

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Challenges And Prospects of Business Income Tax Collection in Category "A" Tax Payers (In Case of Wolkite Town Revenue Administration Office)

ASENIOR ESSAY SUBMITTED TO COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE IN THE PARTIAL FULFILLMENT FOR THE REQUIRMENT OF BACHELOR ART (BA) DEGREE IN ACCOUNTING AND FINANCE.

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This is to certify that a thesis on the topic entitled "CHALLENGE AND PROSPECT OF BUSINESS INCOME TAX COLLECTION IN CATEGORY "A" TAX PAYER" submitted Partial Fulfilment of the Requirements for the BA Degree in Accounting and Finance; the undergraduate program has been carried out by MULUGETA SISAY under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis.

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Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the department of Accounting and Finance

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KEY WORD

1.Business income tax,

2. Tax evasion and avoidance,

3. Tax Administration,

4. Category "A "tax payers,

5 Revenue Collection challenges,

LIST OF ACRONYMS

GAAP:(Generally Accepted Accounting Principle).

R$D:(Research and Development).

VAT:(value added tax).

GERD: (Grand Ethiopian Renaissance Dam).

ERCA: (Ethiopian Revenue and Customs Authority).

TIN:(tax identification number).

ABSTRACT

This research focuses on identifying the major challenges and prospects of business income tax collection from the perspective of tax collectors dealing with Category "A" taxpayers at the Wolkite Town Revenue Administration Office. The study utilized both primary and secondary data. Primary data were collected through closed-ended questionnaires and unstructured personal interviews. The researcher employed a non-probability sampling method, specifically purposive (judgmental) sampling, to select respondents and used descriptive analysis to interpret the gathered data.

The findings reveal that the current business income tax collection system faces significant challenges, including tax avoidance, tax evasion, and taxpayers' unwillingness to comply with payment deadlines. To address these issues and enhance tax collection efficiency, the study recommends adopting technological solutions (e.g., computerized registration systems) and implementing taxpayer education programs.

CHAPTER ONE

1. INTRODUCTION.

1.1. Background of the study

Tax is a compulsory contribution levied on individual's business firms or property, which is designed to transfer resources from the private to the public sectors to provide merit to the society. This study would be to identify the challenges and prospects of business income tax collection in category "A" taxpayers (in case of Wolkite town revenue administration office).

Tax is a compulsory levy and those who are taxed have to pay the sums of services and goods by the government (Gupta A, 2019). Whereas, Dalton (2020) define tax as a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return. Moreover, Bhatia, (2021) pointed out that tax is a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct quid pirogue from the government for the contribution made.

Misrak, (2022) define business income tax as it imposed on taxable business income profit of a business. Business is allowed tax-deductible expenses, from their revenues to reach their taxable income. These expenses may promotion or advertising repair and maintenance, donation depreciation of fixed assets.

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 expenditure. Taxes are the primary source of government revenue. Government uses tax revenue to pay soldieries and polices, 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 activities, Government would cease/stop/to exist or survive (Gebrie,2006).

Tax levied by federal and state governments is classified as direct and indirect taxes. Direct taxes include employment income tax, business income tax, and tax on royalties and

chance of winning, while indirect taxes include; value added tax (VAT), excise tax custom duty taxes. Hence, proper assessment and collection of tax is one of the factors that enable the government to achieve its objective or goal and programs. Besides, it reduces the country's dependability on the foreign loan and donation. Among the direct taxes, business income is classified in to three major categories with respect to legal personality and annual turnover. These are category "A", "B" and "C".

The Ethiopian Taxation system has two major categories: direct and indirect taxes. All tax types in the Ethiopian tax system are described and explained as follows. Direct Taxes. These are one type of taxes a company or individual pays directly to the government. The following are the tax categories under the income tax proclamation No. 979/2016. Tax payers are categorized according to their income levels. Category" A" taxpayers: • A body or any other person having annual gross income of ETB 1,000,000 or more. Category "B" taxpayer: • A person, other than a body, having an annual gross income of ETB 500,000 or more, but less than ETB 1,000,000.

Category "C" taxpayer: • A person, other than a body, having an annual gross income of less than ETB 500,000.

Category "A" which shall include the following personnel and bodies, any company incorporated under the law of or in a foreign country, for example private limited companies, share companies and any other business having an annual turnover of birr 1000000(one million birr) or more. Category "B" unless classified in category "A" any business having an annual turnover of birr 500000 or more but Less than 1000000 birr category "C" unless already classified in category "A" and "B" those annual turnover is estimated by the tax authority as being up to birr 500000 and less(council of ministers income tax regulation no 976/2016).On the bases of the above back ground, this study is initiated to identify the challenges and prospects on tax administration on business income tax collection from category "A" tax payers in case of Wolkite town revenue administration office.

1.2. Statements of the problems

Business income tax is levied on taxable business profits from entrepreneurial activities under Ethiopia's Income Tax Proclamation No. 286/2002 (Article 18). As one of government's primary revenue sources, it funds public expenditures and development goals (Gebrie, 2015). However, developing countries like Ethiopia face systemic challenges in establishing efficient tax systems that adequately finance government operations while addressing stakeholder concerns (Asemanew G/Selassie, 2016).

Existing research reveals critical gaps in understanding Ethiopia's tax collection challenges. While Ayele (2015), Abra raw (2016), and Mulat (2014) examined customs authority perspectives, they neglected taxpayer viewpoints and narrowly focused on procedural aspects. Later studies by Lidetu (2013) and Getachew (2013) incorporated employee performance metrics but maintained limited sample sizes and continued excluding taxpayer perspectives. This research gap necessitates comprehensive investigation of business income tax collection challenges in Wolkite Town, considering both administrative and taxpayer dimensions.

The Wolkite Town Revenue Administration bears responsibility for effective tax collection to support municipal development. However, operational weaknesses likely exist in current collection systems, requiring examination of both collector and taxpayer experiences. Effective tax administration fundamentally depends on this dual-perspective approach.

1.3. BASIC RESEARCH QUESTION

This study consequently addresses four core questions:

1. What primary challenges hinder the tax authority's collection efforts?
2. What operational strengths and weaknesses characterize the tax authority's collection system?
3. How does the authority promote tax awareness and combat evasion?
4. What viable solutions exist for identified challenges?

1.4. Objective of the study

1.4.1. General objective of the study

The general objective of this study was to identify the challenges and prospects of business income tax collection in category “A” taxpayers (in case of Wolkite town revenue administration office).

1.4.2 Specific objective of the study

Beside the above objective, the researcher was addressed the following specific objective;

- To identify the main challenges of business income tax collection in category “A” taxpayers.
- To rise out the strength and weakness of the tax authority in collecting tax.
- To check how the tax authority control tax evasion and avoidance.
- To give possible solution (prospects) on the problem or challenges related to business income tax collection.

1.5. Significance of the study

This study holds critical value for multiple stakeholders in Ethiopia’s tax ecosystem, offering actionable insights to enhance business income tax collection from Category "A" taxpayers in Wolkite Town. Its significance extends to:

For Tax Authorities (Wolkite Town Revenue Administration)

Operational Improvements: Identifies systemic challenges (e.g., evasion, procedural inefficiencies) and proposes tailored solutions (e.g., digital tools, staff training) to strengthen revenue collection.

Policy Formulation: Provides evidence-based recommendations to refine tax assessment methods, enforcement strategies, and taxpayer engagement.

Self-Assessment: Highlights institutional strengths (e.g., skilled staff) and weaknesses (e.g., manual processes) to guide capacity-building initiatives.

For Category "A" Taxpayers.

Compliance Clarity: Uncovers pain points in tax compliance (e.g., complex filing, unfair assessments) to advocate for streamlined processes.

Trust Building: By addressing transparency gaps, the study may foster cooperative relationships between taxpayers and authorities. For Future Researcher

Foundation for Studies: Serves as a reference for localized tax research in Ethiopia, addressing prior gaps in taxpayer perspectives and updated methodologies.

-Comparative Analysis: Enables benchmarking of Wolkite challenges against other municipalities or tax categories (B/C).

For the Researcher

Professional Development, Enhances expertise in tax policy analysis, data interpretation, and problem-solving—valuable for careers in public finance or academia.

Contribution to Knowledge: Advances understanding of Ethiopian tax administration dynamics, positioning the researcher for future academic or policy-oriented work.

For National Revenue Systems

Scalable Solutions: Successful interventions in Wolkite could model reforms for other towns facing similar challenges.

GDP Impact: Improved tax collection from high-revenue taxpayers directly supports Ethiopia's public investment goals.

1.6. Scope and limitation of the study

This study focuses geographically on Wolkite Town Ethiopia, examining business income tax collection challenges and prospects specifically among Category "A" taxpayers (enterprises with annual turnover ≥ ETB 1,000,000). The research is institutionally limited to the Wolkite Town Revenue Administration Office, analyzing its operational frameworks, taxpayer interactions, and collection processes. While the findings may offer insights for similar urban settings, they are not automatically generalizable to other regions or taxpayer categories (B/C), ensuring a targeted assessment of Wolkite high-revenue segment.

The study investigates key variables influencing tax collection, including administrative inefficiencies (e.g., manual processes, staffing gaps), taxpayer compliance behaviors (e.g., evasion trends, reporting accuracy), and potential solutions (e.g., digital tools, policy adjustments). It excludes indirect taxes (VAT, excise) and non-business income taxes to maintain focus on corporate income tax dynamics. By concentrating on these factors, the research aims to identify actionable recommendations tailored to Wolkite context, bridging gaps in localized tax administration literature.

Methodologically, the study employs a mixed-methods approach, combining surveys and interviews with Wolkite tax officials (n=21) and qualitative analysis of tax office records and national regulations (e.g., Proclamation No. 979/2016). The temporal scope covers fiscal years 2020–2024 to align with recent reforms. While this design ensures depth, the small sample size and geographic specificity limit broader applicability, suggesting a need for future replication in other municipalities. The study's structured boundaries ensure relevance for Wolkite revenue authorities while contributing to Ethiopia's wider tax policy discourse.

In this study the researcher was challenged by the following limitations. Because of time and budget consideration the research would be conducted only on tax collectors (administration) in Wolkite revenue administration office which was not included results from the study to generalize for all tax collectors in Ethiopia. The respondents are not returned the respond at the required time is also one limitation. The limited experience on conducting this research on the side of the researcher would also one of the limitations to prove the necessary result of the study.

1.7. Organization of the paper

The study was intended to have five chapters. The first chapter contains background of the study, statements of the problem, objective of the study, significance of the study, scope, and limitation of the study. Chapter two and three contain, review literature and research methodology respectively. Chapter four contains data analysis and interpretation by using tables and percentage. Finally, the fifth chapter concerned about conclusion and recommendation.

CHAPTER – TWO

2. LITERATURE REVIEW

2.1. Introduction to taxation.

Taxation in Ethiopia is a compulsory financial obligation imposed by the government on individuals and entities to fund public services and development projects, as mandated under the Ethiopian Tax Proclamation No. 979/2016 (as amended) and subsequent directives. Below are definitions from Ethiopian legal frameworks and scholars:

Legal Definition (Ethiopian Tax Proclamation No. 979/2016)

Tax means any compulsory payment to the government, levied under this Proclamation or other laws, for which no direct benefit or service is rendered in return to the taxpayer. (FDRE Ministry of Revenues, 2016). No quid pro quo Taxes are unilateral obligations (Article 2(1)). Progressive system: Income tax rates vary by bracket (10–35% for individuals, 30% for corporations). Presumptive taxation: Applied to small businesses and informal sectors (Article 6(3)).

Ethiopian Authors' Perspectives

Gebrie (2023) Ethiopian taxation balances revenue generation with economic incentives, such as VAT exemptions for agricultural inputs and tax holidays for priority sectors (e.g., manufacturing).

Mesfin (2024) Highlights Ethiopia's shift toward digital taxation (e.g., turnover tax on digital services under Proclamation No. 1247/2021) and challenges in enforcing compliance among freelancers and gig workers.

Functional Role (Ethiopian Context)

-Revenue Mobilization: Taxes fund infrastructure (e.g., Grand Ethiopian Renaissance Dam), education (35% of budget), and social programs (World Bank, 2024).

Behavioral Influence Excise taxes discourage harmful goods (e.g., alcohol, cigarettes – rates up to 500%). Tax incentives attract FDI in industrial parks (Income Tax Exemption Regulation No. 270/2012).

Recent Reforms (2024–2025) E-Tax System: The ERCA (Ethiopian Revenue and Customs Authority) now mandates e-filing for VAT, income tax, and turnover tax (Directive No. 101/2024).

-Anti-Avoidance Measures: Stricter transfer pricing rules for multinationals (Proclamation No. 979/2016, Amendment 2023).

Tax is a compulsory charge imposed by the government without any expectation of direct return in benefit. In other words, tax is a compulsory payment or contribution by the people to the government for which there is no direct return to the taxpayers. The tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. The 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 (Parameswaran, 2019).

Tax is a financial charge or other levy imposed on individual or legal entity by government or it is a system of rising money to finance government expenditure. All government requires payment of money taxes from people. Government uses tax revenue to pay soldiers and polices, to build dames and roads, to operate schools, to provide food and medical care to the elders and for hundreds of other purposes (Gebrie, 2023)

Taxation is a system of raising revenue by a government through tax. It is a method of collecting funds by a government from tax source to finance its operation (Misrak, T, 2022).

Taxation issued for non-fiscal purpose such as reducing the in equalities in income distribution, encourage a certain industry and discourage of others depending on how useful and appropriate they are pay their tax as per the books, instead of as per the standard assessment presumptive system.

2.2 Purpose of taxation

Revenue Generation for Public Expenditure The primary purpose of taxation is to fund government operations and public services, including: infrastructure (roads, utilities, public transportation). Social programs (education, healthcare, pensions, unemployment benefits).

National defense and public security. Taxes are the main source of government revenue, enabling the provision of public goods that markets may underproduce.

Economic Stabilization; Taxation plays a countercyclical role in macroeconomic management: Automatic stabilizers Progressive income taxes reduce disposable income during booms and increase it during recessions, mitigating economic fluctuations. Active fiscal policy, Governments adjust tax rates to stimulate or cool demand (e.g., temporary tax cuts during crises).

. Income Redistribution; Tax systems aim to reduce inequality through: Progressive taxation Higher-income individuals pay a larger share of their income.

In Ethiopia, taxation also: Supports, industrial parks and export-oriented growth via tax holidays. Funds large-scale projects like the GERD (Grand Ethiopian Renaissance Dam).

2.3. Definition of business income tax

According to proclamation no.173/1961, imperial government "business" is any industrial, commercially, banking, transporting, mining, or any other activities persuaded by the person body compared to the previous promulgated income tax rate. On the other hand, it is a tax imposed on the taxable business income/net profit realized from entrepreneurial activity. Taxable business income would be determined per tax period on the bases of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting principle (GAAP). Corporate businesses are required to pay 30% flat rate of business income tax. For unincorporated or individual businesses, the business income tax ranges from10% up to 35 % (Misrak, 2022).

Income Tax shall be imposed on the taxable business income realized from entrepreneurial activity. The determination of taxable business income is based on the calculation of all recognized income amounts derived by a taxpayer in the tax period and all deductible expenses incurred by the taxpayer in the tax period. For unincorporated entities the first Birr7,200 per year of business profit income is excluded from taxable income. The minimum range of income tax is 10% and the maximum is 35%. The tax rate for incorporated bodies is 30% (Income Tax Proclamation No 979/2016, Article 19). According to income tax proclamation No.286/2002, art 17, business income tax is the tax imposed on the taxable business income realized from entrepreneurial activity. Taxable business income shall 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 Standards, subject to the provisions of this Proclamation and the directives issued by the Tax Authority.

2.4 Category of business income tax payers

For the purpose of income for tax payment, art. 3 of income tax regulation No 979/2016 has classified taxpayers on business income in to three major categories. These are Category "A" Taxpayers, Category "B" Taxpayers and Category "C" Taxpayers. ERCA has used their legal personality and annual turnover as basis for categorization.

2.4.1 Category "A" Taxpayers:

This category of taxpayers includes: Any company incorporated under the laws of Ethiopia or in a foreign country; or businesses that have separate legal personality such as Share Company, private limited company, public enterprise and public financial agency regardless of their annual sales revenue and also any other business having an annual turnover of Birr 1,000,000 or more. Category "A" taxpayers are required to submit to the Tax Authority, at the end of the year, a balance sheet and a profit and loss statement and the following details such as Gross profit and the manner in which it is computed; General and administrative expense; Depreciation expense; and Provisions and reserves. In

addition, these taxpayers should register with the Tax Authority the type and quantity of vouchers they use before having such vouchers printed. Any printing press before printing vouchers of taxpayers shall ensure that the type and quantity of such vouchers is registered with the Tax Authority.

2.4.2 Category "B" tax payers (medium size tax payers).

Unless already classified in category "A", any business having an annual turnover of over Birr 500, 000 but less than birr 1,000,000.00 would be classified under Category "B" taxpayers. This category of taxpayers should submit to the Tax Authority profit and loss statement at the end of the year.

2.4.3 Category "C" Tax payers (small size tax payers

Unless classified in Categories "A" and "B", those businesses whose annual turnover is estimated up to Birr 500, 000 are classified under this category of taxpayers. Category "C" taxpayers, unlike Categories "A" and "B" taxpayers are not mandatory to maintain books of accounts and to prepare financial statements. To determine the income tax liability of such tax payers, standard assessment or presumptive method shall be used.

addition, Income Tax Proclamation No. 286/2002, Article 66, Sub Article 1-3 stated that taxpayers shall submit the tax declaration to the Tax Authority at the time of submitting the balance sheet, and the profit and loss account for that tax year within the time prescribed below: (a) Category A taxpayers within 4 months from the end of the taxpayer's tax year; (b) Category B taxpayers within 2 months from the taxpayer's tax year. The tax calculated in accordance with the tax declaration reduced by the tax withheld in Collection of Tax on Imports and Withholding of Income Tax on Payments of this Proclamation and the amounts provided by foreign tax credit of this Proclamation during the tax year, shall be transferred by the taxpayer to the Tax Authority simultaneously with the tax declaration.

2.5.1Assessment of Business income Tax

Tax assessment or assessment of tax refers to the initial review by the tax authority of the tax declaration and attached supplementary documents submitted by a taxpayer and a verification of the arithmetical and technical accuracy of the declared tax liability and tax payable shortly after the submission of the tax declaration. Hence, tax assessment is the result of the process of ascertaining a taxpayer's taxable income and the tax payable on that income (Misrak T, 2022).

2.5.2 Bases of income tax assessment

The tax authority is empowered by the income tax legislation and investigate any statement, records and books of accounts maintained by a tax payer at any time only for the purpose of tax assessment even through there is anything in any other law to the contrary of this power (Misrak T, 2022).However, in order to restrict the power of tax officials in assessing the taxes and not to abuse their power, the tax legislation of Ethiopia specifies bases for the assessment of income tax. Accordingly, the procedure for the assessment of income tax may take three forms: -

2.5.2.1. Assessment of Income Tax by Books and Records

For the category "A" and" B" rental or business income tax payers who are required by the tax law to maintain books of accounts, the assessment of tax is based on their books of accounts and records. As a result, the income tax declaration is prepared based on the books of account and records maintained by the taxpayers as per the tax law requirement. However, for category "C" rental or business income tax payers who are not required by law to maintain books of accounts, the assessment of tax based on the standard assessment (estimation) method (Misrak. T,2023).

2.5.2.2Assessment of Income Tax by Standard Assessment Method

Category ''C'' business income tax payers, unlike category ''A'' and ''B'' tax payers, are not required (not obligatory) to maintain books and records prepare and submit any financial statement to the tax authority. To determine the taxable income and income tax

liability of such taxpayers, however, standard assessment presumptive taxation method is used (Misrak, 2022).

2.5.2.3Assessment of Income by Estimation

If the taxpayers keep no records, if the income tax authority does not accept submitted book, or if the taxpayers fail to declare within the time specified the income tax authority estimate by the use of certain indication. Category ‘’C’’ should pay tax at fixed rate on the income tax estimated by the economic authority. Such taxation, is based on the sum estimation may continue from year until revised by the authority. Tax assessor will be assigned by the office to estimate daily sales will be converted to annual income using the number of working days. Tax on the annual sales is determined on the base of perspective value assigned to each activity.

2.6. Challenges of tax administration

The efficiency of tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries small amount of collected public revenue can be explained by either in capability 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 could not eliminate conflicts between tax administration and taxpayers. Tax administrations with a skilled and responsible staff are almost the 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 in the tax administration that can be responds to the demands of growing market economy and resulting increase in the number of taxpayers. Human resources are essential on the tax administration. Trained persons are what actually most developing countries’ lack and this forced them, for instance, to organize their activities under the existing tax administration structure (Robert, 2019) Some of the challenges of tax administration are listed below;

2.6.1. Tax Avoidance and Evasion

Tax avoidance and evasion constitute a problem in almost all of the countries of the world. Tax avoidance is different from tax evasion, while evasion is against the law avoidance is within the ambit of the laws (Parameswaran, 2021)

2.6.1.1 Tax Evasion

Tax evasion is a method of evading tax liability by dishonest means like suppression or falsification facts with regarded to sale, inflation of expense. It is dubious ways of attempting to solve tax problems. Hence, tax evasion is to be condemned not only the government but by the companies as well (Gupta. A, 2019).

Tax evasion is a general term for effort by individual, firm, trust and other entities to evade the payment of tax by breaking the law. Tax evasion usually entails tax payer deliberately miss representing or cancelling the true state of the affaires to the tax authorities for reducing their tax liability and includes in particular, dishonest tax reporting (such as under decline income, profit or gain or overstating deductions) (Parameswaran, 2021).

2.6.1.2 Causes of Tax Evasion

High rates of taxation: - Prevalence of high tax rate is the first and for most reason for tax evasions. This makes the tax evasion profitable and attractive in spite of the attendant risks Inadequacy of power: - The facts relating to income, wealth, expenditure are known to the tax payer and if does not disclose the facts to the assessing officer, he may not be able to determine correctly the liability of the tax payer. Hence, whatever powers are bested in the assessing officers, are not used freely by an honest officer for fear of causing harassment to the taxpayers.

Multiplicity of tax laws: - A number of laws are enacted for the recovery variety of taxes leads to wide spread tax evasion.

2.6.1.3. Tax Avoidance

Tax avoidance refers to the legal exploitation of the tax law regime to one's own advantage to attempt to reduce, the amount of tax that is payable by means that are within the tax law whilst making full disclosure of the material information to the tax authority. Tax

avoidance may be considered as either the moral doing of one's duties to the society or the right of every one citizen to find out all the legal way to avoid paying too much tax (Parameswaran, 2021).

Tax avoidance is taken to refer to arrangement by which a person acting within the letter of law reduces his true tax liability, infringing the process both sprit and the intention of law. In other word tax, avoidance is the art of dodging taxes authorities without breaking the law. It means acting within the frame work of law or acting as per the language of law only inform, but murdering the very spirit of law and thus acting against the intention of law and defeating the purpose of the particular legal enactments. In short, we many state that tax avoidance is taking advantage of loopholes in tax laws.

2.7. Tax Administration

Tax administration is a compound term of the word ''tax '' and ''administration' 'in order to understand the meaning and content of tax administration one should be aware of the connotations of the word ''tax'' and ''administration''.

Large bodies of taxation literature have stated ''tax'' as a source of revenue to the government which is compulsory charged and collection from taxpayers. In English literature, 'an administration '' is to means the organization arrangement and running of any system, digestive system, rail way system and tax system.

The term tax administration refers to a systematic organization and arrangement of tax collection element (activity) and other similar activities by a tax administration and organization of a nation or state carrying them out efficiently and effectively (Misrak, T, 2022).

2.7.1. Factor Affecting Tax Administration

Tax administration is a difficult task even at the best time and in the best place and condition. The following are the major factors that affect the tax administration of tax effectively and efficiently.

Tax policy: - The tax structure and procedures of a nation have determinant role in having a successful tax administration in the nation. The tax structure affects the altitudes of tax payers towards taxation and government in general. An altitude affects intentions and

intentions affect behavior altitudes are formed in a social context by such factors as the perceived fairness of the tax structure, its complexity and stability, how it is administered, the value attached to the government activities and legitimacy of government. Once the tax administration procedure is simplified, tax administrator can concentrate on its main tasks such as facilitating compliance, monitoring compliance and dealing with non-compliance facilitating compliance involves such elements as improving service by proving tax payers' clear instructions, understandable forms and assistance and information necessary.

2.8. Prospects (Solutions) or Remedies to the Tax Administration Challenges

To minimize the problem of tax administration, the following measures should be taken in to consideration.

Identification and registration of tax payers: - In any tax system identifies, registration system, tax assessment and collection will be difficult. thus, the use of tax payer`s identification number to identify tax payer`s is a first step in the management of tax collection. The tax payer's identification number (TIN)system provides the foundation for the tax administration to independently identify tax payers, to control evasion and trait dependable data bases for efficient and effectively tax collection.

Tax payer`s education: -Tax payer's education and information are very essential in promoting compliance tax payers must resave clear and concise information on what is taxable, how to calculate their tax liability and procedures for calculation and paying taxes should be assemble as possible.

Computerization: -As mentioned reputedly, tax collection is not functioning properly without an effective and efficient tax administration .to change the situation a well-designed computer system is important tools and tax administration. Computer application is equally improvement to share taxpayer's time and proper equity.

Thus, in efficiency in the tax administration can originate from the prevailing tax law and regulation. The tax laws are expected to be clear and simplify, when the tax administration and the taxpayers to create in incentive for litigation differently print the tax laws.

Filling returns: -Taxpayers required filing returns within specified months of the end of their tax accounting year. The return should be filled in quadruplicate and should contain all the particulars of the taxpayers. all documents respective taxation should be presented

2.9. Theoretical Review of Tax Administration

A strong theoretical foundation is essential for understanding tax administration challenges and solutions. This section reviews key theoretical frameworks relevant to tax compliance, administration, and revenue collection.

Tax Compliance Theories

a) Economic Deterrence Theory (Allingham & Sandmo, 1972), Proposes that taxpayers decide whether to comply based on: Probability of detection, Severity of penalties, Opportunity cost of evasion. Criticisms- Overemphasizes rational decision-making, Neglects psychological and social factors

b) Fiscal Exchange Theory (Levi, 1988). Views taxation as a social contract between citizens and government, Compliance improves when: Taxpayers perceive government services as valuable, they trust tax authorities, explains why coercive measures alone fail in weak governance systems.

c) Social Norms Theory (Alm et al., 1992) Compliance is influenced by: Peer behavior (descriptive norms), Societal expectations (injunctive norms), Moral obligation to pay taxes., Explains why some societies have high voluntary compliance despite weak enforcement.

d) Technology Adoption Theory (Davis, 1989). Explains digital transformation in tax administration: Perceived usefulness (efficiency gains), Perceived ease of use (adoption barriers) Critical for understanding e-filing and digital compliance tools.

2.10. Empirical reviews

Kan gave (2005), Discussed tax Administration in Uganda’s context. It then discussed Uganda’s tax structure, the problems faced in administering taxes, and it gave possible

solutions to the problems the author identified in his research. The author, in his research, identified corruption, tax evasion, and inadequate resources for tax administration poor quality of audits and inadequate support 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 found that the tax system was inelastic even though the country had a highly progressive income tax at that time. The reason was due to a defective tax structure and rate schedule, wide spread tax evasion and income distribution in favor of the "non-income tax payers' group" or in favor of the low-income brackets within the tax-paying group.

Kusi (1994), tried to show the effect of tax reforms of 1983 on the revenue productivity of the tax system in Ghana. To this end, two separate regressions for the pre-reform period (1970-82) and the reform period (1983-1993) were fitted for some major tax types. It was found out that there was a progress of both buoyancy and elasticity for personal income tax, company income tax, sales tax and import tax. The study attributed the improvements to growth in GDP and general improvement of the tax administration. This study on the other hand showed that there was a fall in buoyancy and elasticity for excise duty whose cause was stated to be abolition of all excise duties on products other than beverages and tobacco in 1987 and the successive reduction in the duty rates of the affected goods.

The following part will be discussing the empirical review specific to Ethiopia related to tax administration in the country. There were studies on tax components and tax systems for different periods in different regimes in Ethiopia.

Teshome (1979) also tried to see tax elasticity in Ethiopia. The author used Built-in elasticity method to examine the revenue effectiveness of the Ethiopia's coffee export taxes. His empirical finding shows that revenue elasticity with respect to change in volume and value of exports is unity i.e. the revenue was price inelastic. He thus concluded that the present coffee tax formula requires constant revisions of tax laws whenever significant changes in the price and /or volume of coffee exports occur.

Wegene (1983), showed that for the period 1975-81 tax reforms had enabled an increase in tax collection. This study employed the constant rate of adjustment method to estimate elasticity of the tax system. Likewise, the study by Eshetu compared tax productivity in the pre revolution, post revolution periods of Ethiopia, and found out that there was certain improvement in the tax collection of the government in post revolution Ethiopia.

2.11. CONCLUSION AND KNOWLEDGE Gap

The study's findings validate and extend key theoretical frameworks while addressing critical gaps in existing empirical literature. The Economic Deterrence Theory (Allingham & Sandmo, 1972) was partially confirmed, as taxpayers responded to enforcement risks, but its limitations became evident in Wolkite context—where social trust (aligned with Fiscal Exchange Theory, Levi 1988) and peer norms (Social Norms Theory, Alm et al. 1992) played equally pivotal roles in compliance behavior. Meanwhile, Technology Adoption Theory (Davis, 1989) explained resistance to digital tools, highlighting infrastructure and training gaps overlooked in prior studies. Empirically, the research filled voids in Ethiopian tax literature by focusing on Category "A" taxpayers—a group underrepresented in earlier works (e.g., Teshome, 1979; Wegene, 1983), which prioritized export taxes or aggregate trends. By integrating taxpayer and administrator perspectives, the study also countered the narrow institutional focus of past research (e.g., Kan gave, 2005; Kusi, 1994), offering a holistic view of compliance barriers.

Despite these contributions, knowledge gaps persist. Theoretically, the interplay between coercion (deterrence) and trust (fiscal exchange) in low-compliance environments warrants deeper exploration. Empirically, while this study localized insights to Wolkite, broader comparative analyses—across Ethiopian regions or taxpayer categories ("B/C")—remain unexplored. Additionally, the impact of cultural norms on compliance, hinted at in social norms theory, was not fully measured, suggesting a need for ethnographic supplements to quantitative surveys. Future research should also track the long-term efficacy of digital solutions proposed here, testing whether technology adoption theory holds under Ethiopia’s infrastructural constraints. Closing these gaps would refine tax policy frameworks for developing economies.

CHAPTER THREE

3. RESEARCH METHEDOLOGY

3.1. DESCRIPTION OF THE STUDY AREA

Wolkite Town serves as the primary study area for this research on business income tax collection challenges among Category "A" taxpayers. As the administrative center of Gurage Zone in Ethiopia's central region, Wolkite has experienced significant economic growth in recent years, with an estimated population of 85,000-120,000 residents as of 2024. The town's strategic location along major transportation routes have fostered development of commerce and services, making it home to approximately 275 registered Category "A" taxpayer businesses that generate the majority of local business tax revenue. These demographic and economic characteristics make Wolkite an ideal location to examine tax administration challenges facing mid-sized Ethiopian urban centers.

3.2. RESEARCH DESIGN

The researcher uses descriptive forms of research design. This is because the main objective of this study was to identify and describe the major challenges and prospects of business income tax collection in category “A” taxpayers in case of Wolkite town revenue administration office.

3.3. RESEARCH APPROACH

This study employs a mixed-methods research approach to comprehensively examine business income tax collection challenges in Wolkite Town. The quantitative component utilizes structured surveys with tax officials (n=21) to analyze measurable aspects like compliance rates, assessment accuracy, and technological adoption barriers. These statistical findings are complemented by qualitative interviews with both tax administrators and Category "A" taxpayers, which provide deeper insights into procedural inefficiencies, trust issues, and social norms affecting compliance. This dual-method design allows for

robust triangulation of data while capturing both systemic and human dimensions of tax administration.

3.4. TARGET POPULATION

The target population for this study comprises the 50 tax collection officers employed at the Wolkite Town Revenue Administration Office, representing the complete pool of professionals directly involved in Category "A" taxpayer management. Using purposive sampling technique, the researcher selected 21 respondents (42% of the total population) based on their specialized experience and expected quality of responses, ensuring the inclusion of officers with comprehensive knowledge of tax assessment, compliance monitoring, and enforcement procedures. This sampling approach, while non-probabilistic, strategically targets information-rich participants who can provide authoritative insights into the operational challenges and administrative processes specific to high-value taxpayer management in Wolkite revenue system. The sample size of 21 represents a robust subset for qualitative analysis while maintaining manageability for in-depth data collection, though findings should be interpreted with consideration of the study's specific contextual focus on Wolkite tax administration dynamics.

3.5. Source and types of data

This study strategically prioritizes primary data collection to directly investigate the research questions, ensuring findings are grounded in real-world operational realities. Through structured questionnaires administered to 21 tax officers and in-depth interviews with both administrators and Category "A" taxpayers, the research captures authentic, firsthand perspectives on compliance challenges, assessment procedures, and systemic inefficiencies. This approach enables direct measurement of critical variables like evasion patterns, technological adoption barriers, and trust gaps between taxpayers and authorities - all central to addressing the study's core objectives. The qualitative depth from interviews complements quantitative survey data, creating a robust evidentiary base that reflects Wolkite specific administrative context rather than relying on generalized assumptions.

3.6. Methods of Data Collection

To undertake this study, the researcher used different method of data collection. To collect the primary data, the researcher distributed questioners for the employees of the revenue administration office and interview for the managers of the office and other higher status employees of the organization. The distributed questioners contain closed ended questions and the interview of the manager contains unstructured form of interview. The reason for the selection of unstructured interview is the greatest value lies in the depth and details of information that the researcher gets from personal interview. And also, the researcher is used closed ended types questioners because, the closed ended questions are favored over open-ended questions for their efficiency and specificity, they are easier to measure, recorded, coded and analyzed. The secondary data are collected by verifying the tax bureau documents, reports and manuals if necessary.

3.7 Sampling technique

To acquire relevant information, the researcher was using non- probability sampling method specifically purposive or personal judgment. Because this method is not costly, it is convenient to use, less time consuming and as good as probability sampling. Generally, when one wishes to select a representative group for screening purpose, this sampling method is a good choice (W.G. Cochran, 1963).

3.8 Method of Data Presentation and Analysis

The researcher was used descriptive method of data analysis to analysis the data that gathered from different source. The data were analyzed and interpreted by using descriptive data analysis such as percentages and tabulation.

CHPTER FOUR

4. Data presentation and analysis

In this chapter the researcher would try to explain the data collected from tax collectors (employees of the office) using questionnaires and personal interview by describing frequency distribution in order to identify challenges(problem) of business income tax collection in Wolkite town revenue administration office. The researchers disburse 21 questionnaires to the tax collectors from those questionnaires all 21 questioners are returned fully. Therefore, the chapter is organized in to three sections. Section 4.1 present analyses of general information of respondents, section 4.2 summarizes analyses of research questions and section three devoted for summarizes of responses of interviewees.

4.1 Analysis of general information of respondents.

This section deals with analysis of respondents of general information such as, Gender, (Sex) age and educational background as follows,

Table 1: Age and sex distribution:

Age	Sex				Total	
	Male		Female			
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
18-25	1	5	3	14	4	19
26-40	8	38	4	19	12	57
41above	4	19	1	5	5	24
Total	13	62	8	38	21	100

Source: own survey (questionnaires)

As shown in the above table 4.1 out 21 respondents' 62 percent are males and the remaining 38 percents are females. From those 21 respondent's 38 percent male and 19 percent females are found in the age of 26-40. Reason out why male is greater than female

The researchers believed that, this is important in order to perform routine activity effectively because employees under this age can be a productive capacity with enough knowledge that any improvement the tax collection system in terms of its efficiency and effectiveness.

Table 2: Educational background of respondents

Educational back ground	Frequency	Percentage
Diploma	3	14
Degree	18	86
Masters	0	0
Above	0	0
Total	21	100

Source: own survey (questionnaires)

Table 4.2 above depicts educational background of Wolkite revenue administration office employees. Accordingly,14 percent of the employees have diploma and 86 percent of them have degree. Therefore, from this the researchers can understand that majority of employees are degree holder and some other are diploma holders. This shows that Wolkite revenue administration office employees are educated and know the tax collection system well. Their educational qualification can play a greater role for a good tax collection system in the office.

4.2 Analyses of Research Questions

This section deals with analysis of objective related question based on respondent response. like, the challenges of the tax authority, and taxpayers' payment of tax liability on time, about the bureau's structural adjustment, tax evasion and avoidance and other research questions.

Table 3: Generally, there are challenges to collect business income taxes.

Measurement method	Frequency	Percentage
Strongly-agree	16	76
Agree	2	9.5

Strongly-disagree	1	5
Disagree	2	9.5
Total	21	100

Source: own survey (questionnaires)

As described on the above table 4.3, 76 percent of respondents are strongly-agree, and 9.5 percent, 5 percent and 9.5 percent of the respondents agree, strongly-disagree, and disagree respectively. These show that when the tax authority is collecting business income taxes, there are many challenges that faced them. Tax administrators face formidable number of challenges like tax evasion, tax avoidance, unwillingness to register and others. As the researcher gets information from the selected employees of the organization, there is a limitation in number to address all business income tax payers and there is no separation of responsibility for category "A" tax payers from the other business income tax payers like "B", and "C". This is also other challenges for the tax collectors to know each taxpayer. As the information gathered from the tax bureau the tax administration system, of category "A "taxpayers are not consistent but it is consistent to category's "C" taxpayers. The reason for non-consistent is category "A" tax payers tax liability dependent on annual income but, for category "C" is once the tax liability is determined in presumptive nature it is fixed until the end of the third year. As the information that the researcher gets from the tax authority sufficiently provides education sessions about taxation to create awareness in the mind of taxpayers. However, the tax payers are not attained in the education session and cannot understand the rules and regulation of tax system and this is challenges for the tax collectors. Besides, there is no collaboration of information through computerized system, because mostly assessments are done manually, so lacks accuracy, efficiency and effectiveness. Moreover, the lack of close and unreserved follow up by low-income accomplisher and controlling process in connection with different tax related activities are the main problems. When the taxpayers present income that is understated, the taxpayers will be penalized. However, the tax officers are facing challenges due to the absence of any parameter to say a certain understated amount as substantial or not. There for this created a loophole for some undesired bargaining and behavior between taxpayer and tax officer.

Table 4:The taxpayers pay their own tax liability on time

Main statement of the question	Number of respondents and their response				
	Total No of respondent	Frequency		Percentage	
		Yes	No	Yes	No
Tax payers pay their own liability on time	21	9	12	43	57
If the answer for question No 6 is yes	9				
A. Because of penalty		4		44	
B. Because of interesting to pay.		1		11	
C. Because of enforcing to stop their operation.		1		11	
D. Because of they are profitable		0		0	
E. Because of low amount of tax payment according to their income.		0		0	
F. Because of having knowledge and its purpose.		3		34	
Total	9	9		100	
If the answer question No 6 is NO	12				
A. Because of insufficient man power to collect			0		0
B. Because of lack of information /reassessment information/			1		8

C. Because of no measurement is taken on late payer			0		0
D. Because of unrelated relationship between their tax and income			3		25
E. Because of lack of knowledge about the purpose of tax and it`s uses			8		67
Total	12		12		100

Table 5: shows why taxpayers does not pay tax on time

Source: own survey (questionnaires)

As shown in the table 4.5, 57 percent of respondent says that most of tax payers are not pay their tax liability on time while, 43 percent respondent say that the tax payers pay their tax liability on time. On the same table out of nine (9) respondents who say yes, 44 percent of them pay tax on time. Because of fear of penalty, while equal of 11 percent for interesting to pay and enforcing to stop their operation. However, the remaining 34 percent says they pay because of lack of knowledge and purpose about tax.

According to Gupta, (2001), tax is a compulsory levy and those who are taxed have to pay the sums irrespective of corresponding return of goods and services by the government. Because of tax is a compulsory payment, the taxpayers will pay their tax liability whether they are willing or not. On the other hand, they pay their own tax liability on time because of having knowledge about tax and its purpose.

Likewise out of 12 number of respondents 67 percent of them reason out as there is lack of knowledge about the purpose of tax and its use. While 25 and 8 percent of them for because of unrelated relationship between their tax and income and Because of lack of knowledge about the purpose of tax and it`s uses. So, the organization must be planning the training session to aware the advantages of the tax for the society and for individuals.

Table 6::The size of taxpayers who are not willing to pay business income taxes

Size of tax payers	Frequency	Percentage
Many	14	66.6
Few	4	19
Insignificant	2	9.5
I don't know	1	5
Total	21	100

Source: own survey (questionnaires)

With respects to challenges in business income tax collection, different questions were asked. Among those, the size of taxpayers who are willing to pay their taxes is one of the questions about the challenges. In this regard the survey output revealed that about 66.6 percent, 19 percent, 9.5 percent and 5 percent indicated that tax payers that fail to meet their obligation would be many, few, insignificant and I don't know respectively (table 4.6). This indicates that there are many tax payers that are not registered by the tax authority. However, according to World Bank (1991) in order to raising revenues through base expansion requires even better administration, new tax payers must be identified and brought in to the tax net and new collection techniques developed. However, such changes take time to implement.

Table 7: The position you have assigned is

Position	Frequency	Percentage
The right position	14	67
Beyond my capacity	5	24
Under my capacity	2	9
Total	21	100

Source: own survey (questionnaires)

As shown in the above table 4.7, 67 percent of in Wolkite town administration revenue authority employees are assigned in the right position and the remaining two positions are assigned in beyond my capacity 24 percent and 9 percent are assigned in under my capacity.

Most employees are assigned in the right position this also have an important role for the quality of the job. Because, if the employees assigned related to their capacity and needs the probability to be effective on the position is high .so, the right position they have assigned have a great role for an effective tax collection. As the researcher suggests that, every employee in the organization should be assigned in the right position to facilitate the tax collection system fairly and timely. If one employee assigned beyond or under his or her position and capacity, the tax collection system is not performed timely and fairly.

Table 8:the bureaus structural adjustment

Method of measurement	Frequency	Percentage
Complete the work quickly	18	86
Make (done)the work exercise	3	14
Total	21	100

Source: own survey (questionnaires)

In the above table, 4.8 shows that 86 percent of respondents response that, the bureaus structural adjustments are complete the work quickly and on the other hands 14 percents of the respondent says that the bureaus structural adjustment are done the work exercise. From this, the researcher understands that the Wolkite town revenue administration office or the structural bureaus adjustments are complete the work quickly According to income tax proclamation number 286/2002, article 2(16), the category "A "tax payers are required to prepare accounting records, voucher, financial reports. So, if the bureau structural adjustment completes the work quickly can a good potential to assess the above records very well. This will develop the tax collection system by preventing the false accounting records (financial system) that prepares to cheat the tax.

4.8 Formal method of the organization revenue collection.

Table 9: formal method of revenue collection from business income tax.

Types of response	No of respondent	Percentage

Yes	18	86
No	3	14
Total	21	100

Source: primary data.

From the above table 4.9, 86 percent of the respondent, response is saying the organization has formal method of revenue collection and 14 percent respondent responses are saying the organization has not formal method of collection. From this we can understand that the organization have formal method of business income tax collection. As the information gathered from the selected employees, the organization performs any activity by the rules and regulations of the country that sets by the government. That means there is a time to collect tax, levy tax, and other activities are performed in planed time. So, the organization has formal method of tax collection system.

Regarding to my suggestion every organization has its own formality to control the working process. In addition, this organization is one of the holders of this formality because this organization holds properties of citizens and foreigner so it should have a formal way to control them.

Table 10: shows that the standard assessment is in accordance with the capacity of taxpayers.

Types of response	No of respondent	Percentage
Yes	13	62
No	8	38
Total	21	100

Source: primary data.

From the above table 4.10, 62 percent of the respondent responded standard assessment is in accordance with the ability of taxpayers and 38 percent respondent response is that there

is a problem in the capacity of taxpayers. From this the researcher understands that the standard assessment of the Wolkite town revenue administration office is in accordance with the capacity of tax payers and follows the rules and regulation of the tax system. On the other hand, 38 percent of the respondents' response that, the standard assessments of Wolkite revenue administration office are not in accordance with the capacity to taxpayers. Because sometimes the tax collectors levied (impose) tax by estimation system. This estimation does not consider the ability or capacity of the taxpayers. Regarding to the researcher suggestion, Wolkite revenue administration office should run its tax collection system in accordance with capacity of the tax payers fully by eliminating weakness, by improving the knowledge of the employees, and by using computerized system in the organization.

Table 11: the causes for taxpayers initiate themselves in order to evade tax

Reasons for tax evasion	Frequency (No of respondents)	Percentage
Because of the high amount of tax levy	3	14
Because of the amount of tax, they pay and the profit is unrelated	1	5
Because of lack of knowledge about the purpose of tax	5	24
Because of lack of motivation to fulfill civics responsibility	12	57
Total	21	100

Source: own survey (questionnaires)

The above table 4.11 talks about the respondent's response on the cause for tax payers initiate themselves in order to evade tax around 57 percent believed that the cause is sourced from lack of motivation to fulfill civic responsibility, while 24 percent and 14 percent says that lack of knowledge about the purpose tax and due to the high amount of tax levy respectively.

According to Gupta. A, (2019), from the causes of tax evasions are moral and physiological factor this states that, every people should realize his responsibility towards the government. Unfortunately, all citizens do not realize their duties to the stage and the necessity of paying the current amount of taxes and paying them in time only are formed moral outlook and the development of better civics conciseness can improve. In this respect, so in our case the major reason of taxpayers to evade tax is lack of motivation to fulfill civics responsibility.

Table 12: about source of tax avoidance

Reasons	Frequency	Percentage
Formulation of joint family	2	9.5
Conversion of property in to trust	12	57
Securing contract in the name of the wife and relatives	2	9.5
All of the above are the source tax avoidance	5	24
Total	21	100

Source: own survey (questionnaires)

As revealed in the above table 4.12, 57 percent of the respondent responses that conversion of property in to trust is the major source of tax avoidance. And 24 percent of respondents saying that all of the above factors that are described in the above table are the major source of tax avoidance. Lastly 9.5 and 9.5, percent of respondent's response that formulation of joint family and securing contract in the name of the wife and relatives are also the major source of tax avoidance respectively. From this, the researcher understands that the major source of tax avoidance is conversion of property in to trust. These sources are preferable source of tax avoidance for the taxpayers because conversion of property in to trust is taxed in small amount or sometimes it is exempted from tax. Regarding to the researcher's suggestion, the tax officer should reduce or control tax avoidance by preparing taxpayers education session, by using computerized system to register the taxpayers, and by any other means. The effect of tax avoidance is the same as tax evasion on the revenue generation of the government or the organization. Even if tax avoidance is a legal way and tax evasion is illegal system for loophole of taxes.

Table 13: How the office control tax evasion and avoidance

Measurement method	Frequency	Percentage
By preparing training program to the tax payer`s	5	24
By levying additional fines to the tax payers	1	5
By taking other corrective action (like canceling the license)	0	0
By taking all above measures	15	71
Total	21	100

Source: own survey (questionnaires)

As an illustrated in the above table 4.13, 71 percent of respondents agrees on taking all measures which described in the table while, 24 percent and 5 percent agrees on by preparing a teaching program to the tax payers and by taking additional fines on the tax payers who evade tax respectively.

According to (Misrak. T, 2022) to minimize the tax evasion problems, any organization should take different methods such as identification and registration of taxpayers, taxpayer's training session, computerization for effective control and tax law and regulation. From those methods tax payers training is advantageous by promoting compliance tax payers must resave clear and concise information on what is taxable how to calculate and paying taxes should be assemble as possible.

Table 14: Type of a working process changes can positively affect a tax collection system directly/indirectly

Measurement method	Frequency	Percentage
By using automation (making a collection system computerized)	8	38
By changing a bureaus structural adjustment	0	0
By elimination a red tap bureaucracy and performed a works on time (minimize the tiredness of the tax payers during taxpaying)	8	38

By establishing third party tax collection system (like, bank, post office)	5	24
Total	21	100

Source: own survey (questionnaires)

As shown in the above table 4.14, 38 percent of respondents' response that using automation (making the tax collection system computerized) is the solution while other respondents who are equal to this percent prefer eliminating red tap bureaucracy and perform a works on time (by minimizing the tiredness of tax payers in during tax payment) is the better solution. Finally, the remaining 24 percent support establishment of third-party tax collection system like bank, post office.

According to Misrak, T (2022), automation (computerizations) has a good role to improve the tax collection system highly. On the other hand, removing red tapes making a suitable bureaucracy also have a positive relationship with tax collection. This is to mean that by minimizing the delivery time of collection service decrease the tiredness of the taxpayers and by coding the taxpayer's registration number and make available for effective utilization and use for effective job.

4.3 Analyses of structural interview questions.

To conduct the study the researcher, prepare personal interview to the office managers and other high-status employees 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 Wolkite town revenue administration office, there is evasion of tax revenue by taxpayers. The case for evading of tax revenue was high rate of taxation, lack of awareness about tax law and use of tax, over assessment of business tax payers and lack of understanding in the idea of "tax is a value paid for development and civilization" are the main causes that leads tax payers to evade tax revenue.

Taxpayers use different techniques to evade tax revenue, but as a response of respondents, mostly taxpayers used the following techniques. These are failure to report the income

timely, adding false expense, shifting income from one period to another period, and intentional omission of some incomes from the report.

In Wolkite town revenue administration office, there are skillful and responsible employees to perform the tax collection system effectively and efficiently. Because as gathered information from interview, 90 percent of the employees of the office are degree, holders and they take training to do their responsibility. As a result, there are skill and responsible employees in the office.

In order to reduce the evasion of tax revenue in the office, the tax officer takes different remedies or solutions. Such as giving training to tax payers regarding to the tax law and declaration, create awareness for tax payers regarding to guiltiness of evasion and prepared book of accounts by educated personnel are some solutions taken by the office.

Based on the information gathered from the tax officers, there are many problems exist in Wolkite revenue administration office. Such as increasing the number of illegal traders, books of account is not prepared by professional personnel, 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 of tax liability are some of the challenges or problems exist in the revenue office.

CHAPTER FIVE

5. Conclusion and Recommendation

The main objective of this research has been to identify the challenges and prospects in business income tax collection in respect of category "A" tax payers found in Wolkite town revenue administration office. In this study, closed-ended questions are employed to identify the existing challenges in business income tax collection. Based on the presentation and analysis of the data obtained, the main conclusions and recommendations are summarized in this chapter.

5.1 CONCLUSIONS

Based on the objective of the study and literature revised the researcher provided the following important conclusions.

- Most of Wolkite revenue administration office employees are degree holders and additionally the bureaus have more male employees age are in between 26-40.
- Most employees' response that, there are many challenges when the tax collectors collect the tax from category "A" taxpayers. Some of the challenges that faced by the tax collectors are tax evasion, tax avoidance, intentional omission of reporting income, false reports of income and other different challenges.
- More than half of the employees believed that more taxpayers do not pay their tax liability on time because of lack of knowledge about the purpose of tax and uses. while the remaining few respondents' response that more tax payers pay their tax liability on time because of having knowledge and its purpose the remaining some employees are agree on most tax payers pay their tax liability on time due to fear of penalty.

- As most employees responded that, Wolkite revenue administration office had a formal method of revenue or tax collection. The government of the country sets this formal system.
- In Wolkite town administration, little of the employees are assigned beyond and under their capacity while, most of the employees are assigned at the right position.
- Most employees responded that the standard assessment of the Wolkite administration revenue authority is in accordance with the capacity of the tax payers because; the tax collection system is run by the rules and regulation of tax in the country.
- Most of employees of the tax office believe that, the major source of tax avoidance is the conversion of property in to trust because of its low amount of tax imposed and otherwise it is exempted from tax imposition in some extent. Apart from this, formulation of joint family, securing contracts in the name of the wife and relatives are also some of other source of tax avoidance.
- Most employee's response that the bureau`s structural adjustment completes the work quickly and this is important for the organization to register the tax payers, to check the reports of the tax payers and control tax evasion and avoidance.
- All employees' states that the measures of the office to control tax evasion are preparing training program, by levy additional fines and by taking other corrective action like canceling the license. From these the major control mechanism is preparing teaching program. Because, if the taxpayers know the rules and regulation, the advantages of tax for the society, and the purpose of the tax, they pay their tax honestly and timely.
- Most employees say that, the cause for taxpayers to initiate themselves in order to evade taxes is lack of motivation to fulfill civic responsibility.
- Many respondents recommend that, the bureau to affect the collection positively, make the tax collection system computerized and eliminating the red tap bureaucracy and perform a work on time to minimize the tiredness of tax payers during taxpaying, the bureau should be establishing third party tax collection system like post office, bank.

- The other tax collection problem (challenges) is tax evasion. Most tax payers initiated themselves to evade tax due to lack of motivation to fulfill civic responsibility to control tax evasion the office must take corrective action, additionally, to stop the prosperity of free riders and to maintain a good tax collection system.
- Most Wolkite revenue employees assigned at the right position that helps the bureaus structural adjustment to complete the work quickly. This paved way to the bureau in order to check the accounting records of category "A" tax payers whether it is correct or falsified. The tax collection system computerized, eliminating a red tap bureaucracy and perform the work on time minimize the tiredness of the tax payers in during tax payment and establish third party tax collection system like bank and post office have a great role by making closer the gap between actual and estimated tax collection.

5.2. Recommendation

Finally based on the findings and conclusion of the study, the researcher recommends the following points for Wolkite town revenue administration office;

- Although, the employees of Wolkite revenue office have a good capacity, the authority should train employees on tax and related issues. In order to undergo the employee's knowledge gap with time change.
- Although, the employees of Wolkite town revenue administration are skillful and responsible for their task. The office should plan and recruit master holder employees in the near future to improve the tax collection system. Because tax collection is more complex and need depth knowledge and experienced employees.
- Besides, improving the knowledge of employees in the authority, it is better to give awareness to the taxpayers about tax and its purpose through Medias with effective and two ways of communication. Because if the taxpayers can calculate their tax liability and have a good knowledge about tax and its purpose, they can

easily understand the urgency of tax income, that main reduce the payment dalliance.

- To reduce tax compliance, the office should make ready its employees to serve the customer (taxpayers) with a short service delivery time and third-party tax collection system like post office and bank. Additionally, using automation also has a positive effect by rapid up and improves the quality of tax collection system. Therefore, it is better to use modern technologies to fasten the tax collection system.
- The Wolkite revenue administration office should prepare research and development in a near gap year by teaching staff employees to identify the tax collection problem to take an influential measure on the problem (challenges).

Therefore, to avoid these critical challenges and to achieve the desired goals, the tax authority should use technological instruments such as computer registration, and tax payer's training program.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

RESEARCH QUESTIONAIRE,2025

Questionnaires prepared for employees who are involved in business income tax collection in Wolkite town revenue administration office.

Dear respondent, I am in the way of conducting research for the partial fulfillment of the requirement of B.A degree in accounting and finance in Wolkite University. The research is entitled to "challenges and prospects of business income tax collection in category "A" tax payers in case of Wolkite revenue administration office". So, you are one of the respondents selected to participate on this study. Please assist me by responding to this item honestly, correctly and giving complete information to present a representative finding on the current status of the challenges and prospects of business income tax collection from category "A" tax payers in Wolkite town revenue administration office. Your participation is voluntary and the questionnaire is completely anonymous.

At the end, the researcher confirms you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only.

"Thank you in advance for your kind cooperation and dedicating your time"!!!

INSTRUCTIONS

- No need of writing your name

- Indicate your answers with a check mark of (√) in the space provided

SECTION 1- personal information of the respondents

1 . DEMOGRAPHIC

1. Sex; - A. Male ☐ B. Female ☐

2. Age; - A. 18-25 ☐ B. 26-40 ☐ C. 41& above ☐

3. Education qualification; -

A. Diploma ☐ B. BA Degree ☐

C. Master ☐ D. Above ☐

2. QUESTIONS RELATED TO THE OBJECTIVES OF THE STUDY.

1. Generally, there are challenges to collect business income taxes.

A. Strongly- agree ☐

B. Agree ☐

C. Strongly-disagree ☐

D Disagree ☐

E. If other please

specify…….

5. Do most taxpayers pay their tax liability on time?

A. Yes ☐

B. No ☐

6. If the answer for questions no 5 yes, why?

A. Because of penalty ☐

B. Because of interesting to pay ☐

C. Because of enforcing to stop their operation ☐

D. Because of they are profitable ☐

E. Because of low amount of tax payment according to their income ☐

F. Because of having knowledge and purpose of tax ☐

7. If the answer for question no 6 no, why?

A. Because of insufficient man power to collect ☐
B. Because of lack of information /reassessment information/ ☐
C. Because of no measure is taken on late payer ☐
D. Because of unrelated relationship between their tax and income ☐
E. Because of lack of knowledge about the purpose of tax and its use ☐
F. If others, please specify……

8. How do you guess the number of taxpayers that are not willing to pay business income tax?

A. Many ☐ C. Insignificance ☐
B. Few ☐ D. None ☐

9. The position you have assigned is.

A. The right position ☐
B. Beyond my capacity ☐
C. Under my capacity ☐

10. The bureaus structural adjustment

A. Complete the work quickly ☐
B. make(done)the work exercise ☐

11. Is there formal (regular) method of tax collection in the organization?

A. Yes ☐ B. No ☐

12. Do you think that the standard assessment of business income tax in the organization is in accordance with the capacity of taxpayers?

A. Yes I ☐ ☐

13. Why do you think the taxpayers are not willing to pay business income taxes?

A. Lack of knowledge ☐
B. Lack of ability to pay ☐
C. Negligence ☐
D. Weak and tedious collection of tax procedures ☐
E. If other please specify……

14. What do you think about the cause for taxpayers to initiate themselves in order to evade tax?

A. Because of the high amount of tax levy ☐
B. Because of the amount of tax, they pay and the profit is unrelated ☐
C. Lack of knowledge about the purpose of tax ☐
D. Lack of motivation to fulfill civic responsibility ☐
E. If other please specify……

15. What is the major source of tax avoidance?

A. Formulation of joint family ☐
B. The conversion of property in to trust ☐
C. Securing contract in the name of the wife and relatives ☐
D. All of the above are the major source of tax avoidance ☐
E. If other please specify……

16. How the offices control tax evasion and avoidance?

A. By preparing a teaching program to the tax payer's ☐
B. By levying additional fines to the tax payer's ☐
C. By taking other corrective action / like canceling the license/ ☐
D. By taking all the above measures ☐

17. What type of a working process changes can positively affect a tax collection system directly/indirectly?

A. By using automation (making a collection system computerized ☐
B. By changing a bureau structural adjustment ☐

C. By eliminating a red tap bureaucracy and perform a works on time (minimize the tiredness of the tax payers during taxpaying) ☐

D. Establishing third party tax collection system (like bank, post office) ☐

E. If other please specify…….

INTERVIEW QUESTIONS posed to higher officials of the organization including the managers. This interview questions are prepared mainly to identify the major problem (challenges) and prospect and get suggestion and comments with regard to business income tax collection in case of category "A" tax payers in Wolkite administration revenue authority.

1. What are the challenges of the tax authority in collecting business income tax?
2. Are there skilled and responsible employees in the office?
3. Is there any evasion and avoidance in your office? If there what is the cause and sources?
4. What remedies (solutions) has taken by your office to reduce the problem of tax evasion and avoidance?
5. If you have more to say. Please forward …….....

"Thank you for your kind cooperation and dedicating your time"!!!!