

Assessment on the Problem of Business In-Come Tax Administration on Category ``C`` Tax Payers (Inc case of Mekane Eyesuse Town Revenue Authority)

Derese Simegneu Alehegn

Abstract: Government expenditures to provide service for the general public should be financed from different source and uses different sources of finance for its expenditure like tax, borrowing donation, fees, fines and others. Business income taxes were one part of tax which imposed on taxable business income /net profit/ realize from entrepreneurial activity. The tax collection process on business income tax collection on category “C” tax payers should be followed by tax administration properly. To administer the process of business income tax collection system on category “C” tax payers properly the tax collection system should be aware by tax payers, and tax officials should be skilled. In order to cover its expenditures effectively government should identify and point out the main problems in tax collection procedure and assessment especially in business income tax on category “C” tax payers. The main objective of this study was to investigate tax assessment and collection problems in respect of category “C” taxpayers found in Mekane eyesuse town. Both semi structured interview and questionnaire techniques were employed to investigate the existing problems in business income tax administration of the selected town. As shown the authority of tax official response the authority properly apply administrative penalty on the tax payers who were not able to pay on schedule period of time. But as respondents showed there was also a problem on applying administrative penalty. Even if tax administration performance was improve from year to year tax payers service delivery has reached to some extent because of commitment of tax officials in their work. Less awareness creation program to tax payers and revenue authority face, the following five issues were pointed out as major business income tax administration problem existed between the tax payers and tax authority in Mekane eyesuse revenue authority these were, shortage of information about the tax system, majority of tax payers in Mekane eyesuse town had low awareness about the law and regulation of tax, Lack of training to the tax payers. In effective administration on tax collection process and insufficient number of tax official.

Keywords: Assessment, Problem of Business, In-Come Tax Administration

1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Business income tax is a tax imposed on taxable business income /net profit/realize from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of the profit and loss account or income statements which shall be drawn in compliance with generally accept accounting standards (GAAS) (Tesfaye, 2009)

As Tesfaye (2008), noted that business income tax or business profit tax is the tax imposed on taxable business income (profit realized from entrepreneurial) activities arising each accounting period or tax year. At the end of each year or accounting period, business income tax payers submit an income tax return (tax declaration form) to the tax authority, which shall contain full and true information about income or profit earned by the business tax payers. To determine the income tax liability of such tax payers standard assessment used .standard assessment is a fixed amount of tax determined by estimation or best judgment prescribed in income tax regulation No.78/2002.

Corporate business bodies are required to pay 30% fiat rate of business income tax. For UN corporate or individual business, the business income tax ranges from 10% - 35% (proclamation No.286/2002, article19).Taxation is a system of raising money to finance government expenditure. All governments increase the revenue by means of tax. Government uses tax revenue to pay soldiers and police to build dams and roads, to open and operate schools and hospitals, to provide foods for poor and medical care to elders and for so many purposes (Woreku, 2006).

The Ethiopian Government categorize the business income tax payers in to three on the basis of legal personality (legal status) of tax payers and their annual gross turn over (annual actual or expected gross sale revenue) for its efficient and effective tax administration purpose. category ‘ ‘C’ ’ tax payers are one of the three categories of business income tax payers, having no legal personality, and whose annual gross turnover is estimated up to br.100000. They are unlikely category “A” and category “B” tax payers are not required (not obligatory) to maintain books and records and to submit any financial statement to the tax authority.

To determine the income tax liability of such tax payers' standard assessment presumptive taxation method is used (proclamation No.286/2002) (Worku, 2006).

Through history people have debated on the amount and kinds of taxes that government should impose as well as on how it is hold and distribute the burden of those taxes across the society. For instance in Ethiopian there was a Gojjam peasants rebellion in 1968, the immediate cause of rebellion was the introduction of a new agricultural income tax which peasant opposed in political campaign candidate views on taxation many party determine their popularity voters. Although countries differ considerably in the amount of taxthey collect yet. The most important source of revenue for modern government remains to be tax. The remainder of government revenue comes from charging fees for service, borrowing and from other related sources. Government may raise or lower taxes to achieve social and economic objectives or to achieve political popularity with certain group (Worku, 2006).

Undertaking this study would enabled to elaborate the taxpaying society to accomplish its duties and responsibilities in the voluntary basis and collect commensurate tax revenue having ethical and skilled man power and modernization providing efficient honest service and tax payers education thereby preventing frauds. Therefore, the main purpose of this study was to assess the problems of business income tax administration purpose. Category ' 'C' ' tax payers in Estie townrevenue authority.

1.2 Statement of the problem

Government expenditure to provide service for the general public should be financed from different sources and uses different sources of finance for its expenditurelike tax, borrowing, donation, fees, fines and others. But the most important source of finance for most Government was tax. In order to collect a tax there was a tax collection process which that was different according to type of tax to be collected. The tax collection process on business income tax collection on category "C "tax payers should follow by tax administration properly. To administer the process of the business income tax collection system on category "C " tax payers properly the tax collection system should be a were by tax payers, and tax officials should be skilled.

The researchers identified different problems that fact the business income tax administration on category "C "tax payers in Mekane eyesus town. The most serious problems were as follows:

Storage of information about the tax system, Majority of tax payers in Mekane eyesus town had low awareness about the regulation of tax, lack of training to the tax payers, ineffective administration on tax collection process, and insufficient number of tax official.

Due to this reason business income tax administration had not been improved. There for this study answers the following questions:-

Did the authority properly administer the process of business income tax collection?

Did the authority give training to the tax payers?

Did assessment and collection procedure of the tax authority match with the tax law and regulation?

Did the tax assessment and collection procedure free from to tax avoidance and tax evasion?

Did the authority organized with facilities for better tax estimation and collection

1.3. Basic Research Question

To solve this problem to prepare the following research question

1. What was the attitude of small businesses towards recording business events and to see whether they follow major tax system?
2. Does the enterprises prepare crucial financial statements periodically?
3. What was the strength and weakness of internal control system of that business?
4. What was the attitude of the firms towards inventory system?
5. What was importance of tax system and how to design accounting system for their business?

1.4. Objective of the study

1.4.1 General Objective

The general objective of the study was to assess the problems of business income tax administration on category “C” tax payers in Mekane eyesus town revenue authority.

1.4.2 Specific Objective

The specific objectives of the study will be the following.

To investigate the business income tax collection and procedures on category “C” tax payers used by authority in Mekane eyesus town revenue authority.

To examine category “C” taxpayer’s awareness about tax information.

To check out whether the procedure that the tax authority followed is exposed to tax evasion and tax avoidance.

To check out whether the tax payers compliant and appealed getting fast response or not.

To identify procedures used by the tax authority in standard assessment method and see fairness of category “C” tax payer

1.5. Significance of the study.

The impact tax payer’s attitude towards taxation is the major factor that determines the success of the tax system. Unless these business income tax administration determinants are pointed out and addressed properly, it may be difficult to design an efficient tax system that helps to narrow the existing compliance gap.

Hence, this study would have a significance to provide relevant information to policy makers and other concerned bodies in addressing business income tax administration problems.

Besides, the study will be believed to trigger to importance for undertaking further can help for different users of research paper. It can be used as a reference material for those who went to undertake their study on the same area or on related topic. The study can be also useful to organization for addressing the problems of business income tax administration and minimize the limitation in performing activities. Furthermore, the study can provide awareness for tax payers, tax assessors, and collectors by pointing the problem, and indicate the problem existing in the administration practice.

1.6. Scope of the study

This study was limited to the assessment of tax payers \administration problem with taxation with respect to category “C” tax payers found in Mekane eyesus town category “C” tax payers were not required by law to declare their income or keep books of account, and considered as hard-to tax group. Moreover, the study focused on tax payers who are registered under category “C” starting from 2008 to 2007 E.C.

Besides the main of this study was on the problems of tax assessment. Collection procedure, and tax management system of tax laws and regulation related with business income tax administration on category “C” tax payers in Estie town revenue authority. It is difficult to assess the whole business income tax administration process and it also reduces the quality of the research

1.7 organization of the paper

This study will be organized in to five chapters. The first chapters present the introduction. The second chapter discusses the literature review while the third chapter presents brief description of the research design or methodology. Moreover, the fourth chapter presents analysis and interpretation. Finally, the fifth chapter presents conclusion and recommendation

1.8. Definition of key terms

Category “C” tax payers are one of the three categories of business income tax payers, having no legal personality, and whose annual gross turnover is estimated up to br.100000. They are unlikely category “A” and category “B” tax payers are not required (not obligatory) to maintain books and records and to submit any financial statement to the tax authority.

Business income tax is a tax imposed on taxable business income realized from entrepreneurial activity.

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research design and Approach

In the study, a descriptive research design was used because it was highly preferable to answer the basic research questions mentioned earlier.

3.2 sampling

3.2.1, Target Population

The study population was all Estie woreda tax payer.

3.2.2. Sampling method

Both census and simple random sampling was a sampling technique that the researchers used. Accordingly, through census the whole tax officials of the authority were used because the target population was very small. Simple random sampling was used to obtain sample from registered category ``C`` tax payers by selecting units (sample) from N (population), such that each unit has an equal chance of being selected. In addition to, it was more scientific method of taking out sample from the population, since it eliminates personal bias, and provides reliable information for low cost.

3.3. Data Source and type

Primary and secondary data was used. Primary data was obtained from the target population through questionnaire and this enabled the researchers to cover a large population quickly and at reasonable cost.

The survey instrument used in this study was a 1-page questionnaire with cover letter. The questionnaire was divided in to two sections part 1 2 items. part one covers the background information of the respondents and parts two covers basic questions related to tax payers' and revenue authority tax officials general knowledge about taxation.

Secondary data was kind of data that was available, already reported by some other scholars. Secondary data included policy documents and abstracts of the various scholars relating to the topic of discussion in question. Secondary data for this study was got from sources like libraries, archived records from the Town authority and records of selected small-scale enterprises, government publications, online information, text books, newspapers, and unpublished research reports. This was because it was readily available and easier to comprehend, as it comprised of extensively researched work.

3.4. Data collection Tool/Instruments

The data used in this study consists of both primary and secondary data. The primary data were collected through standard questionnaire and semi structured interview.

Survey was given and taxpayers and tax officials were told that was a study to assess tax administration problem with taxation in Estie town. Generally, tax officials and taxpayers` were excited to take part and expressed some addition views and suggestions. The questionnaire was translated into Amharic by taking into consideration the fact that English is not the language of the respondents.

Secondary data was obtained by referring different written documents, because it was used as basis of comparison with the primary data that had just collected and less economical, and gate enough information with a short time.

3.5 Data Collection Procedure

The demographics of the respondents were firstly established in the questionnaire. The questionnaire comprised of both closed and open ended questions. Adding open ended questions allows respondents to offer an answer that the researchers didn't include in the questions. The replies of open-ended questions were analyzed by content under different categories. The accuracy of the study and understand the meaning of units in which data were recorded, original observation collect by researchers. And collect as fresh and for the first time.

3.6. Method of data analysis and presentation

Once after the required data was obtained the response of tax payers and tax officials were organized, analyzed and presented in a sensible way. The researchers used descriptive method of analysis because this method would observe, describe and document aspects of a situation as it occurs and could provide an account or description of individuals, groups or situations by using instruments such as questionnaires and semi structured interview. Accordingly, tabulation and percentage were used to analyzed and present the obtained data.

3.7. Research Ethics

Ethical clearance and supporting official letter will be obtained. It will be communicated at each level of administrative bodies. Confidentiality of the information will be maintained. Before administration of questionnaire, verbal consent from the from the responsible body will be the pre request for data collection.

4. DATA ANALYSIS INTERPRETATION AND PRESENTATION

This part of the study deals with the analysis, interpretation and presentation of data which obtained from 13 tax officials of Mekane eyesus Town revenue authority and 93 tax payer sample were taken from the total number of registered category “C” tax payers of Mekane Eyesus Town.

4.1 Profile of tax officials

The presentation of the respondents profile was to indicate their sex. Education level and work experience of tax officials. Table 4.1. Sex distribution of tax officials

Sex	Frequency	Percentage (%)
Male	7	70
Female	3	30
Total	10	100

Source: survey of tax officials, 2016 as indicate in table 4.1 above, from the total respondents. 3(30%) of the tax officials were female and the remaining 7(70%) of respondent were male. This showed that female tax officials and male tax officials were equal participation in tax assessment and collection

Table 4.2. Education level of tax officials

Educational	Frequency	Percentage (%)
Others	0	0
College Diploma	4	40
1st degree	6	60
2nd degree	0	0
Total	10	100

Source: survey of tax official, 2016 as indicated in table 4.2. Above from the total respondent of staff members. 6(60%) of tax officials are first degree holders and the remaining 4(40%) of tax officials are diploma holders.

Table4.3 Work experience of tax officials

Experience	Frequency	Percentage (%)
Below 1 year	0	-
Between 1-3 year	5	50
Between 4-6 year	4	40
Above 7 year	1	10
Total	10	100

Source: survey of tax officials, 2016

As indicated in table 4.3. Above from the total respondent, 5(50%) of the tax officials are between, 1-3 years’ work experience, 4(40%) of the officials are between 4-6 years’ work experience and the remaining 1(10%) of the respondent are above 7 years work experience. This implied that most of tax officials are less experienced.

4.2. Sufficient number of tax official

The study evaluated the tax authority with respect to sufficient number of tax officials and the following table 4.4. Show their response to the question.

Table 4.4. Sufficient number of tax officials

Alternative	Frequency	Percentage (%)
-------------	-----------	----------------

Yes	2	20
No	8	80
Total	10	100

Source: survey of tax officials, 2016

As indicated in table 4.4. Above, 8(80%) of the respondent replied that, currently the revenue office had no sufficient number of task force and 2(20%) of respondent replied that the office has sufficient task force.

4.3. The reason for insufficient number of tax officials.

After tried to assess sufficient number of tax officials the researcher evaluated the reason that the authority had not sufficient tax officials.

Table 4.5. Insufficient number of tax officials

Alternative	Frequency	Percentage (%)
Lack of budget for hiring new tax officials	4	40
Lack of qualified man power	3	30
Unsuitable environments	3	30
Total	10	100

Source: survey of tax officials 2016

As indicated in table 4.5 above, 3(30%) of the respondent stated that the reason for insufficient number of task force was lack of qualified man power in the market, 3(30%) of the respondent also stated that working environment was not suitable for new applicants and 4(40%) of the respondent stated that lack of budget for hiring new tax officials. This indicated that the revenue authority had not sufficient number of task force or tax officials.

4.4. Knowledge of tax payers about tax information

In order to know the general knowledge of the respondents about taxation in the study area.

9Questions were

forwarded to tax officials. The responses of the respondents were briefly summarized in the following table Table 4.6 knowledge of business income tax payers

Alternative	Frequency	Percentage (%)
Yes	2	20
Some extent	8	80
No	0	0
Total	10	100

Source; survey of tax officials 2016 as indicated in table 4.6 above, from the total number of respondents, 8(80%) of tax officials stated that the tax payers on some extent they have enough knowledge about tax, and 2(20%) of tax officials stated that they have enough knowledge about tax. This implied that most of the tax payers on some extent had enough knowledge about tax information.

4.5 Causes of tax evasion and tax avoidance

The main targets of this study were those who payer their taxes on the basis of tax assessment by estimation. To this effect, they were asked whether they have faced any tax evasion and tax avoidance when their tax was using standard tax assessment scheme.

Table 4.7 causes of tax evasion and avoidance

Alternative	Frequency	Percentage (%)
Complexity of tax law	2	20
High rate of taxation	3	30
Absence of strict punishment	5	50
Total	10	100

Source survey of tax offices, 2016 As indicated in the table 4.7above, 3(30%) of respondents stated that high rate of taxation was cause for tax evasion and avoidance, 5(50%) of respondents stated that absence of strict punishment and 2(20%) of respondents stated that the main causes of tax evasion and avoidance was complexity of taxation.

4.6 Business income tax payers respect tax laws and regulation

The following table showed the responses of survey respondents regarding the tax laws and regulation that tax payers respect or not. Table 4.8. Business income tax payers respect on tax law and regulation

Alternative	Frequency	Percentage (%)
Yes	2	20
Some extent	8	80
No	0	0
Total	10	100

Source: survey of tax officials 2016

As indicated on the above table 4.8 2(20%) of tax official said that, business income tax payers respect tax law and rules. 8(80%) of the respondent said that on some extent they respect laws and regulation. This implied that most of the tax payers on some extent they respect the tax law regulation

4.7 Satisfaction of tax payers

The researcher survey respondents evaluated the tax authority with respect to satisfaction. The following table showed their response to these questions in percentage by category.

Table 4.9 Satisfaction of tax payers

Alterative	Frequency	Percentage /%/
Yes	4	40
Some extent	6	60
No	0	-
Total	10	100

Source: survey of tax officials 2016

As indicated in the table 4.9 above table when we saw the satisfaction of the tax payers for service given by the authority in M/eyesus town from the total tax officials 4(40%)of them said that business income tax payers were satisfied by service given by the authority on the other side 6(60%) of tax officials thinks that the tax payer were not satisfied Mekane eyesus town. This implied that most of the tax payers were on some extent satisfied by service given from the authority.

4.8 Training program for tax payers about tax information

This study also tried to examine to what extent the authority provides training program to the tax payers about the basic principles, rules and regulation of tax.

Table 4.10 training program for tax payers about information

Alternative	frequency	Percentage/%
Yes	19	20
Some extent	14	15
No	60	65
Total	93	100

Source: survey of tax payers 2016

As indicated in table 4.10 above. When we saw the training program for tax payers about tax information from the total sample of tax payer's 19/20%/of payers said that, there was a traing program about tax information by the authority. 14/15%/of respondents said that on some extent there was trading program about tax information by the authority. on the other hand.60(65%)of tax payers replied that there was no training program about tax information by the authority. the implication showed that the tax payers training program did not given by the authority.

5. Conclusion and Recommendation

5.1 Conclusion

Government expenditures to provide service for the general public should be financed from different source and uses different sources of finance for its expenditure like tax, borrowing donation, fees, fines and others. Business income taxes were one part of tax which imposed on taxable business income /net profit/ realize from entrepreneurial activity. The tax collection process on

business income tax collection on category “C” tax payers should be followed by tax administration properly. To administer the process of business income tax collection system on category “C” tax payers properly the tax collection system should be aware by tax payers, and tax officials should be skilled. In order to cover its expenditures effectively government should identify and point out the main problems in tax collection procedure and assessment especially in business income tax on category “C” tax payers. The main objective of this study was to investigate tax assessment and collection problems in respect of category “C” taxpayers found in Mekane eyesus town. Both semi structured interview and questionnaire techniques were employed to investigate the existing problems in business income tax administration of the selected town. As shown the authority of tax official response the authority properly apply administrative penalty on the tax payers who were not able to pay on schedule period of time. But as respondents showed there was also a problem on applying administrative penalty. Even if tax administration performance was improve from year to year tax payers service delivery has reached to some extent because of commitment of tax officials in their work. Less awareness creation program to tax payers and revenue authority face, the following five issues were pointed out as major business income tax administration problem existed between the tax payers and tax authority in Mekane eyesus revenue authority these were, shortage of information about the tax system, majority of tax payers in Mekane eyesus town had low awareness about the law and regulation of tax, Lack of training to the tax payers. In effective administration on tax collection process and insufficient number of tax official.

5.2. Recommendation

Based on the finding of researcher paper, which was conducted in Mekane eyesus town revenue authority by examining and assessing, the following possible recommendations concerning problems of business income tax administration on category “C” tax payers in Mekane eyesus Town revenue and custom authority were given by student researchers.

- ❖ The authority should pay for over time allowance to tax officials, salary increment and give incentive to give training, on how tax payers pay their tax. Further, the authority should create various ways for the tax payers to acquire knowledge on public occasions, pulls it would be easier, if the authority prepares brochures and flyers papers etc..
- ❖ The authority should apply administrative penalty more strongly and properly. This is because it will be a lesson for late tax payers,
- ❖ The authority has to prepare ledger card for uncollected taxes and applying properly methods of tax collection by late reminder, letter, telephone, contact and using seizure of property.
- ❖ The revenue authority resource tax officials have a great role in performing authority objective efficiently and effectively .Since it was difficult to achieve authority objective to overcome this problem the region revenue authority should integrate with Mekane eyesus revenue authority to solve budget problems related to hire skilled man power in order to make the tax collection system effective on business income tax payers sector.
- ❖ The authority should be used efficiently and wisely the resources existing in the authority like financial, material and skilled man powers to collect tax effectively.
- ❖ The tax officials should be hears and give response for complains and problems of the tax payers immediately. This will create effective tax administration by making sure that mutual understanding exists between the tax payers and the authority.
- ❖ The authority should actively involve taxpayers or their representative while estimating the daily sales or revenue of taxpayers so that trust of tax payers on the system will develop gradually.
- ❖ The tax authority need to strengthen itself by recruiting qualified man power, educating and training its employees, computerizing its operations and devoting additional resources.
- ❖ Build capacity of the tax administration and attract competent tax officer’s through incentive packages and better job security.

REFERANCES

- Bhatia H.L., 1976, public Finance, 19thend. Vikas publishing house Put Ltd. New Delhi, India
- Bick man, L, &Rug, D.J., 1992 research methods in the social sciences. 4thend. Great Britain. Edward Arnold.
- Burges, R., stern, N., 1993, Taxation and development, Journal of economic literature, June 1993,31(2): 762-830
- Gebreselasie A. 2008, Tax assessment and collection problems of category “A” taxpayers, A case of yoke Sub City Addis Ababa , Ethiopia
- Gobat, A., 2001, public finance and tax planning 1stend, an mol publication pvt.ltd.new Death, India
- Hesse (ends), 1993, Administrative transformation in central and eastern Europe, towards public sector reform in post-communist societies, Blackwell publishers, Oxford, UK. And Cambridge, MA.
- Kaldor, 1980, “role of taxation in economic development”. Essays on economic policy Duckworth, and London.
- Angove, 2005, improving tax administration. A case study of the Uganda.
- Kassa D., 2100, Assessment of taxpayers’ voluntary compliance with taxation, A case of makelle city , Tigre, Ethiopia

Lemesa T, 2007, a research project on determinants of taxpayer's voluntary compliance with taxation, the case study of Dire Dawa City.

Old man, O, 1965, controlling income tax evasion, in problem of tax administration in Latin America (papers and proceedings of a conference held in Buenos Aires, Argentine, and October, 1961).

Tesfaye, M, 2008, Ethiopia tax accounting theory and practice, 1st edition, Addis Ababa,

Work, G, G, (Msc), 2006, tax accounting in Ethiopia context. A 1st Edition.

World Bank, 1991, Lessons of tax reform, the World Bank, Washington D.C.

Yamane, T, 1967, Statistician introductory analysis, 2nd, New York: Harper and Row

(www.addis chamber.com)