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The challenges of tax administration and collection of revenue in Afar Region, Ethiopia

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Abstract---The main objective of this study was to identify that the factors affecting effectiveness of administration and collection of revenue in afar region in case of samara logia town. The data used in this study consists of both primary and secondary data. The primary data was collected through standard questionnaire. The demographics of the respondents were firstly established in the questionnaire. The questionnaire was comprised of both closed and open ended questions. Secondary data was also collected from official documents and records relating to the case under study; Based on the above discussion and analysis, the researcher concluded the following facts in relation to taxpayers in the study area: Most of category “A” and “B” taxpayers are convinced for the fairness the tax assessment in Samara-logia town. However, some of the above group taxpayers and most of category “C” taxpayers do not agree with about the fairness of the tax assessment in Samara-logia town. This might be because some of category “A” and “B” taxpayers lack to prepare acceptable and accurate financial statements and necessary supportive documents for their transactions, as a result the tax authority will assess their tax liability by estimation. Regarding to category “C” , since they are not required by the tax law to prepare financial statements for their transactions, such problem might be occurred either due to lack of impartiality or independence by the tax authority’s employees with taxpayers or due to lack of the taxpayers experience in paying tax to the government. Since it is the time of globalization, taxpayers in Samara-logia own better update and modernize themselves in relation to running their business transactions.

Keywords---tax, tax administration, efficiency, tax collection, effectiveness.

Introduction

Taxes are important sources of public revenue. Public goods such as roads, power, municipal services, and other public infrastructures are normally supplied by public agencies due to their natures of non-rivalry and non-excludability (Joseph, 2008). Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (Fieldstad, 2004). Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009: 1). Tax is defined as „a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return“ (Lymer and Oats, 2009).

There were studies on tax components and tax systems for different periods in different regimes in Ethiopia. Wogene (1983) tried to examine the contribution of taxation. He argued that taxation and system was used as a tool for establishing the material basis of socialism. He estimated the buoyancy and built-in elasticity of the total tax revenue and examined 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 indicated that the tax reforms have significantly contributed to increasing tax revenue in the country. A study by Teshome (1979) also tried to see tax elasticity in Ethiopia. The author used built-in elasticity method to examine the revenue effectiveness of the Ethiopia's coffee export taxes. His empirical finding shows that revenue elasticity with respect to change in volume and value of exports is unity i.e. the revenue was price inelastic. He thus concluded that the present coffee tax formula requires constant revisions of tax laws whenever a significant change in the price and Volume of coffee exports occurs. The study by Wegene (1983) showed that for the period 1975-81 tax reforms had enabled an increase in tax collection. This study employed the constant rate of adjustment method to estimate elasticity of the tax system. Likewise, the study by (Eshetu, 2013) compared tax productivity in the pre revolution, post revolution periods of Ethiopia, and found out that there was certain improvement in tax collection of the government in post revolution Ethiopia.

The tax administration in Ethiopia is divided on two levels as Federal and Regional. At the lowest level are a number of woredas in different regions. The tasks of woredas are assessment and collection of taxes and other liabilities of Category "C". the others are the different sub cities that are in charge of tax assessment, collection and control of veracity of the tax bases declared by category "A" and "B" taxpayers in their jurisdiction. At the Federal level ERCA is in charge of collecting revenues, both tax and none tax, from different organizations owned by federal government and from customs duties. The study focus here is the afar regional revenue agency.

Taxation in developing countries is a challenging topic and has attracted increasing attention in the last two decades. Many problems observed like poor

administration, failing to collect sufficient tax revenues, tax structures where tax horizontal and vertical equity considerations are not integrated, lack of government and economic stability. In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among taxpayers (Tanzi, 2000). Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. To address this problem, the government introduced the imposition of tax (direct and indirect), among others; as major and important sources of public revenue. However, this imposition of tax couldn't still bring the required result due to a number of reasons such as lack of clear understanding about the tax system by the taxpayers, taxpayers don't comply with their tax obligation, hostility between the taxpayers and tax officials, negative attitude of taxpayer towards the tax system, that is, understating their taxable income by significant amount. For these reasons, the actual amount of tax couldn't be collected properly (Tadele, 2010).

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. Badly conceived or unnecessarily complicated 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 attributed mainly to the simplification of the tax system (Mansfield, 1990). In developing countries, tax administration can be organized 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) rather than according to the type of tax and taxpayers. More generally, tax payment needs to be assessed, collected and recorded more efficiently.

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as the tax administration (Kaldor, 1980).

Therefore, in the afar revue agency is poor in terms of collecting sufficient tax revenues, due to various reasons like in adequate infrastructure, corruption, heavy burden on agency due to lack of intermediate between regional agency and woredas entirely and lack training and education for skilled human and responsible staff, which is increases the productivity of workers so that is why study need to assess the factors affected tax administration and collection of revenue in afar agency in case of samara-logia town.

Research Methodology

The data used in this study consists of both primary and secondary data. The primary data was collected through standard questionnaire. The demographics of the respondents were firstly established in the questionnaire. The questionnaire was comprised of both closed and open ended questions to allow the respondents to write their opinions without restrictions. Secondary data was also collected from official documents and records relating to the case under study; proclamations about the taxes, policies and procedures of the taxes and other taxing systems magazines, brochures that have been approved and issued by ERCA.

The determination of sample size is resolved by means of Slovenes sampling formula with 90 percent confidence level. Tax payers will first stratify into three strata according to their categories: Category "A", 'B', and 'C' tax payers. Then, a proportional random sampling method was employed to select the sample tax payers from each stratum. According to 2009 E.C record of Samara-Logia town Trade and Transport Office, there are a total of 7530 tax payers out of which 553 under category of tax payer A, 1350 under category taxpayer B and 5627 under category taxpayers C. The sample size was 316 and formula to calculate as follow below.

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

Where n is the sample size, N is the population size, and e is the level of precision. By using this formula at 90% confidence level and 10% level of precision the sample size was obtained as follows:

The research used descriptive statistics to analyze the collected data with the aid of Statistical Package for Social Scientists (SPSS) version 16.0. Accordingly, frequencies, percentages, mean and standard deviation were used to analyze the quantitative data. Flick (2002) argues that quantitative and qualitative methods of analysis should be viewed as complementary rather than mutually exclusive. Supporting this, in this research the qualitative information from open ended questioners was also narrated.

Discussions

Table 1 Awareness/Knowledge about taxation

No	RESPONSE	NUMBER	%
1	In the anticipation of public services	151	47.7
2	To avoid disturbances (penalties, sanctions,)	127	40.2
3	There is no opportunity to evade	35	11
4	Do not know	3	1.1
	Total	316	100

Source: Survey result, (2019)

The following table shows the response of the respondents regarding their reason of paying taxes. As it is summarized above, most respondents (47.7%) replied that they pay tax because it is compulsory payment and it will be used for provision of public services by the government. However, significant number of respondents (40.2%) also replied that they pay taxes in order to avoid disturbances (penalties and sanctions). Hence, from this result it is possible to conclude that there is lack of willingness to be abided by the tax rules and concepts in some taxpayers. Though not that much significant (11%), some respondents also replied that they pay taxes because they don't have opportunities to evade. This response is also an indication of respondents' tendencies to engage in tax evasion activities. Lastly, very few respondents (1.1%) don't know why they pay taxes.

Table 2: Fairness tax liability determination

Response	Category of tax payers			
	A	B	C	TOTAL
Yes	16(69.5%)	32(61%)	48(20%)	96 (30.5%)
NO	7(30.5%)	22(39%)	191(80%)	220(69.6%)
TOTAL	23(100%)	54(100%)	239(100%)	316(100%)

Source: Survey result, (2019)

As summarized above in table 2, majority of the respondents (69.6%) believe that the tax they are paying is not fair and not based on their ability to pay. Majority of the respondents/taxpayers that provide this information are from category "C" taxpayers (80% of them). This category provided many reasons for this situation. Among the reasons they provide include their tax liability is based on presumptive estimation, the tax estimation standard committee members being only from the tax collecting authority, inconvenient and tiresome complaint procedure.

Categories "A" and "B" taxpayers were not 100% free of complain regarding the fairness of the procedure; there were some respondents from categories "A" and "B" (30.5%, and 39%, respectively) who believe that the tax they are paying is not fair and not based on their ability. In explaining the unfairness of the procedure, some category "A" and "B" taxpayers claimed that the authority rejected some of the expenses they included in their expenditure summary reports such as loading and unloading expenses, expenditures related to daily laborers, etc. Key informants from the Afar Chamber of commerce and sectorial association have also asserted that the actual practice of tax assessment by Tax and Revenue Authority is very hard to tolerate and practically very difficult to fulfill mainly by the taxpayers of category 'C'. In their defense, key informants from the tax authority have firmly stated that category 'C' tax payers have never been honest to the tax assessment officers. They also added that most of the business communities are not even willing to declare their daily sales when they are told to do so. Category 'A' and 'B' tax payers, who are legally obliged to keep accounting record, were also asked whether they are facing problems while keeping records. In their responses, though not severe as category C, they faced problems in keeping records.

Administration factors

The respondents were asked to evaluate the tax authority with respect to certain parameters. The following table shows their response to these questions in percentages.

Table 3: Evaluation of the tax authority by respondents

	Variables	Excellent		Good		Fair		Poor	
		No	%	No	%	No	%	No	%
1	Awareness creation	10	3.17	38	12.03	54	17.09	215	68.04
2	Convenience of manner of payment	42	13.3	95	30.1	118	37.4	61	19.2
3	Convenience of time of payment	117	37	145	46	35	11	19	6
4	Law enforcement	6	2	23	8	69	22	215	68
5	Honest collectors	22	6.4	53	17	86	27.4	155	49.2
6	Impartiality of review committees	29	9.2	43	13.7	39	12.3	205	64.8
7	Timely response of tax review Committees	33	10.4	158	50.1	101	32	24	7.5
8	Treatment of taxpayers with due respect	73	23.2	114	36.1	72	22.6	57	18.1

Source: Survey result, (2019)

From the above table, only 3.17% of the respondents from all categories rated the authority excellent in its initiation to create awareness among its taxpayers. Similarly, still few respondents (12.03% and 17.09%) rated the authority good and fair, respectively. However, majority of the respondents from all categories (68.04%) rated the authority as poor in awareness creation. Regarding tax collection effectiveness, which refers to the ability of the Authority in establishing trustworthy tax system (honest collectors and impartiality of review committees), law enforcement and fairness of the taxing system, respondents from all categories, on average rated excellent (5.33%), good (13%), fair (20.57%), and poor (61.10%). These results clearly indicate that the tax authority is not relatively being effective in providing satisfactory service for all categories taxpayers. Most respondents (80.8% and 94%, respectively) rated the manner of payment and time of payments adopted by the authority fair and above fair. This indicates that there was not severe problem observed in the authority's manner of payment and tax payment schedule convenience. From the table it is clear that the majority of the respondents rated the tax authority from excellent to fair except for awareness creation where 68% of them rate the authority poor. In most parameters, most of the respondents rated the authority's effort as fair and below that. This clearly shows that the tax authority is not effective and not providing satisfying service for taxpayers. On the other hand, the effort of the authority in creating awareness was rated by far poor (68%). This can be cited as the root cause for all the problems as far as voluntary compliance is concerned.

Behavioural/cultural factors

Attitude of taxpayers toward taxation and its administration is the other key factor that has been considered and analyzed duly. Accordingly, the respondents were asked for various questions to know their attitude and their responses are summarized as follows.

Table 4: Reason for evading the taxable income/tax

No		Frequency	Percent
1	Lack of awareness	50	15.82
2	It is unfair/ beyond my ability	207	65.5
3	Intentional	24	7.7
4	Negligence	10	3
5	Poor and tiresome collection procedure	15	8
	Total	316	100

Source: Survey result (2019)

As generalized above, majority of respondents (65.5%) hide their taxable income because they feel that the tax amount levied on them is unfair and beyond their ability/capacity. The above table also provides information that 15.82% of the respondents evade their taxable income because of lack of awareness of the taxable income, deductions and tax calculations. 8% of the respondents replied that they evade their taxable amount because of the poor and tiresome collection procedures of the authority. 7.7% of the respondents replied that they intentionally hide their taxable income because they looked their neighbor taxpayers doing so. Insignificant numbers (3%) of respondents are found negligent towards payment of tax.

The above result strengthens previous respondents results discussed earlier. i.e. unfair tax burden distribution by tax authority is the prominent reason for them to hide/evade their taxable amounts. Furthermore, as discussed earlier, majority of the respondents rated the tax collecting authority poor in awareness creation to its taxpayers. Here in this question also significant number of taxpayers responded that they evade/reduce their taxable income because the lack skills for calculating the taxable income and related deductions.

Issues Related to the Tax Authority

Table 5: Evaluation of the tax authority by respondents

Parameters	Excellent		Good		Poor		Fair	
	No	%	No	%	No	%	No	%
Reduction of tax payers complain	3	15	4	20	8	40	5	25
Service delivery	3	15	4	20	8	40	5	25
Tax collection efficiency	3	15	5	25	6	30	6	30
Law enforcement	2	10	4	20	8	45	6	30
Awareness creation	1	5	3	15	5	25	11	25

Source: Survey result, 2019

From the table it is observed that the respondents rated reduction of tax payers complain and service delivery by the tax authority as excellent (15%), good 20%), fair (40%), and poor (25%). Regarding tax collection efficiency, they responded excellent (10%), good (25%), fair (35%), and poor (30%). Similarly, they rated the authority with respect to law enforcement activity as an excellent (15%), good (25%), fair (30%) and poor (30%). On the other hand, concerning awareness creation, they said excellent (5%), well (15%), fair (25%) and poor (55%). From the table it is clear that the majority of the respondents rated the tax authority from excellent to fair except for awareness creation where 55% of them said poor. In all the parameters most of the respondents rated the authority's effort as fair and below that. This clearly shows the tax authority is not effective and not providing satisfying service for taxpayers. On the other hand, the effort of the authority in creating awareness was rated poor (55%). This can be cited as the root cause for all the problems as far as voluntary compliance is concerned.

On other question, 55% of the respondents said that the tax authority and the city administration are jointly responsible for tax payers turn over for another and poor tax compliance and only 30% of the respondents said taxpayers are responsible. This can be directly related to the authority's strength and effectiveness in reduction of tax payers complain, providing services, information, and creating awareness. Five respondents additionally commented on this issue and they reasoned out that both the tax authority and the town government didn't play their role well in improving the tax administration, reduction of tax payers complain, creating awareness, providing social services, and other information regarding taxes and other activities of the town government.

Conclusions

Based on the above discussion and analysis, the researcher concluded the following facts in relation to taxpayers in the study area:

- Most of category "A" and "B" taxpayers are convinced for the fairness the tax assessment in Samara-logia town. However, some of the above group taxpayers and most of category "C" taxpayers do not agree with about the fairness of the tax assessment in Samara-logia town. This might be because some of category "A" and "B" taxpayers lack to prepare acceptable and accurate financial statements and necessary supportive documents for their transactions, as a result the tax authority will assess their tax liability by estimation. Regarding to category "C" , since they are not required by the tax law to prepare financial statements for their transactions, such problem might be occurred either due to lack of impartiality or independence by the tax authority's employees with taxpayers or due to lack of the taxpayers experience in paying tax to the government.
- Regarding to the relationship of the taxpayers and the tax authority employees, the researchers identified and summarized facts below:
 - There is no strong effort by the tax authority to create tax awareness to taxpayers.
 - The manner of tax payment is not fully convenient to taxpayers specifically for low taxpayers or category "C" taxpayers.

- There are many citizens in Samara-logia town that are running their business without legal trade license and the tax authority has poor law enforcement on such type of business persons.
- The tax authority's employees lack integrity, honesties, and professional ethics at the time of tax assessment.
- The tax appeal committee has partiality problem. This might be the improper composition of the appeal committee from different government office.
- Even though the tax authority in Samara-logia town improved the quality of customer handling, still there are problems in relation to treating each and every taxpayers equally and fairly.
- The researcher also identified behavioral or cultural problems of the taxpayers such as great resistance to take or attend the tax awareness training or panel discussion arranged by the tax authority, hiding their actual taxable income intentionally and not to pay the true amount of tax to the government, lack of understanding the tax authority's employees work burden at the time of taking the tax authority's service, gossiping, running their business illegally.
- Further, it can be noted that the key challenges and their causes identified among both tax authority and tax payers revolve around one and pivotal variable, which is lack of tax education. It is lack of tax education that entails poor tax payers' perception on the relevance of tax payment, the taxpayers' culture to evade and avoid taxes and social disapproval among taxpayers against tax offences. It is in this regard that strategies to overcome these challenges should build on boosting tax payers' morality, and this explains the necessity to develop tax education policies including reach out programs.

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