WLKITE UNIVERSITY

COLLEGE OF BISINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

ASSESSMENT OF TAX AVOIDANCE PROBLEM (IN CASE OF WOLKITE TOWN TAX ADMINSTRATION OFFICE AUTHORITY)

A research paper submitted to Department of Accounting and Finance for the partial fulfillment of the requirement of Bachelor of Art Degree in Accounting and Finance

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WOLKITE, ETHIOPIA

DECLARATION

I the under signed hereby declare that this thesis has been prepared by me in partial fulfillment of the requirements for the award of a BA degree in accounting and finance. I wish to state that this work has never been presented in any University or Institution of learning apart from references made to the works of other people for which I have dully acknowledged. Therefore it is an original work done by me under a close supervision of my advisor.

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Wolkite University Jun, 2015

Approval sheet

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This is to certify that the thesis prepared by Abdel hakim AWOL, entitled: The assessments of tax avoidance problem in wolkite town and submitted in partial fulfillment of the requirements for the BA degree in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Advisor: Tewodros (msc). Signature____________ Date ______

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ACRONOMYS

TIN: Tax identification number

TOT: Turnover tax

VAT: Value added tax

ETRs: Effective tax rate

MoFED: ministry of finance economic development

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ABSTRACT

This paper gives light on the respect of tax avoidance in wolkite town tax payers. The researcher have used the total population size of 4475 tax payers and 100 employees From this total population 1oo employees were selected as sample to distribute questionnaire for selected respondents and finally collected these distributed questioners had been used as a primary source. The analysis of data had been described on table in analyzing data gather through Questionnaire. Finally, the main finding of this study was the tax avoidance problem on same tax payers & have limited knowledge & misunderstanding of compulsory payment of tax. Therefore, wolkite Town tax administration revenue authority should have to strengthen and give awareness, training, for tax payer's performances the above main point was indicated.

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CHAPTER ONE

INTRODUCTION

1.1. Back Ground of the Study

Typically taxes are the primary source of government revenues. Taxation policies depend of the socio economic and political structure of a country. In Ethiopia though taxation came into being with the emergence of state and government, but, there is no reliable documentary evidence exists as to when exactly taxation was introduced. In the 15^{th} century written stories of AtseZeraYacob indicates that taxation was introduced previously in EthiopiaThe "Dergue" regime partially alleviated the tax collection problems that existed during the imperial period by delegating the responsibility for collecting the fee and tax on agriculture to peasant association which received a small percentage of revenue as payments.The main purpose of generating revenue from various sources is to finance public expenditures. The governments generate are revenue from tax and other non sustainable sources. The collection of money from available sources of revenue by government needs the availability of democratic government, foreign and domestic creditors and donors, efficient tax system and awareness of the society regarding the use of tax payment for government and its contribution for the development of the country's economy.

In our country payment of tax is considered by the society as a debt imposed by government to increase the wealth of the government officials. To avoid the negative attitude of the taxpayer a well designed tax system is necessary. In addition educate the society regarding its obligation and the purpose of tax collection minimizes the wrong attitude of the tax payer Minge of tax avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by person and it is very much within the law. In contrast, tax the avoidance is a kind of art of dodging tax without actual breaking the law. The classic description of tax avoidance was written by Judge Learned Hand in Helve ring v. Gregory,1 according to him a transaction, otherwise within an exception of the tax law, does not lose its immunity, because e it is actuated by a desire to avoid, or, if one choose, to evade, taxation. Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; here is not even a patriotic duty to increase one's taxes. Under Inland Revenue Code, Sec. 7206(2), a person is guilty of a crime if he willfully aids or assists in or procures, counsels, or advises the preparation or presentation … of a return, affidavit, claim or other document, which is fraudulent or is false as to any material matter, whether or not such falsity or fraud is with the knowledge or consent of the person authorized or required to present such return, affidavit, claim or documents. The term tax mitigation is a synonym for tax avoidance. Its original use was by tax advisors as an alternative to the pejorative term tax avoidance. Latterly the term has also been used in the tax regulations of some jurisdictions to distinguish tax avoidance foreseen by the legislators from tax avoidance which exploits loopholes in the law Some of those attempting not to pay tax believe that they have discovered interpretations of the law that show that they are not subject to being taxed: these individuals and groups are sometimes called tax protesters. An unsuccessful tax protestor has been attempting openly to evade tax, while a successful one avoids tax. Tax resistance is the declared refusal to pay a tax for conscientious reasons. Tax resistors typically do not take the position that the tax laws are themselves illegal or do not apply to them (as tax protesters do) and they are more concerned with not paying for particular government policies that they oppose. Consider the market value of any payment made for the transfer.

1.2 STATEMENT OF THE PROBLEM

Taxes are the most important source the government revenue, and are compulsory payment by citizen. The process of socio-economic development requires huge expenditure that cannot be carried out unless the government has source of income. Tax avoidance involves an active means to reduce or remove altogether the payment of tax (Soyode&Kajola, 2006). It is usually done through taking advantage of the loopholes in the tax laws without actually breaking it. It is also the legal utilization of the tax regime to one's own advantage so as to reduce the amount of tax that is payable using means that are acceptable by the law. In general, citizens expect some kind of service or benefit in return for the taxes paid. If the government fails to provide basic public goods and services or provides them insufficiently, citizens may not be willing to pay taxes and avoidance will be the consequence (Lieberman, 2002; Pashev, 2005; Everest-Phillips, 2008; Brautigam et al., 2008. The intuition is that high tax rates increase the tax burden and, hence, lower thedisposable income of the taxpayer (Chipeta, 2002). However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes. In fact, the structure of the overall tax system has an impact as well. If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant effect on the disposition to avoid taxes. Lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the government.

This, in turn, increases the willingness to avoid taxes (Kirchler, Muelbacher, Kastlunger& Wahl, 20015). If due to high levels of corruption, citizens cannot be certain whether their paid taxes are used to finance public goods and services their willingness to pay suffers and it becomes more likely that they avoid their tax liabilities. A taxpayer might consider avoid taxes if the cost of evaluate tax auditor is lower than the potential benefit from tax avoidance (Popoola, 2009).

Simser (2008) observed could be said to occur when individuals or organizations intentionally fail to conform to their tax responsibility. Tax avoidance are not new phenomena as they have been in existence long time ago, however, they have taken a new dimensions in recent times (Eschborn, 2010). According to Asada (2010) tax avoidance represent some of the perplexing problems facing the Ethiopian economy. Wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying them. If the tax revenue comes from diversified sources than dedication in tax revenue on account of any one is found to be very small. Meanwhile, taxation is one of the means of revenue generation of any government to meet the need of its citizens (Abiola&Asiweh, 2012). The resulting tax revenue loss may cause serious damage to the proper performance of the public sector, threatening its capability to finance public expenditure (Chiumya, 2006). Therefore, there is the need to ascertain the factors that are influencing tax avoidance. The studies that have been done generally address the status of the industry and the low development tax avoidance problem in general. They do not address specifically the low development of households/individuals tax avoidance. This is the gap that the current study sought to fill. The present study therefore sought to provide answers to the question: factors affecting household's consumption of tax avoidance?

1.3 OBJECTIVES OF THE STUDY

1.3.1 GENERAL OBJECTIVE

The general objective of the study is to assess tax avoidance problem of tax payers by taking sample of tax payers from wolkite town tax administration revenue authority.

1.3.2. Specific objectives

Especially the study attempted to achieve the following objectives:

1. To examine tax payers attitude towards tax avoidance problems.
2. To assess the accessibility of tax information by tax payers.
3. To assess tax payers knowledge on tax rules and regulation.
4. To assess factors that affect tax avoidance problem in wolkite town.

1.5 Significance of the study

This study focuses on the factors that influence tax avoidance in wolkite. The subject of the study is of high importance as tax avoidance practice adversely hampers government's capacity to provide the basic social amenities needed by the populace. In fact, if tax avoidance continues unchecked, it may lead to the collapse of any government, as every government requires adequate funding for it to run. Therefore, it becomes necessary to investigate those factors that influence avoidance of tax so as to develop strategies to combat them. Tax avoidance are not new phenomena as they have been in existence long time ago, however, they have taken a new dimensions in recent times (Eschborn, 2010). According to Asada (2010) tax avoidance represent some of the perplexing problems facing the Ethiopian economy. Wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying them. Meanwhile, taxation is one of the means of revenue generation of any government to meet the need of its citizens (Abiola&Asiweh, 2012). The resulting tax revenue loss may cause serious damage to the proper performance of the public sector, threatening its capability to finance public expenditure (Chiumya, 2006). Therefore, there is the need to ascertain the factors

1.7 Limitation of study

While conducting the research, many problems would encountered that may affect the collate of the study. Among these problems, lack of an availability of the well organized data and lack of sufficient time to connect the organized data of the study area were the crucial ones.This created difficulty while conducting the paper. From the other, the most crucial problems were scope of the area that the research was conducted, lack of experience ,limited assess of computer and other necessary materials to complete this paper ,scarcity of finance and insufficient information.

1.7. Organization of the study

In general the research paper consists three chapters. The first chapter involves sub-topics such as backgrounds of the study, statement of the problem, purpose of the study, important of the study, scope of the study limitation of the study, organization of the study. The second chapter deals with literature review of tax avoidance problem. The third chapter deals the methodology of the study

CHAPTER TWO

LITERATUREREVIEW

2.1. Meaning of tax

The peace and stability in the nation or country, the medical service provided in the government hospital, the subsidized price we are paying for use of transport, the road service facilities we are using the street light, the military and peace for we are securing and so on are the result of payment of tax. This is main source the government revenue, especially in developing countries like Ethiopia

A known writer William Taylor classified the major source of government revenue on to four by stressing more of tax revenue on the basis of sound economic, social political and scientific principles. According to Taylor taxes are the major sources of revenue for the government. Unlike other source of revenue taxes are not imposed on the tax payer without justification. These justifications are tabulated in the form of theories. And the theories dealing with these issues are broadly classified in to two categories. Under the category we do have two theories namely, the socio political theories and expenditure theory.

According to these two theories, there is no relationship between the taxes paid and benefit. These are also another two theories, namely, the state provided theory and the cost of services to member of the society, for free thus it should change for the good and services in the form of tax (Philip E Taylor, the economics of public finance 3rd edition).

As result of its significant contribution for the countries economic as well a political stability, taxes must be levied with a great care and rationally. In line with this the tax administration need to follow a certain code of conduct while levying and collecting the type and amount of tax to effectively utilize its contribution to the country.

The process of socio-economies development requires huge expenditure that cannot be carried out unless the government has source of income. Every government has two important source of revenue. These are tax revenue and non-tax revenue. Different authors have defined tax differently according to professor Seligman, "tax is compulsory payment contribution from the persons to the government to defray the expense incurred in the common interest of all without reference to special benefit".

As it is defined in social science" international encyclopedia", taxation is the general concept or devise used by the government to extract money or other valuable things from person sand organizations by the use.

Taxes are the most important source of public revenue, which is composed of payment by person and organizations. Every government has two kinds of taxes, direct taxes and indirect taxes. Therefore, meeting the requirement of the common people through the entire meet of public expenditure has become the most important and leading position in discussion of public finance. (FIRA, year of public)

2.2. History of taxation in Ethiopia

Taxes are the primary sources of for the government. Taxation policies depend on the social, economic and cultural structure of the country. In Ethiopia, the introduction of taxation was related with the emergency of the state and government; there hardly on evidence (record) as to when exactly taxation was introduced. (MOFED)

In the 15^{th} century during the pre-Haile Selassie period, stories indicate that taxation was introduced previously in Ethiopia. At the time the taxation was paid by different social groups. The traditional tax system can be explained in to two forms. These were payment in kind; namely in the form of honor, salt gain, livestock etc. and the unstructured tax system which was introduced by emperor Menilik in 1903 "farmers should pay only one tenth of their products" (Asrat, gibir, land use tax).

Taxes were both direct (gibir, Asirat) and indirect (tax on slaughter, cattle, Toll tax etc.) (MOFED).

Relatively modern tax system was introduced during the Haile Selassie period /1942-1974/ under the emperor aimed at achieving the fiscal control of collection of all revenues and financing of every program by central government. A legal institutional mechanism of taxation was established in this period of time. There were a number of proclamations, legal notices as a statutory base for income tax during that regime. The tax bases were broader as compared to previous regime. The taxes bases were broader as compared to previous regime as taxes on employment income tax, business income tax, rental income tax, taxes on agricultural income, and rental income taxes from vocational occupations, land tax, health tax, education tax and tax on tobacco. Unlike the previous the tax system was centralized and uniformity of collection on cash basis was the period strengths. During the Dreg regime /1975-1991/ the taxes were similar to those imposed during Haile Selassie regime, except that wider tax bases and increased tax rates, the proclamations or regulations. The 1976 changes in the tax structure the government believed that the agricultural income tax was being under paid largely because of under assessment in peasant association. In the years through 1991-1995, major changes took place by the transitional governments of Ethiopia. During this period, tax brackets and tax rates were modified. According to the new constitution of Ethiopia, the federal democratic republic of Ethiopia would emprise a federalism system of government in which both the federal and regional organs have been made in the tax policy including the 2002 tax reform program (restructuring of tax which suit to structural changes). As compared to the previous ones the current proclamation has a lot of advantages: i.e. winding of tax bases, reduction of tax rates both business and employment and introduction of tax identification number (TIN) are among others.

The main purpose of generating revenue from various sources is to finance public expenditures. Tax as the only sustainable source of the government revenue, can be direct tax and indirect tax.

To avoid the negative attitude of the society, a well-designed tax system is mandatory. In addition, awareness creation on society obligations and purpose of tax collection should be made to minimize the adverse attitude of tax payers.

2.3 principles of taxation

A good tax system, in order to achieve various objectives, Chooses and adheres to certain principles, which become its characteristics. A good tax system also designed on the basis of an appropriate set of principles. “Adam Smith is the popular economist gave as the more important set of principles, which he called “the canon of taxation”. The major canons of taxation prescribed by Adam Smith are the following:

1. **Canon of equity**

   The objective of every state ought to contribute towards the support of the governments, as nearly as possible in proportion to the revenue which they respectively injury under the protection of sate they could not have earned and enjoyed that extra income.

2. **Canon of certainty**

   The canon is to protect the tax payer from unnecessary harassment by the officials, the tax which each individual is bound to pay ought to be certain and non-arbitrary, the time of payment, the manner of payment, the quantity to be paid , ought all to be clear and plain to the contributor and to every other person. The tax payer should not be subject to arbitrariness send discretion of the tax official in which ease there will be a scope for arbitrariness exists and then under such circumstance even harvest tax machinery will be unpopular.

3. **Canon of convenience**

   The mode timing of tax payment should be, as far as possible convenient to the tax payer. This canon recommends that unnecessary trouble to the tax payer should be avoided; wise various ill effects may result.

4. **Canon of economy**

   Every tax has a cost of collection. It is important that cost of collection should be minimum possible. It will be unless to impose, taxes which are too wide spread and difficult to administer. These taxes entail unnecessary burden up on the society in the form of additional administrative expense.

The productive efforts of the people suffer due to a waste full use of the resources on the salary the officials. Realizing the tax collections is being wasted.

5. **Canon of productivity**

It is also called the canon of fiscal adequacy. According to this principle the tax system should be able to yield enough revenue for the treasury and the government should not be forced to resort to deficit financing.

6. **Canon of flexibility**

   It should be possible for the authorities, without undue delay, to revise the tax structure, both with respect to is coverage and rates, to suit the changing requirement of the economy and of the treasure.

7. **Canon of simplicity**

The tax system should not be too complicated. That makes it difficult to administer and understand and great problems of differences in interpretation and legal disputes.

8. **Canon of diversity**

If would not be happy situation if the state depends up on too few source of public revenue; such a system is bound to breed a lot of uncertainty for the treasury. It is also likely to be inequitable as between different section of the society. On the other hand if the tax revenue comes from diversified source and then the dedication in the tax revenue on account of any one is found to be very small. However, too much multiplicity of taxes is also to be avoided. That led to uncertainty cost of collection and violates the canon of economy.

In general, we must remember that the tax structure is a part of the organization of the society and should therefore it in its overall economic philosophy. No tax system that does not satisfy this basic condition can be termed as good one.

2.4. Objective of taxation

The major objective of taxation is to mobilize sufficient revenue to meet the ever expending need of government expenditure. In a general sense objectives of taxation can be classified in to three groups namely:

- Revenue generation
- Regulate economic activity
- Income redistribution

These classifications are clearly elaborated in the discussion below.

A. Revenue Generation

This is the primary objective of governments. Tax system exists primary to raise revenue to fund government operations because lack of sufficient revenue often results in large to get deficits. Expect when sport-term fiscal stimulus may be considered appropriate for socio-economic reasons: deficits generally have undesirable macro-economic consequences, such as crowing out private investment and increasing inflation. Preventing deficits requires good control over both the expenditure and revenue sides of the government.

Unless tax revenue grows sufficiently, quickly to finance desired service over the long term, Governments must reduce expenditure, raise tax rates, or alter other structural characteristics of the system. Thus a good tax system must generate sufficient revenues increase over time differs depending on the tax structure, the quantity of tax administration and the pace and nature of economic growth.

B. Regulation (influencing) economic activity

Market failures are the inability of competitive markets to achieve efficient allocation of resource without government intervention. Markets fail due to external effect or lack of information and competitive forms.

Externalities are one and the major factor market failures; it is the divergence between social and private cost and benefits.

An externality occurs when a decision causes cost and benefits to individual or groups other than the person making the decision. In other words, the decision maker does not bear all of the costs or gains from his action. As a result, in a competitive market too much or too little of the good will be under consumed by individual decision makers. Then the good will is over consumed from society point of view.

C. Income Redistribution

It has been argued that while a perfectly function free market can assure an efficient resource allocation. It cannot guarantee that the resulting distribution of goods and services will socially be acceptable. The free market system has no built in mechanism to correct for any distributional imbalances. That may initially exist in economic system. So far the tax system to be directed in these ways, policy makers will have to decide whether or not the existing income distribution is socially acceptable.

2.5. Major types taxes

2.5.1 Direct taxes

Direct Taxes are levied directly up on individuals or firms, example personal income tax, business profit income tax, tax on income from royalties etc.

Personal income tax

Every person deriving income shall include any payments or gain in cash or in kind received from employment by an individual.

Employers have an obligation to without the tax from each payment to an employee. All person income taxes of public or private sector workers who earn a monthly remuneration above the minimum taxable limit (i.e. 150 birr per month) are subject to this tax payment.

Business profit income tax

The business profit tax levied against the estimated profit of all taxable businesses. The business income tax includes income from business, Professional and vocational occupations taxable business income would be determined per tax period on the basis of the profit and loss account or income statement which shall be drawn in compliance with the generally accepted accounting standard.

Corporate businesses are required to over 30% flat rate of business income tax for unincorporated or in individual businesses. The business income tax rate from 10%-35% unincorporated in individual businesses are taxed in accordance in the following schedule below.

Table 1. Taxable business income

Table business income/ net profit per year/		Tax rate (5)	Deduction birr
Over birr	To birr		
0	1800	Exempt	-
1801	7800	10%	180
7801	16800	15%	570
16801	28200	20%	1410
28201	42600	25%	2520
42601	60000	30%	4950
Over 6000		35%	7950

Tax on income from royalties

Royalty income means payment of any kind received as a consideration for the use of, or the right to use, any copy right of literary, artistic or scientific work including cinematography film, and films or tapes for radio or television broadcasting. Royalty's income should be liable to tax at a flat rate of 5%.

2.5.2. Indirect taxes

Indirect taxes are levied on goods and services and thus only on individual example turnover tax (TOT), value added tax VAT) etc. MisrakTesfaye (2009)

Turnover tax

The turnover tax would be payable on goods sold and services rendered by persons not registered for value added tax. The rate of turnover tax is 2% on goods sold locally for services rendered locally.

- 2% on contractors, grain mills, tractors, combines etc.

- 10% others

The base of the computation of the turn over tax is the gross receipts in a respect of goods supplied or services rendered.

A person who sells goods and services has the obligation to collect the turnover tax from the buyer and transfer it to tax administration.

Value added tax (VAT)

VAT is a tax on customer expenditure. It is collected on business, transaction and imports. A taxable person cans be individual, firm, company, as long as such a person is required to be registered for VAT.

Most business transaction involves supplies of goods or services. VAT is payable if they are: - Supplies made in Ethiopia, made by a taxable person and made in the course of further of a business.

The VAT would be levied at the rate of 15% the value of: every taxable transaction by a registered person, every important of goods other than an exempt important and import of service.

2.6. Category of tax payers

For the purpose of efficient and efficient tax levying and collection from each and every business income the tax administration found it to be advantageous to categorize the tax payers. These categories are “category A tax payers’’, “Category B tax payers’’, “category C tax payers” MisrakTesfaye (2009)

Category A tax payers

This category includes any company incorporated under the laws of Ethiopia or foreign country. All Ethiopia taxpayers are in this category regardless of turnover, excess of birr 500,000.” tax payers in this category must file an annual tax declaration within 4 months from the end of their tax year and attach a balance sheet and profit and loss statement they must maintain supporting books and records” (article 66 of the income tax proclamation).

Category B tax payers

This category includes any business having annual turnover of more than birr 100,000 &less than by 500,000.

"Tax payers in this category must file an annual declaration within 2 months from the end of their tax year, which is the year, and must attach a statement of profit and loss. They must maintain supporting documents like books and records" (Article 66 of the income tax proclamation).

Category C tax payers

Any tax payer whose annual turnover is estimated by the tax administration as being up to birr 100,000. These tax payers are taxed by standard assessment method.

Category C tax payers must pay the due during the period from Sene 30 to Hamle 30 every year and declare their annual turnover, revenue derived from sources other than regular business operations, and the type of business. Category C tax payers are not required to maintain books of account but have the option to do so and in accordance there with.

2.7. Tax collection process

When taxes due to tax administration are not paid on time, tax administration has the responsibility of collecting the outstanding debt (tax, interest and penalty). The proclamations give tax administration to recover tax debts without going to court.

If the tax payer does not respond the initial notice, the choice of proceeding to the final notice or making further attempts to contact the tax payer to secure voluntary payment.

Telephone or visit the debtor to demand immediate payment in full, make in installment payment agreement, issue a final notice before seizure, fill a security interest, seize declare the tax uncollectable. Bankruptcy or liquidation, collected tax from managers of entities. (FIRA, year)

2.8 Approaches of taxation

2.8.1. Expenditure principle

Generally, every government imposes taxes to fulfill its normal social obligations in the forms of defense, maintenance of law and order and socio-economic development. Normal tax payment is governed by the principles of equality, economic establishment and economic growth but in actual practice the tax policy is determined by the pressures, which are exerted on the government by different pressure group orient its taxation in the society. YohannesMesfin and SisayBogale (2009). Every legislature and every authority is pressurized by various economic, social and political to orient its taxation policy in certain directions. Every group tries to resist change that goes against its interest. The authority in many cases have to adopt certain policies simple because these are pressures to that effect and have many times reshape the tax structure depending up on the change in political strength of different economic groups.

Therefore, when the government bows before pressuring groups and formulates its tax policy accordingly we call it expectancy approach.

2.8.2. The ability to pay approach

This approach is interpreted as the money income of the assessment. It is the generally accepted theory. MisrakTesfaye (2009)

According to this approach, each person should compute to the income of the state in proportion to his ability to pay, ability is ethical idea basis of taxation every tax payer should make sure that he has made equal sacrifice on the payment of tax. The concepts of ability to pay principles accept the idea that tax is compulsory payment to the government without any direct. Citizens have to pay tax because he/she can and his/her relative paying capacity. The basic point of ability to pay principle approach is that the burden of tax should shape among the members of society so as to confirm principle of justice and equality. YohannesMesfin and SisayBogale (2009)

2.8.3. Benefit Received principles

Now, in modern world it is difficult to estimate the benefit that an individual receives from the expenditure of the government. For example, how much benefit and individual receive from the army, police, cannot be exactly estimated. And therefore, the burden of taxation may not be equitable. Hence, this theory is not applicable at this since there is no direct benefit entailed to tax payers. Gebreworku (2008)

2.9. Tax base

The base of a tax is the legal description of the object with reference to which the tax applies. Example, the base of an income tax is the income of the assesses defined legally and it is to be quantified for the purpose of determining the tax liability of an individual tax payer. A tax base may have a time dimension as well, example income tax is determined on an annual basis. MisrakTesfaye (2011)

With the passage of time, a tax base under consideration may grow or shrink. Income tax is usually on annual base and law has to decide whether income tax would be taxed on the bases of actual or receipt. Income is often regarded as a good index of ability to pay taxes. The total annual income in a nation is equal to the value of the total consumption and saving of all persons and organizations in a country. MisrakTesfaye (2011)

2.10. Taxable capacity

The concept of taxable capacity is an expression of the common belief that there is always an upper limit. On the other hand, refers to the maximum tax which might be collected from a particular tax payer or a group of tax payers under consideration. Such a tax paying capacity may be estimated with reference to the economy as a whole, a region, an industry, a group of individuals, a particular country etc MisrakTesfaye (2011)

variables have to be encountered for estimating the taxable capacity. In the short run if this connection people has to be referred various basic figures like subsistence of existing standard of having etc., incomes over and above these levels are supposed to represent the Additional taxable capacity.(Gebreworku, 2008)

Taxable capacity, in whether way defined, is not constant entity. In the long run it is bound to change through saving, investment, economic growth, production and so on. MisrakTesfaye (2009)

2.11. Incidences of tax

Incidences of taxes are defined as its final resting place. It is to seen and judged in terms of the money burden of the tax. MisrakTesfaye (2011)

When tax is imposed and collected it involves certain responses from tax payers and the country. Such responses can be of great variety and can profoundly influence the working of the economy in terms of production, regional imbalances, inequalities of income and wealth etc. (Gebreworku, 2008).

These responses and their results are collectively called the effective of that tax. The effect of a tax can be both beneficial and harmful. Harmful effect of tax will be referred as the burden of that tax such as burden has two dimensions: money burden and real burden. Money burden refers to the reduction in the disposable income of the payers and may be direct and indirect. MisrakTesfaye (2011)

2.12 Attitude of tax payers

The attitude of tax payers is important is variable in determining content of good tax system. It may be assumed that each tax payer would like to be exempted from taxpaying while he will not mend if other bears that burden. It is essential good tax system is equal importance. The attitude of tax payers in this regards is influenced by a host of their factors. Like political situations such as war or peace, and economic situations like property depreciation. (Gebreworku, 2008)

I. Principles of Tax Avoidance

Tax laws constantly change the opportunities for tax avoidance, but underneath, there remain three basic principles of tax avoidance within an income tax:^ (1) Postponement of taxes. The present discounted value of a postponed tax is ‘Princeton University.

Much less than that of a tax currently paid." (2) Tax arbitrage across individuals facing different tax brackets (or the same individual facing different marginal tax rates at different times). This is a particularly effective method of reducing tax liabilities within a family; but differential tax rates may also induce transactions among individuals in different brackets which substantially reduce the aggregate tax liability; the availability of such opportunities leads to what may be referred to as "tax induced transactions." (3) Tax arbitrage across income streams facing different tax treatment. Under the current law, long term capital gains are taxed at lower rates than are other forms of income from capital. This provides an inducement to "convert" the returns to capital (or to labor) into long-term capital gains. Similarly, special treatment is afforded to the return to capital in the form of housing, pensions, IRAs, etc. Many tax avoidance devices involve a combination of these three. IRA accounts can be thought of as postponing tax liabilities until retirement; in effect, the interest earned on the IRA account is tax exempt.^ On the other hand, if the individual faces a lower tax rate at retirement than at the time he earns his income, then the IRA can be viewed as tax arbitrage between different rates.* Finally, if the individual can borrow to deposit funds in the IRA, and interest is tax deductible, then the IRA is a tax arbitrage between two forms of capital, one of which is not taxed, and the other of which is (tax deductible).' Investing in assets yielding capital gains involves a tax postponement, since taxes are paid only upon realization. Borrowing to invest in assets yielding capital gains involves a tax arbitrage: the interest is deductible at ordinary rates, the gain is taxed at favorable capital gains rates. The tax savings from accelerated depreciation with recapture result frompostponement. Without recapture, there

II. ***Some Basic Methods of Tax Avoidance***

So potent are the opportunities for tax avoidance within our current tax structure that, under the hypothesis that capital markets are perfect (zero transactions costs, no restrictions on borrowing or short sales, for every security there is a linear combination of other securities which yields an identical return), individuals could risklessly eliminate all taxes on capital, and indeed, with a little additional effort, they may be able to eliminate their tax liabilities altogether. There is not just one way, but a multiplicity of ways by which taxes can be avoided. Let me briefly describe four modifications of what are, in fact, familiar tax avoidance schemes. The modifications/\arise because, under my assumptions of a perfect capital market, I need not concern myself about transactions costs; I assume that individuals can borrow against collateralizable assets; if the probability of default is zero, they pay the safe interest rate; if not, they will have to pay a higher interest rate, but the interest rate will depend simply on the

Benefits and costs of tax avoidance practices

The most obvious benefit of being tax avoidant is the cash savings from the taxes avoided. The cash savings lead to increased cash flow to the firm which offers it the opportunities for further investments and in turn increases the firm's value. The shareholders' wealth is also enhanced in terms of more dividends, and increased shares value. The managers are also not left out of these benefits given the compensations for effective tax management. In fact, the managers' compensations are determinants of tax avoidance practices in most cases. As such, several studies have documented the links between tax avoidance and managers' incentives looking from different perspectives. For example, Phillips (2003) found that compensating managers based on after-tax results is associated with lower effective tax rate (ETRs). Similarly, Slemrod (2004) developed a model for the link between tax avoidance and manager compensation. A similar model development was carried out by Desai and Dharmapala (2006) wherein equity-based incentives are theoretically linked with tax avoidance. Both models suggested a link between tax avoidance practices and managers' compensations. Using a different approach, Frank, Lynch and Rego (2009) found a link between earnings management and tax avoidance. This suggests that the managers are being compensated for effective tax planning. More empirically, Rego and Wilson (2010) documented a positive relationship between tax aggressive planning and option vega for managers. Further, Robinson, Sikes, and Weaver (2010) documented that firms with tax departments treated as profit centres pay fewer amounts of taxes. This means that tax managers are compensated for tax avoidance. However, a study by Armstrong, Blouin, and Larcker (2012) documented no relationship between tax directors' compensations and tax avoidance. The authors concluded that tax matters are influenced more by the top management team than the tax director as an individual. These reported studies show that managers are being compensated for tax planning based on the tax savings from the taxes avoided. However, it has been argued that the nature of the compensation contracts between the fund providers and professional managers seems incomplete. This is because the owners lack the full knowledge of the tax planning activities of the managers (Armstrong et al., 2012) which gives rooms for hidden actions that may be detrimental to the very existence of the firm (Croker and Slemrod, 2005). The second reason for this is that tax avoidance activities are mostly illegal, which are not enforceable in court of law. Thus, the case of a breach of contract is left for moral consideration (Chen and Chu, 2005). Accordingly, Chen and Chu (2005) argued that tax avoidance leads to loss of internal control in case the managers act selfishly given the incomplete nature of the contract. It could therefore, be said that despite the compensations for effective tax management, managers may still pursue their personal interests through tax planning. This notion of personal interest of managers in tax planning was further investigated in Desai and Dharmapala (2006). The authors argued that, with high-powered incentives, managers tend to avoid more taxes without resources' diversion in the better governed firms. They, therefore, concluded that tax avoidance and rents extraction are complementary and that the structure of corporate governance could mediate this interaction. Their study suggests a new form of agency cost for tax avoidance. It could be said that the general notion about tax avoidance as a transfer of wealth from government to shareholders is questionable in the corporate setting. Apart from this agency cost of tax aggressiveness and the loss of internal control highlighted above, there are other non-tax costs associated with corporate tax avoidance activities (Scholes, Wolfson, Erickson, Maydew&Shevlin, 2005).

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter presents the methodological concerns used in conducting this research. It involves the research design, sample & sampling technique, sources of data collection, procedure of data collection and method of data analysis.

3.2 Description of the study area

This study will purposefully select specific location and target population. It uses primary data from individual tax payer in wolkite town. And it uses secondary data from Ethiopian revenue and custom authority target populations are all tax payer in wolkite town. Paper selects those tax payers because they are dense settle in specific area so research paper will get many information simply. The choice of wolkite town due to its nature as well capital city in the zone and it is nearest so research study will do in this area to save our time and cost.

3.3 Research design

In order to identify the problem in the tax avoidance, descriptive research design was used because this design was set out to describe and interpret what were questions and could help to understand an issue involved in the study

3.4 Data Type, Source and Methods of Collection

3.4.1 Data Type and Research Approach

There are three approaches to conduct any research: Qualitative, Quantitative and Mixed approaches (Creswell 2009). Quantitative research is a means for testing objective theories by examining the relationship among variables. On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively. Finally, mixed methods approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand it. In this study qualitative approach as employed to ensure effectiveness of the research process and meet the objective of the research. In terms of time horizon, this study is longitude in that data collected from the respondent's long period of time and for different period of time.

3.4.2 Source of data

To comply with the research objectives, the researcher focused on primary data. Primary data from individual tax payer and employee of tax authority wolkite town. Because primary data are more reliyable than secondary data to collect data from an individual tax payer.

3.5 Target population

The target population of the study includes all tax payers, and tax authority employees in wolkite town. There are 4475 individual tax payers in wolkite town and 40 employee of wolkite town tax authority.

3.6 Sampling Technique

The method that is implemented for the study to collect the data from the respondents by applying stratified sampling technique in order to create homogeneity of the sampling frame to obtain a representative sample. The study selected respondents from each of the following stratum using simple random sampling, and judgmental sampling. from tax payer: They are the one who pay tax any category that means category A, B and C. From employees: They are the one who deal with each tax payer and have a good insight for the study. The data collected from this respondent group at their office.

3.7. Sample Size

In order to achieve the objective of the research, the researcher will have distributed the researcher's questionnaire to 107 respondents from the total population of the wolkite town tax payer and employee of tax authority to gather relevant data. This respondent group was collected as they come for service. The information from this respondent group is collect from their offices. We will use the formula to determine the sample size from the total population by using the following formula as shown below for tax payer.

$$n = N/1+N (e) 2,$$

Where, n= is number of sample size selected

N= is total number of population

e= is margin of error then, (Yamane, 1967)

We determine the sample size as follows.

N=4475=> it is obtain from human resource office

40=employees

4515=sum of tax payer and employees i.e. 4475=tax payers

Margin of error=10% then 4515/1+4515(0.1)2=99

In addition from employ category by using judgmental sample technique researcher select 8 respondents. Therefore, researcher will use 107 respondents from the total population to get relevant and enough sources of data which helps us to achieve the researchers study effectively.

3.8 Data collection method

There are various methods of data which are useful to collect data while conducting research. For the purpose of this study structured questionnaires developed by the researcher are used to collect data from each individual of selected item and almost the same questions are set out to each selected individual to understand their reply towards tax avoidance problem. Self-administered questionnaires used in order to accurately gather the required data from selected respondents to meet the researcher's informational objectives. Questionnaires are originally developed in English but translated into Amharic in case when the researcher faces respondents who are not comfortable/understand English language**.** The questionnaires were self-administered by the respondents so that they can complete the questions in their own time without any distraction but the researcher's study, in order to get useful information for the researchers study have used both close ended and open ended choice questionnaires, close ended questionnaires are questions which include yes or no or just like multiple choice question. And open ended choice questionnaires are questions which need respondents to answer the question asked by their own words and need subjective answers.

3.9 Method of Data Analysis and presentation

In order to make easy to understand and interpret the data collected through questionnaire the researcher used descriptive techniques. The data that collected through close ended questionnaire are easy to obtain uniform information from the proposed respondents and it was simple for arithmetic computation. So far this data the researcher used the following statistical techniques such as percentage, table and in contrast the data that was collected by using open ended questionnaire.

CHAPTER FOUR

RESULT AND DISCUSSION

INTRODUCTION

This chapter is the main part of the study which deals with presentation, analysis and interpretation of data, collected by using primary sources of the data. The primary data were collected through distribution of questionnaire to employees of Wolkite town tax administration office and Wolkite town tax payers.

In general, a total of questionnaires were distributed, 99 tax payers and 8 to the employees, surprisingly all of the have been properly filled and successfully collected from employee side, but from taxpayer side out of 99 questioners 60 of them returned. So the finding that was provided in the subsequent pages is based on the 60 respondents.

4.1 Data related to employees

Table 1. Respondents sex distribution

No	Item	**4.1.** Respondents	
		Number	Percentage (%)
1	Respondents sex distribution		
	1. Male 2. Female	6 2	75 25
	Total	8	100%

Source: primary data, 2011

The respondent was of two sexes that are males and females each were purpose fully taken from the employees. The total sample size was 8 respondents, 6 were male and the remaining 2 were female. This indicates the dominance of male in the research.

Table 2. Respondents’ age distribution

No	Item	Respondents	
		Number	Percentage
2	Respondents age distribution		
	1. 18-35	3	37.5
	2. 36-50	5	62.5
	3. 51-65	-	-
	4. More than 65	-	-
	Total	8	100%

Source: primary data, 2011

In table 4.2. Regarding employees from the total respondents 5 employees (62.5%) were between 36-50 years age and 3 employees (37.5%) were between 18 – 35 years ages.

Table 3. **Respondents’ education distribution**

No	Item	Respondents	
		Number	Percentage
3	Respondents academic status		
	1. Highly qualified (MA, PhD.)	-	-
	2. Degree	2	25
	3. Diploma	2	25
	4. Certificate	4	50
	Total	8	100%

Source: primary data, 2011

As can be seen from the table 4.3. Regarding the academic status of tax administration employees, no respondents answer that they are highly qualified. Out of the total 8 respondents 2(25%) were qualified in degree and 2(25%) respondents were qualified in diplomat. The remained 4(50%) were qualified in certificate. This implies that wolkite town tax administration revenue authority employees were characterized by inadequately qualified workers as compared with modernized method of work tax levying assessment and collection majority has been conducted by employees whose qualification is below diploma, this can be done definitely creates a higher burden on efficiency and effectiveness of the work to be done by those employees. Incidentally, employees who were less qualified who gave service for many years is in a better position to asses and collect tax with dedication, interest and creativity. Nevertheless, it would be difficult to delegate those workers, unless well qualified employees are assigned to run the tax payment.

Table 4. Experience of employees

No	Item	Respondents	
		Number	Percentage
4	Work experience		
	1. 1-5 years	-	-
	2. 6-10 years	2	25
	3. 11-15 years	2	25
	4. More than 15 years	4	50
	Total	8	100%

Source: primary data, 2011

In table 4.4. regarding the working experience of the employees, from the total respondents 2 employees which is 25% are having and experience of 1-5 years and 2(25%) employees having an experience of 6-10 years majority of the respondents are more than 10 years which represent

4(50%) of the total respondents. As can be seen from the above table that majority of the employees are experienced in the areas on taxation.

Table 5. **Training**

No	Item	Respondents	
		Number	Percentage
6	Do you attend various training programs concerning taxation to enhance and develop your skill?		
	1. No	3	37.5
	2. Yes	5	62.5
	Total	8	100%

Source: Primary data, 2011

From the table 4.5 questions regarding the training facility that should be provided to the employees for making them to adopt modernizing working system and to properly identify the daily income of the tax payer, 3 respondents (37.5%) have got training, but remaining 5 respondents (62.5%) are not involved in such a frequent and skill enhancement training. these implies that some of the employees have got a chance to attend training but majority of employees are not attended training.

Table 6**Training facility**

No	Item	Respondents	
		Number	Percentage
7	If training is not given what do you think the reason is?		
	1 The awareness of employee	-	
	2 The problem of human resource	1	33.3
	3 Due to budget problem	2	66.7
	Total	3	100%

Source: primary data 2011

From the table 4.6 questions regarding does not got training facility that should be provided to the employees for making them to adopt modernizing working system and to properly identify the daily income of the tax payers, 2 respondents (66.7%) have not got training due to budget problem and remaining 1 respondents (33.3%) was not involved such frequent and skill enhancement training because of human resource problem. This implies that some of the employees have got a chance to attend training problem of human resource but majority of employees are not attended a training due to budget problem.

Table 7 Interest and motivation of tax payers their tax

No	Item	Response	
		Number	Percentage
8	How do you see the interest of the tax payer for paying their tax?		
	I. High	-	-
	II. Average	-	-
	III. Less	8	100
	Total	8	100%

Source: primary data, 2011

As can be seen from the above table 4.7 Out of the total respondents all of them (100%) said the interest of the tax payer for paying their tax is much less. this is basically lack of awareness for the payment of tax is importance, this will lead them not to pay their tax on specified time, As a result the tax payers will be exposed to a higher amount of penalty that arise from the late payment of the taxes. To alleviate such a higher burden, situation on the tax payer the administration need to design a program that will enable the administration to create an awareness regarding the importance of taxation and information on them through different tax payers about the consequence of arise from late payment or in willing to pay the total tax amount.

Table 8 mechanisms used by the administration office to level tax on tax payer

No	Item	Response	
		Number	Percentage

9	What are the criteria to level tax on tax payers?		
	I. Monthly sale	4	50
	II. Annual sale	4	50
	Total	8	100

Source: primary data, 2011

Moreover, has been observed from table 4.8 the respondents also closed the reason why they are not participating in any training activity. Among the 8 respondents 4 of them (50%) of the problem is because of budget constraint, the other 4 respondents which represent (50%) of respondent do not exactly know the reason why they stay without training. In general, as can be observed by the research the tax administration workers of WOLKITE town has been facing a problem in their work because of the training that is not yet provided to them.

Table 9material and equipments used by the employees

NO	Item	Response	
		Number	Percentage
11	How do you see the equipment and materials used to facilitate your work?		
	I. Outdate	5	62.5
	II. Well	2	25
	III. Good	1	12.5
	IV. Very good	-	-
	Total	8	100%

Source: primary data, 2011

In relation to the material and equipment facilities used by the employees, Among the 8 respondents,5 of them (62.5%) are working in a none comfortable situation and without dates facilities for work. 2 respondents (25%) have reported that there is a better facility. The remaining respondent working with a good working facility, no respondents answered that there are very good working facility. This implies that the majority of employees' are working with outdated facilities, this great draw back that is observed from the administration.

Table 10tax plan of tax payer.

No	Item	Response	
		Number	Percentage
10	Do have tax plan?		
	I yes	24	35%
	II no	36	65%
	Total	60	100%

A tax plan is a plan prepared the payer to minimize the level of tax burden at the time of tax payment by monthly, quarterly or semiannually basis. As can be seen above in the table out of the total of 60 tax payers 24 of them (35%) have tax plan, remaining 36tax payers (65%) do not have a tax plan. This shows majority of tax payers do not have a tax plan as a result they are highly burdened at the time of tax payment, so there is a need to provide an awareness development program by the tax administration office regarding the plan and its importance.

Data related to tax payer

Table 11**Respondents sex distribution**

No	Item	Respondents	
		Number	Percentage (%)
1	Respondents sex distribution		
	3. Male 4. Female	36 24	65% 355
	Total	60	100%

Out of the total of 60 respondents 36(65%) tax payer were male and the remaining 24 (35%) tax payers were females. These implies in turn indicate the dominancy of males in organization.

Table 4.12 Respondent's age distribution

No	Item	Respondents	
		Number	Percentage
2	Respondents age distribution		
	1. 18-35	36	60%
	2. 36-50	20	33.3%
	3. 51-65	4	6.7%
	Total	60	100%

As can be observed from the questionnaire out of the total 60 respondents 36(60%) payers were 18-35 years and 20(33.3%) tax payers were 36-50 years and remaining 4(6.7%) respondents were 51-65 years.

Table 4.13 Respondent educational level

No	Item	Respondents	
		Number	Percentage
	Respondents academic status		
	1 primary educations	14	23.3%
	2 General secondary school	26	43.3%
	3 illiterate	20	33.4
	Total	60	100%

As can be seen from the questionnaires regarding to academic status of the selected tax payers out of the total respondents 14(23.3%) are attended their primary educations &26(43.3%) are attended General secondary school and 20(33.4%) are illiterate.

Table 4.14 tax plan of tax payer.

No	Item	Response	
		Number	Percentage
10	Do have tax plan?		
	I yes	24	35%
	II no	36	65%
	Total	60	100%

A tax plan is a plan prepared the payer to minimize the level of tax burden at the time of tax payment by monthly, quarterly or semiannually basis. As can be seen above in the table out of the total of 60 tax payers 24 of them (35%) have tax plan, remaining 36tax payers (65%) do not have a tax plan. This shows majority of tax payers do not have a tax plan as a result they are highly burdened at the time of tax payment, so there is a need to provide an awareness development program by the tax administration office regarding the plan and its importance.

Table 4.15: significant of tax avoidance

NO	Item	Response	
		Number	Percentage
12	Do you think Tax avoidance in Tax payers is significant?		
	I yes	20	33%
	II No	30	50%
	III I do not know	10	17%
	Total	60	100%

Source: primary data, 2011

Regarding the tax avoidance in tax payers among the total respondents20 tax payer (33%) tax avoidance is significant, from those 30 respondent which respondent (50%) say there is notax avoidance, the remaining 10 respondents which respondents (17%) of the total respondents do not know about tax avoidance. From the response of majority accordance with the taxavoidance insignificant. So the tax payers should work intensively to know advantage of tax avoidance.

Table:4. 16 avoidable taxes

NO	Item	Response	
		No	Percentage
13	which tax do you believe is more avoided?		
	I Business Profit Tax	15	66.6
	II payroll tax	-	-
	III VAT	5	33.4
	Total	20	

Source: primary data, 2011

As can be indicating in the above table avoidable tax from the total amount of respondent that say tax avoidance is significant 15 tax payers (66.6%) avoided type of tax is Business Profit Tax, the remaining 5respondents which represents (33.4%) of the that respondents say VAT is avoidable tax.Business Profit Tax is major avoidable tax, so tax payers focus on this type of tax to avoid improper levied tax.

Table 4.17 cause of tax avoidance problem.

NO	Item	Response	
		Number	Percentage
	What do you think is the causes for the tax avoidance problem?		
	I Tax rates are too high	4	20
	II There is dishonest tax velour	-	
	III Several tax items are levied at the same time	16	80
	Total	20	100

Regarding the cause of tax avoidance problem for tax payer among the total respondents16 tax payer (80%) are reposedSeveral tax items are levied at the same timeis the main cause, the remaining 4 respondents which respondents (20%) of the total respondents Tax rates are too highis cause for avoidance problem. From the response of majority accordance with the cause of avoidance problem is several tax items are levied at the same time. Sotax payers tackier topaying over tax in this time, in addition tax administration should reduce to levied several taxes at once.

Table: 4.18 company size

No	Item	Response	
		Number	Percentage
	Do you think that company size influence on tax avoidance problem?		
	I yes	40	66.6
	II no	20	33.4
	Total	60	100

Regarding the company size cause of tax avoidance problem for tax payer among the total respondents40 tax payer (66.6%) are reposed company size is related with tax avoidance problem, the remaining 20 respondents which respondents (33.4%) of the total respondents say there is no relation between them. From the response of majority accordance with the company size.Sotax payers which have large company size tackier to paying over tax in this time, in addition tax administration should reduce to levied high tax on large company.

Table 4.19: Awareness creation program to merchant

NO	Item	Response	
		Number	Percentage
12	Does the tax administration office give you a training or awareness creation program?		
	I. Yes	36	60%
	II. No	24	40
	Total	60	100%

Source: primary data, 2011

Regarding the training and awareness creation program to the tax payer among the total respondents36 tax payer (60%) attended training, the remaining 24 respondents which respondents (40%) of the total respondents do not engage in any training activity which is prepared by the tax administration office. From the response of majority accordance with the rule and regulation of the tax policy and the importance of tax to the country economic

Growth, so the tax administration should work intensively to aware tax payers in the area of laws as well.

Table 4.20. Tax payer's knowledge on tax rule and regulation

NO	Item	Response	
		Number	Percentage
13	Do you have asses' tax payers' knowledge on tax rules and regulations?		
	I. No	39	65%
	II. Yes	21	35%
	Total	60	100%

Source: primary data, 2011

As can be indicating in the above table tax payers' knowledge on tax payers rules and regulation the total amount of respondent 39 tax payers (65%) do not attained tax rules and regulation, the remaining 21respondents which represents (35%) of the total respondents attained tax rules and regulations which prepared by the tax administration office.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.1 Conclusion

To conclude the major findings that have been observed in the research paper the researcher came up with the following precise pippins that are basically summarize the overall findings .

With regard to the profile of tax payer even if they have a considerable experience their right, they are less qualified and not adequately knowledge for the position that they are does not practice of tax avoidance now.

In relation to the adequacy of the tax administration employees, the level of manpower that exists in the tax administration is inadequate to sense the larger number of different tax payer in the town.

With regard to the profile of employees even if they have a considerable experienced, they are less qualified and not adequately trained for the position that they are possessing now.

In the tax administration of wolkite town worker could not subjected to attain a timely and frequent training to cope up with the dynamic nature of modernization and business environment, it is basically because of the organization financial (budgeting). Physical and technical problems. Because of such the tax payer could not satisfy for the services received and they are always complaining the fairness and reasonableness of presumptive.

While in assessment of the tax business, it is conducted on a single and a one time basis, this might not enable the assessment team to obtain full information regarding the overall business activity, Because the ever changing nature of the business environment cloud bring a seasonal fluctuation of their income and performance. In terms of the quality and quantity of the equipment and materials that has been used by the tax administration employees are not really adequate and fair enough to perform their activity properly.

In the side the tax payer they don’t have a record keeping and plan trend as a general produce of the tax administration, the tax payer are not in forced keep books of records, but it is highly essential to train and aware the tax payer for the importance of the record keeping and determining a tax plan, financial evaluation and taxation purpose.

5.2 Recommendations

Based on the findings of this study, the researcher came up with the following recommendations to discourage tax avoidance problem among taxpayers.

With regards to social services provided by the government to the public, the study findings confirmed that most of the taxpayers in Ethiopia are encouraged to pay taxes when they are satisfied with the public services. This factor can be exploited to discourage tax avoidance. Therefore, the government should use the taxpayers' money wisely and in a transparent manner and communicate with the taxpayers about tax programs to promote the benefits of paying taxes. WRCA (wolkite Revenues and Customs Authority) needs to open new tax offices at the vicinity of small and medium business profit taxpayers and it needs to minimize the frequency of filing VAT. Similarly, WRCA should introduce e-filing and e-payments for medium business, tax return formats should be simplified for small and medium businesses so that non avoidance related to late filing and late payments can be minimized and fees to tax consultants can be saved.

Tax directives, guidelines and any changes therein should be available to every business profit taxpayers' timely and necessary tax education and training should be given consistently and frequently by using different medias such as TV, Radio, different publications, Magazines and training activities. Similarly, taxpayers should be encouraged to use the web sites of WRCA. So that it will enhance awareness of taxpayers, minimize gaps of tax avoidance problems and it will also enhance timely submission of the tax returns by business profit taxpayers.

With regard to the attitude of taxpayers towards the payment of taxes, the study result showed that most of the taxpayers confirmed the presence of similar traders, friends and informal suppliers who do not pay taxes. Since the presence of those who do not pay taxes positively affect the taxpayers attitude towards tax avoidance problem, WRCA should strengthen the tax enforcement team so as to monitor informal suppliers transacting without using legal receipts and to include all small and medium traders in to the tax system. The frequency and coverage of audit should be increased to ensure uniform application of tax rules and procedures and to ensure fair tax system among similar businesses.

Most of the services such as reimbursement of overpaid taxes, solving tax related problems timely, tax education and updates, willingness and experience of tax officers to handle and solve customer cases etc. are rated poor and thus there is a very reason to improve them. WRCA should use different mechanisms to motivate its staffs so that they can serve the taxpayers well and improve their tax avoidance problem:

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Appendix

Wolkite University

We Strive for Wisdom!

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Research Questionnaire

The aim of this questionnaire is to assess information

Mention needed for the research report to be produced under the title “Determinants of Tax avoidance problem” in Wolkite town: in SNNP state, Ethiopia. The information you provide is believed to have a great value for the success of this research. Besides to its academic purpose, the study is entirely devoted to assess the factors affecting in this area of study. The information you will provide is to be used for academic purpose and will be strictly kept confidential.

Kindly requesting you to give genuine response to all the questions here under, I am grateful to your cooperation.

Questionnaire for tax payers

General instructions:

I. Please circle the letter that appropriately represents you response in each of the following

II. To the questions with alternatives that do not match to your responses, please write your appropriate response on the space provided.

Background information of respondents

1. Gender; Sex

1. Male ☐ 2.Female ☐

2. Age: 18-25 ☐ 26-35 ☐ 36-42 ☐ 43-55 ☐ Above 55 ☐

3. Educational Status

1. Illiterate ☐ 3.General secondary school ☐ 5.Degree ☐

2. Elementary school (1-8) 4.Diploma ☐

If others specify_______________________________

4. Type of business; ____

Factors that affect tax avoidance problem

5. Do you think Tax avoidance in tax payers is Significant?

Yes ☐ No ☐ I don't know ☐

6. If your response is "Yes" for question no 1 which tax do you believe is more avoided? (Multiple Answers is Possible)

Business Profit Tax ☐ Payroll tax ☐ VAT ☐ Rental income ☐ others specify ☐

7. If your Response for question no 2.1 is "yes" What do you think is the causes for the problem?

A. Tax rates are too high ☐

B. There is dishonest tax valuer ☐

C. Several tax items are levied at the same time ☐

D. Tax payers are not willing /able to pay taxes ☐

8. Possible solutions to problems

Tax burden should be reduced in a legal way

1. Strongly disagree ☐ 3.strongly agree ☐ 5.neither disagree nor agree ☐

2. Moderately disagree ☐ 4.moderately agree ☐

9. Numbers of tax valuer should be reduced

1. Strongly disagree ☐ 3.strongly agree ☐ 5.neither disagree nor agree ☐

2. Moderately disagree ☐ 4.moderately agree ☐

9. The tax law should be respected

1. Strongly disagree ☐ 3.strongly agree ☐ 5.neither disagree nor agree ☐

2. Moderately disagree ☐ 4.moderately agree ☐

10. Tax payers have trust in the tax system, assessment and collection procedure

1. Strongly disagree ☐ 3.strongly agree ☐ 5.neither disagree nor agree ☐

2. Moderately disagree ☐ 4.moderately agree ☐

11. The tax rate should be reduced

1. Strongly disagree ☐ 3.strongly agree ☐ 5.neither disagree nor agree ☐

2. Moderately disagree ☐ 4.moderately agree ☐

12. Ethiopian Revenue Customs Authority (ERCA) should offer adequate training about tax valuating system and procedure to the tax valuer?

1. Strongly disagree ☐ 3.strongly agree ☐ 5.neither disagree nor agree ☐

2. Moderately disagree ☐ 4.moderately agree ☐

13. The form of tax should be reduced

1. Strongly disagree ☐ 3.strongly agree ☐ 5. neither disagree nor agree ☐ 2. Moderately disagree ☐ 4.moderately agree ☐

14. Is there an appeal mechanism? 1. Yes ☐ 2.No ☐

15. Are you satified by the appeal mechanism ?

1. yes ☐ 2. No ☐

II. Questionnaire to employees

1. Respondent sex distribution:-

   Male ☐ female ☐

2. Respondent age distribution:-

   18-35 ☐ 36-50 ☐ 51-65 ☐above 65 ☐

3. Education background:-

   PHD ☐ Masters ☐ Degree ☐ Diploma☐ Certificate ☐
4. How many years do you worked in this organization?

   1-5 ☐ 6-10 ☐ 11-15 ☐ more than 15 ☐
5. Do you attend various training program concerning taxation to achieve and develop your skill?

Yes ☐ No ☐

6. In question no ‘5’ your answer is no what do you think a reason?

A. Due to budget problem ☐

B. The awareness of the employee ☐

C. The problem of human resource ☐

D. Any other problem, please specify ☐

7. How do you interest motivation of tax payers for paying their tax?

High ☐ average ☐ low ☐

8. What are the criteria to levy tax a tax payers? Monthly ☐ annually ☐

9. How do you see the equipment and material used to facilitate your work? ☐

Outdated ☐ well ☐ good ☐ very good ☐

10. Do you have tax plan? Yes ☐ No ☐

11. Do you assess tax payer’s k☐wledge on ta☐rule and regulation? Yes ☐ No ☐