

Challenges of Value Added Tax Collection in Amhara Regional State, Ethiopia

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Abstract: Almost all over the world with the exception of some countries, indirect taxes are the leading constituent parts of government revenue, which support government expenditure. From indirect taxes, Value Added Tax plays an important role. However, governments have faced different challenges about taxation, and they vary in the methods of collecting taxes. In Amhara National Regional State, Ethiopia Value Added Tax (VAT) is one source of revenue. However, various challenges arise because of different problems that has been able to deter the collection system and administration. Descriptive research method and purposive sampling techniques employed with Statistical Package for Social Science (SPSS) version 26 software for the process of the analysis. Respondents who have been participated in the study were customarily VAT registered taxpayers in Metropolitan cities. This research discusses the challenges of Value Added Tax collection in Amhara National Regional State, Ethiopia. The study revealed that service delivery problems, financial statement reports which are not audited on time, invoicing or receipt provision problems and sales register machine problems (technology applications), and rewarding and encouraging systems are the main challenges of the VAT system. Based on the findings, the study suggested that providing resources to make a convenient environment for service delivery; upgrading employees' skills through short and long-term training, and Annual financial statements reports should be audited on time by capacitating tax auditors. In addition, Change the SIGTAS system with other technology to manage VAT invoicing transactions and Sales register systems. Receipts or invoices should continuously be monitored, and taxpayers should give receipts to customers. Finally, the main problems of the refund management system need further research to solve complaints of taxpayers sustainably.

Keywords: Value-added Tax, Invoicing, Financial Statement, Taxpayer, Challenges,

1. Introduction

VAT is a broad-based consumption tax levied on all production stages. Firms charge VAT on their output, deduct the tax already paid on inputs, and remit the balance due to the government. The tax thus does not distort input prices, keeping the production efficiency. It is also considered to facilitate enforcement as the credit-invoice mechanism built into it reduces a firm's ability and incentive to evade the tax, especially on inter-firm transactions (Waseem, 2019). Value-added tax hereafter (VAT) is a general, broadly based consumption tax assessed on the value added to goods and services (UnitedNation(UN), 2017).

Some problems, such as the relatively high compliance cost for small firms and the vulnerability of the refund system to fraud have always been inherent in the structure and operation of VAT (Richard M.Bird, 2007).

Ethiopia is a land-locked country located in the Horn of Africa, bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. Amhara National Regional State is found in the northwest part of Ethiopia, and encircled by Sudan in the western part, Oromia region in the south, Afar in the east, and Tigray in the northern part of Ethiopia. When the researcher expresses Ethiopian national GDP, the regional states are dependable on national economic development. Most of the fiscal and monetary policies are measured at the federal level. Ethiopia is one of the fastest-growing economies in the world, which had shown 9.3% average annual growth during 2013/14 - 2017/18 fiscal years, recorded 7.7% growth in 2017/18 fiscal year, slower than the growth rate registered in the previous year owing to growth deceleration in agriculture and industry sectors (NBA, 2018). Despite the fact of progress toward eliminating extreme poverty, Ethiopia remains one of the poorest countries in the world. The strong economic growth record has been accompanied by high inflation, foreign currency shortage, rain-fed agriculture, and export of few primary commodities (Belaynew Asrie Molla, Getaneh Mihret Ayele, Bedilu Yismaw Alemu, 2018).

VAT is the major source of tax revenue in the Amhara Region, Ethiopia, but, in practice, value-added Tax collected to VAT was not played in its important role because of different challenges. Mainly the administration of Value Added Tax; because of this, the study was intended to assess the challenges of Value Added Tax collection performance in the Amhara Region.

1.1. Statement of the Problem

In Ethiopia, VAT was introduced in 2003 to replace sales tax with the objectives to minimize tax evasion and avoidance, enhance investment and saving since it does not include tax capital, and generally to foster growth and development. Different authors describe the introduction of VAT as the valuable reform undertaken by Ethiopian Government (USMAN, 2018). Yesegat, (2008)

confirms that VAT has a significant role in the revenue system of the Ethiopian government. However, as if Value Added Tax is the new tax system in Ethiopia, it has many challenges that encounter tax authority in the country to collect sufficient revenue.

According to Yesegat, (2008), 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 to this, a paucity of tax awareness between the society and vital education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country.

Logically economic resources are scarce, and it needs additional revenue sources, especially, sustainable resources are tax resources, which can develop in line with GDP growth, then committed government designed tax plans to raise revenue to meet its fiscal obligation.

There are so many challenges in the Amhara Region to administering Value-added Tax, such as flawed invoicing system, inefficient auditing, and investigation, incapability of VAT registration, flawed system of follow up and controlling system, sales registration machine problems, problems of horizontal and vertical equity in different activities. Because of these and other related problems, Amhara Region, has been shown a dependable excess of expenditure over revenue for many years.

In Amhara Region, the number of VAT register taxpayers are **2,617** and **20,721** in **2010** and **2019**, respectively. The amount of VAT collected **122,079,065** and **1,247,359,632** in **2010** and **2019** respectively. There is a great change in the number of taxpayers, **12.62%**, and the collected tax **9.78%**. In the past ten years, the change in the number of VAT registers and the amount of VAT collection is shallow when compared to the emerged interest of public infrastructure, economic development, and market interaction. The reason is the system of VAT administration is tied by complicated challenges, and the research focused on the core challenges of VAT collection in Amhara National Regional State, Ethiopia.

1.2. Research Objectives

1.2.1. General Objective of the Study

The general objective of the study was to examine the determinants and challenges of tax revenue performance in Ethiopia.

1.2.2. Specific Objectives of the Study

The followings are the specific objectives of the study

1. To analyze the effect of economic growth on the tax revenue performance in Ethiopia;
2. To analyze the effects of inflation rate on tax revenue performance in the country; and
3. To identify the major challenges of tax revenue collection in Ethiopia

1.3. Research Question

The study has addressed the following research question,

1. How to analyze the effect of economic growth on the tax revenue performance in Ethiopia,
2. What is the effects of the inflation rate on tax revenue performance in the country; and
3. What are the major challenges faced in collecting tax revenue by Ethiopian Revenue and Customs Authority?

2. Review of Theoretical Literature

2.1. Definition of Taxation

Any sound tax system should have some fundamental characteristics, among which equity and fairness, certainty, convenience, and efficiency in administration. According to Armah-Attoh & Awal, (2013) explanation, a tax system is said to equitable and fair if taxpayers with equal abilities to pay are made to pay the same amount of tax. There is certainty in the tax system as to whether the tax laws define when to pay the tax, how to pay it, and how to decide the amount to be paid. Furthermore, the element of convenience demands that taxes should be due at a time or in a manner that is most likely to be convenient to the taxpayer. In addition, in order to ensure consistency in tax administration, the tax system should be clear and easy to administer, and be understood by both tax officials and payers. Together, such attributions are expected to encourage high compliance levels on the part of taxpayers.

Value Added Tax (VAT) is a consumption tax being charged and embraced by many developed and developing countries, which is relatively easy to administer and very difficult to evade (Folajimi Festus et al., 2016), (Manaye et al., 2019). The economic development and growth of any nation depend on the government's ability to generate adequate revenue to effectively provide various infrastructural facilities to satisfy the needs of the population and takes its position among the nations in the global village.

According to Sow & Gebresilashe, (2020) expression, VAT is also supposed to eliminate the cascading effect of output tax, and thus make production more efficient. Assefa & Rao, (2017) states that the "value added tax" has been criticized as the burden as it falls on personal end consumers of products. Some critics consider it a regressive tax, meaning that the poor pay more, as a percentage of their income, than the rich do. No tax is perfect, either in design or in administration, regardless of the competence or otherwise of the tax administration and the honesty or otherwise of taxpayers. Both in principle and practice evidence around

the world suggests strongly that it is simpler to enforce a sales tax applied in a total value-added form to a chain of transactions than it is to administer an 'equivalent' RST, where all stands or falls on honest reporting of a single transaction (the final sale) (Bird, 2007).

On the other hand, Bird (2007) added that many developing countries had encountered VAT implementation problems mainly because of lack of self-assessment based tax return practices, the difficulties in establishing efficient VAT administration and control systems, a large share of the shadow economy, and tax fraud.

2.2. Theoretical perspectives of Value Added Tax

According to Tait (1988) opinion, Value Added Tax is the value that a producer (whether a manufacturer, distributor, advertising agent, hairdresser, farmer, racehorse trainer, or circus owner) adds to his raw materials or purchases (other than labor) before selling the new or improved product or service. The inputs (the raw materials, transport, rent, advertising, and so on) are bought, people are paid wages to work on these inputs and, when the final good or service is sold, some profit is left. Therefore, Value Added Tax can be looked at from the additive side (wages plus profits) or the subtractive side (output minus inputs).

Value added = wages + profits = output - input.

If we wish to levy a tax rate (t) on this Value-added, four basic forms can produce an identical result:

- 1). t (wages + profits): the additive-direct or accounts method;
- 2). t (wages) + t (profits): the additive-indirect method, so-called because Value-added itself is not calculated, but, only the tax liability on the components of Value-added;
- 3). t (output-input): the subtractive-direct (also an account) method, sometimes called the business transfer tax; and
- 4). t (output) - t (input): the subtractive-indirect (the invoice or credit) method and the original EC model.

There are four methods of calculating VAT liability: the additive-direct method (or accounts methods), additive-indirect method, sales-subtraction method, and the credit-subtraction method (Oldman, 2007). Researchers observe in different directions, according to Oldman, (2007) opinion, the credit-subtraction method is further divided into two methods: the credit-invoice method and the credit-subtraction method without invoices.

The additive-direct method

Under the additive-direct method, a taxable enterprise computes its tax liability for each tax period by means of summing the enterprise's economic components of production for the period, such as wages, interest and rent costs, and profit for VAT purposes (Oldman, 2007).

Then, the taxable enterprise calculates its tax payable by multiplying the total amount by a certain tax rate (Tait, 1988).

The sales-subtraction method

Under the sales-subtraction method, a VAT taxable enterprise computes its net VAT liability by means of multiplying the total taxable sales after subtracting total taxable purchases from other enterprises by the tax rate. The calculation of the difference is based on purchase and sales data from each tax period rather than each taxable sale (Oldman, 2007).

Therefore, under this method, the prices of taxable goods are inclusive of VAT; hence, the data in the financial accounts are recorded at tax-inclusive prices; this means the VAT under the sales-subtraction method is levied on tax-inclusive prices (Oldman, 2007). The sales-subtraction method causes an issue for VAT; that is, should the tax rate be levied on a price inclusive or exclusive of the tax liability?

Theoretically, there is no significant difference in whichever method is used (Tait, 1988). By changing the tax rate, these two methods can achieve the same goal of producing fiscal revenue.

The credit-invoice method

The credit-invoice method was devised in Europe, and is based on a tax-against-a-tax methodology.

Under the credit-invoice method, a VAT taxable enterprise computes its net VAT liability for each tax period as the difference between the tax paid on taxable sales (output tax) and the tax paid on purchases from other VAT taxable enterprises (input tax).

The input tax can be claimed against the output tax on the condition that the business inputs are used in making taxable sales.

The input tax is equal to taxable purchases multiplied by the tax rate, which is usually listed on the suppliers' tax invoices. The output tax is similar to taxable sales multiplied by the tax rate, which is generally listed on the sellers' tax invoices.

The mechanism of the credit-invoice is analogous to the withholding at source concept in income tax.

Part of the final amount of the VAT is collected at each stage in the process of production and distribution. At the same time, the input tax is claimable unless the purchaser is the ultimate consumer.

The credit-subtraction method without invoices

The credit-subtraction method without invoices was introduced by the Japanese Consumption Tax (JCT) in 1989 (Nabavi, 2019).

Under the credit-subtraction method without invoices, a VAT taxable enterprise computes the net tax liability the same way as under the credit-invoice method. However, this method differs from the credit-invoice method, which requires the tax invoices as vouchers in order to reclaim the input tax (Oldman, 2007).

The credit-subtraction method without invoices relies on the financial account records to calculate the input tax and the output tax. Countries do not use the additive-direct method and the additive-indirect method at the national level, and the sales-subtraction method has never been put into practice. Japan is the only country using the credit-subtraction method without invoices (Nabavi, 2019).

Therefore, the credit-invoice method is the most prevalent method used worldwide to calculate the net VAT liability.

2.3. Empirical Views

In recent years, the member states of the EU that applied higher-than-standard VAT rates to items of luxury consumption have all abolished these rates. To the extent that these rates covered expenditures on drinking, smoking, and motoring, increases in the related excises or user charges were indicated. What remained of the VAT base susceptible to the application of increased rates was extremely small at most a few percent of consumption expenditures. In addition, higher rates were difficult to enforce concerning small high-value items, such as jewelry, toilet goods, and cameras, which could easily be smuggled in from abroad. Policymakers realized that it was more cost-effective to tax high-income groups by means of adjustments to the personal income tax (Cnossen, 1998).

To sustain Value Added Tax revenue role in the government finance, it is essential to ensure that the revenue generated by this tax is raised as efficiently as possible. However, researches reveal that in Ethiopia, revenues raised by Value Added Tax are usually garnered at the expense of erosion in its salient features; this may be caused by factors including poor Value Added Tax administration and poor culture of paying tax of the taxpayers, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in achieving government's policy objectives at large and fully implementing the design features of Value Added Tax (Yesegat, 2008). According to the findings of Feleke, (2019), and Mohammed & Tinsae, (2017), in Gambella, and Somali region, Ethiopia, some traders do not maintain proper record keeping of their business, because of lack of trained professionals to maintain their financial operations, and majority of the taxpayers' uses illegal invoices practices due to the customers' interest to buy from non-registered enterprise to get lower price. Charlet & Buydens, (2012) reveals as VAT was limited to less than ten countries in the late 1960s, and now it has been implemented by more than 150 countries across the world. According to the FDR Ethiopian Tax proclamation, Ethiopia adopted VAT by January 1, 2003, through replacing the outdated general sales tax in accordance with proclamation No 285/2002 for raising sufficient tax revenues. Charlet & Buydens, (2012), and Tamrie & Gebregziabhere, (2019) expressed that the majority of countries, which is about 75% of the globe, were currently in the large chorus of implementing the VAT system.

Ethiopia has a low tax ratio compared to other low-income countries. Administrative bottlenecks and weak tax compliance have been the main obstacles to revenue administration. Given the current low collection rate, achieving the target of 17.2 percent of GDP by 2019/20 will be challenging. Some countries in the region have successfully implemented reform programs aimed at improving tax compliance and strengthening effectiveness and efficiency in revenue administration (e.g., Mozambique, Congo Republic, Cabo Verde, and Liberia). Reforms have focused on strengthening core operational processes, improving organizational structures, better data and information technology, and enhanced human resource management. The authorities are pursuing an ambitious revenue administration reform agenda. The income tax and tax administration laws approved in 2016 aimed at improving tax collection, broadening the tax base, and setting up a more efficient tax system overall. Reforms have strengthened integrity and enforcement, with significant improvements in taxpayer assistance and service. An updated Integrated Tax Administration System software is also needed. Further legal reforms may be required to support revenue mobilization. A review of the Ethiopian tax system would also be useful in this regard, mainly as it could shed light on the underlying causes of the recent poor VAT performance (International Monetary Fund, 2018).

3. Research Methodology and Design

To examine the Challenges of VAT collection practices in Amhara Region, Ethiopia, the research design for descriptive types of research, which used to identify and obtain information related to research problem features. The study of descriptive design seeks to explain the challenges of Value Added Tax collection in Amhara National Regional State, Ethiopia. The main sources of data used in collecting the data were both primary and secondary data sources. To investigate the primary sources, questionnaires were used as appropriate tools. The secondary data from 2010 to 2019, covering ten (10) years on Value Added Tax (VAT) in the Amhara Region economy, were obtained and analyzed. Data on VAT for the period were obtained to examine the trend in the collection over the years. The main sources of data used in collecting the data were secondary data sources. The secondary data were collected from official documents of the organization and records about current Value Added Tax collection and from Amhara regional State Revenue Bureau.

The specific data collected were for the analysis purpose of Value Added Tax collected (dependent variable), invoicing (technology), service delivery problems, financial statement audit, and encouraging and rewarding system (all independent

variables). The study employed to measure four continuous independent variables and one continuous dependent variable. In order to analyze the research data, linear regression with multiple variables was used to analyze the relationship and the fitness of the model, significance, multi correlation between all variables. The variables were analyzed using SPSS-26, Stat Tools 8.0, and Minitab 15 English computer programmer software.

The instruments (questionnaires) are taken from (Singh, 2019), (Suntoro & Tjen, 2017), and modified by the researcher.

Interpretation of quantitative data involved organizing and synthesizing information into units, and searched for meaningful patterns, and finally got an understanding; analyze the data that will be gathered through the available documents and reports.

The study used linear equation model specification with multiple independent and dependent variables.

The linear regression equation is:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \dots + \beta_kX_k$$

Where, Y= Dependent Variable, X1, X2, Xk (Independent Variables), β (Constant),

The sample size is determined using a scientific formula obtained from Adams et.al (2007) to determine the sample size for cross-sectional studies. The formula used is as follows:

$$n = \frac{N}{1 + Ne^2}$$

Where: n = sample size, N = Total population, e = Error tolerance.

The margin error for this study is 5%, and using this information,

The sample size is equal to $n = 350 / (1+350(0.05)^2)$, = **80**

The study used the purposive random sampling technique; in the Amhara Region, there are three metropolitan cities. Out of the three metropolitan cities, 100 taxpayers are randomly selected with a random sampling technique. The random sampling method was through a proportional approach.

4. Data Presentation and Discussion

Descriptive statistics

Descriptive statistics are useful in describing the fundamental characteristics of data. In a research study, these statistics may help us to manage the data with extensive data in a table of summaries. Descriptive statistics explain dependent variable Value Added Tax collected and four independent variables called invoicing (technology), service delivery problems, financial statement audit, and encouraging and rewarding system (all independent variables) in terms of mean, maximum observation, standard deviation, and all the data processed and automated using SPSS-26, Stat Tools 8.0 and Minitab 15 English computer programmer software.

Table 1.1. Sex of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	50	62.5	62.5	62.5
	female	30	37.5	37.5	100.0
	Total	80	100.0	100.0	

Sex, age, educational level, and other factors influence the respondents' attitude towards value-added tax collection. Table 1.2 indicates that 80 VAT registered taxpayers were purposefully selected and fill the questionnaires. Out of these, 50 (62.5 percent) were males, and 30 (37.5 percent) were females. In the business field, females are not well participated; it needs more mobilization for females to participate in the business area.

Table 1.2. Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25 years and below	8	10.0	10.0	10.0
	26 years to 35	14	17.5	17.5	27.5

36 years to 45	23	28.7	28.7	56.3
46 years to 55	28	35.0	35.0	91.3
56 and above	7	8.8	8.8	100.0
Total	80	100.0	100.0	

According to the age of the respondents' data, most of the respondents are from the age of 46 to 55, which accounts for 35%, the second is from 36 to 45 years of age accounts 28.7%, from 26 to 35 years are 17.5%, 25 years and below are 10% finally, 56 years and above are 8.8%, this indicates that more respondents are at the age between 36 to 55 means more respondents are matured enough and can give reliable information.

Table 1.3. Educational Background of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	62	77.5	77.5	77.5
	Degree	18	22.5	22.5	100.0
	Total	80	100.0	100.0	

Educational background has a significant role in understanding and gives a valuable response. According to Table 1.3, 62 (75.2 percent) have a certificate below degree level, and 18 (22.5 percent) degree holder respondents; this ensures that all the distributed questionnaires are 100% returned with the best quality. The reliability of the response tends to real because of the respondents' academic rank. So, the educational background can influence the quality of the response.

Correlation Analysis

In statistical methods, Correlation analysis is used to calculate the power of the relationship between two quantitative variables. If the two variables are positively correlated, the two or more variables have a strong relationship with each other, while a weak correlation means that the variables are not related.

To identify the relationship between dependent and independent variables, the Pearson correlation analysis result shows that there is a strong relationship between variables. As the table indicates, Service delivery problems with VAT, Invoicing and receipt problems with VAT, Financial statement audit with VAT, and encouraging and rewarding system with VAT have a strong correlation. The amount of the correlation is almost nearest to one, which is .852**, .745**, .797**, and .475**, and all are strongly and positively correlated, respectively.

Table 1.5. Correlations

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		Value Added Tax Collection	Service Delivery Problems	Invoicing and Receipt Problems	Financial Statement Audit	Encouraging and rewarding systems
Value Added Tax Collection	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	80				
Service Delivery Problems	Pearson Correlation	.852**	1			
	Sig. (2-tailed)	.000				
	N	80	80			
Invoicing and Receipt Problems	Pearson Correlation	.745**	.673**	1		
	Sig. (2-tailed)	.000	.000			
	N	80	80	80		
Financial Statement Audit	Pearson Correlation	.797**	.711**	.754**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	80	80	80	80	
Encouraging and rewarding systems	Pearson Correlation	.475**	.440**	.627**	.574**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	80	80	80	80	80

Correlation is significant at the 0.01 level (2-tailed).

Durbin-Watson test explains that autocorrelation between successive observations in the data should be $1.5 \leq X \leq 2.5$. From the above regression output Durbin-Watson, test result indicates that the value is **1.830**, that is, between 1.5 and 2.5. This test approved that there is a collinearity.

R is the correlation between the predicted values, and the observed values of Y. R square are the square of this coefficient. It indicates the percentage of variation explained by the regression line out of the total variation.

R2 tells us how much variation in the dependent variable is accounted for by the regression model; the adjusted value tells us how much variance in the dependent variable would be accounted for if the model had been derived from the population from which the sample was taken. Precisely, it reflects the goodness of fit of the model to the population taking into account the sample size and the number of predictors used. This data result shows that R is 0.901 (this implies the model is fit), R square is 0.812 (this indicates all independent variables affect the dependent variables by 81.2%).

Table 1.6. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				Sig. F Change	Durbin-Watson
					R Square Change	F Change	df1	df2		
1	.901 ^a	.812	.802	.346	.812	81.246	4	75	.000	1.830

a. Predictors: (Constant), Encouraging and rewarding systems, Service Delivery Problems, Invoicing and Receipt Problems, Financial Statement Audit

b. Dependent Variable: Value Added Tax Collection

Analysis of variance (ANOVA) is a statistical technique that is used to check if the means of two or more groups are significantly different from each other. ANOVA checks the impact of one or more factors by comparing the means of different samples.

As the table indicates that the in regression, the value of squares 38.9989, df value is 4, mean square 9.747, F-value 81.246 are strengthening whether the groups are significant or not; this means that the factors have a substantial effect on the results of the VAT collection.

Table 1.7. ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.989	4	9.747	81.246	.000 ^b
	Residual	8.998	75	.120		
	Total	47.987	79			

a. Dependent Variable: Value Added Tax Collection

b. Predictors: (Constant), Encouraging and rewarding systems, Service Delivery Problems, Invoicing and Receipt Problems, Financial Statement Audit

From the above histogram test graph, the plot of the residuals (all the independent variables) versus predicted value (dependent variable) which are indicated in the pattern, have no problems with the assumption that the residuals are normally distributed at each level of Value Added Tax collection and constant in various cross levels of the tax revenue. It is possible to conclude that the study of the data is normally distributed.

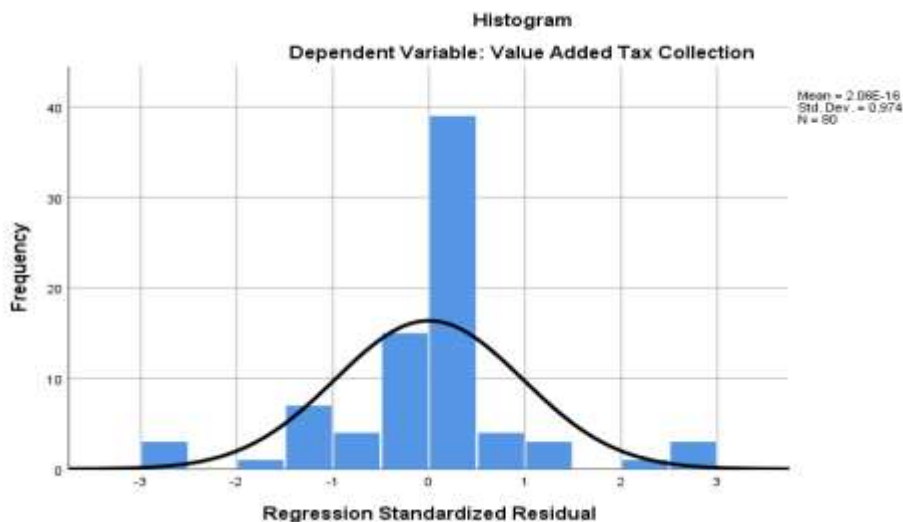


Figure 1.1. Histogram

This line plot is also strengthening the histogram graph data, which has no problems with the assumption that the residuals are normally distributed at each level of Value Added Tax collection. The graph shows that the relationship between two sets of values, with the given data set being dependent on the other set, so, the line graph assured that the data is normally distributed.

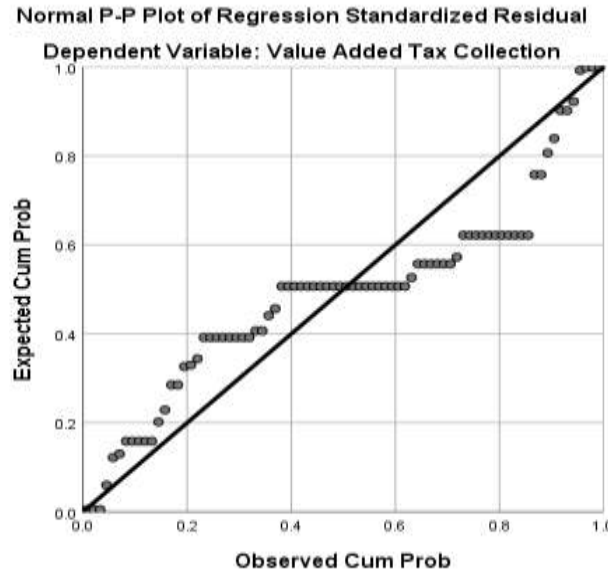


Figure 1.2. Line graph of regression Standards

5. Conclusions and Recommendations

Conclusions

One of the bloodstreams of governments is tax revenue out of this Value Added Tax takes a vital share. As if Value Added Tax is a consumption-based tax, it is a sustainable and emerging type of taxes almost all the world countries applied value-added tax system with some exceptions.

The study revealed that there is inefficient service delivery, including unfair treatment, due to file management problems that result from wastage of time to treat taxpayers during monthly VAT reports in metropolitan cities, and limited capacity and credible tax officials mainly in reviewing different documents and registration process.

The Federal government and all regional government tax authorities installed the Standard Integrated Government Tax Administration System (SIGTAS). However, the system is outdated and serves the past fifteen years; this creates a significant challenge in VAT invoicing transactions. Sales register systems are not active, and the machines by themselves are continuously in the problem. Receipts or invoices are not continuously monitored, and taxpayers are not willing to give receipts to customers.

Annual financial statement reports of taxpayers should audit on time. However, due to the number of excess files, which are not audited, make a burden to tax auditors. This leads to financial statements of taxpayers delayed more than three years without audit. Taxpayers are exposed to excess penalties and administration costs. On average more than 3,000 unaudited files are accumulated in each metropolitan cities tax offices. In addition to these, the quality of audit and poor refund management creates a significant gap between taxpayers and tax authority, these leads bottlenecks to VAT collection.

A simple encouraging, and the rewarding system can benefit the government and take a long distance to build voluntary taxpayers. The rewarding system of the region encouraged taxpayers to be voluntary taxpayers. More than ten years from local tax offices to the regional level, there is a rewarding system including tax experts, taxpayers, and institutions. These contribute to the development of tax compliance. Ultimately, encourage value-added tax collection.

Recommendations

Based on the conclusions, the researcher recommends that providing resources to make the convenient environment for service delivery, including office furniture for file management and customer waiting for place, to give fast service tax experts should get short and upgrade levels of employees through short and long-term training. Increase the number of tax auditors. The Federal government and all regional government tax authorities installed the Standard Integrated Government Tax Administration System

(SIGTAS). However, the system is outdated and serves the past fifteen years, which creates a significant challenge in VAT invoicing transactions. Sales register systems are not active, and the machines by themselves are continuously in the problem. Receipts or invoices are not continuously monitored, and taxpayers are unwilling to give receipts to customers with low voluntary compliance of taxpayer leads to tax evasion and fraud. As a result of weak enforcement and continuous follow up challenges of invoicing become critical problems for VAT collection.

In order to solve the challenges of invoicing or receipt problems, Standard Integrated Government Tax Administration System (SIGTAS) should be changed by the latest technology, and the sales register machines should be administered easily with least cost price with least service cost. In addition, and mainly, create voluntary compliance with a great participation of religious and community leaders that has influential powers and use media and artists, because this is one part of building a culture of tax payment.

Annual financial statement reports should be audited on time by capacitating tax auditors and increasing the number of tax auditors. Refund management system should be solved with the integration of the Federal Revenue Minister. Arrear files should get special attention according to order, and the amount of transaction, which has a considerable amount, should get priority, and the least amount can accept without audit.

To recognize patriotic taxpayers and employees publicly, the existed rewarding system should increase the coverage and the type of rewarding system. It should include the tax office leaders and other stakeholders that can encourage voluntary tax compliance behavior.

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