

## **Performance Determinants of Business Income Tax Collection: A Study Conducted in the Boditi Town Revenue Collecting Branch Office, Wolaita Zone; SNNPR, Ethiopia.**

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**ABSTRACT:** In order to financing public expenditure, government tax by reforming and restructuring the existing tax system. Boditi Town Administrative Revenue office is one of local government office levied and collects taxes like business income tax for the provision of goods and services for the society, but the revenue office is not able to collect the tax revenue as expected. The objective of this study is to identify determinants of business income tax collection performance in Boditi Town Administrative Revenue Office: The researcher was used descriptive research design with quantitative and qualitative techniques..Both primary and secondary data were used. The total population of this study was 255. To determine the required sample size the Yamane sample determination formula was used and Sample size of this was 155. Stratified random sampling technique was used to select 155 respondents and 8 officials 8 experts selected by using purposive sampling technique. Five likert scale questionnaires and interview were used to collect required data and simple and advanced statistical tools were used to analyze collected data. 77.3% of variance explained by six tax collection performance determinant variables. Research recommend that taxpayers should have give information about their business to the revenue office and revenue office should create positive approach and awareness about taxpayers Taxpayers should maintain books and records to their business, revenue office should give training to taxpayers to how books of account are maintained. The revenue office should enhance the employee's capacity to improve tax collection performance.

**KEYWORDS:** Business, Collection Determinants, Income, Tax, performance

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### **I. INTRODUCTION**

#### **1. Background of the study**

Different authors have defined tax in different ways. Tax is a compulsory contribution (levy) payable by an economic unit to a government without any expectation of direct and equivalent return from the government for the contribution made (Bhatia, HL, 1976). Tax is the most important source of government income, where country's governments collect a large amount of income through taxation. However tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by government. (Kagave, 2005), Confirmed that tax administration is the identification of tax liability based on the existing tax laws, the assessment of this liability and the collection, prosecution and penalties imposed which covers a wide area of study encompassing aspects such as registration of tax payers, assessment, returns processing, collection and audits. (World Bank, 1991), in most developing countries, like Ethiopia, the revenue generated by the government is quite less than the expenditure spent. This low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration or on account of straight forward collusion between the administration and the tax payers.

In Ethiopia, tax is administrated on Federal or Central and Regional levels. The constitution of Federal Democratic Republic of Ethiopia (FDRE) under articles 96-100, has separated the tax revenue to be collected by the federal government, state or regional government and jointly by federal and regional government. The regional government of Ethiopia collects taxes and revenue by bureaus of regional Inland Revenue authorities from privately owned enterprises and organizations of regional governments.

Whereas, the central government revenue collection organs are responsible to collect revenues of federal and joint revenues owned by both the central government and regional governments from different organization including those owned by federal government. The sharing of revenue between the federal government and regional governments take in to consideration such things like the ownership of source of revenue, the regional

character of sources of revenue, convenience of levying and collection of tax and duty, population distribution of wealth, standard of development of each region, and other factors that are basics for integrated and balanced economy.

The tax assessment for those who are required to maintain financial records or books of accounts is done based on the records that the tax payers maintain however, if they fail to maintain financial records, assessment will be done by estimate. For the rest of tax payers who are not required to maintain financial records it is based on the standard assessment method Council of Ministers (FDRE council of ministers, income Tax regulation No. 78/2002) The revenue office is not able to collect the tax revenue as expected because the fairness and equity, tax payer's talent, attitude towards business income tax, government regulation, and tax collectors inefficiency are some of the determinants that different scholars highlighted. Hence, this study is to identify the main determinants that hinder business income tax collection performance and to fill the gaps by using possible mechanisms in Boditi town Tax authority branch, Southern Nation Nationality People's Region (SNNPR) Ethiopia.

## **1.2 Statement of the Problem**

To finance the public expenditure, government needs funds through different mechanisms and sources of finance. These sources of finance could be raised through tax and non tax sources. The source of tax revenue may be direct or indirect taxes that the government levy and collect from the citizens. Among direct taxes business income tax one of the taxes collected by government to finance expenditure. It is imposed by the government on the taxable business income/ profit of a business realized from entrepreneurial activity( Misirak ,2011) According (Demirew, 2005) business income tax is a corporate tax which is taxed from businesses that are run by one person or by a set of partners are taxed as part of the owners in come. As per these authors' all taxes are taxed under personal income tax system. Tax law of Ethiopia not specifically defines the term business income or profit so that it is considered in its natural and commercial meaning. Business income also called business profit or schedule 'C' income refers to any income or profit which derived essentially from business activity or an activity recognized as trade in commercial code of Ethiopia. It is income or profit derived by a trader from activities performed to its customers subject to certain deductions of business expenditures. Income or profit derived from the entrepreneurial activity is treated as business income /profit ( Misirak ,2011) In Ethiopia the assessment and collection of tax, the declaration of incomes by tax payers provides the basic data for the assessment of the taxpayers' income tax liabilities by tax activities protects the tax payer's from arbitrary imposition of the tax authority. It also ensures voluntary tax collections by tax authority. The declaration of income by a tax payers' as a major input so as to determine whether the tax payer shall continue in the same category or his category be changed for the following year. In order to assess and collect the required taxes from the taxpayers' by the appropriate Tax Authority, the incomes of a given year with the necessary supplementary documents shall be declared to the concerned tax officials. But, where a taxpayer who is required to maintain books of accounts fails to do so, or fails to declare his income within the time period set in the income tax legislation, or the books of account maintained by tax payers are unacceptable to the tax authority the standard assessment method is used.

According to (Demirew, 2005) complexity of tax law, regulations and directives to assess and collect tax administration problems of tax office, unawareness of taxpayers about benefit of the tax for country development, lack of competent personnel to assess and collect tax, noncompliance of taxpayers, weak tax administration have been reducing tax to be collected and negatively affecting government to achieve its objectives. On contrary, clear and applicable tax rules and regulations, competent tax officers, taxpayers awareness about the benefit of tax, strong tax administration contribute to the government to achieve the objectives specified in the constitution. The Boditi Town Administrative Revenue Office is one of the tax administrative offices found in the Southern Nation Nationalities Peoples Region (SNNPR) and operates in the environment that the above types of problems may identify. Thus the focus of the study will be problems on business income tax assessment and collection in Boditi Town Revenue Office. Accordingly, this study was attempted to give responses to the following research questions: What are the major challenges that face Boditi Town Revenue office in business income tax collection and What Administrative problems exist with the collection of business income tax?

## **1.3 Objectives of the Study**

### **1.3.1 General Objective**

The general objective of the study is to assess the determinants on the collection of business income tax at Boditi Town Revenue office.

### **1.3.2 Specific Objectives of Study**

- I. To identify the major determinants that affect business income tax collection performance
- II. To evaluate whether the revenue office collects the business income tax as planned or not.

## **II. REVIEW OF RELATED LITERATURE**

### **2.1. What is Taxation and Tax?**

According to ( Misirak ,2011) Taxation is a system of raising revenue by government through tax. It is a method of collecting funds by a government from tax sources to finance its operation. Taxation is also a means by which a government, through its law making body raises internal income through tax for the use and support of the government and enables it to discharge its appropriate functions. In a similar manner,( Bhaita , HL ,1998),also defines the word tax as “a compulsory levy payable by an economic unit to the government without any corresponding entitlement to receive a definite and direct quid pro quo from the government for the contribution made. “

### **2.2 Classification of Taxes**

Different authors and scholars classify taxes in many different categories and classifications based on the angles they have looked. The most commonly made is between direct and indirect taxes. The idea is usually underling this distinction is that a direct tax is really paid by person on whom it is legally imposed, while an indirect tax is imposed on one person, but paid partly or wholly on another, owing to a consequential change in the terms of some contract or bar gain between them( Misirak ,2011).

In Ethiopia taxes are classified in to direct and indirect taxes with their own proclamation numbers. Direct taxes refer to those taxes that are paid by the person who earns income. Direct taxes, the impact and incidence fall on the same person. It is borne by the person on whom it is levied and cannot be passed on the others.

According to (FDRE council of ministers, income Tax regulation No. 78/ 2002) of the country, direct taxes are employment income tax (schedule A ),rental income tax( schedule B ),business income tax (schedule C), and other income (schedule D ). Indirect taxes are taxes which borne by someone other than the person responsible for paying them. The indirect taxes in the country are value added tax VAT, Turn over tax (TOT), excise tax, stamp duty, and import taxes. These taxes have their own proclamation.

### **2.3 Schedule “C” Income Tax or Business Profit Income**

Business tax plays on important role in the public revenue of Ethiopia government. Unlike the tax treatment accorded to business in most other, the Ethiopian business income tax regulations are applied to all forms of business enterprises corporations, partnership and sole proprietorship. The incorporated bodies one countries subject to a specific tax rate and all other enterprises are subject is uniform progressive tax rate on net business income. Business income tax is the most important source of direct tax revenue for the government; certain small businesses are taxed on presumptive basis by applying available coefficient(depending on type of business) to the enterprises goes turn over business income tax is changed on the profit of business enterprises or their activities arising each accounting period (FDRE council of ministers, income Tax regulation No. 78/ 2002). The following are schedules available in the Ethiopian taxation system: Schedule “A” income tax or employment income, Schedule” B” income tax or rental income; Schedule "C" income tax or business income; Schedule "D" income taxes or other income includes: royalty income, income from rendering technical service, income causal rental of property, interest income or deposit and income from capital gains.

### **2.4 Time of Declaration of Income and Payment of Taxes**

^Tax payers under schedule C income have to follow the procedure stated in the tax for declaring their tax income. The period of declaration depends on the category which they belong. The procedures may be summarized as follows: Tax payers who are categorized as “A” are required to declare their taxable income within four months from the end of the tax period. For example, if the tax payers follow the fiscal year period from 8<sup>th</sup> of July 7<sup>th</sup> July the income has to be declared and paid till 9<sup>th</sup> November during a leap year according to the Ethiopian calendar. Those taxpayers categorized as “B” is required to declare their taxable income within two months from the end of the period. For example, if the taxpayers follow the fiscal year; the one year period from 8<sup>th</sup> of July to7<sup>th</sup> July the income has declared and paid till 6<sup>th</sup> of September during a leap year according to Ethiopian calendar during a leap year according to Ethiopian calendar). Category” C” taxpayers should declare tax income together with the annual turnover and the amount derived from the sources other than the main operation within 30 days from the end of fiscal period, 6<sup>th</sup> of August every year) Declarations are to be made in prescribed forms provided by the income tax authority accompanied by the required supporting evidences.

### **2.5 Categories of Business Income Tax Payers in Ethiopia**

As per the income Tax regulation No. 78/2002, for the purpose of assessment and collection business tax, tax payers are categorized in to three namely, category “A”, “B”, and “C.” Category “A” tax payers: which shall include any company incorporated under the laws of Ethiopia or a foreign, and any other business having an annual turnover of birr 500, 000 (five hundred thousand Br) or more as per aforementioned regulation article

18(1) .Category “B” tax payers, as per aforementioned regulation article 18(2) unless already classified as category “A” any business having an annual turnover of over 100,000 (one hundred thousand Br). Category “C” tax payers :according to the aforementioned regulation article 18(3), unless already classified in category A and B whose annual turnover is estimated by the tax authority as being up to birr 100,000 (hundred thousand birr).

## **2.6 Business Income Tax Administration**

### **Tax laws and Regulations**

According to (Higgins, M., 2007) the Primary authorities consist of constitution, new tax laws enacted by higher legislative bodies and incorporate by revenue authority.

In Ethiopia, in accordance with article 55(1) and (11) of constitution income tax proclamation No 286/2002(FDRE council of ministers, income Tax regulation No. 78/ 2002) has been proclaimed. This proclamation has different chapter and sections. Regulations are issued by the council of ministers pursuant to article 5 of the definitions of powers and duties of executive organs of the Federal Democratic Republic of Ethiopia (FDRE, national constitution,1995) (as amended) and article 117 of the income tax (FDRE council of ministers, income Tax regulation No. 78/ 2002). Thus, the Tax Authority has powers and duties of implementation and enforcement of this proclamation and regulations issues here under, notwithstanding anything to the contrary in any other law the tax authority shall be empowered to investigate any statements, records and books of accounts submitted by any payer of any time by:(a) Sending duly accredited inspectors to the place of business or practice of the tax payer to check same or any vouchers, stocks of other material items of the tax payer;(b) requiring the tax payer or any employee thereof who has access to or custody of any information, records or books of account to produce the same and to attend during normal office hours at any reasonably convenient tax office and answer any questions relating thereof;(C) requiring any person including Municipality, Body, Financial Institution Department or Agency Of Federal or Regional Government to disclose particulars of any information or transactions, including any lending or borrowing which it may have relating to the tax payer.

### **2.7 Tax Assessment**

Tax assessment refers to initial review by the tax authority of the tax deflation and attached supplementary documents submitted by a tax payer and a verification of the arithmetical and technical occupancy of the declared tax liability and tax payable shortly after the submission of the tax declaration. Once an income declaration is checked and verified by the concerned tax authority through a process called income tax assessment. Hence the assessment is the end result of the process of ascertaining a tax payer’s taxable income and the payable on that income ( Misirak ,2011)

### **2.8 Tax Collection Procedures**

Collecting tax is a challenging task for tax authority especially when there are large numbers of tax payers with different taxes. Usually tax laws requires tax authorities to furnish tax payers with non technical statements that explain taxpayers' rights and the tax collectors' obligations with respect to tax assessments and audits; the procedures for taxpayers to seek review of adverse decisions of the collectors in tax assessment, claim returns, and file complaints, and the procedures the tax authorities may use to enforce tax liabilities. Tax laws also states the legal enforcement procedures the tax authorities may use to collect taxpayers tax debt if a taxpayers fails to pay, or make arrangements to pay and assessed tax liability. It is to be interest of citizens and taxpayers that all tax levied by law different public purposes be promptly collected, that all delinquent taxes be fairly and promptly enforced and collected by all lawful means available to the collecting authority or his lawful agents or attorney and that when collected, tax monies be transmitted to the appropriate receiving agencies as soon as is practicable. In general, tax collection involves some procedures. The main tax collection procedures are:

#### **2.8.1 Identification of legal tax source**

It is clear that governments impose different taxes. There are different objectives that the government wants to achieve by imposing taxes. Governments levy tax to finance legitimate government activities, to discourage consumption of some products, to stabilize economy, to encourage activities, to ensure a fair distribution of income in the society, and so forth. To achieve those and other objectives, government uses taxes as personal income tax, business income tax, value added tax, excise tax, sales tax, custom duties, and stamp duties.

To implement and administer those taxes proclamations directives and regulations are issued by concerned bodies. Different taxes are governed by different proclamations directives, regulations and statements. As the result the first step is the smooth application and collection taxes to identify the appropriate legal tax sources that governed each of these taxes. This will help to identify the obligations and expectations of both taxpayer and the tax administer.

#### **2.8.2 Specification of legal collection period**

Taxes are collected at different time depending on the nature of the tax and **the** size of taxpayer. Taxes are usually paid monthly, semi annually, and annually. Each tax payment period has specific payment due date.

### **2.8.3 Preparation of Appropriate Tax Collection Forms**

Taxpayers communicate their tax related affairs with tax authorities through tax return forms. Tax return forms are documents that contain financial and other tax related pertinent about the tax liability of the taxpayers. These forms are used to communicate to the tax authorities about the tax liability of the taxpayers. Normally, tax return forms contain the name, address, the tax identification number, and financial items that determine the tax base and tax liability of the taxpayer. The formats of the tax return forms are not uniform throughout the world. Different countries are different tax return forms. The formats are also subject to change whenever there are needs to simplify the tax return procedures. Furthermore, for tax types different tax return forms are used and filing tax returns may not be a simple task especially when the forms involve many pages full of technical terms with many things to be filled. Different tax return form provides professional service to different taxpayers to assist them in properly filling their tax return.

### **2.8.4 Processing Tax Collection Deposits Properly**

Once tax liability of each taxpayer is determined and tax return forms are completed, tax authorities collect taxes in any appropriate manner. To effectively administer the tax collection procedure, tax authorities uses different methods to collect taxes from taxpayers. One approach is to require tax payers to pay their tax liability directly to the tax authority office. This requirement may make the collection effort very difficult, as their will be a long line to pay ones' tax liability. The other alternative is to uses Commercial Banks as a tax collection centers so that tax payers will not be required to come to the tax authorities office, rather they will pay their tax at nearby Bank branches. Taxes must be paid on or before the dead lines. In some cases tax authorities may allow short term extensions on larger amount of income taxes. This is simply an extension of time given to the taxpayer to make full payment of the liability. The extensions may be granted in persons by telephone or by correspondence.

## **2.9 Factors that Affects Awareness and Compliance of Tax Payers**

### **2.9.1 Fairness and Equity**

As mentioned by (Smith, 1976)], one of the main principles of taxation system design is equity and fairness, which can be perceived by two dimensional views. Horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (taxes paid increase with the amount of tax base). The most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. If a specific group perceives that their tax liability is higher than other group, the tax evasion may occur among the group members.

To sum up, regardless of this inherent problem, ensuring the fairness or equality of a tax system is second to nothing. In another word, a good tax system is essential that it should appear equitable to the tax payers.

### **2.9.2 Culture and Social Norm**

According to (Fjeldstand, o.and Ranker, L, 2003), increased efficiency of tax administration, however, is not enough. Many observers conclude that lack of taxpaying culture is the largest obstacle to build affirm long term revenue base. The opposite may, however, also be the case as long as the tax administration culture is perceived to be influenced by sectarianism, nepotism and corruption; it is unlikely to contribute to the fostering of a more conducive taxpaying culture. Gaining a better understanding of why do and do not accurately reports and fully pay the taxes they owe is obviously interesting to policy makers (Smith, 1976)

In the case of tax payers' behavior, there are legally defined rules about incomes to declare and deductions to make as well as punishment that follows from the rules, if detected. But, the essence of a social norm is not basically what legally defined; rather, it is informal or socially defined rules specifying what actions are regarded as proper and correct, or improper and incorrect. The rules are based on interests, values and attitudes developed within the group. The concept of sanction goes hand in hand with the concept of social norm; sanctions are the groups' punishments for violation of social norms. Thus, a social norm is composed of a socially defined rule of behavior based on common values, backed up by a system of sanctions. Norm obedience may follow from internalization of the norm and the values up on which it is founded, or an effective system of sanctions. It is often argued that tax evasion, or tax compliance, is determined by prevailing social tax norms to substantial extent

### **2.9.3 Taxpayers Education**

Information should readily be available to service users in language(s) they understand. (Bird, R.M and Old man, O., 1967) also noted in many countries of the world tax payers assistance, information and education is one of the fundamental concerns of tax administration in their effort to achieve the maximum possible level of voluntary compliance by tax payers. In order to comply with the law, tax authorities must provide their citizens as developing clear forms and instructions, providing points of contact to request and secure information about their duties and responsibilities under the tax law, to foster reasonable high level of compliance and minimize problems.

In Ethiopia where the knowledge and access for information about tax matters is very low, tax payers education have been assumed as a major determinant to bring tax payers in to the track of compliance.

Complexity in the tax law and its administration can easily baffle taxpayers and leads to compliance problems. Inadequate planning for taxpayers' education and outreach may significantly impact compliance in ever-changing complex tax environment.

Therefore, taxpayers' education and access to information is very essential in promoting compliance. Tax payers must receive clear and concise information on what is taxable, how to calculate their tax liabilities, and procedures for calculating and paying taxes and where and when they pay taxes. In addition, forms and procedures for calculating and paying taxes should be as simple as possible. Thus, educating tax payers and keeping them well informed with the sentences of being an evade understanding obligation may be important, as a prevention measure is better than cure.

#### **2.9.4 Organizational Strength of Tax Authorities**

A study conducted by (Richardson, G., 2008), suggested that the role of a government has a significant positive impact on determining attitude towards tax. He also suggested that government should increase its reputation and creditability in order to obtain trust from tax payers.

A tax system does not function in the vacuum. Its relationship with at every turn are with the public and since the combination of taxes reaches nearly every individual in one way or another; the administration finds itself dealing with the nation as a whole, hence inevitably its operations and effectiveness are affected by the attitudes of the nation towards the tax system (Bird, R.M and Old man, O., 1967)

Generally, although previous studies could not provide conclusive results on the measurable impact of the efficiency of the government on the compliance, however; researchers from different countries have discussed this issue and some authors have described how the role of government in inducing tax compliance is important and relevant.

#### **2.9.5 Attitude towards the Government**

Taxes are the price paid for the government services and tax payers are generally sensitive to the way the government uses tax revenue. Therefore tax payers perceive their relationship with the state not only as relationship of coercion, but also as one of exchange. Individuals will feel cheated if taxes are not sent efficiently. Studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion, are very limited. Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. However, in most developed countries like the United Kingdom which implement Pay as You Earned (PAYE), it is quite difficult to evade much of their tax liability as deductions are made at source for the majority of many tax payers' liabilities (Bird, R.M and Old man, O., 1967)

In summary, the government should prudently spend taxpayers' money because the way in which the government spends the money produces different level of compliance. Taxpayers' perceptions are potentially important in determining their compliance behavior.

#### **2.9.6 Competency of Tax Experts**

The broad range of knowledge, skills attitudes and observable behavior that together account for the ability to deliver a specified professional service. Competence also involves adoption of a professional role that values accountability to the public and leadership in public practice industry, government, and education. The particular tasks that public tax experts perform while applying or bringing to bear, pervasive qualities and skills and that are characteristic of public experts to level of proficiency defined in professional competency requirements for public. The professional qualities and skills that all public tax experts are expected to bring to all tasks the "how" of tax collection work (Bhaita, HL1998)

According to [8] the Professional Competency Requirements for Public tax experts identify pervasive qualities in three categories: ethical behavior and professionalism, personal attributes and professional skills which are defined as follows: Ethical Behavior and Professionalism: the tax expert profession is committed to maintaining the confidence of clients, employers and the public through an overriding commitment to integrity in all professional work. Thus all public tax experts are expected at all times to abide by the highest standards of integrity; they must be and be seen to be carrying out all work objectively and independently, in accordance with the ethical values. Personal Attributes: Tax experts are expected to develop a number of personal qualities that shape the way they conduct themselves as professionals. Professional Skills: Tax experts are also expected to possess a wide range of professional skills that, while not unique to the tax experts' profession, are critical to its successful practice.

### **III. RESEARCH METHODOLOGIES**

This section of the study shows details of the research design, the sampling methods as well as the manner in which the data are collected and analyzed and research area profile

#### **3.1 Research Design**

The research employs descriptive types of research with triangulating quantitative and qualitative

techniques. In this research is to identify, understand and interpret the existing situation of assessment and collection of business income tax and challenges associated with it in the study area and also helps to describe the qualitative aspect of taxpayers' interest and perception towards the existing situation of assessment and collection of business income tax and challenges associated with it.

### **3.2 Sampling and Sampling Techniques**

#### **3.2.1 Sampling Techniques**

Tax payers and Boditi city Administration Revenue Office employees were be taken as the target population of the study. The total number of taxpayers in category “A” and “B” are 53 and 202 respectively. The office employees are totally 28(they are head of the revenue section, revenue audit and legal enforcement process and tax payers’ education section). The researcher stratified sampling technique to make the sample representative of the population. The stratified random sampling were used to select sample from taxpayers who have similar character by categorizing them in to two groups(strata).The two strata are category “A” and category “B” taxpayers .The total taxpayers population of Boditi administrative office under the study is 255.

#### **3.2.2 Sample Size**

This study applied a simplified sample size determination formula provided by Yamane (1967) in order to determine the required sample size at 95% confidence with the level of precision 5% (Yamane, Taro, 1967). This sample size determination method is more applicable when the sampling population is known and finite and it is also statistically permutable to commit 0.01 to 0.1 level of bias in study process and to determine the required sample size the following Yamane formula applied in this study below:-

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

Therefore, the sample size of this study was

$$n = \frac{N}{1+N(e)^2} = \frac{255}{1+255(5\%)^2} = 155$$

Where

- n - is the sample size, = 155
- N - is the population size, = 255
- e - is the level of precision(sampling error) =5%

Non probability sampling method, purposive sampling technique was used for the tax officials to gather data from them. Out of 28 employees in the office the researcher was gathered data from 8 officers whose activities are directly related to the problem that the researcher was studied and recommended the problem

### **3.3 Data Source and Collection Tools**

Both primary and secondary data were used. Primary data were obtained from the tax payers, the tax officials and employee of the office. On the other hand the secondary data were collected from books, websites, records and other related literatures. The researcher was used five likert scale questionnaires to collect data. The questionnaire was translated in to Amharic for English is not the language of the respondents. The questionnaire was distributed to the tax payers and employees of the office in the study.

### **3.4 Methods of Data Analysis**

The quantitative data gathered through questionnaires and annual reports of the revenue office were analyzed and interpreted by using simple descriptive and advanced statistical tools (correlation and regression models). Finally the output has been analyzed and interpreted in such a way that plausible answers would be sought for the question raised in the study.

## **IV. FINDINGS RESULTS AND DISCUSSION**

### **4.1 Responses Rate of the Taxpayers:**

From 155 questionnaires prepared and distributed 149 has been collected. The presentation, analysis and interpretation were based on this 96.12% of the sample about the whole population.

### **4.2 Description of respondents general back ground**

Among 149 tax payers who returned the questionnaire (89.58 %) of the respondents are male, 10.42% of the respondents are female. The proportion of male and female participated in the business activity and registered for tax payers; in both categories the male respondents took the greater number of proportion than female.

Age bracket of the respondents classified under three categories. Among the total respondents majority of the respondents 75% are between 31-45 years old. These respondents range from 18-30 years old and greater than 45 years old are 12.5% each. It indicates that majority of the respondents are youth age life.

Educational level of respondents from 149 respondents 4.17% , 14.58% , 20.83% , 1 33.33% , 25% and 2.08% are illiterate, Primary secondary, 12 complete, diploma and first degree respectively. From the above

information the majority of the respondents' educational levels were above elementary level and they can read and write easily. This in turn indicates there is opportunity to the tax authority to teach and give training and awareness creation to the taxpayers and they can easily understand rules and regulation of tax and tax related issue.

Lastly, depending on their willingness tax payers start their business at different times out of 149 respondents, 14.58%, 27.08% ,41.67% and 16.67% were started their business less than 2 years, 2-5 years, 6-10 years and above 10 years respectively. This shows most of businessmen had started their business at arrange of 6-10 years. This indicates the most number of tax payers contributed the revenue to the tax authority. Moreover, the tax payers who have started their business before 10 years contributed more tax revenue relative than the others to the revenue office.

### 4.3 Performance of the business income tax

**Table 1** Annual Plans and actual collection of business income tax

No	Year	Plan	Performance	percentage changing	Percentage change in plan	Percentage change in performance
1	2010/2011	230,000	293,712.53	27.7%	-	-
2	2011/2012	621,988	411421.43	(33.86)%	170.4%	40%
3	2012/2013	790,643	615150.98	(22.2)%	27.12%	49.5%
4	2013/2014	980,470	905294.89	(7.7)%	24%	47.2%
5	2014/2015	1,100,000	943788.71	(14.2)%	12.2%	4.3%

Source: annual report of revenue office, 2014

Organizations can be evaluated through comparison of their proper plan and actual performance. The actual business income tax revenue collection performance of Boditi Tax Authority branch office has increasing trend as shown in the revenue collection data for the past five years. As shown in table 1 above, the secondary data show that performance of business income tax collection by Boditi Town Administrative Revenue Tax Authority branch office viewed as growth actual business income tax from 2010/2011 to 2014/2015. But performance from 2010/2011 to 2014/2015 with plan is not achieved. Business income collection plan in every year is increasing but actual performance is decreasing. From the table 1 above, one can conclude that in every year plan of collection of business income tax is increasing but performance is below the plan. This shows that there was non-collect able revenue or arrears in the administrative office this shows there is presence of taxpayers who are not paid their tax liability properly in each calendar year. Another problem here is annual plan is not prepared in accordance with their category is not suitable to compare which category pay properly and which not.

### 4.4 Correlation analysis:

The table below indicates that the correlation coefficients for tax collection performance and its independent variables are linear and positive ranging from strong to medium level coefficients.

**Table 2.** The Relationship b/n Tax Collection Performance & Determinant Variable

Variables		Correlation ,significance and sample size
Fairness and Equity	Pearson correlation p-value N	.787 .000 149
Culture and Social Norm	Pearson correlation p-value N	.729 .000 149
Taxpayers Education	Pearson correlation p-value N	.682 .000 149
Organizational Strength of Tax Authorities	Pearson correlation p-value N	0.574 .000 170
Attitude towards the Government	Pearson correlation p-value N	0.462 .000 149
Competency of Tax Experts	Pearson correlation p-value N	0.551 .000 149

Source: field survey (2015)

As it is clearly indicated in the above 3 a strong positive relationship was found between tax fairness and equity tax collection performance ( $r = .787$  ,  $p < .000$ ), Culture and Social Norm has strong positive



relationship with tax collection performance ( $r = .729, p < .000$ ), There is substantial, relationship between Taxpayers Education and tax collection performance ( $r = .682, p < 0.00$ ), There is also substantial, relationship between Organizational Strength of Tax Authorities and tax collection performance ( $r = .574, p < 0.00$ ), There is a weak relationship between Attitude towards the Government and tax collection performance ( $r = .462, p < 0.00$ ), and finally Competency of Tax Experts has substantial association with tax collection performance ( $r = .551, p < 000$ ). Correlation coefficient squared ( $R^2$ ): The correlation coefficient squared (known as the coefficient of determination,  $R^2$ ) is a measure of the amount of variability in one variable that is shared by the other.

#### 4.5 Regression model summary and One way ANOVA

Table 3 model summary

Model Summary											
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
1	.879 <sup>a</sup>	.773	.764	.36060	.773	80.698	6	142	.000	2.108	

a. Predictors: (Constant), X6, X4, X5, X1, X3, X2  
b. Dependent Variable: Y

Source: field survey (2015)

The regression summary model indicated that the co-efficient (R) with a value of 0.879 and co-efficient of determination ( $R^2$ ) with the value of 0.773 or 77.3 % confirms that the six identified variables attributes 77.3 % of tax collection performance determinants while the remaining 22.7 percent could be explained by other influencing factors which did not included in this study. To conclude that ,all six identified study variables were statistically significant( $p < 0.05$ ).

#### One way ANOVA (analysis of variance)

The study further used one way Analysis of Variance (ANOVA) in order to test the significance of the overall regression model. Green & Salkind (2003) Explains that one way Analysis of Variance helps in determining the significant relationship between the research variables

Table 4 ANOVA (analysis of variance)

ANOVA <sup>b</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	62.959	6	10.493	80.698	.000 <sup>a</sup>
	Residual	18.464	142	.130		
	Total	81.424	148			

a. Predictors: (Constant), X6, X4, X5, X1, X3, X2  
b. Dependent Variable: Y

Source: field survey (2015)

Table 4- hence shown the regression and residual (or error) sums of squares. The variance of the residuals (or errors) is the value of the mean square which is 10.493. The predictors  $X_1$  up to  $X_6$  represent the independent variables as the major factors determining tax collection performance. The above table presents the results of ANOVA test which reveal that the six independent variables notably; have a significance influence on tax collection performance. Since the P value is actual 0.00 which is less than 5% level of significance is large enough to conclude that the six independent variables significantly determine the tax collection performance of Damot Gale woreda.

Table 5 Coefficients

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.620	.204		-3.036	.003
	Fairness and Equity	.569	.063	.507	9.091	.000
	Culture and Social Norm	.242	.076	.208	3.179	.002
	Taxpayers Education	.183	.065	.175	2.804	.006
	Organizational Strength of Tax Authorities	.059	.064	.048	.917	.361
	Attitude towards the Government	.116	.052	.116	2.246	.026

a. performance of tax collection				
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Source: field survey (2015)

As indicated in the above table 5, the Sig -value proves or disproves the significance of the impact. A Sig -value is said to be significant if it is less than the level of significance, (5%).If the Sig-value is considered significant (is less than the specified level of significance),

In table the regression model above has established that taking six independent variables into account notably; X<sub>1</sub>-X<sub>6</sub> constant at Zero influences tax collection performance will be (0.620). The results presented also shows that taking all other independent variables at zero, a Fairness and Equity constitutes 56.9%, the researcher observed most of the tax payers especially category “B” tax payer do not maintain books of accounts and record. The reason they mentioned that most of them are currently upgraded from category “C” to category “B” and up grading is not based on our income and not fair, as their thinking to upgrade taxpayers was given to the revenue office as quota. From this the researcher suggested up grading itself must be based on their income return and discussion is necessary with business person about upgrading. Another reason they mentioned not maintain books of account was they assumed that it incurs additional cost to them and assumed that Tax Authority didn’t accept the tax return statement even if they maintained. Most of them give their reasons why they have said unfair. Assessment did not base on our earnings. Even we maintain books of account or records most of the time it is not accepted by tax authority and the method used to determine tax liability was standard assessment. But standard assessment committees (estimation committee) were not well trained. Assessors and tax collectors do not diligence for taxpayers’ problem and did not consider the existing business environment. As their response tax assessors and collectors motive was only collect tax liability from tax payer, no care has been done for tax payers.

Culture and Social Norm 24.2%, the respondents reasons tax payers are not know their obligation properly and they (taxpayers) fear to declare as it increases tax burden.

Taxpayers Education 18.3%, as it has been revealed from respondent’s distribution majority of the tax payers does not have full knowledge about tax rules and regulation. The reason they mentioned were they are not participating in awareness creation program and, tax rules and regulations are not simple to understand. Another reason they mentioned was awareness creation conducted by revenue office was not sufficient to understand the rules and regulations of tax. They responded for the question how much time awareness creation was conducted by the revenue office in a year, majority of the respondents responded twice in year. Based on the above respondent’s idea the researcher recommended to the revenue office: taxpayers education must be took highest time of their activity in a year.

Organizational Strength of Tax Authorities 5.9%, , the researcher observed that non penalty of criminal makes tax collection in efficient and most of the tax payers adopt this behavior and makes challenge to the administrative revenue office. So in addition of waiver of penalty, to serve the country’s law application of criminal penalty is necessary. Attitude towards the Government 11.6% from this the researcher concluded that least number of taxpayers have positive attitude to declare their income .Majority of tax payers does not have good attitude to declare their income. So, the revenue office should have some home work to teach and train tax payers to declare their income honestly and declaration alone does not impose tax burden on them.

Competency of Tax Experts 22.1 % constraint levels in tax collection performance of Damot Gale Woreda tax collecting Authority. . As the researcher’s observation, there are a number of constraints, which make the tax payers not to be certain about tax liability. Among such constraints lack of timely assessment of tax payers tax liability , lack of trustiness between taxpayers and tax experts, lack of proper maintenance of books of accounts and records of taxpayers were some of the constraints that have been encountering in the office not to be certain on the tax liability.

Inferences can therefore be made that x<sub>1</sub>-x<sub>6</sub> determines tax collection performance From the regression findings, the substitution of the equation

$$(Y= \beta_0+ \beta_2X_2 + \beta_3X_3 + \beta_4X_4+ \beta_5X_5+ \beta_6X_6) \text{ becomes: } Y= 0.620-0.569x_1+0.242x_2+0.183x_3+0.059x_4 - 0.116x_5+0.221x_6 \dots\dots\dots (2)$$

Where Y is the dependent variable (tax collection performance) X<sub>1</sub>-x<sub>6</sub> are predictors. From the results Fairness and Equity is critical problem and Organizational Strength of Tax Authorities has minimal influence on tax collection performance of study area

## V. CONCLUSION AND RECOMMENDATION

### 5.1 Conclusion

Tax has the impact of reducing undesirable products, promoting investment and development and reducing regional inequality, establishes economy, reduces imbalance between rich and poor. This goal can be achieved when it has good tax structure, clear rules and regulations, competent tax experts’ compliance taxpayers and effective and efficient tax administration system. This particular study explores the problems in

business income tax assessment and collection in Boditi Town Administrative Revenue Branch Office. It attempts to assess the applicability of business income tax laws and regulations, compliance of tax payers about business income tax based on available primary and secondary data. The data has been gathered from sample of 48 taxpayers, 8 experts and secondary sources which are related to the area of study. According to the data gathered, majority of the taxpayers can write and read most tax experts with degree and the rest are diploma holders. From sample taken 10(20.83%) of them were category "A" and 38(79.17%) of them were category "B" taxpayers. Based on the information obtained from these sources, the detail of the study has been concluded as depicted below. Boditi Town Administrative Tax Authority Branch Office has implemented a business income tax assessment collection system using the tax rate stated by central government. The taxpayers' identification and registration has been fully implemented. Rules and regulations of the business income tax settee by central and regional governments are implemented by administrative branch office but there was a gap to implement it fully.

The business income tax assessment and collection of the administrative revenue office was inefficient to the findings of the study. Factors to this inefficiency of tax assessment and collection are weak assessment potential, lack of awareness creation to taxpayers, unfair and inequitable tax assessment by tax experts. The amount of business income tax paid was not consistent due to non maintenance of books of accounts, this causes some times overstated or/ and understate income. Similarly less awareness and less compliance of taxpayers and experts made the business income tax assessed was not be collected as it should be. The actual collected amount of revenue from business income was not significant the year 2007/2008 to 2011/2012. This indicates weak planning ability of the office in the tax revenue mobilization.

As per the data obtained from both sources and interview made there are non continuous follow up as rules and regulation to upgrade taxpayers category. Due to this most taxpayers are not voluntarily accepting up grading of their category. From data obtained from the revenue office there are 27 taxpayers were up graded in 2011/2012 from category "C" to category "B". But majority of them were complaining in their up grading. As the taxpayers response it is not based on their income. Based on the tax payers and tax experts response there were tax evasion and tax avoidance in the study area. There were arrears of tax liability in the area due to an effective application of tax rules and regulations. In addition application of penalty due to non compliance was not applicable as tax laws and regulations issued by region or central government properly. The willingness of taxpayers to declare their income was also less. Tax payers were not accepting neutrality of tax office appeal committee.

There were programs to create awareness to taxpayers in the office. But tax payers were not complying with tax rules and regulations. For example majority of category "B" taxpayers were not maintain books of accounts; even category "A" tax payers were not maintain at all. But maintenance of books of account for category "A" and "B" was obligation in proclamation issued by Central and/or Regional council. Most taxpayers didn't participate in the awareness creation of the office. This is due to lack of good relation with tax experts. As taxpayers' response tax experts were not trust in taxpayers. This has been encountering the tax payers to pay their tax liability with voluntarily. Majority of taxpayers responded their failure to maintain books of accounts due to lack of knowledge and awareness. This shows there is a need to support taxpayers to prepare the book of account by tax experts. An interview made with the head of the office and tax assessors group leader, the applicability of penalty due to failure of maintaining books of account, failure to declare their income, failure to pay their tax liability on time and non-declaration of their income etc was not fully implemented.

According to data obtained tax experts competency was not at full amount to assess and collect business income tax. As the interview of tax experts and observation of the researcher appeal committee were established as income tax proclamation of 56/2003 of SNNPRS'. But as the taxpayers' response appeals committee are not neutral, because they are not free from the influence of the revenue office. Generally, there was inefficient and ineffective base for tax assessment and collection system in Boditi Town Administrative Office. The administrative office collected small amount of business income tax revenue which has insignificant share of covering expenditure. This inefficiency and ineffectiveness arose from incompetence of employees, inefficient tax administration, presence of less awareness of taxpayers, presence of non comply of taxpayers to tax laws and regulations, improper implementation of principles of taxation.

## **5.2 Recommendation**

Based on the data obtained from primary and secondary sources, providing recommendation is one of the objectives of the study, the following recommendations has been drawn based on the findings obtained and conclusions arrived that needs improvement on the assessment and collection of business income tax in the revenue administrative branch office.

Improve the business income tax assessment of the revenue office:

The revenue tax office should change the system to workable one. The revenue office should make

taxpayers in category “A” and “B” to use cash register electronic Machine which increase trustiness of tax assessor and taxpayers. Moreover, the mechanism of determination of tax liability should be changed. To this, standard assessment committee of tax payers and other committee members should be knowledgeable, skilled and well experienced. Special training should be given to the assessment and estimation committee members on the standard assessment.

**Strengthen business income collection mechanism of the office** The tax collection should be economical. To be the tax liability collected from the taxpayers on a specified time. If it is not happen after teaching taxpayers the tax administration department should take an appropriate enforcement action/penalty on the tax delayers, evaders, non declarers and etc take actions such as, court action and seizing property. The revenue office should use mechanisms to encourage early taxpayers and those who voluntarily declare their income without violation of law give incentives such as tax refund and awards. This is advisable to motivate tax payers. In order to identify and levy fair tax liability among all taxpayers, to detect prevalence of tax evasion, the office should develop the capacity of tax experts and officials through continuous training and education.

**Create awareness among taxpayers:** Taxpayers in both category “A” and “B” has luck of full knowledge about tax rules and regulations. So clarification on business income tax rules and regulation for the taxpayers is very essential to enhance business taxation system of the revenue office. Most taxpayers educational level was primary and above. This is the opportunity to the revenue office to teach and train taxpayers about tax rules and regulations such as, how to maintain books of accounts and records of their income as well as their expenses and other tax related issues.

**Install effective and efficient tax administration system:** Improve tax administration system by applying internal controlling system and tax auditing in order to apply tax compliance .To make tax liability certain, the office should make the tax payers to maintain books of accounts and create awareness to taxpayers how to determine tax liability of each taxpayers. Upgrading taxpayers’ category should be based on stated rules and regulation but not arbitrarily. Arbitration makes taxpayers not declare their income honestly to the revenue office. The revenue office should organize and assign competent appeal and review committee which solves dissatisfaction of taxpayers on the assessment audit by the office .Also the committee should be competent in the area of assessment and audit in particular and issue of tax in general. Moreover, the committee should be well experienced and formed in line with tax law and be neutral /impartial in their decision and representation of committee members should

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