evasion, Tax avoidance and Development Finance*. Working Paper No. 129.QEH – Working Paper Series – QEHWPS129.
- BekureHerouy(May,2004), The VAT Regime under Ethiopian Law with Emphasis on Tax Exemption, The Ethiopian and International Experience.
- Bird R.M. 1989, 'The administrative dimension of tax reform in developing countries' in M. Gillis (ed.) *Tax Reform in Developing Countries*, Duke University Press, Durham, North Carolina, pp. 315–346.
- C.R Kothari (2004): *Research method* second edition
- Dasalegn M. (2014). The Role of Value Added Tax on Economic Growth of Ethiopia, *SciTechnol. Arts Res. J.*, Jan-March 2014, 3(1): 156-161
- Ebrill L., Keen M., Bodin J.P., and Summers V. (2001). *The Modern VAT*. International Monetary Fund. Washington D.C.
- Federal Democratic Republic of Ethiopia (2008). Proclamation No. 587/2008; A Proclamation to provide for the establishment of the Ethiopian Revenue and Customs Authority. Addis Ababa.
- WellelaAbehodie (2008). *Value Added Tax Administration in Ethiopia: A Reflection of Problems*.
- Richard M.Bird and Joseph L.Rotman (2005): *Value Added Taxes in Developing and Transitional countries: Lessons and Questions*. A Paper prepared for the first Global International Tax Dialogue Conference on VAT. Rome, March 15 – 16, 2005.
- Riga (2004). State Revenue Service, Tax Administration Strategy for year 2005 – 2009. State Revenue National Tax Board.
- Rakner, L 2003, 'Tax reform and democratic accountability in Sub-Saharan Africa', Bergen, CMI, Chr. Michelsen Institute. Rosceo, M 1975, *Research methods in Sociology*, Washigton, USA.
- Sanni, A 2012, *Current Law and Practice of Value Added Tax in Nigeria*, Department of Commercial and Industrial Law, University of Lagos, Nigeria Santos, P 2002, 'VAT introduction-Administrative issues', Caribbean Regional Technical Assistance Centre, CARTAC.
- Sheth, J 1971, *Multivariate revolution in marketing research*, Chicago, USA
- Tesfaye, A 2004, 'Prospects and challenges of VAT implementation in Ethiopia', Addis Ababa, Ethiopia.
- Tesfaye, Misrak, 2008, *Ethiopian tax accounting theory and practice*, Addis Ababa, Ethiopia.
- Tanzi,Vito, and Zee, Howell 2001, 'Tax Policy for Developing Countries', International Monetary Fund. Tait, A.A. 1991, 'Value Added Tax: Administrative and Policy Issues', Occasional Paper No. 88 International Monetary Fund, Washington.
- Tait, A.A. 1988, *Value Added Tax: International Practice and Problems*, IMF, Washington DC.
- Yesegat, W. A 2008, 'VAT administration in Ethiopia: A reflection of problems', *E Journal of Tax Research*, 6(2), pp.145-168, Addis Ababa, Ethiopia
- Wawire N 2011, *Determinants of Value added Tax revenue in Kenya*, Kenyatta University, Nairobi, Kenya.
- Zikmund, B & Griffin, C. *Business research method* 8th edition.