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FACTORS AFFECTING LOCAL TAX REVENUE COLLECTION IN ETHIOPIA

**A SENIOR ESSAY FOR THE REQUIREMENTS OF BACHELOR OF ARTS
DEGREE IN GOVERNANCE AND DEVELOPMENT STUDIES**

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Abstract

The purpose of this paper is to analyse the factors that affect local tax revenue collection from taxes by the revenue government. The main objective of this study is to explore the factors affecting tax revenue collection in Ethiopia by using a secondary data. Local Tax revenue may be affected by various factors such as inflation, unemployment, tax rates, level of actual income exchange rate and foreign direct investment. A number of studies have been done in Ethiopia as far as tax revenue is concerned but still not effective to test all factors thus the study was meant to identify factors affect tax revenue in Ethiopia. The research approaches adopted in this thesis include collections of series data set qualitative analyses. The time period covered was (2021). Secondary data were collected, theory based and government sources. The findings from this research provide evidence that, tax collection problem result shows negative significant, tax effective system unemployment.. The main conclusions local tax revenue from this study are factor affecting tax revenue. The study also provides conclusion and summery.

Key words: The local Tax revenue collection and factor affecting tax collection in Ethiopia

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Acronyms

ERCA	Ethiopian revenue and Custom Authority
MoFED)	Ministry of Finance and Economic Development
(NBE)	National Bank of Ethiopia
(CSA).	Central Statistics Agency
GDP	Growth Domestic Product

CHAPTER ONE

Introduction

1.1Background of study

Tax is a compulsory contribution payable by economic units to a government without expectation of direct and equivalent return from the government for the contribution made.

Taxes have both micro and macroeconomic effects in a modern economy. Taxes have good as well as bad effect in the production, distribution of income and stabilization of the economy (Misrak, 2008).

Taxes are a fee charged or levied by a government on a product, income, or activity. The purpose of taxation is to finance government expenditure (Gupta, 2001). One of the basic important uses of taxes is to finance public goods and services, public goods like roads, power, municipal services, and other public infrastructures. Despite the fact that taxation is not accepted by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens (Oberholzer, 2008).

If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. A tax payer doesn't expect direct and equivalent return from the government for the compulsory contribution made (Ethiopia Trade and Investment, 2015).

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Tax payer doesn't expect direct and equivalent return from the government for the compulsory contribution made (Ethiopia Trade and Investment, 2015). The above idea initiated the researcher to investigate the local Tax revenue and Collection Problems in the Ethiopia. Generally taxes are a fee charged or levied by a government on a product, income, or activity.

1.2 Statement of the problem

From all sources of finance, tax is the major source of finance for the government; however, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permits a government to sufficiently finance its expenditures (World Bank, 1999).

Along with the growth in the overall Ethiopian economy, it has been observed that there has been an increased government spending and deficit financing. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. The government collect significant amount of revenue including grants, which could not fully finance the total expenditure. Without grants, the deficit could have been also about significant. This makes the borrowing and grant element of government's total expenditure counts too much. Of the external grant that constitute part of government revenue, almost half comes in the form of grants in kind and the remaining comes in the form of untied cash (IMF, 2006).

Furthermore, due to the great encouragement and conducive environments like investment opportunities created by the Ethiopian government, new firms are emerging surprisingly, however, the amount of tax revenue for the government is not increasing proportionately even every so often a decreasing trend was observed.

Accordingly, huge unfavourable variance is observed in the performance report. Consequently, huge amount of money that should have been paid is not really given to the government, which in turn can be used to meet the various objectives of a government. Moreover, the prevalence such significant deficit demands the government to improve internal revenue generating activities to reduce dependence on foreign funding. In principle, government could use both domestic and external sources of finance that a country can tap to finance the deficit. Perhaps the most commonly used is to take corrective measures on the potential problems of tax administration at each tax office.

In order to raise adequate revenue to minimize revenue shortfall. 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).

Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country.

Therefore, identifying the problems on the factor affecting tax revenue collection in Ethiopia .since they have adverse effects on the overall revenue of the government. Accordingly, this study tries to identify tax revenue collection problem

1.3 Research questions

This study has focused on the answering the following research questions.

A. Main Research Question

The main research question is “What are the factors that affect the local tax revenue collection performance in Ethiopia.

B. Specific Research Questions

To answer the main research question, the study has focused on the following specific research questions.

1. What are the major sources of local tax revenue in Ethiopia?
2. How effective are the local tax administration in collecting the local tax revenue
The Ethiopia economy is able to generate?
3. What are the challenges the local tax administration system has been facing to collect the revenue the economy is generating?
4. What should be done to improve the level of local revenue collection in the Ethiopia?

1.4. Objectives of the Study

Based on the research questions mentioned above, the study has the following main and specific research objectives.

A. General Objective

The general objective of the study is to assess the factors that affect the local tax revenue collection performance in the Ethiopia

B Specific Objectives.

The specific objectives of this study are the following

1. To understand the status people knowledge and awareness of taxation
2. To assess the efficiency local tax revenue collection in Ethiopia.
3. To identify challenges the tax administration system has been facing to collect the local tax revenue.
4. To assess and improve the level of local tax revenue collection in Ethiopia

1.5 Significance of the Study

The findings of this study may give clear and cosies understanding of what type of tax revenue assessment and collection procedures are there, what problems are there and how those problems were handled by both tax payers and Administrators. Thus, all the concerned body will be able to strength the tax revenue collection and try to adopt a comprehensive strategy, and minimize the observed tax administration problems related to low tax revenue.

The Ethiopia government tax revenue and tax administration bureau may use this finding to revise its strategies concerning tax revenue collection. Furthermore the results of finding will serve as a reference for other researchers on this area.

1.6. Scope and Limitation of the Study

The researcher has found that it is very important to limit the scope of the study to a manageable size in order to investigate the issue thoroughly. Therefore, this research is confined to Ethiopia tax Revenues Office for the sake of in-depth analysis with genuine investigation on tax revenue collection problems.in addition to this it is impossible and difficult to conduct a research on tax revenue collection problems across country wide within such a short period of time together with limited financial resource owned by student researcher.

Hence the focuses of this study is “local Tax revenue collection problems in Ethiopia Revenues and tax revenue collection office and factor affecting tax.

CHAPTER TWO

2. Review of Related Literature

This chapter review literature that have relevance to the study so as to have an insight into the research topic and to briefly expose the readers to some of the major areas of the subject matter under consideration. In line with this, this chapter will discuss the meaning and concept of tax, tax revenue collection in Ethiopia government, Objectives of Tax revenue collection, characteristics of an effective tax system, the base of tax, impact, incidence, and shifting of taxes, Tax saving, Tax implementation and administration, Procedures for tax

collection, Importance of tax administration, tax administration challenges, Efficiency of tax Administration, tax administration.

2.1 Theoretical frameworks

The theoretical part of literature covered topic like definition of tax objective taxation principle of taxation and determinant of tax revenue and factor affecting revenue collection and problem of taxation characteristic of tax system and bas of tax

2.2. Definition of taxation

A tax is “a compulsory charge imposed by the Government without any expectation of direct return in benefit”. In other words, a tax is a compulsory payment or contribution by the people to the government for which there is no direct return to the taxpayers (Bhatia, 2003).

Tax imposes a personal obligation on the people to pay if they are liable to pay it. The general public should be taxed according to their ability to pay, i.e., the people in the same financial position should be taxed in the same way without any discrimination.

Thus, tax can be defined as, "an involuntary fee or more precisely, "unrequited payment", paid by individuals or businesses to a government (Richard, 2005). Tax has been defined by various authors and professionals in various ways. Taxes are the major source of the public revenues.

Government needs financial resources to act as a government and play a role that is expected from it by the public. So what the government gives, it must first take away.

Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (James, S., and Nobes, C. 2000). According to these authors, tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return’.

Throughout history, people have debated on the amount and kinds of taxes that a government should impose, as well as on how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions.. In political campaigns candidates’ views on taxation may partly determine their popularity with voters.

Although countries differ considerably in the amount of taxes they collect, yet the most important source of revenue for modern government remains to be tax.

The remainder of government revenue comes from charging fees for services, borrowing and from other related sources. Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Some economists consider taxation an important tool for maintaining the stability of a country's economy.

This is because taxation can redistribute a society wealth by imposing a heavier tax burden on one group in order to fund services for another (Gebrie, 2006)

2.3. Objectives of Tax collection

The main objectives of tax revenue collection are rising of government infra-structure can drive human development by providing systems of health, education and social security and the provision of a successful economy through regulation, administration and investment infrastructure.

Additionally reduction of poverty and inequality to ensure that benefits for development are felt by all, and appropriate utilization of taxes and subsidies to ensure that all social costs and benefits of production or consumption of a particular good are reflected in the market price, for example, the taxation of tobacco to limit damage to the health of citizens. Moreover strengthen and protection of channels of political representation (Cobham, 2007). The objective of local tax revenue as outline below.

1. raising of local revenue
2. wealth redistribution
3. economic price stability
4. economic growth and development

2.4. Tax system or structure

The complexity of tax systems, probability of detection and penalties and tax rates affect the effectiveness of a tax system. The more tax laws become complex the lower the compliance levels. Simple, understandable and clear tax rules enhance tax compliance (Chau & Leung, 2009). The complexity of tax laws makes it difficult for ordinary tax customary to understand. Although taxes are not part of everyday conversations, people will normally try

and make sense of the contributions that they make to the government through the payment of taxes.

When trying to make such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent tax behaviour (Kirchler, 2009).

Complex tax laws are a concern worldwide. Tax laws have become so complex that even experts such as accountants, lawyers and tax officers have difficulty in interpreting many of the legislative provisions.

Research conducted on the linguistic analysis of tax laws found that high level abstraction in the written language combined with long and complex sentences resulted in unnecessary complexities, making it difficult for taxpayers to understand the laws. Several countries have attempted to simplify their tax laws but to no avail, for example, New Zealand's tax law

was written in simplified English, but they still faced the same administrative and compliance problems as before the simplification

2.5. Characteristics of an Effective Tax System

A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency and administrative ease. Although opinions about what makes a good tax system will vary; there is general consensus that these five basic conditions should be maximized to the greatest extent possible.

1. Fairness, or equity, means that everybody should pay a fair share of taxes. There are two important concepts of equity: horizontal equity and vertical equity. Horizontal equity means that

taxpayers in similar financial condition should pay similar amounts in taxes. Vertical equity means that taxpayers who are better off should pay at least the same proportion of income in taxes as those who are less well off. Vertical equity involves classifying taxes as regressive, proportional, or progressive.

2. Adequacy means that taxes must provide enough revenue to meet the basic needs of society.

A tax system meets the test of adequacy if it provides enough revenue to meet

The demand for public services, if revenue growth each year is enough to fund the growth in cost of services, and if there is enough economic activity of the type being taxed so rates can be kept relatively low.

3. Simplicity means that taxpayers can avoid a maze of taxes, forms and filing requirements. A simpler tax system helps taxpayers better understand the system and reduces the costs of compliance.

4. Transparency means that taxpayers and leaders can easily find information about the tax system and how tax money is used. With a transparent tax system, we know who is being taxed, how much they are paying, and what is being done with the money.

We also can find out who (in broad terms) pays the tax and who benefits from tax exemptions, deductions, and credits.

5. Administrative ease means that the tax system is not too complicated or costly for either taxpayers or tax collectors. Rules are well known and fairly simple, forms are not too complicated, it is easy to comply voluntarily, the state can tell if taxes are paid on time and

Correctly, and the state can conduct audits in a fair and efficient manner. The cost of collecting a tax should be very small in relation to the amount collected.

2.6. The Base of Tax

The base of a tax is the legal description of the object with reference to which the tax is payable.

For example, the base of an excise duty is production, packing or processing of a specific good; the base of an income tax is the income of assesses ; defined and estimated in terms of certain rules laid down for this purpose; a gift may be defined and made a base for levying a gift tax.

Note that the base of each tax has to be defined legally and it is to be quantified for the purpose of determining the tax liability of an individual tax payer. Each taxpayer is considered a legal entity for this purpose.

Accordingly, an individual legal entity may be subjected to more than one tax. It should be noted that a tax base may have a time dimension also. For example, income tax is usually on an annual basis and the law has to decide whether income would be taxed on the basis of accrual or receipt. The authorities, while determining a tax base, are expected to give due consideration to various questions like those of cost of collection, administration and effect of that tax.

The exact coverage of a tax base is sought to be determined by an optimum combination of these considerations. With the passage of time, a tax base under consideration may grow or may shrink. For example, as production of excisable goods increases, the base of excise duties also grows. Relevant provisions, definition and rules of a tax may be changed to extend its coverage or base (Bhatia, 2003).

2.7. Impact, Incidence, and Shifting of Tax revenue collection

The burden of a tax does not always lie on the person from whom it is collected by government.

When a tax is imposed on a person, it is quite possible that it may be transferred by him to a second person, and this tax may be ultimately borne by this second person or transferred to other by whom it is finally borne. Thus, a person who originally pays the tax may not be actually bearing its money burden as such. Hence, it is necessary to know who bears the immediate burden of tax and who bears the ultimate burden of tax

2.8.1 Impact of Tax revenue collection

Impact of a tax refers to the immediate/initial burden of a tax on the person who pays it in the first instance. In other words, the person who pays it in the tax to the government in the first instance bears its impact. Hence, impact of the tax is always on the person who is responsible by law to pay the tax amount to the government in the first instance (Fullerton and Rogers, 1993).

2.8.2 Incidence of Tax revenue collection

Incidence of a tax refers to the final or ultimate resting place of the burden of the tax payment. It is the place where the tax is finally collected. The person who has the legal obligation to make a tax payment may not be the person whose welfare is reduced by the presence of the tax.

If a person who pays the burden of the tax to anybody else, then the incidence as well as the impact of the tax is on the same person. However, if the original or the first taxpayer is able to transfer the tax burden (tax paid by him) to a second person who cannot shift the burden of tax to any other person, then the incidence of the tax rests on the second person (Fullerton and Rogers, 1993).

2.8.3 Shifting of Tax revenue collection

Shifting of tax refers to the process by which the money burden of a tax is transferred from one person to another person.

In other words, the person upon whom the tax is imposed not necessarily bears the burden of tax. In this case, the person is given the right to pass on the tax burden to the buyer of goods. Thus, the process of passing on the tax burden to the buyer of goods by the seller of goods is known as shifting of tax (Fullerton and Rogers, 1993).

2.9. Tax Saving

As tax is a compulsory contribution without quid pro quo, tax saving is one of the important issues of taxpayers be it an individual or a business, new or old, small or big, public or private. Tax saving is a method of minimizing or decreasing taxable income and tax to be paid to the government (tax liability). Some of the methods are legal and some are illegal (Misrak, 2008).

2.9.1 Tax evasion

Tax evasion is a method of saving tax liability by a tax payer through fraudulent means or by directly violating tax laws. It is illegal and involving the deliberate breaking of the law in order to reduce the amount of taxes due. It usually entails tax payers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability.

The author however stresses that it excludes unintentional non-compliance resulting from calculation errors or inadequate knowledge of tax laws. Tax evasion is illegal, unethical, uneconomical and highly risky since it may result in penalty, imprisonment and closing up of business.

Tax evasion is a world-wide phenomenon that is prevalent in almost all societies and has been in existence for as long as taxes have been implemented. It is also a concept that is difficult to understand or to combat completely and is a huge challenge to tax authorities and a threat to the tax base of a country.

Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion will improve government's revenue. Reduction of tax evasion is generally done through imposing penalties and subjecting taxpayers to tax audits (Kirchler, 2009).

2.9.2 Tax revenue collection Implementation and Administration

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on disobedient taxpayers.

Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Murphy, K., 2002). Since taxes are an involuntary payment for government services (Sjursen, I, 2012), taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal).

Local Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of the economy.

Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system (Damme, L, T. Misrahi and Orel 2008).

In developing countries, tax administration can be organized respecting the functional principles such as collecting, recording, auditing, and enforcement. These are according to the type of taxpayers, the type of taxes; and type of enterprises in economy. Tax payment needs to be assessed, collected and recorded more efficiently and periodically.

The tax administration should provide impartial and professional courteous service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear,

understandable and current tax information and will make this information available to tax payer through various media and provide timely, accurate written information that one can rely on to questions and requests for tax information (Asian Development Bank 2001).

Education and information programs on specific tax issues should be arranged with taxpayers to enhance their awareness and taxpayers should be allowed to voluntarily disclose their tax situation without incurring a penalty or being prosecuted for tax violations under certain conditions.

2.10. Procedures for Tax revenue collection

It is expected that taxpayer's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income (Damme, L, T. Misrahi and Orel 2008). On the other part of the tax collectors, according to canon of taxation, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Some of the procedures undertaken by tax authority to ensure compliance such as Filing return, return processing of tax, audit and examination, tax collection and tax enforcement.

2.11.2. Audit and Examination local tax revenue collection

The role of tax revenue collection audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (James, S. and Nobes, C. 2000).

2.11.3. Tax revenue Collection and Enforcement

Tax collection and enforcements another procedure in the tax administration. When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways.

The tax administration may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences (James, S. and Nobes, C. 2000).

2.12. Importance of local Tax revenue collection and Administration

According to Asian Development Bank, 2001, tax administration dictates tax policy. Indeed, tax administration and compliance issues determine the broad evolution of tax systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population.

In recent years, the shift away from these taxes - corporate income and progressive individual income tax - and toward tax systems that rely more on broad based consumption taxes such as the value-added tax, flatter rate structures, and the adoption of "dual income taxes," in which a progressive tax on labour income is accompanied with a low flat rate.

Tax on capital income, as adopted in certain Scandinavian countries, can be explained, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Asian Development Bank, 2001). In tax reforms there is a close correlation between successful tax policy and efficient tax administration.

In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994). Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explained by changes and differences in the environment, resources and technologies available to the country's tax administrators (Asian Development Bank, 2001). Aside from the role of tax compliance and administrative issues on the evolution and general features of the tax system, there is no question that administrative considerations influence, and

Often impose decisive limits, on particular tax laws. Most obviously, the failure to tax all sources of economic power, such as the imputed rental value of homes or accruing capital gains, are often justified by reference to practical concerns of administer ability.

It is futile to design a complex and sophisticated response to a tax policy problem if the rules to implement the regime cannot be administered (Asian Development Bank, 2001). Ensuring that taxes are collected from those who owed them has always been an elusive challenge for tax departments.

It has never been easy to collect taxes from lawyers who take cash for a Saturday office visit; waiters who receive most of their income as tips; landlords who collect rent in cash; small business people who skim part of their profits or hire people off the books; cash-only window cleaners, roofers and painters; or large corporations that contract out to sweatshops. It has been even more difficult to collect taxes from crack cocaine dealers, smugglers, hit men and hit-women, and those who make their living defrauding and extorting their clients.

The underground economy has always been diverse and even faster than these examples suggest (Asian Development Bank, 2001). However, as if these traditional forms of tax evasion were not challenge enough, the combined effects of information technology and globalization is now alleged to allow those who have been able to hide in the shadow economy to evade paying their fair share of tax to disappear altogether.

Many individuals are no longer tied to one national jurisdiction; those that are increasingly receive payments from work and investment abroad; anyone can have access to an over sea's bank; anyone with access to a computer can transact business anywhere in the world; property is becoming increasingly intangible and consumption difficult to locate; and, capital is becoming increasingly fungible and can be shifted relatively easily between jurisdictions. These and other developments are said to call into question governments' continued ability to levy taxes in a world in which companies, assets and people are infinitely mobile (Asian Development Bank, 2001).

Tax administrators face a formidable number of challenges in every country. According to Asian Development Bank, (2001), in many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Moreover,

there is the need to establish the legitimacy of tax collection. In all countries tax administrators face the challenge of modernizing the tax administration so that it can operate effectively in an increasingly global economy. In spite of these challenges, several countries' recent experiences in improving the effectiveness of their tax administration have shown that fundamental reform is possible. In recent years, there has been a considerable amount of study on the steps that should be taken to improve tax administration and reform.

Of fundamental importance to all reform efforts, to improve the effectiveness of tax administration significantly, the government must be politically committed to reform, the major obstacles to an effective tax administration have to be identified, and there has to be well-designed strategies for addressing them (Asian Development Bank, 2001).

As a preliminary step to developing a successful strategy for the reform of a revenue agency, the "Tax Policy and Administration Thematic Group" of the World Bank has developed a useful diagnostic framework for revenue administration. It includes a description of quantitative indicators of effectiveness and efficiency that might be used to get a general idea of the physical dimensions of the revenue administration and how effectively and efficiently it is currently performing its functions and where performance problems might be acute.

It also provides a framework and checklist of questions relating to all aspects of revenue departments operations, environment, resources, history, organization and management functions and informal culture that can be used to assess its operations and diagnose its failings (Asian Development Bank, 2001). A reform strategy to increase compliance requires a concerted, long-term, coordinated and comprehensive plan.

It is vital that tax administrators ensure that every compliance policy instrument at their disposal is being used as effectively as possible. The uses of these instruments complement one another.

2.13 local tax revenue collection challenges

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and

responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as is the tax administration (Kaldor, 1980). Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure.

During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes of autonomy enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Robert 2003).

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990).

This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all.

The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens. Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008).

No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic

Structure, administrative capacity and political institutions all limit the range of tax policy options (IMF 2006). Heavy tax distortions in transition economies come from various sources.

First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy.

Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground. Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation.

2.14. Efficiency of Tax Administration

Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system.

Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or could aid in application of the law (Mansfield, 1990). Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance.

A first step is restructuring how the work is organized. In transitional countries, tax administration can be organized respecting the functional principle (collecting, recording,

auditing, and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy.

Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which - particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its

Efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers. This can lead to the decrease of their compliance, resulting with lower total revenue.

Next should be improved auditing and follow-up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code (Hesse, 1993).

2.15 Tax revenue collection and Administration in Ethiopia.

Tax administration refers to the systematic organization and arrangement of elements for tax collection and other similar tasks or activities by the tax authority of the federal government and state governments. A good and efficient tax administration has Management system through which it carries out its activities, Tax laws or codes that guide tax management system and knowledgeable administration (Misrak, 2008).

In order to be successful and effective in tax administration, the following factors are considered essential. An explicit and sustained political commitment, relevant training for staff (who engages in assessment and estimation; additional resources to the tax administration, chants in incentives for both tax payers and tax administrators, simplification of the tax procedures, decentralization of tax administration, development of a good accounting system etc. One of the objectives of taxation is collecting sufficient amount of public revenue to meet public expenditure.

In order to attain this objective, a close relationship between tax structure and tax administration and an organized tax collection structure should be maintained (Misrak, 2008).

Subjective and subjected it to undesired bargaining and complaints that in fact made the administration on such regard very difficult and complicated.

Chapter Three

3. Methodology

This chapter involves research design, clearly explaining the data collection procedures and data analysis procedures, and data analysis and interpretation.

3.1. Research methodology

Thematic survey is a good approach to research where you re try to find out something about people views .opinion knowledge .experience or value from a set of qualitative data for example, interview transcript, social media, and profile or survey response. The research methods have only qualitative nature. For qualitative approach, the researcher use in-depth interview with executives of Ethiopia. This research only secondary data sources .secondary data was generated from tax related policies and guideline documents, reports of Ethiopian Revenues and collection.

Data applied only secondary sources. Secondary data is research data that has previously been gathered and can be accessed by researcher. The term contrast with primary data , which is data collected directly from its sources the common source of existing secondary data includes data collected by government public service department .library internet searches.

3.2. Research Approach

Inductive research Approach was employed in this study. Inductive approach starts with research questions and aims and objectives that need to be achieved during the research process. Inductive studies follow the following route observation, pattern, and theory

3.3. Research Design

This research was based on thematic survey design methods. According to Schindler and Cooper (2003), a thematic method attempts to define where you try to find out something about people .opinion knowledge. People or events profile. Study of thematic design seeks to explain the factors affect local tax collection in Ethiopia. According to Mugenda and Mugenda (2003) thematic research is good approach to research where you re try to find out something about people views. The aim was to gain knowledge on how the tax revenues would be easily collected and increased to enhancement government coffers. Research approaches. To enhance the secondary data type, qualitative research approaches are involving collecting and analysis non numerical data.

3.4 Data Collection Instrument

The data were collected from only Secondary data is research data that has previously been gathered and can be accessed by researcher. The study only uses secondary sources of data from various government offices. The major data sources of the study are found from local

tax revenue in Ethiopian and Custom Authority (ERCA), and Ministry of Finance and Economic Development (MoFED), National Bank of Ethiopia (NBE) and Central Statistics Agency (CSA). Data was collected by reviewing different documents, annual reports, financial statements, published and unpublished statistical data from 1981 to 2016 so as to accomplish the objectives of the paper.

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3.5. Method of Data Analysis

The data collected through governmental sources and thematic survey design method. Summaries are presented theory and definition. The researcher use qualitative analysis study. Besides, the data gathered through governmental source.Opinion knowledge. Finally, the researcher enhances the reliability of the findings.

Chapter Four

Data Presentation and Discussions

4.1. Introduction

This chapter has two parts: the first part deals with the characteristics of the local tax revenue collection and the second part challenges of local tax revenue collection. Objective of this study is to assess the local Tax revenue collection and Collection Problems of Ethiopia. Data gathered form only qualitative data obtained through governmental sources and related sources like social media were used to answer the basic research questions. Besides, document analysis also used in order to get insight about the whole local tax revenue collection related. Since the objective of this study was to assess local tax tax revenue and collection problem, the qualitative data analysis strategy employed was thematic analysis which according to Lindlof, T. R. & Taylor, B. C. (2002) focuses on the coding of qualitative data, producing clusters of texts with similar meanings, often searching for the central themes capturing the essences of the phenomenon under investigation. Lawal (1982) cited in Chinyere (2000) posits that the following are problems of tax collection:

4.2 Problems of local tax revenue collection in Ethiopia

The efficiency of a local tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "local tax potential" of the Ethiopia. It is generally known that local tax laws and local tax policy are as good as is the local tax administration (Kaldor, 1980).

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers.

Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure. During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes.

Many countries, traditional tax departments have been granted the status of semiautonomous revenue authorities, which are designed with a number of autonomy enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Robert 2003). All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap.

Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise.

This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990). This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms

In transition countries income tax is gaining on importance. Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all.

The local tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens. Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do.

Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF 2006). Heavy tax distortions in transition economies come from various sources.

First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy.

Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground.

Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation.

Currently local tax revenue collections are

1. Inadequate staff or manpower to carry out the assignment efficiently and thus has contributed to the low revenue generated for the state.
2. Mismanagement of tax collected: local tax revenue collections in Ethiopia are missing managed and an unwise use of tax revenue and tax awareness of people minimal tax collected were not been utilized for the purpose for which it was collected thus makes tax payers not give out their wealth for the state.
3. Bribery and corruption: in this day, tax collector personal interest has over ride their official interest in the performance of their duties consequently affects revenue generation for the Ethiopia. This are
4. Lack of voluntary compliance from tax payers this attitude of tax payer causes tax avoidance evasion and delinquency.
5. Poor accounting records, most business traders professional do not keep proper records of their income and expenditure.

6 .Inadequate facilities: The facilities like motor vehicle, motor cycle to carry out the assignment effectively is inadequate

4.3 Effective factors in the ability of the local tax revenue in Ethiopia

Many literatures suggest there are various determinants of tax revenue which includes the level of economic development, fiscal deficits and debt, trade openness, share of aid in GNP, population density, share of agriculture in GDP, and share of manufacturing in GDP, Tax evasion, inflation level, compliance level, foreign direct investment, weather condition, revenue outsourcing, ineffective implementation bylaw and other.

But in these literatures part considering the study concerned factors, those factors were mentioned below:

- 1) Enactment of appropriate tax laws;
- 2) The accessibility of tax bases;
- 3) Tax rates;
- 4) The number of tax sources; and
- 5) The executive expenditures of tax collection.

4.4. Local Tax revenue collection challenges in Ethiopia

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Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation.

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy.

4.6 Summary

This study was conducted aiming at the local Tax revenue collection and factors affecting Ethiopia Revenue with the intension to understand the issue from tax office workers, and tax office management bodies' perspectives. The study employed both qualitative research designs with the assumption that reality is socially constructed by participants and there are many truths.

This research approach was appropriate as the researcher was trying to understand the complexity of the issue under investigation through the lived experience, perceptions and perspectives from a holistic standpoint.

For the purpose of this study, a thematic survey method was employed to disclose the understanding of respondents on the issue under study. This method was chosen with the assumption that it helps to conduct data as it exists and to gather several data related to the problem under study. Only secondary sources of data were used.

The data secured through governmental source are analysed qualitative and data secured through secondary was thematically analysed and organized in to themes to answer the research questions.

Conclusions

Generally tax is the main source of public expenditure, the assessment and collection of tax at any place should be effective to generate adequate amount of funds that can cover all the capital that the government needs. The following conclusions were made based on analysed data of quantitative and qualitative part of the study.

Ethiopia tax office has faced different financial, operational and administrative problems and challenges. Tax customers have inadequate knowledge on the technical aspects of the income tax. Furthermore, the tax office does not offer sustainable training to create tax awareness for tax customers. Most of them do not know the rules and regulations of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

Moreover, the tax collectors did not have adequate skills. The tax office does not offer sustainable training for employees. Training was not considered as vital activity. The emphasis of staff training is on teaching the contents of tax laws as opposed to applying the laws.

Lack of clarity in tax law left room for interpretation. Little or no attention is paid to skills, techniques, procedures, customer relations, or managerial training.

The prevalence of poorly trained employees accompanied by perceived low remuneration packages and corruption have affected the tax administration. There exists inefficient and insufficient number of tax assessment and collection officers in the sub city. Farther more some tax authority's employees lack integrity, honesties, transparency and professional ethics at the time of tax assessment.

Besides, there are problems in relation to treating each and every taxpayer equally and fairly and bringing non taxpayers to tax system. Taxpayers continuously complain on challenges existing in the tax office,

The major causes for the aforementioned challenges on tax administration are poor understanding about tax proclamations, rules and regulations by taxpayers , Complexity of tax laws and proclamation, delayed tax assessment process by the authority due to lack of sufficient assessors, Lack of skilled and motivated management bodies and very frequent employee turnover ,

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