THE ASSESMENT OF BUSINESS INCOME TAX REVENUE COLLECTION: - IN CASA OF GURAGE ZONE SELECTED DISTRICTS.

MSc. THESIS

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WOLKITE UNIVERSITY, WOLKITE, ETHIOPIA

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF BUSINESS AND ECONOMICS,

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This is to certify that the thesis entitled "The Determinants Of Business Income Tax Revenue Collection: In Case of SNNPR Gurage Zone" submitted in partial fulfilment of the requirements for the degree of Master's with specialization in Accounting and Finance, Department of Accounting and Finance, College of Business and Economics/School of Graduate Studies, and has been carried out by Belachew Tegu Haile ID BGR008/12, under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence here by can submit the thesis to the department.

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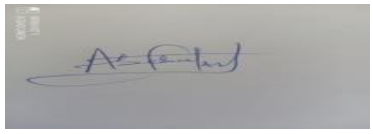
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STATEMENT OF DECLARATION

First, I declare that, this thesis is the result of my own work and that all sources or materials used for this thesis study have been duly acknowledged. This thesis is submitted in partial fulfillment of the requirements for MSc. degree of Accounting and Finance at Wolkite University and to be made available at the University's Library under the rules of the Library. I confidently declare that this thesis study has not been submitted to any other institutions anywhere for the award of any academic degree, diploma, or certificate. Brief quotations from this thesis are allowable without special permission, provided that accurate acknowledgement of source is made. Requests for permission for extended quotation from or reproduction of this manuscript in whole or in part may be granted by department when in his or her judgment the proposed use of the material is in the interests of scholarship. In all other instances, however, permission must be obtained from the author.

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February, 2022

DEDICATION

This thesis is dedicated to: The wonderful people residing in the Edja, Cheha and Enemore district of Ethiopia, and my loving family.

List of Privations and Acronyms

GAAP----------Generally Accepted Accounting Principle

FDRE----------Federal Democratic Republic of Ethiopia

VAT----------Value Added Tax

ERCA----------Ethiopia Revenue Custom Authority

TIN---------- -------- Tax Identification Number

FIRA----------Federal Inland Revenue Authority

TOT----------Turn Over Tax

NGO----------Non-Government Organization

OECD---------- Organization for Economic Cooperation and Development

ANOVA ----------Analysis of Variance

SPSS ----------Statistical Package for Social Sciences

COEAD---------- Create Optimality of Economy and Avoid Deflation

HDSTP---------- High Educational States of Tax Payers

VIF----------Variances Inflation Factor

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Abstract

The general objective of this study is to assess the determinants factors of business income tax revenue collection in Gurage zone sellected districts. In this study descriptive and empirical research designs both qualitative and quantitative research approach has been employed. In order to financing public expenditure, government tax by reforming and restructuring the existing tax system. Gurage zone revenue office is one of local government office levied and collects taxes like business income tax for the provision of goods and services for the society, but the revenue office is not able to collect the tax revenue as expected. It is the serving of the study when addressing the total tax payer and focused group discussion. But in this case, since the numbers of tax payers and revenue authority employer are large, with regard to the total population 4521 tax payers up to Ju2012 (E.C), but this study only focuses on target population focusing on business income tax payers the study assumed that the data taken from 446 tax payer whose activities are directly related to the problem that taking as a sample used research are study and recommend the problem. The researcher used stratified sampling technique. Five likert scale questionnaires and interview were used to collect required data and simple and advanced statistical tools were used to analyze collected data. The finding States that the respondents rated in the unwillingness of tax payers they responded strongly agree 75(17.73 %), agree 147(34.75 %), uncertainty 52(12.29%) and disagree 149(35.22%). This indicates that the majority of the tax payers respondents are disagree this implies that generally more tax payers are unwillingness of pay business income tax. The researcher recommended that to strengthen business income tax collection mechanism of the office the tax collection should be economical. To be the tax liability collected from the taxpayers on a specified time.

Key words: - *Authority, Business Income Tax, Taxation, Revenue, Serving Wolkite.*

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Tax is a compulsory contribution levied on individuals, business firm or property which is designed to transfer resources from the private to the public sectors, so as to provide merit goods to the society without contributing to price inflation (Auld, 1977). Tax is a financial charge or other levy imposed on individuals or legal entity by the government so as to raise money to finance government expenditures. Taxes are the primary source of government revenue. Government uses tax revenue to pay soldieries and policy, to build dams and roads, to operate schools and hospitals, to provide food to the poorer and medical care to the elders and for hundreds of other purposes. Use of tax to fund its activities, government would cease/ stop / to exist or survive (Gebrie *et al.,* 2006).

Governments use taxation to redirect economic resources across economic activities to ensure allocates efficiency of an economy. Governments use taxation to direct the flow economic resources from sectors with less importance to the overall performance of the economy to sectors with high potential to develop the overall economy. Taxation is also a tool with which governments try to curb high income inequality among citizens of a nation (Bhatia, 2006). The Ethiopian income tax system is a mixture of the heads of employment income tax, business income tax, rental income tax and other income tax (hulud *et al.,* 2017).

According to (FDRE council of ministers, income Tax regulation No. 78/ 2002) of the country, direct taxes are employment income tax (schedule A), rental income tax (schedule B), business income tax (schedule C), and other income (schedule D). Indirect taxes are taxes are taxes which borne by someone other than the person responsible for paying them. The indirect taxes in the country are value added tax VAT, Turn over tax (TOT), excise tax, stamp duty, and import taxes. These taxes have their own proclamation (Alemayehu *et al,* 2018).

Major tax revenue sources the Ethiopian government is undoubtedly business income tax (business profit tax) that the government charges from the annual profits of business. Therefore understanding the meaning of the term business for taxation purposes is decisive in order to under standee the computation of taxable business income and the tax thereon (Misrak, 2014) in its commercial sense the expression business'' is used in the sense of an occupation or profession, which occupies time, attention and labor of a person, normally with the object of making profit. Is also mean an activity carried on continuously by a person with the aim of making profits. The term business may also refer to an organization (combination of human and non-human resources) that provides goods and services to customers with the aim of making profit. There are many types of business in a free market economy. The three most common ones are manufacturing business, merchandising business, and service business (Misrak *et al.,* 2014).

The sharing of revenue between the federal government and regional governments take in to consideration such things like the ownership of source of revenue, the regional character of sources of revenue, convenience of levying and collection of tax and duty, population distribution of wealth, standard of development of each region, and other factors that are basics for integrated and balanced economy (Gzawu *et al.,* 2016).

The tax assessment for those who are required to maintain financial records or books of accounts is done based on the records that the tax payers maintain however, if they fail to maintain financial records, assessment will be done by estimate. For the rest of tax payers who are not required to maintain financial records it is based on the standard assessment method Council of Ministers (FDRE council of ministers, income Tax regulation No. 78/2002),

The revenue office is not able to collect the tax revenue as expected because the fairness and equity, tax payer's talent, attitude towards business income tax, government regulation, and tax collectors inefficiency are some of the determinants that different scholars highlighted. Hence, this study is to identity the main determinants that hider business income tax collection performance and to fill the gaps by using possible mechanisms in study area Tax authority branch ,Southern Nation Nationality People's Region (SNNPR) Ethiopia.

1.2. Statement of the Problem

Taxation in developing countries has many problems like; poor administration failing to collect sufficient tax revenue and un- integrated tax structures are some of the problems (Vadde and Gunderpu, 2012). As stated by Desta (2010), for decades, tax researchers have investigated why some people pay taxes and others do not. They were able to identify some factors that inhabit tax compliance. Tax compliance was influenced by probability of being audited, financial constraints, and changes on current government policy but not affected by perception of equity and fairness, penalties, roles of tax authority and tax knowledge (Getacher and Goitom, 2014). But, Desta (2010) noted that factors such as equity or fairness, organizational strength of tax authority, awareness level of tax payers, social factors, cultural factors and tax payers' attitude towards the government were found to be the determinant factors affecting taxpayers' voluntary compliance. The inconsistency of patterns of results suggests that economic and psychological determinants operate differently under different circumstances.

The main problem that, the tax office do not collect sufficient amount of money (tax revenue) that means, there is a gap between the amount of money expected to collect and the actual amount of money collected is the major problem that exists in Gurage zone business profit tax collection by the revenue office (source Gurage zone revenue office 2013). According to (Demirew, 2005) complexity of tax law, regulations and directives to assess and collect tax administration problems of tax office, weak technique collection of tax system, lack of competent personnel to assess and collect tax, noncompliance of taxpayers, weak tax administration have been reducing tax to be collected and negatively affecting government to achieve its objectives to provide slide in the actions of tax administration (Baurer *et al.,* 2005).

Tax base of developing countries adversely affected by administration problems including poorly conceived tax policies and lack of certainty regarding future policy changes. In addition, tax administrations can also create problem for the tax payer as they impose onerous reporting and record keeping requirements, perform excessive inspections and audits fail to deal with their corrupt employees, and failure.

The others gap of this researcher is not focused the potential challenges and prospects faced by tax payers and tax collectors in different tax activities such as tax collection in Gurage zone. But Gurage zone revenue authority administration office (bureau) has the responsibility to collect business income (profit) tax in order to achieve the goal of developing the city.

The reason to the study were attempted to find out evaluate the influencing pressure of tax collection and its challenges were evaluated for business income tax collection in Gurage zone revenue authority. This study to examine and verify some specific problems Such as Gurage zone tax revenue authority has no estimate deflation and tax payer educational statuses. In Gurage zone tax revenue authority have no estimate tax payer awareness and tax payer's culture and social norm. In Gurage zone tax revenue authority has no estimate tax payer address and information gap regarding to the tax payment period.

1.3. Research Questions

This study tried to answer the following basic research questions formulated on the problems**.**

- What are the major elements that determine on business income tax revenue collection in study area?
- What is the effect of educational status of tax payers on business income tax in study area?
- Does government commitment and legal actions have to develop effectiveness of business income tax revenue collection?

1.4. Objectives of the study

1.4.1 General objective

The general objective of this study is to identify determinant of business income tax revenue collection in Gurage zone selected districts.

1.4.2 Specific objectives:

- ❖ To investigate the effect of educational status of tax payers on business income tax in study area.
- ❖ To assess the government commitment and legal actions have to develop effectiveness of income tax revenue collection in study area.
- ❖ To evaluate the influence of culture and social norm on business income tax collection in study area.

1.5. Significance of the Study

The study finding will contribute a lot to these parties who have similar objectives seek information on issues related to the study under investigation. It will help identification of the problem to determinant business income tax revenue collection. It will provide more literary material that will be valuable to scholar, student and researchers. It helps enhancing of the practical knowledge of the researcher through creating a link between the theoretical knowledge of revenue authority employer and actual implementation in busines income tax revenue collection. Finally this study aids Gurage zone revenue authority management tries to get some merits from this study to collect business income tax revenue generation in Gurage zone revenue authority office.

1.6. Scope and Limitations of the study

The scope of this study focused on to Assess the determinants of business income tax revenue collection in Gurage zone selected districts. The researcher takes the sample beaning in Gurage zone revenue authority tax payer. Therefore 446 tax payers were used to examine the determinants of business income tax revenue collection. The study was limited to investigate the determinants of business income tax revenue collection in Gurage zone revue authority office. When the study was done lack of well-organized information to provide answer with interest from the respondent, this is because of insufficient data on studied variables. Due to these factors in the study only uses 446 tax payers whose activities are directly related to the problem that taking as a sample.

1.7. Organization of study

The study is organized in five chapters, chapter one discussed the introduction part, chapter two contains conceptual , theoretical framework and empirical studies literature, chapter three discussed the research design and deals methodology adopted in this study and data interpretations are presented in chapter four . The final chapter (chapter five) presents the conclusions and recommendations of study.

CHAPTER TWO

2. LITERATURE REVIE

This chapter reviews literature on the determinant of business income tax revenue collection in Gurage zone selected districts it discusses issues on determinant of business income tax revenue collection from different perspectives and with the view of giving theoretical foundation to the study it starts with an exposition in the determinant of business income tax revenue collection. Researcher tries to discuss over view of the theoretical consideration to explain determine of business income tax revenue collection from books, articles, research papers internet published and unpublished material.

2.1. Theoretical literature review

2.1.1. Definition of tax

Tax is a major source of government revenue and it is a compulsory contribution lived on individual ,business firm, or property with is design to transfer from private to the public sector so as to provide merit good to the society without contributing to price inflation (H.L, 2006).

2.1.2. Definition and meaning of business income tax

The definition of business income may serve a number of purposes in a global or scheduler income tax system, for example, to identify a category of income for which special deduction or timing rules apply. It may also be used to characterize a particular item of income as business income where the income may otherwise be characterized as investment income. An important purpose of the definition in jurisdictions with a less than comprehensive judicial concept of income (e.g., those that rely on U.K. jurisprudence) is to broaden the tax base (IMF, 2009).

The trend in the OECD countries implies that there has been declining revenue with some inclination lately. This is attributable to business income tax rate falls. In fact the inclination in revenue is due to widening the tax base despite the reduction in rate (Tomonori, 0212).

2.1.3. Objectives of taxation

Taxes are regarded as the most appropriate and elastic as well as convenient method of raising public revenue and through the world, it is the single biggest sources of public revenue. Government imposed taxes for many purposes such as; maximizing the wealth of the society.
It used as means of regulation and control to prevent excessive purchasing power in the economy and curb inflation Reduction of inequality of income and wealth achieve objectives of taxation (Mithan *et al.*, 2006).

In general the basic objectives of taxation are raising revenue. To render various economic and social activities, government requires large amount of revenue. To meet this expenditures government imposes various types of taxes in addition to the non-tax revenue. In addition to raising revenue taxation also have many other objectives, such as removal of inequalities in income and wealth, ensuring economic stability, reduction in regional imbalance, capital accumulation and creation of employment opportunities are some of the objectives (parameswarn *et al.*, 2005).

2.1.4. Major Types of Taxes in Ethiopia

Direct taxes those which are paid entirely by those people whom they are imposed. A Direct tax is one paid directly to the government by the persons on whom it is imposed. Examples include some income taxes, some corporate taxes and transfer taxes such as estate (inheritance) tax and gift tax (Misrak, 200). Computed indirect taxes are indirectly in the cost goods or services you purchase such as taxes imposed on companies for doing business. Good examples of indirect taxes would be shipped cost which is included in the cost of merchandise you buy at the store. Cost on commodities like custom duties, sales taxes, excise taxes etc. (Misrak, 2008).

2.1.5. Characteristics of a good tax system

According to (Mithan, 2006)A good tax system does not mean a perfect tax system which contains only the good tax based up on canon of taxation technique of adequate revenue and causing not hurt to the tax payers.

But a good tax System means the one containing predominance of good taxes which full fill most the cannons of taxation it must be yielding sufficient revenue, but causing minimum aggregate sectors scarifies to the people and minimum obstruction to the incentives for production.

2.1.6. Determinants of Business income tax revenue collection

It is the amount of taxable business income used as a base to determine the business income tax liability of a business. In Ethiopian income tax rule taxable business income per tax period shall be determined based on the income statement which shall be drawn in compliance with GAAP subject to the provisions of income tax proclamations regulations and directives. An income statement drawn in compliance with GAAP reports only accounting profit per period as determined in accordance with the accounting principles. As the amount of taxable business income is determined based on accounting principles but subject to the provisions of income tax law the amount of taxable business income determined for a tax period may not be the same as the amount of accounting income determined for the same period. There are certain income or expense items permissible to be included in the determination of accounting profit in accordance with accepted accounting principles but not permissible for tax purposes due to the provisions in the income tax law (Misrak *et al.*, 2014).

2.1.7. Tax laws and Regulations

According to (Higgins, M., 2007) the Primary authorities consist of constitution, new tax laws enacted by higher legislative bodies and incorporate by revenue authority. In Ethiopia, in accordance with article 55(1) and (11) of constitution income tax proclamation No 286/2002(FDRE council of ministers, income Tax regulation No. 78/ 2002) has been proclaimed. This proclamation has different chapter and sections. Regulations are issued by the council of ministers pursuant to article 5 of the definitions of powers and duties of executive organs of the Federal Democratic Republic of Ethiopia(FDRE, national constitution,1995) (as amended) and article 117 of the income tax (FDRE council of ministers, income Tax regulation No. 78/ 2002).

2.1.8. Procedures for tax collection

It is expected that people's tax payment should be in line with their income and they are required to pay tax in proportion their income. On the other part of the tax collectors, collection of tax should fine conscious and the cost of collecting the taxes should not be high discourage businesses? Alternatively, this means that the ideal tax system in developing countries. Should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries (Singh *et al.*, 2008).

2.1.9. Identification of legal tax source

It is clear that governments impose different taxes. There are different objectives that the government wants to achieve by imposing taxes. Governments levy tax to finance legitimate government activities, to discourage consumption of some products, to stabilize economy, to encourage activities, to ensure a fair distribution of income in the society, and so forth. To achieve those and other objectives, government uses taxes as personal income tax, business income tax, value added tax, excise tax, sales tax, custom duties, and stamp duties(Madani and Natàlia Mas-Guix, 2011).

2.2. Factors that Affects Tax Payers Awareness and Compliance

2.2.1. Fairness and Equity.

As mentioned by (Smith, 1976)], one of the main principles of taxation system design is equity and fairness, which can be perceived by two dimensional views. Horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (taxes paid increase with the amount of tax base). The most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. If a specific group perceives that their tax liability is higher than other group, the tax evasion may occur among the group members.

To sum up, regardless of this inherent problem, ensuring the fairness or equality of a tax system is second to nothing. In another word, a good tax system is essential that it should appear equitable to the tax payers.

2.2.2. Culture and Social Norm

According to (Fjeldst.L *et al.,* 2003), increased efficiency of tax administration, however, is not enough. Many observers conclude that lack of taxpaying culture is the largest obstacle to build affirm long term revenue base. The opposite may, however, also be the case as long as the tax administration culture is perceived to be influenced by sectarianism, nepotism and corruption; it is unlikely to contribute to the fostering of a more conducive taxpaying culture. Gaining a better understanding of why do and do not accurately reports and fully pay the taxes they owe is obviously interesting to policy makers (Smith *et al.*, 2013).

2.2.3. Tax payers Education

Information should readily be available to service users in language(s) they understand. (Bird, R.M and Old man, O., 1967) also noted in many countries of the world tax payers assistance, information and education is one of the fundamental concerns of tax administration in their effort to achieve the maximum possible level of voluntary compliance by tax payers.

2.2.4. Perception of Fairness and Equity

Perceived fairness of the tax system is an important factor that is likely to affect individuals' tax compliance decisions. Equity theory helps explain how individuals make fairness judgments. Equity theory suggests that individuals continuously evaluate their inputs and the outputs they receive (Walster *et al.,* 1978).

2.2.5. Fines and Penalties

As stated Gruber and Saez (2002) cited in (Micheal et al., 2015) it is a fact that if many persons are given the chance they may not pay taxes unless there is a motivation to do so. Tax experts have a perception that the best way is to increase tax incentives while others believe the best way is to increase tax penalties.

Tax is defined as an involuntary payment to the government by an individual or firm that does not entitle the payer to quid proquo benefit or to un- equivalent value of goods and service in exchange (Bruce, 2001). 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 tax payers.

The tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The general public should be taxed according to their tax liability to pay and the people in the same financial position should be taxed in the same way without any discrimination (parameswarn, 2005).

Tax is financial charge or other levy imposed on individual or legal entity by government or it is a system of raising money to finance government expenditures. All government requires payments of money taxes from people. Government uses tax revenue to pay soldiers and policies to building dams and roads to operate schools and hospitals to provide food and medical care to the elders and for hundreds of purposes (Gebrie, 2006)

2.2.6. Deflation

Deflation is defined as a sustained fall in an aggregate measure of prices (such as the consumer price index). By this definition, changes in prices in one economic sector or falling prices over short periods (e.g., one or two quarters) do not qualify as deflation (International Chamber of Commerce, 2005).

2.2.7. Accelerated depreciation

Depreciation at a faster schedule than available for the rest of the economy, this can be implemented in many different ways, including a higher first year depreciation allowances, or increased depreciation rates. Tax payments in nominal terms are unaffected, but their net present value is reduced and the liquidity of firms is improved (I M F, 2009).

2.2.8. Theoretical reviews of tax administration.

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection procedure and penalties imposed on recalcitrant taxpayers. Tax administration there for, covers a wider area of studies, encompassing aspects such as registration of tax payers, assessment, return processes, collection and audits (Kangave,2005).

2.2.9. Efficiency of tax administration

Then key precondition for efficient tax administration is tax structure with minimizing distortion, strictly tax exemptions and elimination of the difference in tax treatment of particular parts of economy. Will mean extending the VAT to all but a few goods and service (not able to export, which should be zero related, and banking and insurance services where it may be difficult to determine the amount of value added to be taxed (Hesse *et al.,* 1993).

UN-necessarily complicated tax structure greatly complicates the operating function of tax administration, while simile simple and transparent tax structure could affect it in the opposite way. So, the increasing of efficiency of the tax administration could be attributed mainly to the simplification of the tax system. Tax administration could not be change legislation as a means for improvement the tax structure, but could propose necessary changes in laws that can improve the tax structure and/or could aid in application of the law (Mansfield, 1990).

2.3. Challenges of tax administration

The efficiency of tax system is not determined only by appropriate legal regulation but also the efficiency and integrity of the tax administration. In many countries, especially in developing countries small amount of collected public revenue can be explained by either incapability of the tax administration in realization of its duties, or with some degree of corruption.

Regardless of how carefully tax laws have been made, they should not conflict between tax administration and tax payers. Tax administration with a skilled and responsible it is generally known that tax most important precondition for realization of “tax potentials “of the state.

It is generally known that tax laws and tax policies are as good as good in the tax administration that can be respond to the demands of a growing market economy and resulting increase in the numbers of tax payers. Human resource is essential ion the tax administration. Trained person are what actually most developing courtiers` lack and this forced them, for instance, to organize their activities under the existing tax administration structure (Robert, 2003).

2.3.1. History of taxation in Ethiopian

Though it was very difficult to get reliable documentary evidence to when exactly taxation was introduced, it is believed that history of Ethiopian taxation comes together with the establishment of the government. Taxation was a source of government revenue from early Aksum k kingdom in Ethiopia, around 500 A.D earlier days people used to contribute from their cattle and agricultural products to the governors of statute kind of traditional tax system continued for several centuries smoothly until it was replaced by the modern tax system in the mid of 20th century .evidences indicate that in the third quarter of 19 century. The history of taxation in Ethiopia maybe conveniently arranged into five periods (Misrak, 2014).

1. **Tax before haileselassie regime (until1941)**

Ethiopia tax system dates back to ancient times in aksumite. In the kingdom of aksumite there was practice of traditional taxation. The traditional taxation hade provided for tax on crops, livestock and livestock products such as wool butter and milk (Misrak, 2014).

2. **Taxes during the haileselassie regime (1942-1974.)**

The statutory bases for all the tax proclamations during this period were the 1955 revised constitution of Ethiopia and the power being given to the minister of finance. The articles of constitution, articles 34 and 88 were the most frequently sited ones about tax proclamations (Misrak, 2014).

3. Taxes during the dreg regime (1975-1991)

During the dreg regime the tax were similar to those imposed during the haileselassie regime except that the proclamations related to different components of taxes were the amendments of the previous proclamations or regulations or decrees (Misrak, 2014).

4. Taxes during the transitional government of Ethiopia (1991-1995)

To implement the right of nations nationalities and peoples and to administer their affairs transitional government of Ethiopia issued proclamation NO 7/1992, providing for the establishment of regional governments (Misrak, 2014).

5. Taxes during the federal democratic republic of Ethiopia/FDRE (since1995G.C to date)

The new constitution of Ethiopia adopted in November 1994 gives powers to the federal and regional governments to levy and collect taxes from the sources allocated to them of course the also had the power to collect taxes during the transitional period (Misrak, 2014).

During the current FDRE regime taxes are classified into two:-direct tax and indirect taxes

- Direct tax include employment incomes tax, business income tax, rental income tax others income tax agricultural income tax and mining income tax.
- Indirect taxes include value added tax turnover tax excise tax customs duty (imported and export tax) import sur tax (temporary) and stamp duty.

2.3.2. Business Categories in Ethiopia

The tax law has classified the business income tax payers in to three major categories with respect to their legal personality and gross income. Accordingly, proclamation no.166/2017, schedule ‘C’ whose annual gross turnover is estimated under birr 500,000 schedule ‘whose annual gross turnover is estimated to birr 500, 000.-1,000,000 and schedule ‘A’whose annual gross turnover is estimated to greater than birr1, 000,000 (source southern region tax administration).

2.4. Empirical Literature Review

Empirical studies focus on what other research have done in the area of taxation in Ethiopia and other countries. There is numerous empirical research studies on business income tax collection with evidence being drown from many parts of the world mostly developing economies Kangave, (2005) discussed tax administration and collection in Uganda's context it then discussed Uganda's tax structure. The problems faced in administering taxes and it gave possible solutions to the problem the author identified in this research. The author, in this research identified corruption, tax evasion and inadequate resources for tax administration, poor quality of audits and inadequate supper for tax administration as problems or challenges of tax administration that have weakened the ability to achieve desired revenue targets.

Sahota, (1961) undertook a study on the tax performance of the tax system of India for the period 1948- 1958 using the proportional adjustment method and fund that the tax systems were inelastic even though the country had a highly progressive income tax at that time. Tax payer attitude may be influenced by many factors which eventually influence tax payer's behavior. Those factors that influence business tax behavior are different from one country to another and also from one individual to another (Kirchier, 2007). The study made on evaluating tax payers attitude and its influence on business tax compliance decisions (Abubakaris and Christopher, 2013).

The study on assessing the gaps and problems that exist between the business community and tax authoresses of Dire Dawa administration (Yohannes and Zerihun, 2013) found various factors related to taxation system. The study was conducted to assess the challenges the business community of Dire Dawa city in relation to taxation. Data were collected from various sources such as tax payer's survey and focus group discussions.

Ftaw Berhe was conducted in Aksum city in (2007). The researcher was used both primary and secondary data and descriptive statistical tools, factor analysis correlations are used in analyzing the data collected. According to his study strength of tax authority, awareness level of tax payers, social factors, cultural factors and tax payer's attitudes are determinant factors affecting tax accounting practice.

Wollell Abehodie and Odd- HelgeFjeldstad *et al.*, (2016) conducted research on Business Peoples View of Paying Taxes in Ethiopia based on data obtained from business tax payers in Addis Ababa. The study finds a statistically significant relationship between tax compliance and factors such as the perception of probability of audit, corruption, satisfaction with tax administration, peer influence, gender and education

As per the study of Easy Solomon (2014) on factors affecting fairness of taxation on Category ‘‘B’’ taxpayers in Hawassa city and the study only relies on the levels of tax administration system on fairness of taxation, taxpayers perception and impacts of level of education on taxpayers perception. Another study conducted by Redae Berhe and Shailinder Sekhom (2015) on Taxpayers Knowledge and Tax Compliance Behavior in Ethiopia:

Yohanse and Zerihun (2013) were study on "Assessing the gap and problems that exist between the business community and tax authority in Dire Dawa". Data were collected from tax payer survey and focus group discussion. Finding of the study revealed that the most tax payers who face problems related to taxation are category "c" tax payers**.**

The formerly research were investigated the determinant of business income tax on specific category of tax payer but this study concerned on all category of tax payers on determines of business income tax revenue collection in this study. The others researcher used to questioners distributed the tax payer or revenue authority employer in specify but in this study use questioner distributed tax payer and personal observations in the study area.

2.5. Summary of literature and Knowledge Gap

In summary, business income tax collection can be classified in to different bases which blend together in aspects of economic and development of the countries. The purpose of this basses that persons are not only utility maximizes rather they are recognizing to contain a collection of beliefs and attitudes that interrelate and reply to social standards on the other side the collection of tax can inspect the beliefs and attitudes beliefs that tax payer so as comprehend and forecast social behavior. This chapter describes the relevant theories about challenges and prospects of business income tax collection, various opinions exist about the best ways to improve tax collection.

Given the chances a lot of business will not pay tax unless there is motivation to do so. The past researchers were not generalizing about the collection of the business income in Gurage zone.

As we understand from the above statement many researcher was conducted on business income tax collection in different countries by assessing different factors method and administration of tax much research was conducted in developing countries like Ethiopia.

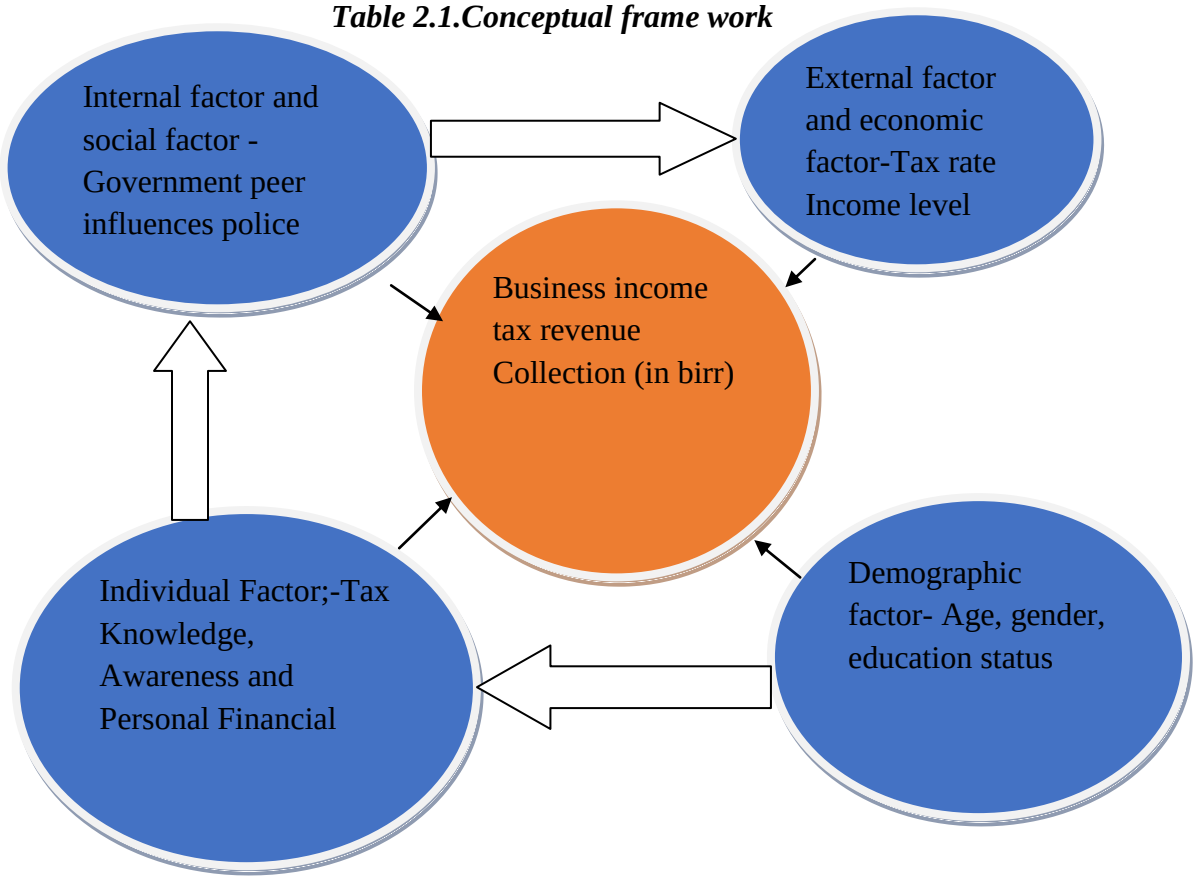
In our countries Ethiopia the researcher was collected data from various sources such as tax payer's survey and focus group discussions for business income tax collection by ignoring management, single employee and specific area especially in Gurage zone. Due to different approach is exist the researcher is try to identify the main problem of business income tax collection in Gurage zone revenue authority employer and tax payers set some solution about the problem.

2.6. Conceptual framework

A conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. As indicated in the literature, it is tried to show that factors that determine business income tax payers like; tax audit, tax payer service, tax knowledge, perception of fairness and equity, fines and penalties and organizational strength. From the literatures it can be understand that, tax audit is the examining of an individual or organizations tax return by tax authority to achieve compliance with the proper tax laws. Providing quality service to taxpayers needs also increase to comply with their tax obligations. In addition knowledge about tax laws plays a major role in determining taxpayer compliance behavior. With regard to perception of fairness and equity, people who experience their tax burden to be higher than others tend to be less compliant with tax law.

Concerning fines and penalties faire rate of penalties could improve compliance level. Further as discussed in the review of literature section above the role of a tax authority in minimizing the tax gap and increasing voluntary compliance is very important. Thus organizational strength has an influence in taxpayers' compliance level.

Table 2.1.Conceptual frame work



CHAPTER THREE

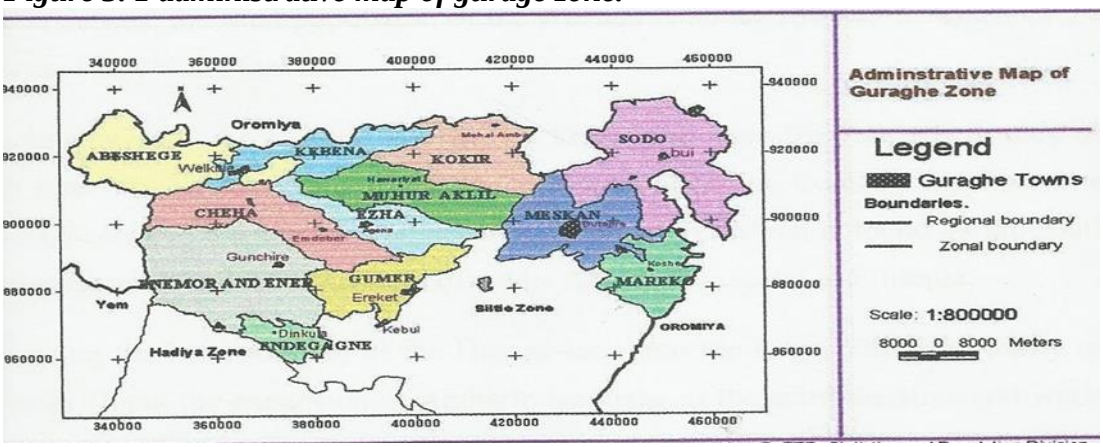
3. RESEARCH METHODOLOGY

This section presents the methodological approach to the study as well as the methods employed in data collection. This section begins by discussing the choice of the research methodology, followed by the study area and sources of data, informant selection and sample size as well as the techniques for data collection analysis. Finally, researcher reflects position as an outsider and how that has influenced the entire study unambiguously with regards to the access to the field, data collection and interpretation.

3.1. Description of Study Area

Gurage is a Zone in the Ethiopian Southern Nations, Nationalities, and Peoples' Region (SNNPR). This zone is named for the Gurage people, whose homeland lies in this zone. Gurage is bordered on the southeast by Hadiya and Yem special woreda, on the west, north, and east by the Oromia Region, and on the southeast by Silt'e. Its highest point is Mount Gurage. Wolkite is the administrative center of the Zone; Butajira is the largest city in this zone and the former administrative center. Other towns in Gurage include Endibir and Enseno. This Zone has a total population of 1,807,892 of whom 885, 867are male and 922,024 female; with an area of 5,893.40 square kilometers, Gurage has a population density of 217.13. 169,218 or 9.36% are urban inhabitants. A total of 368,957 households were counted in this Zone, which results in an average of 4.47 persons to a household, and 276,570 housing units (Gurage zone finance economy and development report, 2021). The study was specifically conducted in, Edja, Cheha and Enamor districts.

Figure 3. 1 administrative map of gurage zone.



Source MWFEDD, 2010

3.2. Research Design

The study was used cross sectional survey type that employed both qualitative and quantitative design to address the intended study objectives. In order to achieve the objective of the research, considering the nature of the problem and the type of the assessment, this study was employed mixed method approaches.

Adopting mixed methods would have a number of benefits. First, it was helped for triangulation pertaining to a situation where researchers seek convergence, corroboration, correspondence of results from quantitative and qualitative methods to increase validity of constructs and inquiry results. Secondly, it was helped the researchers seek elaboration, enhancement, illustration, clarification of the results from one method with the results from the other method. Third, would support to the discovery of paradox and contradiction, new interpretations, the recasting of questions or results from one method with questions or results from the other method. Finally, it was help to increase the scope of inquiry to extend the breadth and range of inquiry by using different methods for different inquiry components.

3.3. Source and Types of Data

Both qualitative and quantitative data were collected from primary sources. Primary data were elicited from the respondents using formal and informal survey. Structured questionnaire was developed to collect the necessary primary data in which quantitative data are gathered from the sample respondents.

The questionnaire was included the information on household demographic characteristics, socioeconomic and institutional related information. On the other hand qualitative data type was conducted through focus group discussion and informal discussions with administrators and personal observations study area.

3.4. Target Population

The target population for this study was carrying out Gurage zone selected woreda who live in Edja, Cheha and Enamor tax payer. Here an appropriate population is identified that the total number of tax payers in study area. Because those selected revenue authority has the highest potential taxpayers and the highest income potential than other revenue authority in Gurage zone but low tax collection in that study area.

3.5. Data Collection Techniques

A two-stage sampling technique was adopted to generate the required primary data. First tax payers were selected randomly in each selected area. Second, probability proportional to the size was employed in the methods of sample size determination using Yamana formula. Then after, a structured tax payer's questionnaire was administered to number of sample in study area. In doing so, training was given to enumerators about the questionnaire and follow up was made to ensure that the process of data collection was suave.

The survey questionnaire was pre-tested before full scale data collection in order to clarify issues in the questionnaire if any. The survey questionnaire was designed to elicit information from a variety of topics including on all of household demographic and economic characteristics of the respondents at the time of the survey using recall methods. Respondents was asked to recall information on easily remember household characteristics.

3.6. Sampling design and techniques

There are many techniques of sampling design in statistical methods. Among these we are apply stratified random sampling. It is among two types of sampling design (or sampling techniques) it is part of probability sampling technique which is sampling procedure in which every item of the universe has an equal chance or being included in the sample. I was uses stratified random sampling because each district has its own factors, since the nature of our

target population forced us to use it and in order to increase the precision of findings. For study purpose the tax payers are categorizing by their districts.

Stratified random sampling involves the division or stratification of population by partitioning the sampling frame in to non over lapping and relatively homogenous group called strata. In this study consider three (3) departments are stratum.

N_h =total number of tax payers in selected districts.

n_h=sample size of selected country.

Strata1, N_1= total number of Enamor district and sample size =n_1

Strata2, N_2= total number of tax payers in Cheha District and sample size =n_2

Strata3, N_3= total number of tax payers in Edja Districts and sample size =n_3

3.7. Sample Size Determination

Determining the sample size is very important issue because sample that is too large may be waste time, resources and money while sample too small may lead to inaccurate results, so determining the sample size is the key step on the overall analysis. Sample size is very essential methods to simplify the proportion of sample to generalize the population using the methods of Yamane (1967) that sample frame is regarded as a source of the sample size the following Yamane formula applied in this study below: -

$$\frac{N}{1+Ne^2} \quad \text{...} \quad (1)$$

Therefore, the sample size of this study was

$$n = \frac{4521}{1+4521(0.045)^2} = 446$$

Where n - is the sample size, = 446

N - Is the population size, =4521

e - Is the level of precision (sampling error) =4.5% Margin of error (the degree of precision, d=4.5% because there is enough (full information) about margin error.

The stratification is done in Gurage zone selected districts tax payers. The three districts by using proportion allocation 107 samples were from Cheha district 165 samples from Edja district and 174 samples were from Enamor district. Further more reliable and accurate information relating to business income tax and revenue collection also it provide to being designated for each tax payer and to avoid bias.

Table 3.1.Allcation of sample survey

NO	Woreda Name	Total Number of tax payer	Number of Participant from total tax payer	Number of respondent
1	Cheha	1083	1083/4521 * 446 0.23955*446 =107	107
2	Edja	1672	1672/4521 *446 0. 36983*446 = 165	165
3	Enemore	1766	1766/4521 * 446 0.39063* 446 = 174	174
Total		4521	446	446

Source own computation, 2021

Table 3.2. Tax payers categories' in each woreda

Categories	Cheha		Ezha		Enemore	
	Total number	Participant in this study	Total number	Participant in this study	Total number	Participant in this study
Categories A	18	18/1083*107 =2	36	36/1672*165 =4	57	57/1766*174 =6
Categories B	17	17/1083*107 =2	36	36/1672*165 =4	63	63/1766*174 =6
Categories C	1054	1054/1083*107 =103	1597	1597/1672*165 =157	1643	1643/1766*174 =162

3.8. Methods of Data Analysis

After collected the data, it is necessary to analyze them. Data analyzing is the critical study by which we extract information from collecting data. It was designed to produce us with strategy for investigating and specific questions. It provides us with process for investigating questions. It provides us with process for determining the structure of the data that shall do direct us towards proper inference procedure. Data has to being analyzed with reference to the purpose objective of the study and it is possible bearing in scientific discoveries and analyze is doing with reference to the research problem at hand or the hypothesis. Data analysis involves for many steps like categorization, coding, statistically adjusting the data and tabulation. After collected the data it was edited, cleaned and summarized the appropriate data then the available data were transformed into reliable useful information. Finally analyzed these data through employed both descriptive and inferential analysis by using STATA SPSS and Excel software.

3.8.1. Descriptive Analysis

Descriptive statistics such as mean, standard deviation, percentages, graphs and cross tabulations were used in analyzing the data. Descriptive method of data analysis has employed to address all research question of the study.

3.8.2. Inferential analysis

Empirical analysis dealing with making inference or conclusion (generalizing) about population based on data obtaining from a limit number of observation from population and determines relationship among variables and making prediction. It has being included linear regression and concerning with drawing conclusion about the data by taking a sample and consists of estimation and hypothesis testing.

To make decision the study will be use p-value approach. P-value is the smallest significance level at which the null hypothesis is rejected and inferential analysis is used to draw the inference about population from the sample.

Multiple Linear Regression Model

Multiple linear regression models are a type of the model in which we have a one dependent and two or more independent variables. Multiple linear regression models is a mathematical equation that provides prediction of the value of dependent variable based on known value of independent variables and to study the relationship among dependent variable and independent variables. The general multiple linear regression models are:-

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + + + \sum_{i=0}^{\infty} e_i$$

Where Y= Total Business income tax revenue,

β_0 = Y intercept, x_1 = Carelessness of tax payers β_2 = Coefficient of tax payer educational states x_2 = tax payer educational status, β_3 = Coefficient of government commitment and legal actions, x_3 = government commitment and legal actions, β_4 = Coefficient of culture and social norms, x_4 = culture and social norms, and e^i=Error *term.*

Table 3.3 Explanator variables and direction of influence on dependent variable

No	Explanator variables	Expected sign
1	programs of training or education session is weak	Postive
2	The tax collection period is inconvenient to tax payers	Negative
3	Carelessness of tax payers	Negative
4	Amendment of tax policy and procedure	Postive
5	To create optimality of economy and avoide inflation	Posetive
6	Educational status of tax payers in business income tax collection	Postive
7	Government commitment and legal actions to develop the tax revenue	Postive
8	Culture and social norme are affect collection of busines income tax	Negative

Source: own computation, 2021

3.9. Model Adequacy Checking

This model is used to check whether the major or standard assumption of multiple regression analysis is meeting or satisfied. This would be made through the following Residual Analysis:-It is a measure of variability that is left unexplained by the regression model. Thus, any departures from the assumptions on the errors shall show up in the residuals. Its analysis is effective through Normal probability plot and Plot of residuals against fitted value.

3.9.1. Checking Normality of Assumption

The assumption of normality is required by most parametric test procedures. This assumption is checking by histogram and normal probability plot. The graphical technique assessing whether or not a data set approximately normally distributed. The data are plot against a theoretical normal distribution in such a way that the points shall form an approximate straight line. These are used to check normality assumption of the model.

If scatter is around (the diagonal line) the error is normally distributed or if the plots of points (residual) lie approximately on a straight line, then the distribution of the error term is approximately normal.

3.9.2 Checking of Heteroscedasticity Assumption

Informal method heteroscedasticity is a situation where the variance of the error term depends upon the value of explanatory variables. If the variance of error term is not constant, the assumption of homoscedasticity is fails. We detect Heteroscedasticity by looking for the pattern in the plot of the dependent variable versus predicted value of explanatory variables. Residual plot is a graph that shows the residuals on the vertical axis and the independent variable on the horizontal axis. In order to check, whether there is heteroscedasticity problem is removes or not. If the residual plot tends to have a funnel shapes distribution (either funning out or funning in with the value of the x variable) then there is a heteroscedasticity problem.

3.9.3. Checking Multicollinearity Assumption

When one or more explanatory variables are correlated, there is a problem of multicollinearity. The formal test for Multicollinearity is detection of tolerance or the variance inflation (VIF). If a tolerance is approach to 0 and a VIF exceeds 10, then the associated regression coefficients are poorly estimated due to Multicollinearity which means that the entire explanatory variable is not correlated on each other and one of the assumptions of multiple regression are satisfied which means the repressors are not correlated when VIF>10 there is Multicollinearity, But if VIF< 10 there is no Multicollinearity where; VIF =1/ (1-R2), where is coefficient of determination.

3.9.4. Assumption of Linearity

Assumption of linearity was checked by using p-p plot and q-q plot. Multiple linear regressions, it is assumed that the relationships between dependent and independent variable are linear.

In practice this assumption can virtually never be confirmed; fortunately, multiple regression procedures are not greatly affecting by minor deviations from this assumption, by consider either transforming the variables, or explicitly allowing for nonlinear components.

If the relationship between the independent variables and dependent variable is not linear, the results of the regression analysis were under-estimate the true relationship. This under-estimation carries two risks: increased chance of a Type II error, and in the case of multiple regression, an increased risk of Type I errors (over-estimation) for other independent variables.

3.9.5. Test of Significance in Multiple Regressions

Testing Overall Significance

The overall test aims at finding out whether the explanatory variables (X1, X2. Xk) do actually any significant influence on the dependent variable(Y).

The test of the overall significance of regression can be testing the analysis of variance (ANOVA) technique. The following table summarizes the idea of ANOVA technique.

Table 3.4. Anova (overall significance analysis

Source of varation	Sum squares(SS)	Degrees of Freedom(DF)	Mean square(MS)	Calculated value(Fcal)
Regressor	SSR	P-1	MSR=SSR/P-1	
Residual	SSE	n-p	MSE=SSE/n-P	
Total		n-1		MSR/MSE

3.9.6. Goodness of Fit of the Model

Another common statistics associated with regression analysis is R^2 which is called coefficient of determination. It is equal to one minus the ratio of sum of squared estimated errors (the deviation of the actual value of the dependent variable from the regression line) to the sum of squared deviations about the mean of the dependent variable.

$$R^2 = 1 - \frac{SSE}{SST} = \frac{SSR}{SST}$$

R^2 (Coefficient of determination) is often described as the proportion of variance "accounted for", "explained", or "described" by regression. Generally R^2 indicate the percentage of variability of dependent variable explained by the explanatory (response) variable.

CHAPTER FOUR

4. Result and Discussion

This section consists of two sub-sections. The first one is description of sample households' characteristics and the second sub-section is estimation results which include empirical analysis of the study.

4.1. Description of Sample Household Characteristics

This section discusses the important findings and results obtained from descriptive data analysis of the study and the data collected from Gurage zone revenue authority office of tax payer's. This study was conducted on 446 tax payers. The questionnaire is presented and analyzed in the support of personal interview of tax officers. Among the questioners distributed to 446 tax payers, 23(5.16%) of them fails to return, 423(94.84%) of them were collected back.

4.1.1. Demographic characteristics

Gender of Respondent: - Table 4.1 indicates that 72.1 % of the respondents were male and 27.9 % of the respondents were female. This shows that the majority of income tax payers are male and the majority of the population in study area applied in business activity are male.

Age of respondent:- From table 4.1 revealed that 55.34% respondents are between the age interval of 18-28 year, 30.1% of the respondents are between the age interval of 29-39 of years, 12.62% of the respondents are in the age interval of 40-50 years and 1.94% or the respondents in the age of >51 years and above. This shows that almost all that 85.44% of the income tax payers are in the active working age group. i.e the respondent in study area business activity exercised by youth and active working age people.

Education level of respondent: - According to the table 4.1 states that 4.02% of the respondents have master's degree, 13% of the respondents have bachelor's degree, 21.28% of the respondents have diploma, 26.24% of the respondents have certificate and 35.46% of the respondents have below 12 grades.

Respondents who have below 12 grades may not have enough knowledge about determinant of collection of business income tax this shows they may not give accurate or relevant data for the study. This indicates that majority of the business man (traders) were grouped under below grades.

Distribution of respondents' experience: - With regards to the experience of respondent Table 4.1 specifies that 37.97 % of them have from 1-4 years' experience, from 49.37% of regarding them have 4-8years 'from 8-12 years' experience, 6.33%experience each. The remaining 6.33% of them has from 12-16 years' experience. Generally the major of tax payers have between 2-8 year experiences.

Business type of respondent: - According to table 4.1 expressions that the populations are different nature of business activity that is (89)25.87% hotel and servicing, (84)24.42 % small shop, (57)16.57% café and breakfast, (37)10.76% male/female dressing and (77)22.38% other to specified it so most of the respondent answer are constriction and service providers. This indicates that the majority of the tax payer is involved in hotel and servicing businesses where as those in the productive business activity are minima.

Table 4.1.Descriptive statistics of sample households

	variable	category	Freq.	Percent
1	Gender	Male	238	66.8
		female	118	33.14
2	Age	18-28 year	57	55.34
		29-39 year	28	30.1
		40-50 year	13	12.62
		>51 year	2	1.94
3	Education level	below 12 grade	150	35.46
		Certificate	111	26.24
		Diploma	90	21.28
		bachelor's degree	55	13
		master's degree	17	4.02
4	work experience	From 1-4 year	30	37.97
		From 4-8 year	39	49.37
		From 8-12 year	5	6.33
		From12-16 year	5	6.33
5	business type	hotel and servicing	89	25.87
		small shop	84	24.42
		café and breakfast	57	16.57
		male/female dressing	37	10.76
		Other	77	22.38

Source own computation, 2021

Tax collection procedure: emphasis that the respondents rated in generally the tax collection procedure are complex they responded strongly agrees 76 (17.9%), agree 176(41.61%), uncertainty 50 (11.82%) and121 disagree (28.61%). This indicates that the majority of the tax payers respondents are agree this implies that generally the tax collection procedure is complex.

Training; -stated that the respondents rated in programs of training or education session is weak they responded strongly agree 123(29.08%), agree 176(41.61%), uncertainty 37(8.75%) and disagree 87(20.57%). This indicates that the majority of the tax payers respondents are agree this implies that generally the programs of training or education session is weak.

4.2. Descriptive lay curt scale Statics of the respondent Variable

		strongly agree		Agree		Uncertainty		Disagree		Total	
	factors	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1	Generally the tax collection procedure is complex	76	17.97	176	41.61	50	11.82	121	28.61	423	100
2	Programs of training oreducation session is weak	123	29.08	176	41.61	37	8.75	87	20.57	423	100
3	The tax collection period is inconvenient to tax payers	129	30.5	147	34.75	54	12.77	93	21.99	423	100
4	Low income level	75	17.73	147	34.75	52	12.29	149	35.22	423	100
5	Lack of awareness to pay business income tax	54	54	156	36.88	40	9.46	173	40.9	423	100
6	Carelessness of tax payee	82	19.39	174	41.13	58	13.71	109	25.77	423	100
7	Lack of ability to pay business income tax	73	17.26	131	30.97	102	24.11	117	27.66	423	100

Source own computation

Inconvenient to tax payers: - Exhibit that the respondents rated in the tax collection period is inconvenient to tax payers they responded strongly agree 129(30.5 %), agree 147(34.75 %), uncertainty 54(12.77%) and disagree 93(21.99%). This indicates that the majority of the tax payers respondents are agree this implies that generally the tax collection period is inconvenient to tax payers.

Unwillingness of tax payers: -States that the respondents rated in the unwillingness of tax payers they responded strongly agree 75(17.73 %), agree 147(34.75 %), uncertainty 52(12.29%) and disagree 149(35.22%). This indicates that the majority of the tax payers respondents are disagree this implies that generally more tax payers are unwillingness of pay tax.

lack of awareness: - observed that the respondents rated in lack of awareness to pay business income tax they responded strongly agree 54(54%), agree 156(36.88%), uncertainty 40(9.46%) and disagree 173(40.9%).This shows that majority of the tax payers were not willing to pay their tax liability due to lack of awareness towards the existing tax system. so, the tax office expected to create awareness for tax payers regarding to use of tax.

Carelessness of tax: Shows that the respondents rated in carelessness of tax payer the responded strongly agree 82(19.39%), agree 174(41.13%), uncertainty 58(13.7%), disagree 109(25%). Accordingly this table indicates that majority of the tax payers are carelessness to pay business income tax. So, the tax office expected to create awareness for tax.

Table 4.3: Descriptive analysis of the categorical variable

		strongly agree		Agree		Uncertainty		Disagree		Total	
	Factore	Fr	%)	Fr	%)	Fr	%)	Fr	%)	Fr	%)
1	Amendment of tax policy and procedure	123	29.08	176	41.61	37	8.75	87	20.57	423	100
2	Penalty for tax payer of not pay on time	184	43.5	181	42.79	50	11.82	8	1.89	423	100
3	Government can influence the production sector of the econ	180	42.55	179	42.32	43	10.17	21	4.96	423	100
4	Commencement of computerized tax collection system	155	36.64	177	41.84	52	12.29	39	9.22	423	100
5	The city government support for revenue authority office	111	26.24	178	42.08	99	23.4	35	8.27	423	100
6	The tax payer gets expense and time saving services	49	11.59	156	36.88	62	14.66	156	36.88	423	100
7	Culture and social norm affect collection of business income	63	14.89	134	31.68	59	13.95	167	39.48	423	100
8	Exactions are clears, simple, estimable and accessible	55	13	162	38.3	57	13.48	149	35.23	423	100
9	Strength of tax administration system	209	49.41	176	41.61	25	5.91	9	2.13	423	100
10	Strength of revenue authority coordinator	160	37.83	220	52.01	34	8.04	9	2.13	423	100
11	Honesty of tax payer	222	52.48	146	34.52	46	10.87	9	2.13	423	100
12	Respecting of tax rule and regulation	184	43.5	153	36.17	59	13.95	27	6.38	423	100
13	Peace and security	222	52.48	158	37.35	33	7.8	10	2.36	423	100
14	To create optimality of economy and avoid deflation	213	50.35	134	31.68	54	12.77	22	5.2	423	100
15	Avoids Negligence of tax collecting	139	32.86	215	50.83	63	14.89	6	1.42	423	100
16	The strength enforcement of capacity of authority	120	28.37	235	55.56	52	12.29	16	3.78	423	100
17	Create well-trained human resource	184	43.5	181	42.79	50	11.82	8	1.89	423	100
18	high educational status of taxpayers	172	40.66	152	35.93	76	17.97	22	5.2	423	100
19	Minimize Shortage of budget	111	26.24	162	38.53	112	26.48	36	8.51	423	100

Source: own computation, 2021

The above table shows that respondents rated in amendment of tax policy and procedure answer that strongly agree 123(29.08 %), agree 176(41.61 %), uncertainty 37(8.75%) and disagree 87(20.57%) accordingly, this table indicates that majority of the tax payers expected to amendment of tax policy and procedure.

From the above table observed that the respondents rated in penalty for tax payer of not pay on time their tax responded showed that strongly agree 184(43.5%), agree 181(42.79%), uncertainty 50(11.82%) and disagree 8(1.89%). This shows hat tax office are levy penalty for tax payer not pay on time of each tax payer fairly i.e. There is a disparity in determination of tax liability or they determine without any real evidences.

Government can influence: - From the above table regard to the government can influence the production sectors of economy the respondents answer strongly agree 180(42.55 %), agree 179(42.732%), uncertainty 43(10.17%) and disagree 21(4.96%). This indicates that majority of the tax payers that are involved in business activities the government can influence the production sectors of economy.

Commencement of computerized tax collecting system: - In the above table shows that respondents rated in commencement of computerized tax collecting system answer that strongly agree 155(36.64%), agree 177(41.84%), uncertainty 52(12.29%) and disagree 39(9.22%). This indicates that majority of the tax payers answer strongly agrees so that business like which engaged in computerized tax collecting system so access to tax collecting in this situation shortly. Most tax collecting system is manual (by hand), automates (computers) tax collecting system is that fewer employees are needed to tax collecting.

Tax administration: - From the above table respondents have believed that strength of tax administration system the respondents answer strongly agree 209(49.41%), agree176 (41.61%), uncertainty 25(5.91%) and disagree 9(2.13%).This indicates that majority of the tax payers answer strongly agrees so that strength of tax administration system engaged in collection of business income tax.

Revenue authority coordinator:- The above table shows that respondents rated in strength of revenue authority coordinator the respondents answer strongly agree 160(37.83%), agree220(52.01%), uncertainty 34(8.04%) and disagree 9(2.13%).This indicates that majority

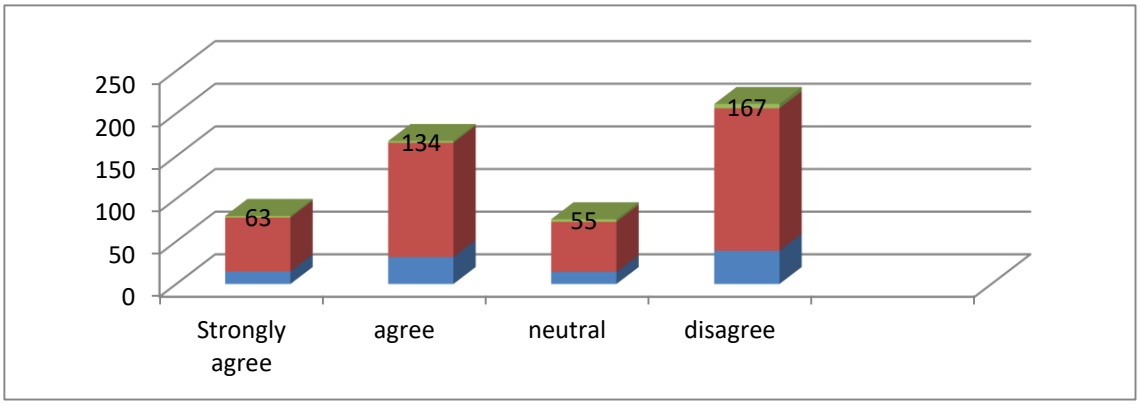
of the tax payers answer agrees so that strength of revenue authority coordinator engaged in collection of business income tax.

Honesty of tax payer:- From the above table respondents have believed that honesty of tax payer the respondents answer strongly agree 222(52.48%), agree146(34.52%), uncertainty 46(10.87%) and disagree 9(2.13%).This indicates that majority of the tax payers answer strongly agrees so those to create honesty of tax payer are engaged in collection of business income tax.

Optimality of economy: - The above tables shows that respondents rated increase optimality of economy and avoid deflation the respondents answer strongly agree 213(50.35%), agree134 (31.68%), uncertainty 54(12.77%) and disagree 22(5.2%). This indicates that majority of the tax payers answer strongly agrees so those to create optimality of economy and avoid deflation are engaged in collection of business income tax.

culture and social norm: - From the above table of respondents have believed that there is culture/social norm are affect collection of business income tax the respondents answer strongly agree 63(14.89%), agree 134(31.68%), uncertainty 59(13.95%), and disagree167 (39.48%).This indicates that majority of the tax payers answer disagrees so that culture and social norm are in this case not the major factor affect that collection of business income tax.

Figure 4.3. respondent in culture and social norme.



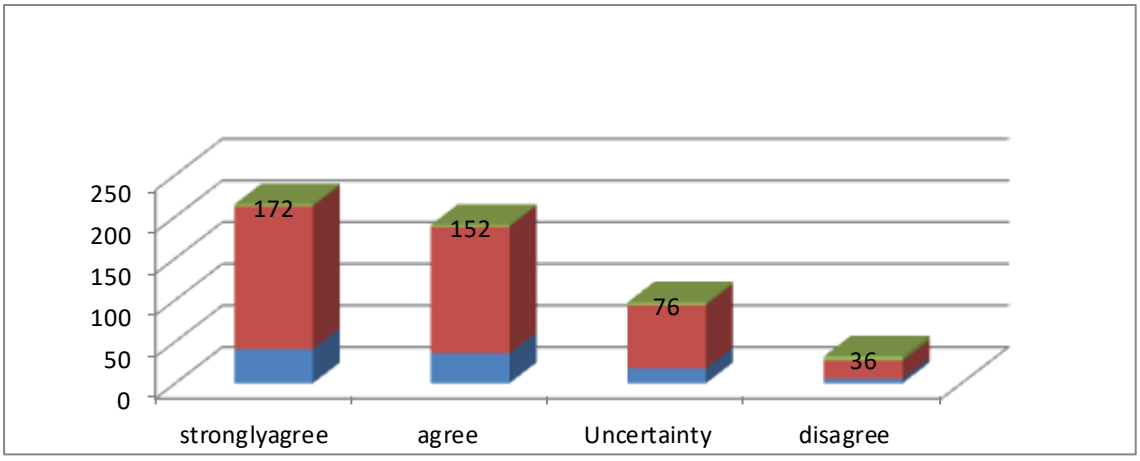
Negligence of tax collecting:- From the above table of respondents have believed that avoids negligence of tax collecting the respondents answer stronglyagree139(32.86%), agree

215(50.83%), uncertainty 63(14.89%) and disagree6(1.42%).This indicates that majority of the tax payers answer agrees so that avoids negligence of tax collecting is engaged in collection of business income tax.

The above tables show that respondents rated in the strength enforcement of capacity of revenue authority the respondents answer stronglyagree120 (28.37%), agree235 (55.56%), uncertainty 52(12.2%) and disagree16 (3.78%).The result indicates that most of the tax payer's answer are agrees so those to create the strength enforcement of capacity of authority are engaged in collection of business income tax.

The above tables show that respondents rated in high educational status of tax payers the respondents answer strongly agree172 (40.66%), agree152 (35.93%), uncertainty 76(17.97%) and disagree22 (5.2%).The result indicates that most of the tax payer's answer are strongly agrees so that to create high educational states of taxpayers are contribute to the effectiveness and efficiency of business income tax collection.

Figure 4.4. educational statesof tax payers respondent



From the above table regard to create well-trained human resource respondents are strongly agree 184(43.5%), agree 181(42.79%), uncertainty 50(11.82%) and disagree 8(1.89%).The result indicates that most of the tax payer's answer are strongly agrees so that tax office is better to prepare adequate training session and create awareness towards taxation and tax payment and increasing the number of tax payers that participate in the training session.

Table 4.4: Constraints that affect government commitment and legal actions to develop tax collection.

R-no	Factors	Strongly agree		Agree		Uncertainty		Strongly disagree		Total	
		Freq	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
1	complicated tax lows	110	26	149	35.22	60	14.18	103	24.35	423	100
2	the penalty due to not paying tax is lower than may tax save	59	13.95	152	35.93	90	21.28	122	28.84	423	100
3	negligence of tax collecting staff	68	16.08	183	43.26	131	30.97	41	9.69	423	100
4	an information technology wale fares are expanded	42	9.93	173	40.9	65	15.37	143	33.81	423	100
5	to get the required tax information	59	13.95	182	43.03	95	22.46	87	20.57	423	100

Source: developed from the questionnaire, 2021

The tables 4.4 show that the respondents rated in the complicated tax lows respondent's answer strongly agree 110(26%), agree 149(35.22%), uncertainty 60(14.18%) and disagree103 (23.35%).The result indicates that most of the tax payer's answer are agrees so that the tax authority to avoid complicated tax lows are one of problem solving in collection of business income tax.

The above tables 4.4 show that respondents rated in the penalty due to not paying tax is lower than may tax save the respondents reply stronglyagree59(13.95%), agree152(35.93%), uncertainty 90(21.28%), disagree122(28.84%) and strongly disagree8(1.89%). The result indicates that most of the tax payer's answer are agrees this indicate that tax payer obey the tax law.

The above tables 4.4 show that respondents rated in the negligence of tax collecting staff respondent's answer strongly agree 68(16.08%), agree183 (43.26%), uncertainty 131(30.97%) and disagree41 (9.69%). The result indicates that most of the tax payer's answer are agrees so that the tax authority to avoid negligence of tax collecting staff are one of problem solving in collection of business income tax.

From the table 4.4 it is observed that the respondents rated in respecting of an information technology wale fares are expanded they responded strongly agrees 42(9.93%),agree173 (40.9%), uncertainty 65(15.37%) and disagree 143(33.81%).This shows that majority of the

tax payers answer are agrees an information technology wale fares are expanded. From the above table of respondents have believed that there is to get the required tax information the respondents answer strongly agree 59 (13.95%), agree 182(43.03%), uncertainty 95(22.46%), and disagree 87(20.57%) this indicates that majority of the tax payers answer agrees so that to get the required tax information such as tax payers strong habit to pay business income tax.

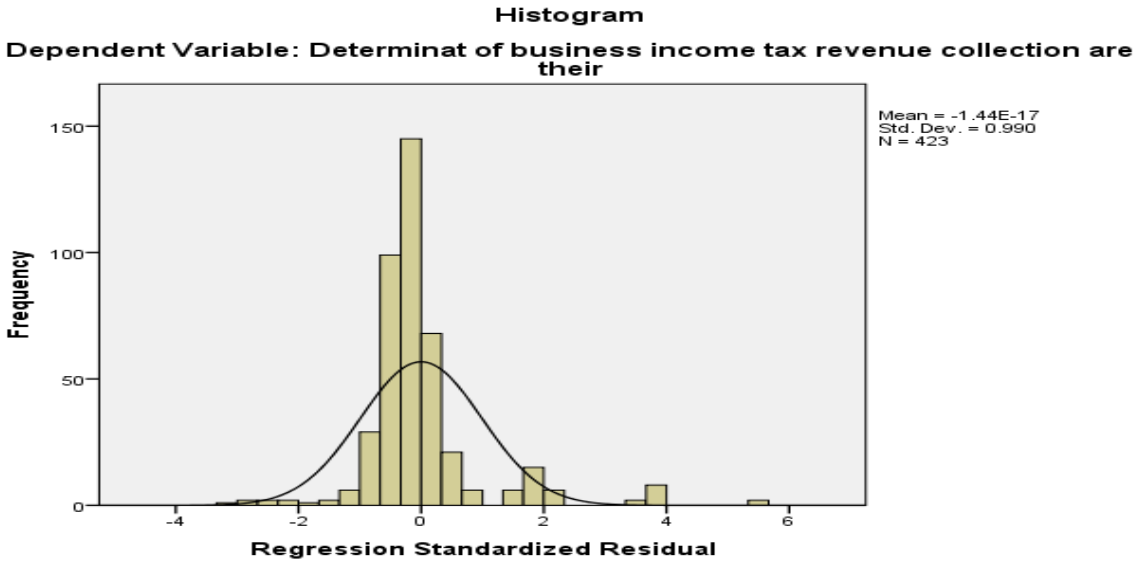
4.3. Econometrics Analysis

The empirical evidence on the determinants of business income tax collection is studied based on cross-sectional data, where all the variables are observed for each cross-section.
To test the relationship between these business income tax collection and selected determinant variables the following linear regression model is developed.

4.4. Model adequacy checking for multiple regression models.

4.4.1. **Checking normality assumption.**

The next histogram residual of regression model show that the mean is approximately zero with the standard deviation also approximately 1 this indicate the residual approximately normally distributed with so the assumption of normality is satisfied.

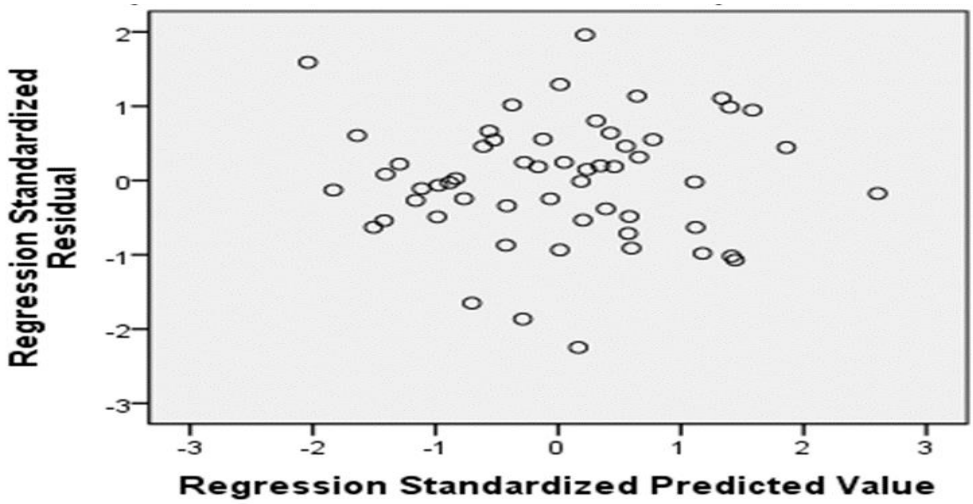


Source own computation, 2021

4.4.2. Checking of heteroscedasticity

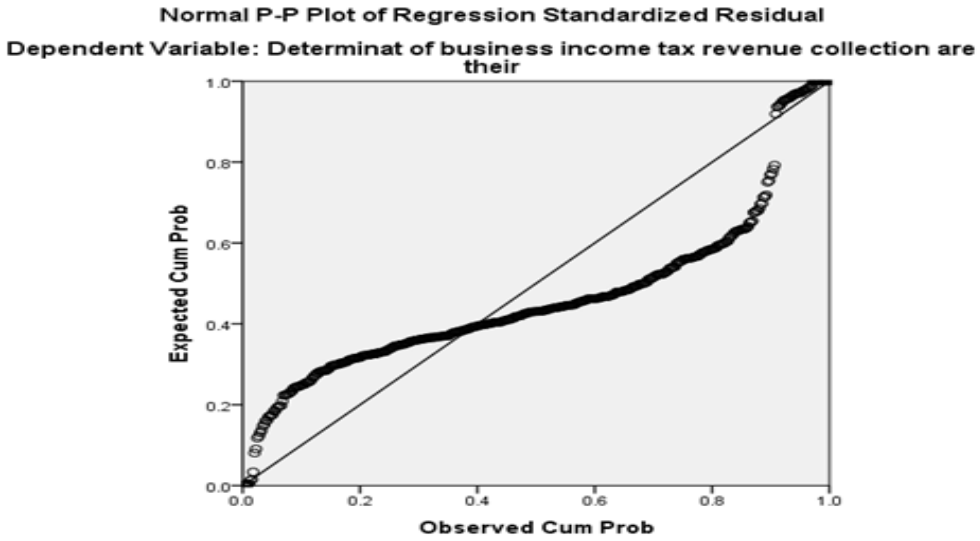
In the next figure scatter plot the pointes are not show any systematic pattern of increasing and decreasing in the figure and this indicate that the error term have homogenous(equal variance) these satisfied assumption of homoscedasticity constant variance or there is no heteroscedasticity.

Dependent variable business income tax



4.4.3. Checking of linearity

From the next scatter plot of regression standardized residual show that the points that the given explanatory variable are linearly related with the response variable (Business income tax collection) and the points approximately straight line and also the assumption of linearity is satisfied.



Source own computation, 2021

4.4.4. Checking Multicollinearity between Explanatory Variables

From the next given result states that the variance inflation factor (VIF) is less than ten (VIF<10) for this reason each explanatory variables are independently (uncorrelated) with each other or this indicates that there is no Multicollinearity problem between the independent variables .The one of multiple regression assumption is full fill the value of VIF for all variables are less than critical value equal to 10 this leads to that there is no multicollinearity problem to the model.

```
. vif
```

Variable	VIF	1/VIF
Amendment	1.21	0.823298
status	1.16	0.863677
deflation	1.07	0.932423
tax	1.07	0.937697
culture	1.06	0.940472
Government	1.05	0.955064
Carelessness	1.04	0.961951
education	1.02	0.984743
Mean VIF	1.08	

Source own computation result, 2021

4.4.5. Checking of autocorrelation

Test of autocorrelation: autocorrelation is occurred when the error term at time t is correlated with the error term at any other points of time. AC can be tested by Durbin Watson test, Breusch-Godfrey test and by using partial autocorrelation function (PACF).

Model Summary	
Model	Durbin-Watson
1	1.917a

H_0 : There is no autocorrelation (d=2)

H_1: There is autocorrelation (d≠2)

If the value of d- statics is approximate to 2 or equal to 2 we decided to accept the null hypothesis, means there is no autocorrelation. In our cause Durbin-Watson statistic = 1.917≈2.

Then the decision goes to rejection of alternative hypothesis or acceptance of the null hypothesis, means there is no autocorrelation.

Overall test(ANOVA)						
Model		Sum of Squares	df	Mean Squar	F	Sig.
1	Regression	7.518	18	0.418	10.246	0.000***
	Residual	1.508	37	0.041		
	Total	9.026	55			

Source own computation, 2021

Based on the above ANOVA table we have to test the overall test of the regression model as follow;

Step 1 H0; β_1=β_2=β_3=……=.β_18 =0 Vs.

H1; βj≠0, for at least one j

Step 2 Level of significance α=0.05

Step 3 Test statistics F=10.246

Step 4 Decision rule; p-value is less than level of significance then reject null hypothesis Implies that at least one of the regressions X1, X2… X8 contributes significantly to the Model. i.e. 0.00<0.05

Step 5 Conclusion; we conclude that the model fits is good and handles the data adequately .i.e. the independent variables are important to the model.

Then the decision goes to rejection of alternative hypothesis or acceptance of the null hypothesis means there is no autocorrelation.

	Education	Tax	Carelessness	Amendment	Deflation	statues	Government	Culture
Education	1.000							
Tax	0.0219	1.0000						
Carelessness	-0.0369	0.0772	1.0000					
Amendment	0.0041	-0.2211	-0.0565	1.0000				
Deflation	0.0009	-0.0556	-0.0904	-0.1264	1.0000			
Statues	-0.0377	-0.1086	0.0891	0.3458	-0.0442	1.0000		
Government	0.0824	0.0332	-0.0350	-0.0012	-0.1137	0.0175	1.0000	
Culture	-0.0549	-0.0095	-0.0628	0.0395	-0.1655	-0.0242	0.1604	1.0000

Source own computation result, 2021

Depend on this condition variables in the model, where checked for multicollinearity. It show that there is no multicollinarity with independent variable with dependent variable it confirmation that no distribution between dependent and independent variable. The higher correlation between the predictor variables are the more multicollinarity means that between the dependent and independent variable are no case and effect.

Table 4.5 Result of Ordinary Least Square (OLS) Model

Source	SS	df	MS		Number of obs = 423	
Mode	411.459296	8	51.432412		Prob > F = 0.0000	
Residual	76.8149359	414	0.18554332		R-squared = 0.8427	
Total	488.274232	422	1.15704794		Adj R-squared = 0.8396	
Dependent variable:-Business income tax collection					Root MSE = .43075	
Variable	Coef.	Std. Err	t	P>|t	[95% Conf. Interval]	
Education_l	0.0200535	0.010601	-2.89	0.039**	0.0408923	0.0007853
Awarness	0.0532548	193977	-2.75	0.006***	-0.0913852	-0.0151245
Carelessness	-0.8648901	0.019901	-2.5	0.013**	-0.0888653	-0.010627
Amendment	0.0497462	0.021772	39.72	0.000***	0.8220921	0.9076881
Deflation	-0.0631541	0.022182	-2.85	0.005***	-0.1067571	-0.0195511
Inconveinent	-0.0940028	0.090734	4.53	0.000***	-0.053245	-0.1347607
Government	0.189845	0.025951	2.73	0.045*	-0.0320281	0.069997
Culture/norm	-0.0056293	0.040815	0.14	0.029**	-0.0746009	0.0858595
Age	-0.3321487	0.556048	-2.13	0.345	-0.6388796	0.231786
Gender	-0.2119345	0.303982	-0.92	0.359	-0.6660989	0.242229
Martal	0.2093521	0.082409	1.93	0.054	-40.14263	4227.184
Cons	0.7301141	0.208565	3.5	0.001	0.3201353	1.140093

Source own computation, 2021

Note: ***, **,* significant at 1%, 5%, 10% level

The above table 4.5 showed the empirical result tested by Ordinary Least Square (OLS) from E-views software. The R-squared of this model is 0.8427, which means that 84.27% of the total variation of business income tax collection is determined by the total variation of education level, awareness of tax payment, government commitment, cultures and norm, amendment of tax rule and inconvenient of tax collection period.

Whereas, the adjusted R-squared is 0.8396, which means that 83.96% of the total variation of business income tax collection is determined by the total variation of education level, deflation, awareness of tax payment, government commitment, cultures and norm, amendment of tax rule and inconvenient of tax collection period by taking into account the number of independent variables and sample size.

Although, the remaining 15.63% and 16.04% of the change is explained by other factors which are not included in this study model, both the R-squared and the Adjusted R-squared values in this study are found to be sufficient enough to infer that the fitted regression line is very close to all of the data points taken together (has more explanatory power). For cross-sectional data, R-Squared greater than 50% is still large enough for reliable conclusions (Cameron Trivedi *et al.,* (2009), Hsiao (2011), cited in Nyamsogoro (2017).

Interpretation of the variable in the study

Business income tax (BIT) *= 0.7301141 -0.0631541 (deflation) + 0.0940028 (tax payer educational states) + 0.0189845 (government commitment and legal actions) - 0.0056293 (culture and social norms).*

As indicated in the above table 4.5 the Sig -value proves or disproves the significance of the determinant factors. A Sig -value is said to be significant if it is less than the level of significance, (5%). If the Sig-value is considered significant (is less than the specified level of significance), In table the regression model above has established that taking eight independent variables into account notably; X1-X8 constant at Zero influences tax collection will be (0.730). The results presented also shows that taking all other independent variables at zero, a Amendment of tax rule the researcher observed most of the tax payers especially category "B" tax payer do not maintain books of accounts and record. The reason they mentioned that most of them are currently upgraded from category "C" to category "B" and up grading is not based on our income and not fair, as their thinking to upgrade taxpayers was given to the revenue office as quota. From this the researcher suggested up grading itself must be based on their income return and discussion is necessary with business person about upgrading. Another reason they mentioned not maintain books of account was they assumed that it incurs additional cost to them and assumed that Tax Authority didn't accept the tax return statement even if they maintained. Most of them give their reasons why they have said unfair.

Assessment did not found on our earning. Even we maintain books of account or records most of the time it is not accepted by tax authority and the method used to determine tax liability was standard assessment. But standard assessment committees (estimation committee) were not well trained. Assessors and tax collectors do not diligence for taxpayers‟ problem and did not consider the existing business environment.

As their response tax assessors and collectors motive was only collect tax liability from tax payer, no care has be done for tax payers. Culture and Social Norm 5%, the respondents reasons tax payers are not know their obligation properly and they (taxpayers) fear to declare as it increases tax burden. Taxpayers Education 2%, as it has been revealed from respondent's distribution majority of the taxpayers does not have full knowledge about tax rules and regulation. The reason they mentioned were they are not participating in awareness creation program and, tax rules and regulations are not simple to understand. Another reason they mentioned was awareness creation conducted by revenue office was not sufficient to understand the rules and regulations of tax. They responded for the question how much time awareness creation was conducted by the revenue office in a year, majority of the respondents responded twice in year. Based on the above respondent's idea the researcher recommended to the revenue office: taxpayers education must be took highest time of their activity in a year.

Government commitment 18%, the researcher observed that non-penalty of criminal makes tax collection in efficient and most of the tax payers adopt this behavior and makes challenge to the administrative revenue office. So in addition of waiver of penalty, to serve the country's law application of criminal penalty is necessary. Attitude towards the Government 11.6% from this the researcher concluded that least number of taxpayers have positive attitude to declare their income. Majority of tax payers does not have good attitude to declare their income. So, the revenue office should have some homework to teach and train tax payers to declare their income honestly and declaration alone does not impose tax burden on them.

Inconvenient of Tax Collection Period 9**%** constraint levels in tax collection effectiveness of study area tax colleting Authority. As the researcher's observation, there are a number of constraints, which make the tax payers not to be certain about tax liability.

Among such constraints lack of timely assessment of tax payers tax liability , lack of trustiness between taxpayers and tax experts, lack of proper maintenance of books of accounts and records of taxpayers were some of the constraints that have been encountering in the office not to be certain on the tax liability.

Table 4.6 Skewness/Kurtosis tests for Normality

Variable Name	Obs	Pr(Skewness)	Pr (Kurtosis).	adj chi2(2	Prob>chi2
Education	423	0.2014	0.6530	1.84	0.3983
Tax	423	0.0005	0.0000	0.0000	0.0000
Carelessness	423	0.0274	0.0000	0.0000	0.0000
Amendment	423	0.0000	0.0000	42.17	0.0000
Deflation	423	0.0000	0.0002	29.93	0.0000
Statues	423	0.0617	0.0000	0.0000	0.0000
Government	423	0.0000	0.0016	48.68	0.0000
Culture	423	0.2541	0.0000	17.65	0.0001

Source own computation, 2021

Skewness:-is a measure of normality it measures how the observation distribute across increasing value straight line.

Skewed: - The left tell the majority of the observation fall below the mean value skewed to the right on the other hand means majority of the observations fall above the mean.

Normal distribution:-is expected to have Skewness approaching zero.

Kurtosis:-is a measure of normality which tells how frequent the distributions are. It measures the height of the distribution curve and the expected kurtosis value for normal distribution is more than three.

4.5. Analysis of the Focus Group Discussion

To conduct the study the researcher prepare personal interview to the tax officers to support the data collected by using questionnaires. As the information gathered from the tax officers through interview, there are many challenges that faced them to collect business income tax. In the tax office there is no fully sufficient, skillful and self-initiated officers to do the intended work efficiently and effectively. Business income tax is one of source of government income to get individual income tax to pay. Income tax status simply defines as in the regulation the term income and also specifies who should pay income tax. Tax payers use different techniques to tax determinants of tax revenue collection mostly tax payers used failure to sells report the income timely adding false expenses shifting income from one period to another and intentional omission of some incomes from the report.

The cause for high rate of taxation, lack of efficient tax system and collection procedure, lack of awareness about tax law and uses of tax, over assessment of business tax payers income and lack of understanding in the idea of ‘’tax is a value of paid for development and civilization’’ are the main causes that leads tax payers to tax determinants of tax revenue collection. Based on the information gathered from the focused group discussion there are many problems exist in selected districts revenue authority office. Such as increasing the number of illegal trade tax payers were not paid their tax liability timely some exchanges or business activity were performed handily absence of suitable environment for implementing in the tax system, absence of support from the concerned bodies and increasing the number of requests by the tax payers regarding to increasing amount tax liability are some of the problem exist in the revenue office.

Accordingly, the above listed problem that existed in the revenue office, the researcher classifies the problems that exist in the revenue office in collection of business income tax in two sides. These are:

1).Major problems that exist in side of Gurage zone tax payers, the research finding such as tax payers awareness towards taxation and tax payment, not willing to pay their tax liability, doing some business activity in hidden way to reduce tax liability, low participation during the training session, negligence of tax payers towards the existing tax system ,increasing the

number of tax payers are not ability to pay their tax liability, increasing the number of illegal traders or merchants, and unable to pay their tax liability on the specified period was some of the challenges that exist in the side tax payers.

2).Major problems that exist in the side of Gurage zone revenue office such as:-Estimated the amount of tax expected to be collected annual income of tax payers and amount of tax liability without any evidence, lack of skilled and trained man power, follow weak and tedious business profit tax collection system, poor record keeping and documentation system.

CHAPTER FIVE

5. Summary, Conclusion and Recommendation

5.1. Summary

This study presented important information, justification, and findings concerning the determinate in respect of collection of business income tax payers in Gurage zone revenue authority office this study is designed to identify the major determinate exists in both sides of the tax payers and tax officer of Gurage zone revenue authority office and providing possible corrective actions for these problems in the way of achieving the revenue office designed objectives and goals. Major findings of this study are: -poor controlling systems or mechanisms of assessment, estimation, and collection of tax by the tax authority, complexity of the system and absence of suitable environment to implement the system successfully, poor awareness of tax payers towards taxation and payment poor habit of maintaining books of account especially by business men, in adequate record keeping and documentation system of the organization, lack of accuracy, efficiency and effectiveness in that operation (tax assessment) absences of continuous or close follow up by the tax officers (lack of commitment on the side tax officers).

5.2. Conclusions

Tax has the effect of reducing undesirable products, promoting investment and development and reducing regional inequality, establishes economy, reduces imbalance between rich and poor. This goal can be achieved when it has good tax structure, clear rules and regulations, competent tax experts‟ compliance taxpayers and effective and efficient tax administration system. This particular study explores the problems in business income tax assessment and collection in Gurage Zone selected study area.

It attempts to assess the applicability of business income tax laws and regulations, compliance of tax payers about business income tax based on available primary data. The data has been gathered from sample of 446 respondents.

According to the data gathered, majority of the taxpayers can write and read most tax payers with degree and the rest are diploma holders. From sample taken 12(26.9%) of them were category “A” and 12(26.9%) %) of them were category “B” taxpayers. Based on the information obtained from these sources, the detail of the study has been concluded as depicted below. Gurage Zone Administrative Tax Authority Branch Office has implemented a business income tax assessment collection system using the tax rate stated by central government. The taxpayers‟ identification and registration has been fully implemented. Rules and regulations of the business income tax settee by central and regional governments are implemented by administrative branch office but there was a gap to implement it fully.

The business income tax assessment and collection of the administrative revenue office was inefficient to the findings of the study. Factors to this inefficiency of tax assessment and collection are weak assessment potential, lack of awareness creation to taxpayers, unfair and inequitable tax assessment by tax experts. The amount of business income tax paid was not consistent due to non-maintenance of books of accounts, this causes some times overstated or/ and understate income. Similarly less awareness and less compliance of taxpayers and experts made the business income tax assessed was not being collected as it should be.

As per the data obtained from both sources and interview made there are non-continuous follow up as rules and regulation to upgrade taxpayers category. Due to this most taxpayers are not voluntarily accepting up grading of their category. From data obtained from the revenue office there are 27 taxpayers were up graded in 2012/2013 from category “C” to category “B”. But majority of them were complaining in their up grading. As the taxpayers response it is not based on their income. Based on the tax payers and tax experts response there were tax evasion and tax avoidance in the study area. There were arrears of tax liability in the area due to an effective application of tax rules and regulations. In addition application of penalty due to non-compliance was not applicable as tax laws and regulations issued by region or central government properly. The willingness of taxpayers to declare their income was also less. Tax payers were not accepting neutrality of tax office appeal committee.

5.3 .Recommendations

Based on the data obtained from primary data recommendation is one of the objectives of the study, the following recommendations has been drawn based on the findings obtained and conclusions arrived that needs improvement on the assessment and collection of business income tax in the revenue administrative branch office.

Improve the business income tax assessment of the revenue office:

1. The revenue tax office should change the system to workable one. The revenue office should make taxpayers in category “A” and “B” to use cash register electronic Machine which increase trustiness of tax assessor and taxpayers. Moreover, the mechanism of determination of tax liability should be changed. To this, standard assessment committee of tax payers and other committee members should be knowledgeable, skilled and well experienced. Special training should be given to the assessment and estimation committee members on the standard assessment.

2. Strengthen business income collection mechanism of the office the tax collection should be economical. To be the tax liability collected from the taxpayers on a specified time. If it is not happen after teaching taxpayers the tax administration department should take an appropriate enforcement action/penalty on the tax delayers, evaders, and non-declarers and take actions such as, court action and seizing property. The revenue office should use mechanisms to encourage early taxpayers and those who voluntarily declare their income without violation of law give incentives such as tax refund and awards. This is advisable to motivate tax payers. In order to identify and levy fair tax liability among all taxpayers, to detect prevalence of tax evasion, the office should develop the capacity of tax experts and officials through continuous training and education.

3. Create awareness among taxpayers: Taxpayers in both category “A” and “B” has luck of full knowledge about tax rules and regulations.

4. So clarification on business income tax rules and regulation for the taxpayers is very essential to enhance business taxation system of the revenue office. Most taxpayers educational level was primary and above. This is the opportunity to the revenue office to teach and train taxpayers about tax rules and regulations such as, how to maintain books of accounts and records of their income as well as their expenses and other tax related issues.

5. Install effective and efficient tax administration system**:** Improve tax administration system by applying internal controlling system and tax auditing in order to apply tax compliance .To make tax liability certain, the office should make the tax payers to maintain books of accounts and create awareness to taxpayers how to determine tax liability of each taxpayers. Upgrading taxpayers‟ category should be based on stated rules and regulation but not arbitrarily. Arbitration makes taxpayers not declare their income honestly to the revenue office. The revenue office should organize and assign competent appeal and review committee which solves dissatisfaction of taxpayers on the assessment audit by the office .Also the committee should be competent in the area of assessment and audit in particular and issue of tax in general. Moreover, the committee should be well experienced and formed in line with tax law and be neutral /impartial in their decision and representation of committee members should.

6. To solve the problem the tax office is better to prepare adequate training session and create awareness towards taxation and tax payment and increasing the number of tax payers that giving training to tax payers regarding to the tax law and declaration.

In future, researchers can broaden this study to cover the whole country tax payers by increasing the factors that influence business income tax payers further the study can also put into consideration which factor is highly determining business income tax collection.

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Appendix -1

```
. reg determinat_t education tax Carelessness Amendment deflation status Government culture
```

Source	SS	df	MS		
Model	411.459296	8	51.432412	Number of obs =	423
Residual	76.8149359	414	.185543323	F(8, 414) =	277.20
				Prob > F =	0.0000
Total	488.274232	422	1.15704794	R-squared =	0.8427
				Adj R-squared =	0.8396
				Root MSE =	.43075

determinat_t	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
education	-.0200535	.0106011	-1.89	0.059	-.0408923	.0007853
tax	-.0532548	.0193977	-2.75	0.006	-.0913852	-.0151245
Carelessness	-.0497462	.0199008	-2.50	0.013	-.0888653	-.010627
Amendment	.8648901	.0217723	39.72	0.000	.8220921	.9076881
deflation	-.0631541	.0221818	-2.85	0.005	-.1067571	-.0195511
status	.0940028	.0207344	4.53	0.000	.053245	.1347607
Government	.0189845	.0259512	0.73	0.465	-.0320281	.069997
culture	.0056293	.0408149	0.14	0.890	-.0746009	.0858595
_cons	.7301141	.2085652	3.50	0.001	.3201353	1.140093

Appendix- 2

. corr determinat_t education tax Carelessness Amendment deflation status Government culture
(obs=423)

	determ~t	educat~n	tax	Carele~s	Amendm~t	deflat~n	status	Govern~t	culture
determinat_t	1.0000								
education	-0.0356	1.0000							
tax	-0.2553	0.0219	1.0000						
Carelessness	-0.0878	-0.0369	0.0772	1.0000					
Amendment	0.9085	0.0041	-0.2211	-0.0565	1.0000				
deflation	-0.1641	0.0009	-0.0556	-0.0904	-0.1264	1.0000			
status	0.3959	-0.0377	-0.1086	0.0891	0.3458	-0.0442	1.0000		
Government	0.0191	0.0824	0.0332	-0.0350	-0.0012	-0.1137	0.0175	1.0000	
culture	0.0517	-0.0549	-0.0095	-0.0628	0.0395	-0.1655	-0.0242	0.1604	1.0000

. vif

Variable	VIF	1/VIF
Amendment	1.21	0.823298
status	1.16	0.863677
deflation	1.07	0.932423
tax	1.07	0.937697
culture	1.06	0.940472
Government	1.05	0.955064
Carelessness	1.04	0.961951
education	1.02	0.984743
Mean VIF	1.08	

Appendix -3

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of determinat_t

         chi2(1)      =    19.94
         Prob > chi2  =   0.0000
```

Appendix -4

QUESTIONNAIRE FOR GURAGE ZONE TAX PAYER

WOLKITE UNIVERSITY

SCHOOL OF POST GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

The aim of this questionnaire prepare by researcher to collect data and gather information that will play an important role in the determinants of business income tax revenue dear respondent in Gurage zone revenue authority tax payer . Your participation and sincerity will go a long way in making this research paper effective, credible and acceptable. Pleased to be assured you that all the information you provided will be strictly confidential and will not be used in any way.

General instruction

Please, do not write your name on the questionnaire, to fill the questioner kindly and to put answer only in the black space.

Thank you in advance for your cooperation.

By Belachew Tegu, Mobile: +251-921541107, Email:Belachewteju@gmail.com

A .the personal profiles overall guidelines: please indicate your choice by putting mark (√) in the blank space.

Part one- General information in Gurage zone revenue authority Gurage zone tax payer

Please state your opinion by using tick marks from the given choices

1. Gender 1 Male (_____); 2 Female (_____);

2. Age 1 from 18-28 (_____); 2 from29-39 (_____);

3 From 40-50 (_____); 4 above 51 (_____);

3. Educational level, 1 certificate (_____); 2 College diplomas (_____);

3 Bachelor's Degree (_____); 4 MSC (_____);

4. What is your Nature of business? A, hotel and servicing (_____); b, small shop (_____); C, café and breakfast (_____); d, male/female dressing (_____); e, Other specify----------

5. What is legal form of your business? A, corporation (_____); b, partnership (_____);

C, sole proprietorship (_____); d, other (_____); specify----------

6. What is your position in the business center? A, accountant (_____); b, manager (_____); C, owner (_____); d other (_____); specify----------

7. When did you start business? A, One year and less (_____); b, 2-4 year years (_____); C, 5-10 year (_____); d, more than 10 (_____);

8.What was the annual sales turnover of your business in 2012 E.C?

A, under birr 500,000 (_____); b, between birr500, 000-1, 000,000 (_____);

C, between birr 1,000,000-70,000,000(_____); d, above 70,000,000 (_____);

Part two 1. What are the Maine factors that affect tax collection?

1= strongly agree, 2= Agree, 3= Uncertainty, 4= Disagree,

		strongly agree(1)	Agree(2)	Uncertainty(3)	Disagree(4)
A	generally the tax collection procedure is complex				
B	programs of training or education session is weak				
C	The tax collection period is inconvenient to tax payers				
D	unwillingness of tax payers				

E	lack of awareness to pay business income tax				
F	Carelessness of tax payee				
G	Lack of ability to pay				

2. What is your idea about present tax collection and assessment?

1. Effective (_____); 2. Shows discrimination (_____); 3.Insufficient (_____);

4. Unwillingness of tax payers (_____);

3. Do you agree the tax payer pay their tax liability on time?

1 Strongly agree (_____); 2 Agree (_____); 3 Neutral (_____);
4 Disagree (_____);

4. Do you agree the weak tax accounting practice will affect the revenue collection?

1 strongly agree (_____); 2 agree (_____); 3 neutral (_____);
4 disagree (_____);

5. How do you evaluate the knowledge of tax payer about taxation?

1. Excellent (_____); 2. Very good (_____); 3 .Good (_____); 4 Poor (_____);

6. What is the coordination of revenue office with other office?

1 Excellent (_____); 2 Very good (_____); 3 Good (_____); 4 Poor (_____);

7. Do you agree the imposition of tax consider the ability of tax payer?

1. Strongly agree (_____); 2. Agree (_____); 3. Neutral (_____);
4.Disagree (_____);

8. Who benefited from collection of business income tax more?
1. Taxpayers (_____); 2. Public society (_____);

3. Any government body (_____); 4. Tax office (_____);

Part three, social service as determinant of business income tax revenue collection

1. Does the existence of social services (like road, Powers, security…etc.)Contribute for tax collection

1. Strongly agree (_____); 2. Agree (_____); 3. Neutral (_____);

4. Disagree (_____);

2. How do you solve the determinant of business income tax revenue collection?

1= strongly agree, 2= Agree, 3= Uncertainty, 4= Disagree,

1	Amendment of tax policy and procedure	strongly agree(1)	Agree (2)	Uncertainty(3)	Disagree(4)
2	Penalty for tax payer of not pay on time				
3	government can influence the production sector of the economy				
4	Commencement of computerized tax collecting system				
5	The city government support for revenue authority office				
6	The tax payer gets expense and time saving services				
7	culture and social norm are affect collection of business income tax				
8	Exactions are clears, simple, estimable and accessible				

3. The maximum support factors to collection of business income tax by tax authority

1= strongly agree, 2= Agree, 3= Uncertainty, 4= Disagree,

1	Strength of tax administration system	strongly agree(1)	Agree(2)	Uncertainty(3)	Disagree(4)
2	Strength of revenue authority coordinator				
3	Honesty of tax payer				
4	Respecting of tax rule and regulation				
5	Availability of Peace and security				
6	to create Patriot tax payer				

Part four, possible measures: The basic available sources measures the tax revenue improve tax collection 1= strongly agree, 2= Agree, 3= Uncertainty, 4= Disagree,

		strongly agree(1)	Agree(2)	Uncertainty(3)	Disagree(4)
A	Avoids Negligence of tax collecting				
B	The strength enforcement of capacity of authority				
C	Create well-trained human resource				
D	Avoids Insignificance amount of penalty dalliance for in tax				
E	Minimize Shortage of budget				

Part Five 4. The sociological and financial behavior of tax payer is determine of tax collection 1= strongly agree, 2= Agree, 3= Uncertainty, 4= Disagree, 5= strongly disagree

		Strongly agree(1)	Agree(2)	Uncertain(3)	Disagree(4)	strongly disagree (5)
1	An economic originated resource are collected in a period					
2	Social service giving institution are expanded					
3	The tax payer obey the tax law					
4	In the area there is confortable and broad lands for investment and other natural resources					
5	There is comfortable work place and important inputs are fulfilled					
6	The revenue codes are distinguished and confortable to improve potential to income					

7. What are the constraints that affect government commitment and legal actions to

8. Develop tax collection? 1= strongly agree, 2= Agree, 3= Uncertainty, 4= Disagree,

		strongly agree(1)	Agree(2)	Uncertainty (3)	Disagree (4)
A	Complicated tax lows				
B	The penalty due to not paying tax is lower than may tax save				
C	Negligence of tax collecting staff				
D	An information technology wale fares are expanded				
E	To Get the required tax information				

1. What are the major challenges in the tax authority regarding to business income tax collection?.....
.....
.

2. The current tax system gives sufficient contribution to solve revenue collection problem? Yes/no if the answer is no explain
.....
.....
..

3. The tax low is not simple and understandable for both tax payer and administrator employee? Yes/no if the answer is yes explain
.....
.....

4.What are the attitudes of tax payers to pay business income tax?.....
.....

5. Have Poor controlling systems or mechanisms of assessment, estimation, and collection of tax by the tax authority. Yes/no if the answer is yes by what way solve this problem……
……

6. Have insufficient man powered in revenue authority employee? Yes/no.....

Appendix -5

Depth interview question for revenue authority employee and manager

Dear respondent

First of all I would like to thank you for your continuous assistance sin celery .This data will be used as the preliminary requirement for this research only rather than other purpose .The objective of this research determinants of busies income tax revenue collection in Gurage zone revenue authority for partial fulfillment of requirement of MCS in accounting and finance.

1. How do you define business income tax and revenue authority office as an employee and what are your responsibilities?

2. How to solve the problem of busies income tax collection?

3. To what extent management support business income tax collection in Gurage zone revenue authority office?

4. What are the roots causes of unethical behavior of tax payers?

5. Estimated the amount of tax expected to be collected annual income of tax payers and amount of tax liability without any evidence. Yes/no what is your suggestion?

6. Administrative weakness of tax authority key problem for business income tax collection?

Yes/no by what way explain……...

7. Anything to add?