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VAT administration practice and revenue performance with respect to the challenge and opportunity in the case of Addis Ababa No. 2 Medium taxpayers Branch office

Eyasu Hagos^{1*}

¹ Queens' College, Addis Ababa, Ethiopia

Article Info	Abstract
<hr/> <p>Article History Received: 5 July 2021 Published: August 2021</p>	<hr/> <p><i>The general objective of this research was conducted to answer the research questions of VAT administration practice and revenue performance with respect to the challenge and opportunity in the case of Addis Ababa No. 2 Medium taxpayers Branch office. It is a descriptive type of research; both qualitative and quantitative data analysis techniques were used. Primary data were obtained with the help of questionnaire from concerned tax officials. Questionnaires were distributed for fifty-five employees of the branch to analyze the data and statistical package for social science (SPSS) software version 20 was used. Further, secondary data was collected to measure the VAT revenue performance of the authority, tables and percentages were used for data analysis. Thus the major problem of the authority in the administration of VAT were: - consumers are not willing to transact with a proper VAT receipt, low rate of voluntary compliance, tax authority Poor tax enforcement capacity, shortage of well-trained employees, especially in relation to operating the computer program which creates difficulty in filing and registering, unfair competition between VAT registered and unregistered tax payers, lack of skill and experience to detect any tax fraud and evasion, administration system of penalty is weak and lack consistency. Because of the above-mentioned reasons and others bring a lot of impacts on the VAT administration performance and VAT payers, some of these are lack of confident in implementing their business as a result of unclear and inconsistent system among Tax payer which open a chance for subjective way of treating tax payers and effects the competition in the market. There for this research suggests that the office should improve the information technology (IT), system to implement like filling, payment system, recording system, registration and others related issues in order to overcome the complexity of tax administration and challenges. Finally, the concerned body may take these findings worthwhile for corrective action as the researcher put some helpful recommendations.</i></p>
<hr/> <p>Keywords: <i>VAT, Performance, revenue</i></p>	

Introduction

The word VAT can be originated from the writings of a German economist F Von Siemens who proposed the VAT in 1918 as substitute for the newly established German Turnover tax. The development of these proposal in to the introduction of 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 1954 Of the tax *Sur la Valeur Ajoutée*. VAT has become the most common type of consumption tax for a variety reasons and CÔtD'ivire was the first African country to introduce VAT in 1960 (Smith,et.,2011). Now a day's Value Added Tax (VAT) is an indirect tax in which it is the most popular tax in the world, inspired by every Government for revenue potential. VAT is charged by a government on consumer's expenditure, which is directly collected from businesses on their business transactions and from importers on their imports.

VATs do not distort consumption-savings and/or investment decisions. Because sellers can claim a credit for VAT paid on their inputs, there is no cascading of taxes as can occur with other consumption taxes. It is also neutral between the domestic production and imported goods when compared to an import tariff. It has been widely recognized that a well- Value Added

Tax Refund Practices and Revenue Performance in many countries.

In Ethiopia, VAT was introduced since January 1, 2003 by VAT proclamation No285/2002 at the rate of 15% (fifteen percent) 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.

The achievement of this rapid and sustainable development objective mainly requires domestic revenue mobilization. Otherwise will be a dream to realize the Government's vision depending on external finance sources, which is subject to uncertainty. Indeed, this does not mean external sources are not important; rather it is to stress the fact that domestic resource should take the largest share in financing development endeavors in developing economies. According to the VAT proclamation 285/2002 cited, supply of goods and rendering of services are subject to standard 15% tax rate except those exempted and zero – rated by the tax law. The standard rate is the same as the repealed sales tax, which applied only to imports and domestically man-

ufactured goods. Unlike the sales tax, the VAT provides further encourage investment by the zero rating of exports and the international transport of goods and passengers. VAT exemption has been extended to the basic necessities such as Education, Medical services, Electricity and Water, Kerosene, Basic foods, Transportation Services, the sales of a used residence or the lease of private house, the supply of goods and rendering of services in the form of humanitarian aid, as well as import of goods transferred to state agencies of Ethiopia and public organizations for the purpose of rehabilitation after natural disasters, industrial accidents and catastrophes and also the rendering by religious organizations of religious or church related services.

STATEMENT OF THE PROBLEM

Most developing countries like Ethiopia are currently dependent more on external financial resources in order to provide public utilities or to fulfill social security like defense spending, common expenditure programs, include health and welfare programs, interest and repayment of principal on government debt (Eric, 2008). Ethiopian Government has a strong belief and commitment to eradicate poverty and achieve the lower-middle-income country by 2020 E.C. It is impossible to achieve such a goal without generating sufficient revenue from domestic and external sources that can cover at

least the budget of the government. From the main domestic revenue sources are indirect taxes such as VAT, excise taxes and foreign trade taxes.

Hence Value Added Tax (VAT) is one of indirect taxes which imposed on consumption of goods and services; it is collected at all stages in the production and distribution process, and countries which have adopted the VAT system enjoy much more stable tax revenue than other countries. VAT is, therefore, less vulnerable to evasion than a retail sales tax, for which collection occurs during the final stage of production. However, Aizenman and Jinjark (2008) emphasize that VAT efficiency remains largely dependent on the quality of administration performance, enforcement and the efficiency of monitoring, both increasing with political stability and the ease and fluidity of political participation.

Moreover, increased expenditure on the administration of VAT and more experience with VAT has been found to be significantly associated with increased compliance (Agha and Haughton, 1996). On the other hand, that VAT has actually reduced efficiency, for it clearly has potential weaknesses.

Addis Ababa City Government Revenue Authority (AACGRA) have an authority to administer the VAT .It uses (LTO) large tax payers, medium tax payers and small scale branch offices

as the main collection center of VAT and other types of taxes and activity on VAT administration in Addis Ababa City Government Revenue Authority. Among the most medium tax payers branch office one of No.2 medium tax payers branch office has problems characterized in related with VAT administration performance, lack of employer service quality, weak audit and enforcement of the tax obligation and these problems were needed to be studied and solved to establish effective VAT administration. Therefore the researcher believes that, as these challenges and related opportunities may affect an administration of VAT and revenue performance. Thus, this study is designed to assess VAT administration performance, challenges and opportunities in the case of Addis Ababa No.2 medium tax payer's branch office.

GENERAL OBJECTIVE OF THE STUDY

The general objective of the research is to assess VAT administration performance, challenges and opportunity in the case of Addis Ababa No.2 medium tax payer's branch office at Addis Ababa City Revenue and Customs Authority.

RESEARCH QUESTION

1. What is the compliance level of VAT payer's in Addis Ababa city government revenue authority Ad-

dis Ababa No.2 medium tax payer's branch office?

2. What are the main challenges of VAT collection performance in Addis Ababa city government revenue authority Addis Ababa No.2 medium tax payer's branch office?
3. What are the opportunity, performance and weakens of vat administration of the office Administration?

THEORETICAL LITERATURE

VAT is a tax levied on the increase in value of commodity that has been created by the taxpayer's stage of the production or distribution cycle. It is a sales tax based on the increase in value or price of the product at each stage in its manufacture and distribution. Cost of the tax is added to the final price and is eventually paid by the consumer (Harrison and Krelove 2005). As the name suggests, it is meant to tax value addition that is created in each stage of manufacturing or distribution hence there should not be any cascading and the tax burden should ultimately fall on final consumption of goods and services. If the tax falls on intermediate transactions, it distorts allocation of factor inputs by firms and consequently reduces production efficiency hence competitiveness of a country (Myles and Hindrick, 2004).

VAT is-also called the goods and ser-

vices tax (GST), which levied on the value, added that results from each exchange (Herouy, 2004). It is an indirect tax collected from someone other than the person who actually bears the cost of the tax or the tax burden. Umeora (2013) noted VAT is also a tax on estimated market value added to a product or service at each stage of its manufacture or distribution and the additions are ultimately added to the final consumer, i.e. End users of products and services bear the tax burden or the incidence because they cannot recover the tax paid on consumption of goods and services. The multipart tax system relatively successful, it should be approached strategically and realistically in order to maximize taxpayer participation, create an efficient refund and audit administration, and encourage private sector growth.

Tax in Ethiopia

The major tax reforms in Ethiopia occurred in the 1940s, in the aftermath of the Ethiopian revolution of 1974, after the fall of the Derg in 1991 and most recently in the 2002 tax reforms. This is not a significant omission, as the Federal Government has had an overwhelming influence over the regional tax system, to the extent the latter is said to exist. (330 Michigan State International Law Review Vol. 20:2 laws, including tax dispute settlement schemes in Ethiopia. The article will end with a conclusion and some rec-

ommendations. Through the legal and institutional arrangements that have made the Ethiopian tax system into what it is (in spite of the gaps and loose ends), the article aims to draw attention to the patterns that underlie the Ethiopian tax system. The Federal Arrangement in Ethiopia and Taxing Powers the fundamental authority to tax is derived from the Constitution of 1995, which, following the federal structure, shares tax powers between the Federal Government and the Regional States.

The Ethiopian Constitution goes to greater lengths than other areas of power in allocating taxation powers between the Federal Government and the Regional States. The Constitution classifies taxation powers as taxes exclusive to the Federal Government taxes exclusive to the Regional States, taxes concurrent to both the Federal Government and the Regional States.

VAT Practice in Ethiopia

The Value Added Tax (VAT) proclamation No 285/2002 which has replaced the sales tax which have come into force as of January 1st, 2003 is a consumption tax which is levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered person, every import of goods, other than an exempt import and an import service rendered in Ethiopia for a person registered in Ethiopia 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. Abehodie (2008).

VAT Performance

The presence of VAT has been associated with a higher ratio of general government revenue compared with alternatives in indirect taxation; the VAT has more revenue potential: it is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement (Le. 2003). The overall objective of VAT is to maximize revenue by maximizing the levels of voluntary compliance and deterring evasion. It has now been implemented by more than 130 countries and it raises approximately 20 percent of the world's tax revenue.

Conceptual frame work

This part demonstrates the conceptual frame work of the study on assessment of VAT administration and revenue

performance. VAT administration process can be affected by several factors such as, illegal practice both side of tax official and tax payers ,lack of well qualified tax officers ,absence of vat awareness of registers ,lack of well-established rule and regulation . Therefore, effective VAT administration and revenue performance can determine by the VAT administration effectiveness. That means effective administration of VAT practice result in increased revenue. To summarize the frame work of the study in to dependent and independent variable the study illustrate by figure as follows.

Factors Affecting VAT Performance

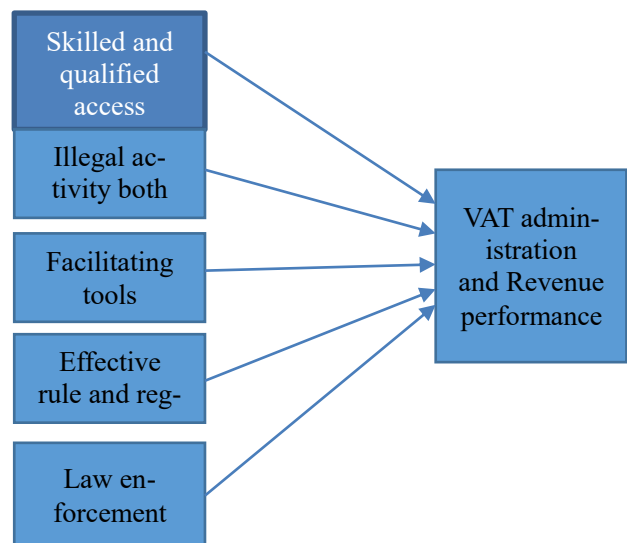


Figure 1: Conceptual framework

MATERIALS AND METHODS

Research design

Research design is the conceptual structure that shows how all the major parts of the research project come together. According to Kothari (1985) it

constitutes the blueprint for the collection, measurement and analysis of data. In order to achieve the stated research objective considering to assess the administration performance and challenges of tax in No.2 medium tax payer's, branch office a descriptive type of research design was used for the study, the reason behind using descriptive study design is because the researcher is interested in describing/assessing the challenges of tax administration and performance in No.2 medium tax payer's branch office.

Method of Data Analysis

In the qualitative part of the study, af-

ter the data is collect and processes manually, descriptive technique is adopted for analysis of the data. The statistical analysis conduct based on Percentages, Tables. In case of descriptive statistics, a quantitative method of data analysis is adopted. The data collecting from survey questionnaires are carefully code and checking for consistency and entering into the Statistical Package for Social Scientists(s) statistical package. The analysis is performing with a method SPSS The raw data analyzed, presented, and interpreted to give solutions for the research problem.

Table4. 1 Instrument reliability and Normality test results of the study

Items	Cronbach's Alpha	Normality Test (P-value)		No of Items
Skilled and qualified accesses of tax officers	0.7967	$X^2=77.863$	0.000	5
Illegal activity both by officers and tax payers	0.7996	$X^2=224.321$	0.000	6
Enforcement ability to law	0.7067	$X^2=801.482$	0.000	7
Facilitate tools	0.7807	$X^2=808.042$	0.000	6
Effective rule and regulation	0.8008	$X^2=427.384$	0.000	10
Items	Cronbach's Alpha	Normality Test (P-value)		No of Items

DATA PRESENTATION, ANALYSIS AND DISCUSSION

The objective of this study is to identify the challenges of tax administration performance and revenue opportunity in respect of No.2 medium taxpayer's branch office. In line with this statement for this study, the response rate was 83.33 percent or 16.67. % was

invalid; as a result it was rationally fine.

The normality test results were significant which indicates that the data distribution were normal and the instrument reliability test results of the variable used in this study were above the cut-off point of Cronbach's alpha as presented on the above table.

Discussion

The study discussed the following major results regarding to the VAT administration and revenue performance, challenges and opportunities in the case of No.2 medium tax payer's branch office. The result of survey shows about the problem that hinder smooth administration of VAT almost the majority of the respondents answer is poor tax enforcement capacity of the authority is the main problem or hinder of VAT administration and consumers are not willing to buy goods and services with legal VAT invoice and uses non issuance of invoices. All of these stated problems were related to the lack of implementation of VAT law, effective rule and regulation, inadequate work experience and incapable of enforcement. This study showed that the same problems indicated by other researcher who are stated on empirical review.

In the case of capable and required work force empowered to implement the law medium tax payers office respondents employee disagree that means they do not give a serious attention and follow-up to their tax payers awareness about VAT laws and registration process this shows that the office or unable to arrange of consultative meeting and training both to his employs and tax payers about the content of the law and implementation to improve taxpayers awareness is not

enough satisfactory because of cheerlessness and lack of attentions are some of the root causes. In addition to the respondent organization way of filing files and a timely tax return and way of tax payment all of the respondent answer was the same and it is by appear at tax authority in person. Hence the branch office must improve its way of collecting vat payments in electronic media (e-tax) system. On the other hand using of illegal machine and fake receipt result shows 63.6% of the respondent agrees about using fake invoice. Similarly according to Sara Gebeyehu (2016) Survey result was 68.75% almost similar to current days result this types of problem not showing big differences when we comparing to Sara Gebeyehu (2016) result. There for the branch office should takes strong action to change this result in to minimum stage.

In any organization or branch office if there is a successful implementation of VAT administration there is also a proper motivation and compliance of consumer to transact good and services legally. So the tax payer's willingness of using legal VAT receipt answer shows more than sixty percent of tax payers not have willing to transact with a proper VAT receipt. In addition to that the customer always needs to get services and goods cheaply or without including of VAT amount.

Under the case of As VAT rate is high

and has made goods and services expensive. The survey indicated tax officials or respondents respectively agreed and strongly agreed that the level of VAT rate is high and have made goods and services expensive and resulted in noncompliance of taxpayers which indicates which lead the tax payers to tax evasion and hiding the tax. On the other case of a capacity building the tax official answers was disagree that the tax authority not implement different capacity building mechanisms or programs to different level of the authority not continues and enough.

The branch office respondents response about fairness of the VAT exemption scheme provision in the VAT proclamation and regulation was disagree on the VAT exemption scheme that listed on the proclamation provided and regulation were inadequate. On the issue of existing VAT administration is not sufficient enough for tax payers to hide public money the survey result shows more than seventy percent respondents agree on it, that means the weakness of VAT administration law encourage the tax payers to hide from view the public money and to use for themselves. The survey on the general shortage of resource and infrastructural facilities the respondent answer was agree. The absence of infrastructural facilities and resource enhance tax law enforcement. More than eighty percent

of respondent response disagrees about the assigning of right person or skill man power to the right job position.

The response of the survey shows strongly disagree and disagree for not taking of strong penalty and decision on illegal invoice and other related fraud. This result shows the No.2 medium tax payers branch office do not take strong action and decision for illegal action on VAT invoice and other fraud activities. The response statement showed that the fair and efficient in imposing penalty and appeal system indicated that more than sixty five percent disagree for the statement of fair and transparency in imposing the VAT penalty on tax payers by the authority.

Conclusions and Recommendation

Conclusions

Many scholars describe that majority of Government revenues generated from direct and indirect source of revenue. From indirect taxes the major one is Value Added Tax (VAT). This tax (VAT) is widely used tax instrument in the world and it is praised for many practical advantages and easy to administrator. Now days In Ethiopia VAT showing a good progress and the potential to be collected in the economy are high, but government not able to collect potential tax due to different challenges in the tax administration.

The finding of the study conducted to

find out the effectiveness of VAT administration performance, administration problems, challenges and revenue opportunities in the case of AA No.2 medium tax payer's branch office. The result of the finding shows significant impact about the tax payers compliances to VAT rule and regulation (registration, payment, filling issuing VAT receipt, recording), Auditors, inspectors and prosecutors have not the required skill and experience to detect and handle tax offences by tax payers and also the result indicates about the issuing of VAT invoicing filling and payment system of the tax authority it must be improve are the main finding of this research.

There for the branch office must offered limited awareness creation and educational programs about the role of VAT on GDP, unwillingness of the tax payers' refusal of the eligible taxpayer to use cash registered machine properly and the tax office is inadequately assisting and following the application of this machine. Poor awareness of customer's towards taking sales voucher and receipt for the goods or service acquired. It implies that the branch office and its assigned staffs have a commitment problem towards fighting against such low performance and bringing noncompliant tax payers for penalty and corrective measures. According to survey in the No.2 medium tax branch office the payment sys-

tem must be changed in to electronic system, the tax official and tax payers' knowledge on the VAT law and other regulation should be improved by regular training and work shop to detect and handle tax offences. Finally, there is weak monitoring, evaluation, employee's performance appraisal and poor intelligence, and audit work performance

Recommendations

VAT had been seen as a decisive tool for securing macro-economic stability, promoting and encouraging investment and growth by placing domestic revenue mobilization very sound, and every branch office and government has its own target plan to collect sufficient revenue at the end of planed year.

There for based on the analyses and subsequent findings from the study, the following recommendation forward to the AACGRA AA NO.2 medium tax payers branch office would be consider in its attempt for improve VAT administration performance and to create target revenue performance.

- It is suggested that the office or authority imposed strong penalty to prevent illegal trade activities and must force to register those who are trading without legal trade license
- It is recommended that the branch office improve payment system by electronic (e-Payment System) like

registering, filling, recording and other related activities

- The issuing of VAT invoicing, filling and payment system of the (ERCA) or branch office should have improved to prevent tax fraudulent.
- The office should modernize and simplify tax administration system, hired qualified, skill and sufficient employee, install quick grievance redressed and enhance law enforcement efforts, deploying this helps the government to collect additional taxes and help to control the tax collectors.

Conflict of Interests

The authors declare that there's no conflict of interest concerning to the publication of this article

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