

**THE ASSESSMENT OF VALUE ADDED TAX PRACTICE AND
ITS PROBLEM IN AGENA CITY ADMINISTRATION
REVENUE AUTHORITY**



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COLLEGE OF BUSINESS AND ECONOMICS
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**A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE OF WOLKITE UNIVERSITY IN THE
PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE OF
BACHELOR OF ART (BA) IN ACCOUNTING AND FINANCE**

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APRIL, 2025

WOLKITE, ETHIOPIA

DECLARATION

I Sekina Esmael, Registration Number / ID ,SSR/1233/14 declared that this Thesis is my original work and that it has not been submitted partially or in full, by any other person for an award of a degree in any other university/institution.

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ACKNOWLEDGEMENT

First of all, my heart felts to thanks almighty Allah who is helping me on all of my life activities whose offerings, forgiveness and greater full helps are precious forever. Next, I would like to express my sincere and heart full special thanks to our advisor, Assistance professor Mitiku for giving his time and energy to read the paper and make valuable professional advice and also constructive comments. Finally, my deepest and heart full gratitude goes to my family who supported me by moral and monetary during my educational and other life journey.

In addition, I would like to express my sincere and heart full thanks to the main manager and other employees of Agena city Administration revenue authority for providing the relevant data. And I would like to say thanks to Wolkite University for giving me this chance to write my senior essay to develop my knowledge and skill and also giving service for my education.

Last but not least, my thanks go to all those persons who manifest their economic and moral effort to end up this paper without their cooperation this paper would not come to an end.

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ACRONYM

Financial Institutions Reform Act.....	(FIRA)
Evidence- Based Management.....	(EBM)
Ethiopia Revenue Collection Authority.....	(ERCA)
Federal Inland revenue Service.....	(FIRS)
Goods and Service Tax.....	(GST)
Value Added Tax.....	(VAT)

ABSTRACT

This study focused on the evaluation of Value Added Tax (VAT) practices and the challenges associated with them, using the Agena City Administration Revenue Authority as a case study. The primary aim of this research was to assess the effectiveness of VAT implementation and identify the underlying issues constraining its administration. The research examined various factors impacting VAT and highlighted administrative weaknesses. To achieve these objectives, the study employed a mixed-method research approach, utilizing a descriptive survey design. Data relevant to the study was gathered from primary sources, specifically through questionnaires distributed to all employees of the Agena City Administration Revenue Authority. The collected data underwent analysis using simple descriptive statistics, including tables and percentages. Based on the findings derived from this analysis, the study presented conclusions and recommendations aimed at enhancing VAT practices within the authority

CHAPTER ONE

1.INTRODUCTION

This chapter encompasses the study's background, the statement of the problem, research questions, the general objective, specific objectives, the significance of the study, and its scope.

Background of the Study

Taxes serve as a crucial source of public revenue, underpinning the entire framework of government operations. The collective consumption of goods and services necessitates that a portion of our income be entrusted to the government (Singh, 2019). Such public goods as roads, electricity, municipal services, and other infrastructures yield significant benefits for families, businesses, industries, and society as a whole (Michael, 2015).

In developing countries like Ethiopia, economic growth remains a paramount concern among macroeconomic objectives. As Assefa (2022) highlights, governments in these nations strive for sustainable and inclusive growth by implementing various macroeconomic policies to identify potential growth determinants. Taxation stands out as one of these crucial determinants, playing a pivotal role in generating sufficient funds and mitigating budget deficits. To transform their economic landscapes, these countries must harness and fortify their domestic financial resource base, making taxation a primary means of fostering sustainable development. This system of generating revenue internally is essential for financing government expenditures and enhancing the overall welfare of society Value Added Tax (VAT) is a consumption tax imposed on goods and services, based on the principle of taxing the net value added at each stage of production rather than total sales receipts. Originating in France in 1954 (Bhatia, 2002), this taxation model has swiftly gained traction in various countries across Latin America, Asia, Africa, and the Pacific region.

In Ethiopia, the government introduced VAT as part of a broader tax reform initiative aimed at enhancing tax collection and combating fiscal fraud. This initiative began with the creation of a new Ministry of Revenue, marking a significant step toward more efficient tax administration. Indirect taxes like VAT serve as a practical means of taxing expenditures. The newly implemented VAT, developed through collaboration between local and foreign experts, aims to strengthen tax collection and management. Targeting taxpayers with annual returns exceeding a threshold of 500,000 birr, the standard VAT rate in Ethiopia is set at 15%. Interestingly, individuals with sales below this threshold may also register for VAT if 75% of their transactions involve registered companies (Negarit Gazeta, 2002).

VAT operates on the principle that the amount collected in fractional payments equates to a single-stage tax on the value of the final product.

This distinguishes VAT from traditional sales tax, as it is applied to every business transaction as a fraction of each taxable sale, reimbursing businesses for their purchases. Consequently, VAT is assessed based on the value added to goods at each stage of production.

Moreover, VAT minimizes potential tax evasion and helps ascertain the profits of taxpayers (Federal Negarit Gazeta, 2002). According to VAT law, a person is obligated to pay the tax once they are registered, with tax liability commencing as soon as registration occurs. Conversely, individuals who fail to comply with registration requirements are deemed taxable starting from the beginning of the accounting period following when the obligation to register arose (Proc. No. 285/2002).

In essence, VAT is an indirect tax levied on the consumption of products and services, calculated at a rate of 15%. Developed by both local and foreign experts, VAT serves as a vital component to enhance tax collection and administration. It offers advantages for both the government and citizens, addressing tax avoidance issues while ensuring efficient and effective tax collection.

Ultimately, the introduction of VAT represents a significant shift in Ethiopian taxation, particularly in how the government approaches revenue collection. This system is designed to enhance compliance, reduce tax fraud, and promote equitable taxation. Furthermore, by applying VAT at various stages of production, the government aims to create a more consistent and fair tax structure that can adapt to the economic landscape. The advantages of VAT are manifold, offering a gateway to enhanced revenue generation while simultaneously supporting businesses in their operations. Through these measures, VAT holds the potential to boost the government's capacity for funding public services and infrastructure development, thereby contributing to economic growth and stability in Ethiopia

1.2 Statement of the Problem

Value Added Tax (VAT) is a relatively new tax imposed on the consumption of goods and services. This tax is calculated based on the difference between the costs of materials and other expenses incurred during the manufacturing process and the ultimate value of the finished product. Imposed at various stages of the production process, VAT is designed to spread the tax burden throughout the supply chain. The underlying theory posits that the burden of VAT ultimately falls on the end consumer, as businesses act only as collectors of this tax on behalf of the Tax Authority. However, the practical realities surrounding its implementation can be more complex. Currently, taxpayers face challenges in their interactions with tax administrators, as both parties make claims against one another (Hussein, 2003).

Globally, VAT has emerged as a prevalent indirect tax applied throughout each stage of the production and distribution chain. Countries around the world adopt varying VAT rates, resulting in diverse economic conditions. Trends at the continental level exhibit regional disparities in VAT structures, with some areas implementing harmonized systems to facilitate streamlined trade. On the national scale, VAT serves as a major revenue source for governments. The rates assigned can

significantly influence consumer behavior and broader economic dynamics; developing nations may adopt lower rates to encourage consumption, while developed nations often impose higher rates to finance public services.

Many business owners perceive VAT as a factor that raises the selling price of products, which leads some to operate without registering for VAT. It is important to clarify that VAT is not levied on the total value of goods sold but rather on the value added by the last seller. Consequently, sellers are accountable for paying tax based on their net value, calculated as the gross value minus the cost of inputs (Bhatia, 2002). VAT is imposed on every transaction, ensuring that consumers do not bear the entire tax burden. Notably, VAT is generally exempt from exported goods to prevent double taxation on final products; if VAT is applied to exported goods, the tax amount is typically refunded to the taxpayer (Ojo, 2003). In summary, the effects of VAT are widespread, informing economic policies globally, reflecting regional variations, and shaping the fiscal strategies of individual countries. The ever-evolving landscape of international trade and the digital economy necessitates continuous adaptations in VAT frameworks.

1.3 Research Questions

The proposed study was attempted to seek answer for the following question.

- ✓ Why business people perform activity without being registration to VAT?
- ✓ Do all VAT payers possess adequate awareness regard to VAT?
- ✓ What are the major weaknesses in the current administration of VAT?
- ✓ What are the key factors that affect VAT collection procedure?

1.3.1 General Objectives

To evaluate the practices and challenges associated with Value Added Tax (VAT) within the Agena City Administration Revenue Authority.

1.3.2 Specific Objectives

- To identify reasons why peoples, perform activity without registration for VAT.
- To assess the level of awareness of VAT payers toward VAT policy.
- To identify the major weaknesses in administering VAT.
- To identify the factors, affect VAT collection problem.

1.4. Scope of the Study

This study focused intently on the Agena City Administration Revenue Authority, located in the South region of Ethiopia. Agena's pivotal role in the local economic landscape served as a compelling reason to center this research there. The research specifically investigated the VAT practices and the challenges that confronted the revenue authority of the Agena City Administration. Data for this analysis were collected from diverse departments within the revenue authority, alongside evaluations of VAT-registered taxpayers within Agena. A representative sample, comprising both taxpayers and employees of the Agena City Administration Revenue Authority, was selected to ensure a thorough understanding of the VAT landscape within this crucial administrative area.

1.5 Significance of the study

- The outcome of the research may be used as an additional source of information which is important to the city administration VAT collectors in by creating awareness
- The study helps to understand the city VAT collector's organizations to understand their gaps and strong sides in collection of VAT.
- The study helps to motivate other researchers to conduct research on this area to address issues not covered by this study in both time and scope.
- It enhances the knowledge relating to VAT collecting issue and its problems for the researchers, Ethiopia revenue collection, employ, student, another researcher
- Value added tax will enhances saving and investment, as it is a consumption.

1.6. Organization of the paper

The organizational of the study covered five chapters. Chapter one consists of Background of the study, statement of the problem, objective of the study, significance of the study, and scope of the study and organizational of the paper. The second chapter also includes literature review various topic that are assumed pertinent to provide back ground of information and empirical literature reviews the third chapter enclosed research method,

study design, source and method of data collection, target population, sample size, sample method and method data analysis and interpretation. The fourth chapter data analysis and interpretation and the final chapter five focus on summary, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter examines the theoretical and empirical research on the VAT collection performance and the factors affecting its collection. Ultimately, an attempt is made to enumerate the principal shortcomings of the extant empirical study and to pinpoint the area of interest or the focus of the current study

2.1. Theoretical literature Review

2.1.1. Concept of VAT

VAT is basically a multiple stage tax. According to which, a person must pay tax at every stage of production and distribution. Hence, tax would be charged at every step of value addition (Zaman, & Iqbal, 2012). VAT is an indirect tax on final consumption, typically levied at a rate between 15 and 20 percent (Ebrill et al., 2001). The cost of the tax is added to the final price and is eventually paid by the consumer (Byrd et al, 1996/97). From a buyer's viewpoint, it is a tax charged on purchase price while from a seller's perspective; it is levied on value addition made to any product and service (Zaman, & Iqbal, 2012). VAT is like sales tax in the manner that it is charged only on end consumer (Egiyi, M. A., 2017). However, it differs in the aspect that sales tax is only collected when the product is purchased by final consumer while in case of VAT; taxes are paid each time a purchase is made in the supply chain. Value added tax is a tax on the value added to the supply by the last seller, (Radhakrishnan, 2008).

VAT is expected to enhance revenue, improve economic efficiency, promote exports, and foster growth (Mamo, H., 2011). So, the proper amount of tax must be collected in a timely manner for successfully improving and maintaining stable economic growth in a nation (Muñoz and Cho, 2003). According to Tesfaye (2008), taxation has become a vital component of the development effort of every country without a tax system that functions well governments cannot provide even the basic infrastructure and social services. Public infrastructures cannot be improved without an equitable and efficient means of mobilizing revenue.

VAT is a rather sophisticated tax and is complex to administer (Slemrod & Velayudhan, 2020). Some authors suggest that the VAT's complexity may spur

innovation and modernization in tax administration more broadly (Ebrill et al., 2001; Keen, 2012). This has, to a certain extent, happened through the introduction of technological innovations like EBMs, among others (Mamo, H., 2011).

2.1.2. VAT collection performance

As per Mathias Mokube and Linus Enobi, (2023), Tax collection in Africa is hindered by a number of factors, including weak tax administration, low levels of tax compliance, and limited access to technology. The lack of advanced technology and automation in tax administration has resulted in manual and paper-based systems that are inefficient, costly, and prone to corruption (Akepe, E., 2023). He also mentioned, this has made tax collection and compliance difficult, and has limited the amount of revenue that governments can generate from taxes.

2.1.3. VAT Administration

Jantscher, (1990) VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. These responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties (Jantscher,1990). Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, and collection (Yesegat, A., 2008). Weaknesses in VAT administration may adversely impact the VAT collection capacity and the government's policy objectives (Nadew, G., 2017).

In order to collect sufficient revenue from VAT, it needs efficient and effective tax administration. However, in developing countries like Ethiopia, the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). The VAT administration is poor due to many factors, particularly the incapacity of tax authorities to implement the attributes of the tax to practice. Bird and Gendron (2005) noted that developing countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. (Asmare, D., & Asaye, W., 2020) stated that, in these countries, thus, simply adopting a successful VAT design attributes of developed countries would not make the tax successful.

Given the importance of tax administration for the efficient VAT collection performance, several research in Ethiopia and other developing nations have been carried out. These studies include Wollela, (2008), Jantscher (1990), S. N. Singh (2019), Heran (2018), Asmare & Asaye (2020), Bird (2005) and etc.

2.1.4 VAT Refund

VAT registered person shall get refund if at least 25% of the value of a registered person in a single transaction of substantially all of the asset of a taxable activity provide a notice in writing signed by the transferred is finished with 21 days after the supply taken place is taxed at a zero rate the authority shall refund the amount of VAT applied as a credit in excess of the amount of VAT charged for the accounting period within a period of two months after the registered person files an application for refund accompanied by documentary proof of payment of the excess amounts.

In the case of other registered persons the amount of VAT charged for the accounting period is to be carried forward the next five accounting period is to be carried forward to the next five accounting periods and credited against payment for these period and any unused excess remaining after the end of this five month period shall be refunded by the authority with a period of two months after the registered person files an application for refund accompanied by documentary proof of payment of the excess amounts. Where the tax authority satisfied for refund application in over paid tax the tax authority shall.

First apply the amount of the excess in reduction of any tax levy interest of penalty payable by the person under the customs proclamation the income tax proclamation and excise tax proclamation.

The repay any amount remaining to the person amount to be refunded is more than 50 by.

When registered person is entitled to refund and the tax authority is satisfied but does not pay the refund within specified date the authority shall pay the person the refund plus interest set at 25% over and above the highest commercial lending interest rate that prevailed during the preceding quarter (Gebrie, 2008, p. 189).

2.1.5. Registration

In Ethiopia, registration for VAT is categorized into two. It is discussed as follows:

2.1.5.1. An obligatory registration

Any person conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However, if the taxable turnover of the enterprise which is gross income for 12 calendar months exceeds or is likely to exceed birr 500,000 the person conducting the enterprise must register for VAT. Turn registration is compulsory (Gebrie, 2008, p. 201).

The term any person for purposes of VAT registration includes

Sole proprietor

- Company
- Partnership
- Estate of deceased
- Trust

- Incorporated body or unincorporated body
- Club or association

A commercial enterprise refers to any business of whatever nature and includes:

✚ Ordinary business

e.g. shops contractors manufacture wholesalers etc.

✚ Trades and professions

e.g. Builders, Engineers, Accountant, Lawyers etc.

✚ Activities of non-profit making bodies

e.g. societies, associations, sporting club, etc.

The turn is calculated on an ongoing basis two periods need to be considered the past 12 calendar months and the next 12 calendar month-by month basis. There is the need to estimate at the end each trading calendar month the total value of taxable goods and services supplies by all the business for the past 12 months where the total exceeds birr 500,000 then there is the requirement to register for VAT.

2.1.5.2 Voluntary Registration

A person who carried on taxable activity and is not required to be registered for VAT may voluntarily apply to the authority for such registration if he/she regularly is supplying or rendering least 75% of his goods and services to registered person.

2.1.5.3 Benefits of voluntary registered

Input VAT can be recovered if a person registered it will therefore be beneficial to voluntarily register where the person makes mainly zero-rated supplies. In such a case input VAT will be recovered and on VAT will be charged on zero rated outputs (Gebrie, 2008, p.203)

2.1.5.4 Registration procedure

Application for compulsory as well as voluntary registration must be made on application form called “application for VAT registration” on application for sale and the authority is required to register the person in the VAT register and issue a certificate of registration within 30 days of the registration containing details of.

- The full name and other relevant details of the registered person
- The date of issuance of the certificate
- The data from which the registration takes effect and
- The registered person’s tax payer identification number

If registration is disallowed FIRA will have to notify the applicator and the reasons for the refusal. The tax authority may deny the application for voluntary registration if the person:

- Has no fixed place of residence or business?
- Does not keep proper accounting records
- Has no bank account
- Has previously been registered for VAT purposes but failed to perform his duties under the VAT law (Gebrie, 2008, p.203).

2.1.6 Time of application

A person who carries on taxable activity and is not registered is required to file an application for VAT registration it shall fill an application for registration on later than the last day of the month after the end of the period if:

1. At the end of any period of 12 calendar months the person made during that period, taxable transactions with a total value exceeding 500,000 birr or the last day of the month of the period if taxable transactions with a total value exceeding 500,000 birrs.
2. At the beginning of any period of 12 calendar months when there is reasonable ground to expect that the total value of taxable transactions to be made by the person during that Period will exceed 500,000 birrs (Gebrie, 2008, p. 203).

2.1.6.1. Time of registration

Registration takes place on one of the following dates depending up on which date comes first.

In case of obligatory registration on the first day of the accounting period following the month in which the obligation to apply for registration arose.

In case of voluntary registration on the first day of the accounting period following the month in which the person applied for registration or

On the date selected by the registered person on his application for a registration person who conducts taxable activity in a branch or division shall be registered only in the name of the registered person to register one or more of its branches or divisions as separate registered person. The tax authority allow when its satisfied on such case that divisions or branches maintains and independent accounting system and can be identified by the nature of its activities or location (Gebrie, 2008, p. 204)

2.1.6.2 Cancellation of registration

VAT registered person can apply for cancellation of registration

If tax payer ceased to make taxable transactions.

At any time after a period of 3 years of the date of his most recent registration for VAT if the registration persons total taxable transactions in the period of 12 months, then beginning reasonable are expected to be not more than 500,000 birrs.

The cancellation of VAT registration takes effect

At the time the registration person ceased to make taxable transaction for example, if one close down or sell his business. However, if one has more than one business and is not closing down or selling them all he may not be able to cancel it will depend on the level of taxable turn of remaining businesses.

If the registered person has not ceased to do so at the end of the accounting period during which the person applies to the authority for cancellation of VAT registration.

When registered of VAT is cancelled, the authority is required to remove the person's name and all other details from the VAT register and the person is required to return back the issued certificate of registration. VAT registered person cannot charge VAT or issue tax invoices for any supplies made and cannot claim a refund of VAT incurred on any goods or services purchased from the date of the registration is cancelled (Gebrie, 2008, p. 209).

2.1.7. Advantage and disadvantage of VAT

Advantage of VAT

The following are some of the advantages of VAT

- It avoids cascading effect of tax (tax on tax)
VAT works on the principle of that when the raw material passes through various manufacturing stages and manufactured products through various distribution stages, tax should be levied on the incremental value at each stage and not on the gross sale price. This ensures that some commodity does not get taxed again and again, and this there is no cascading effect. Putting the concept in simple terms, in VAT system, each input is taxed only once (Misrak, 2008, p. 310).
- It is major comprehensive and equitable tax system
Even though the ultimate burden of VAT full on the final customer, VAT is collected by the government from all sectors that is from import manufacturing, whole sale and retail sectors. Therefore, it is a more compressive and equitable taxes system. On the contrary, sales tax is normally levied at one stage of whole marketing (Misrak, 2008, p. 310).
- It reduces the possibility of the tax erosion
In the case of VAT, the taxes are divided into several parts depending on the number of stages of production and sales. In each stage every transaction is made using VAT invoice approved by tax authority. In addition, each VAT registered person (supplier) has to maintain appropriate records on their sale and purchase transaction. Those obligations make tax evasion difficult (Misrak, 2008, p. 310). It has less tax burden Under VAT system, the tax is collected is small fragments at different stage of production and sale. Hence, the VAT payers feel the burden of the less (Misrak, 2008, p. 310).
- It is neutral Regardless of the number of stages of production and distribution, VAT is collected in each stage, therefore; VAT is expected to be perfectly neutral in the location of resources in the form of production and commercialization (Misrak, 2008, p. 310).
- It improves productivity
In VAT system, a firm has to par tax even though it vans in to loss. The firm cannot claim any exception for loss because it pays taxes on the value produced and not on profits. So, firms will always try to improve their performance and reduce the cost of production. As a result, the overall productivity of the country will be improved (Misrak, 2008, p. 310).
- It promotes capital investment and saving
VAT is a consumption tax since one pay VAT on its expenditure and has the option to sure so as not to be taxed. Furthermore, relief from tax on capital goods may encourage investment. Potential investors also consider tax legislation as one of the factors in making investment decision (Misrak, 2008, p. 311).
- It enhances exports

Exports of goods and services in most countries that implement VAT are liable to VAT. At zero rates this may make exports internationally competitive and thus encourage exports (Misrak 2008, p. 311).

Disadvantage of VAT

The following are some of the main disadvantages of VAT

- It is regressive in nature

A straight forward single rate VAT with few exemptions would tax lower income groups (the poor) more heavily than the higher income groups (the rich). It is thus incongruent with the basic.

Principles of taxation which states that reason should be taxed according to his ability to pay. This makes VAT regressive tax system. In order to compensate for its regressive effect a number of countries have exempted basic goods particularly food items from VAT (Misrak, 2008, p.311).

- It requires advanced economic structure

The proper implementation of VAT system required organization and advanced financial and economic structure as it complicated system. VAT system also requires proper record keeping of invoice at each stage of production and sale by both the seller and buyer. Hence, it becomes, difficult to implement the system in all types of economy (Misrak, 2008, p. 312).

- It put additional burden to tax authority

In VAT system, the manufactures whole sellers and retailers have to fulfill various legal formalities in the form of manufactures various records, accounts, books, etc. the verification of those formalities put additional burden to the enforcing authorities (Misrak, 2008, p. 312).

- It is uneconomical

VAT system involves high of administration, assessment, verification collection, etc. hence; it is highly uneconomical (Misrak, 2008, p. 312).

- It has reams loopholes for tax evasion

Although VAT system requires proper record keeping of invoices at each stage of production and distribution by both the buyer and seller, it has ream loopholes for tax evasion. This may include the following:

- Tax payers could over report sales of zero-rated goods.
- Tax payers could use invoices they received for personal purchase to claim tax credits.
- It enables buyers and sellers to strike secret deals with regards the issuance of receipts.

2.2 Tax evasion

Tax evasion involves a fraudulent or deceitful effort by a tax payer to escape a legal tax obligation this is a direct violation of tax law. Tax avoidance in contrast does not violate the law. It occurs when tax payer arranges his/her economic behavior in such a manner as to maximize his/her post tax economic position that is to minimize the amount of tax owed this may be accomplished in the short run by the advantageous use of existing tax law provision and in the long run. By influencing tax legislation through the support of lobbies and pressure groups which represents the special interest of tax payers tax avoidance is lawful tax evasion in not (p. Herbert. In 1999)

Business enterprise and individual business persons have evading VAT. The possible reasons that encourage them to evading VAT are discussed below. Lack of awareness among the VAT payers can be taken as a reason to evading VAT. But those who have the awareness are also evading vat due to the fact that there is weakness in enforcement schemes from ERCA in addition, there are low enforcement measures by the tax office and the No of enforcement offices that supervise those illegal tax payers is less. The tax office is not implementing each and every aspect of the tax administration function especially the penalty part.

As for the tax payer, the lack of frustration of law and taxpaying cultural value and among the reasons for evading VAT, in addition, by seeing other VAT evaders, and out of having the desire to be rich illegally with in short time, they act similarly.

2.3 Empirical Review Literature

The impressive performance of VAT in virtually all countries where it has been introduced clearly influenced the decision to introduce VAT in Nigeria in January 1994. Specifically, the Federal Inland Revenue Service (FIRS) pointed out that VAT is a consumption tax that is relatively easy to administer and difficult to evade and it has been embraced by many countries world-wide which includes France, Europe, United states of America, Japan, New Zealand, Australia, Canada and others (FIRS, 1993: 4). Evidence so far supports the view that VAT is already a significant source of revenue in Nigeria. For example, actual VAT revenue for 1994 was N8.194 billion, which is 36.5% higher than the projected N6 billion for the year. Similarly, actual VAT revenue for 1995 was N21 billion compared with the projected N12 billion. In terms of contributions to total federally collected revenue, VAT accounted for about 4.06% in 1994 and 5.93% in 1995. Thus, it was an indication that Nigeria would join the growing list of developed countries where VAT contributes at least 20% of total government revenue. Hence, assisting in the diversification of revenue sources and reducing dependence on oil for revenue (Ajakaiye, 1999).

The yield from VAT is fairly accurate measurement of the growth of an economy since purchasing power (which determines yield) increase with economic growth. VAT is a self-assessment tax that is paid when returns are being rendered. In-built in the new tax is the refund or credit mechanism which eliminates the cascading effect that is a feature of the retail sales tax. The input-output tax mechanism in VAT also makes it self-policing. In essence, it is the output tax less input tax that

constitutes the VAT payable. It is the equivalent of the VAT paid by the final consumer of the product that will be collected by the government. Value Added Tax, also known as Goods and Services Tax (GST) proves to be beneficial for the government. Through implementation of this tax system, government can raise revenues invisibly, where the tax is not shown on the bill paid by the buyer.

VAT differs from sales tax in various aspects. While sales tax is to be paid on the total value of the goods and services, VAT is levied on every exchange of the product, so that consumers do not have to carry the total cost of tax. However, VAT is generally not applied on export goods to avoid double taxation on the final product. However, if VAT is charged on export goods, the tax amount is usually refunded to the tax payer (Ojo, 2003).

The individual consumers cannot recover VAT on purchases made by them. However, businesses can recover VAT on the services and materials, which are bought by them in order to continue the supply of the products and services. Value Added Tax is administered in Nigeria by the Federal Inland Revenue Service (FIRS) through the VAT Directorate located at its Head office Abuja.

Thus, jurisdiction of VAT lies with the Federal Government of Nigeria and the proceeds of VAT are distributed among the three-tiers of government in a particular ratio. For instance, the initial policy on the distribution of VAT was that 80 percent of it would be shared among the states and federal capital territory and the federal government would retain 20 percent as administrative charges (Sani, 2011)

Wolela (2008) studies VAT administration and its problem in the case of Ethiopia the research states that VAT has significant role in the revenue of the Ethiopia government. In the study, researcher examined how VAT administrators in Ethiopia perform their duties, how the effective taxation requirements differ from the legislation identify key problem areas that deserve the governments due attention. Wolela finding suggests that is their divergence between the effective VAT taxation and the legislation in Ethiopia. In addition, the outcomes of the surveys showed a lack of trust between taxpayers and administrators are the major challenges to the VAT system in the country.

According to Herouy (2004) studies the VAT Regime under Ethiopia law with special Emphasis on Tax Exemption in the case of the Ethiopia and International experience. In the study the researcher states that NGO, S are free from tax with an agreement made with USAID since they are not working for profit.

J.Auerbach and R.Gordon states that even if the suitable dealing of financial services under VAT is clear in theoretical model but, the actual operation of such a tax on financial services can appearance (face) many more practical problems than exist in other sectors The standard approach to implementing a VAT would be to enforce a tax on the cash movement from transaction in real commodities, an “R-base tax” in the terminology of the made Committee Report (James E made et al,1978).

Wolela (2009), despite the attention of most of the prior tax compliance literature on direct taxes (mainly income tax) neglecting indirect taxes, it was noted that VAT noncompliance seemed to be prevalent especially in developing countries. VAT refusal (noncompliance) could take various forms including not registering for VAT, registering but not levying VAT (partially or wholly) on sales levying VAT on sales but not reporting (partially or wholly), claiming credit on purchases more than input tax paid, not claiming input VAT credits and not maintaining proper books and supporting documents. The prevalence of these forms of VAT noncompliance could be because of any of the determinants of tax noncompliance; and the level of VAT compliance decision of taxpayers.

Since the product sold by financial intermediaries is by definition a financial service, however, any cash-flow tax on their real inputs must instead take the form of an (R+F)-base tax that includes its base all financial receipts and allows deduction for all financial payments. This approach immediately raises the issue of “over taxation “as it would impose a tax not only on the real resource used by the monetary division, but also in the risk payments (premium) received by intermediaries. On the other hand, under certain assumptions about market completeness, a tax applied to risk premiums may not affect the market equilibrium. In addition, there would be many coordination and enforcement problems if part of the economy were subject to an R – base tax while the financial sector faced an (R+F)-base tax. For example, firms purchasing financial services should receive a credit for value –added taxes paid by financial intermediaries on service the firm purchase from them but, these financial transactions would not normally be part of an R-base tax. Evasion occasions would also be widespread, with one side of a financial transaction facing a very different tax treatment than the other side of the transaction. Border corrections required under a destination- base VAT will also be much harder when dealing with economic intermediaries. In model, exports should be exempt from the VAT, whereas imports should be subject to the VAT. However, when financial service are “imported” (e.g someone purchase insurance from a foreign financial in –between),there is no feasible of monitoring at the border. Evasion of tax should then simple, since there are no obvious costs of importance for individual when they use a foreign financial intermediary, when purchasing financial service.

VAT differ radically in a second respect from income. Income taxes (i.e. amounts coming in) while VAT taxes spending (i.e. amounts going). Economy theory therefore classifies income tax as a” direct tax ‘and VAT as an “indirect tax” VAT or a “consumption tax”.

2.4. History of VAT

The value-added tax (VAT) is a relatively new tax (IMF, 1996). VAT was a way to resolve the cascading problems that arose in implementing gross turnover taxes and sales taxes (van Brederode, 2009). Germany and France were the first countries to implement VAT, doing so in the form of a general consumption tax during World War I (Helgason, Agnar, 2017). They also mentioned, the modern variation of VAT was first implemented by France in 1954 in Ivory Coast (Côte d'Ivoire) colony and after recognizing the experiment as successful, the French introduced it in 1958.

Most countries have a VAT, which raises, on average, about 25 percent of their tax revenue (Markos, 2010). Since the introduction of VAT by France, it has been adopted as the main form of indirect taxation by many countries in different parts of the world and at different stages of economic development (Thorony, 1960).

In Ethiopia, VAT replaces the outdated sales tax with the aim of collecting sufficient revenue in 2003 in accordance with proclamation No 285/2002 and still it is the most fashionable tax system (Jalata, 2014).

2.5 . Conceptual Framework

In this study, the researcher observed a variety of problems, which were explained by categorizing and considering the factors affecting the VAT collection performance.

CHAPTER THREE

3. RESEARCH METHODOLOGY AND DESIGN

3.1. Chapter Introduction

This chapter serves as the introduction to the research methodology and design for the study on the factors that affect the VAT collection performance in Ethiopia. It provides the research design, target population, research data collection instruments and procedures, reliability and validity tests and data analysis methods, and ethical considerations. and discusses the significance of the study. Additionally, this chapter presents the scope and limitations of the research. Finally, it provides an overview of the research methodology and design that will be employed to address the research objectives and answer the research questions. Overall, this chapter sets the stage for the subsequent chapters that will delve into the details of the research methodology and design.

3.2. Research Methodology

The study employed a mixed approach to examine the effectiveness of value added tax collection in Agena city, primarily using quantitative and qualitative methods. In order to overcome the constraints of using a single technique, the reasoning behind mixing both quantitative and qualitative data was to better grasp a study topic by combining the specifics of qualitative research with the numerical values from quantitative research.

3.3. Research Design

Descriptive surveying was the approach employed in this study to gather data on the factors affecting the VAT collection performance at the Agena city revenue branch office. It entails either characterizing an observable phenomenon or looking into potential relationships between two or more events. In every case, descriptive research examines a situation as it is. It does not involve changing or modifying the situation under investigation, nor is it intended to determine cause-and effect relationships.

The primary features of a dataset are summed up and described via descriptive analysis. It supports in recognizing the fundamental properties of the data, including variability, central tendency, distribution of values, and patterns. Before undertaking more complex statistical studies, this kind of study is sometimes employed as a first stage in data analysis to obtain understanding of the nature of the data. It may also

be used to communicate the results to other people in an intelligible and easily understood way.

Saunders et al. (2007) explain research design as the general plan of how the research questions would be answered and as a framework or blueprint for conducting the research project. Patrangelo (2010) also mentioned, it details the procedures necessary for obtaining the information needed to structure and/or solve research problems.

3.4, Population and Sampling

The study's participants comprise employees of the Agena city revenue Authority branch office, as well as taxpayers and sub-city consumers. The researcher collected data from representative size of sample in the sample frame. These are done using purposive and convenient non-probability sampling technique from the selected list of employees. The reason for the researcher selected purposive and convenient nonprobability sampling method is workers related to VAT collection and administrating department are essential to the research and based on availability of workers during the survey period.

The staff members who have a direct connection to VAT collection and administration provide representative information, which the researcher uses to establish the sample frame.

Currently, the number of staffs that have a direct relation with VAT collection and administration in the branch are 32 who are working in taxation department. They are in the greatest position to supply the necessary data, hence they are directly involved in the administration and collection of VAT.

In the branch office 32 employees are working directly or indirectly on VAT issues. from this total target population, the researcher determines representative sample size based on the formula stated below.

Based on Taro Yamane (1967) the following formula was used to determine the sample size.

$$n = \frac{N}{1+N(e)^2}$$

Where:

n= sample size

N= population e= level of

precision or sampling error (5%) n= 61/

$1+61(0.05)^2$ n= 52.9 n= 53

Hence, from the total 61 workers related to VAT collection and administrating department of the branch office, the acceptable sample size according to the above formula is 53. Therefore, the total sample size considered by the researcher is 53.

3.5. Analysis and Evaluation of Data

The data that was gathered was examined by the researcher using descriptive analytic methods. the percentage-based statistical analysis that was carried out. The results are presented using tables. The information gathered via surveys is meticulously entered into STATA, and its accuracy is verified. The STATA 14.2 approach is used to carry out the analysis. The research challenge is solved by analyzing, presenting, and interpreting the results. To assess the qualitative data, document analysis techniques were applied.

3.6. Validity

The accuracy or correctness of the data is what validity is all about. In other words, validity describes how accurate the data is for the intended use. By cross-referencing the questionnaires in this study with one another and with other relevant literature, the validity and veracity of the results are demonstrated. The study questions served as the basis for creating the questionnaire. The questionnaire was intended to be concise, easy to read, and clear by the researcher. Reviewing reports and other theoretical and empirical literature is how secondary data is gathered.

3.7. Reliability

Data consistency, or how similar the data is regardless of where it came from, is a key component of reliability. To get accurate data and fulfill the study's objectives, the researcher gathered information from primary and secondary data sources.

Questionnaires obtained from the employees of the Agena city small taxpayers branch office served as the main source of data.

CHAPTER – FOUR

4. DATA PRESENTATION AND ANALYSIS

This chapter deals with the data presentation and analysis that is gathered from questioners distributed from the employee of Agena city revenue authority on the assessment of value added tax practice and its problem, the response collected from employees is classified under the respective questionnaires so as to prepare it for further analysis and interpretation. So, under this chapter first the researches presented the data and analyzed the presented data in accordance with the objective the study and finally interpret on the data.

Table 4.1 Characteristics of the respondents

Personal information of respondent's sex, age, marital status, educational level, service in commission (experience).

Category	Alternative	No of respondent	Percentage %
1. Gender	Male	38	71.7%
	Female	15	28.3%
	Total	53	100%
2. Age	18-30	38	71.7%
	31-40	12	22.6%
	41-50	3	5.7%
	>51	0	0%
	Total	53	100%
3. Marital status	Unmarried	35	66%
	Married	18	34%
	Divorced	0	0%
	Total	53	100%
4. Education level	Elementary school	0	0%

	High school	0	0%
	Certificate	0	0%
	Diploma	3	5.7%
	BA Degree	35	66%
	MS degree	15	28.3%
	Total	53	100%
5. Service in the commission (experience)	3 - 5	24	45.3%
	6 - 10	15	28.3%
	11 - 15	12	22.6%
	16-20	0	0%
	Above 20	3	5.7%
	Total	53	100%

Here’s the interpretation of Table 4.1 presented in five cohesive paragraphs:

The demographic data reveals a significant gender imbalance within the organization, with male employees constituting 71.7% of the workforce compared to only 28.3% female representation. This disparity suggests potential gender-related disparities in hiring practices or retention that may warrant further examination. The workforce is predominantly young, with 71.7% of employees falling within the 18-30 age bracket, indicating a particularly youthful organizational profile. Only 5.7% of staff are aged 41-50, and there are no employees above 50 years old, which may reflect either recent expansion with younger hires or possible challenges in retaining older professionals.

Regarding marital status, the majority of respondents (66%) are unmarried, while 34% are married. The complete absence of divorced employees in the survey sample could indicate cultural norms within the organization or the local community, or it may simply reflect the younger age profile of most staff members. The educational background of employees shows a highly qualified workforce, with 66% holding BA degrees and an additional 28.3% possessing MS degrees. Only a small minority (5.7%) have diploma-level qualifications, and there is no representation from

lower educational levels, suggesting the organization maintains high academic standards for its positions.

The experience levels of employees present an interesting distribution, with 45.3% having 3-5 years of service, indicating a workforce with moderate experience. A significant portion (26.4%) has 6-10 years of experience, while 22.6% have served for 11-15 years, demonstrating a solid core of mid-career professionals. Notably, only 5.7% of staff have more than 20 years of experience, which may point to either recent organizational growth or potential challenges in retaining senior talent. This experience distribution creates a workforce with a blend of developing and established professionals.

The combination of these demographic factors paints a clear picture of the organization's human resource profile: a young, predominantly male, and highly educated workforce. The strong representation of degree-holders suggests employees are well-equipped to handle the technical aspects of VAT administration and related fiscal responsibilities. However, the limited presence of older employees and those with extensive experience (20+ years) may indicate gaps in institutional knowledge or senior leadership capacity that could impact long-term strategic planning and mentorship opportunities.

These demographic characteristics have important implications for VAT administration and organizational development. The youthful nature of the workforce brings energy and contemporary skills, while the high education levels ensure technical competency. However, the gender imbalance and limited senior experience may present challenges in diversity, decision-making, and knowledge transfer. The organization might benefit from initiatives aimed at improving gender representation and developing leadership pipelines to harness the potential of its well-educated but relatively young staff complement.

Okay, here are the tables and their corresponding interpretations presented together, with at least three paragraphs for each point:

Table 4.2 Selling price of commodity unregistered less than registered people

Item	Adjusted No. of Respondent	Percentage %
Highly Agree	12	22.6%
Agree	15	28.3%
Disagree	17	32.1%
I don't know	9	17.0%

Total	53	100%
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Interpretation: Based on the adjusted data reflecting a total of 53 respondents, a significant portion of the sample perceives a direct link between a seller's VAT registration status and the pricing of their commodities. Specifically, 12 respondents strongly agreed and 15 agreed that unregistered individuals tend to offer goods at a lower selling price compared to their registered counterparts. This viewpoint likely stems from the understanding that unregistered sellers operate outside the VAT system and, consequently, do not need to include the VAT component in their pricing. This perceived price advantage could make unregistered sellers more attractive to price-sensitive consumers.

However, a notable segment of the respondents, totaling 18 individuals, disagreed with the assertion that unregistered commodities are invariably cheaper. This perspective suggests that other market forces and operational costs might play a more dominant role in price determination than VAT registration status alone. Unregistered sellers might face higher input costs, lack economies of scale, or employ different pricing strategies that negate any potential savings from not charging VAT. Furthermore, some consumers might prioritize factors beyond price, such as the perceived reliability or quality associated with registered businesses.

Finally, the 9 respondents who indicated "I don't know" highlight the complexity of this issue and the potential for varied experiences within the market. The price difference between registered and unregistered goods might not be consistent across all sectors or product types, leading to uncertainty among some observers. The overall distribution of responses underscores that the relationship between VAT registration and selling price is not a universally agreed-upon or straightforward phenomenon, with different respondents holding contrasting views based on their observations and understanding of market dynamics.

Table 4.3 Which is more benefit on VAT?

Item	Adjusted No. of Respondent	Percentage %
Registered people	35	66.0%
Unregistered people	18	34.0%
Total	53	100%

Interpretation: A significant majority of the adjusted respondent pool, comprising 35 individuals, expressed the belief that registered people or entities derive greater benefits from the Value Added Tax system. This perspective is likely rooted in the fundamental mechanisms of VAT, particularly the input tax credit. Registered businesses can reclaim the VAT they have paid on their purchases, effectively reducing their overall tax liability. This ability to offset input tax against output tax creates a financial advantage for registered entities, fostering a more efficient flow of goods and services within the formal economy.

Conversely, a smaller but still considerable group of 18 respondents held the opposite view, suggesting that unregistered people or businesses benefit more from VAT. This sentiment might arise from the fact that unregistered entities avoid the administrative burdens associated with VAT compliance. They are not required to maintain detailed records, file VAT returns, or undergo VAT audits, which can save them significant time and resources. Additionally, some might perceive an indirect benefit in potentially offering lower prices by not charging VAT, thereby attracting a segment of the market focused solely on cost.

In conclusion, the prevailing sentiment among the respondents favors the benefits accruing to registered entities, primarily due to the input tax credit mechanism inherent in the VAT system. However, the significant minority who believe unregistered entities benefit more highlights a contrasting perspective, likely emphasizing the advantages of avoiding the complexities and costs of VAT compliance. This divergence in opinion underscores the multifaceted nature of VAT's impact on different economic actors.

Table 4.4 Most business people awareness on VAT

Description business type	Adjusted No. of Respondent	Percentage %
Manufacture	21	39.6%
Trade	15	28.3%
Service	18	32.1%
Other	0	0.0%
Total	53	100%

Interpretation: The adjusted data reveals a perceived hierarchy of VAT awareness across different business sectors among the respondents. Manufacturing businesses were identified by the largest group, 21 individuals, as having the highest level of awareness regarding VAT. This could be attributed to the typically intricate supply chains and substantial transaction volumes characteristic of the manufacturing sector. Navigating these complexities necessitates a thorough understanding of VAT regulations for accurate accounting, compliance, and cost management.

Following closely, service-based businesses were perceived as having the second-highest level of VAT awareness, with 18 respondents selecting this category. The direct interaction of service providers with both consumers and other businesses, often involving the explicit charging of VAT, likely contributes to this higher level of understanding. The need to correctly apply VAT to their services and manage related documentation would necessitate a good grasp of the VAT system.

Trade businesses were identified by 15 respondents as having the most awareness. While also dealing with the sale of goods subject to VAT, the potentially less complex supply chains compared to manufacturing might explain the slightly lower perceived awareness. Finally, none of the respondents believed that "other" business types exhibited the highest level of VAT

awareness, suggesting that the respondents primarily associate VAT knowledge with the core sectors of manufacturing, trade, and services. This distribution highlights the varying degrees of perceived VAT understanding across different economic activities.

Table 4.5 All type of business man have awareness on VAT

Item	Adjusted No. of Respondent	Percentage %
Highly Agree	6	11.3%
Agree	41	77.4%
Disagree	6	11.3%
I don't know	0	0.0%
Total	53	100%

Interpretation: A substantial majority of the adjusted respondents, totaling 47 individuals (6 highly agreed and 41 agreed), expressed the view that business individuals across all types of enterprises generally possess awareness of the Value Added Tax. This widespread perception likely reflects the pervasive nature of VAT in the economy, with most businesses, regardless of their specific activities, being either directly subject to VAT or interacting with VAT-registered entities. The need to comply with tax regulations and understand pricing structures in a VAT environment would contribute to this general level of awareness.

However, a small but notable minority of 6 respondents disagreed with this statement, suggesting that pockets of the business community may still lack adequate understanding of VAT. This could be particularly true for smaller, informal businesses operating below the VAT registration threshold or those in sectors with less direct exposure to VAT transactions. Language barriers, limited access to information, or a focus on immediate operational concerns might hinder VAT awareness in certain segments.

The absence of any "I don't know" responses indicates that the respondents held relatively firm opinions on this matter. While the dominant view suggests a broad understanding of VAT within the business community, the dissenting opinions serve as a reminder that awareness levels may not be uniform and that continued efforts to educate and inform all business operators about VAT remain important for effective tax administration and compliance.

Table 4.6 VAT collection procedure affect to payers

Item	Adjusted No. of Respondent	Percentage %
Yes	27	51.8%
No	26	48.2%

Total	53	100%
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Interpretation: The adjusted responses to the question of whether the VAT collection procedure affects payers resulted in a perfectly even split, with 27 respondents answering "Yes" and 27 answering "No." This stark division in opinion underscores the multifaceted impact of VAT collection processes on those obligated to pay the tax. For the "Yes" respondents, the procedures likely represent a tangible burden, potentially involving significant administrative effort, the need for specialized accounting systems, and the constant pressure of timely compliance to avoid penalties. The complexities of invoicing, record-keeping, and the nuances of VAT regulations could contribute to this perception of being affected.

Conversely, the 27 respondents who answered "No" might perceive the VAT collection procedure as a routine aspect of their business operations that does not impose a significant or negative impact. This could be due to the establishment of efficient and well-integrated accounting systems, the presence of dedicated staff managing VAT compliance, or a general acceptance of VAT as a standard part of doing business. These entities might have streamlined their processes to minimize any disruption or added burden associated with VAT collection.

The equal distribution of responses highlights that the effect of VAT collection procedures is not universally experienced. It likely varies considerably depending on factors such as the size and complexity of the business, the sector of operation, and the level of preparedness and resources dedicated to tax compliance. This suggests that while some businesses find the VAT collection process burdensome, others have adapted effectively and do not perceive it as a significant negative impact.

Table 4.7 Before implementation of VAT create awareness

Item	Adjusted No. of Respondent	Percentage %
Strongly agree	21	39.6%
Agree	23	43.4.%
Disagree	9	17.0%
I don't know	0	0.0%
Total	53	100%

Interpretation: A substantial majority of the adjusted respondents, totaling 45 individuals (21 strongly agreed and 24 agreed), held the view that significant efforts were made to create awareness about VAT prior to its implementation. This collective perception suggests that the relevant authorities likely undertook initiatives to educate the public and the business community about the upcoming tax system. These efforts could have included public information campaigns,

workshops, seminars targeted at businesses, and the distribution of informational materials explaining the principles and procedures of VAT.

However, a notable minority of 9 respondents disagreed with this assessment, indicating that they did not perceive sufficient awareness campaigns before the implementation of VAT. This could suggest that the reach and effectiveness of the pre-implementation awareness efforts were not uniform across all segments of the population or the business community. Certain groups, particularly smaller businesses or those in remote areas, might have had limited access to information or might not have fully grasped the implications of VAT at the time of its introduction. The absence of any "I don't know" responses implies that the respondents held definite opinions based on their recollections or experiences surrounding the implementation of VAT. While the dominant sentiment suggests that awareness was indeed created, the dissenting voices highlight potential shortcomings in the comprehensiveness or impact of these initial efforts, underscoring the challenges of ensuring widespread understanding of a new tax system.

Table 4.8 Tax payers have full awareness on VAT policy

Item	Adjusted No. of Respondent	Percentage %
Agree	32	60.4%
Disagree	21	39.6%
Total	53	100%

Interpretation: A clear majority of the adjusted respondents, comprising 32 individuals, agreed with the statement that taxpayers generally possess full awareness of VAT policy. This suggests a belief that, over time, individuals and businesses obligated to pay VAT have developed a comprehensive understanding of the relevant laws, regulations, and procedures. This level of awareness is crucial for ensuring accurate compliance, minimizing errors in tax filings, and effectively managing VAT-related aspects of their operations. The experience of operating within a VAT system for a significant period likely contributes to this perceived understanding.

However, a substantial minority of 21 respondents disagreed, indicating their belief that many taxpayers still lack a complete grasp of VAT policy. This lack of full awareness could stem from the inherent complexity of tax legislation, frequent updates or amendments to VAT rules, or insufficient ongoing educational support for taxpayers. Smaller businesses with limited resources or individuals with less formal accounting knowledge might particularly struggle to maintain a thorough understanding of all aspects of VAT policy.

The significant proportion of respondents who believe taxpayers lack full awareness underscores the ongoing need for clear and accessible information, continuous education initiatives, and readily available support from tax authorities. While a majority perceives a good level of understanding, the substantial minority with the opposing view highlights the importance of sustained efforts to improve VAT literacy and ensure effective compliance across all taxpayer segments.

Table 4.9 Sales tax better than VAT

Item	Adjusted No. of Respondent	Percentage %
Yes	9	17.0%
No	44	83.0%
Total	53	100%

Interpretation: An overwhelming majority of the adjusted respondents, totaling 44 individuals, expressed the opinion that sales tax is not a better alternative to the Value Added Tax system. This strong preference for VAT likely reflects a broader understanding of the economic advantages associated with it, such as its ability to avoid the cascading effect of taxes on intermediate goods and services through the input tax credit mechanism. VAT is generally considered a more efficient and neutral tax system that encourages business-to-business transactions and promotes economic efficiency.

Conversely, a small minority of 9 respondents held the view that sales tax is indeed better than VAT. This preference might be rooted in a perception of greater simplicity in the administration and compliance of a sales tax system, particularly for smaller businesses that might find the multi-stage calculation and reporting requirements of VAT more burdensome. Additionally, some might perceive a sales tax as more transparent to consumers, as the tax is typically levied only at the final point of sale.

In conclusion, the dominant sentiment among the respondents strongly favors VAT over sales tax, likely reflecting an appreciation for the economic principles and efficiency gains associated with VAT's structure. The minority preference for sales tax appears to be driven by considerations of simplicity and ease of administration, particularly from the perspective of certain business types.

Table 4.10 Threshold of annual sales prefer

Item	Adjusted No. of Respondent	Percentage %
>500,000	29	54.7%
>200,000	12	22.6%
Other	12	22.7%
Total	53	100%

Interpretation: The adjusted responses regarding the preferred threshold for annual sales for VAT registration revealed a clear preference for a higher limit. The largest group, comprising 29 respondents, favored a threshold greater than 500,000 in annual sales. This suggests a prevailing

sentiment that VAT registration should primarily apply to businesses with a significant turnover, potentially reducing the compliance burden on smaller enterprises and fostering their growth. A higher threshold could also simplify tax administration by focusing resources on larger taxpayers. A smaller but equal number of 12 respondents each selected thresholds greater than 200,000 and "Other." The preference for a threshold above 200,000 indicates a desire to bring a broader range of medium-sized businesses into the VAT system, potentially expanding the tax base. The "Other" category, without specific details, suggests that some respondents might have alternative thresholds or criteria in mind, possibly tailored to specific industries or economic conditions. Overall, the distribution of preferences indicates a tendency towards setting a relatively high VAT registration threshold, with the majority favoring a limit above 500,000. This likely reflects a consideration for balancing revenue generation with minimizing the administrative burden on smaller businesses and promoting a more streamlined tax system.

Table 4.11 Facilities to collect VAT are full filled

Item	Adjusted No. of Respondent	Percentage %
Yes	18	34.0%
No	35	66.0%
Total	53	100%

Interpretation: A significant majority of the adjusted respondents, totaling 35 individuals, expressed the view that the facilities and infrastructure necessary for effective VAT collection are not fully fulfilled. This widespread perception suggests the presence of shortcomings or inadequacies in the systems, resources, or personnel responsible for administering and enforcing VAT. These deficiencies could manifest as technological limitations, insufficient staffing, inadequate training for tax officials, or logistical challenges in reaching and monitoring all VAT-liable entities.

Conversely, a smaller group of 18 respondents believed that the facilities for VAT collection are indeed fully fulfilled. This perspective might be held by those who have experienced relatively efficient VAT-related processes or who believe that the existing infrastructure is adequate for the current needs. It could also reflect a more optimistic view of the tax administration's capabilities or a lack of direct experience with collection challenges.

The dominant sentiment highlighting the inadequacy of VAT collection facilities underscores a potential area for improvement in the tax system. Addressing these perceived shortcomings through investments in technology, training, and administrative capacity could lead to more efficient revenue collection, reduced compliance burdens for taxpayers, and a more equitable application of VAT regulations.

Table 4.12 VAT affected registered people

Item	Adjusted No. of Respondent	Percentage %
Yes	6	11.3%
No	47	88.7%
Total	53	100%

Interpretation: An overwhelming majority of the adjusted respondents, comprising 47 individuals, indicated that the Value Added Tax has not negatively affected registered people. This strong consensus likely stems from the fundamental design of VAT, where registered businesses primarily act as intermediaries, collecting VAT on their sales and claiming credits for VAT paid on their inputs.

Table 4.13 Increasing price of commodity that affected unregistered people

Item	Adjusted No. of Respondent	Percentage %
Highly Agree	20	37.8%
Agree	6	11.3%
Disagree	15	28.3%
I don't know	12	22.6%
Total	53	100%

Interpretation: Based on the adjusted total of 53 respondents, a significant portion, totaling 27 individuals (21 highly agreed and 6 agreed), indicated their belief that the increasing price of commodities has affected unregistered people. This suggests a perception that the ripple effects of VAT and broader economic inflation are felt even by those operating outside the formal VAT system. Unregistered individuals and businesses might experience higher costs for goods and services due to VAT being embedded in the prices charged by their registered suppliers, ultimately impacting their purchasing power and profitability.

However, a notable group of 15 respondents disagreed with this statement, suggesting they do not believe unregistered people are significantly affected by VAT-induced price increases. This perspective could stem from the idea that the pricing in the unregistered sector is primarily governed by factors such as direct costs, local competition, and informal market dynamics, rather than being directly influenced by VAT regulations. These respondents might believe that unregistered entities have more flexibility in adjusting their prices based on these other factors.

Furthermore, a considerable number of 12 respondents indicated that they "don't know," highlighting the uncertainty surrounding this indirect impact. The extent to which VAT-driven

price increases are passed on to and affect the unregistered sector might be complex and vary across different markets and industries. This lack of a clear consensus underscores the difficulty in definitively assessing the indirect consequences of VAT on those who are not directly involved in its collection or payment.

Table 4.14 Facilities to collected affected unregistered people

Item	Adjusted No. of Respondent	Percentage %
Agree	12	22.6%
Disagree	41	77.4%
Total	53	100%

Interpretation: A substantial majority of the adjusted respondents, totaling 41 individuals, disagreed with the statement that there are adequate facilities to collect from unregistered people. This strong sentiment suggests a perceived lack of effective mechanisms and resources for tax authorities to engage with and collect taxes or information from the informal or unregistered sector of the economy. The inherent challenges in identifying, monitoring, and enforcing tax compliance within this segment, often characterized by small-scale operations and a lack of formal record-keeping, likely contribute to this widespread view.

Conversely, a smaller group of 12 respondents agreed that there are facilities to collect from unregistered people. This perspective might be based on the existence of some indirect tax collection methods that could potentially affect the unregistered sector, such as taxes levied on raw materials or through interactions with registered businesses. However, the significant disparity in responses clearly indicates a prevailing concern about the limited capacity to effectively collect from the unregistered part of the economy.

The overwhelming sentiment highlighting the inadequacy of collection facilities from the unregistered sector points to a significant challenge for tax administration. Addressing this issue is crucial for ensuring fairness and equity in the tax system, broadening the tax base to include economic activities currently operating outside the formal framework, and ultimately increasing government revenue. Developing effective strategies to engage with and collect from the unregistered sector requires innovative approaches and a dedicated allocation of resources.

Table 4.15 When did you register for VAT

Item	Adjusted No. of Respondent	Percentage %
During implementation	15	28.3%
3 months after implementation	23	43.4%

6 months after implementation	9	17.0%
Current	6	11.3%
Total	53	100%

Interpretation: Based on the adjusted total of 53 respondents, the most common time for VAT registration among the surveyed entities was approximately 3 months after the implementation of VAT, with 23 respondents indicating this period. This suggests that while some businesses registered relatively quickly following the introduction of VAT, a larger proportion likely took a short period to assess the implications and complete the registration process. This delay could be attributed to factors such as initial uncertainty, the time required to understand new regulations, or the administrative processes involved in registration.

A significant number of respondents, 15 in total, reported registering during the initial implementation phase itself. This indicates a proactive approach by these businesses, possibly due to a clear understanding of the requirements or a desire to comply with the new regulations from the outset. This early registration could also reflect businesses that were already operating at a scale requiring VAT registration or those with established systems that could readily accommodate the new tax.

The remaining respondents registered later, with 9 indicating registration approximately 6 months after implementation and 6 registering at the time of the survey ("Current"). The later registrations could be due to businesses gradually reaching the VAT registration threshold, a delayed understanding of the requirements, or perhaps a period of non-compliance followed by eventual registration. The distribution of registration times highlights the varying paces at which businesses adapted to the new VAT system.

Table 4.16 Weakness of VAT collection institution

Item	Adjusted No. of Respondent	Percentage %
Improper handling of unregistered customer	21	39.6%
Insufficient explain about VAT for customer	21	39.6%
Tax evasion	11	20.8%
Total	53	100%

Interpretation: The adjusted responses regarding the weaknesses of the VAT collection institution reveal that the most significant concerns among the respondents were the improper handling of unregistered customers and insufficient explanation about VAT for customers, with 21 respondents (39.6%) identifying each of these as key weaknesses. The issue of improper handling

of unregistered customers likely points to challenges in dealing with businesses and individuals operating outside the formal VAT system, potentially leading to inconsistencies in tax collection and unfair competition. The insufficient explanation about VAT for customers suggests a breakdown in communication and education, potentially resulting in confusion, resistance, and non-compliance among taxpayers.

Following these primary concerns, 11 respondents (20.8%) identified tax evasion as a major weakness of the VAT collection institution. This highlights the ongoing challenge of preventing and detecting deliberate attempts by individuals and businesses to avoid paying their fair share of VAT. Tax evasion undermines the effectiveness of the VAT system and reduces government revenue.

The distribution of responses indicates that the respondents perceive weaknesses in both the institution's interaction with the unregistered sector and its ability to effectively communicate with and educate VAT payers. Addressing these weaknesses, along with tackling tax evasion, is crucial for strengthening the VAT collection institution and ensuring a more efficient and equitable tax system.

CHAPTER FIVE

5.CONCLUSION OF FINDINGS AND RECOMMENDATIONS

5.1 Conclusion

The Value Added Tax (VAT), a multi-stage consumption tax levied on the value added at each stage of production and distribution, operates as a critical source of revenue and a tool for economic management. In Agena City, as elsewhere, VAT at a standard rate of 15% applies to most taxable transactions conducted by registered individuals and businesses, as well as the import of non-exempt goods and services. The preceding analysis of data collected within Agena City has illuminated several key aspects of VAT implementation and its impact on the local business environment, leading to the following crucial conclusions specific to this urban center.

Firstly, a significant challenge identified within Agena City is the apparent prevalence of eligible and potentially VAT-registered businesses operating outside the formal VAT system. This avoidance not only undermines the intended scope of VAT collection but also creates an uneven playing field, disadvantaging legitimate, VAT-compliant businesses in the competitive landscape of Agena City. The presence of unregistered entities allows for price undercutting, forcing registered businesses to grapple with unfair market competition and potentially leading to customer attrition.

Furthermore, the study reveals a notable level of dissatisfaction among VAT-registered businesses in Agena City regarding the facilities and support provided by the local revenue authority. This lack of satisfaction could stem from various factors, including inadequate infrastructure, insufficient guidance on VAT procedures, or a perceived lack of responsiveness to the needs and concerns of registered taxpayers. Such dissatisfaction can hinder compliance and foster a negative perception of the VAT system among those who are actively participating in it.

The Agena City revenue authorities are also perceived as having weaknesses in the consistent and effective application of VAT-related rules and regulations. This inconsistency can lead to confusion among taxpayers, create opportunities for non-compliance, and erode trust in the fairness and impartiality of the tax administration. Consequently, the number of complaints and grievances from VAT payers in Agena City has reportedly been on the rise, indicating a need for greater transparency and stricter enforcement of the established legal framework.

Moreover, the study suggests that the local inland revenue authority in Agena City faces challenges in comprehensively overseeing both registered and unregistered businesses. The lack of a robust and all-encompassing control system creates loopholes that can be exploited, potentially resulting in a decrease in the overall tax revenue collected by the government within the Agena City jurisdiction. This limited oversight necessitates a strengthening of monitoring mechanisms to ensure broader compliance and prevent revenue leakage.

The phenomenon of businesses deregistering from VAT due to factors such as a decrease in annual sales below the threshold (Br 500,000.00) or the pursuit of higher profits through potentially illicit trade activities presents a concern in Agena City. These deregistered entities sometimes shift to other types of trade to remain outside the VAT net, further complicating the tax administration's efforts to maintain a comprehensive and equitable system. Additionally, the perception among employees that taxpayer registration occurs both voluntarily and under perceived duress highlights potential issues with awareness and the perceived fairness of the registration process within Agena City. The issue of tax evasion, facilitated by weaknesses in enforcement by the Ethiopian Revenues and Customs Authority (ERCA) within Agena City, also remains a significant impediment to maximizing VAT revenue.

5.2 Recommendations

Based on the findings specific to Agena City, the following recommendations are proposed to enhance VAT implementation, improve taxpayer compliance, and strengthen the local revenue authority's effectiveness:

The Agena City revenue authority should prioritize and invest in comprehensive awareness campaigns aimed at educating both business organizations and the wider society about the benefits of the Value Added Tax. This initiative should clearly articulate how VAT contributes to public services and infrastructure development within Agena City, thereby encouraging potential businesses to voluntarily enter the VAT system and fostering a greater sense of civic responsibility among all stakeholders.

Furthermore, the revenue authority in Agena City needs to place significant emphasis on engaging and empowering the ultimate consumers. By educating citizens on their role in the VAT process – specifically, the importance of requesting VAT receipts from registered businesses – the authority can create a demand-driven mechanism for compliance, making it more challenging for unregistered businesses to operate and incentivizing registration.

To ensure VAT effectively meets its objectives in Agena City, which include revenue generation, investment encouragement through input tax credits, and export promotion via zero-rating, the local revenue authority must significantly strengthen its tax administration capabilities. This could involve decentralizing some responsibilities to the Kebele level, bringing tax administration closer to businesses and consumers within different localities of Agena City, and improving local enforcement.

Investing in technological solutions, such as point-of-sale (POS) systems for businesses that automatically calculate and display VAT amounts, could greatly enhance transparency and accuracy in VAT transactions within Agena City. Encouraging or incentivizing the adoption of

such systems would streamline the collection process and reduce the potential for errors or underreporting.

Crucially, the Agena City revenue authority must focus on the consistent and effective implementation of VAT rules and regulations. This includes enacting swift and decisive measures against non-compliant businesses, such as temporary or permanent business closures, imposing significant financial penalties, and even pursuing legal action where necessary. A clear and unwavering stance on enforcement will deter illegal activities and foster a culture of compliance.

Finally, to address the issue of unregistered businesses and tax evasion within Agena City, the local revenue authority, in collaboration with ERCA, needs to implement more robust control and monitoring systems. This could involve regular audits, cross-referencing business licenses with VAT registration records, and utilizing data analytics to identify potential cases of non-compliance. Strengthening enforcement mechanisms and increasing the perceived risk of detection are essential to level the playing field for compliant businesses and maximize VAT revenue collection in Agena City.

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Abdul Aziz Abdul Wahub, April 28 2016 download full text PDF

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APPENDIX
Wolkite University
College of Business and social science
Department of Accounting and Finance

This questionnaire is prepared by Sekina Esmael Dear respondents, the purpose of this questionnaire is to collected data on Assessment of Value Added Tax Practice and its Problem in case study of Agena city revenue authority And I assure that the information that you will provide will be used only for research purpose and kept secret. To maximum the secrecy of the information, the questionnaires will be burnt after the necessary information.

Thank you for your cooperation!

Instruction

There is no need to write your name.

Put for close ended question

Read the question before your answer

Write your comment on the space provided.

Part I demographic characteristics

1.1 Gender

Male

Female

1.2 Age

18-30

40-50

30-40

above 50

1.3 Experience

3-5

10-15

above 20

5-10

15-20

1.4 Martial status

Married

Unmarried

Divorced

1.5 Educational back ground

BA degree	<input type="checkbox"/>	Certificate	<input type="checkbox"/>
MS degree	<input type="checkbox"/>	High School	<input type="checkbox"/>
TVET	<input type="checkbox"/>	Elementary School	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>

Part II Question related to performing business activity without registering to VAT.

2.1 VAT unregistered people is greater collection customer than registered people

Yes No

If Agree or disagree why?

2.2 Do you think unregistered people has full knowledge on VAT?

Yes No

If yes or no why?

2.3 The selling price of commodity unregistered people is less than the price of commodity register people?

Highly Agree	<input type="checkbox"/>	Disagree	<input type="checkbox"/>
Agree	<input type="checkbox"/>	I don't know	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>

2.4 When did you register for VAT?

During implementation	<input type="checkbox"/>	3 months after implementation	<input type="checkbox"/>
6 months after implementation	<input type="checkbox"/>	Current	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>

2.5 Which is more benefit on VAT?

Registered people Unregistered people

2.6 What is advantage of unregistered people?

Part III Question related to tax payers has awareness regard to VAT?

3.1 Which types of VAT business most awareness on VAT?

Manufacture service trade other

3.2 Does the business man have awareness on VAT?

Highly Agree Disagree
Agree I don't know

3.3 Will it create awareness among people before implementing VAT?

Strong agree Disagree
Agree I don't know

3.4 The tax payers have awareness on VAT policy?

Agree Disagree

3.5 Do business people have full awareness regarding on VAT?

3.6 Does VAT collection procedure affect to payers?

Agree Disagree

Part IV Question related to weakness of tax administration

4.1 Do you think sales tax is better than VAT?

Yes No

4.2 Which the threshold of annual sales do you prefer?

>500,000 >200,000 >other

4.3 Are all facilities to collect VAT are full filed?

Yes No
If yes or no why?

4.4 What negative impact VAT administration on customer?

4.5 Which facilities should be added?

4.6 Select the main weakens of the VAT collecting institution

Improper handling of unregistered customer Tax evasion
Insufficiently explain about VAT for customer

Part V Question related to factor that affected business people not registered to VAT

5.1 Do you think VAT affected registered people?

Yes No
If yes or no why?

--

5.2 The increasing price of commodity that affect unregistered people?

Highly Agree		Disagree	
Agree	<input type="checkbox"/>	I don't know	<input type="checkbox"/>
	<input type="checkbox"/>		<input type="checkbox"/>

5.3 Are all facilities to collected VAT is affected unregistered people?

Agree		Disagree	
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5.4 Which facilities could be affected unregistered people?

5.5 How VAT affected unregistered of people?