

Value Added Tax Administration and Its Challenges: The Case of South Gondar Zone, Ethiopia

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Abstract

Tax contributions are important for different public services such as security, health, education, building infrastructures and welfare programs. The growth of global economy has been another factor leading to change in the tax system. As the result tax is the main source of revenue for both developed and developing nations to maximize their economic development as well as national security. Taxes have usually two parts, direct tax and indirect tax, according to the point at which they are actually paid. One of the main parts of indirect tax is VAT. The main objective of this study is to investigate the main Value Added Tax administration challenges of South Gondar Zone. Mainly primary source of data were used in this study. Two main target groups were identified; taxpayers and tax officers. In the study, 384 tax payers who are registered for VAT and 102 tax officers were interviewed. The awareness level of the tax payers towards VAT was one point of interest and results show that out of the 102 tax officers, most of them reported that the awareness of the tax payers is low. Based on the results of the findings, the main challenges of Value Added Tax administration in South Gondar Zone are: lack of tax payers awareness, selling goods and services without tax invoice or lack of use proper Value Added Tax invoices, weak culture of taxpayers, and lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Tax payers. To alleviate awareness problem there is a need to have tax education campaign by coordinated efforts that must be exerted at all levels to enhance the awareness of the tax payers and other members of the community. The major task that the office should do is supervising and monitoring of those whether unregistered and registered Value Added Tax taxpayers up to door to door inspection. There is a need to enhance the capacity of the employees of the tax office. Of course, the study shows that both short term and long term trainings are given. But still, there is also a need for changing the attitude towards customer handling and other service giving methodologies.

Keywords: Vat, administration, challenges

DOI: 10.7176/EJBM/12-7-01

Publication date: March 31st 2020

Introduction

Governments, all over the world have their stated number of public projects, such as social security protection and other services of public utilities like electricity, water supply, rail ways, heavy electrical, atomic energy, etc. As Eric (2008) stated, common expenditure programs include health and welfare programs, defense spending, social security, and interest and repayment of principal on government debt. Under this view, the role of the tax system is to raise an amount of revenue that is tied to the level of government services. For those countries with significant sources of revenue other than taxes, government can fund operations with less reliance on current tax revenue.

According to Connolly and Munro (1999), in the world taxation is not only an important economic issue but also it is a political issue. Tax contributions are important for different public services such as, security, health, education, building infrastructures and welfare programs. The growth of global economy has been another factor leading to change in the tax system. As the result tax is the main source of revenue for both developed and developing nations to maximize their economic development as well as national security. Taxes have usually two parts, direct tax and indirect tax, according to the point at which they are actually paid. One of the main parts of indirect tax is VAT.

The word VAT can be originated from the writings of a German economist F Von Siemens who proposed the VAT in 1918 as a substitute for the newly established German turnover tax. The development of these proposals into the introduction of a VAT in a state is credited to Maurice Laure and Carl Shoup, Joint Director of the France Tax Authority, who were responsible with the introduction in France in 1954 of the Tax sur la Valeur Ajoutée. VAT has become the most common type of consumption tax for a variety of reasons and Côte D'Ivoire was the first African country to introduce VAT in 1960 (Smith, et al., 2011).

Now a day's VAT implemented in more than 160 countries and has become the principal source of revenue for many countries (Keen and Lockwood, 2007); the only OECD country not to have done is the United States.

VAT is a general consumption tax assessed on the value added to goods and services, because it is borne ultimately by the final consumer. It is a tax to be paid by all sellers of goods and services, except those specifically exempted, on the basis of the value added by their firms to the thing or service sold. A value-added tax is a tax not on the total value of the commodity being sold; it is a tax levied only on the value added to it by the trader or manufacture. It is not a charge on companies, rather it is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution activities. It is collected fractionally, via a system of deductions whereby taxable persons (VAT-registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities (Herouy, 2004).

VAT is an indirect consumption tax, which is imposed on the value added to a product at each point in the cycle of production and distribution, which pays a fixed percentage of the final sale price of a product. A VAT is levied on the difference between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors typically pass the cost of the VAT on the final consumer in the form of price increases. Tax is added to a product's price each time it changes hands until delivery to the customer takes place, when the final tax is paid (Encyclopedia of Management, 2009).

VAT was the main part of the revenue systems for an ever-increasing number of African nations. Whereas, the VAT systems were adopted with different mechanisms: especially by both external and internal pressures. External pressures included influences from international financial organizations and, sometimes, advice from agencies of former colonial powers. Internal pressures included difficulties collecting sufficient revenue from income taxes, excise taxes and other levies (Krever, 2008).

In Ethiopia, VAT was introduced since January 1, 2003 by VAT proclamation No 285/2002 designed to replace sales tax, which has used for more than four decades, which was collected at manufacturing level. Since 1993, the Ethiopian government has made major economic shift from central planning to market oriented economic system. In line with this, changing the mode of collection of revenue in the form of taxation, and introduction modern tax system (VAT) was considered immediate necessity.

Currently, since Ethiopia established federal structure the former tax law cannot be properly used and implemented in the presence of federal and state government for both have say on tax laws and enforcements thereof of course, VAT contributes a key role in raising the substantive revenue to finance the state as the engine of development and to redistribute income and wealth among members of the community residing in a state. This basically necessitates a state to follow modern taxation (VAT) in its legal system.

The major reasons for introducing VAT in Ethiopia replacing the former sales tax are mostly in the case of sales tax, when sales transaction is conducted, it doesn't allow collection on the added value, whereas, VAT allows collection on the added value. In the case of sales tax as it is collected only at one stage, whereas VAT collects at each stage of production and purchase. VAT enhances saving and investment, minimize the damage that may be caused by tax evasion and avoidance, stimulate economic growth and improve the relationship between gross domestic product and government revenue in the country (Misrak, 2014).

VAT is imposed on the import, manufacturing, wholesale and retail levels on both goods and services at a uniform rate of 15% at the time of supply of taxable goods or services. In determining the VAT liability, tax paid on inputs is creditable against output tax. The most popular and widely accepted advantage of VAT is its high revenue potential than sales tax, even in poor countries, of mass consumption taxation and in order to enhance the VAT revenue, ineffective tax administration, low level of voluntary compliance, lack of modern information technology, tax evasion and corruption by tax administrators and an ineffective audit programmed to combat VAT evasion should be solved (Wollela, 2008).

Then the government uses the revenue to build dams, to operate schools and hospitals to provide food and medical care for the poor and hundreds of other purposes. Therefore, the government has undoubtedly become essential to put forth some controlling mechanisms that would help to enable potential improvement of collection.

For instance, according to World Bank report of 2013, in Ethiopia the tax revenue to GDP ratio is less than 10%, which is even less than the average value of sub Saharan country that has 16% of GDP. Ethiopia being one of the least developing countries was depending on external financial resource to run its main governmental activities. As the result, their budgetary problems become more aggravated (Gebriel, 2013).

In developing countries like Ethiopia the governments collect income, mostly by custom duties on the import & export. But relying on such income didn't generate sufficient income in the long run. Practicing good tax policy and tax laws are the best way for a country to have sustainable generation of income. Therefore VAT is relatively the potential source of revenue to the government. So, its effective administration has high positive impact on both the potential revenue collection and improving the taxpayers' compliance (Misrak, 2014).

From the study of Alazar (2009) the VAT revenue level and its percentage share from the total indirect tax, total tax and countries GDP has reached 76.78 percent, 40.49 percent, and 1.40 percent respectively which is very less as compared to the average VAT/GDP ratio of European countries of 6.55 percent. Additionally, according to Dessalegn (2014) the average share of VAT revenue to GDP from 2003 to 2012 was only 2.95%.

In developing countries collection of VAT has its own challenges. Among them; Ineffective tax administration, low level of voluntary compliance, lack of modern information technology, tax evasion and corruption by tax administrators and an ineffective audit programmed to combat VAT evasion. Therefore, to eradicate these problems governments take proper tax policy (Smith, et al., 2011).

The Proclamation No 285/2002 authorized the then FIRA and now Ministry of finance to administer the VAT. Then huge refund claim and the huge number of nil filler as well as low annual VAT collection performance is a common experience in every corner of the country. Therefore, the researchers have tried to assess VAT administration challenges in south Gondar zone.

STATEMENT OF PROBLEM

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). The major source of government income is tax in most economies.

Economic development is the main objective that all developing countries are striving for. Ethiopia as one of the fast growing country has set astonishing goals to be achieved and tremendous results were achieved in Growth and Transformation Plan (GTP 1) and the country is pushing forward with the remaining to be achieved in Growth and Transformation Plan (GTP 2).

Mere demand for development is not an end in itself unless such nations are not endowed with resources required to do so. While most developing countries like Ethiopia are resource blessed, they face a problem of fiscal deficit, which make them to depend on foreign assistance to finance their development program. Therefore, better mobilization of internal resources could help to reduce the fiscal deficit, and to better control the process of economic development and reduce poverty.

According to Karagoz (2013) fiscal deficit is the core issue of most of the developing countries over the past several decades because of rapid fiscal imbalance. According to this author the rapid expansion in expenditure and low revenue collection practice in these nations is common. To this end, the role of taxation in many developing countries has been emphasized as an instrument of economic growth and development.

Tax is the most important sources of the government revenue. However, most developing countries are more dependent on external financial resources to finance their development activities (Ping, Z. 2006). In developing countries the tax contribution to GDP is very less as compared to developed countries (Markos, 2010). For instance, according to World Bank report of 2013 in Ethiopia the tax revenue to GDP ratio is less than 10%, which is even less than the average value of sub Saharan country that has 16% of GDP. Ethiopia being one of the least developing countries was depending on external financial resource to run its main governmental activities. As the result, their budgetary problems become more aggravated (Gebriel, 2013).

To fight against budgetary problems governments in developing countries are generating tax revenue mainly by imposing indirect taxes such as VAT, excise taxes and foreign trade taxes (Yesegat W., 2009). To fulfill the public needs, governments in any country plan to collect tax revenues from the taxpaying community. The under developed countries are highly dependent on tax revenue; but it is not so easy to collect as planned.

Value Added Tax (VAT) is a general consumption tax assessed on the value added to goods and services. To sustain Value Added Tax'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, researches reveal that in Ethiopia revenues raised by Value Added Tax are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor Value Added Tax administration and poor culture of paying tax of the tax payers i.e., the incapacity of tax authorities to implement the attributes of the tax in practice.

A good tax administration is essential in achieving government's policy objectives at large and fully implementing the design features of Value Added Tax (Yesegat W., 2008). Ethiopian government has introduced Value Added Tax as part of the overall tax reform program.

Recently the federal government of Ethiopia adapted VAT system at national level. All VAT eligible will not registered due to different reasons, failure to main records file timely, and failure to notify change in business address and business live (Yohanis and Sisay, 2009).

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. 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.

Problem at implementation arise from a tax payer's and tax administration and lack of awareness of business enterprise to know about VAT advantages and application of it. Due to this not ready yourself of to register this is the major problem in the country (Yohanes and Sisay, 2009).

Empirical studies on Value Added Tax administration challenges in Ethiopia are very scanty. To the best of the researchers' Knowledge Yohanes and Sisay (2009), Yesegat (2008), and Amina and Saniya (2015) have made an effort to identify the challenges of Value Added Tax administration. However, no researches have

addressed challenges related to the Value Added Tax administration in South Gondar Zone. Therefore, the purpose of this study was to investigate the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation and to assess the main challenges related to the Value Added Tax administration activities.

Objectives of the study

General Objective

The general objective of this study is to investigate the VAT administration and challenges of Value Added Tax in South Gondar Zone.

Specific Objectives

The following specific objectives were pursued.

- To examine VAT payer's awareness level about VAT laws and regulations.
- To assess whether the taxpayers do their business in compliance with the VAT rules and regulations
- To investigate the challenges those affect South Gondar Zone Revenue Office to monitor and audit VAT registrants.

Empirical studies

Empirical studies on Value Added Tax administration and challenges in Ethiopia are very scanty. To the best of the researchers' Knowledge Yohanes and Sisay (2009) , Yesegat W.(2008) ,and Amina and Saniya (2015) have made an effort to identify the challenges of Value Added Tax administration in other areas of the country. However, no researches have addressed in South Gondar Zone. Therefore, the purpose of this study is to investigate the challenges of Value Added Tax Administration regarding the Value Added Tax assessment, collection and implementation and to assess the main problems related to the Value Added Tax administration activities in the case of South Gondar Zone.

Research Design

In terms of research design, this study will use descriptive types of research which will be used to identify and obtain information related to features of research problem. The basis for selecting this type of research method is that the study will not have a control on the variables; rather it describes the characteristic of the South Gondar zone Revenue Authority Office Value-added Tax administrative activities and to answer the question what is the best way to administer the Value Added Tax in order to assess and collect the potential revenue from the Zone. .

Target Population

The population of study constitutes 2111 VAT registered taxpayers and 102 tax officials found in the 13 districts and 4 town administrations of South Gondar Zone.

Sampling Procedure

This study used stratified random sampling technique. 13(thirteen) strata were formed by merging the 4 town administrations to the nearby districts (i.e, Nefesas Mewcha with Lay Gayent,Addis Zemene with Libokemekem,Woreta with Fogera and MekaneEyesus with Estie) and random sampling technique will be applied to select respondents from each strata. The sample required from each stratum was determined through proportional approach.

$$n_i = \frac{n * N_i}{N}$$

i.e.;

Where; n_i = proportionate sample size for the i^{th} district under each category, n = determined sample size, N_i = portion of the population in the i^{th} district for each category and N = total population for each category. The samples required from each district in proportion to the total population

Sample Size

The sample size is determined using a scientific formula obtained from Adams et.al (2007) to determine the sample size for cross-sectional studies. The formula used is as follows:

$$n = \frac{N}{1 + Ne^2}$$

; Where; n = sample size N = Total population e = Error tolerance. The margin error for this study is 5%, and using this information, the sample size is equal to: thus total population of VAT payer are 2171= $2171/(1+2171*.05*.05)$ =384 and employees of revenue office are on average of 9 in 18 districts, which is a total of 270. Hence, $n = 162/1 + 162(0.05)^2 = 112$ totally 496 respondents.

Research Instruments

This study used both primary and secondary data. The study used questionnaire and FGD to collect all required information for further analysis. To collect data 20 data collectors were employed. The questionnaire was used to accommodate questions to be answered by VAT registered taxpayers. Four FGD were conducted with respondents for clarification on challenges of VAT administration issues. Secondary data was collected from available documents of each district revenue administration office.

Data Analysis Techniques

The data was analyzed and interpreted using descriptive statistics method with table, charts, and figure and percentages using Statistical Package for Social Sciences (SPSS) software. It is used to minimize errors that can occur during data processing and analysis by manual computations.

Results and Discussion

Challenges affecting taxpayers' voluntary compliance

As presented in the table results from the respondents specified that majority, about 86.2% of respondents responded that equity and fairness of the tax system affect their decision to comply. While, 10.23% of respondents replied that, their decision to comply with tax law, not affected by these factors and the remaining 3.57% of the respondents are neutral agree on this issue. According to OECD (2009), the perceived fairness and equity of taxation system is important to taxpayers' compliance behavior influenced by two perceptions that the system treats them unfairly compared to others, and that the government is doing too little with the revenue it collects.

Therefore, it can be said that, fairness and equity of the tax system may have a positive effect on compliance behavior that means taxpayers becoming more compliant. In connection with the impact of giving rewards for compliant taxpayers', 65.1% of the respondents indicated that, giving rewards for compliant taxpayers has an impact on their attitude as well as other taxpayers' attitude towards the taxation. On the hand, about 11.12% of the respondents believe that, attitude towards taxation is not affected by reward given by the revenue authority and the remaining 21.7% of the respondents are disagreeing on this issue. Therefore, giving taxpayers incentives and rewards for compliant taxpayers may have a positive effect on compliance behavior.

As indicated in the table, regarding on serious enforcement of laws and penalty to increase voluntary compliance, about 67% of the respondents replied that, serious enforcement and penalty by the tax authority is one mechanism to increase taxpayers' compliance. While, about 17% of the respondents believe that, serious enforcement and penalty by the tax authority is not affecting taxpayer compliance and the remaining 15.8% of the respondents are neutral with this statement. Therefore, we can understand that, the majority of respondents agreed serious enforcement and penalty by the tax authority is one mechanism to increase taxpayers' voluntary compliance.

As presented in the table, about 92.18% of the respondents believed that, effective tax audit system improves tax compliance and 10.4% of the respondents replied that agreed effective tax audit system improves tax compliance. But the remaining 2.8 % of the respondents are disagreeing by this issue. From this result, we can understand that, the greater proportion of respondents believed that effective tax audit system is another mechanism to improve taxpayers' voluntary compliance.

	Level of agreement					Total
	Strongly agree	agree	Neutral	Disagree	Strongly disagree	
The equity and fairness of the tax system affects your decision to comply	86.2%	10.23%	3.57%			100%
Giving reward for compliant taxpayers has an impact on your as well as other taxpayers attitudes towards the tax system	65.1%	11.12%	21.7%			100%
Serious enforcement and penalty by the tax authority increases taxpayers' compliance	67%	17%	15.8%			100%
effective tax audit system improves tax compliance	92.18%	10.4%	2.8%			100%

Responses from tax officials

102 tax officers were given questionnaires about the VAT administration and its challenges in the study area. The specific job of the tax officers were also studied and it includes tax auditors, finance officer, tax refund supervisors, record team leader, complaints officer, accounts officer, process owner of tax collection and enforcement process, process owner of customer service center process.

Awareness of the tax payers towards VAT as reported by the tax officers

The awareness of the tax payers towards VAT was one point of interest and results show that out of the 102 tax officers, only 6 reported that the awareness of the tax payers is high and 16 reported that the awareness is average. In addition, 41 tax officers reported that the awareness is low and 40 explained that the awareness of the tax payers towards VAT is very low. Some of the reasons for the low awareness as explained by the officers are; tax payers do not appear to the training sessions arranged by the office; Tax payers are not ready to read and then update themselves about new rules, regulations and proclamations about VAT and other forms of tax; tax payers

have low educational level and cannot cope up with the situations.

Awareness of the tax payers towards VAT as reported by the tax officers

s.n		Very High	High	Average	Low	Very low
1	Frequency		5	16	41	40
2	Percentage		4.90	15.70	40.20	39.20

Source; Survey (2019)

Tax evasion made by vat tax payers

In most case, failure to give VAT receipts up on payment, giving used VAT receipts are the major ways of tax evading mechanisms used by the VAT registered tax payers. Some business enterprises also use power failure and unavailability of VAT receipts as reasons and as a means to evade the VAT revenue that would have been an income to the government and the country. In relation to this, many of the respondents suggest that the concerned government bodies should design a strong controlling mechanism and penalize those involved in such an activity. Moreover, the sample respondents were asked to forward the core ways of evasion, accordingly, 11(10.78%) respondents revealed that the business firms did not bring them receipts upon payments, 22(21.57%) of the respondents stated that the business firms brought them other customers' receipt, 54(52.94%) of the respondents have noted that the business come up with power interruption 15(14.71%) of the respondents have noted that they run out of receipts as reasons.

Type of Tax evasion made by vat tax payers in South Gondar Zone

Have you faced Tax evasion made by vat payers ?	Frequency	Percent
Yes	84	82.35
No	18	17.65
Total	102	100.0
If Yes, specify the ways of evasion		
Failure to bring VAT receipts upon payments	11	10.78
Bringing other customer's receipt	22	21.57
Give power failure as a reason	54	52.94
They tell us they are out of receipts	15	14.71
Total	102	100

Source: Own survey (2019)

Major Challenges of VAT administration in South Gondar Zone as responded by tax officials

Officers' agreement on the issue of major challenges of value added tax administrations in the study area were assessed. As far as Poor tax collection enforcement capacity of the authority is concerned, the survey result obtained from tax officials' shows that 53.92% of officers strongly agree the challenges of VAT collection in study area were poor tax collection enforcement capacity of the authority and 46.08% of respondents of the tax official responded as agreed with this statement. Generally, the tax officials 100% agree the challenges of VAT collection in the revenue office were poor tax collection enforcement capacity of the authority. According to (Proclamation No.285/2002, Art.30-31) the authority has the power to extend even up to seizure of the properties of the person liable to pay tax and failed to comply with his obligation to pay tax.

Here before exercising seizure, the authority has to notify in writing to who has failed to pay the unpaid tax within thirty days including administrative penalties. In default of such, the authority can seize the properties and sell them through public option. However, the authority has poor tax collection enforcement according to the respondents.

In regards to level of taxpayers' voluntary compliance, as observed from survey result obtained from tax officials', 52(57.52%) of officers strongly agree the challenges of VAT collection were low level of taxpayer's voluntary compliance, 36 (36.72%) of respondents of the tax officials agree with this statement and 14(14.28%) of respondents of the tax official disagree by this statement. Accordingly, 94.24% tax official respondents agree one of the causes of low VAT collection in the revenue office was low level of taxpayer voluntary compliance behavior. According to Singh (2003) tax compliance is a person's act of filling their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having for follow-up actions from the authority. However, the levels of taxpayer's voluntary compliance in the city according to tax official respondents were low. So, this is one factor for low VAT collection performance in the revenue office.

According to Nightingale (2003) tax evasion involves the intentional disregard of the legislation in order to escape the liability to tax. Tax evasion may be achieved by understating income, overstating expenses, making false claims for allowances or failing to disclose a chargeability tax. Like all taxes, VAT is subject to evasion. For example, inflated refund claims, under reported sales, traders may fail to register for the tax, they may under-report sales. Or tax evasion is a mechanism of refraining from paying tax by any means of understating income

and overstating expenses so as to minimize the potential tax liability. It can be manifested in the form of failure to report incomes, profits or gains otherwise legally chargeable to tax and reporting only part of the income and maintain fake books and records with intent to reduce taxes.

Accordingly, as observed from table survey result obtained from tax officials' regarding to high tax evasion by taxpayers, 68(66.67%) of respondents of tax officers strongly agree the challenges of VAT collection were high tax evasion by taxpayers, 18 (17.64%) of respondents of tax officers agreed that the existing challenges of VAT collection were high tax evasion by taxpayers and 16 (15.69%) of respondents of the tax official disagree with this statement.

Accordingly, 84.31% tax official respondents agreed that one of the causes of low VAT collection in the revenue office was due to the effect of high tax evasion by

Taxpayers According to Mohd, (2010) awareness and knowledge as one the factor of compliance is related to the taxpayers' ability to understand taxation laws and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and it is important to improve public awareness, especially in areas concerning taxation laws, the role of tax in national development and especially to explain how and where the money collected is spent by the government.

Concerning the lack of taxpayers' awareness about VAT laws and regulations the survey result shows that, 37(36.27) and 35(34.32) of respondents of tax officers strongly agree; agree and the challenges of VAT collection were Lack of taxpayers' awareness for VAT laws and regulations respectively. While, 30(29.32) disagree of respondents of the tax officials disagreed with this statement. Accordingly, 70.59% tax official respondents agree one of the causes of low VAT collection in the revenue office was lack of taxpayers' awareness about VAT laws and regulations.

According Wolella (2008) VAT audit is, in turn, likely to impact on the VAT revenue that could be generated through effective audit programs and on the use of effective audits as tools of deterring noncompliance. Therefore, as it can be seen from survey result obtained from tax officials' regarding to ineffective

VAT audit practice in the tax authority, 38.56%, 46.63% and 5% of respondents of tax officers strongly agree; agree and neutral to the challenges of VAT collection were ineffective VAT audit practice in the tax authority. While, 9.81% of respondents of the tax officials disagree with this statement. Accordingly, 85.19% tax official respondents agree one of the causes of low VAT collection in the revenue office was ineffective VAT audit practice in the tax authority. As information obtained from deputy manager, the tax auditors only audited the amount of VAT reported monthly that are equal to the annual income of taxpayers but not audited the input and output VAT invoice. Due to this the collection performance of VAT was low in the revenue office. This indicates that in south Gondar zone revenue office tax audit wing weakness is a serious problem which needs to be strengthened the VAT audit component of the office so as to optimize VAT revenue generation of the zone.

According World Bank (2009) most taxpayers around the world have a negative implication of the process of paying taxes. Then tax education is critical and should start early, even in schools, to inculcate a taxpaying culture and share ideas of nation building with taxpayers. Therefore, as indicated from table 4.6 survey data obtained from tax officials' regarding to Poor Performance of tax education program in the authority, 39(38.56%), 48(46.63%) and 5(5.1%)of respondents of tax officers strongly agreed, agreed and neutral respectively as to the challenges of VAT collection were Poor Performance of tax education program in the authority. Accordingly, most of tax official respondents agree one of the causes of low VAT collection in the revenue office was Poor Performance of tax education program in the authority. This indicates that, it is one of the reasons for low VAT collection performance in the zone.

As presented from survey result obtained from tax officials regarding to Poor performance of penalty for non-compliance taxpayers, 50(48.56%) and 24(23.53%) of respondents of tax officers strongly agreed and agreed with the challenges of VAT collection were Poor performance of penalty for non-compliance taxpayers. While, 20(19.63%) of respondents of the tax officials disagree with this statement. Accordingly, 72.54 % tax official respondents agree one of the causes of low VAT collection in the revenue office was Poor performance of penalty for non-compliance taxpayers. Besides this as information obtained from open ended question, most tax official believes effective tax collection enforcement, effective VAT audit practice, continuous tax education program and proper penalty for non compliance taxpayers are the main solution to minimize poor VAT collection performance in the authority as it canbe observed from the following table.

Major Challenges of VAT administration in South Gondar Zone as responded by tax officials

s.no.	Items	Level of agreement					Total
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	Poor tax collection enforcement capacity of the authority				55(54.11%)	47(46.08%)	102(100%)
2	Low level of voluntary compliance		14(14.28%)		36 (36.72%)	52(57.52%)	102(100%)
3	There is high tax evasion		16 (15.69%)		18 (17.64%)	52(57.52%)	102(100%)
4	Taxpayer's lack of awareness about VAT		30(29.32)		35 (34.32)	37(36.27)	102(100%)
5	Ineffective VAT audit practice in tax authority		10(9.81%)	5(5.1%)	48(46.63%)	39(38.56%)	102(100%)
6	poor performance of tax education in tax authority		10(9.81%)	5(5.1%)	48(46.63%)	39(38.56%)	102(100%)
7	poor performance of penalty for non compliance in the authority		20(19.63%)	8(7.82%)	24(23.53%)	50(48.56%)	102(100%)

Source: survey result (2019)

Conclusion

Mainly primary source of data were used in this study. Two main target groups were identified; taxpayers and tax officers. In the process, 15 enumerators were used and the enumerators were given detailed training about what each question intends to mean and on how to present it in-front of the informant. Questionnaires were also distributed to the randomly selected tax officers.

In the study, 384 tax payers who are registered for VAT were interviewed. Out of these, 304 (79.20 percent) were males and 80 (20.8 percent) were females. The type of ownership of the organizations studied, 345 (89.85 percent) were sole proprietorship and the remaining 39 (10.15percent) were having legal entity.

The average age of the respondents was also calculated and results show that female respondents are younger (by at least 5 years) than the male respondents. The mean, median and modal ages of the tax payer respondents are 29 years, 31 years and 24 years respectively. The maximum age of the tax payer respondents is 72 years. The mean age of the tax payer respondents is 43.56. In addition, the median age of the males and the females is 33 years. The modal age of the males and females is 35 years.

It was found that from the total tax payer respondents about 23.3% were illiterate, 10.5% were able to read and write, 21.1% belonged to grade 1-4, 37.6% were between grade 5 and 8 and the rest 7.5% were between grades 9-12. This implies the vast majority of the respondents had no problem of reading and writing.

The sampling of the VAT tax payers was thus aimed at identifying the major challenges that affect the process of effective payment, its fairness and all inclusiveness through the eyes of VAT payers. Most of the VAT tax payers in the study area concentrated in the areas of service sector and Merchandise business types.

As per the responses of the respondents, it reveals that there was no information approach which served the creation of awareness of the VAT system to the VAT payers. Out of the total respondents 352(91.8%) confirmed that they have had attended government training program regarding the implementation and guidelines of the VAT system by concerned government authorities, while it was responded that 14(4.1%) of them were able to learn about VAT from media channels. On the other hand, 18(4.68%) of them responded that they have had no formal channel either from media or training and just learned from their direct experience of VAT payment which they were requested to be involved in by government VAT implementing authorities. The data shows that the government authorities were first able to create the awareness on VAT system to potential VAT Payers before the implementation of the VAT system into practice.

The response to the question as to who benefits from VAT tax collection shows not all VAT tax payers have the same understanding. 294(76.82%) of the VAT payers responded that they think the government is the

primary beneficiary while only 45(11.62%) responded that the society is the primary beneficiary. 44(11.56.3%) of the respondents on the other hand responded that both the society and the government are both beneficiaries of the VAT system, while none of the respondents have forwarded that businesses/investors are the sole beneficiary of the system.

The result shows that while the intent that the benefit of the system goes to the society, most of the respondents felt that the government is the sole beneficiary of the system. Hence, there is a need for more creation of awareness on VAT payers as to the fact that VAT is important source of revenue of the government and yet the ultimate beneficiary is the society.

The result for the request on the approval of businesses on their registration of VAT payment system is very suggestive on the fact that although the government authorities have disseminated information on the importance of VAT to VAT Paying businesses, the required correct perception on the system and the willful registration of the businesses has not yet come to the desired level. This is indicated that only 59 (15.36%) of the respondents positively answered that they had positive approval for the registration of VAT while the significant respondents went on explaining they were not registered with their willpower interest to the VAT system. The implication could be that, the habit and willingness to pay the required income tax based on value added income has not yet taken root into the perception of VAT paying businesses. This is also an indication that there is a need to exert more effort into alleviation of this perception problem by the concerned government authorities.

The result shows that 105 (31.82%) of the respondents revealed that they don't have the ability to afford to purchase the VAT registration machine while 14(12.12%) of them explained that the machine is not available for them in their nearby market system and majority of the respondents 40(56.06%), are on a waiting list to purchase the machine. This suggests that government concerned authorities need to facilitate the ownership of the VAT registration machine either by providing loan or facilitating the availability of those machines to the VAT payers and increase the supply of the machine as well. Moreover, there may be a need for clear standards as to which VAT payer businesses should be already able to possess the machine and start their payment in modern system based on their VAT income level.

The result on this issue of actions taken when tax payers are out of receipts showed that 75(19.53%) of the VAT payers that faced the problem prefer not to charge VAT at such incident and offer VAT free service to customers, 98(25.52%) of them register it in separate record and charge VAT payment on their services while the rest 211(54.95%) of the respondents stated they explain the case to their customers and charge prices without VAT. This would mean that whether they inform to their customers or not, at such situations, most of them are abstaining from implementing the VAT system and government is not getting the legally required VAT tax as it should be. This suggests that there is a need to ensure the supply of cash receipt notes from the revenue authorities must be maintained uninterrupted and strict punishments shall be enforced on those who don't provide customers on time the VAT receipt notes.

Totally 102 tax officers were also given questionnaires about the VAT administration and its challenges in the study area. The specific job of the tax officers were also studied and it includes tax auditors, finance officer, tax refund supervisors, record team leader, complaints officer, accounts officer, process owner of tax collection and enforcement process, process owner of customer service center process. Out of the 102 tax officers, 16 had diploma, 233 had first degree and 3 had second degree. It can be said that almost all of the tax officers have the needed educational background.

The awareness of the tax payers towards VAT was one point of interest and results show that out of the tax officers, only few reported that the awareness of the tax payers is high and most reported that the awareness is average. Some of the reasons for the low awareness as explained by the officers are :The tax payers do not appear to the training sessions arranged by the office, tax payers are not ready to read and then update themselves about new rules, regulations and proclamations about VAT and other forms of tax and tax payers have low educational level and cannot cope up with the situations.

In most case, failure give VAT receipts up on payment, giving used VAT receipts are the major ways of tax evading mechanisms used by the VAT registered tax payers. Some business enterprises also use power failure and unavailability of VAT receipts as reasons and as a means to evade the VAT revenue that would have been an income to the government and the country. In relation to this, many of the respondents suggest that the concerned government bodies should design a strong controlling mechanism and penalize those involved in such an activity.

The major challenges of vat administration in the study area were resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, sell goods and service without tax invoice Value Added Tax collectors, Tax laws enforcement problems, are the challenges which affect the collecting sufficient revenue in terms of Tax collected from Value Added Tax of South Gondar Zone. Based on the results of the findings, the main challenges of Value Added Tax administration practice in South Gondar Zone are: lack of tax payers awareness, selling goods and services without tax invoice or lack of use proper Value Added Tax invoices, weak culture of taxpayers, and lack of fairness, lack of experience of

Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Tax payers. The major mechanism which the office will do is supervising and monitoring is those whether unregistered and registered of Value Added Tax taxpayers to be door to door inspection. This Method is one of the most authority office mechanisms of monitoring and supervising locking the Value Added Tax registered and try to search unregistered to registering for Value Added Tax.

Recommendations

Based on the findings given above, the following recommendations are made. Different types of challenges are observed during the administration of the VAT. One of the main challenges as explained by the taxpayers and tax officers is awareness problem. It seems that the tax payers have some awareness problems towards VAT. Results show that most of the problems emanate from lack of awareness and information. This is the main challenge that the VAT administration has faced in the process. Hence, coordinated efforts must be exerted (at all levels) to enhance the awareness of the tax payers and other members of the community.

Nearly two-third of the taxpayers and all of the tax officers has reported that the tax office has so many problems that demand change and improvement. It is the belief of the researchers that if the recommendations included in the designing stage of the business process reengineering are properly implemented, radical changes would be observed. Therefore, the branch office has to study and assess possible reasons that hinder the full implementation of the business process reengineering and then take appropriate measures.

There is a need to enhance the capacity of the employees of the tax office. Of course, the study shows that both short term and long term trainings are given. But still, there is a need for changing the attitude towards customer handling and other service giving methodologies. Each employee has to be convinced that developing his/her own capacity is a continuous process and each of them has to take responsibility of doing so using different mechanisms.

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