ASSESSMENT OF TAX EVASION AND FRAUD PROBLEM IN CASE OF BICHENA TOWN TAX ADMINISTRATION OFFICE

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Abstract

This paper gives light on the respect of tax evasion and fraud problem in Bichena town office employees. This research has used the total population size, takes 1150 tax payers and 28 employees. From this total population 92 tax payers and 8 employees were selects by using judgmental sampling to distribute questionnaire for selected respondents and finally collected these distributed questioners had to be uses as a primary source. Organization of manual and other documents use as a secondary source. The analysis of data had be described on table in analyzing data gather through questionnaire. Finally, the main finding of this study is the tax evasion & fraud problem on same employees and on tax payers & have limited knowledge & misunderstanding of compulsory payment of tax. Therefore, Bichena town tax administration office should have to strengthen and give awareness, training, for tax payer's performances the above main point was indicated.

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Acronym

EU=European Union

EUR=European Union report

FIRA = federal Inland Revenue authority

GDP = gross domestic product

MOFED=ministry of finance and economic development

OECD =organization of economic co-operation and development

TIN = tax identification number

TOT = turn over tax

VAT = value added tax

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Tax is a financial charge of other levy imposed on individual legal entity by the government so as to raise many to finance government expenditure tax is primary source of government revenue government use tax revenue to pay soldiers and police to build dam roads, to operate school and hospital to provide food for the poor medical care to the elder and hundreds of other purpose (gebrie 2006).

Some economists believe that taxation is important tool for maintaining the stability of country economy this because taxation can redistribution society wealth by imposing high tax burden on group to found service to another (gebre 2006).

No government can announce a tax system and then rely on tax payers' sense of duty to remit what was owed that is why some dutiful people would undoubtedly pay what they owe, while many others would not. Through time the amount of the dutiful people would shrink because of they see how they are being taken advantage of by the others. Therefore, paying taxes must be made a legal responsibility of citizens with penalties attendant on noncompliance. But even substantial tax evasion exists and always has though those penalties are practiced (slemord, 2007).

The Ethiopian Revenues and Customs Authority are responsible for overseeing the various reforms and collecting taxes and customs duties among other things. Ethiopian revenue and customs authority was re-established in 2008 (by proclamation number 587/2008) through the merger of the former Ministry of Revenues, Federal Inland Revenue Authority and the Ethiopian Customs Authority.

Tax evasion is failing to pay legally due taxes and Fraud is an intentional act of preparing false information or changing or modifying the content of the subject matter of the contract in a manner that cannot be noticeable by ordinary observation. Fraud does not mean telling untruth or for bearing from telling the truth it rather means making things or document to give wrong information. One important way that high tax rate affects behaviors by increasing evasion for.

Example people may fail to report income to the government. Tax cheating is extremely difficult to measure.

However, the greater an individual tax rate, the greater the incentive to not to fraud the government. Government intervention in the supply of public goods pays tax for the production and supply of such goods. (Yoannes Mesfin & Sisay Bogale; 2009). Due to the fact that to be conduct the research title of tax evasion and fraud is better for the time being.

1.2 statement of the problem

Taxes are the most important source the government revenue, and the process of socio-economic development requires compulsory payment by citizen huge expenditure that cannot be carried out unless the government has source of income. Every government has two important source of revenue. These are tax revenue and non-tax revenue, which are used to finance different public expenditure such as expenditures to bring peace and stability, health center, road service facilities (Gebre worku; 2006).

If the tax revenue comes from diversified sources than dedication in tax revenue on account of any one is found to be very small. However, too much multiplicity of taxes are also to be avoided that leads to uncertainty, cost of collection and violet the canon of the economy (Misrak; 2009).
Tax evasion and fraud are illegal and intentional misrepresentation of tax obligations. It can involve deliberate omission or falsification of income or revenue, as well as efforts to be invisible to tax authorities altogether. This results in the reduction of income that lawfully belongs to the government, and to the people. Tax evasion and tax fraud not only cheats the public of revenue that is to be used for public goods, but also puts compliant taxpayers that obey the law at a disadvantage. It makes it harder for those compliant businesses to be profitable when they are competing with businesses that do not bear the expense of paying their fair share of taxes. The loss of income can be substantial; for example, a study by European Commission reported that the total VAT Gap for 26 EU countries amounted to approximately EUR 193 billion in the year 2011 alone(© OECD 2017).

With serious economic consequences tax evasion and fiscal corruption have been a general and persistent problem throughout history. In general, tax evasion and corruption can have ambiguous effects on economic growth: tax evasion increases the amount of resources

accumulated by entrepreneurs, but it also reduces the amount of public services supplied by the government, thus leading to negative consequences for economic growth (Roy and Raffaella, 2011). Due to the problem of tax fraud and evasion is inherent in all tax systems tax compliance is growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue (Chau and Leung, 2009). As Hudson (2002) stated tax evasion is the source of a potentially serious loss of revenue to governments, resulting in the possible underfunding of public service and an 'unfair' buon frank taxpayers. Thus, as Cobham (2005) studied, who estimates that developing countries lose $ 285 billion per year due to tax evasion as far as the domestic shadow economy is concerned. This is why Chau and Leung (2009) stated that this concern is particularly severe for developing countries given the rapid growth of investment in their economies and their lack of adequate experience in dealing with this problem. As Emerta (2010) stated Ethiopian taxation system is not an exception. By depriving national governments of vital revenue, tax evasion and avoidance can cause a fiscal deficit or aggravate an existing deficit; force government to decrease expenditure, increase tax rates or initiate new rates. Sometimes government is often tempted to borrow funds in order to bridge the tax 'gap.

In practice tax fraud and evasion cannot be eliminated but can be minimized. According to the data of MOFED (2010), tax to GDP ratio in Ethiopia is 9.7%which is one of the lowest in sub Saharan Africa. As part of the previous study Emerta (2010) Hudson (2002 the researcher mostly concerned about the impact of tax evasion and fraud on the country's economy through taking a sample from a sub city or particular place with in the country. And they generalize in country level. The same is true for Ethiopia. Therefore, this study emphasizes to assessment of tax evasion and fraud in case of wolkite town tax administration office and examine the impact on the city

1.3 Research question

1) What are the mechanisms that the organization uses to examine tax payers attitude towards tax evasion and fraud problem in Bichena town?
2) Does is the existing tax payers' accessibility to tax information?
3) What measure would be taken to assess tax payer's knowledge on tax rules and regulation?

4) How with tax payers attitudes towards tax evasion and fraud?

1.4 Objectives of the study

1.4.1 General objective

The general objective of the study was to assess tax evasion and fraud problem in case of Bichena town tax administration office.

1.4.2 Specific objectives

Especially the study will attempt to achieve the following objectives:

1. To assess the mechanism that uses the authority tax payers' attitude towards tax evasion and fraud problems in Bichena town.
2. To assess the accessibility of tax information by tax payers.
3. To assess tax payers knowledge on tax rules and regulation.
4. To assess the tax payer attitudes towards tax evasion and fraud.

1.5 significance of the study

The study was expected to contribute some findings to the noncompliance situation of the branch office tax payers by examining the assessment of tax evasion in the study area. By identifying the assessment of tax evasion of tax payers focusing on the branch office the study would help to point out specific and efficient methods of limitation tax evasion that would maximize tax revenue This study may benefit the local administrative system of Bichena town. The administrative system of other local areas that has more or less similar features also shares the benefit from the findings of this study.

1.6 Scope of the study

Due to financial and time constraints the scope of the study would be on the tax evasion and fraud problem and the area would be covered only Bichena town tax administration office.

1.6 Limitation

While conducting the research, many problems would have encountered that may affect the collate of the study. Among these problems, lack of an availability of the well-organized data and lack of sufficient time to connect the organized data of the study area were the crucial ones. This created difficulty while conducting the paper. From the other, the most crucial problems

were scope of the area that the research was conducted, lack of experience, limited assess of computer and other necessary materials to complete this paper, scarcity of finance and insufficient information.

1.7 Organization of the study

The paper was composed of five chapters. Chapter one introduction and deals with background of the study, statement of problem, research objectives, general objective, specific objective, scope of the study, significance of the study, Limitation of the study and Organization of the paper. Chapter two deals with review related literatures. Chapter three deals with description of the study area, data source and collection method, sample design, method of data analysis and presentation, sampling techniques and sampling size and chapter four deals with analysis and interpretation. The last chapter deals with conclusion and recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Definition of tax

A tax is compulsory levy payable by an economic unit individual or organization to the government without any corresponding entitlements to receive a define and direct benefit from the government, the contribution made by tax payers, it is generalized extraction which may be levied on one or more criteria up on individual or other entities,(Bahita,2003).

According to (Misrake, 2008) Government is inconceivable without taxation. Tax is the major source of revenue needed to finance government service. To raise sufficient revenue, government uses varies types of taxes and arrange of tax rate. A part from raising the necessary revenue, tax has multiple objectives. Thus, tax police have to be designed properly in order to promote incentives to work, save, invest and support economic growth and equity. Tax reform, therefore has to be balance multiple objective of taxation including raising adequate revenue, insuring economic efficiency and equity. It must limit up productive taxes and incentive; keep differential rates to minimum reduce economic distortion.

The revenue collected through taxation are used to purchase the input necessarily to produce government supplied goods and services or redistribute purchasing power among citizens, (Hymen,2002). Taxes have micro and macroeconomic effect in a modern economy. The economy effect of taxation may be good as well as bad. Due to heavy imposition of tax, the ability of tax payer to work may be affected adversely or he may be reluctant to work more since his additional income is taxed, (Gupta 2001)

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

According to these two theories, there is no relationship between the taxes paid and benefit. These are also another two theories, namely, the state provided theory and the cost of services to member of the society, for free thus it should change for the good and services in the form of tax (Philip E Taylor, the economics of public finance 3rd edition). As result of its significant contribution for the country's economic as well a political stability, taxes must be levied with a great care and rationally. In line with this the tax administration need to follow a certain code of conduct while levying and collecting the type and amount of tax to effectively utilize its contribution to the country.

2.1.1 History of taxation in Ethiopia

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

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

Relatively modern tax system was introduced during the Haile Selassie period /1942-1974/ under the emperor aimed at achieving the fiscal control of collection of all revenues and financing of every program by central government. A legal institutional mechanism of taxation was established in this period of time. There were a number of proclamations, legal notices as a statutory base for income tax during that regime. The tax bases were broader as compared to previous regime. The taxes bases were broader as compared to previous regime as taxes on employment income tax, business income tax, rental income tax, taxes on agricultural income, and rental income taxes from vocational occupations, land tax, health tax, education tax and tax on tobacco.

Unlike the previous the tax system was centralized and uniformity of collection on cash basis was the period strengths. During the Dreg regime /1975-1991/ the taxes were similar to those imposed during Haile Selassie regime, except that wider tax bases and increased tax rates, the proclamations or regulations. The 1976 changes in the tax structure the government believed that the agricultural income tax was being under paid largely because of under assessment in peasant association. In the years through 1991-1995, major changes took place by the transitional governments of Ethiopia. During this period, tax brackets and tax rates were modified.

According to the new constitution of Ethiopia, the federal democratic republic of Ethiopia would emprise a federalism system of government in which both the federal and regional organs have been made in the tax policy including the 2002 tax reform program (restructuring of tax which suit to structural changes). As compared to the previous ones the current proclamation has a lot of advantages: i.e. winding of tax bases, reduction of tax rates both business and employment and introduction of tax identification number (TIN) are among others. The main purpose of generating revenue from various sources is to finance public expenditures. Tax as the only sustainable source of the government revenue, can be direct tax and indirect tax.

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

2.1.2 Principles of taxation

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

1. Canon of equity

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

2. Canon of certainty

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

3. Canon of convenience

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

4. Canon of economy

Every tax has a cost of collection. It is important that cost of collection should be minimum possible. It will be unless to impose, taxes which are too wide spread and difficult to administer. These taxes entail unnecessary burden up on the society in the form of additional administrative expense. The productive efforts of the people suffer due to a waste full use of the resources on the salary the officials. Realizing the tax collections is being wasted.

5. Canon of productivity

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

6. Canon of flexibility

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

7. Canon of simplicity

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

8. Canon of diversity

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

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

2.1.3. Objective of taxation

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

- Revenue generation
- Regulate economic activity
- Income redistribution

These classifications are clearly elaborated in the discussion below;

A. Revenue Generation

This is the primary objective of governments. Tax system exists primary to raise revenue to fund government operations because lack of sufficient revenue often results in large to get deficits.

Expect when sport-term fiscal stimulus may be considered appropriate for socio-economic reasons: deficits generally have undesirable macro-economic consequences, such as crowing out private investment and increasing inflation. Preventing deficits requires good control over both the expenditure and revenue sides of the government.

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

B. Regulation (influencing) economic activity

Market failures are the inability of competitive markets to achieve efficient allocation of resource without government intervention. Markets fail due to external effect or lack of information and competitive forms. Externalities are one and the major factor market failures; it is the divergence between social and private cost and benefits.

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

C, Income Redistribution

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

2.2. Major types taxes

2.2.1 Direct taxes

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

Personal income tax

Every person deriving income shall include any payments or gain in cash or in kind received from employment by an individual. Employers have an obligation to without the tax from each payment to an employee. All person income taxes of public or private sector workers who earn a monthly remuneration above the minimum taxable limit (i.e. 150 birr per month) are subject to this tax payment.

Business profit income tax

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

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

2.2.2. Indirect taxes

Indirect taxes are levied on goods and services and thus only on individual example turnover tax (TOT), value added tax VAT) etc. Agrawl, (1998).

- **Turnover tax**

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

- 2% on contractors, grain mills, tractors, combiner etc.
- 10% on others

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

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

- **Value added tax (VAT)**

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

Most business transaction involves supplies of goods or services. VAT is payable if they are: - Supplies made in Ethiopia, made by a taxable person and made in the course of further of a business. The VAT would be levied at the rate of 15% the value of: every taxable transaction by a registered person, every important of goods other than an exempt important and import of service.

2.2.3 Category of tax payers

Administrative convenience requires classification of taxpayers into different groups at it is not possible to extend the same treatment to all taxpayers at the same time. In addition, principle of economy also requires the tax system to concert tax efforts on those taxpayers with high revenue potential. For this purpose, taxpayers must be classified into different categories. Taxpayers are

classified into three categories according to their annual turnover they generate during a particular tax year.

Category A tax payers

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

Category B tax payers

This category includes any business having annual turnover of more than birr 1,000,000 &less than by 500,000"Tax payers in this category must file an annual declaration within 2 months from the end of their tax year, which is the year, and must attach a statement of profit and loss. They must maintain supporting documents like books and records" (Article 66 of the income tax proclamation).

Category C tax payers

Any tax payer whose annual turnover is estimated by the tax administration as being up to birr 500,000. These tax payers are taxed by standard assessment method and declare their annual turnover, revenue derived from sources other than regular business operations, and the type of business. Category C tax payers are not required to maintain books of account but have the option to do so and in accordance there with.

2.2.4 Tax collection process

When taxes due to tax administration are not paid on time, tax administration has the responsibility of collecting the outstanding debt (tax, interest and penalty). The proclamations give tax administration to recover tax debts without going to court. If the tax payer does not respond the initial notice, the choice of proceeding to the final notice or making further attempts to contact the tax payer to secure voluntary payment.

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

2.2.5 Tax evasion

Tax evasion denotes downright defrauding of revenue through illegal act and deliberately suppression of falsification of one's true tax liability. Tax evasion is illegal as the evader cheats the government by cancelling facts and the letter losses its due revenue it also increases the burden of tax on honest payers who do not resort in such practice. There is some tax problem in some of the merchants those who do not use accounting system. Especially for merchants who sell goods having fewer prices this is because these items are not use accounting system, and these items are not taxed and this increases tax burden on honest tax payers who do not act such practices. So, to bring change in public attitude. Tax payer's education should be strengthened and attractive. It also underscored that to increase our revenue and to be what from the danger of tax evasion.

2.2.6. causes of tax evasion

1. High tax rate: rebalance of high tax rate is the first and fore most reason for tax evasion. This makes tax evasion profitable and attractive in spite of attendant risk high rate of taxation creates psychological barrier to greater effect and undermine the capacity and willing to save waste.

2. Absence of deterrent punishment: another reason for tax evasion is that no deterrent punishment like, imprisonment in being method out to tax evaders when undoubt full encouraged growth of evasion.

3. Complicity of tax law: complicated provision direct taxes acts were also stated to be responsible to some extent for evasion.

4. Moral and psychological factors: moral and psychological factors have also been in pointed out as responsible for tax evasion. Every person should realize his responsibility toward the unfortunately, all citizens do not realize their duties to the state and necessity of paying correct amount of tax in time.

2.2.7. Expenditure principle

Generally, every government imposes taxes to fulfill its normal social obligations in the forms of defense, maintenance of law and order and socio-economic development. Normal tax payment is governed by the principles of equality, economic establishment and economic growth but in actual practice the tax policy is determined by the pressures, which are exerted on the government by different pressure group orient its taxation in the society. Gebre worku (2008)

Every legislature and every authority are pressurized by various economic, social and political to orient its taxation policy in certain directions. Every group tries to resist change that goes against its interest. The authority in many cases have to adopt certain policies simple because these are pressures to that effect and have many times reshape the tax structure depending up on the change in political strength of different economic groups. Therefore, when the government bows before pressuring groups and formulates its tax policy accordingly, we call it expectancy approach.

2.2.8. The ability to pay approach

This approach is interpreted as the money income of the assessment. It is the generally accepted theory. (Agrawl, 1998).

According to this approach, each person should compute to the income of the state in proportion to his ability to pay, ability is ethical idea basis of taxation every tax payer should make sure that he has made equal sacrifice on the payment of tax. The concepts of ability to pay principles accept the idea that tax is compulsory payment to the government without any direct. Citizens have to pay tax because he/she can and his/her relative paying capacity. The basic point of ability

to pay principle approach is that the burden of tax should shape among the members of society so as to confirm principle of justice and equality. (Gebre worku, 2008)

2.2.9. Benefit Received principles

Now, in modern world it is difficult to estimate the benefit that an individual receives from the expenditure of the government. For example, how much benefit and individual receive from the army, police, cannot be exactly estimated. And therefore, the burden of taxation may not be

equitable. Hence, this theory is not applicable at this since there is no direct benefit entailed to tax payers. (Geber worku, 2008)

2.2. 10. Tax base

The base of a tax is the legal description of the object with reference to which the tax applies. Example, the base of an income tax is the income of the assesses defined legally and it is to be quantified for the purpose of determining the tax liability of an individual tax payer. A tax base may have a time dimension as well, example income tax is determined on an annual basis. (Agrawl, 1998)

With the passage of time, a tax base under consideration may grow or shrink. Income tax is usually on annual base and law has to decide whether income tax would be taxed on the bases of actual or receipt. Income is often regarded as a good index of ability to pay taxes. The total annual income in a nation is equal to the value of the total consumption and saving of all persons and organizations in a country. (Agrawl, 1998)

2.2.11. Taxable capacity

The concept of taxable capacity is an expression of the common belief that there is always an upper limit. On the other hand, refers to the maximum tax which might be collected from a particular tax payer or a group of tax payers under consideration. Such a tax paying capacity may be estimated with reference to the economy as a whole, a region, an industry, a group of individuals, a particular country etc. (Agrawl, 1998)

Additional variables have to be encountered for estimating the taxable capacity. In the short run if this connection people have to be referred various basic figures like subsistence of existing standard of having etc., incomes over and above these levels are supposed to represent the taxable capacity. (Gebre worku, 2008). Taxable capacity, in whether way defined, is not constant entity. In the long run it is bound to change through saving, investment, economic growth, production and so on. (Agrawl, 1998).

2.2.12. Incidences of tax

Incidences of taxes are defined as its final resting place. It is to seen and judged in terms of the money burden of the tax. (Agrawl, 1998). When tax is imposed and collected it involves certain responses from tax payers and the country. Such responses can be of great variety and can profoundly influence the working of the economy in terms of production, regional imbalances, inequalities of income and wealth etc. (Gebre worku, 2008)).

These responses and their results are collectively called the effective of that tax. The effect of a tax can be both beneficial and harmful. Harmful effect of tax will be referred as the burden of that tax such as burden has two dimensions: money burden and real burden. Money burden refers to the reduction in the disposable income of the payers and may be direct and indirect. (Agrawl, 2008).

2.2.13. Attitude of tax payers

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

2.3. Empirical Review

Empirical work has also focused on the link between tax evasion and fraud problem. There is evidence that evasion declines with age, and is more common among men and in households in which the head is married (Clotfelter, 1983; Feinstein, 1991). There is also evidence from the USA that evasion varies between occupations, with car dealers, stores and 23 restaurants evading the most (understating taxes by 39%) while those in finance, insurance and agriculture the lowest evaders (Andreoni et al., 1998). The empirical analysis of the deterrent effects of audit probability and fines or penalties is complicated by the potential endogeneity of both of these variables, which necessitates the use of simultaneous equation techniques that integrate social norms within a model of tax evasion (Hudson, 2002). Tax evasion is examined in East Asian economies, where some economies have a severe tax evasion problem and others do not as Summers and Heston (1991) indicate that East Asian tigers have performed equally well and

extraordinarily better than all other areas in the past two decades. These above stylized facts seem to indicate that policies leading to more severe tax evasion do not necessarily hurt economic growth in East Asia (Chen, 2003).

Tax evasion concern is particularly severe for developing countries given the rapid growth of investment in their economies and their lack of adequate experience in dealing with this problem. In China, the tax evasion by multinationals resulted in revenue loss amounted to US$ 3.88 billion each year. In Hong Kong, the Inland Revenue department reported that about US $ 1.15 billion was collected from 2003 - 07 back tax and penalties (Chau and Leung, 2009). Schneider (2007) provides estimates of the shadow economy as a percent of gross domestic product (GDP) for 145 countries over different times. The average size of this metric ranged from 16.1% for Organization for Economic Cooperation and Development countries to 40.1% for developing and in transition countries. Tax evasion is both personally sensitive and potentially incriminating, self-reports are vulnerable to substantial underreporting (Baumeister, 1982). Moreover, the dividing line between illegal tax evasion and legal tax avoidance is blurry. Under us law, tax evasion refers to a case in which a person through commission of fraud, unlawfully pays less tax than the law mandates. Tax evasion is a criminal offense under federal and state statutes, subjecting a person convicted to a prison sentence a fine, or both.

2.4. Summary and knowledge gape

As we understand from the above researcher tax is back bone of government revenue and other business activity. Tax evasion and fraud is a common problem for government revenue which is not properly conducted by the researcher with explanation of specific place so that the researcher was evaluated the tax evasion and fraud by taking variables like policy and producer collateral of other asset duration of time was evaluated by researcher.

In our countries Ethiopia the researcher was collected data from various sources such as taxpayers' survey and focus group discussions for tax evasion and fraud problem by ignoring management, single employee, and specific area specially Bichena town. Generally, reviews of past studies on tax evasion and fraud problem indicate mixed theory on its problem but it needs interesting findings solution on its problem in case of Bichena town. Due to different approach is exist the research will try to identify the main problem of tax evasion and fraud problem in case of Bichena town tax administrative office and set some solution about the problem.

CHAPTER THREE
3. METHODOLOGY OF THE STUDY

3.1 Introduction

This chapter presents the description of the study area, research design, research approach, data source and collection method, population, sample size and sampling techniques and method of data analysis technique prepare in this study

3.2. Description of the study Area

The study was conducted in Bichena town which is found in East Gojjam Zone, Amhara region of Ethiopia at a distance of 260km away from the capital city of Ethiopia (Addis Ababa). The main focuses on the study is to assess tax evasion and fraud in case of Bichena town tax administrative office.

3.3 Research Design

The study used descriptive research design, which was designed to obtain information concern in tax evasion and fraud problems in Bichena town, tax administrative office from the fact discovered. Because, the aim of the study was to describe or assess tax evasion and fraud problems in Bichena town tax administration office and the descriptive research was description of the state of affairs as it exists at present.

3.4 Research approach

The research adopted qualitative and quantitative research approaches. Qualitative approach was used to explain and discuss respondents' and interviews' opinions with regards to the tax collection status, tax evasion problems in small taxpayers of Bichena town. From the quantitative approach, the study uses self-administered survey. The sampling designs for this population were tax payers, Supervisors and team leaders of Bichena town tax administrative office and also the quantitative research approach to assess a state of objective because quantitative research is a systematic and scientific investigation of quantitative properties and phenomena and their relationships (Abbey, 2009). In order to attain the objective of the study and answer the research questions. Thus, descriptive research design was used to conduct this research

3.5 Data source and collection method

To conduct the study the data was collects from primary and secondary sources of data. The primary source of data is obtaining through questionnaire and unstructured interview with the concerned employees. Organization of manual and other documents use as a secondary source of Bichena town tax administration office to get possible responses.

3.6. Target Population and sampling method

Sekaran (2003), Population refers to the entire group of people, events, or things of interest that the study wishes to investigate. In research methods, population is the entire aggregation of items from which samples is drawn. The target population of the study would be 1150 tax payers and 28 employees in Bichena town tax administrative office from this target population 92 tax payers and 8 employees select as samples. The method of sampling techniques will be use judgmental sampling techniques to select a sample from tax payers and employee, because to save time and cost effectively.

3.7 Method of data analysis

After necessary data was collected from the primary sources the data is analyzes by using descriptive statistics. The study was used descriptive data analysis method that used to analyze the responses of the respondents and discussions. The most important activities of data analysis is starts by editing and classifying the collecting data in to more meaning full and relevant information and systematically analyzes and presents through representative sample survey and a mix of various techniques by using table's, also numbers and percentage will use to summarize, describe and presents results of the study. Therefore, in this study the data is analyzing through describe

CHAPTER FOUR

4 Data presentation, analysis and interpretation

This chapter is the main part of the study which deals with presentation, analysis and interpretation of data, collected by using both primary and secondary sources of the data. The primary data were collected through distribution of questionnaire to employees of Bichena town tax administration office and the concerned Bichena town tax payers. The remaining data and information were obtained from secondary sources like different books, manuals, articles and proclamations etc.

In general, a total of 100 questionnaires were distributed, 92 tax payers and 8 to the employees, surprisingly all of the have been properly filled and successfully collected. So the finding that was provided in the subsequent pages are based on the 100 respondents and additional information from secondary sources of data were obtained.

4.1 Data related to employees

Table 4.1. Respondents sex distribution

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

Source: primary data, 2012

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

Table 4.2. Respondents' age distribution

No	Item	Respondents	
		Number	Percentage
2	Respondents age distribution		
	18-35	3	37.5
	36-50	4	50.0
	51-65	1	12.5
	More than 65	-	-
	Total	8	100%

Source: primary data, 2012

In table 4.2. Regarding employees from the total respondents 4 employees (50.0%) were between 36-50 years age, 3 employees (37.5%) were between 18 – 35 years ages and 1 employee (12.5%) were between 51-65 years age.

Table 4.3. Respondents' education distribution

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

Source: primary data, 2012

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

Table 4.4. Experience of employees

No	Item	Respondents	
		Number	Percentage
4	Work experience		
	1-5 years	1	12.5
	6-10 years	2	25
	11-15 years	3	37.5
	More than 15 years	2	25
	Total	8	100%

Source: primary data, 2012

In table 4.4. regarding the working experience of the employees, from the total respondents 1employees which is 12.5% are having experience of 1-5 years and 2 employees which is 25% are having experience of 6-10 years and 3 employees which is 37.5% are having an experience of 11-15 years and 2 employees which is 25% are having experience of More than 15 years majority of the respondents are more than 10 years which represent 3(37.5%) of the total

respondents. As can be seen from the above table that majority of the employees are experienced in the areas on taxation.

Table 4.5. Training

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

Source: Primary data,2012

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

Table 4.6 Training facility

NO	Item	Respondents	
		Number	Percentage
7	If training is not given what do you think the reason is?		
	Yes	3	37.5
	No	5	62.5
	Total	8	100%

Source: primary data 2012

From the table 4.6 questions regarding the training facility that should be provided to the employees for making them to adopt modernizing working system and to properly identify the daily income of the tax payers, 3 respondents (37.5%) have got training but remaining 5 respondents (62.5% are not involved such frequent and skill enhancement training. This implies that some of the employees have got a chance to attend training but majority of employees are not attended a training.

Table 4.7 Interest and motivation of tax payers their tax

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

Source: primary data, 2012

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

Table 4.8 mechanisms used by the administration office to level tax on tax payer

N_O	Item	Response	
		Number	Percentage
9	What are the criteria to level tax on tax payers?		
	Monthly sale	4	50
	Annual sale	4	50
	Total	8	100%

Source: primary data, 2012

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

Table 4.9 adequate training and awareness creation program to tax payers

NO	Item	Response	
		Number	Percentage
10	Do you think the tax administration office gives adequate training and other awareness creation program to tax payers?		
	Yes	-	-
	No	8	100
	Total	8	100%

Source: primary data, 2012

Regarding the training and awareness creation to tax payer to tax by the tax administration office, among the randomly selected 8 respondents all of them do not enough the administration to give training and other information to tax payers.

This implies because of two major reasons in this first-place respondent's raise: The tax distraction office having budget problem and the second problem the shortage of man power in the tax administration. From the above reason the research observed that the number of employees in the tax administration is not enough and high budget problem through the office, as a result it is directly affected the performance of the worker and the quality of the work. In addition, the tax payers are lack of awareness for payment of tax and its importance.

As can be seen from the above regarding the mechanism used by the tax administration to level tax is, the entire response (100%) says the tax has been levied on bases of the daily income of each tax payer. this implies the city's tax payer include "category C" tax payers. but this daily income assessment is not a frequent and seasonal actively to obtain relation actual income of the payer. The tax is assessed by the tax assessment team that is the amount to be paid by payer regardless of his real profit or loss through the year. If the tax payer generates higher revenue over the estimated amount the government will lose the tax revenue that generate from that excess amount.

Table 4.10 material and equipment's used by the employees

NO	Item	Response	
		Number	Percentage
11	How do you see the equipment and materials used to facilitate your work?		
	Outdate	5	62.5
	Well	2	25
	Good	1	12.5

	Very good	-	-
	Total	8	100%

Source: primary data,2012

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

4.2 Data related to tax payer

Respondents sex distribution

Out of the total of 92 respondents 60(65%) tax payer were male and the remaining 32 (35%) tax payers were females. These implies in turn indicate the dominancy of males in organization.

Respondent's age distribution

As can be observed from the questionnaire out of the total 92 respondents 50(54%) tax payers were 18-35 years and 30(33%) tax payers were 36-50 years and remaining 12(13%) tax payer respondents were 51-65 years.

Respondent educational level

As can be seen from the questionnaires regarding to academic status of the selected tax payers out of the total respondents 32(35%) are attended their primary educations, 30(33%) are attend their certificate, 15(16%) are attended their diploma and the remaining 15(16%) are attended in degree

A tax plan is a plan prepared the payer to minimize the level of tax burden at the time of tax payment by monthly, quarterly or semiannually basis. As can be seen above in the table out of the total of 92 tax payers 42(46%) of them have tax plan, remaining 50(54%) tax payers do not have a tax plan. This shows majority of tax payers do not have a tax plan as a result they are highly burdened at the time of tax payment, so there is a need to provide an awareness development program by the tax administration office regarding the plan and its importance.

Table 4.11: Awareness creation program to merchant

NO	Item	Response	
		Number	Percentage
12	Does the tax administration office give you a training or awareness creation program?		
	Yes	60	65
	No	32	35
	Total	92	100%

Source: primary data, 2012

Regarding the training and awareness creation program to the tax payer among the total respondents 60(65%) tax payer attended training, the remaining 32(35%) respondents which respondents of the total respondents do not engage in any training activity which is prepared by the tax administration office. From the response of majority accordance with the rule and regulation of the tax policy and the importance of tax to the country economic

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

Table 4.12. Tax payer' s knowledge on tax rule and regulation

NO	Item	Response	
		Number	Percentage
13	Do you have asses' tax payers' knowledge on tax rules and regulations?		
	No	60	65

	Yes	32	35
	Total	92	100%

Source: primary data, 2012

As can be indicating in the above table tax payers' knowledge on tax payers rules and regulation the total amount of respondent 60(65%) tax payer attained tax rules and regulation, the remaining 32(35%) respondents which represents do not attained tax rules and regulations which prepared by the tax administration office.

Table 4.13 comfortable with tax amount

NO	Item	Response	
		Number	Percentage
14	Do you felling comfort with paying tax?		
	Yes	32	35
	No	60	65
	Total	92	100%

Source: primary data, 2012

As indicated in the above table comfortable with tax amount from the total respondent 32(35%) respondent feeling comfortable with paying tax and 60(65%) of the total respondent said not feeling comfortable with tax amount. This can be explained in way that some of the burdens they are being charged and while the majority of them were not feeling comfortable with the amount of tax burden that is levied on them.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATION

5.1 Conclusion

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

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

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

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

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

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

5.2. Recommendation

By way of finding the possible and practical solution the writer recommends the following for the improvement of the efficiency and effectiveness of the tax administration.

The tax administration office in order to alleviate the possible drawbacks,

Government should give considerable attention to the tax payer and train them to prepare their own work of accounts and tax plan and to be motivated to pay their tax on time and also the tax administration should provide an intensive awareness creation program regarding the importance of taxation, the country’ s economic development, peace and stability, and other incentive provisions

Now a day it is true that citizen seems to judge or measure their satisfaction on the amount of they used to pay in relation to services they get in return from the government. Therefore, the government should build enough basic infrastructures.

The tax s administration should design another information gathering program which is held quarterly or monthly for a certain period to tax payer to provide to tax information so that they may become well informed citizens

The tax policy should be designed for the objective of giving high priority for equal distribution of policy income rather than for objective of giving high priority for equal for the government budget.

Tax administration should be structured in such a way that they cannot exposed to any unethically spent will bring a greater impact in the countries ultimate objective

The tax administration should facilitate an attractive atmosphere for the employees through providing adequate quality and modern equipment that help operation.

The tax administration employees would be effectively trend to run in line with the modern and computerized information and data processing, rather than sticking on the manual operations system as the same time the administration should strength the staff employees by recruiting well qualified personal that personal perform its duty ethically and with full interest

In regard to the motivation interest of merchants, they are not totally willing to pay tax on timely basis as a result they are highly exposed a high amount of penalty w/c is beyond their ability to pay.

The study investigated the tax payer highly affected in extent of their knowledge or lack of information to know their tax payment. This said on believe that results of the analysis come out with a rate 60% tax payer that were yes while 40% of total respondents were not aware of tax payment time. this indicates that, there was a low danger in extent of tax payers awareness in a sense that tax payer have not known about advantage that they may have driver out to making their tax payment time.

As a general problem the tax authority couldn't provide training and awareness creation program for tax payer. This factor restricts the tax payer from having an in-depth knowledge regarding the importance of taxation for the country's economic development and indirectly the tax payer himself.

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