

Original Paper

Examining Value Added Tax Administration Practice in Ethiopia

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Abstract

This study was set out to assess value added tax administration in Ethiopian ministry of revenue Hawassa branch. To achieve the objective of this study, the researcher employed a mixed research approach and descriptive research design to describe the current status of value-added tax administration practice, performance, challenges, and opportunities in the ministry of revenue Ethiopia. Descriptive statistics was employed to analysis the data. The results of this study confirmed that VAT administration practice was challenged by lack of clarity and simplicity of tax procedure, lack of awareness of taxpayers, nepotism in the tax system, and lack of a sufficient number of skilled personnel on an automated system for customs data management, gaps in the administration in such areas as refunding, invoicing and filing requirements. Hence, the study suggested the ministry of revenue Hawassa branch and tax policy makers in Ethiopia VAT revenue performance and mitigates the challenges faced by the ministry of revenue Hawassa branch.

Keywords

Value Added Tax, Administration, Practice, Tax Revenue Performance, Challenges, and Opportunities

1. Introduction

Recently, Value Added Tax becomes a major worldwide tax instrument which enhances economic growth. Being a tax levied on the final consumption of goods and services, VAT is collected at each stage of production and distributions when value is added up on them (Jalata, 2014). VAT is one of the best taxes for developing countries like Ethiopia where corruption might be high and tax administration is weak and leads to low-income tax revenues (Bultum, 2019).

Ethiopian Minster of revenue currently collects at a different level and collection center and faces many challenges VAT administration and collection. Therefore, this study was focused on VAT administration practice, performance challenges and opportunities in the Hawassa Branch of the minister of revenues office and it tried to forward possible solutions for it. Currently, Ethiopia made many changes to

governing tax. For instance income tax administration Regulation No 86/2002 was replaced by federal tax administrating proclamation No. 983/2016, the income tax proclamation no 286/2002 was changed by federal income tax proclamation 979/2016, and VAT proclamation no.285/2002 to VAT proclamation no.1157/2019 respectively. All these changes are made by the government of Ethiopia to collect more revenue that supports the financing of public expenditure. But, changing the tax system from time to time without assessing the challenges and opportunities of existing Value Added Tax administration practices in the country is not guarantee for improving the tax revenue of the government.

According to African Development Bank (2021); tax revenue (% of GDP) in Ethiopia was reported at 10.7 % in 2018, 10 % in 2019, 9.2% in 2020 even if the tax revenue ratio to GDP planned in GTP-II is 15.2% in 2018, 17.2% in 2019 and 15.2% in 2020 respectively. The tax revenue contribution to GDP is less than (25% -35%) average tax to GDP for developed countries, (18%-25%) average tax to GDP for developing countries, even less than (16%) average tax to GDP that of sub-Saharan African countries. Few studies were conducted concerning Ethiopia on VAT assessment; for example, Dheressa et al. (2015); Schlotterbeck (2017); De Mello (2009); Wijaya et al. (2017); Das-Gupta and Gang (2003); Tebebu and Yitbarek (2020); Sarmiento (2016); and Solehzoda (2017) used only primary data to assess VAT problems during implementation of old VAT proclamation no.285/2002 to VAT proclamation. But this study is different from prior studies by incorporating more data source for analysis during implementation of new VAT proclamation no.1157/2019. This is why assessing the VAT administration practice, performance, challenges and Opportunities of existing in Value Added Tax system has become an interesting issue that attracted the attention of tax professionals and researchers across the world.

Therefore, the aforementioned problems necessitate this study to be carried out, and doing it will explore the challenges in the existing VAT administration of the Hawassa Branch of the minister of revenues office. The research is expected to benefit policy makers in the study area by considering the benefit associated with Value Added Tax on revenue generation. It also paves the way for other researchers to further study the effect of Value Added Tax on revenue generation. In addition, it is also believed that this study will be added to the existing kinds of literature in the area of Value Added Tax on revenue generation. The study was conducted on MoR, Hawassa branch. It will provide valuable information for the regulatory body on the status VAT problems and serve as reference material future researchers in taxation.

1.1 Research Objectives

Depending on the introduction discussed, the study was addressd the following general and specific objectives. The general objective of this study is to assess practice of VAT administration, explore the challenges and opportunities of VAT administration and revenue performance in the case of the MOR, Hawassa branch.

Specifically, the study has the following objectives:

- a) To assess the Value Added Tax administration practice in the MoR Hawassa branch.

- b) To assess the VAT collection performance of MoR Hawassa branch from 2003 up to 2012 Ethiopian calendar.
- c) To assess the main opportunities of VAT the implementation by the government
- d) To investigate major challenges did the office encountered in administrating the VAT using an automated system for customs data management

1.2 Literature Review

1.2.1 Concept of Value Added Tax

A Value-Added Tax (VAT) is a consumption tax assessed on the value added in each production stage of a good or service. Every business along the value chain receives a tax credit for the VAT already paid. It is type of indirect tax in Ethiopia. The end consumer does not, making it a tax on final consumption. VAT is levied on the supply of goods and services in Ethiopia and on imports. NGOs are exempt from charging VAT on services, but are not exempt from paying VAT on services or goods purchased. The standard rate of VAT is 15% (Federal Democratic Republic of Ethiopia, 2019).

1.2.2 VAT Administration Practice

VAT Administration Practice is a systematic way of managing VAT collection within the organization. It is an act of administering the VAT revenue collection procedure by using a group of people, technology facilities, rules and regulations. Management is an activity of business and functional level, whereas Administration is a high-level activity.

1.2.3 Empirical Review of Related Studies

The study by Yesegat (2008) suggested that in Ethiopia there is a divergence between the effective VAT taxation and the legislation. The main areas where there are gaps and problems include taxpayers' identification and registration, VAT filing, and payment, VAT refunds, VAT audits, penalties, and VAT invoicing. In addition, the outcomes of the surveys showed a paucity of tax awareness among the society and strong education programs as well as a lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority. This, in turn, is attributable to limited tax administration resources.

Tebebu and Yitbarek (2020) found out that there are less awareness creation and educational programs, inadequate competence, inadequate enforcement of tax laws, absence of consistent follow-up to assess and register unregistered traders, inadequate infrastructure, weak monitoring, tax evasion, inefficient tax intelligence work, and tax auditing.

Singh (2019) studied the impact of Value Added Tax on Business Enterprises in Mettu Town and found that taxpayers do not know the system of value-added tax. Due to different reasons attitude of the society towards the tax system is negative. This was due to a lack of knowledge about its use. They thought it hurts several customers, and it creates obstacles during competition. In addition to this people think that VAT reduces the income of the business.

Jalata (2014) studied the role of value-added tax on the economic growth of Ethiopia and found out that

compared to sales tax, VAT boosts the general economic growth of Ethiopia but the issue of regressively resembling sales tax continues. However, to be effective, it requires strong administrations and cooperation of the taxpayers with taxing authority and the government in general.

Woretaw and Debeb (2019) examined Value Added Tax Administration Challenges in South Gondar Zone of Ethiopia and pointed out the main challenges of Value Added Tax administration in South Gondar Zone are lack of tax payers awareness, selling goods and services without tax invoice or lack of using proper Value Added Tax invoices, the weak culture of taxpayers, and lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added Tax payers. To alleviate the awareness problem there is a need to have a tax education campaign by coordinated efforts that must be exerted at all levels to enhance the awareness of the taxpayers and other members of the community.

Ayeneu (2016) studied determinants of tax revenue in Ethiopia (Johansen co-integration approach) and found out that tax revenue in Ethiopia has been low throughout the study period (1974 to 2013) was below the average of sub-Saharan African countries. The major task that the office should do is supervising and monitoring those whether unregistered and registered Value Added Tax taxpayers up to door inspection. There is a need to enhance the capacity of the employees of the tax office. Of course, the study shows that both short-term and long-term training is given. But still, there is also a need for changing the attitude towards customer handling and other service giving methodologies.

Anjulo and Waje (2018) Studied the topic and concluded that that awareness of the society, tax technology, VAT evasion, tax audit and enforcement, VAT administration, and politico-legal factors have a statistically significant and positive relationship with the performance of VAT revenue collection. On the other hand, the variable service delivery has a positive relationship with VAT revenue collection but is found to be statistically insignificant.

Study by Bultum (2019) investigated determinants of Value Added Tax Collection Performance in West Shoa Zone, Oromia Regional State, Ethiopia, and found that Tax payers awareness on Value-added Tax, Tax payers' maintenance of account and Value-added Tax Rate have positively influenced Value-added Tax collection performance whereas Tax Evasion, Tax avoidance, and Tax non-compliance variables have negatively affected Value-added Tax collection performance for tax payers. The study results also showed that Value-added Tax Assessment, Value-added Tax Audit, Competence training, Adequate manpower, Taxpayer identification, and Penalization variables have positively influenced Value-added Tax collection performance whereas the External Legal Environment variable negatively affected Value-added Tax collection performance for institutional variables.

Gebresilasie and Sow (2016) studied firm response to VAT registration threshold in Ethiopia and confirmed that key challenge in the implementation of Value-Added Tax (VAT) is setting an appropriate threshold level of turnover at which firms are obliged to register for the tax because a high threshold lowers tax revenue while a low threshold imposes high compliance costs for both small firms and the government. The behavior of Ethiopian manufacturing firms around the government implemented a

VAT threshold of 500,000 Birr (\$25000) after the adoption of VAT in 2003. Using bunching estimation techniques, we show the existence of firm bunching around the threshold: bunching firms lower reported revenue by 48,000 Birr to avoid registration. This suggested firm response to the threshold can help governments be more informed about how to choose an optimal VAT threshold.

Asmare and Asaye (2020) studied Value Added Tax Administration and Its Challenges in South Gondar Zone, Ethiopia. They found out that findings, the main challenges of Value Added Tax administration in South Gondar Zone are: lack of tax payers awareness, selling goods and services without tax invoice or lack of use proper Value Added Tax invoices, the weak culture of taxpayers, and lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added.

1.3 Knowledge Gap

VAT is one of the best taxes for developing countries where corruption might be high and tax administration is weak (therefore low-income tax revenues. VAT is one of the most important taxes for the government after income tax and national insurance; it is the largest source of revenue for the government. As VAT is a consumption tax the revenue generated will be constant, compared to other indirect tax VAT is easy to manage. Due to the catch-up effect of VAT, it minimizes avoidance and a huge amount of revenue is generated on a low tax rate through VAT. Value Added Tax in developing countries like Ethiopia has become one of the most important instruments of revenue mobilization. So it has become the most important topic of research that attracted the attention of researchers across the world.

The aforementioned researches found out that VAT covers large coverage from total revenue of the government. The main areas where there are gaps and problems include taxpayers' identification and registration, VAT filing, and payment, VAT refunds, VAT audits, penalties, and VAT invoicing. In addition, the outcomes of the surveys showed a paucity of tax awareness among the society and strong education programs as well as a lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of understaffing of the tax authority. This, in turn, is attributable to limited tax administration resources. More over studies were found out that tax revenue in Ethiopia has been low was below the average of sub-Saharan African countries.

From this, the study rests its major interests on assessing the Challenges and opportunities in association with the administration and implementation of VAT in the MoR, Hawassa branch. To make up sufficient revenue from VAT it needs efficient and effective tax administration, therefore, this paper aims at scrutinizing the challenges and opportunities that the VAT administration has and it will give some insight into VAT administration and revenue generation in MoR, Hawassa branch. In general, there have been studies on VAT administration in Ethiopia and also in the different towns of the counties by the different researchers; in Hawassa there are no comprehensive studies that assess VAT administration practices. It is, hence, not well known which factors that affect VAT administration

practices as a whole. The objective of this study is to assess VAT administration practices in MoR, Hawassa branch. That is why the reason behind encourages the researcher to assess VAT Implementing and contribute to the body of knowledge.

2. Method

2.1 Research Approach and Design

The objective of this study is to assess the practice of VAT administration performance, challenges, and opportunities in Hawassa branch of ministry of revenue. To achieve the objective of this research, the researcher used was mixed research approach due to quantitative and qualitative nature of data. Also, the descriptive research design was employed by researchers. Because, the descriptive research design helps the researchers to describe the current status of practices of VAT administering in MOR Hawassa branch.

2.2 Types, Sources and Method of Data Collection

In preparing report of this study, both primary and secondary source of data were used. The source of primary data was respondents selected from MOR Hawassa branch and through structured questionnaire and direct personal interview. The secondary data were collected through document review of branch annual reports from 2003 to 2012 E.C.

2.3 Sampling Design

Table 1. Target Population, Sampling Technique and Sample Size Determination

Target Population	Sampling method	Formula	Sample size
330 employees in the MOR Hawassa branch	Simple random Sampling	$n = N / (1 + (e)^2 * N)$ $n = 330 / (1 + (0.05)^2 * 188) = 181$ (Yamane, 1967)	181 staff

Source: HRM department of MOR Hawassa branch, 2022.

2.4 Methods of Data Analysis

After accomplishment of data collection procedure, it has been classified as per each objective; the qualitative data was coded to and measured quantitatively. In this research, data was analyzed by the help SPSS version 23.0 in order to get the reliable finding.

2.5 Ethical Considerations

The researcher has get the necessary permission from the respective Youths from different sub cities for this study especially for the questionnaire that will be distribute to selected employees.

3. Result

The questionnaire was distributed to target 181 tax officers out of which 150 of them were properly filled and returned questionnaires on the specified period. Hence, the response rate is 82.87 % which implies the majority of the respondents have participated in the process of data collection.

3.1 Reliability and Validity Tests

Table 2. Reliability Test

Variables	Cronbach's Alpha	No of Items
VAT administration practice	0.958	12
VAT Opportunities	0.951	8
Challenges of VAT	0.964	14
Overall value	0.986	34

Source: Personal Survey, 2022.

Validity Test

The validity of the questionnaire was determined through face, content, and constructs validity. First, the questions were framed in such a manner that it was easily understood and exactly conveyed its sense and purpose to the respondents. Moreover, the draft questionnaire was given to academic staff to view it in the light of the research objectives, its relevance, the adequacy of the questionnaire items, and question coverage. The score of the item-to-total correlations is more than 0.50, and Cronbach's alpha, if item deleted, is more than 0.70 and not similar to the total Cronbach's alpha coefficient. So that we can conclude that validity is satisfied.

3.2 Respondents Opinion on VAT Administration Practice

Table 3. Respondents Opinion on VAT Administration Practice

Items	N	Min	Maxi	Mean	Std. Dev.
I believe there is motivation observed on some employees of the minister due to less remuneration	150	1.00	5.00	4.2733	.87391
I believe there is sufficient number of ethical, trained, and skilled employees.	150	1.00	5.00	3.8867	.83976
I believe that there are accelerations of rotating the employees within the minister	150	1.00	5.00	4.2467	.86650
The VAT administering in our branch is okay	150	1.00	5.00	4.1467	.89282
The branch work awareness creation and media dissemination is very good	150	1.00	5.00	4.3267	.94476

The VAT payers timely report while the VAT machine interrupts its services due to various reasons	150	1.00	5.00	4.2467	.86650
The process of VAT registration is smooth and easy for taxpayers	150	1.00	5.00	4.0067	.82329
I think that tax administrations are strong enough to control non-registered and illegal activities of VAT payers	150	1.00	5.00	4.0067	.83140
The branch distinguishes between honest and disobedient traders.	150	1.00	5.00	4.2733	.87391
The VAT assessment and collection mechanism is effective and efficient	150	1.00	5.00	3.8867	.83976
I believe that there is a strong provision of weak service qualities by the minister.	150	1.00	5.00	4.2467	.86650
There is strong controlling system against the frauds and evasions	150	1.00	5.00	4.1467	.89282

Source: Personal Survey, 2022.

The average values of the response on positively developed statements were more than 3.1-4.49 and fall within agree and strongly agree. This implies that good tax administration is essential in achieving government's policy objectives at large and fully implementing in MOR Hawassa branch. The findings is consistent with results of researchers like Jalata (2014); Gebresilasse and Sow (2016); Anjulo and Waje (2018); Woretaw and Debeb (2019); and Singh (2019) who found that good VAT administration is contributes to tax revenue collection of the government.

3.3 VAT Revenue Performances from 2003-2012 E.C

Value added tax, or VAT, is the tax you have to pay when you buy goods or services. The standard rate of VAT in the Ethiopia is 15%, with about half the items households spend money on subject to this rate. When you see a price for something in a shop, any VAT will already have been added.

Table 4. VAT Revenue Performance from 2003 -2012 E.C

Year in E.C	Total Revenue Collected in ETB	Total Value Added Tax Collected	Percentage Collected	Value Added Tax registered taxpayers
2003	142,831,857.32	42, 849,557.20	30%	369
2004	223,271,484.60	84,843,164.15	38%	436
2005	318,884,531.00	133,931,503.02	42%	475
2006	382,741,325.00	164,578,769.75	43%	558
2007	508,640,450.50	228, 888, 202.75	45%	634
2008	678,852,660.50	319, 060,750.44	47%	734
2009	854,148,350.90	427,074,175.45	50%	876

2010	961,619,089.10	509, 658,117.22	53%	971
2011	1,013,877,000.00	557,632, 350.00	55%	1066
2012	1,175,050,842.00	705, 030505.20	60%	1090

Source: MOR Hawassa branch 2003 -2012 E.C.

From Table 4 one can easily understand that the amount of VAT revenue generated is increasing dramatically from year to year and is expected to increase in the coming years also. At Hawassa MOR Value Added Tax revenue increased from Birr 42, 849,557.20 in 2003 E.C to Birr 84,843,164.15 in 2004 E.C, Birr 133,931,503.02 in 2005 E.C, 164,578,769.75 in 2006 E.C, Birr 228, 888, 202.725 in 2007 E.C, Birr 319, 060,750.44 in 2008, Birr 427,074,175.45 in 2009, Birr 509, 658,117.22 in 2010 E.C, Birr 557,632, 350.00 2011, and Birr 705, 030505.20 in 2012 E.C respectively. At this point, one can easily observe that there is no decline in the proportion of the taxpayers from 2003 E.C to 2012 E.C. Also, Percentage of Value Added Tax Collected out of total revenue 30% in 2003 E.C, 38% in 2004 E.C, 42% in 2005 E.C, 43% in 2006 E.C, 45% in 2007 E.C, 47% in 2008 E.C, 50% in 2009 E.C, 53% in 2010, 55% in 2011 E.C, and 60% in 2012 E.C. The trend shows improvements from time to time. If we consider the views of the taxpayers, they increased from 369 in 2003 E.C to 1090 in 2012 E.C. It can be clearly shown that had those who had to be registered for Value Added Tax has been registered for it, revenue would increase by millions from 2003 E.C to 2012 E.C.

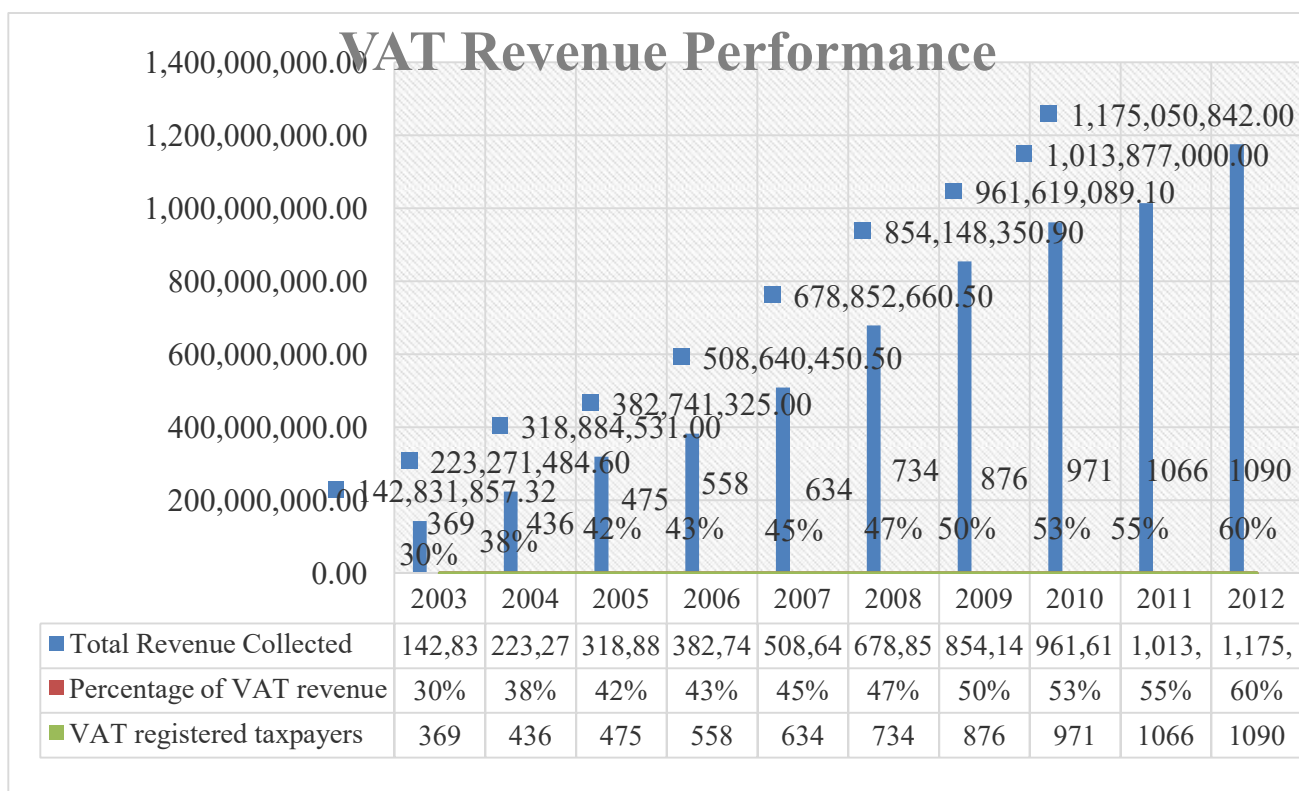


Figure 1. VAT Performance

Source: MOR Hawassa branch 2003-2012 E.C.

3.4 Respondents Opinion on Opportunities of VAT

Table 5. Opportunities of VAT

Items	N	Mini	Maxi	Mean	Std. Dev
As VAT is a consumption tax the revenue generated will be constant.	150	1.00	5.00	4.3267	.94476
Compared to other indirect tax VAT is easy to manage.	150	1.00	5.00	4.2467	.86650
Due to the catch-up effect of VAT, it minimizes avoidance.	150	1.00	5.00	4.0067	.82329
A huge amount of revenue is generated on a low tax rate through VAT.	150	1.00	5.00	4.1400	.89014
The sum of value added at each stage of production is equal to the retail sale price of the good	150	1.00	5.00	4.3267	.94476
In the VAT system, the registered taxpayers collect from consumers and pay the balance to the government	150	1.00	5.00	4.2400	.86451
VAT is the principal source of revenue for the Ethiopian government	150	1.00	5.00	4.0067	.82329
VAT refunds are paid out of VAT revenue collected in MOR	150	1.00	5.00	4.1800	1.03021

Source: Personal Survey, 2022.

The average value of all 8 items is more than 4 which implies the respondents fell within agree and strongly agree. VAT paid by a business to the revenue office is not tax-deductible because it is not an expense to the business: the VAT charged to customers belongs to the Revenue office and does not form part of the business's income. VAT is advantageous than the sales tax to them to government and the society. This findings is consistent with results of studies of Yesegat (2008); Chenge (2010); Markos (2010). Singh (2019); Woretaw and Debeb (2019); Tebebu and Yitbarek (2020); Ayenew (2016); Jalata (2014); Anjulo and Waje (2018); Anjulo and Waje (2018); Asmare and Asaye (2020); Gebresilasse and Sow (2016) who suggested that VAT is advantageous than the sales tax to them to government and the society.

3.5 Respondents Opinion on Challenges of VAT Administration

Table 6. Challenges of VAT Administration

Items	N	Minim	Maxi	Mean	Std. Devi
lack of sufficient number of skilled personnel	150	1.00	5.00	3.9667	.90053
Gaps in the administration	150	1.00	5.00	4.0000	.81923
Lack of Awareness of Taxpayers	150	1.00	5.00	4.0000	.82738
Resistance against registrations for Value Added Tax	150	1.00	5.00	4.2667	.87980
Shortages of materials that are needed VAT collection	150	1.00	5.00	3.8733	.83784
The insignificant recognition given to the regulations of VAT	150	1.00	5.00	4.2333	.86247
Lack of clarity and simplicity of VAT procedure	150	1.00	5.00	4.1267	.89964
Nepotism in the VAT administration system	150	1.00	5.00	3.9400	.85318
The ascendancy of nonregistered business entities market.	150	1.00	5.00	4.0067	.83140
Noncompliance of the taxpayers registered for VAT.	150	1.00	5.00	4.0067	.82329
Weakness rise from the minister	150	1.00	5.00	4.0067	.83140
Taxpayers' negative attitudes toward the government	150	1.00	5.00	4.2600	.87799
Poor social norms between taxpayers and the MOR	150	1.00	5.00	3.8933	.84462
Misunderstanding of the society for paying taxes.	150	1.00	5.00	4.2400	.86451

Source: Personal Survey, 2022.

As it can be easily observed from the above table the average values of the response from 1st item up to 14th item were more than 3.1-4.49 and fall within agree and strongly agree. This implies that all the items are challenges of VAT administration in MOR Hawassa branch. The findings is consistent with prior research studies results of Singh (2019); Hodzic and Celebi (2017); Woretaw and Debeb (2019); Tebebu and Yitbarek (2020); Ayenew (2016); Jalata (2014); Anjulo and Waje (2018); Anjulo and Waje (2018); Asmare and Asaye (2020); Gebresilasse and Sow (2016) who suggested that VAT administration was faced by many problems in different prats of Ethiopia.

3.5 Narrative Analysis

In addition to above the analysis of primary and secondary data obtained from MOR Hawassa branch, the researcher was conducted direct personal interview with branch directors. The purpose of the interview was to triangulate data obtained from employees. So, the interview analysis supported the above findings on all objectives. Firstly, the researcher asked the constraints of VAT administration after MOR Hawassa branch established in general. The directors responded that even if the VAT collection showed improved from 2003 E.C up to 2012 E.C, still there are some problems faced by the branch since its establishment till now are lack of awareness about the whole tax system, complexity of

laws and procedures, fraud off tax collectors, unwillingness of tax payers to register for VAT, implementation of VAT, consumers unwillingness to buy goods and services with VAT, poor tax enforcement capacity due to lack of more skilled man power on automated system, selling goods and services without tax invoice or lack of use proper Value Added Tax invoices, the weak culture of taxpayers, and lack of fairness, lack of experience of Value Added Tax registrants, weak follow-ups and controlling mechanisms against those unregistered and registered Value Added,. Also, most of VAT registered respondents understand the benefit of VAT to be competent in the market and to the prosperity of their business, sometimes the branch does not collect the VAT as per procedures set by the tax authority, VAT payers and potential business do not get sufficient and timely trainings related to the VAT: such as its benefit, their duty & responsibility, lack of information telecommunication facilities, lack of consciousness about VAT and absence of administration control.

The researchers also asked the directors on how to overcome these challenges. Then, they responded that In order to make easy the administrative activities the tax office should strength its profile with educated younger graduates. The MOR Hawassa branch offices should work hard to bring all legible business organization in the tax neat by awarding for VAT through different mechanisms such as newspaper, radio, TV, pullet and workshop. Etc. It is better for the tax office about their duties and responsibilities professional ethics and the punishment for any illegal act they perform. VAT administration should take major activity to improve the effectiveness of VAT through training, publication of magazines and newspaper to improve the collection procedure. The Revenue office have to motivate the tax payer that have not willingness to pay VAT on time, by giving some priorities such as giving reward and supporting activities. The revenue office should also create awareness the tax payer about rule and regulation, when they pay, for whom to pay and benefit they get from paying VAT. The concerned body should control and monitor the registered person and potential VAT payers to achieve its organizational goals (objectives).

Besides, the directors were asked how they rate the overall performance of their organization in terms of VAT revenue collection from 2003 to 2012 E.C. All the interviewees participated explained that the performance of their organization is good. They responded that, VAT revenue collecting trends of their organization increasing. For example, as their explanation, the amount of total revenue collected and number of VAT registered taxpayers shows positive progress from year to year and amount of VAT collected also had the same trend. The directors did not hide the fact that their branch is not in a position of performing with required level. In this regard, they explained that much is expected from the branch to bring about reforms and fully utilize their capacity, so that the performance can be enhanced. All of the directors interviewed believed in coordinated efforts to bring about required level performance. In this regard, they explained that revenue collection is cross cutting issues which demands the coordinated efforts of all concerned bodies. But during the interview some of them were recognized while trying to externalize the causes for less performance by stating same external factors especially political condition as main reason. From their response to the question, it is possible to

conclude that directors are optimistic to collect more revenue for the future in their side and they are seeking to work closely with other concerned bodies.

Modernizing VAT administration system is critical issue that demands necessary attention. Some of the recent evidences collected from service delivery organization showed that modernity is being subjective. Meaning managers are myopic about it and believe that they are using modern technique but the reverse is true in the customer side. The extent of officials' perception about using modern approach of tax administration was examined. Most of them started their response by explaining the meaning of modernity. Some of them tried to associate modernity with the use of information technology. Some others tried to link it with skilled man power. Some significant number of them explained that modernity has strong link with attitude and perception of the employees by stating "machineries, equipment and modern ICT infrastructure by themselves are sufficient to bring about modernization. As their say modernity has something to do with mind education. In this regard they explained that their authority is trying its level best to bring about modernization. Thus, they are working to support their service delivery with ICT infrastructure. More over sufficient attention were given to modernize their work force equipping them with conceptual and technical knowledge. More over the top official of the authority speak that 'modernity should not come from our side only rather the comprehensive modernity resulted from modernized taxpaying society who had sufficient understanding about the importance of revenue for country at large. As a final point, they agreed up on that though they have been trying a lot, the required change has not yet come. From their response, it can be concluded that organization is in a better position regarding the understanding of the necessity of the modernization but there had observed big gap about implementation; implying that organization should work a lot with all concerned bodies to create modern taxpaying society.

In line with this, the branch director was asked if they had exhaustive lists of informal sectors that are currently not paying taxes and their future plan to bring them in to VAT registered category. They responded that there are some lists of the informal sectors that are not currently paying taxes. Some coffee traders, informal house renters, informal urban agriculture operators, brokers and others are some lists in this category. They told me that there some more informal works from which big income generated with paying tax for publics and importance of VAT for themselves. Concerning their future plan to bring them in to VAT tax payers' category they no doubt once the work has been finalized they will lobby legal authority to issue the law and bring them in to tax payers' category. From this, it can be concluded that ;though the organization is in a better position in terms of investigating informal sectors and bring them to formality ,it is in younger stage implying that they need comprehensive study over the issue and should work with the level required. Finally, they were asked any more idea to say to improve the overall revenue collection performance of their branch. Almost all of the officials remarked that, collecting revenue is not simple task left only for them. All concerned body should work in collaboration with them. Sufficient awareness must be created for society about VAT and even educational authority should work to make the issue part of the curricula starting from earlier age.

4. Discussion

Based on first specific objective, the study concluded that there is somewhat good tax administration in the MOR Hawassa branch. Regarding VAT administration practice in place in the MOR Hawassa branch, it should sustain such good practice to bring fairness and equality in the VAT system of the branch and the tax collected from the taxpayers should be based on asymmetry information. Based on second specific objective, the study, tell us VAT revenue would increase by millions from 2003 E.C to 2012 E.C. This implies that there are good VAT practices that lead to improvements in VAT revenue from time to time. The research also, proved that there are improvements in VAT revenue from 2003 E.C up to 2012 E.C as the result of good VAT administration practice. Therefore, it is recommended to the MOR strengthen the practice applied and the procedures followed to assess and collect the VAT system. To do this the branch should follow the new proclamations and status of technology. Improve staff skills and tax awareness creation for taxpayers in the branch.

Based on third specific objective, the study also, evidenced that VAT revenue generated by government will be constant, compared to other indirect tax VAT is easy to manage, it minimizes avoidance, enables to generate a huge amount of revenue, it is the principal source of revenue for the Ethiopian government, and VAT refunds are paid out of VAT revenue collected in MOR. To enhance VAT revenue generation, strategies such as the establishment of a dependable database that is accessible is required, eliminating all sources of revenue leakages through the automation of revenue collection system, tracking the underground economy for more revenue generation.

The conclusion that reached based on the final specific objective, this study showed that there were gaps in the administration in such areas as refunding, invoicing, and filing requirements, lack of awareness of taxpayers, resistance against registrations for value-added tax by some traders, shortages of materials that are needed for the facilitation of VAT collection, the insignificant recognition is given to the benefits, rules, and regulations of VAT by the taxpayers since some of them is illiterate, lack of clarity and simplicity of vat procedure, nepotism in the vat administration system, the ascendancy of nonregistered business entities existing in the market, voluntary compliance of the taxpayers registered for VAT is very low, weakness rise from the minister in identifying and recognizing those genuine taxpayers, taxpayers' negative attitudes toward the government, poor social norms between taxpayers and the Ethiopian revenues and customs. As a final point, the MOR should mitigate challenges faced it by communicating with the ministry of education, meaning ERCA has to communicate with ministry of education for the purpose of formulating curriculum that includes education of tax. MOR has to be staffed with sufficient number of employees, so, as long as the number of tax payers is increasing and facilitated service is required, the number of employee of MOR should grow so that service can be given effectively.

Direction for Future research

Since any study cannot be free from limitations, accordingly there are some limitations in the current study. It focused only on assessing the practice of value-added tax administration performance,

challenges, and opportunities in the Hawassa branch of the ministry of revenue. This study only focused on one branch. The finding will be improved if other researchers addressed the topic by considering branches at the national level. In another way, the findings of this study may be difficult to generalize about all branches of the ministry of revenue in Ethiopia, Africa, and the world in general.

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