



**COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

***ASSESSMENT OF CHALLENGE ON BUSINESS INCOME TAX
COLLECTION ON CATEGORY “B” TAXPAYERS (A CASE STUDY AT
WOLKITE TOWN REVENUE AUTHORITY OFFICE)***

**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE IN A PARTIAL FULFILMENT FOR THE
REQUIREMENT OF BACHELOR ART (BA) DEGREE IN ACCOUNTING
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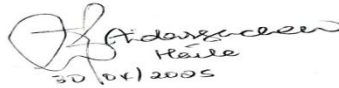
DECLARATION

We they under signed, declare that this senior essay paper was our own original work. It has not been presented in any other university or other privet college. All source of materials used for the research paper have been dully acknowledged.

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Contents

Table of Contents

DECLARATION	I
APPROVAL SHEET	I
ACKNOWLEDGMENT	II
List of Table	V
ACRONYMS	VI
ABSTRACT	VII
CHAPTER ONE	1
1. INTRODUCTION	1
1.1. Background of the study	1
1.2. Statement of the problem	2
1.3. Basic research questions	3
1.4. Objective of the study	3
1.4.1. General objective	3
1.4.1. Specific objective	3
1.5. Significance of the study	4
1.6. Scope of the study	4
1.7. Organization of the study	4
CHAPTER TWO	5
2. Literature review	5
1.2. Theoretical literature review	5
2.2. Purpose of taxation	6
2.3. Objective of taxation	6
2.4. Characteristics of good tax system	7
2.5. Tax Bases for Business Income	7
2.6. Classes of Income Tax Payers	7
2.7. Efficiency of tax administration	8
2.8. Tax Assessment	8
2.9. Challenges of tax administration	9

2.10. Tax avoidance and evasion	9
2.10.1. Tax avoidance	9
2.10.2. Tax evasion	10
2.10.3. Cause of tax evasion	10
2.10.4. Remedies for tax evasion	11
2.11. Procedures for tax collection	11
2.11.1. Identification and registration of tax payers	11
2.12. Problems of tax assessment	12
2.13. Empirical literature review	13
CHAPTER THREE	15
RESEARCH METHODOLOGY	15
3. INTRODUCTION	15
3.1. DESCRIPTION OF THE STUDY AREA	15
3.2. Research design	16
3.4. Target population and sample size	17
3.5. Sampling technique	17
3.6. Source of data	17
3.7. Method of data collection	18
3.8. Method of data analysis and interpretation	18
CHAPTECR FOUR	19
4.1. DATA ANALYSIS AND PRESENTATION	19
CHAPTER FIVE	29
Summary, conclusion and recommendation	29
5.1. Summary	29
5.2. Conclusion	30
5.3. Recommendation	31
REFERENCE	33
APPENDEX	35
Structured interview for tax authorities	37

List of Table

Table 1 : general background of respondents.	19
Table 2:related to the willingness of tax payers to pay their liability	20
Table 3: related to reason for not willingness to pay their tax liability	21
Table 4: response on how tax payers are avoids tax revenue.	21
Table 5:related to technique of tax payers to evade tax revenue	23
Table 6:questionnaire related assesses major procedural complication to maintain all relevant record. ..	24
Table 7: reasons for paying business income tax	25
Table 8:questionnaire related to identify whether tax payers are based on their income or no	26
Table 9: interview analysis from the response of tax officers	26
Table 10:expected and actual amount of money collected from tax	28

ACRONYMS

ERCA =Ethiopia revenue custom authority

FDRE = Federal Democratic republic of Ethiopia

GAAP = generally accepted accounting principles

OECD=organization for economic cooperation and development

TIN = Tax identification number

VAT = Value added tax

ABSTRACT

This study is conducted on assessment of challenge on business income tax collection in category B tax payer that is found in Wolkite revenue office. So the main objective of this study is to assess the challenge in business income tax collection in respect to category "B" tax payers that are found in Wolkite. To conduct the study primary data were used and collected by using questionnaires and personal interview. Student researcher used stratified sampling techniques to select the respondents and student researcher used descriptive method of data analysis the data gather from respondents. Based on the result of the study, the implemented businesses income tax collection system is not successful as a result of the following problems. Inadequate support from tax administration, operation inefficiency due to absence of computerized technology, lack of awareness, insufficient study on tax problem in preparation of books of account and lack of well trained and skillful tax officers to implement the tax system successfully. Therefore to avoid these critical problems and achieve the desired goals it needs strong communication between tax payers and tax officers as well as strong commitment in the side of both tax payers and tax officers.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

A tax is a compulsory levy imposed on an individual's business or assets, with the purpose of transferring resources from the private sector to the public sector so as to provide value to society without contributing. Taxes are financial levies or other charges imposed by the government on individuals or legal entities to finance government expenditures. Taxes are the main source of government revenue (D.A.L. AULD, 2007).

In recent decades, different trends in business taxes have been observed around the world. Looking at trends in OECD countries, there has been a recent trend of a certain decline in revenue. This is due to a decrease in business tax rates. In fact, the increase in tax revenue is due to the expansion of the tax base despite the reduction in tax rates. (Tomonori S.2012) On the other hand, in the United States, business tax revenues decreased from 1965 to 1985 G.C

In the European Union, Germany and Italy are among the countries where lower trade taxes have lead to an increase in foreign direct investment. Moreover, this literature shows that Foreign direct investment can have a negative impact on corporate tax revenues due to competition. This is also shown in some OECD countries, as shown by various studies around the world. Assessing and collecting business taxes is not easy. According to Nikchehreh (2007), low tax revenues in many developing countries are due to the fact that tax laws are not properly and fully enforced, which is a major factor in corporate tax administration in most countries of the world. This is one of the major problems. By avoiding taxpayer identification (identity issues). British Imperialist (Oxford University Press, 2012),

A key priority in addressing Africa's development challenges is building effective tax collection institutions. The tax revenue collected by governments in African countries is smaller than that of other countries relative to their GDP. Africa's share was 16% in 2020, or part of Asia or Latin America. Otherwise, tax revenues are among the lowest in the world. On the other hand, tax

In Ethiopia, taxation was initiated by state and government emergencies, but there is little reliable documentary evidence as to when taxation was introduced. However, during the time of Zele Yacob, the first tax system was introduced in Ethiopia, with payments in kind and a system of voluntary agricultural taxation. During the Derg government, this tax was similar to the tax imposed during the Haile Silassie government and was a set of statutory references to income tax. However, expanding the tax base and increasing tax rates are excluded. However, Derg government has partially alleviated the tax collection problems that existed during the imperial era by delegating responsibilities. The transition period saw significant opportunities, including the allocation of taxes and expenditures. As part of the tax reform, business tax rates bracket and tax rates were introduced.

However, in our country, the government believes that paying taxes increases the wealth of public servants (Gebrye, 2006). Taxable business income is determined for each tax period based on the income statement, or the income statement must be prepared in accordance with generally accepted accounting standards (GAAS) (Tesfaye, 2009). At the end of each year or accounting period, business taxpayers submit income tax returns (tax returns) to the tax authorities. This return must contain all details and truthful information regarding the business taxpayer's income or profits. In order to determine the income tax liability of these taxpayer, Standard assessments are used. The standard assessments is a fixed tax amount determined by estimation or best judgment in accordance with Income Tax Regulation No. 78/2002.

1.2. Statement of the problem

Any government provide publicity or service like defense, health, education and administrative facilities finance from different source such as service given by government tax, loan(debt) and donations. From all source of finance tax is the major one it known that tax administration have many administrative and compliance cost. So the government has tax law that enables to collect its tax revenue that the government by collecting it can achieve its goals and other activities. (Gebrye work, 2006).

The efficiency of tax system is not determined only by appropriate legal regulation but depend on the efficiency and integrity of tax administration.

In many countries especially in developing country small amount of collect public revenue can explained by either incapability of the tax administration in realization of its duty or the same degree of corruption. Regardless of how carefully tax law has been made, they cannot eliminate conflict)

However, the tax collection and assessment practice has different problems that hinder the proper tax administration of the authority. These problems are taxpayer's poor awareness about tax, taxpayer's unethical practice, being resistance to register for VAT, and others. The problems are from both the weakness of the assessment and collection system and various challenges exerted by the tax payers as well. Investments opportunities created by the federal government encourage vast number of new individuals to be emerged in the business continuously. Yet the activity of tax authority in terms of increasing staff numbers, expansion, and training facility is not that much promising to handle the increasing number of the firms. As tried to describe earlier tax is a blood vessel of a country. So the problems around this tax collection need a close attention. Therefore, the study focused on finding put found out what exactly these problems are; what their root causes might be; and how the tax authority is reducing these problems.

1.3. Basic research questions

This study was conducted to answer the following questions.

1. What are the major challenges in the tax officer regarding business income tax collection from category "B" tax payers?
2. How do correlate with taxpayer education levels or access to guidance?
3. How tax payers are paid their tax obligation?

1.4. Objective of the study

1.4.1. General objective

The main objective of this study is to assess the challenges on business income tax collection in category "B" tax payers of Wolkite town revenue office.

1.4.1. Specific objective

Besides, the above general objective, I address the following specific objectives.

1. Identifying the major challenges in the tax officer regarding business income tax collection from category B tax payers.
2. Assessing whether the tax office have sufficient motivate and competent tax payers.
3. Identifying whether the tax payer educational level and access to guidance.
4. Identifying whether the tax payers are based on their income.

1.5. Significance of the study

This study expects to have any significance for both government and tax payers. For example this study provides opportunity to the office of the revenue authority to identify the major challenges to business income tax collection in category “B” tax payers that focus in the office. I hope this study would give information for the government related to problems of the tax leaving system and help to collective more revenues. Finally, this study also uses for further study that would be conducted on related area in the future.

1.6. Scope of the study

The study can encompasses in business income tax payers of all categories A, B and C tax payers of Wolkite revenue office. Because of financial and time concentrates this study focus on only category B tax payers. The reason for the selection of category B tax payers is that there is a large amount of tax revenue in Wolkite that is collects from category B tax payers. This study encompasses, only detailed assessment of challenge on business income tax collection in respect to category B tax payers found in Wolkite revenue office from 2014-2017 E.C

1.7. Organization of the study

This study has five consecutive chapters. In the first chapter, the introduction as the main title and other sub-titles includes background of the study, statement of the problem, and objective of the study, scope and limitation of the study. The second chapter contains review of related literature. The third chapter of the study research design and methodology. The fourth chapter contains data analysis and interpretation by using tables, frequency and percentage and Chapter five concerns with conclusion and recommendation. Finally, reference, appendix and interview were included at the end part of this study.

CHAPTER TWO

2. Literature review

1.2. Theoretical literature review

Tax administration refers to the identification of tax liability based on the existing tax law and the assessment of this liability and the collection of procedure and penalty imposed on recalcitrant tax payers. Therefore tax administration covers wide areas of studies; encompassing aspects such as regulation of tax payer assessment return processes (Kangave, 2005). The low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers. (World Bank, 1999). Since taxes are an involuntary payment for government services, taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. How a government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1999). Taxation is a system of raising money to finance government.

All government requires payments of money taxes from people. Governments use revenues to pay salary for the soldiers and policies, to build dams and roads, to operate schools and hospitals, to provide food to the poor and medical care to the elderly, and for many of other purposes. Without taxes to fund its activities, government could not exist (The Encyclopedia, 1997). In Ethiopia tax is taken as debt imposed by the government for long period of time

Government of a country levied tax without having aware of the society why tax is collected and what shall be done after collecting tax from the society. They also did not exhibit the activities resulting from the collected tax. Because of this inherited weakness of the prior rules of tax policies, paying tax is considered by the society as a debt imposed by the government without interest of them. However, now the agencies are awarding the society the contribution of tax for the development of the country. (Ageazin Teka, Saving and Taxation in Ethiopia)

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2.2. Purpose of taxation

According to Ethiopian commerce (2006), Taxation in Ethiopia has money purposes. Among the purposes, some of are listed below.

- Ensuring equity financed consistency in the administration tax law.
- Promotion of capital investment and trade
- Raising revenue as much as possible to financial the countries social and economic development programs and to alleviate penalty

2.3. Objective of taxation

Government imposed taxes for many purpose such as;

- ❖ maximizing the wealth of society
- ❖ It used as a means of regulations and control.
- ❖ Reduction of inequality of income and wealth in chief objective of taxation (mithani, 2006)

2.4. Characteristics of good tax system

A good tax system does not mean a perfect tax system which contains only the good tax based on canon of taxation techniques of adequate revenue and casing not hurt the tax payers.

Characteristics of good tax system:-

- ✓ Ensuring maximum social advantage.
- ✓ Cases minimum aggregated scarifies.
- ✓ It must be universally applicable.
- ✓ Satisfy most of the cannon of taxation

2.5. Tax Bases for Business Income

Hyman, 1996 pointed out that annual business income is measured by subtracting all business cost from business receipts over a period of one year. To calculate business income, we would first add up the receipt the business takes from sale of its products and service. Then we will add net capital a gain on all business assets held during the year to the business income. After gross income was calculated we will deduct the cost of operating the business during the year.

Those costs include:-

- ✓ Labor cost
- ✓ Interest payments
- ✓ Payment for materials and service purchased tisfy most of the canon of taxation.

2.6. Classes of Income Tax Payers

As Rebert.F.Meiges, cited out that the income tax law recognizes for major classes of tax payers; individuals, corporation estates and trusts. A business organized as sole proprietorship or partnership is not taxed as a separate entity; it's income is taxed directly to the individual proprietor or partners, whether or not the income is withdrawn from the business. However, a partnership must be still on the information return showing the computation of total partnership net income and the allocation of this income among the partners.

A corporation is a separate taxable entity; it must file corporate income tax return and pay tax on its annual taxable income. In addition, individual stockholders must report dividend received from corporation as part of their taxable income. The taxation of corporate dividend lead to the change that there is double taxation of a corporate income one to the corporation and again when it's distributed to stockholders (Meiges, 1996, P.777-778).

Pursuant to proclamation N° 286 /2002 ,schedule “C” tax payers are categorized in to three Category “A”, ”B” and ”C” based on their annual turnover. Accordingly:

- ❖ Category “A” shall include a) any company included under the law of Ethiopia or in foreign country b) any other business having an annual turnover of more than 500,000 or more.
- ❖ Category “B” unless already classified in category “A” any business having an annual turnover greater than 100,000 but less than 500,000.
- ❖ Category “C” unless already mentioned and classified in Category “A” and “B” whose annual turnover is less than Birr 100,000.

2.7. Efficiency of tax administration

The key precondition for efficient tax administration is tax structure with minimizing distortion, strictly tax exemption and elimination of the difference in tax treatment of particular part of economy. This will mean extending the VAT to all but a few good and service not able to export (which will be zero related and banking and insurance services weather it may be difficult to determine the amount of value added to be taxed(Hessen,2003).

2.8. Tax Assessment

A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards. The core service responsibilities include:

1. Preparing annual market value assessments for all properties.
2. Preparing the business assessment valuations for all business premises.
3. Maintaining accurate property information and ownership on all realty accounts.
4. Maintaining accurate business information and ownership on all business accounts defending assessments before municipal and provincial assessment tribunals.
5. Responding to inquiries and requests for information relates to assessment and taxation.
6. Producing and mailing annual assessment and tax notices to tax payers reporting assessment rolls and meeting annual audits

2.9. Challenges of tax administration

The efficiency of the tax system depends not only on appropriate legal regulations, but also on the efficiency and integrity of tax administration. In many countries, especially in developing countries, the small amount of public revenue collected can be explained either incapability of tax administration or some level of corruption. Regardless of how carefully tax laws have been enacted, they could not eliminate conflict between tax authorities and taxpayers. A tax authority with qualified and responsible staff is almost the most important prerequisite for realization of “tax potential” of the state. It is well known that tax law and policy are as a good in tax administration that can be responds to the demand of growing market economy and resulting increase the number of tax payers. Human resources are important in tax administration. Indeed, most developing countries lack trained human resources, forcing them to organize activities within existing tax administration structures, for example (Robert, 2003).

2.10. Tax avoidance and evasion

Tax avoidance and evasion constitute a problem in all almost all of the countries of the world. Tax avoidance is different from tax evasion, while evasion against the law avoidance is within the law (Paramaswarn, 2005).

2.10.1. Tax avoidance

Tax avoidance is the legal use of tax law for one's own benefit in order to reduce the tax liability through means within the scope of the tax law, resulting in full disclosure of material information to the authorities. According to Paramaswarn (2005), the definition of tax avoidance is: Tax avoidance is a means by which a taxpayer relies on advice within the law before income has accrued or the right to dispose of that income in such a manner has accrued. Tax avoidance is not illegal because it takes advantage of a loophole in the tax law to generate a minimum amount of tax.

N.B: In general tax avoidance means legal minimization of tax burden by the tax payers.

2.10.2. Tax evasion

Tax evasion is a general term for acts by individual companies, trusts, and other entities that violate the law to avoid paying taxes. Tax evasion is a general term for acts by individuals, companies, and other entities that violate the law to avoid/evade/refuse to pay taxes. Tax evasion refers to fraudulent acts by taxpayers aimed at violating civil and criminal provisions of tax law. Elements of deception include failure to state facts and account falsification, including Dawn Right fraud. Tax evasion usually means that a taxpayer intentionally misrepresents or conceals facts from tax authorities in order to reduce his or her tax liability. This specifically includes unfair tax reporting. To reduce income, profit, or excessive deductions (Paramaswarn (2005). According to Paramaswarn (2005), the following definition of tax evasion . Tax evasion means fraudulent action on the party of the tax payers with a view to violates civil and criminal provision of tax lawt, falisfication account including downright.It is a crime in all almost all countries and subject thr guilty party to punishment or even imprisonment.

N.B: In general tax evasion means tax avoidance by illegal means that is tax evasion is against the law and unsocial act. There are two forms of tax evasion. They are as follows:

1. Suppression of income, and
2. Inflation of expenditure.

2.10.3. Cause of tax evasion

According to Paramaswarn (2005), there are many possible causes of tax evasion. However, the main reasons for tax evasion are: These are;

1. Various tax laws: The number of laws enacted to levy various taxes has led to widespread tax evasion.
2. Complex tax laws: This is also one of the reasons for tax evasion. The tax law includes many exemptions, deductions rebates, reliefs, and so on.
3. High tax rates: High tax rates lead to widespread tax evasion as the risk of tax evasion is greater.
4. Inefficient tax enforcement: Lack of proper training and efficiency of authorities enforcing tax laws is also a major cause of tax evasion.

2.10.4. Remedies for tax evasion

According to Paramaswarn (2005), the following remedies can be considered to avoid tax evasion:

1. By redesigning the tax code: One of the reasons for taxation evasion is that the tax code is less regulated. It contains numerous loopholes and vulnerabilities that allow tax evaders to carry out illegal activities.
2. Lower tax rates: The prevalence of high tax rates is the primary tax rate and the biggest reason for this tax evasion. Therefore, tax rates should be reduced to appropriate levels.
3. Replacement of sales and excise taxes with VAT: to enable reconciliation in relation to VAT. It's more effective. Therefore, a tax can be introduced in place of sales tax and excise tax.
4. Expenditure Tax Overview: In Ethiopia, expenditure taxes are collected in the form of excise tax, sales tax, value added tax, sales tax, etc. There is no personal expense tax. But everyone recognizes that taxation is based on personal spending.
5. Maintenance of adequate accounts: Maintenance of adequate accounts should be mandatory for persons whose personal and professional income exceeds the prescribed limits. Regulations to this effect have recently been introduced into the Income Tax Act.

2.11. Procedures for tax collection

It is expected that people's tax payment should be in the line with their income and they are required to pay tax in the proportion tax there levels of income. On the other part of the tax collectors, collection of tax should fine conscious and convenient and the cost of collecting the tax should not be high discourage business. According to Singh (2008) the procedure under taken by the tax authority

2.11.1. Identification and registration of tax payers

Tax identification number (TIN) is used to identify tax payers. Every tax payers has a unique TIN. Which he/she is supposed to use in all his/her correspondence with the tax authority and no tax payers should have only one TIN.

✓ Filing return

Tax payers are required to fill returns within specified months of the end of their tax accounting year. All documents respecting taxation should be presented to the tax authority whether the tax payers have their file

✓ . Return processing

Upon receiving tax payer's return, the tax authority officers examine the economy of the return by determine whether the return is properly completed, whether the tax has been properly completed and whether there are any penalty payment to be made by the tax payers. The officers then allocate an assessment number to the return and issue the tax payers with a bank payment advice from stating the tax payable.

✓ Payment of tax

Taxes are due on the due date of the submission of the self-assessment returns. Tax should be paid to authorized bank, using the bank payment advice form.

✓ Audit and examination

The rule of tax audit and examination is to check accuracy of the information that tax payers provide to tax authority. The audit ranges from a simplified and desk audit to comprehensive audits. Tax collection enforcement when the tax payers have not made payment on the due date does not object to the tax assessed, tax authority can enforce payment in a number of ways.

2.12. Problems of tax assessment

An assessment is basically a review by tax official of the tax declaration and information provided by tax payers and verification of the arithmetical and financial accuracy of the declared tax liability. The legal round for tax assessment of in ERCA is proclamation No. 73/1996. According to this proclamation tax assessment is classified in to two categories. Tax assessed on the basis book of accounts and tax assessed by estimation but category B tax payers business income are well known and must be prepare financial statement on the book of account

2.13. Empirical literature review

Kangave (2005) discussed tax administration in the Ugandan context. Next, the tax structure and tax administration issues in Uganda are discussed and the authors suggest possible solutions to the problems identified in the study. In the study, the authors identified corruption, tax evasion, lack of resources in tax administration, poor quality of audits, and ineffectiveness in tax administration as problems and challenges in tax administration that weaken the ability to achieve targeted revenue targets. There is sufficient support. The author does not claim to address all issues. Nor does it attempt to resolve the causes of these problems in detail. Rather, problems are being pointed out. In addition, the author's recommendations for solving tax administration problems are based on the Canadian tax administration system. The researchers believe that the Canadian tax management system should not be used as a standard to measure the performance of tax management systems. Additionally, the authors use interviews with tax officials and rely on secondary sources. However, the authors could have obtained responses from targeted taxpayers to obtain additional information for the study. Jenkins (2001) argues that although a tax system can never function better than tax administration, even the best tax administration certainly cannot transform a poor tax system into a well- functioning one. It is emphasized that. The researcher also warns that many ambitious tax reforms have failed due to inefficient tax administration. Successful tax reform cannot be expected without constant restructuring of tax administration and almost daily improvements in the way it is managed. Eliminating exceptions, loopholes, and concessions simplifies management and reduces workarounds. A study by Wogene 2004 shows that tax reform increased his tax collection from 1999 to 2004. In this study, we used the constant adjustment rate method to estimate the elasticity of the tax system. Similarly, Eshetu's study compared the tax productivity of Ethiopia before and after the revolution and found that there was some improvement in the tax-collecting government of Ethiopia after the revolution. (Zelalem 2002) investigated the productivity of tax systems in Ethiopia in the period from 1995 to 2003. We use a split index method to estimate the buoyancy and elasticity of total and major individual tax categories. The results of this study show that the Ethiopian system is inefficient as most of the coefficients are less than one. The low productivity of the tax system is due to the fact that the system suffers from weak administration and widespread tax evasion. In general, empirical

studies conducted so far for developing countries, and Ethiopia in particular, have largely focused on the potential challenges faced by taxpayers and tax authorities in managing various tax activities such as tax assessment and collection or not recognized at all. Since tax administration mainly includes assessment and collection activities, the performance of tax administration affects the country's ability to generate revenue. Therefore, this study will not only identify the problems of Wolkite City government and taxpayers, but also the causes of these problems. Because researchers believe that identifying the root cause of a problem is the best basis for providing appropriate solutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3. INTRODUCTION

This section contains the area of study, research design, sources, type of data target population, method of data collection, method of data analysis and presentation.

3.1. DESCRIPTION OF THE STUDY AREA

The study would be conducted on the assessment of challenge on business income tax collection on category “B” tax payers in case of wolkite town revenue authority in which is located nearly on the center of the town.

Wolkite town is located in the southern part of Ethiopia. And also, the administrative center of the Gurage Zone of the central Ethiopia region, this town has a latitude and longitude of 8°17'N 37°47'E and an elevation between 1910 and 1935 meters above sea level. It is surrounded by cheha woreda.

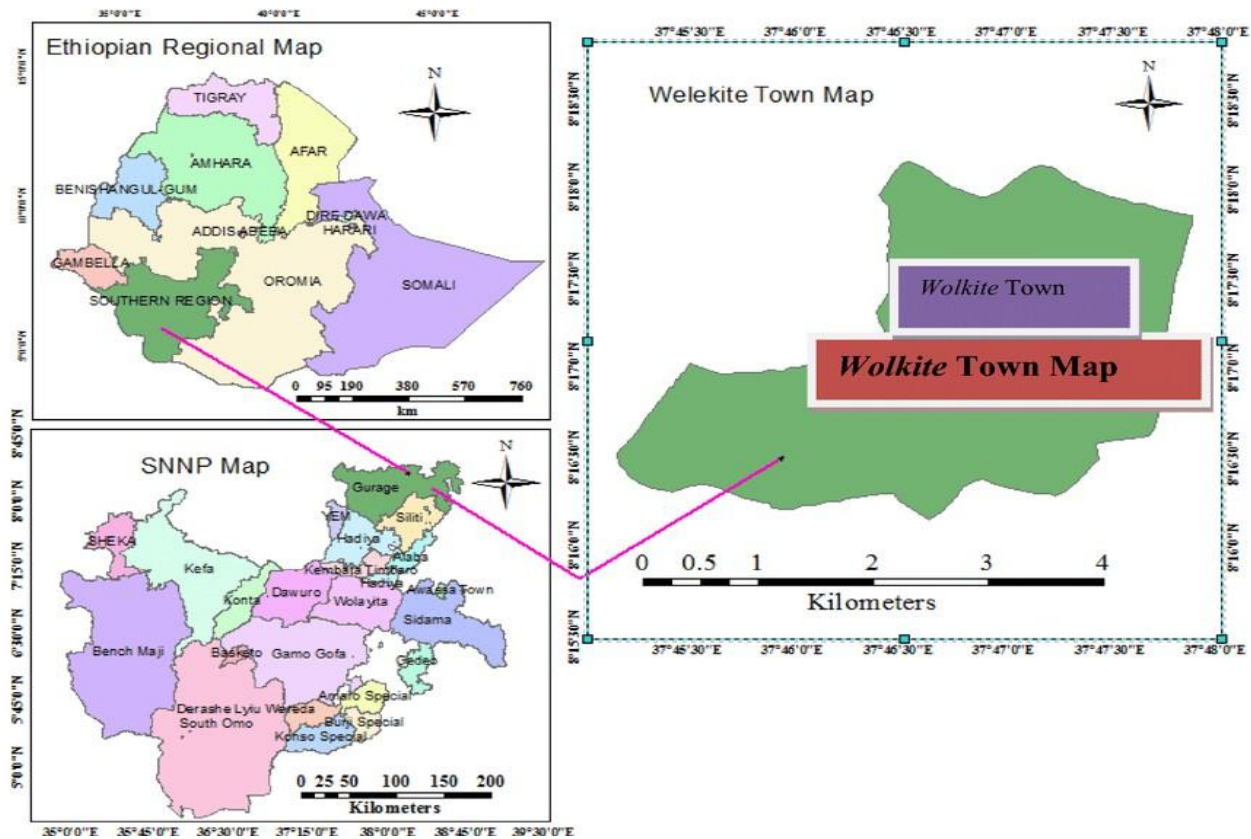


Figure 1, Map of Wolkite Town. Source: Wolkite Town Administration Office (2018 G C).

3.2. Research design

This study used descriptive type of research design and primary data source. The primary data were collected through questionnaires and unstructured interview. This is because the main objective of this study is to assess and describe the major challenges of business income tax collection in category “B” tax payers in case of Wolkite revenue offices.

3.3. Research approach

This research paper used research approach in such way that enables the researcher to study problem more easily and clearly using quantitative and qualitative method. It is structure to provide relevant information both quantitative and qualitative, to sufficient level that will be essential for further processing. While the researcher uses quantitative research approach to analysis the data gathered from the respondent by a numerical form, like frequency, and percentage and qualitative for interpret and analysis

3.4. Target population and sample size

The target population of the study is category B tax payers and tax officers that are found in wolkite revenue office. In Wolkite town there are 283 categories B tax payers and 50 tax officers (in 2017E.C). Among 283 tax payers 74 tax payers were selected as respondents by using specific formula at 90% confidence

$$n = N / (1 + N(e)^2), \quad \text{where;}$$

n=sample size

N=total population

e=sampling error (yemane, 1967).

The error term is used to show the sample population of the target population. To undertake sample from stratified sampling first to form each strata (group) by using a table and uses proportionate sampling do a simple random sample of n/N percent in each stratum.

Strata	1	2	3	4	5	Total
Tax payers	cafeteria	Shop	Supermarket	Hotel	Others	
No of tax payers	17	143	5	6	112	283
percentage	6	50.5	1.8	2.2	39.5	100%
No of sample size	4	37	1	2	30	74

Source: - Wolkite town revenue office in 2017 E.C

3.5. Sampling technique

To select the sample from the total population I used stratified sampling techniques to select category “B” tax payers. The reason for using this technique the entire population is heterogeneous or dissimilar. This means, internally homogeneous and externally heterogeneous in each strata and to avoid bias.

3.6. Source of data

In order to collect reliable data, the researcher used primary sources. Primary data was collected through structured questionnaire interview, focus group 17 discussions, and key informant

interview was employed. Additionally, documentary reviews used to collect secondary information necessary to supplement primary data. Moreover, reference materials including books, journals and various research reports

3.7. Method of data collection

To undertake this study I used different method of data collection. To collect the primary data I was used distributed close ended questioner for tax payers and personal interview for tax officers.

3.8. Method of data analysis and interpretation

I used descriptive method of data analysis to analysis the data gather from different sources. The data was analyze and interpreted by using descriptive statistics such as, percentage frequency and table.

CHAPTECR FOUR

4.1. DATA ANALYSIS AND PRESENTATION

In this chapter, data collected from wolkite revenue office for category “B” tax payers through questionnaire is presented and analyzed in the support of personal interview for tax officers. The main objective of this study to solve challenges on business income tax collection system among the questionnaire distributed to 74 tax payers,

Table 1 : GENERAL BACKGROUND OF RESPONDENTS.

No	Item	Frequency	Percentage
1	Age		
	Below 25	5	6.8
	26_40	35	47.3
	41_50	26	35.1
	Above 50	8	10.8
	Total	74	100%
2	Level of education		
	Complete elementary school	22	29.7
	Complete secondary school	38	51.3
	Certificate Diploma	7	9.5
	First degree and	4	5.4
	Above	3	4.1
	Total	74	100%

From above table no. one out of 74 despondent 5(6.8%) below 25, 35(47.3%) between 25 -40, 26(35.1%), between 41-50 and 8(10.8%) above 50, this indicates majority of the category B tax payers were grouped between 26 & 40 years. So this adult group is sensitive for money and affected by tax evade. The above No.2 indicates the respondents classification account to their educational level show that 22(29.7%) Complete elementary school, 38(51.3%) complete secondary school, 7(9.5%) Certificate, 4(5.4%) diploma and 3(4.1%) first degree and above. According to this majority at the tax payers that were completed secondary school so majority of tax payers have not enough knowledge about tax law.

4.2. Questionnaires Regarding To Challenges Of Business Income Tax.

Table 2: related to the willingness of tax payers to pay their liability

No	Item	Frequency	Percentage
1	Do you have willingness to pay business income tax		
	Yes	43	58.1
	No	31	41.9
	Total	74	100%

Source: survey result 2017 E.C

As indicated form above table no.1 the respondent's classification according to their willingness to pay business income tax. Show 43(58.1%) are willingness to pay but 31(41.9%) are not willingness to pay their tax. The above survey indicator majority of tax payers were voluntary to pay their business income tax.

Table 3: RELATED TO REASON FOR NOT WILLINGNESS TO PAY THEIR TAX LIABILITY

No	Item	Frequency	Percentage
1	If you answer is no in question No 1 why?		
	Lack of awareness	16	51.6
	Carelessness	6	19.4
	Lack of ability to pay	3	9.6
	If other please specify it	6	19.4
	Total	31	100%

Source: survey result 2017E.C

According to question no. 2 reason no willingness to pay their tax liability 16(51.6%) lack of awareness, 6(19.4%) carelessness, 3(9.6%) lack of ability to pay and other 6(19.4%) specify other response like Web tax collection system, tax authority should be provide transaction.

Table 4: RESPONSE ON HOW TAX PAYERS ARE AVOIDS TAX REVENUE.

No	Item	Frequency	Percentage
3	Do you believe taxpayers in your area evade tax revenue?		
	Yes	29	39.1
	No	45	60.9
	Total	74	100%

4	If your answer is yes, for question no 3 what is the cause that leads for evading tax revenue?		
	High rate of taxation	16	55
	Ineffective tax enforcement	3	10
	Complication of tax law	7	25
	Multiplicity of tax law	3	10
	If others specify it	0	0
	Total	29	100%

Source: survey result 2017E.C

To know whether tax payers were to evade tax revenue or not the survey result show that out of 74 respondent 29(39.1%) of the replies that tax payers were evade tax revenue and the remaining respondents that tax payers were not evade tax revenue. So their survey indicates not much but majority of tax payers evade tax revenue. Item no.4 of the same table above were given to the reason that tax payer were tries to evade tax revenue because of high rates of taxation, ineffective tax enforcement, complication of tax law and multiplicity of tax law. With degree of responsiveness 16(55%), 3(10%), 7(25%) and 3(10%) respectively. This indicated that the major cause that leads taxpayer to evade tax Revenue high rates of taxation. So tax authority should be minimize or avoid their illegal procedure.

4.3 Related to technique of tax evasion

Table 5:RELATED TO TECHNIQUE OF TAX PAYERS TO EVADE TAX REVENUE

No	Item	Frequency	Percentage
5	How do taxpayers typically attempt to evade taxes?		
	Failure to reported income timely	12	16.3
	Omitting revenue from reports	26	35.7
	falsifying expense	11	14.9
	Shifting income one period to another period	25	33.1
	If others specify it	0	0
	Total	74	100%

Source: survey result 2017E.C

Tax payer use different techniques to evade tax revenue but response of respondents mostly tax payers used the following technique shifting income one period to another period and intentional omission of some income from the report. At that time tax officer strongly follow up the tax payers lie.

Table 6:QUESTIONNAIRE RELATED ASSESSES MAJOR PROCEDURAL COMPLICATION TO MAINTAIN ALL RELEVANT RECORD.

6	Has the tax office provided sufficient training session?		
	Yes	63	85.1
	No	11	14.9
	Total	74	100%
7	If your answer is yes, for the question No 6 for how many times the training?		
	Once a year	13	20.63
	Twice a year	17	27
	Three and above a year	13	20.63
	Not at all	20	31.74
	Total	63	100%

Source: survey result 2017E.C

The tax officer given training session and tax payers themselves attend in training session the survey result should that 63(85.1%) of them respond that the tax officer prepared trains session and 11 (14.1%) of them respond there is no any training session. This indicates there is training session in Wolkite town revenue office. Whereas from 61 tax payers 13(20.63%), 17(27%) and 13(20.63%) of the respondent had training once, twice, three and above three times a year respectively majority of the tax payers i.e. 20 (31.74%) were not taken any training that could

develop their knowledge. From the above table even though tax officer prepare sufficient training session; the participation at tax payers in the training session is very low. At this time the tax officer used different procedure collect tax payers and given training session by using clear language for each tax payers .

Table 7: REASONS FOR PAYING BUSINESS INCOME TAX

No	item	Frequency	percentage
8	Why do you pay business income tax?		
	Expectation to public services	28	37.5
	There is no opportunity to evade	9	12.5
	To avoid penalty	0	0
	If is an obligation to under the government	37	50
	Total	74	100%

Source: survey result 2017E.C

In the above table the response of the respondent show that 28(37.5%) anticipation of the public services, 9(12.5%) there is no opportunity to avoid and majority of 37(50%) of the respondent were pay tax because of it is an obligation to wards the government. The above table indicated tax payers have not enough awareness about tax availability so tax officer provide enough education about tax

Table 8:QUESTIONNAIRE RELATED TO IDENTIFY WHETHER TAX PAYERS ARE BASED ON THEIR INCOME OR NO

No	Item	Frequency	Percentage
	9. Do you believe business income tax is fairly levied based on your ability to pay?		
	Yes	31	41.9
	No	43	58.1
	Total	74	100%

Source: survey result 2017E.C

Even though, tax payers were pay their tax liability based on the level of income, there is a disparities in determine the level of income and amount of tax liability for each tax payer. But I think that tax payment should be line with their levy and they should be proportional with their income.

4.4 Interview analysis from the response of tax officers

Table 9: Interview analysis from the response of tax officers

NO	Question	Response Percentage
1	Do you think that the tax office has sufficient, motivated, and competent employees?	70% said No, 30% said yes.
2	Who is responsible for tax collection and assessment?	100% answered Tax Collection and Assessment Department.
3	How do you evaluate the coordination of your office with other offices?	60% rated it as Poor, 30% rated it as Moderate, and 10% rated it as Good.
4	How do you evaluate taxpayers' knowledge about taxation?	80% rated it as Low, 20% rated it as Moderate.
5	Is there any tax evasion in your office?	90% said yes, 10% said no.
6	If there is tax evasion, what is the main cause?	50% said Lack of monitoring, 30% said Poor taxpayer awareness, 20% said Corruption
7	What remedies have been taken to reduce	60% cited Awareness creation, 40% cited

	tax evasion?	Audits and inspections.
8	What factors affect business income tax collection?	40% cited Low taxpayer awareness, 30% cited Inadequate staff, 20% cited Poor coordination, 10% cited Complex tax system.
9	9. Are taxpayers willing to pay their tax liability?	70% said No, 30% said yes.
10	10. Do most taxpayers pay their tax liability on time?	65% said No, 35% said yes.

A significant portion of officials (70%) believe the office lacks sufficient, motivated, and competent staff, affecting service delivery. Poor coordination with other offices was a concern for 60% of respondents. Taxpayer knowledge is notably low, with 80% of officials highlighting it as a major problem. Tax evasion is widely recognized, with 90% acknowledging its existence, mainly caused by weak monitoring and taxpayer ignorance. Remedies such as education and inspections are underway, but structural issues persist, particularly around human resources and systemic enforcement. Conduct the study I prepare personal interview to the tax officer to support the data collected by using questionnaires. As the information gathered from the tax officers through interview there are many challenges that faced them to collect business income tax. In the tax office there is not fully sufficient skill full and self-initiated officers to do their work efficiently and effectually. So tax officer must be competent, sufficient and motivated by their work. In Wolkite town revenue office there is an evasion of tax revenue by tax payers. The case for evading of tax revenue was high rates of taxation, lack of efficient tax system and collection procedure, lack of tax value of paid for development and civilization are the main cause that leads tax payers to evade tax revenue. So that tax officer must be educating tax payers to avoid the above problem efficiently and effectively. Tax payers use different techniques to evade tax revenue but response of respondents mostly tax payers used the following techniques. These are failure to report the income timely, Adding false expense, shifting income from one period to another period and

intentional omission of some income from the report. In order to reduce tax revenue in the office tax officer take different remedies such as giving training session to tax payers regarding to quality of evasion and prepared book account by educated personnel are some of remedies taken by the officer. Based on the information gathered from the tax officer, there are many problems exist in Wolkite town revenue office such as increase the number of illegal traders, book of account prepared by uneducated personnel. Tax payers were not paid their tax liability some exchange or business activities were performed handily, absence of stable environment for implementation of the tax system are some of the problem exist in the revenue office.

4.5 Secondary source

Table 10: EXPECTED AND ACTUAL AMOUNT OF MONEY COLLECTED FROM TAX

Year (E.C)	Expected to collect	Actual to collect	percentage
2012	30,345,567	29,131,744	96
2013	32,385,567	35,576,643	109.85
2014	35,456,342	31,995,803	90.24
2015	36,487,456	36,495,848	100.023
2016	36,534,220	35,101,146	96

Source: Wolkite revenue office

Wolkite revenue office has a responsibility to collect business income tax collection in order to achieve the goal of the town. However, currently there is a problem exist in business income tax collection in Wolkite revenue office. The main problem is that the tax office do not collect sufficient amount of money (tax revenue). That mean there is a gap between amount of money expected to collect the actual amount of money collected in the major problem that exist in Wolkite business income tax collection by the revenue office. Generally when we see the above table the tax authority actual collection is less than the expected collection. So to reduce this problem the tax authority must be expects based on their performance like 2013 and 2015.

CHAPTER FIVE

Summary, conclusion and recommendation

5.1. Summary

The major findings of this study were:

- ✓ Complexity of the tax system and absence of suitable environment to implement the system successfully.
- ✓ Poor awareness of tax payers towards taxation and tax payment.
- ✓ Inadequate record is not satisfactory or acceptable documentation system of the organization.
- ✓ Lack of accuracy, efficiency and effectiveness in their operation.
- ✓ Poor controlling system or mechanism of assessment estimation and collection of tax by the tax authority.
- ✓ tax payers are evade tax revenue and the remaining respondents that tax payers were not evade tax revenue
- ✓ Increase the number of tax payers are evade tax revenue due to high rate of taxation are some of the finding of the study.
- ✓ The majority of tax payers are voluntary to pay their business income tax.
- ✓ The tax payers are pay their tax liability based on the level of income.
- ✓ Techniques to evade tax revenue is shifting income one period to another period and intentional omission of some income from the report
- ✓ The work of the tax officer in achieving the designed objectives and goals of the revenue cycle

5.2. Conclusion

Based on the result of analysis and finding the following conclusion way made by me. The result of the study shows that implementation business income tax collection system at required level is difficult due to its complexity, absence of suitable environment to implement the tax system, communication gap between tax officer and tax payers, follows weak and tedious tax collection procedure, lack of computerized operations and due to absence at competent and motivated tax officers. Even though the tax officer prepared sufficient training session to tax payers, the participation of the tax payers in training session is very low. Increase the number of tax payer that evade tax revenue and difficulty for the tax officer to connect this illegal traders in to the tax net. There is a different in determination of the level of income and amount of tax liability, tax payers were not asked based on their level of income and there is also an over assessment of tax payers annual income. But this majority of the respondents are willing to pay business income tax. High rate of taxation is the main cause that leads tax payers to evade tax revenue and the reason behind that tax payers paid their tax liability because of it is an obligation to wards the government.

5.3. Recommendation

Based on the analysis, findings and conclusions the researcher provides the following recommendation. The tax office is the better to prepare adequate training session and create awareness towards taxation and tax payment and increase tax payers that participate in the training session. To improve the accuracy, efficiency and effectiveness of the office operation the revenue office should do the assessment by using computerized technology and better to strength their relationship with tax payers. Furthermore to avoid evasion and illegal activities the office shall to crest awareness for those evading person regarding to guiltiness of evasion of tax revenue and use of tax. To bring tax payers to pay their tax liability in willingness base I recommended that the tax office is determine the annual income and liability based on real evidence and should ask their tax liability based on the level of income. High rate of taxation is the main cause for evading tax revenue, so to avoid this wrong doing activity, the revenue office

should wider the tax base and reduce the tax rate. To collect expected amount of tax revenue. The revenue office must provide adequate training to tax payers. To implement the business income tax collection system successfully the tax office is better to convert the tax law in simple and understandable language to tax payers, create suitable environment improve the relationship or communication between tax payers and tax officers avoid weak and tedious tax collection system motivate and trained employees of the organization through providing different incentives should be good habit of maintain books of accounts in the side of tax payers and good record keeping and documentation system in the side of the tax office. Generally Wolkite revenue office is better to strength the relationship commitment between the tax payers and tax officers as well as the office must take suitable follow up to their business income tax collection procedure so as to avoid these problems and achieve the designed objectives of the revenue office.

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APPENDEX
WOLKITEUNIVERSITY
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The aim of this research is to identify the challenge on business income tax collection and respect to category “B” tax payers in Wolkite revenue office and provide important solution that tax payers are participate in their willingness to improve the tax collection procedure. The information you provide used only academic purpose. So, please putthickmark (x) for the appropriate answer for the following questions.

General background of the study

1. Age below 25, 25-40 41-50 above50

2. Educational level

Complete elementary school,

complete secondary school,

Certificate, Diploma,

First degree and above

Questionnaire regarding to tax payers

3. Do you have a willingness to pay business income

tax? Yes No

If your answer is no, for

question no.3 why?

Lack of awareness, carelessness,

Lack of ability to pay, if others please species it

4. Do you believe taxpayers in your area evade tax revenue?

Yes No

If your answer is yes, for question no 4 what are the cause that leads for evading tax revenue?

- High tax rate
- Complexity of tax law
- Multiple overlapping tax regulations
- Weak tax enforcement
- Other

5. How do taxpayers typically attempt to evade taxes?

- Failure to report income on time
- Adding falsifying expense
- Omitting revenue from reports
- Shifting income across reporting periods

6. Has the tax office provided sufficient training session?

- Yes no

7. If your answer is yes, for question no 6 for how many times the training?

- Once a year three and above three per a year
- Twice year not at all

8. Why do you pay business income tax?

- expectation public service
- There is no opportunity of public
- To avoid penalties
- It is an obligation toward the government

9. Do you believe business income tax is fairly levied based on your ability to pay?

- Yes No

Structured interview for tax authorities

1. How would you rate the tax office's employee sufficient, motivate, and competence?
2. Who is responsible for tax collection and assessment?
3. How would you evaluate inter-office coordination?
4. How would you rate taxpayer's general knowledge of taxation?
5. Is tax evasion prevalent in your jurisdiction?
6. What measures has your office implemented to reduce tax evasion?
7. What factors hinder effective business income tax collection?
8. Why do you think some taxpayers avoid paying their liability?
9. Do most tax payers comply with deadlines?