

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF ACCOUNTING AND FINANCE

Evaluating the Impact of VAT Collection Practices on Revenue Generation: A case Study of Galan Guda Sub city, Shager City Administration

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April 2025

WOLKITE, ETHIOP

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A SENIOR ESSAY SUBMITTED TO ACCOUNTING PROGRAM OF WOLKITE UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR OF ARTS IN ACCOUNTING

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April 2025

WOLKITE, ETHIOP

Committee of Examiners Approval Sheet

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ACKNOWLEDGMENTS

First, I would like to express my deepest gratitude to my advisor **Mr. Desta Yohannes** for his encouragement, valuable guidance, punctuality and effort in reshaping, organizing and editing this research paper. He has continuously been helpful throughout the research process. His guidance and patience in reviewing the drafts of this paper at various levels, correcting them step by step and his constructive comments are greatly appreciated and have transformed this paper into its present form.

I am also thankful to the Gelan Guda sub city VAT collecting experts, financial officers as well as the department head for their cooperation and willingness to provide the necessary information when I visited their respective departments during the research process. Without their cooperation, this study would have been impossible to accomplish. Throughout the designing, preparation and writing of this paper, I have been encouraged, guided, advised and helped by my family and friends. Special thanks should be given to my father Abera Kebede, my mother Wubayehu Zewudie and my brother Kidus Abera for giving me support in my course of study.

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Abstract

This study examines the impact of Value Added Tax (VAT) collection practices on revenue generation in Galan Guda Sub-City. A case study approach was used, with primary data gathered via questionnaires and interviews from 20 experts and middle-level leaders. The questionnaire, comprising 18 Likert-scaled items, demographic questions, and open-ended prompts, was analyzed using SPSS version 26. Findings indicate a generally positive perception of VAT's significance, but reveal challenges in the efficiency, clarity, and fairness of key processes (registration, filing, audits). Concerns also arise regarding revenue stability, adequacy of training, inter-agency collaboration, and VAT rate optimization. To move from basic functionality to optimal performance, improvements are required in process design, collaboration, and taxpayer support. Addressing these issues is critical to maximizing revenue, enhancing compliance, and ensuring the long-term financial sustainability of Galan Guda Sub-City, ultimately achieving an equitable and efficient VAT system

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Governments rely on efficient tax collection to fund essential public services and promote societal development (Rith, 2019). An effective tax system is the bedrock for financing these services and fostering community development. Ethiopia's tax collection system has a long history dating back to 1414 (Dejene, Lemessa & Dawit, 2001). The value-added tax (VAT) has emerged as an effective means of revenue collection, yet presents significant challenges, particularly in developing countries.

Although the introduction of VAT represents a vital step, its full potential in boosting government revenue remains unrealized. As Bird and Mika (1992, as referenced in Tiwari, 2017) point out, weak revenue sources and limited local taxing authority create substantial obstacles to revenue growth in developing nations. Indeed, research in numerous developing countries has demonstrated that administrative inefficiencies, inadequate enforcement, and low taxpayer compliance can significantly undermine revenue collection, even with robust tax legislation. As Natnael (2024) confirms, critical gaps and challenges persist in VAT collection related to registration processes, record keeping, VAT invoicing, receipt issuance, and penalty enforcement.

Consequently, inefficiencies within the VAT collection system are preventing the government from achieving its full revenue potential. Shortfalls in VAT revenue directly impact the government's ability to fund essential services such as education, healthcare, infrastructure, and social safety nets (Mekbib, 2024; Mekbib, Yemisrach, 2014; Ruth, 2019; Gadisa, 2013). Dejen and Alebel (2020) have identified significant challenges in VAT administration across Ethiopia. These challenges are likely to be more pronounced at the local level, particularly in areas such as Galan Guda sub-city, which is part of the Shagar city administration.

Therefore, it is crucial to focus on the specific challenges presented at this local level. While national-level studies have identified issues in registration, enforcement, and compliance, how these challenges specifically manifest at the local level and what practices impact revenue generation in communities such as Galan Guda sub-city remains unclear. Although many studies have examined the tax system and tax problems in Ethiopia, few have focused specifically on VAT collection and its impact on revenue generation at the local level, particularly concerning tax evasion and avoidance. This study aims to address these critical

gaps by investigating the impact of VAT administration, compliance mechanisms, and local-level enforcement in Galan Guda sub-city, providing insights into improving revenue generation. This research will investigate the impact of VAT collection practices on revenue generation in the sub-city, mainly looking at the introduction of the Value Added Tax system in Galan Guda sub-city.

The paper is meticulously organized into five distinct chapters, each designed to enhance the reader's comprehension of the study. The first chapter serves as an introduction and encompasses several critical components: the background of the study, a clear statement of the problem, research questions, objectives of the study, and the significance of the research, the delimitation and scope of the study, its limitations, and an overview of the paper's organization. In the second chapter, readers will find a thorough review of related literature that contextualizes the research within the existing body of knowledge. The third chapter presents a detailed outline of the research design and methodology employed in the study. The fourth chapter provides an overview of the collected data, including the demographic characteristics of the respondents, and discusses the overall implications of the research along with its main findings.

Finally, the fifth chapter concludes the paper with summary, conclusions drawn from the research, and recommendations for future studies. This comprehensive structure ensures that readers can easily navigate through the various aspects of the research, ultimately leading to a deeper understanding of the subject matter. The careful arrangement of content allows for clarity and coherence, making the findings accessible to a wide audience.

1.2 Statement of the Problem

The Federal Government of Ethiopia introduced Value-Added Tax (VAT) in 2003 (Bogetic & Hassan, 1993, as referenced in Tigist, 2017) as part of a global trend towards adopting VAT systems to replace traditional sales and turnover taxes. VAT, designed to tax the value added at each stage of production and distribution, offers the potential to reduce economic costs and improve tax administration, thus fueling national development if implemented effectively (Makame, 2015; Rith, 2019; Natnael, 2024). However, as Rith (2019) and Natnael (2024) point out, these theoretical benefits depend entirely on the implementation of effective collection practices.

Despite its potential, the successful rollout of VAT in Ethiopia faces significant hurdles impacting revenue generation. Jalata (2014), Tigist (2017), and Natnael (2024) highlight that

while VAT aims to stimulate national development, improve equity, and increase efficiency, it has met with public resistance and limited comprehension. This resistance and lack of understanding, as detailed by Tigist (2017), can lead to non-compliance and ultimately reduce revenue collection. The key is not just the law, but public acceptance of the law.

Furthermore, weak administrative structures, limited taxpayer education, inefficient enforcement, and the persistent issues of corruption and tax evasion undermine VAT collection (Abubeker, 2020; Gataw, Alierol, & Aishatu, 2016). These systemic issues are exacerbated by a large informal sector, making it difficult for the formal tax system to capture a significant portion of economic activity. Given the high proportion of small businesses and reliance on informal trading practices in Galan Guda sub-city, Shagar city administration, these problems are likely to be particularly acute at the local level. There is, however, a scarcity of evidence on local-level implementation challenges, suggesting a need for localized data to inform effective policy judgments. These structural and practical challenges lead to a discrepancy between potential VAT revenue and actual revenue collected, hindering the funds available for essential public services and impeding sustainable economic development in Ethiopia (Rai, 2004; Mekbib, 2024).

1.3 Research Questions

There are some research questions formulated for this research work. The main research question is: To what extent has the introduction of Value Added Tax in Galan Guda sub city tax system impact on revenue generation of the sub city?

The specific questions of this study are:

1. Is there a statistically significant correlation between VAT collection rates and total tax revenue in Galan Guda sub city , and if so, how can this be explained?
2. What is the specific impact of VAT collection procedures on the ability of the sub city to raise revenue, and what are the direct and indirect consequences?
3. What specific opportunities exist, and what challenges are experienced by local tax collectors in the sub city in collecting VAT, and how can the local context be used to enhance collection?

1.4 Objectives of the Study

The general objective of this study is to evaluate the impacts of value added tax on revenue generation in Galan Guda sub city. The specific objectives are:

- Evaluating the relationship between value added tax and revenue generation in Galan Guda sub city;
- Assessing the implementation of Value Added Tax in improving revenue generation;
- Assessing impact of VAT collection practice in revenue generation of the sub city.

1.5 Significance of the Study

This research holds significant implications for policymakers within the study area, as it highlights the advantages associated with Value Added Tax (VAT) in terms of revenue generation. By examining the impact of VAT, the study not only informs current policy decisions but also encourages further exploration into its effects by other researchers. Moreover, this study aims to contribute to the existing body of literature regarding Value Added Tax and its role in enhancing revenue generation. The findings will provide valuable insights that can be utilized in broader discussions on taxation and fiscal policy.

It is important to note that the research is conducted specifically within the Galan Guda sub-city, utilizing VAT collectors as the primary data sources. This localized focus ensures that the findings are relevant and applicable to the unique economic context of Galan Guda, thus enriching the understanding of VAT's impact on revenue generation in this specific area.

Overall, the study stands to benefit a wide audience, from policymakers to academic researchers, by providing a robust analysis of VAT and its significance in the realm of revenue generation.

1.6 Delimitation/Scope of the Study

The Value Added Tax plays a significant role in shaping various economic aspects of regions and countries. However, this research is specifically concentrated on evaluating the

relationship between VAT and its impact on revenue generation within Galan Guda sub city. The analysis and discussion are exclusively focused on how VAT influences revenue generation. Geographically, the study is confined to Galan Guda sub city, ensuring a detailed examination of this specific area. This approach will provide a clearer understanding of the undefined dynamics at play in the context of VAT and its revenue implications.

1.7 Limitation of the Study

The researcher recognizes that the study could have been enhanced by incorporating perspectives from taxpayers and tax administration representatives across Shagar city administrative. This limitation primarily stems from financial constraints, as the research has been self-sponsored. To address this challenge, a larger sample size was strategically selected to ensure that the conclusions drawn from the study are both robust and reliable. This approach is intended to mitigate the impact of the limitations encountered during the research process, allowing for a more comprehensive understanding of the issues at hand.

1.8 Organization of the Paper

The study is organized into five chapters. Chapter one deals with introductory issues such as the back ground of the study, statement of the problem, research questions, objectives of the study, significance of the study, delimitation of the study and limitation of the study. Chapter two is devoted for review of related literatures consisting both theoretical and empirical issues in the area of Value Added Tax with the focus on the local government. Chapter three deals with research methodology and methods and it is devoted for selecting and explaining the rationale of choosing research methods, approaches and tools. The collected facts will be summarized, presented, discussed and interpreted in chapter four. Lastly, chapter five will be devoted for presenting summery of findings, conclusions and recommendations.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1 Overview

This chapter presents theoretical and empirical reviews of the study. Thus the key terms and concepts of the study will be defined and various theories related to revenue generation will be discussed. Also literature analysis will be made to show the knowledge gap and the relevant of the study. Furthermore, a conceptual framework for addressing the research problem will be presented.

2.2 Conceptual Definitions

2.2.1 Value Added Tax

Value Added Tax (VAT) is an indirect tax that applies to the additional value generated by manufacturers, suppliers, and service providers at each level of the supply chain. Generally, the costs associated with this tax are passed on to the end consumer. It is a type of indirect tax that reflects the difference between a company's sales revenue and the cost of its input purchases from other businesses. In simpler terms, it represents the value that a business adds to a product or service by utilizing its own resources such as land, labor, capital, and entrepreneurial expertise Gatawa, Aliero & Aishatu (2016). This system ensures that tax is collected at each stage of production and distribution, making it a crucial component of modern taxation practices. Understanding VAT is essential for everyone, as it impacts consumers, businesses, and the economy as a whole.

The United Kingdom's Statement of Standard Accounting Practice (SSAP) defines Value Added Tax as a charge applied to the provision of goods and services. While the tax is ultimately borne by the end consumer, it is collected at various stages throughout the production and distribution processes. According to Bird (2005, as cited in Makame, 2015), value-added tax is a multi-level tax that is assessed on the value added to goods and services during different phases of production and distribution, as well as on services as they are rendered. Ultimately, although the tax is collected at each step of the production and distribution chain, it is the final consumer who bears the overall cost.

2.2.2 Features of the VAT

Value Added Tax (VAT) is a tax system specifically designed to target consumption rather than production or income. It is collected at each stage of the supply chain, but only on the value that has been added at that particular stage. Essentially, VAT is a form of consumption tax that applies to the incremental value added throughout the entire production and distribution process (CRS Report, 2023).

The primary focus of this multi-stage tax is the value added at each level, meaning that VAT is levied during every phase of production and distribution. To prevent double taxation on the same value, businesses are required to collect VAT on their sales while also deducting the VAT they have already paid on their purchases. Typically, VAT is imposed in the country where the final consumption occurs; imports are subjected to VAT, while exports are generally zero-rated. This structure helps minimize economic distortions across a range of goods and services.

While VAT is regarded as relatively straightforward to implement, its successful adoption relies heavily on compliance from businesses, effective tax administration, and robust record-keeping practices. Understanding the mechanics of VAT is essential for all stakeholders involved in the economic process, ensuring clarity and efficiency in the taxation system.

2.2.3 VAT Vs Sales Tax

Sales tax is a type of excise tax that is put on transactions involving personal property, a range of services, and utility services. Importantly, it does not apply to items sold for the purpose of resale. In contrast, Value Added Tax is a consumption tax imposed on imports, services, and the transfer of property rights. This tax is the responsibility of the buyer and is calculated as a percentage of the total purchase price (Zabove, 2006-2007).

Understanding the implications and structure of VAT is crucial for both consumers and businesses, as it plays a significant role in shaping the economic landscape. Being well-informed about these tax systems can empower individuals and organizations to effectively navigate their financial responsibilities. The distinction between sales tax and VAT underscores the complexity of taxation, which can often feel undefined for many people. This complexity can impact their daily transactions and overall financial planning, making it important for everyone to grasp how these taxes function and affect their economic interactions.

2.2.4 Revenue

All governments participate in economic activities that can be broadly categorized as either transfers or exhaustive expenditures, both of which are essential in the production of goods and services. To effectively fulfill their objectives, governments depend on a consistent and reliable stream of financial resources (Ogiji, 2004). As noted by Nnadi and Falodun (2003, cited in Makame, 2015), public revenue encompasses all the income that a government anticipates during a specific budgetary period. This revenue is primarily divided into two categories: recurrent and capital revenue.

Recurrent revenue refers to the funds that the government collects annually through various channels, including taxes, fees, and fines. Conversely, capital revenue consists of significant loans and grants obtained from both domestic and international sources. Overall, revenue signifies the income generated from taxation and other means within a defined timeframe, typically a year. Additionally, it may encompass gross income derived from business enterprises, investments, properties, and other avenues that yield a steady financial return.

Grasping these concepts is crucial for understanding the financial underpinnings of government operations and their subsequent influence on the economy. By recognizing the importance of both recurrent and capital revenue, individuals can better appreciate how governments fund their initiatives and stimulate economic growth. This understanding helps illuminate the broader economic landscape, where the government's fiscal strategies play a pivotal role in shaping overall economic health.

2.2.5 Alternative Types of VAT

Sales tax has been a fundamental component of Ethiopia's taxation system for over four decades. Nonetheless, it has struggled to generate the necessary revenue to cover the government's increasing expenditure demands. In response to this revenue shortfall, the Ethiopian government initiated a transformative shift by replacing the antiquated sales tax with a Value Added Tax through Proclamation No. 285/2002, which came into effect on January 1, 2003. The primary goal of implementing VAT was to bolster revenue collection; however, it also aimed to meet Ethiopia's commitments to the International Monetary Fund (IMF) and the World Trade Organization (WTO). These efforts are vital for enhancing the country’s foreign relations, particularly in the realms of foreign trade and attracting foreign direct investment.

Currently, there are three prominent VAT models employed by various countries: the

European VAT model, the Japanese VAT model, and New Zealand's VAT/GST model. While the European VAT model is widely adopted, the New Zealand model is often regarded as the most effective. Ethiopia has largely aligned its VAT system with the New Zealand model, yet it continues to encounter challenges in areas such as administration, VAT crediting, and VAT exemptions.

Looking ahead, if Ethiopia embraces the latest technological advancements and innovations, there is significant potential for its VAT taxation system to flourish. By making the necessary adjustments and improvements, Ethiopia can refine its VAT framework, better meet its economic needs, and promote sustainable growth.

2.2.6 Principles of Implementing VAT

Value Added Tax is a form of taxation applied to the final consumption of goods and services, operating under the destination principle. This principle aims to create a level playing field for businesses within a specific jurisdiction, ensuring fair competition among them. VAT is particularly effective in the realm of international trade concerning tangible goods, as both imports and domestic products are levied at the same VAT rate in the buyer's jurisdiction, while exports are exempt from VAT in the seller's jurisdiction.

However, the application of this principle becomes more intricate when addressing services and intangible assets. The unique characteristics of these offerings, coupled with the absence of border controls, introduce challenges in consistently implementing VAT. Despite these complexities, the foundational principles of tax policy relevant to consumption taxes such as neutrality, efficiency, certainty, effectiveness, and flexibility remain pertinent to VAT systems in both domestic and international contexts, as highlighted in the Global Forum on VAT (2014).

In summary, while VAT is essential for standardizing tax treatment for goods across borders, its implementation for services and intangibles necessitates careful consideration due to their distinct qualities. This nuanced understanding of VAT underscores the need for ongoing dialogue and adaptation in tax policy to accommodate the evolving landscape of consumption.

2.2.7 Tax Enforcement

The journey of economic development, from its nascent stages to more advanced phases, reveals a complex and dynamic interplay between economic conditions and the size of

government. In the initial stages of development, economies often consist of small-scale enterprises and possess limited fiscal resources, which naturally constrain governmental operations. As development advances into the intermediate stage, we start to observe the implementation of modern taxation systems alongside increased growth potential.

In the later stages of development, economies transition towards a more structured framework, empowering governments with greater autonomy and flexibility in their functions. This transformation allows governments to better tailor their policies to meet the evolving preferences and needs of their citizens. This progression underscores the essential role that government plays in influencing the economic landscape, demonstrating how its size and influence adapt to the shifting economic environment.

Ultimately, the relationship between government size and economic conditions is characterized by its complexity and undefined dimensions. Each phase of development brings forth distinct challenges and opportunities for both the economy and governance, reinforcing the intricate interplay that exists between these two critical components. As noted by Saez (2009), understanding this relationship is vital for recognizing the multifaceted nature of economic growth and governance.

2.2.8 Problems of Implementing VAT in Ethiopia

When comparing the role of taxes in affluent nations to that in developing economies, it becomes clear that taxes serve as a vital source of revenue for governments in wealthier countries. This effectiveness can be largely attributed to their well-structured tax systems, which embody principles of fairness, flexibility, ease of administration, political accountability, and economic efficiency. An ideal tax code is one that is straightforward to implement, capable of adapting to market fluctuations, and reflective of individual choices. Furthermore, it should be user-friendly, time-efficient, and not hinder business operations.

On the other hand, developing countries necessitate a tax framework that promotes economic activity while simultaneously generating sufficient revenue without resorting to excessive government borrowing. This strategy not only fosters economic growth but also ensures that tax contributions correspond with income levels. As highlighted by Tanzi (2001, as cited in Tigist, 2017), the design of tax systems is crucial in shaping the economic landscape and influencing the financial viability of governments across various regions. Understanding these dynamics is essential for everyone, as they illustrate the complex interplay between taxation and economic development on a global scale.

2.2.9 Theoretical Framework

Tax is a fundamental responsibility that citizens owe to their government, characterized by the absence of a direct exchange or quid pro quo for these payments. Tax revenue serves as a vital financial foundation for government infrastructure development and the provision of public services. This revenue stream is made up of both direct and indirect taxes.

Direct taxes include corporate profit tax, personal income tax, and property tax, while indirect taxes encompass excise duties, value-added tax, customs fees, and more. The generation of tax revenue is essential for the sustainable growth and stability of economies worldwide. Without this funding, governments would encounter significant challenges in maintaining essential services and investing in the infrastructure necessary for societal progress. Ultimately, understanding the role of taxes is crucial for everyone, as it significantly influences the overall health and functionality of our economies.

This research draws on key economic and public finance theories, including Taxation theory, Tax Compliance theory, and Efficiency and Effectiveness theories. Taxation is vital for governments to generate revenue for public goods and services, and effective taxation principles such as efficiency, equity, and simplicity are carefully considered. Optimal Tax Theory explores how governments can design tax systems to maximize revenue while minimizing economic distortions. Fiscal Policy Theory examines how changes in VAT collection practices can influence government revenue, budget deficits, and macroeconomic stability. Tax Compliance theory investigates the economic motivations behind tax compliance and evasion, while Psychological and Behavioural theories of Tax compliance explore non-economic factors that affect taxpayer behaviour. Efficiency and Effectiveness theories focus on public administration management and organizational performance, aligning with new public management principles. Additionally, Behavioural Economics theories such as choice Architecture and nudging suggest that subtle interventions can impact individual behaviour without the need for coercion. Finally, institutional theory underscores the importance of a robust legal and regulatory framework in ensuring tax compliance, Hairul and Khadijah (2018).

Grasping these concepts is essential for everyone, as they illuminate the complex dynamics of taxation and its impact on our societies and economies, ultimately fostering a more informed citizenry.

2.2.10 Taxation Theory

This section serves as the foundation of the research. We begin with the premise that taxation—particularly Value Added Tax (VAT)—is a vital instrument for governments to secure the revenue necessary to fund public goods and services. The investigation dives deep into the fundamental principles of effective taxation, which include efficiency, equity, and simplicity. Additionally, we will explore the potential trade-offs that may emerge between these principles. By doing so, we aim to deliver a comprehensive overview that resonates with a wide audience, emphasizing the significance of a well-structured taxation system. This understanding is crucial for fostering informed discussions about taxation and its impact on society.

2.2.11 Fiscal Policy Theory

Value Added Tax serves as a crucial fiscal policy instrument that plays a significant role in shaping a nation's economic landscape. This theory aims to investigate the impact of changes in VAT collection practices on various economic factors, including government revenue, budget deficits, and overall macroeconomic stability. By understanding how adjustments in VAT can influence these elements, we can gain insights into effective fiscal strategies that promote financial health and sustainability. As such, this exploration is pertinent for everyone, as it highlights the interconnectedness of taxation and economic vitality, ultimately affecting the prosperity of society as a whole, Edson and Gondo (2010).

2.2.12 Benefit Received Theory

This theory is based on the idea that there exists a fundamental exchange relationship between taxpayers and the state. It posits that citizens contribute to the financing of the goods and services provided by the state in direct correlation to the benefits they receive (Bhartia, 2009, as cited in Makam, 2015). This mutually beneficial partnership underscores the importance of cooperation between the state and its citizens, as both parties must support one another to effectively fulfill their respective roles. This dynamic highlights the essential nature of civic engagement and responsibility in fostering a thriving society.

2.2.13 Institutional Theory

This theory posits that tax compliance is profoundly influenced by the broader political, legal, and social context within which tax systems operate. It highlights the importance of a

robust legal and regulatory framework in fostering compliance among taxpayers. The theoretical foundations of this study draw from several key areas of public finance and economic theory, Edson and Gondo (2010).

In this context, it is essential to recognize that an undefined institutional environment can lead to uncertainties that may deter compliance. A well-defined and transparent regulatory structure not only enhances taxpayer confidence but also promotes a culture of adherence to tax obligations. Understanding these dynamics is crucial for policymakers aiming to improve tax compliance rates across different demographics and sectors.

2.2.14 Theory of Laffer curve

This theory posits a significant relationship between tax rates and tax revenue, indicating that after a certain threshold, increasing tax rates can paradoxically result in diminished tax revenues. Understanding the revenue-maximizing level of tax enforcement is crucial in this context. Research conducted by Annear and Isa (2017) highlights that gradually lowering corporate tax rates has positively influenced economic growth by alleviating business expenses. Nevertheless, it is essential to note that further reductions might lead to a decline in overall revenue.

When formulating tax policy, it is important to consider additional tax incentives and analyze whether an increase in cash flow translates into added value for companies. The Laffer curve illustrates that lower tax rates can stimulate productivity and broaden the tax base, ultimately benefiting the economy. However, it is vital for governments to refrain from imposing corporate taxes at rates below the optimal level, as this can adversely affect revenue generation.

Any further reductions in tax rates should be approached comprehensively, incorporating more rigorous tax enforcement strategies to enhance compliance and ensure that the system remains sustainable.

2.2.15 Tax Compliance Theory

Compliance theory serves as an insightful framework that clarifies the motivations behind individual and organizational adherence to laws and regulations, particularly in the realm of taxation. This theory seeks to understand what drives taxpayers to meet their obligations and examines how tax authorities can improve compliance rates. Its relevance is evident across various tax systems, especially the Value Added Tax (VAT).

According to compliance theory, taxpayers are more likely to follow tax laws when they perceive the system as fair and legitimate. Moreover, the potential penalties for non-compliance must present a stronger deterrent than any perceived advantages of tax evasion. In the specific context of VAT, compliance tends to be significantly higher when taxpayers view the system as transparent and easy to understand. Additionally, when taxpayers strongly believe that the revenues collected from VAT are used for the public good, their willingness to comply increases markedly (Kufanga & Mbewe, 2024).

Numerous studies have explored the relationship between VAT and government revenue through the lens of compliance theory. For example, research by Kufanga & Mbewe (2024), as cited in Alem et al. (2019), highlights several key factors that influence VAT compliance, such as trust in government, the complexity of the tax system, and the perceived fairness of the tax structure. The findings suggest that tax authorities can enhance compliance by providing thorough information and education about the VAT system, simplifying tax processes, and ensuring that the revenue generated through VAT is effectively utilized.

2.3 The Impact of VAT on Revenue Collection

The impact of Value Added Tax on revenue generation is a nuanced and intricate issue that goes beyond simplistic interpretations. The overall effect of VAT on government finances is shaped by a variety of factors, including the design of the VAT system, the efficiency of its administration, levels of taxpayer compliance, and a host of economic conditions.

Numerous studies have delved into this subject. For instance, Abubakar (2020), as referenced in Kafanya and Mbewe (2024), conducted a comprehensive analysis of the relationship between VAT and government revenue using econometric techniques. Nonetheless, the effectiveness of VAT as a means of generating revenue is often compromised by various challenges. A significant concern is the lack of taxpayer education and awareness, especially in rural or remote areas, which can result in non-compliance. Furthermore, delays in processing VAT refunds and various obstacles related to cross-border trade can exacerbate these compliance issues.

In conclusion, while VAT can indeed be a crucial source of government revenue, its success hinges on the establishment of a well-structured system, efficient administrative practices, and proactive efforts to enhance taxpayer understanding and compliance. Addressing these undefined challenges is essential for maximizing the potential of VAT as a revenue-generating tool.

2.4 Relationship between VAT and Revenue Collection

Value Added Tax (VAT) serves as a direct and significant revenue source for governments. However, the degree to which VAT translates into actual revenue depends heavily on specific factors, including the design of the VAT system, the efficiency of its administration, and the level of taxpayer compliance. Well-structured VAT systems, with clear regulations and minimal exemptions, tend to generate higher revenues (Makame, 2015). Efficient administration, characterized by streamlined processes for registration, filing, and audits, also plays a crucial role. Furthermore, high levels of taxpayer compliance, fostered by effective enforcement mechanisms and taxpayer education programs, are essential to maximizing VAT revenue. Governments must prioritize improvements in these areas to realize VAT's full potential for funding essential public services and securing a more robust revenue stream. Simply implementing a VAT is not enough; sustained efforts to refine its structure, improve its administration, and promote compliance are critical for success.

2.5 Tax Evasion and Tax Avoidance

Tax evasion and tax avoidance are two common strategies employed by individuals and businesses to reduce their overall tax liability. Tax evasion is an illegal activity characterized by the deliberate failure to pay the correct amount of tax owed. This often involves misrepresenting or concealing financial information from tax authorities. The consequences of tax evasion can be severe, including hefty fines, penalties, imprisonment, and significant damage to one’s reputation Makame (2015).

In contrast, tax avoidance is a legal practice that involves taking advantage of the existing tax laws and regulations to minimize tax obligations. This can include the use of strategic planning and exploiting loopholes in the tax code. While tax avoidance operates within the parameters of the law, it can sometimes lead to public scrutiny and debate over its ethical implications. Moreover, aggressive forms of tax avoidance may provoke legislative changes aimed at closing loopholes, which can impact future tax planning strategies. It is essential to recognize the fine line that exists between basic tax planning, which is lawful and typically accepted, and more aggressive tax avoidance tactics that may raise ethical questions.

2.6 Empirical Literature Review

An empirical literature review is a crucial element of any research endeavor that depends on evidence-based findings. It lays the foundation for the study by demonstrating a deep understanding of the existing body of knowledge, identifying gaps within that body, and

emphasizing the need for further investigation. This review represents a systematic and critical assessment of prior studies grounded in empirical data.

In any evidence-driven research, a comprehensive empirical literature review is absolutely essential. This review not only clarifies our understanding of the current knowledge landscape but also uncovers gaps that warrant additional exploration, thereby highlighting the significance of our research. It serves as a thorough and critical evaluation of previous research that is anchored in empirical data. Prior studies have explored the relationship and impact of Value Added Tax (VAT) on economic growth and revenue generation, providing invaluable insights that will guide the research questions for the current study. Numerous researchers have conducted empirical analyses of tax impacts across various nations, employing a diverse array of explanatory variables.

According to the United Nations Development Program (UNDP, 2016), a narrow tax base is a major factor contributing to a substantial portion of revenue shortfalls. To enhance the tax-to-GDP ratio, expanding the tax base is imperative. This expansion involves broadening the tax net and improving both the income tax base and the indirect tax base through strategies that stimulate private spending. If tax bases do not grow in line with GDP, the challenge of increasing the tax-to-GDP ratio will become significant. Thus, it is essential to continually expand the tax base by bolstering capacity, streamlining trade processes, and refining tax administration.

Furthermore, it is important for the tax code to be straightforward, comprehensible, and transparent. A tax system should not leave taxpayers feeling confused or overwhelmed. As such, relevant authorities should work diligently to improve existing tax policies, clarify laws and regulations, offer robust protections for taxpayers, and address any undefined gaps that may complicate compliance with tax laws. By establishing a more defined framework, the goal is to nurture a tax environment that is fair and conducive to compliance.

In Ethiopia, the federal tax system is intricately designed to clarify the roles and responsibilities of the federal government and regional states concerning tax authority and revenue collection. This framework categorizes taxes into four distinct groups as delineated in the FDRE Constitution of 1995 – Proclamation No. 1/1995. These categories include taxes that are exclusively managed by the federal government, those that fall solely under the jurisdiction of regional states, taxes that are collaboratively managed by both levels of government, and taxes that remain undefined or unallocated.

This structural arrangement is vital in addressing the diverse needs of the Ethiopian populace and fostering a collaborative relationship between federal and regional authorities. It aims to

promote an equitable and balanced distribution of fiscal responsibilities and resources, ensuring effective collaboration across all levels of governance. Such a framework is essential not only for the efficient functioning of the tax system but also for ensuring that it ultimately benefits every citizen in the country. By clearly defining these roles and responsibilities, Ethiopia's tax system seeks to create a more equitable and responsive governance model. Below are the specifics regarding the allocation of exclusive tax powers within this framework.

Table 1 Taxation power of the federal and regional governments

Federal power of taxation State power of taxation Concurrent powers of taxation	Federal power of taxation State power of taxation Concurrent powers of taxation	Federal power of taxation State power of taxation Concurrent powers of taxation
To levy and collect: ➢ Custom duties, taxes and other charges on imports and exports ➢ Income tax on employees of the federal government and international organizations ➢ Income, profit, sales and excise taxes on enterprises owned by the federal government Taxes on incomes and winnings from national lottery and games of chance ➢ Taxes on income of air, rail and sea transport services ➢ Taxes on income of houses and properties	To levy and collect: ➢ Income taxes on employees of the state and of private enterprises ➢ Fees for land usufructuary rights ➢ Incomes of private farmers and farmers incorporated in cooperative associations ➢ Profit and sales taxes on individual traders carrying out a business within their territory ➢ Income from transport services rendered on waters within their territory ➢ Taxes on income derived from private houses and other properties within	To jointly levy and collect: ➢ Profit, sales, excise and personal income taxes on enterprises they jointly establish ➢ Taxes on the profits and sales of companies and on dividends due to shareholders ➢ Taxes on incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operation

Federal power of taxation State power of taxation Concurrent powers of taxation	Federal power of taxation State power of taxation Concurrent powers of taxation	Federal power of taxation State power of taxation Concurrent powers of taxation
owned by the federal government ➢ Fees and charges related to licenses and services rendered by organs of the federal government ➢ Taxes on monopolies ➢ Federal stamp duties	the state; and rent on houses and properties they own ➢ Profit, sales, excise and personal income taxes on income of enterprises owned by the regional states ➢ Taxes on income derived from mining operations, and royalties and land rentals on such operations ➢ Fees and charges relating to licences issued and services rendered by state organs ➢ Royalty for use of forest resources	

Adapted from institute of Fisical Studies (2021).

The primary aim of Value Added Tax (VAT), functioning as a final consumption tax with a phased collection structure, lays the groundwork for pivotal VAT concepts pertinent to global trade. A crucial issue in economic policy concerning the international implementation of VAT is whether the tax should be applied based on the origin jurisdiction or the destination jurisdiction. The origin principle can unintentionally distort the economic or geographic configuration of the value chain by imposing different tax rates across jurisdictions where value is added, which may compromise the neutrality of international trade.

Currently, most regulations focus on taxing the supply of goods, services, and intangibles within the jurisdiction where consumption occurs. This framework is largely aligned with the destination principle, which is favored for the application of VAT to international trade. By

permitting VAT paid upon importation to be deducted in a manner akin to input tax on domestic supplies, neutrality is upheld, and trade distortions are minimized. Therefore, the structure of VAT is vital in promoting fair and equitable trade practices on a global scale, ensuring that all participants in the marketplace operate under consistent and just standards (Global Forum of VAT, 2014).

2.7 Conceptual Framework

The model consists of two key variables: Gross Domestic Product (GDP), serving as the independent variable, and revenue collections, which are categorized as the dependent variable. This relationship helps us understand how changes in GDP can influence revenue collection patterns. It's important to note that the dynamics between these variables can be complex and multifaceted, leading to various interpretations and outcomes. However, the primary focus remains on how GDP impacts revenue collections, a concept that remains somewhat undefined in certain contexts.

Dependent variables	Independent variable	
Revenue Collection	➢ Stamp Duty ➢ Excise Duty ➢ Hotel Levy ➢ Restaurant Levy ➢ Property Tax ➢ Ministries Collection ➢ Cooperation Tax ➢ Holding Tax	GDP

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The study employed both quantitative and qualitative research methods to gather comprehensive insights. The quantitative approach involves the researcher utilizing systematic inquiry methods such as surveys and experiments. This method focuses on collecting data through predetermined instruments that yield statistical information. It primarily relies on postpositive claims to develop knowledge, emphasizing cause-and-effect relationships, reducing complex phenomena to specific variables and hypotheses, and employing measurement and observation techniques.

In contrast, the qualitative research approach is designed to offer a deep understanding of a specific organization or event, moving beyond a superficial overview of a large population sample. This method aims to provide a vivid representation of the organization, its hierarchy, and the general trends observed among a group of participants (Kothari,2004, cited in Makame,2015). By integrating both methods, the study achieves a more nuanced understanding of the subject matter.

3.2 Research design

The research design refers to the structured procedures and framework that guide the execution of a study, offering direction for data collection, measurement, and analysis. In this study, a descriptive and exploratory research design is employed, integrating both qualitative and quantitative methodologies. The descriptive aspect is evident as it explores the relationships between variables, specifically examining dependent variables such as GDP and revenue collection in contrast to independent variables like VAT across various research analyses. This design is supported by relevant information derived from numerical data, providing a solid foundation for the findings.

Moreover, the research investigates the challenges faced by employees in the Chefe Karabu district regarding revenue collection. This dual approach not only enhances the depth of the analysis but also ensures a comprehensive understanding of the underlying issues affecting revenue generation. By combining these methodologies, the study aims to uncover insights that can inform future strategies for improving revenue collection efforts.

3.3 Population and sampling Technique

In research methodology, the term population denotes the characteristics of a specific group under investigation. Sampling is the systematic process of selecting a predetermined number of subjects from this defined population, ensuring that they accurately represent the broader group. One particular category that educational researchers focus on is the target population, which is crucial for the validity of their studies. In this context, the concept of undefined may arise, highlighting the need for clarity in defining populations and samples to avoid ambiguity in research findings. Understanding these concepts is essential for anyone engaged in research, as they lay the foundation for effective data collection and analysis. Bridge Center (2015).

3.4 Population of the study

According to Bridge (2015), the target population refers to all members of a real or hypothetical group of individuals, events, or objects to which we aim to apply the findings of our research. In this particular study, the target population comprises the employees of the Galan Guga sub city revenue and customs office. This group has been identified as particularly relevant for gathering diverse data and insights regarding practices related to VAT administration. Through this research, the researcher hopes to explore and better understand the intricacies of VAT management within this specific context.

3.5 Sample Selection

In light of the study's emphasis on VAT collection practices within the Galan Guda sub-city, the researcher decided to include the entire population of VAT collectors and finance officers from the sub-city administration as participants, given the relatively small size of this population. This decision was made to facilitate comprehensive data collection and to mitigate the risk of sampling error.

The researcher conducted a census of the entire population; the principles of stratified sampling played a critical role in the analysis of the gathered data. Although stratified sampling was not employed in the initial selection of participants, the researcher later organized the population into distinct strata based on their professional roles (i.e., VAT collectors, finance officers, and a consultant). This division allows us to investigate potential

variations in perspectives and experiences within the larger group. Such stratification is guided by the notion that relevant characteristics should inform data analysis (Bridge, 2015), enabling us to gain a deeper understanding of how different professional roles may shape perceptions of VAT collection practices.

By incorporating all members of the target population and subsequently analyzing the data through a stratified lens, this study aspires to deliver a thorough and insightful assessment of VAT collection practices in Galan Guda sub-city. This methodology maximizes the potential to uncover significant insights that are pertinent to local-level revenue generation.

3.6 Types of Data to be Collected

In order to conduct this investigation, both primary and secondary data will be collected. The primary data will be obtained through questionnaires distributed to taxpayers and revenue bureau staff, as well as through in-person interviews with the bureau's manager. For the secondary data, the researcher will utilize reports from the bureau from the previous year, various relevant publications, and additional literature on the subject.

By gathering a diverse range of quantitative and qualitative data, the researcher aims to develop a comprehensive and reliable understanding of how VAT collection procedures influence revenue generation. This multifaceted approach will ensure that the findings are well-rounded and insightful, providing valuable information for all stakeholders involved.

3.7 Methods of Data Collection

This research can be effectively conducted using a mixed-methods approach, which seamlessly integrates both quantitative and qualitative methodologies. By employing this versatile approach, researchers can achieve a comprehensive understanding of the research subject. The integration of both quantitative and qualitative data facilitates triangulation, thereby enriching the overall findings. In this study, a time series analysis will be applied to the collected data. The data will be sourced from the official revenue collector's database at Galan Guda sub city revenue authority, ensuring the reliability and validity of the information gathered. This methodology will provide a well-rounded insight into the area of study, making it an invaluable tool for investigation. Through this mixed-methods framework,

undefined dimensions of the research can be explored, enhancing the overall depth and quality of the inquiry.

3.8 Data Analysis Methods

According to the Bridge Center (2015), data analysis encompasses a wide array of activities that include both qualitative and quantitative methods. In behavioral research, there is often a significant reliance on quantitative analysis, utilizing various statistical methods and techniques that occupy a crucial role in research. These statistical approaches are vital as they provide meaningful answers to research questions.

To effectively analyze the quantitative data collected, the information will be organized into tabular formats. Following the necessary coding procedures, the researcher employed the Statistical Package for Social Science (SPSS) for data analysis. Both descriptive and inferential statistics will be utilized to derive insights from the data. In order to examine the demographic characteristics of the respondents, frequency distributions will be computed, and the data will subsequently be presented in tables, converted into percentage formats.

Furthermore, co relational analysis is conducted to explore the relationship between VAT collection practices and revenue generation. For the qualitative data obtained from interviews, the researcher applied qualitative data analysis grounded in the themes aligned with the research objectives. Through these comprehensive analytical methods, the study aims to yield a thorough understanding of the underlying dynamics at play.

3.9 Ethical Considerations

The study subjects were thoroughly informed about the purpose of the research and their rights to either participate or decline before the actual data collection commenced. Each participant provided their verbal consent, ensuring a clear understanding of their involvement. To maintain confidentiality, no names or identifiable information will be recorded, safeguarding the anonymity of all study participants. Additionally, each respondent's answers were securely stored in a private location.

The researcher upheld ethical and responsible conduct throughout the process, ensuring that the data collected will be treated with the utmost respect. Every participant has the right to confidentiality, safety, and a clear understanding of the study's objectives. Furthermore, they have the right to access the findings and the option to decline to answer any questions. Overall, the study was conducted with a commitment to ethical standards, prioritizing the well-being and rights of all involved.

CHAPTER FOUR:

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

This chapter presents, analyzes, and interprets the data collected to examine the impact of VAT collection practices on revenue generation in Galan Guda sub-city. The chapter is structured into two main sections: the demographic characteristics of respondents and the analysis and interpretation of primary data related to the research questions. Descriptive and inferential statistical tools were used for data analysis, with frequency and percentage analysis employed for demographic characteristics and mean and standard deviation calculated using SPSS version 26 for primary data analysis. Data are presented and interpreted in tables.

4.1 Participants and Data Overview

This study sought to assess the level of agreement among VAT collectors and experts regarding the impact of VAT collection practices on revenue generation in Galan Guda sub-city, Shagar City. Participants included VAT collectors, financial officers, and the head of Galan Guda sub-city. Questionnaires were distributed to all VAT collectors and financial officers in the sub-city, comprising 12 VAT collectors, 7 financial officers, and 1 consultant. The gender distribution was 12 male and 8 female.

The questionnaire utilized a five-point Likert scale, with the following values: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. For analysis, "Strongly Disagree" and "Disagree" responses were combined into a single "Disagree" category, and "Agree" and "Strongly Agree" responses were merged into an "Agree" category.

4.2 Demographic Characteristics of Respondents

This section presents the analysis and interpretation of demographic data collected from respondents regarding the impact of VAT collection practices on revenue generation in Galan Guda sub-city. Summarized results of the demographic profile of respondents are presented,

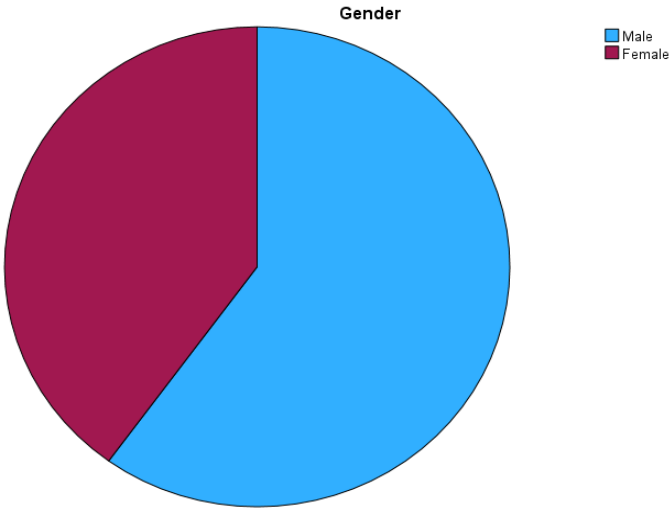
analyzed, and synthesized in tables with percentages using SPSS version 26. Demographic data were collected from 20 participants who completed and returned the questionnaires.

The study included 20 participants with the following demographic profile: male (60%), primarily between the ages of 24-33 (65%), holding a bachelor's degree (80%), working as VAT Collectors (60%), and generally possessing 11-20 years of work experience (70%).

Detailed Analysis and Interpretation:

Table 2 Gender

Gender						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Male	12	60.0	60.0		
	Female	8	40.0	40.0		
	Total	20	100.0	100.0	1.40	.503



The sample consists of 12 males (60%) and 8 females (40%). The mean gender score of 1.40, accompanied by a standard deviation of 0.503, indicates that the sample is predominantly male. The mean being closer to 1 reaffirms the male dominance in responses, supported by a low standard deviation, which suggests consistency in gender representation. It is essential to consider whether this imbalance might influence the results of the study. For instance, gender-specific experiences or perspectives could affect perceptions of VAT collection practices.

Table 3 Age of the Respondents

Age						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	18-23	4	20.0	20.0		
	24-28	8	40.0	40.0		
	29-33	5	25.0	25.0		
	34-38	2	10.0	10.0		
	39-43	1	5.0	5.0		
	Total	20	100.0	100.0	2.40	1.095

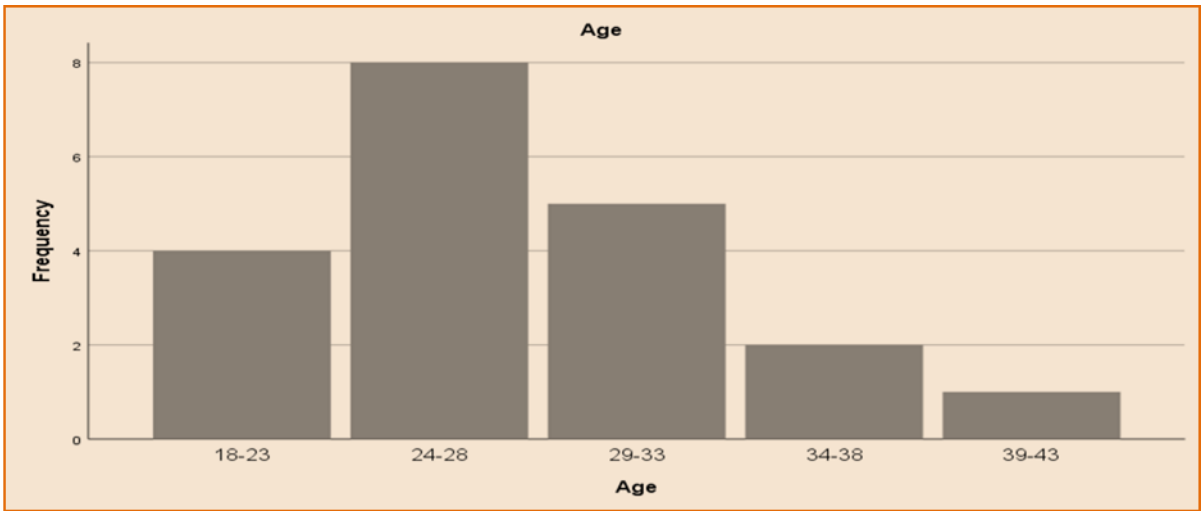


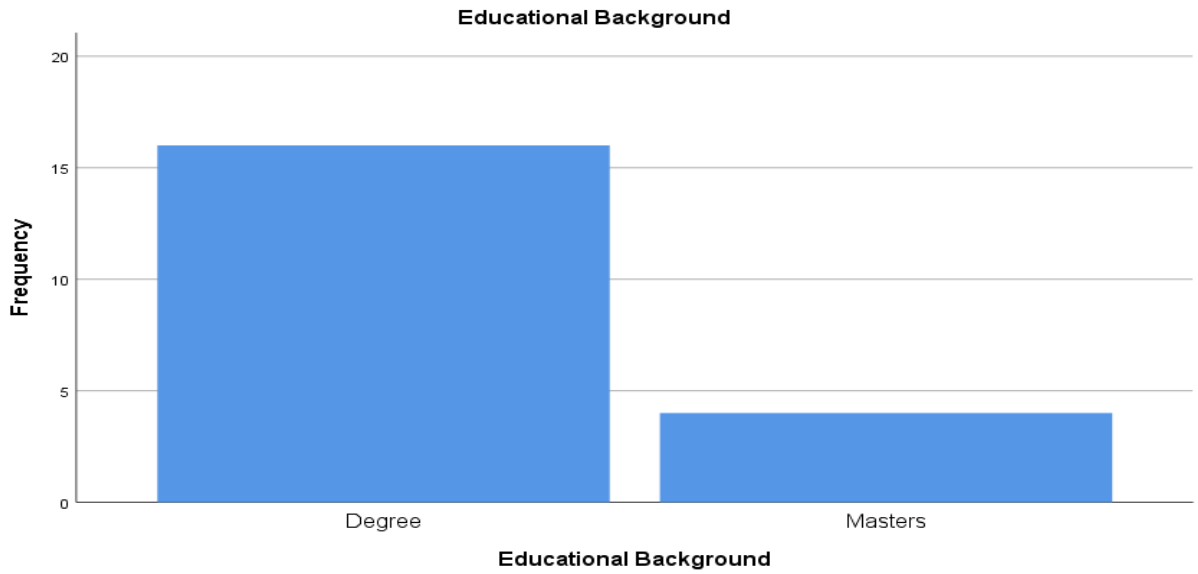
Figure 1 Age of the Respondents

The age distribution is as follows: 18-23 (20%), 24-28 (40%), 29-33 (25%), 34-38 (10%), and 39-43 (5%). The majority of participants (65%) fall between the ages of 24 and 33, indicating a relatively young workforce. The mean age range of 2.40, with a standard deviation of 1.095, points to a young workforce primarily falling within the 24-28 age bracket. The low deviation indicates a concentrated demographic of younger individuals. This demographic profile suggests a workforce that is likely adaptable to new technologies and open to

innovative approaches to VAT collection. This responsiveness could be an advantage when implementing new systems or strategies. It is also important to note that younger employees will also be eager to learn and improve in their field.

Table 4 Educational Background of the Respondents

Educational Background						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Degree	16	80.0	80.0		
	Masters	4	20.0	20.0		
	Total	20	100.0	100.0	4.20	.410



The sample consists of 16 participants with a bachelor's degree (80%) and 4 participants with a master's degree (20%). The mean score of 4.20, along with a low standard deviation, suggests that the sample is largely well-educated, predominantly holding degrees, which is reinforced by the higher ranking in educational attainment. This suggests a workforce with a

solid foundation in relevant knowledge and skills. The presence of some participants with master's degrees indicates a potential for advanced expertise within the department.

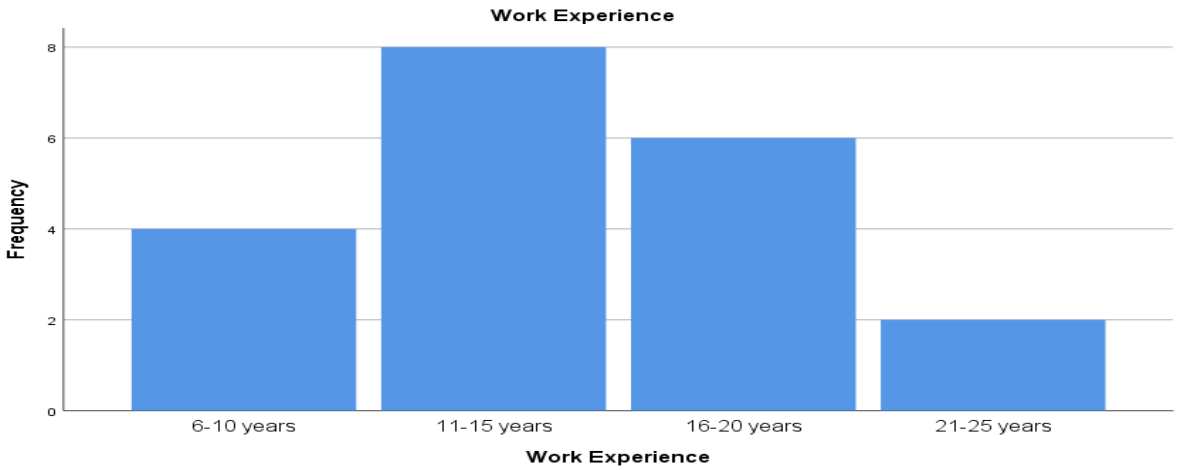
Table 5 Position of the Respondents

Position						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	VAT Collector	12	60.0	60.0		
	Financial Officer	7	35.0	35.0		
	Consultant	1	5.0	5.0		
	Total	20	100.0	100.0	2.45	.605

The sample is composed of 12 VAT Collectors (60%), 7 Financial Officers (35%), and 1 Consultant (5%). The majority of participants are VAT Collectors, which aligns with the focus of the questionnaire. The inclusion of financial officers provides a valuable perspective from individuals involved in the financial management aspects of VAT collection. The consultant may offer a broader, more strategic viewpoint. With a mean value of 2.45 and a standard deviation of 0.6, the data indicates a higher prevalence of respondents in the VAT Collector role, as the mean is closer to 2. This suggests that the sample is more aligned with this specific position.

Table 6 Work Experience of the Respondents

Work Experience						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	6-10 years	4	20.0	20.0		
	11-15 years	8	40.0	40.0		
	16-20 years	6	30.0	30.0	4.30	.923
	21-25 years	2	10.0	10.0		
	Total	20	100.0	100.0	4.30	.923



The work experience distribution is as follows: 6-10 years (20%), 11-15 years (40%), 16-20 years (30%), and 21-25 years (10%). The majority of participants (70%) have between 11 and 20 years of work experience, indicating a seasoned workforce with significant institutional knowledge. The mean score of 4.3 indicates a significant representation of individuals with substantial work experience. This suggests a commitment to understanding VAT practices and processes, indicating a well-informed group. The small percentage of personnel with more than 20 years work experience suggests the department may have retention issues.

Collectively, these demographic ratings illustrate a sample that is not only well-educated but

also positioned to provide valuable insights into VAT practices. The data highlight an informed and capable group, ready to contribute meaningfully, reflecting a solid understanding of their respective roles and the relevant processes.

4.3 Overall Implications for the Research:

It is crucial to critically evaluate the representativeness of the sample used in this study of VAT collectors and financial officers within the sub-city. If this sample fails to accurately reflect the broader population, the findings may lack generalizability. The demographic characteristics of the sample could inadvertently introduce biases into the research outcomes. For instance, a predominantly male sample may yield different perspectives compared to a more gender-balanced group. Additionally, the relatively young age profile of participants may shape their views on VAT implementation processes. Further analysis is warranted to investigate whether statistically significant differences exist in responses based on these demographic variables.

Table 7 : Contribution of VAT to Sub-City Revenue

VAT contributes significantly to the overall revenue of the sub city.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	1	5.0	5.0		
	Agree	3	15.0	15.0		
	Strongly Agree	15	75.0	75.0		
	Total	20	100.0	100.0	4.60	.821

Mean:4.60, Std. Deviation: 821 . This shows that the data reflects a robust consensus among respondents, indicating a strong belief that VAT plays a significant role in augmenting sub-city revenue. A majority expressed agreement, with a notable proportion strongly endorsing this view. The few neutral or disagreeing responses suggest a diversity of opinion, but these perspectives are not predominant. Overall, the findings reinforce a positive perception of VAT's contribution. The minimal presence of dissenting views or neutrality indicates a high

level of confidence in the revenue generated from VAT.

Table 8 : Impact of VAT Collection Practices on Revenue

Changes in VAT collection practices directly impact the total revenue generated in the sub city.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	2	10.0	10.0		
	Agree	1	5.0	5.0		
	Strongly Agree	16	80.0	80.0		
	Total	20	100.0	100.0	4.60	.883

Mean: 4.60, **Std. Deviation:.883 . Consistent with the previous table, strong agreement is evident here as well. Respondents acknowledge that modifications in collection practices can significantly impact total revenue. However, the presence of disagreements suggests some resistance to change, even if such changes could enhance VAT revenue. This reluctance may reflect an apprehension towards altering established practices. This finding underscores a general comprehension of revenue matters, indicating a need for further exploration into practices that may optimize VAT collection.

Table 9 : Stability and Reliability of VAT Revenue

VAT revenue is a stable and reliable source of income for the sub city						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	1	5.0	5.0		
	Agree	3	15.0	15.0		
	Strongly Agree	15	75.0	75.0		
	Total	20	100.0	100.0	4.60	.821

Mean: 4.60, Std. Deviation: .821. Echoing the sentiments of the previous tables, respondents exhibit strong agreement regarding the stability and reliability of VAT revenue. However, it

also highlights a heavy reliance on VAT as a revenue source, suggesting the necessity for diversification in revenue streams to mitigate potential risks. This reinforces the importance of maintaining a robust VAT system while considering strategies for revenue diversification

Table 10: Appropriateness of Current VAT Rate

The current VAT rate is appropriate for maximizing revenue generation in the sub city.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	2	10.0	10.0		
	Agree	6	30.0	30.0		
	Strongly Agree	11	55.0	55.0		
	Total	20	100.0	100.0	4.35	.875

Mean: 4.35, Std. Deviation:.875 . While the mean remains positive, it is slightly lower than those of preceding tables, indicating a degree of disagreement regarding the appropriateness of the current VAT rate. This should prompt a review of the VAT rate to ensure it aligns well with the economic context and meets the needs of all stakeholders.

Table 11 : Efficiency of VAT Registration Process

The current VAT registration process is efficient and encourages compliance.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	4	20.0	20.0		
	Agree	7	35.0	35.0		
	Strongly Agree	8	40.0	40.0		
	Total	20	100.0	100.0	4.10	.912

Mean:4.10, Std. Deviation: .912 The results show a generally positive sentiment, yet there are more neutral and disagreeing responses compared to earlier tables, suggesting that improvements are necessary in the registration process. This highlights the need to enhance the convenience and efficiency of the VAT registration process

Table 12 :Understanding of VAT Filing and Payment Procedures

The VAT filing and payment procedures are easy to understand and follow.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	6	30.0	30.0		
	Agree	8	40.0	40.0		
	Strongly Agree	5	25.0	25.0		
	Total	20	100.0	100.0	3.85	.875

Mean:3.85, Std. Deviation: .875. The mean is approaching a positive stance, yet it is clear that significant improvements are required to enhance understanding among stakeholders. This shows that a review of VAT procedures is essential to simplify and clarify the filing and payment processes.

Table 13: Fairness and Effectiveness of VAT Audits

VAT audits are conducted fairly and effectively.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	2	10.0	10.0		
	Neutral	6	30.0	30.0		
	Agree	7	35.0	35.0		
	Strongly Agree	5	25.0	25.0		
	Total	20	100.0	100.0	3.75	.967

Table 13: Fairness and Effectiveness of VAT Audits

Mean: 3.75, Std. Deviation: .967. The neutral responses indicate a mixed perception

regarding the fairness and effectiveness of VAT audits. This calls for improvements in the VAT audit process to ensure fairness and enhance effectiveness.

Table 14: Enforcement of VAT Penalties

The penalties for VAT non-compliance are appropriately enforced.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	2	10.0	10.0		
	Neutral	4	20.0	20.0		
	Agree	5	25.0	25.0		
	Strongly Agree	9	45.0	45.0		
	Total	20	100.0	100.0	4.05	1.050

Table 14: Enforcement of VAT Penalties

Mean:4.05, Std. Deviation:1.050 .Responses reveal inconsistent views on the enforcement of VAT penalties. It is vital to establish clear, stringent processes to ensure effective enforcement of VAT penalties.

Table 15: Timeliness of VAT Refund Processing

VAT refunds are processed in a timely manner.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	2	10.0	10.0		
	Agree	7	35.0	35.0		
	Strongly Agree	10	50.0	50.0		
	Total	20	100.0	100.0	4.30	.865

Table 15: Timeliness of VAT Refund Processing

Mean: 4.30, Std. Deviation:.865

The neutral responses could signify dissatisfaction, which is concerning. Enhancing transparency and efficiency in the VAT refund processing system is essential.

Table 16: Training and Support for VAT Compliance

There is sufficient training and support available for businesses to comply with VAT regulations						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	2	10.0	10.0		
	Neutral	6	30.0	30.0		
	Agree	9	45.0	45.0		
	Strongly Agree	3	15.0	15.0		
	Total	20	100.0	100.0	3.65	.875

Table 16: Training and Support for VAT Compliance

Mean: 3.65, Std. Deviation:.875 .There is a clear indication of dissatisfaction with the current training and support provided. It is crucial to enhance the effectiveness of training programs to improve compliance

Table17: Collaboration in VAT Collection Improvement

There is strong collaboration between different organization and individuals in improving VAT collection.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	6	30.0	30.0		
	Agree	10	50.0	50.0		
	Strongly Agree	3	15.0	15.0		
	Total	20	100.0	100.0	3.75	.786

Table 17: Collaboration in VAT Collection Improvement

-Mean: 3.75, Std. Deviation: .786 .There is a need for stronger collaborative efforts in VAT collection. Reinforcing collaboration is essential to build trust and enhance teamwork in the VAT collection process

Table 18: Revenue Collection through VAT Audits

Effective VAT audits significantly increase revenue collection.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	2	10.0	10.0		
	Agree	3	15.0	15.0		
	Strongly Agree	14	70.0	70.0		
	Total	20	100.0	100.0	4.50	.889

Table 18: Effective VAT Audits & Revenue

Majority: There is strong agreement that effective audits significantly contribute to increased revenue. Minority: The presence of neutral and disagreeing responses suggests that audits may not always be conducted effectively or may be perceived as inadequate.

Table 19: Impact of Enforcement Penalties on VAT Revenue

Prompt enforcement of penalties for non-compliance significantly increases VAT revenue.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	1	5.0	5.0		
	Agree	3	15.0	15.0		
	Strongly Agree	15	75.0	75.0		
	Total	20	100.0	100.0	4.60	.821

Table 19: Prompt Enforcement & VAT Revenue

Majority: Respondents strongly agree that timely enforcement plays a crucial role in boosting revenue. Minority: A small number of dissenting opinions indicate that some may view prompt enforcement as less impactful than suggested

Table 20: Importance of Training

Providing training and support to taxpayers significantly increases VAT revenue.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	2	10.0	10.0		
	Agree	2	10.0	10.0		
	Strongly Agree	15	75.0	75.0	4.55	.887
	Total	20	100.0	100.0		

Table 20: Training & Support to Taxpayers

Majority: There is strong agreement regarding the necessity of training and support for taxpayers. Minority: A considerable segment remains neutral or disagrees, indicating that some individuals do not find the training and support beneficial.

The Table 21: Improvements from Online Systems

Using technology improves VAT collection efficiency and revenue						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	2	10.0	10.0		
	Agree	2	10.0	10.0		
	Strongly Agree	15	75.0	75.0		
	Total	20	100.0	100.0	4.55	.887

Table 21: Online Systems & Efficiency

Majority: Around 50% agree on the value of online systems in enhancing efficiency. Minority: A significant number of neutral or disagreeing responses suggest potential issues with the system that may hinder its effective use.

Table 22: Communication Benefits

Collaboration between different government agencies improves VAT collection.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	2	10.0	10.0		
	Agree	1	5.0	5.0		
	Strongly Agree	17	85.0	85.0		
	Total	20	100.0	100.0	4.65	.933

Table 22: Inter-Agency Collaboration & VAT Collection

Majority: The data reflects very high support for improved inter-agency collaboration.

Minority:A small percentage of dissenting views indicates that this area may be critical for enhancing the VAT collection process.

Table 23: Complexity of VAT Regulations

Clear and transparent VAT regulations lead to improved revenue generation.						
		Frequency	Percent	Valid Percent		
Valid	Disagree	1	5.0	5.0		
	Agree	1	5.0	5.0		
	Strongly Agree	18	90.0	90.0		
	Total	20	100.0	100.0	4.80	.696

Table 23: Clear VAT Regulations & Revenue

Majority: Responses emphasize the importance of compliance with clear regulations for revenue improvements. Minority: Some resistance exists, highlighting the need for a review of the regulatory framework.

Table24: VAT Practices

Regular taxpayer education programs improve VAT compliance.						
		Frequency	Percent	Valid Percent	Mean	Std. Deviation
Valid	Disagree	1	5.0	5.0		
	Neutral	1	5.0	5.0		
	Agree	3	15.0	15.0		
	Strongly Agree	15	75.0	75.0		
	Total	20	100.0	100.0	4.60	.821

Table 24: Taxpayer Education Programs & Compliance

Majority: There is a consensus that taxpayer education programs significantly contribute to overall compliance. Minority: Some challenges remain, indicating that success in this area may not be guaranteed.

In summary, while there are strong agreements on various aspects of VAT and its impact on revenue, several areas require attention and improvement, particularly in training, system efficiency, and collaboration. Addressing these concerns will be vital in enhancing the overall effectiveness of VAT processes.

4. 4 Main Findings

The data reveals a largely optimistic perspective on the VAT systems within the sub-city, with respondents recognizing their significance and the considerable influence they exert. However, it is essential to acknowledge the presence of several critical challenges and areas ripe for enhancement. This indicates that, while the foundational aspects of the VAT system are sound, there remains a pressing need for ongoing improvement.

Positive perceptions surrounding the sub-city's VAT system include the effectiveness of penalties in boosting revenue, the value of training initiatives, the advantages of online systems, and the productive communication among various agencies. Nonetheless, hurdles persist, such as the difficulty in quantifying the impact of training, elevated maintenance costs, bureaucratic obstacles to collaboration, the complexity of regulations leading to adverse outcomes, and practices that require refinement. To enhance the effectiveness of the VAT system, it is imperative to conduct continuous assessments. These evaluations will help

identify existing challenges and leverage opportunities, ultimately fostering increased revenue and improved compliance.

In summary, while there is a generally favorable perception of the VAT system, it is vital to address the existing issues to unlock its full potential, despite the benefits it can provide. By maintaining a proactive and responsive approach, we can ensure that the VAT system effectively and efficiently serves the community's needs.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes the major findings, conclusions and recommendations. It begins with the description of the study and goes to summarize the findings of the study followed by conclusions. Finally, recommendations were forwarded. The purpose of this study was to investigate the challenges of leaders in raising job satisfaction of experts in the Ministry of Education. In order to achieve this objective, the following three basic questions were discussed:

1. Is there a statistically significant correlation between VAT collection rates and total tax revenue in Galan Guda sub city , and if so, how can this be explained?
2. What is the specific impact of VAT collection procedures on the ability of the sub city to raise revenue, and what are the direct and indirect consequences?
3. What specific opportunities exist, and what challenges are experienced by local tax collectors in the sub city in collecting VAT, and how can the local context be used to enhance collection?

Primary data, questionnaire and interview were collected from experts and middle level leaders. The questionnaire consisted 18 items with five-likert scale. It also incorporated demographic characteristics and open-ended questions. To identify the demographic characteristics of the respondents, variables such as sex, age, department they were working in, their working experience and their academic qualification were included in the questionnaire. There were two open-ended questions. The questionnaire was distributed to 20 experts. All of them (100%) were returned the questionnaire. The analysis was done accordingly. Taking the three research questions in to account, the collected data were analyzed using SPSS version 26.

5.1 Summary

This study assessed the impact of VAT collection practices on revenue generation in Galan Guda Sub-City through a survey of VAT collectors, financial officers, and expert interviews.

While VAT is recognized as a crucial revenue source, a complex picture emerged, highlighting both positive perceptions and significant areas for improvement. The VAT rate is seen as appropriate, but lacks sufficient analysis and the department head, there seems to be an agreement of that VAT needs to be reviewed.

5.2 Conclusion

The Galan Guda Sub-City's VAT system demonstrates a functional foundation but needs improvements to maximize its potential. Despite agreement of overall effectiveness, neutral responses on current practices indicate challenges. As the responses are varied and may not reflect long-term effectiveness; therefore a lack of robust analysis on VAT is a serious problem that may result in negative repercussions. To create meaningful changes, areas such as improving collaboration and refining internal practices needs to be assessed**.**

5.2 Recommendations

To enhance the VAT system, the following steps are recommended:

1. Comprehensive VAT Rate Analysis: Implement a thorough analysis of the current VAT rate to assess its revenue potential.

2. Improve VAT Processes: Target the needs of businesses especially new businesses. Improve process such as registration and audits.

3. Strengthened Collaboration: Establish a strong collaboration network to ensure information is easily reached.

4. Enhance Training and Support: Develop specialized learning and support programs, which are tailored to specific businesses.

5. Maintain IT Infrastructure: Improve monitoring to lower costs and increase efficiencies.

6. Promote Ethical Conduct Ethical practices should be practiced in audits, to make data as transparent as possible

7. Address complex regulations: Tax evasions and impact in small businesses has to be addressed.

8. Further Studies Conduct further studies, with more participants to improve the outcome of data.

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APPENDICES

Appendix A:

QUESTIONNAIRE VAT COLLECTORS & FINANCIAL OFFICERS

Questionnaire for VAT Collectors & Financial Officers

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF ACCOUNTING AND FINANCE

Dear Respondent,

The purpose of this questionnaire is to evaluate the impact of VAT collection practices on revenue generation in Galan Guda sub city, Shagar City. So, you are kindly requested to give genuine and appropriate response. The researcher would like to assure you that the information you give will be kept confidential and used only for academic purpose. The researcher wishes to extend gratitude for your cooperation in advance.

General Direction:

This questionnaire has three parts. There is direction under each part. Read it carefully and you are expected to respond accordingly. **You are not required to write your name.**

Part I: Personal Information:

Read each item carefully and put a "√" mark in the blank space against your choice.

1. Gender : Male ___ Female ___
2. Age : 18- 23 years ___ 24- 28 years ___ 29 - 33 years ___ 34- 38 years ___ 39- 43 years ___ 44- 50 years ___ Above 51 years ___
3. Educational Background:Grade 10 _Grade 12_Diploma__Degree__Masters __ PhD __
4. What is your current role/position in the organization?

Manager ___ VAT Administrator/Collector ___ Accountant/Financial Officer ___ Tax Advisor/Consultant ___ Other (Please specify:_____

5. Work Experience (service year):

Less than 1 year ___ 1-5 years ___ 6-10 years ___ 11-15 years ___

16-20years ___ 21-25 years___ 26-30years___ 31& above____

Part II: perceptions and Opinions

This part has 18 items. It asks to what extent you agree or disagree with each statement. Each item is presented with five rating, ranging from strongly disagree to strongly agree. Please indicate how agree or disagree by putting tick (√) in the appropriate box.

1= Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

No	Perception and opinions	1	2	3	4	5
	Objective 1: the statistical relationship between VAT revenue and total revenue					
1	VAT contributes significantly to the overall revenue of the sub city.					
2	Changes in VAT collection practices directly impact the total revenue generated in the sub city.					
3	VAT revenue is a stable and reliable source of income for the sub city					
4	The current VAT rate is appropriate for maximizing revenue generation in the subcity.					
	Objective 2: Contribution of VAT implementation practices to revenue generation					
5	The current VAT registration process is efficient and encourages compliance.					
6	The VAT filing and payment procedures are easy to understand and follow.					
7	VAT audits are conducted fairly and effectively.					
8	The penalties for VAT non-compliance are appropriately enforced.					
9	VAT refunds are processed in a timely manner.					
10	There is sufficient training and support available for businesses to comply with VAT regulations					
11	There is strong collaboration between different organization and individuals in improving VAT collection.					
	Objective 3: impact of VAT collection practice in revenue generation					
12	Effective VAT audits significantly increase revenue collection.					
13	Prompt enforcement of penalties for non-compliance significantly increases VAT revenue.					
14	Providing training and support to taxpayers significantly increases VAT revenue.					
15	Using technology improves VAT collection efficiency and revenue					
16	Collaboration between different government agencies improves VAT collection.					
17	Clear and transparent VAT regulations lead to improved revenue generation.					
18	Regular taxpayer education programs improve VAT compliance.					

Open-Ended Questions:

1. What are the biggest challenges you face in complying with/collecting VAT?
2. What changes could be made to improve the VAT system in the sub city?

APPENDIX B: INTERVIEW

The purpose of this questionnaire is to evaluate the impact of VAT collection practices on revenue generation in Galan Guda sub city, Shagar City. So, you are kindly requested to give genuine and appropriate response. The researcher would like to assure you that the information you give will be kept confidential and used only for academic purpose. The researcher wishes to extend gratitude for your cooperation in advance.

Title of Study: Evaluating the Impact of VAT Collection Practices on Revenue Generation: A case study of Galan Guda Sub city, Shager City Adninistration

Time of interview:_____ Date: _____Place:_____

Interviewer: _____ Interviewee:

Introduction/Description of Project _____

Thank you for your willingness. Would you tell me about yourself your name, your directorate name and your position in the ministry?

General Introductory Questions (To establish context):

1. What is your role and responsibilities within the VAT collection department?
2. How long have you been in this position?
3. What are your key performance indicators (KPIs) or metrics for success in your role?

A. Objective 1: Statistical Relationship between VAT Revenue and Total Revenue

1. How VAT contributes to the sub city's overall financial health?
2. Can you elaborate on specific changes in VAT collection practices in recent years and their observed impact on revenue?
3. What factors contribute to the stability and reliability of VAT revenue, and what potential risks could threaten this stability?
4. How do you, as a department head, assess whether the VAT rate is optimized? What data or analysis informs your view? Are there alternative rate structures you would consider?

B. Objective 2: Contribution of VAT Implementation Practices to Revenue Generation

1. What are your thoughts on the efficiency of the current registration process, and what steps could be taken to improve it and encourage greater compliance?
2. In your opinion, how can we improve the clarity and accessibility of the filing and

payment procedures to make them easier for taxpayers to navigate?

3. What mechanisms are in place to ensure fairness and effectiveness during VAT audits? How do you measure the success of VAT audits beyond revenue collection?

4. What considerations guide the decision-making process when determining and applying penalties for VAT non-compliance? Are there any challenges in ensuring consistent and fair enforcement?

5. What steps are taken to minimize delays and ensure timely refunds?

6. What training and support resources are currently available to businesses, and what improvements or additions could be made to better meet their needs? How is support measured or analyzed?

7. How do different organizations or individuals work together to improve VAT collection, and what steps could be taken to foster stronger collaboration and communication?

C. **Objective 3: Impact of VAT Collection Practice in Revenue Generation**

1. What factors contribute to an effective audit?

2. How do you balance the need for prompt enforcement with the goal of encouraging voluntary compliance?

3. Can you provide specific examples of how training and support initiatives have led to increased VAT revenue? What metrics are used to evaluate the effectiveness of these programs?

4. Can you elaborate on the specific technologies used and their concrete benefits? Are there are some downsides?

5. What specific benefits have resulted from improved collaboration and communication? What barriers make this collaboration not 100%?

6. What steps are taken to ensure that VAT regulations are clear, transparent, and easily accessible to taxpayers? How is clarity measured?

7. What is done to achieve this objective? Do you have a specific message for taxpayers