#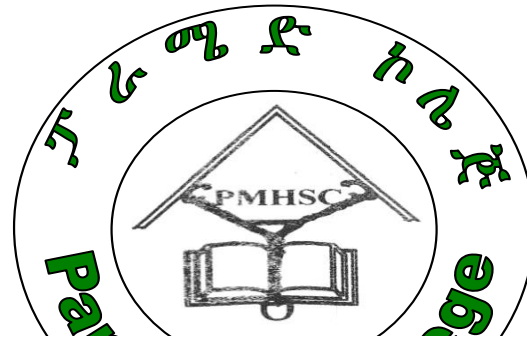 ASSESSMENT OF BUSINESS INCOME TAX COLLECTION PROBLEM ON CATEGORY "A" TAX PAYER (IN CASE OF ARBA MINCH SIKELA KIFLE GETEMA)

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ARBA MINCH ETHIOPIA

DECLARATION

We they under signed, declare that this senior essay paper was our own original work. It has not been presented in any other university or other privet college. All source of materials used for the research paper have been dully acknowledged.

This senior essay report has been conducted independently under the guidance and support of Paramed College staffs.

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Even if there were no equivalent words to express thanks to GOD First, we would like to thanks almighty GOD and the interception of his mother that made me still alive and in helping and leading me in every microsecond of our life. We would like appreciate our advisor instructor Mulu m. (MSc) he played a great role in continuous and invaluable advice, comment and suggestion until the end of accomplishment of the paper. Besides our heart full appreciation and special thanks goes to our family in the way they helping us moral and finance.

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ABSTRACT

This study was focused on assessments of business income tax collection problems in category "A" tax payer in case of Arba Minch sikela kifle getema. So Taxation was a system of raising government revenue or a money which is collected from the citizen to finance government expenditure in order to limit the tax collection problem in category "A" tax payer in Arba minch sikela kifle getema while performing this research paper used descriptive type of research design and use both primary and secondary data. The primary data were collected through questionnaires and unstructured interview. Secondary data were collected from annual report also research approaches both qualitative and quantitative method and random sampling technique to selected 58 sample from the total population of 430 respondent to conduct the research, identify the sample respondent. Low level of awareness of business income tax payers, lack of ethics (unwillingness to pay tax). In order to improve these and finding the major problem in Arbaminch sikela kifle getema and to assess at least minimize the problem. Based on the result found from the survey and interview there was a problem on assessments 0f business income tax collection so we recommended that to minimize the problem of sikela kifle getema by awarding the society about the advantage of tax for this branch. In general, for the town.

Key words: Tax collection problem, Business income tax

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ACRONYMS

1. FDI - Foreign direct investment

2. TOT - Turn over tax

3. VAT - Value added tax

CHAPTER ONE

1. INTRODUCTION

1.1 Back ground of the study

Tax is financial charges or other levy imposes on an individual or legal entity by government. All government require payment of money taxes from people. Taxation is a system of raising money to financial government expenditure. Governments use tax revenue to pay soldiers and police, to build dams and road to operate schools and hospitals to provide food to the poor and medical care to the elderly and other purpose without tax to fund its activities government will cease to exist (Gibrie, 2006).

Taxation policies depend on the socio economic and political structure of a country. In Ethiopia though taxation came in to being with the emergence of state and government but there is no reliable documentary evidence to introduce taxation.

The governments generate revenue from tax and other non-sustainable source, the collection of money from available source of revenue by government need the availability of democratic government, foreign and domestic creditors and donors, efficient tax system and awareness of the society regarding the use of tax payment for government and its contribution for the development of the country economy. In Ethiopia payment of tax is considered by the society as a debt imposes by the government to increase the wealth of the government officials. To avoid the negative attitude of the tax payer a well-designed tax systems necessary. In addition educate the society regarding its obligation minimize the wrong attitude of the tax payer. So, this designs to minimize problems that face during assessment of collection minimize wrong altitudes of business tax payers (Gebrie, 2006).

Business income tax is an amount which is kept by the company to pay taxes again its profits. It is considers as current liability. Business income taxes shall be imposes on the taxable business income. A taxable business income shall be determines per tax period on the basis of the profit and loss account or income statement, which shall be drawn incompliance with the generally accepted accounting standard, subject to the provision of this proclamation and the directives issued by the tax authority corporate business are requires to pay 30% rate of business income tax. For unincorporated or individual businesses the business income tax ranges from 10%-35%.

This is tax payable for each year of assessment on the profit of any company, these include profit accruing in, derives from or bring in to or receives from a trade, business or investment. There for business income tax payers with annual turnover of birr 1000,000 and above are categorizes under category "A" tax payer business income tax payers and annual turnover between birr 500,000 - birr 1000,000 birr under category: B: and business profit tax payers with annual turnover less than birr 500,000 are under category "C" tax payers. (Gebre Worku,tax accounting in Ethiopia context,1st edition).

Category "A" taxpayers are composed of two groups. The first groups. The first group comprises of those taxpayers whose annual turnover for a single tax year 1,000,000 or more. In addition, any company incorporates under the laws of Ethiopians category "A" taxpayer irrespective of their annual turnover. The rational for incorporating companies under category "A" irrespective of their annual turnover seems to dwell upon the idea that given the present local and international business environment by the time companies are established. They must have at least 1,000,000 as a starting capital. Category "A" taxpayers are required to keep books and accounts. The books and accounts among other details must include Gross profit and the manner in which it is computes; General and administrative expenses; Deprecation; Provisions and reserves; Business asset and liabilities; Date loss of acquisition and the current book value of the good; All purchases and sales of goods and services related to the business activity….etc.

Keeping books and accounts is a mandatory requirement for category "A" taxpayers. Consequently, failure to keep books and accounts shall result in the payment of an administrative penalty. Accordingly, if the taxpayer failed to keep books and accounts for one year him or she shall pay 20% of the tax assesses as an administrative penalty. The books and accounts kept by the taxpayers will later be used as a means of determining their tax liability for period for category "A" and "B" taxpayers. In addition to administrative penalties, failure to keep books and accounts results in determination of the tax liability of the taxpayer through estimation.(Romaswoni Parameswaron,2006).

Nebile Ahmed &Getahun (2012) study an "assessment of tax collection problem" the research, generally tries to see the problem of tax payers and found cut that view tax as an obligation, tax payer's lack of understanding and awareness are the major problem for tax collection. The study fails to address the very causes of the identifies the problems moreover, the major source the

researchers relies on the tax payers, tax payer's responses may nah be 100% free from bias the authors argued that the educational level of the business income tax payers plays a vital time role for their poor awareness.

AbrhaTafere (2015) study on the tax assessment and collection problem in business income tax. Tax collection problem is faces on a problem of knowledge of business income tax payer's, failure to pay tax on time & fraud. Forwards to the solution is use moderns tax collection system and do not any mention.

Different studies have been done during the past years with regard to the topic of business income tax in general. The reviewed researches and argue that lack of awareness', viewing tax as obligation, intention of frauds are finding to be the major challenges of business income tax collection system.

This study tried to answer as much as possible not only singles out problem. Why the problem exist and how they can at least be minimizes but only identifying the problem do not worth as finding the main causes for the problems.

1.2 Statement of the problem

The role of taxation in well-functioning governmental operation is so high. Development of infrastructure, basic social services institution are apparently build by government. Moreover the public servants, defense force and public forces are employee of the state, to cover those and other developmental cost the states uses tax as principal source of revenue. Consequently, huge amount of money that should have been paid is not really collected by the government, which could have been uses to meet the various objectives of a government. Moreover, the prevalence of such significant deficit demands the government to improve internal revenue generating activities to reduce dependence on foreign funding. Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. Tax administration should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country. (https://www.google.com)

The need to build speed economic progresses and over all development activities call for strong tax revenue. If no arguments in the above assertion, therefore the Ethiopia government ought to

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adopt sound taxation policy on collection system and in making awareness on tax payer societies. No doubt that the existence of better tax collection system is decisive for the existence of well develope and economically strong states. If no complain that better tax collection system is decisive in one country's overall capacity, that is the main reason motivate the researchers to study is the poor income tax collection and its level on generation of income tax category ''A'' and to review the assessment of business income tax in Arba minch sikela kifle getema. As good income tax collection level in Ethiopia is more than 78 %.(http://www. Book of Public Finance) to reach the town to desired level we need to determine the problem on assessment of business income tax problem by using qualitative data .

1.3 Research question

This study attempt to address the following question:

1. What look like business income tax collection problem in category "A" tax payer in Arbaminch sikela kifle getema?
2. What are the problems of tax collection in category "A" tax payer in Arbaminch sikela kifle getema?
3. What are the mechanism to reduce the tax collection problem?

1.4 Objectives of the study

1.4.1 General objective

The general objective of this study is Assessment of business income tax collection problem in category "A" tax payer (in case of Arba Minch sikela kifle getema .

1.4.1 Specific objective

The specific objectives of the study are:

A. to assess business income tax collection problem in category "A" tax payer in Arbaminch sikela kifle getema
B. To identify the problem of tax collection in category "A" tax payer in Arbaminch sikela kifle getema.
C. to identify the mechanism to reduce the tax collection problem

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1.5 Significance of the study

The researchers would provide some importance for the concerned stakeholders. Initially the research finding would provide some sort of input as information to tax collection office. Secondly the research may serve as reference or guide line for those who intend to conduct further studies on this area and related research topics

1.6 Scope of the study

Taxation is a very vast and crucial issue however; this study is restricts only on the tax collection problem of business income tax in category A" tax payers.

1.6 Organization of the paper

This paper consists of chapter the first chapter consists the introduction part which includes back ground of the study, significance of the study scope and limitation of the study , the second chapter consist only the literature review.

The third chapter includes the term research design, source of data, data collection techniques, method of data analysis and presentation, target population and sampling methods. Chapter four of this research deals with analysis of data that gathered from business income tax payers and employees of the revenue bureau .The fifth and the end chapter of this research deals with conclusion and recommendation, questionnaires and references that used to conduct this study.

CHAPTER TWO

2. LITERATURE REVIEW

This section presents a brief review of existing theoretical and empirical literature of tax administration. At the end of the review, an attempt is made to summarize the major drawbacks of the existing empirical studies and to identify the knowledge gap to be files with in by further investigation.

2.1 Theoretical Review of Tax Administration

Tax administration refers to the identification of tax liability bases on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposes on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave, 2005). The low revenue yield of taxation can only be attributes to the fact that tax provisions are not properly enforces either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers.(World Bank, 1999).

Since taxes are an involuntary payment for government services, taxpayers have a strong inventive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. How a government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy's actual tax base. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1999).

2.1.1 Legal Structure for Effective Tax Administration

The legal rules requires for effective tax administration might be categorized under four broad

Headings:

- ➤ Rules for the establishment of an individual's tax liability;

> ➢ Rules establishing a system of appeals from the initial assessment of tax;

> ➢ Rules for the collection of taxes that have been establishes to be owing; and

> ➢ Rules relating to tax offences and their punishment

The importance of a sound legal structure for effective tax administration and the importance of incorporating principles that will further tax compliance in the design of that legal structure. Since each stage of the administrative process is dependent upon the other, to achieve a significant improvement in the overall effectiveness of the tax administration each element of the legal structure needs to be designs for maximum effectiveness (Asian Development Bank, 2001). In addition to the legal structure for tax administration, obviously, the organizational structure of the tax administration is also of crucial importance. According to the Asian Development Bank, 2001, the range of issues that must be resolves, in this regard, include:

> ➢ Agreement of autonomy from the executive branch

> ➢ Accountability to legislative assembly

> ➢ Relationship to the Ministry responsible for the tax legislation

> ➢ Type of organization structure in relation to taxes administers

> ➢ Decentralization

> ➢ Personnel policy

> ➢ Policies for internal audits

> ➢ Mission statement and strategic plan

2.1.2 Importance of Tax Administration

According to Asian Development Bank, 2001, tax administration dictates tax policy. Ends with, tax administration and compliance issues determine the broad evolution of tax systems. The shift in industrialized countries over a century ago from reliance on excise, customs and property taxes to corporate income and progressive income taxes can be explained, in large part, by the relative decline in the rural sector, the concentration of employment in large corporations and the growing literacy of the population. In recent years, the shift away from these taxes - corporate income and progressive individual income tax - and toward tax systems that rely more on broad-base consumption taxes such as the value-added tax, flatter rate structures, and the adoption of "dual income taxes," in which a progressive tax on labor income is accompanies as with a low

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flat-rate tax on capital income, as adopt in certain Scandinavian countries, can be explains, in large part, by the forces of globalization and developments in financial innovation and the inability of tax administrators to develop technologies to cope with these forces and developments (Asian Development Bank, 2001).

In tax reforms there is a close correlation between successful tax policy and efficient tax administration. In other words, there is no good tax policy without efficient tax administration (Jenkins, 1994). Over the past century, changes in the size of governments themselves, and differences in the relative size of governments around the world, can be explains the changes and differences in the environment, resources and technologies available to the country's tax administrators (Asian Development Bank, 2001). Aside from the role of tax compliance and administrative issues on the evolution and general features of the tax system, there is no question that administrative considerations influence, and often impose decisive limits, on particular tax laws. Most obviously, the failure to tax all sources of economic power, such as the imputes

 rental value of homes or accruing capital gains, are often justifies by reference to practical concerns of administer ability. It is futile to design a complex and sophisticate response to a tax policy problem if the rules to implement the regime cannot be administer (Asian Development Bank, 2001). Ensuring that taxes are collects from those who owns them has always been an elusive challenge for tax departments. It has never been easy to collect taxes from lawyers who take cash for a Saturday office visit; waiters who receive most of their income as tips; landlords who collect rent in cash; small business people who skim part of their profits or hire people off the books; cash-only window cleaners, roofers and painters; or large corporations that contract out to sweatshops. It has been even more difficult to collect taxes from crack cocaine dealers, smugglers, hit men and hit-women, and those who make their living defrauding and extorting their clients. The underground economy has always been diverse and even vaster than these examples suggest (Asian Development Bank, 2001). However, as if these traditional forms of tax evasion are not challenge enough, the combines to effects of information technology and globalization is now alleges to allow those who have been able to hide in the shadow economy to evade paying their fair share of tax to disappear altogether. Many individuals are no longer tied to one national jurisdiction; those that are increasingly receive payments from work and

investment abroad; anyone can have access to an over sea's bank; anyone with access to a computer can transact business anywhere in the world; property is becoming increasingly

Intangible and consumption difficult to locate; and, capital is becoming increasingly fungible and can be shifts relatively too easily between jurisdictions. These and other developments are said to call into question governments' continue the ability to levy taxes in a world in which companies, assets and people are infinitely mobile (Asian Development Bank, 2001). Tax administrators face a formidable number of challenges in every country.

According to Asian Development Bank, (2001), in many developing countries tax administration reforms are needs to simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Moreover, there is the need to establish the legitimacy of tax collection. In all countries tax administrators face the challenge of modernizing the tax administration so that it can operate effectively in an increasingly global economy. In spite of these challenges, several countries' recent experiences in improving the effectiveness of their tax administration have shown that fundamental reform is possible. In recent years, there has been a considerable amount of study on the steps that should be taken to improve tax administration and reform. Of fundamental importance to all reform efforts, to improve the effectiveness of tax administration significantly, the government must be

Politically committees to reform, the major obstacles to an effective tax administration have to be identifies, and there has to be well-designed strategies for addressing them (Asian Development Bank, 2001). As a preliminary step to developing a successful strategy for the reform of a revenue agency, the "Tax Policy and Administration Thematic Group" of the World Bank has

Develops a useful diagnostic framework for revenue administration. It includes a description of quantitative indicators and indicators of effectiveness and efficiency that might be uses to get a general idea of the physical dimensions of the revenue administration and how effectively and efficiently it is currently performing its functions and where performance problems might be acute. It also provides a framework and checklist of questions relating to all aspects of revenue departments operations, environment, resources, history, organization and management functions

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and informal culture that can be uses to assess its operations and diagnose its failings (Asian Development Bank, 2001). A reform strategy to increase compliance requires a concerts, a long-term, coordinate and comprehensive plan. It is vital that tax administrators ensure that every compliance policy instrument at their disposal is being uses as effectively as possible. The uses of these instruments complement one another.

2.1.3. Efficiency of Tax Administration

The key precondition for efficient tax administration is tax structure with minimizing distortions, strictly tax exemptions and elimination of the differences in tax treatment of particular parts of economy. This will mean extending the VAT to all but a few goods and services (notably export, which should be zero - rate, and banking and insurance services, where it may be difficult to determine the amount of value added to be taxes) (Hesse,2005)

Badly conceives or unnecessarily complicates the tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributes mainly to the simplification of the tax system. Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or can do in application of the law. (Mansfield, 2003)

Effective tax administration in a market economy is bases on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently starts to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organize. In transitional countries, tax administration can be organize to respecting the functional principle (collecting, recording, auditing, and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which - particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the

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source. This, however, does not mean that results of successful monitoring of large taxpayers can be excuses for neglecting medium and small taxpayers. This can lead to the decrease of their

Compliance, resulting with lowers total revenue. Next should be improve auditing and Follow-up actions against those who fail to file returns or make payment. Latvia, for example, has issue as regulations for an improve taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allows to open accounts for any business or individuals without a taxpayer code (Hesse 2005)

Most transitional economies are in the midst of a comprehensive reform of their government (that include the tax administration) and tailor them to the changing needs of a market environment. In that task they can use the experiences from West European countries and from countries that have recently realizes the tax reforms as a stepping stone to further development and/or as a challenge and incentive for reaching a higher level of efficiency and success (Musgrave, 1991). The reform of tax administration in these countries is a part of a complete transformation of public administration, so there are no reasons to be too optimistic about the speed of change and about expected results (Hesse, 2005).

2.1.4 Improving Tax Administration

In reform of tax administration the importance of tax structure is clearly reflects, because tax administration and tax structure are interconnects and they have to be improve simultaneously in the tax reforms (The World Bank, 1991). Reaping revenues from tax rate changes (whether up or down) requires effective tax administration. Raising revenues through base expansion requires even better administration. New taxpayers must be identifies and bring into the tax net and new collection techniques develop. Such changes take time to implement. The best tax Policy in the world is worth little if it cannot be implements effectively. What can be done to a considerable extent inevitably determines what is done. One cannot assume that whatever policy designers can think up can be implement or that any administrative problems encounters as can be easily and quickly remedies. How a tax system is administer to affects its yield, its incidence, and its efficiency. Administration that is unfair and capricious may bring the tax system into disrepute and weaken the legitimacy of state actions.

Good tax administration is a difficult task even at the best of times and in the best of places (Auriol and Warlters 2005). Conditions in few developing countries match these specifications. How revenue is raises to the effect of revenue-generation effort on social capital, equity, the political fortunes of the government, and the level of economic welfare - may be more important from many perspectives than how much revenue is raise. The private costs of tax compliance as well as the public costs of tax administration must be taken into account. Assessing the relation between administrative effort and revenue outcome is by no means simple: it is important, for example to distinguish the extent to which revenue is attributable to the active intervention of the administration rather than its relatively passive role as the recipient of revenues generates by other features of the system. Improving administrative efforts and outcomes is not impossible but it is neither easy nor quick.

2.1.5 Service Commitments of Tax Administration

The tax administration should provide impartial and professional courteous service and must keep private and confidential information regarding the individual taxpayers. It should also offer clear, understandable and current tax information and will make this information available to tax payer through various media and provide timely, accurate written information that one can rely on to questions and requests for tax information.

Education and information programs on specific tax issues should be arrange with taxpayers to enhance their awareness and taxpayers should be allows to voluntarily disclose their tax situation without incurring a penalty or being prosecute for tax violations under certain conditions (Asian Development Bank, 2001).

2.1.6 Resource Cost (Collection Cost)

In order to evaluate the administrative capabilities of a system, resource cost associates with the operation of any tax are significant aspect. There are two broad types of resource cost associates with the operation of any tax: administrative costs incurred the tax authorities and compliance costs .the taxpayers taken together, they are referred to here as collection costs.

2.1.6.1 Administrative Cost

The most obvious administrative costs are those insures the revenue departments in bringing in the tax revenue. It includes salaries and wages of staff at all level, accommodation cost (rent, rates, lighting and cleaning), postage, telephone, printing, stationary, travel, computing and other equipment cost etc. An important problem that arises in studying administrative cost is the limitation on available information. Many countries do not record the details component of expenditure or allocate that expenditure to particular tax (IFA 1989 cited in Sanford et. al., 1989:6). To study the administrative cost it is worthwhile to scrutinize it intends to the purpose or practical tax administration first.

2.1.6.2. Compliance Cost

Compliance cost are defines as those costs incurred the tax payers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given tax structure. They include, for individual, the cost of acquiring sufficient knowledge to meet their legal requirements; of compiling the necessary receipts and other data and of completing tax returns; payment for professional advisers for tax advice; and incidental costs of postage, telephone and travel in order to communicate with the advisers or the tax office. For a business, the compliance cost include the costs of collecting, remitting and accounting for tax on the products or profits of the business and on the wages and salaries of its employees together with the cost of acquiring the knowledge to enable this work to be done including knowledge of their legal obligation and penalties. The existence of uncertainty about the meaning of some aspect of the legislation will generate additional compliance costs (Sand ford et. al., 2008:12).

Psychic (psychological) costs, whilst difficult or impossible to measure satisfactorily are an important component of compliance costs. Many people experience considerable anxiety and frustration in dealing with their tax affairs; some employ professional adviser primarily to reduce this burden of worry. Another source of psychic cost is the anxiety, which may be generate, even for the most honest taxpayers, by a tax investigation. The above explanation of administrative and compliance cost highlight the difference between taxes in terms of administrative and compliance costs. This helps to identify areas of high compliance costs, to indicate policy-

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makers the importance of administrative and especially compliance costs, and to provide tax policy-makers with guidelines on how the costs of operating the tax system must be minimize.

2.1.7. Tax Evasion, Avoidance and Compliance

2.1.7.1 Tax Evasion and Avoidance

Tax evasion and avoidance are a worldwide phenomenon. The problem is especially acute in transition and developing economies, since they do not have an appropriate infrastructure in place to collect taxes (McGee and Tyler, 2006:1). Tax avoidance is the legal arrangement of the taxpayer's affairs in order to minimize the tax liability, whereas tax evasion is illegal. Sometimes, however, the borderline between avoidance and evasion can become blurred, a fact that is evidenced by the huge body of anti-avoidance legislation and the development of case law in this area (Nightingale, 2003:44).

2.1.7.2 Tax evasion

Tax evasion involves the intentional disregard of the legislation in order to escape the liability to tax. Tax evasion must be achieve the understating income, overstating expenses, making false claims for allowances or failing to disclose a chargeability tax. Because of its illegal nature, there is little hard evidence as to measure the true extent of tax evasion. (Nightingale, 2003:44). Tax evasion is illegal and the offender may be liable to prosecution, however, the authorities will usually only resort to criminal prosecution where the case involves substantial amount of lost revenue, many minor cases of tax evasion that are discovers the revenue are generally steels the out of court.

2.1.7.3 Determinants of Tax Evasion

In the standard approach to tax evasion a risk-averse individual chooses either the amount or the share of income to be concealed so as to maximize his or her expected utility of income, considering

1. The probability of detection,
2. The penalty tax rate applies when tax evasion has been detect,
3. The marginal tax rate, and

4.   The level of true income

All theoretical studies conclude that both the probability of detection and the penalty tax rate will negatively affect underreporting of income (Hennemann 2004). That is, if taxpayers believe the probability of detection is low they will tend to underreport. In addition, if the penalty tax rate applies when tax evasion has been detestation is low again taxpayers might tend to underreport. When underreporting is measure the absolute amount of income concealed, a risk-averse individual experiencing an increase in his or her true income will underreport more.

2.1.7.4 Tax Avoidance

A tax such as VAT can be avoid simply by not buying the taxed good or services. The arrangement of an individual's affairs so as to mitigate the liability to tax is tax avoidance, and provide that the taxpayer acts within the framework of the law, tax avoidance is legal. However, where the activity is within the letter of the law but outside the sprite of the law, the distinction between avoidance and evasion may become blurred. (Nightingale 2003:46). Many form of tax avoidance are merely tax planning opportunities that exist in the legislation for reducing the liability to tax, for example, choosing the most tax efficient savings and investments, or making sure that all available relief are used to their full advantage. However, loopholes in the legislation also create opportunities for tax avoidance. However, once loopholes have been exploits, the revenue reacts by introducing legislations to close those particular loopholes. The increasing body of anti-avoidance legislation merely makes the tax system more complicate, detracting from the cannon of simplicity even though it has been suggests that 'an economy breaths through its loopholes'. The tax avoidance industry grew to enormous proportions during the 1970s as high rates of tax mate the cost elaborate avoidance schemes worthwhile, supporting the view that 'the existence of wide spread avoidance is evidence that the system, not the taxpayer, stand in need of radical reform. (Ibid: 47)

General anti-avoidance rules have been tried in Australia, New Zealand and Canada with little success, which would indicate that target legislation must be more desirable. However, the policy makers are faces with the dilemma of how wide or narrow anti-avoidance legislation should be; too narrow and it may fail in its objectives, too wide and it must be applies to the situations for which it is not intended. Whatever steps are taken to counter tax avoidance the principles of certainty of taxation would require a definition of legitimate tax planning which must be difficult

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to frame as 'the boundaries move with public sentiment' with developing financial techniques and with the introduction of new statutory relief. Tax law will always have to address this equation and to determine where the line will be drawn. (Ibid: 47)

2.1.7.5 Tax Compliance and Voluntary Compliance

Tax compliance can be defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country. It is widely accepts the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties. Penalizing tax evaders or going after delinquent taxpayers are not in themselves the object of tax administration, although it would serve to encourage voluntary compliance if the taxpayers believe that the tax administration can effectively detect and punish noncompliance (Webley et al, 2002).

2.1.7.6 VAT Compliance

It is difficult to get an accurate picture, but it is clear that VAT evasion is widespread and involves significant revenue losses, though the extent varies considerably across countries.

(Webley et al 2002) suggests five factors seem likely to be particularly crucial: sanctions and punishments (deterrence), equity, personality, satisfaction with the tax authorities and mental accounting. Each will be considers in turn. To minimize the gap between the tax reports the taxpayers and the statutory tax, an adequate audit plan should be implemented (Tait, 1991:67). Economic models clearly predict that higher penalties and audit probabilities should discourage non-compliance (Webley et al., 2002:2). Even if both have some deterrence effect, higher audit probabilities probably have more impact than higher penalties.

2.1.8 Improving Voluntary Compliance

The growing concern of tax administrations throughout the world is on how to simplify the tax assessment system to encourage voluntary compliance, and many countries have adopt the self-assessment system as a solution (SAS). Thus, the recent trend in developing countries sees a shift from the official assessment system to a SAS. Thus, setting up of a simple and broad based tax system is crucial to the development of a better tax administration. Studies have identifies the

main impediments as the lack of tax education among the taxpayers followed by poor public relation activities and inadequate penalty provisions for errant taxpayers. The need to increase training and improve the working environment of tax officials, as well as establish an information management system are also seen as important factors to be met for better tax administration. (Sarker, 2003).

2.1.9 Self-Assessment System (SAS)

In a SAS, a taxpayer is requires to assess his tax liability using a tax return form in which he declares his gross income, allowable deductions, etc. This tax return must then be files with the tax authority together with a payment for the tax liability computes in said the return. The basic feature of a SAS is that it is the taxpayer rather than the tax authority that is responsible for the assessment of tax liability. A SAS has distinct merits compares to an official assessment system. The chief merits are:

➢ SAS is more cost effective as it only selects exceptional cases for further scrutiny;

➢ SAS eliminates the administrative nature of assessment work,

➢ SAS encourages an early and timely collection of taxes, and,

➢ SAS reduces corruption by reducing contacts with taxpayer.

For a SAS to effectively implement there are certain critical factors that need to be considers are:

A. His process of deciding which tax returns should be audit is crucial. Taxpayers, who know that they may not be selects for an audit, would be motivates to cheat. A deficient process will also reduce compliance,

B. Under SAS, non-compliance should be dealt with justly and swiftly to encourage the majority of taxpayers to comply. In order to detect fraud or non-compliance, taxpayer data is important and this requires a certain level of computerization. In its absence, it would be extremely difficult to maintain compliance in a SAS,

C. The educational level of taxpayers is crucial in determining whether the SAS will work effectively. There must also be an observance of proper accounting standard of business.

For small traders, this means that must be a minimum level of record keeping. In the absence of proper accounting standards or record keeping, a taxpayer would not be able to declare his income accurately or enable the tax authority to conduct an accurate audit. (Tanzi, 2001).

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2.1.10 Tax Assessment

A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards. The core service responsibilities include:

1. Preparing annual market value assessments for all properties
2. Preparing the business assessment valuations for all business premises
3. Maintaining accurate property information and ownership on all realty accounts
4. Maintaining accurate business information and ownership on all business accounts defending assessments before municipal and provincial assessment tribunals
5. Responding to inquiries and requests for information relates to assessment and taxation
6. Producing and mailing annual assessment and tax notices to tax payers   reporting assessment rolls and meeting annual audits

2.1.11 Procedures for Tax Collection

It is expect that people's tax payments should be in line with their income and they are requires to pay a tax in proportion to their level of income. On the other part of the tax collectors, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Alternatively, this means that the ideal tax system in developing countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from tax system in other countries (Tanzi, 2001). The procedures undertaken by tax authority to ensure compliance are discusses as follows.

2.1.12 Identification and Registration of Taxpayers

Tax Identification Number (TIN) is use to identify taxpayers. Every taxpayer has a unique TIN, which he or she is supposed to use in all his or her correspondence with the tax authority, and no taxpayer should have more than one TIN. In countries like Uganda, they issue TIN free of charge upon the taxpayer completing a TIN application form (Kangave, 2005).

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2.2 Empirical literature review

Kangave (2005) discussed tax administration in Uganda's context. It then discuses Uganda's tax structure, the problems faces in administering taxes, and it gave possible solutions to the problems the author identifies in his research. The author, in his research, identifies corruption, tax evasion, and inadequate resources for tax administration poor quality of audits and inadequate support for tax administration as problems or challenges of tax administration that have weakens the ability to achieve desire the revenue targets. The author did not purport to address all of the problems. Neither does it set out to address in detail the causes of these problems. Instead, it points out the problems. Besides, the author recommendations for solving the tax administration problems are adopted from the Canadian tax administration system. The researcher do not believe that the tax Canadian tax administration system should not be taken as standard for measuring the performance of tax administration system. In addition to this, the author uses interview with the tax officials and relies on secondary sources. However, author could have also gather responses from the target taxpayers to get additional information for his research.

James (1999) examines issues affecting the formulation of tax policy through the development of actual proposals by tax policy-makers. This was done taking account of the possibility that too narrow an approach to this process can produce misleading conclusions and that proposals for tax reform may be inappropriate when the wider context of the tax system as a whole and the environment in which it has to operate must be consider. Two issues are used to illustrate the situation - tax compliance and tax simplification. The paper concludes that in developing tax policy it is important to ensure that the wider context is taken into account and it also outlines a practical approach to achieve this aim.

Jenkins (1991) emphasizes that the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. The researcher also warns that many ambitious tax reforms failed because of the inefficient tax administration. Without the permanent reorganization of the tax administration and almost daily improvements in methods of its management, it is impossible to expect that tax reforms could be realize successfully. The removal of exemptions, loopholes, and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system,

rationalization, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement. The administrative simplicity of "tax handles", however, while influencing tax policy, should not be allows to dictate it. Concentrating on just a few handles can lead to highly distortion structures (Burges and Stern, 1993).

Sahota (1961) undertook a study on the tax performance of the tax system of India for the period 1948-1958 using the proportional adjustment method and found that the tax system is inelastic even though the country had a highly progressive income tax at that time. The reason is due to a defective tax structure and rate schedule, wide spread tax evasion and income distribution in favor of the "non-income tax payers group" or in favor of the low-income brackets within the taxpaying group. Sahota (1931), on his part, studied the performance of the Indian tax system for the period 1948-58. This study use the proportional adjustment method to estimate elasticity of the system. Results of the study showed that the Indian tax system was inelastic, the causes of which are found to be a defective tax structure and wide spread tax evasion.

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

The following part will be discussing the empirical review specific to Ethiopia relates to tax administration in the country Wogene (1983) tries to examine the contribution of taxation. He argued that taxation and tax system is use as a tool for establishing the material basis of socialism. He estimate the buoyancy and built-in elasticity of the total tax revenue and examine the difference between the two measures to reflect the impact of the tax reforms on tax revenue for the period 1975-1981. He used the constant rate structure method to separate the revenue

impact of discretionary tax measure. His result indicates that the tax reforms have significantly contributes to the increasing tax revenue in the country.

The study by (Wogene 2004) showed that for the period 1975-81 tax reforms has enable as an increase in tax collection. This study employee the constant rate of adjustment method to estimate elasticity of the tax system. Likewise, the study by Eshetu compared tax productivity in the pre revolution, post revolution periods of Ethiopia, and found out that there is certain improvement in the tax collection of the government in post revolution Ethiopia. (Zelalem 2002) studied the productivity of the Ethiopian tax system for the period 1961 - 1998.estimate the buoyancy and elasticity of the overall and major individual tax categories using the method of division index. The results of this study show that the Ethiopian system is inefficient for most of the coefficients are found to be less than one. The given for the low productivity of the tax system is that the system suffer from the problems of weak administration and extensive tax evasion.

Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothers little or no to see the potential challenges faces the taxpayers and the tax authorities in administering different tax activities such as tax assessment and collection. The performance of the tax administration will have a bearing on the capacity to raise revenue for a country since it includes primarily the assessment and collection activities. Therefore, this research will not only identify the problems of the Arba Minch sikela kifle getema administration and tax payers, but also the cause of these problems. Because the researcher believes that identifying the root cause of the problems is the best ground to provide appropriate solutions.

CHAPTER THREE

3. RESEARCH Methodology

3.1. Research approach

This research paper was used research approach in such way that enables the researcher to study problem more easily and clearly using quantitative and qualitative method it is structure to provide relevant information both quantitative and qualitative, to sufficient level that will be essential for further processing.

3.2 Research design

This study would be used descriptive type of research design use both primary and secondary data. The primary data will be collected through questionnaires and unstructured interview. Secondary data were collected from annual reports and the study would be used mixed research approach quantitative data is expect to provide current stands and trends while quantitative one would be useful to understand people feelings and expectations.

3.3   Source of data

The researchers were used both primary and secondary source of data.

3.4 Data collection techniques

The researchers was used both primary and secondary source of data, the primary data was collected by using questionnaires from tax payers, employs of revenues bureau & personal interview with the manager of the revenue bureau and the secondary data was collected from the previous year reports of the bureau from different books and related public materials.

3.5 sampling

3.5.1 Target population

The Population of that it includes category "A" tax payers in Arab Minch sikela kifle getema, so currently, the total population of category "A" tax par in Arab Minch sikela kifle getema is 430 (four hundred thirty) respectively.

3.5.2 Sampling size

The sample size is 58 category "A" tax payer in Arba Minch sikela kifle getema, because the rather for sampling only 10% of the total population, so the population is very large and it is defecated to take More than 10%. The sample size (58) is determine by using the following

formula. $n = \dfrac{z^2.p.Q.N}{E^2(N-1) + Z^2.p.Q}$

Where, n= Sample size

Z= confidence level

P= Probability of success

Q= Probability of failure

N= Total population

E= error

N= 430

Z= 1.64, 90% CI

P= 0.5

Q = 0.5

E =10%

$n = \dfrac{(1.64)^2(0.5).(0.5).430}{(0.1^2.(430-1) + (1.64)^2(0.5)(0.5)}$

$= \dfrac{289.1}{4.9624} = 58$

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3.5.3 Sample selection technique

The sampling technique of the researchers under this study is to use probability sampling techniques, to select 58 sample sizes from the total population of 430. The researcher's uses probability sampling techniques, under probability sampling techniques the researchers uses to select simple random sampling techniques. The main reason to use this simple random sampling technique is to explain that all the sample size has equal chance of occurrence or all has equal probability to occur.

3.6 Data Presentation and Analysis

After the researchers collect necessarily and clear data from the primary and secondary source. The Data has been analyzed by using descriptive methods of table, percentage, frequency and interpretation the data collect from the respondent, table and percentage were used to analyze quantitative data.

CHAPTER FOUR

4. DATA ANALYSIS AND DISCUSSION

This chapter deals with analysis and interpretation on the base of data gathered through questionnaires and interview. In order to acquire information for business income tax payers and employees of tax bureau. From 430 of total population 58 was selected as sample randomly. then from total number of samples 35 was business income tax payers and 23 was employee's revenue bureau. From 35 businesses income tax payers 30 were correctly respond and returned the questionnaires and from 23 employees of the revenues bureau 20 were correctly and actively participated in responding the questionnaires. Furthermore, to gather additional data the researchers was held interview with manager of the revenue bureau.

4.1. Analysis of Data Gathered From business income Tax payers

Table 1 : General Profile of business income tax Payers

General Profile of business income tax Payers

Gender	Male	Female	Total			
No of respondents	20	10	30			
Percentage	66.6%	33.4%	100%			
Age group	20-30	31-40	41-50	Total		
No of respondents	10	16	4	30		
Percentage	33.3%	53.3%	13.3%	100%		
Educational back ground	Primary school	Secondary school	Certificate	Diploma	Degree	Total
No of respondents	6	8	8	6	2	30
Percentage	20%	26.7%	26.7%	20%	6.7%	100%

 Source: survey (2011)

The data collected through questionnaires indicate that about 66.6% of the respondents was male and 33.4% was female all respondents age lie above 30 years. The age group from 31- 40 cover the highest ratio with 53.3%. With regard to educational back ground 20% of the sampled respondents learned primary Schools, 26.7% secondary school, 26.7% have certificate, 6.7%

have diploma and 20% have degree. This implies the majority of owners are low educational level, so the problem is existed in the kifle getema.

Response of business income tax payers

Table 2: Tax collection system

Do you face any problem in tax collection system?

Response	Total No of respondent	Percentage
Yes	20	66.7%
No	10	33.3%
Total	30	100%

Source: survey (2011)

For the above question 66.7% of the tax payer tell us that a problems, when they pay their tax liability. As the data gathered from questionnaires indicate major problems mentioned by tax payers are weakness among tax collectors (by 53.3%), problem of procedure of tax collection with 26.6% and the existence of over taxation (20%) of respondents

Table 3: Incomes for profit tax payer

Is your annual tax liability based on your income?

Response	Total No respondent	Percentage
Yes	18	60%
No	12	40%
Total	30	100%

Source: survey (2011)

As tried to show in above table above 60% of the tax payers have complain on tax amount imposed on them because the tax they paid is not based on their income. But the reality is annual tax liability is based on income, the business income tax payers dishonest.

Table 4: Time of tax payment

When do you pay tax?

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Response	Total No of respondent	Percentage
When receive assessment notification	4	13.3%
Before due date	24	80%
After due date	2	6.7%
Total	30	100%

Source: survey (2011)

As the data gathered implies that 93.3% (13.3% + 80%) of the tax payers are paid their tax liability on time for the same question the response of revenues bureau employees was almost nearest to this percentage with 58%. The late payers reason out some problems for the late payment like of cash on hand on exact time of payment.

Table 5: Capacity of tax payers

Does the tax rate imposed by government is fair

Response	Total No of respondent	Percentage
Yes	22	73.3%
No	8	26.7%
Total	30	100%

Source   : survey (2011)

From the sampled respondents 73.3% have not complained on the tax rate imposed on them because they feel it is not above their capacity.

Table 6: Range of payment date

Is the payment period enough?

Response	Total No of respondent	Percentage
Yes	24	80%
No	6	20%
Total	30	100%

Source: survey (2011)

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Among the respondents 80% of the tax payer's answers indicate that the payment period is enough. The remaining 20% say the payment period is not enough. This realizes that range of time that given for payment is enough.

Table 7: Knowledge about business income tax payer

Do you know why tax is compulsory?

Response	Total No of respondent	Percentage
Yes	26	86.6%
No	4	13.4%
Total	30	100%

Source: survey (2011)

Knowledge of tax payers about taxation is still adequate about 86.6% of tax payers have an idea why they pay tax. Some tax payers when ask why they pay tax they reply that only they pay tax it is obligatory because no awareness creation concerned body.

Table 8: Feeling about present tax system

How do you see present taxation system?

Response	Total No of respondents	Percentage
Good	16	53.3%
Not good	12	40%
Need restatement	2	6.7%
Total	30	100%

Source: survey (2011)

From all respondents 84.84% (53.3%+40%) almost have positive about present taxation system and the remaining 6.7% feel not good. For the same question submitted for employees the majority of them have good feeling for the present tax collection system (i.e. annual income tax is based on their income)

Table 9: Tax collection system

Are you satisfied with the method of assessment?

Response	Total No of respondent	Percentage
Yes	22	73.3%
No	8	26.7%
Total	30	100%

Source: survey (2011)

Based on the above table 73.3% of the respondents are satisfied with the method of assessment. The following are some of the reasons mentioned by the tax payers are the tax system are modernized; the appointed tax collectors are feeling responsible or have an interest on their position.

4.2 Analysis of data gathered from employee

This part of the analysis discussed with question that offered for the employees of revenues bureau and their 23 employees of the bureau but answer 20 employees and their manger were actively participated in answering the questionnaires and stringy assist we by giving necessary data for our study.

Table 10: General profile of the employees

Gender	Male	Female	Total	
No of respondent	15	5	20	
Percentage	75%	25%	100%	
Educational back ground	Diploma	Degree	Other	Total
No of respondent	3	17	-	20
Percentage	15%	85%	-	100%

Source: survey (2011)

As it is shown in the above chart the business income tax collector/ employees in Arbaminch sikela revenues bureau are only 23 but the researcher select only 20 employees through decision

sampling technique. Males are 15 and the remaining 5 are females. Educational back ground of the employees tells us that about graduated Diploma and Degree.

Table 11: Responsible for tax

Who is responsible for tax collection and assessment?

Response	Total No respondent	Percentage
The policy	2	10%
The tax payers	6	30%
Tax office	2	10%
All	10	50%
Total	20	100%

Source: survey (2011)

Only 50% of the respondents answered that tax collection and assessment is the responsibility of all the remaining 50% answered different answer.

Table 12: The relationship of office

How do you evaluate the coordination of your office with others?

Response	Total No of respondent	Percentage
Excellent	**6**	**30%**
Very good	**10**	**50%**
Good	**4**	**20%**
Less	**-**	**-**
Total	**20**	**100%**

Source: Survey (2011)

For the question above about 50% of the respondents to tally answered very good, 30% excellent and 20% Good   this averagely implies us the offices coordination with others office is very good.

Table 13: Structural adjustment

What do you think about the bureaus structural adjustment?

Response	Total No of respondents	Percentage
Complete the work quickly	4	20%
Complete the work moderately	12	55%
Complete the work excessively	5	25%
Total	20	100%

Source:survey(2011)

According to data gathered from the respondents about bureaus structural adjustment 55% of the employees believe that it is complete the work moderately, 25% of respondents feel that its complete the work excessively and 20% of employees believe that complete the work quickly.

Table 14: Understanding capacity tax payers

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

Response	Total No of respondents	Percentage
High	4	20%
Medium	10	50%
Low	6	30%
Total	20	100%

Source: survey (2011)

The response of employees concerning knowledge of tax payers describe that 50% of the respondents come out with the knowledge of tax payer is medium, the 30% respond that their knowledge 0f the tax payer is low and the remaining 20% respond that the knowledge of tax payer is high.

Table 15: Capacity of employees

What do you feel about the position you have assigned?

Response	Total No of respondents	Percentage
Is the position	12	60%
Beyond my capacity	6	30%
Under my capacity	2	10%
Total	20	100%

Source: survey (2011)

Majority of the respondent 60% fee about the right position and the other 30% employees feel their position is under their capacity and 10% of employees feel their position is beyond their capacity so this implies that the majority of the employees satisfied by their position.

Table 16: Tax assessment system

What is your idea about present tax collection and assessment systems?

Response	Total No of response	Percentage
Is effective	15	75%
Show discrimination	1	5%
Have in sufficient manpower	4	20%
Total	20	100%

Source: survey (2011)

Among the respondents 75% of the tax payers approve that the present tax collection and assessment system is effective 20% of the respondents answered have insufficient power of man because few numbers of business income tax collectors and 5% show that there is discrimination among tax collectors in our country.

4.3 Evaluation of tax collection performance.

Table 17: the three years estimated and actual amount of tax collected in arbaminch sikela branch.

Year	Estimated amount of tax	Actual amount of tax collected	Percentage
2010	8,696,308	8,506,841.4	97.8%
2011	9,265,434	8,575,384	92.55%
2012	11,758,866	9,830,727	83.6%
Total	29,720,608	26912952.4	90.55%

Source: Arbaminch sikela Revenues Bureau

As presented in the above table the actual amount of tax is less than estimated amount of tax collection.

The data gathered interview with the manager of the revenue's bureau indicate that the major factors for decreased the amount of actual tax collected from the budgeted amount of tax are:

1. Especially category A and B business income tax payer's does not tall actual annual income.
2. Tax collection system is not modernized.
3. Unethical behaviors of business income tax payers, this is the problem.

In this case decries the annual actual income tax (i.e. does not exist or published infra-structure) because there is no sufficient budget. This implies there is weak tax collection system.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The data collected using the questioner and interview shows there are certain problem tax creates hindrance on the tax collection problem in business income tax. The problems they were raised on the research questions starts from the understanding of tax concept. Here are the major conclusions derived from the survey analysis.

- ➢ The main reasons of lack of awareness of tax payers are first, most business owners have low educational background that limits their attitudes to see big picture why tax was being collected and complicacy. Secondly, the insufficient training and sustainable awareness creating sessions given by the authority and lastly the less involvement of business income tax payers in the existing training sessions.

- ➢ Unethical behavior of business income tax payers was raised as one of the major problems The survey showed that the causes of this unethical behavior are due to the fact that owner tax payers basically believe that they are not the direct beneficial party by paying taxes they believe they are paying to the government without having any benefit. Due to this poor awareness, delay in tax payment and evasion are taken by tax payers as solution to escape from payment of taxes. Moreover, tax is not collected in timely manner the inconveniencies created was be much higher especially finding the fraudulent activities done by business income tax payers.

- ➢ It can be asked from the finding that what remedies have been taken by the tax authority to solve the challenges and problems faced. The survey result showed that there are not many remedies taken by the tax authority to solve the existing problems. The insufficient training sessions, the poor quality of service rendered, is not at the position to take corrective measures at the current situation.

5 .2 Recommendations

Based on the results found from the survey and interview an assessment of tax collection problem in business income tax relevant suggestions that are useful to minimize the problem of the of town.

For the authority:

- The poor awareness about tax is visibly being that major problem which was caused by low educational back ground and insufficient training session.

  Educating tax payers is the crucial fact to solve the problem from their root. In order for the tax authority to educate and improve the tax payer's awareness level, it would be very effective to arrange seminars on tax issues prepare and give adequate and sustainable training sessions concerning their obligation, and awareness creating conference. The other method of transmitting tax concepts, its related rules and regulations to the society is resolve by using the different media as a means to educated tax payers and change their perceptions about tax reporting behavior and their overall perceptions of taxation in general.

- Because tax payers believe government is the ultimate party benefiting from tax and they think they have no direct benefit from paying tax, they show little interests to pay their liability. Hence the best remedy to the authority to tackle this misconception is again preparing seminars and training session. Besides it would be very wise to the authority if it involves in different social activities so that it can pass it objectives through.

  The government at large also needs to be sensitive in addressing where and how the collected taxes are spent using various Medias. After having built infrastructures, dams, bridges, and other projects, it would be very essential to the government to give credit to the tax payers for the contribution they made and that makes them feel they have ownership on the country's growth. This could help the tax payers to act ethically.

- Tax fairness brains equity and equity means encouraging and protecting honest and loyal society by adopting fair completion and effective tax collection system.

  Therefore, recommend the authority to adopt effective and modernized tax collection system, relevant awareness creation methodologies to teach tax payers, and in fact full disclosure on the assessment of tax collection. Therefore, transparency of tax authority is very essential to create Good tax collection systems.

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✧ Lastly, the authority would achieve its goal by arranges seminars and sustainable training sessions. Besides, of would be worth taking if the authority be able to build good customer relation while rendering it service to tax payers like the manner of how they treat tax payer and how they handle issues of the tax payers.

In order to avoid the assessment of tax collection problem in business income tax, it would be better if the authority be able to strength its follow up practices by enriching the human resource of the office and tightening its control system.

Moreover, transparency and full disclosure of information to the tax payers plays vital role in minimizing the forwards problems.

☞ **For the business income tax payers**

✧ Expecting direct benefit from paying tax, the perception of government's ultimate beneficiary from tax, viewing tax as an obligation, and believing government as the only responsible body for the growth of the country are lack of awareness of tax payers. These can be achieved not only by enriching academic back ground but also by actively participating in seminars and training session and by asking getting information how and where the government is using the fund collected through tax. The more involvement on the tax formation system help tax payers learn more about the rules and regulation concerning the different taxes how and when they are expected to declare.

✧ Again business income tax payers rather than being silent and refrain due to the poor services they have been rendered they would be beneficiary if they are keep to consult the authority's concerned officials in any issue related to tax matters and problems they are facing. As they have the obligation to pay their duties they also have the right to get sufficient support from the authority. And this support comes from the communication they create with authority.

✧ Finally, Recommend business income tax payers needs to have a well understanding of their current and future tax obligation white establishing a business at its early stage.

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Appendix I

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PARAMED HEALTHY AND BUSINESS COLLEGE

DEPARTEMENT OF ACCONTING AND FINANCE

Questionnaires related to business income tax payers

Dear respondent

We are student at Paramed health science and business college department of accounting and finance study in titled ''assessment of business income tax collection problem in category "A" taxpayer in case of Arba minch sikela kifle getema, the purpose of this study is to investigate and analyze the tax collection problem in business income tax and this questionnaires was designed to collect primary data in this research.

We would like to assure you that only the researchers will have access to your responses. This research is for academic purpose and any information you provide kept confidential and results will be reported in an aggregate from that does not disclose the identity of individual's respondents.

No need of writing your name

Kindly request you to answer by making (x) or ( ) where ever appropriate

Thank you for your co-operation in advance.

Part One: Personal information

1. Gender   Male   ☐   Female ☐

2. Age   20-30 ☐   31-40 ☐   41-50 ☐

3. Educational status (back grounds)

A) elementary school (1-8) ☐   B) secondary school (9-12) ☐   C) certificate   ☐

D) Diploma   ☐   E) first degree   ☐   F) other ------------------------------

4. Job position --

Part II questionnaires related with subject matter

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5. What is your feeling about taxation? A. as an obligation ☐

        B. as debt ☐   c. as useful ☐

6. Is the tax payment period enough? A. yes ☐ B. No

7. When do you pay tax?

  A. when I receive assessment notification ☐

      B. before due data ☐   C. after due date ☐

8. Is your annual tax liability based on your income?

 A. yes ☐   B. No ☐

9. Do you face any problem in tax collection system?

A. yes ☐ B. No ☐

10. If your answer is "**yes**" for question number (8) what is your possible reason?

    A. Problem of procedure of tax collection system ☐

    B. Weakness among tax collector ☐

    C. The existence of over taxation ☐

 D. If any other specify _____

11. How do you see present tax system? A. Good ☐ B. Not bad ☐

     C. Need restatement ☐

12. Do you know why tax is compulsory? A. Yes ☐ B. No ☐

13. If your answer is "no" for question no 11 what is your reason?

    A. No awareness creation by concerned body ☐

    B. Because tax is not so far contribute for ones country's development ☐

    C. I am not obliged to pay tax because it is not my responsibility. ☐

    D. If any other specify _____

14. Are you satisfied with the method of assessment? A. Yes ☐ B. No ☐

15. If your answer is "no" for question no10 because of what?

    A. Power to collect tax is not delegated on the town ☐

    B. Tax collection system is not modernized one ☐

    C. Appointed tax collectors are not feel responsible ☐

    D. If any other specify _____

16. Does the tax rate imposed by government is fair? A. Yes ☐ B. No ☐

Appendix II

PARAMED HEALTHY AND BUSINESS COLLEGE

DEPARTEMENT OF ACCONTING AND FINANCE

Questionnaires related to revenue of tax collection offices

Dear respondent

We are student at Paramed health science and business college department of accounting and finance study in titled ''assessment of business income tax collection problem in category "A" taxpayer in case of Arba minch sikela kifle getema, the purpose of this study is to investigate and analyze the tax collection problem in business income tax and this questionnaires was designed to collect primary data in this research.

We would like to assure you that only the researchers will have access to your responses. This research is for academic purpose and any information you provide kept confidential and results will be reported in an aggregate from that does not disclose the identity of individual's respondents.

No need of writing your name

Kindly request you to answer by making (x) or ( ) where ever appropriate

Thank you for your co-operation in advance.

Part One: Personal information

1. Gender   Male   ☐   Female ☐

2. Age   20-30 ☐   31-40 ☐ 41-50 ☐

3. Educational status (back grounds)

A) elementary school (1-8) ☐   B) secondary school (9-12) ☐   C) certificate ☐

D) Diploma ☐   E) first deg ☐   F) other ------------------------------

4. Job position ----------------------

1. How do you evaluate the coordination to you office with the other office?

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A, Excellent ☐   B, very good ☐ C, Good ☐   D, less ☐

2. who is responsible for tax collection and assessment?

A, the police ☐ B, tax payer ☐ C, tax office ☐   D all ☐

3. How do you think about the position you have assigned?

A, is the right position ☐ B, beyond my capacity ☐   C, under my capacity ☐

4. What do you think about the bureau's structure adjustment?

A, will complete the work quickly ☐ B, will work excessively ☐

C, will work moderately ☐

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

A, Effective ☐   B, show discrimination, ☐   C, have insufficient man power ☐

6. How do you evaluate knowledge of tax payer about taxation?
    A, High ☐   B, medium ☐   C, low ☐

7, Do most tax payer pay their tax liability on time?

A, yes ☐   B, No ☐

8, How the business income tax payers affect in tax collection system?

A, Dose not paying on time. ☐

B, Dose not voluntary paying business income tax ☐

C, unintentional or intentional controversial business income tax. ☐

D, If any other specify……………………………………….

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