Innovations

Tax assessment and collection problems of category "c" business income tax payers: evidence from Nekemte city, Oromia, Ethiopia

Adugna Megenasa Biru

Wollega University, Lecturer, Department Of Accounting and Finance, Nekemte, Ethiopia
Corresponding E-mail: megenasa2006@gmail.com

Abstract

This study was conducted to investigate tax assessment and collection problems of category "C" business income tax payers in Nekemte City. The study has employed descriptive survey research approach. A total of 317 tax payers and 35 employees of revenue office have participated in the study as a source of information. Simple random sampling method was used to select tax payers and censes method was used to select employee of revenue office. Structured questionnaires and interviews with management bodies of tax authorities were used to collect primary data. The descriptive statistical methods were used to summarize and present the study results. The findings of the study revealed that, lack of awareness of taxpayers about tax, subjectivity of tax assessment team, lack of clarity in tax assessment and appeal procedure to tax payers, charge payment on tax payers beyond their ability to pay, insufficiency and unskilled tax collection staff, engagement of tax assessment team in corruption and tax payers conceal of their daily income are major challenges of tax assessment and collection with regard to category "C" business income the taxpayers. The study recommended that management of tax revenue authority has to work on improvement of tax assessment and collection system.

Kew words: Tax Assessment, Collection problems, Category "C" Tax payers, Tax Authority

Introduction

Tax is defined as a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities (Oluwakayode & Arogundade, 2011). They also defined tax as a charge imposed by government authority on property, individuals or transactions, to raise money for public purpose (Christian & Nkoro, 2012). It is as an enforced contribution, exacted pursuant to legislative authority in the exercise of the taxing power, and imposed and collected for the purpose of raising revenue to be used for public or governmental purposes (Murphy, 2012). A Tax is a fee charged or levied by a government on a product, income, or activity. If it is levied directly on personal or corporate income, it is called a direct tax. If it is levied on the price of a good or service, then it is called an indirect tax (Christian & Nkoro, 2012).

Tax revenue is one of the most main sources of government income. Taxation is the powerful instrument in the hands of the government for transferring purchasing power from individuals to government (Hamdu & Zinash, 2014). Every government needs taxes to pay for public services (Bird, 2008). Taxation has gained importance not only as a tool for raising revenue but also help to meet the administrative costs of governance, the provision of public services such as medical care, education, infrastructure, security and maintenance of law and order, but also as a tool available to planners, policy makers and implementers aiming to regulate the economy in order to bring about desired economic development (Netsanet, 2014).

Despite the importance of taxation in the socio-economic development of a nation, there are numerous challenges in tax assessment and collection in developing countries. Many of developing countries, including Ethiopia, experience a chronic gap between actual and desirable levels of tax revenue (International Monetary Fund [IMF], 2015). Improper assessment and collection of tax is one of the factors that escape the government from achieving its goals and programs. An important challenge is to avoid relying on taxes that are widely perceived as unfair or as liable to be collected in unfair (corrupt or coercive) ways. Such taxes have been relatively common, contributing to poor collection rates and blocking the emergence of any kind of social pact around taxation in many countries (OECD, 2008).

According to current Ethiopia federal income tax proclamation No 979 /2016 business income tax payers are categorized in to three namely "A", "B" "C" based on annual turnovers. All tax payers which annual turnover income is less than 500,000 in Ethiopia birr grouped as category "C" taxpayers. Tax assessment and collection from category "C" tax payers is a challenging problems as they are numerous in number and their income tax liability is determined using presumptive taxation (assessment by estimation) by the tax officers as they are not required by law to declare their income or maintain accounting records for their business transaction so it is considered as hard to tax groups. Thus study assesses tax assessment and collection problems of category "C" Business Income tax payers in Nekemte City.

1.2. Problem of Statement

Taxation is the principal sources of revenue for the government. Well organized business tax assessment and collection has good contribution for economic development of both developing and developed countries. While tax policy and tax laws create the potential for raising tax revenues, the actual amount of taxes flowing into the government treasury, to a large extent, depends on the efficiency and effectiveness of the tax revenue administration (Kefela, 2009). Weaknesses in tax revenue administration lead to inadequate tax collections. Tax administration has to secure conformity with the laws by applying an array of assessment and collection procedures.

The tax system in Ethiopia mainly depends on legal enforcement as a remedy to ensure its proper functioning. For example, the tax proclamation (No.286/2002) has increased the amount of penalties and strengthened the means of enforcement while it states nothing about how to create and increase the awareness of the taxpayers. It gave the tax authorities the right to sell the property of evaders without going to courts in order to collect the outstanding tax liability (Lemessa, 2007).

According to the current Ethiopia federal income tax proclamation No 979/2016 the tax liability of Category 'C' taxpayers is determined using presumptive taxation (assessment by estimation) by the tax officers. In this regard, Category "C" of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group during tax assessment. This is due to the fact that these taxpayers pay taxes on the income estimated by the income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area (Lemessa, 2007). This can be causing wide spread complain over unfairness and overstated tax by the majority of business persons especially by the tax payers of category "C". They may not believe that there is fair taxation among similar businesses in the same area and that their daily/annual income is inflated in the process of estimation. Similarly, the tax payers may perceive that the method of assessment is based on a simple guess and that it is subjective. According to a study conducted by (Dandi Boru university, 2019), lack of objective tax estimation procedures and taxpayers awareness about tax procedures and calculations are some of the major problems on category "C" tax assessment and collection. But, there seems a methodological gap in their research as they used 70 tax payers from only Service Giving category "C" tax payers. Thus the other sectors of category "C" business income tax payers were not included in the study and the sample size they was used is far from realty particularly in the determination of appropriate sample size.

Understanding tax assessment and collection problems and the behavior of taxpayers with tax laws is a key to motivating and assisting the tax payers' perception. Identifying the problems on tax assessment and collection at the tax office and designing appropriate strategies to deal with tax payers need attention since they have an effect on the overall revenue of the government. Thus this study aimed to investigate Tax Assessment and collection problems of Category "C" Business Income tax payers in Nekemte City.

Research questions
1) Does category "C" business income tax payer's have knowledge and awareness about taxations?
2) What are the major Problems encountered by category "C" taxpayers within the income tax assessment and collection process?
3) What are the major Problems encountered by tax authority within the income tax assessment and collection processes

1.4. Objectives of the Study

1.4.1 General Objective

The general objective of the study is to assess Tax Assessment and collection problems of category "C" Business Income tax payers in Nekemte City

1.4.2. Specific Objectives

The specific objectives of the study are:
1. To understand the status of category "C" tax payer's knowledge and awareness about taxation.

2. To identify major Problems encountered by category "C" taxpayers within the income tax assessment and collection processes
3. To identify major Problems encountered by tax authority within the income tax assessment and collection processes

2. Review of literature

2.1 Meaning and Concepts of Tax

Tax is defined as a charge imposed by government authority on property, individuals or transactions, to raise money for public purpose. Tax is describes as a ratable portion of the produce of the property and labour of the individual citizen, taken by a nation. They also defined as a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities (Oluwakayode & Arogundade, 2011).

Tax is a compulsory contribution of wealth of a person or body of persons for the service of the public powers. As such, it is compulsory; we have to pay it whether we like it or not; it is a definite contribution, a giving up of the individual's wealth that is to say, it is a sacrifice for the use of the public powers, which include, of course, the State and the local authorities (Yohannes & Sisay, 2009).
 Tax Assessment is the process of determining the amount of tax revenue to be collected from a taxpayer. A tax assessor is responsible for preparing and maintaining the assessment roll, the tax roll and collecting the tax levies in accordance with the quality standards set. (Abate 2019).

2.2. Category of Taxpayers

Taxpayers are grouped in to different categories under the law. According to the federal income tax proclamation No 979 /2016, taxpayers are categorized into major three categories based on their volume of sales and form of business. These can be Category "A" Taxpayers, Category "B" Taxpayers and Category "C" Taxpayers.

Category "A" tax payer includes any company incorporated under the tax law of Ethiopia or in a foreign country and other entities having annual turnover of Birr 500,000 and more. Category 'B' includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. These categories of taxpayers must submit profit and loss statement at the end of the year. The law requires all entries in the records and accounts to be supported by appropriate vouchers. Category 'C' include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less (Federal Income Tax Proclamation, No 979 /2016).

The tax liability of Category 'C' taxpayers is determined using standard assessment. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. In this regard, this category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the income tax authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is

observed in this area (Lemessa, 2007). This can be causing wide spread complain over unfairness and overstated tax by the majority of traders especially by the tax payers of category "C".

2.5. Factors Affecting Tax Assessment and Tax Collection

A large literature has developed examining the difficulties facing developing countries in administering tax systems (Bird., 2004). Some of the key challenges are reviewed here. The first two challenges, the size of the agricultural and informal sector and the use of the financial sector, relate to the economic environment in which tax administrators operate. The two challenges reviews organizational change and political will, relate to the ability of tax administrators to improve their efficiency whether through technological or other changes (Zolt, 2008).

In Ethiopia, in 2002 measures were taken to broaden the tax base and improve administrative efficiency, including new legislation on value-added and income taxes and the introduction of a taxpayer identification number. One part of the tax code, the presumptive tax, is especially relevant for small businesses. The presumptive tax is paid by small business traders and professionals whose annual turnover is less than Br 100,000. These taxpayers are not required to maintain accounting records and the income of the taxpayers is estimated (presumed) by Tax Authority (World Bank, 2007). Tax assessment in the absence of books of account is the most challenging aspects of tax administration. To this end, the government introduced presumptive tax assessment scheme on category "C" tax payers aimed at improving equity and putting administrative simplicity (Bongwa, 2009).

Despite the above efforts in the expansion of the tax base in Ethiopia, from the firms point of view, the three most serious obstacles to expansion by firms are that tax rates are cited the most frequently (74%) and tax administration the second most frequently (60%) and number of days firm spend in meeting with tax official. Firms and people everywhere complain about taxation. The comparison with other countries in Africa suggests that taxes are more of an issue in Ethiopia: the share of firms considering tax rates as an obstacle is 45 percent in Madagascar; 48 percent in Uganda; 50 percent in Senegal; and 68 percent in Kenya, relative to 72 percent in Ethiopia. Also, Ethiopia ranks third worst out of 62 countries (behind Tanzania and China) on the number of days firms report that they spend in meetings with tax officials (World Bank, 2007).

Keeping a book of accounts enables compliance with the tax code. Tax payers perceive that marginal tax rates for business income are above the exempt threshold of Br 1,800. They generally perceive the exemption threshold to be too low. Many business enterprises also believe that the official assessment of tax liability tends to be subjective; so many firms are overtaxed, particularly since small firms frequently lack a complete understanding of tax laws (World Bank, 2007).

The other factor that affects tax collection practice is the informality of the business sectors. From the tax administration perspective, the informal sector of the economy is composed of individuals and businesses for which the authorities have little or no information about their business activities. While a government may (or may not) know about the existence of an individual in a jurisdiction, official documentation of his or her business activities is often lacking. Given that information on economic activities is fundamental to assessing taxes, the informal sector poses a severe problem to the tax authorities. Informal sector businesses are typically unincorporated,

owner or family managed and operated with few, if any regular employees. The business may not keep books or records, and may do all exchanges for cash or barter (Bongwa, 2009).

2.10. Empirical Review

Yohannes & Zerihun (2013) have conducted a research to assess the challenges faced by the business community of Dire Dawa City in relation to tax assessment in 2013 and collected data from a total of 183 (165 Category 'C' and 18 Category 'A&B') tax payers. Descriptive statistics and Kruskal Wallis chi square test was also implemented in testing the statistical significance of mean differences, with respect to some variables, between categories "C" and categories "A" and "B" tax payers. Generally, the findings of the study revealed that most of the taxpayers, especially those in the category "C", have been facing various problems related to the taxation system. Moreover, despite the business community's positive attitude towards the general concept of taxation, most of the surveyed tax payers stated that what they are paying tax beyond their ability to pay and that they neither have trust in the employees of the authority nor in the overall tax estimation, assessment and collection procedures. They concluded that the tax authority of the city administration is not being effective or is being reluctant in making the tax procedures objective, transparent and understandable to taxpayers. A study performed by Belay & Viswanadham (Belay & Viswanadham2016) to evaluate the business income taxpayers' level of tax knowledge, perceived complexity of the income tax system and tax compliance issues in Amhara regional state of Ethiopia show taxpayers have inadequate technical knowledge and perceive the income tax system as complex. Adane (2020) have conducted a research to investigate Tax Assessment Challenges of Category "C"Business Income Tax Payers in Debre Markos Town and the result of the study reveals that tax authority faces challenges in tax collection as most the category C tax payers found themselves rejecting the daily income estimation made by tax authority and not even willing to pay tax because they lack awareness on why they pay tax. The tax payers' also faces challenges such as income estimation by the tax authority does not consider the taxpayers actual income, and daily turnover, and taxpayers will not get appropriate answer from tax authority if they appeal for re- estimation. Unskilled and inefficient estimators and inequitable estimation were also a problem to tax payers.

Although various research have been conducted in relation to taxation, research in the area of tax assessment and collection problems of category "C" business income tax payers are inadequate worldwide particularly in Ethiopia. Therefore, this paper is intended to fill the research vacuums observed regarding the tax assessment and collection problems of category "C" business income tax payers.

3. Research Methodology
3.1. Research Design

The type of research methodology that was employed in this study was descriptive survey method. The selection of survey method was attributed for the fact that the method facilitates the collection of original data necessary for realizing the research objectives (Hejase & Hejase, 2013). The survey method was an appropriate for collecting useful data that reports representation of the real situation or characteristic in the study population for the investigation of tax assessment and collection problems of category "C" business income tax payers of Nekemte city Revenue Authority.

3.2. Data Source and Type of Data

The source of data used in this study was primary sources of data. In order to conduct a investigation on tax assessment and collection problems of category " C" business income tax payers , the researcher collected primary data from randomly selected categories of all " C" business income tax payers found in Nekemte city administration using structured questionnaires adopted from relevant literature previously done on the same title in different countries. To examine perception of tax payers, the researcher collected primary data using latitudinal measurement scale (Likert scale) from randomly selected tax payer. The researcher also collected primary data using deep interview, questionnaire, under focus group discussion with representative of taxing authority.

3.3. Population of the Study

The populations of the study are all category "C" business income tax payer found in the city and employees of Nekemte City administration revenue authority office staff. According to the data from the city Revenue Authority office, currently there are 2730 Category "C" taxpayers in Nekemte city and 41 revenue office employees. Therefore, the total populations of the study were 2771.

3.4. Sample Size Determination

The sample size is determined from the total population of 2730 category "C" business income tax payers who are operating in Nekemte city administration. The research was conducted with 5 percent marginal error and 95 percent confidence interval and none response rate of 5 percent. Based on this assumption, the actual sample size for the study is determined using the formula that is designed by Watson Jeff (2001) methods of sample size determination formula to reach at the required sample size for data collection from the respondents of business tax payers as given below: (Watson, 2001).

$$n = \frac{\left(\frac{P(1-P)}{\frac{A^2}{Z^2}+\frac{P(1-P)}{N}}\right)}{R} = \frac{\left(\frac{0.5(1-05)}{\frac{0.05^2}{1.96^2}+\frac{0.5(1-0.5)}{2730}}\right)}{0.99} = 340$$

Where:
n= Sample size required;
N= Number of members of Category "C" business income tax payers (2730)
P= Estimated variance in a population as a decimal of 0.5 for; 50% 50%
A= Precision desired, expressed as decimal of 0.05 for 5 percent;
Z= Confidence level of 1.96 for 95 percent; and
R= Estimated response rate, as decimal of 0.99 for 95 percent response to be returned.

3.5. Sampling Procedure

The most important characteristic of a sample is its representativeness, not its size. Therefore, a sample of 340 categories "C" business income tax payer was selected from a population of 2730 category C business income taxpayers in Nekemte city. The researcher used census technique to

select employees of revenue office and simple random sampling technique to select a sample respondent from category C business income tax payers found in Nekemte city.

3.2.5. Data Collection Procedure

The study used structured interviewer administered questionnaire and in-depth interview questionnaires. The survey included questions concerning socio-demographics, tax payers' perception and assessment, their knowledge on tax laws and other relevant issues. Furthermore, tax payers' knowledge of the benefits of tax in economic development was also included in the questions. In-depth interview was used to generate descriptions of tax administrator's knowledge, experiences and perceptions of tax collection.

Both quantitative and qualitative questionnaires prepared in English and translated in to local language were used to collect information from respondent by English literate data collectors that are capable of translating for the business person. Trained data collectors were employed to collect data using pre-tested structured questionnaires. From each of the selected tax payer the subjects were requested to record their responses in the presence of data collector's and investigator, who provided necessary clarification to the queries.

3.2.6. Data Analysis

The data were cheeked, cleared and entered into SPSS window version software and analysis was done by using statistical package for social science (SPSS version 24). The primary sources of data collected from respondents relating to tax assessment and collection problems were processed and described by using table, percentage and frequency.

4. Results and Discussion

This chapter deals with an attempt to investigate tax assessment and collection problems of category "C" business income tax payers. In order to get a representative data, 371 questionnaires were prepared and distributed to randomly selected category "C" tax payers of the city and employee of revenue office. Out of these questions distributed to category "C" tax payers and employee of revenue office, 352 questions were properly filled and returned by respondents. Thus, the analysis is based on the valid 352 questionnaires which were responded from these tax payers and employee of revenue office. Descriptive statistics were applied to summarize percentages and frequencies of the respondents on different background statistics. The questionnaires were designed using Likert Scale where almost all the statements were measured on a five point scale with 5 = strongly agree; 4 = agree; 3 = neither agree nor disagree (neutral); 2 = disagree; and, 1 = strongly disagree. The information obtained from the questionnaire are summarized and discussed in the tables below.

4.1 Overall Tax Assessment and Collection Problems Analysis

4.1.1 Analysis of responses from category C tax payers.

Based on the responses gathered from category "C" business income tax payers of the city, it is attempted to discuss problems with regard to their knowledge and awareness about taxation, tax assessment, employee of revenue office, and tax payers' perception toward appeal procedure

and tax payment procedures. Accordingly, these variables are summarized and interpreted in the following tables.

Table: 4.1 Responses of tax payers regarding their knowledge and awareness about taxation.

No	Items	Responses	Response Rates	
			Frequencies	**Percentages**
1.	I don't know why I am paying tax.	Strongly Disagree	12	3.8
		Disagree	38	11.9
		Undecided	43	13.6
		Agree	105	33.2
		Strongly Agree	119	37.5
		Total	**317**	**100**
2.	I don't know the advantages of paying taxes.	Strongly Disagree	7	2.2
		Disagree	21	6.6
		Undecided	94	29.6
		Agree	120	37.9
		Strongly Agree	75	23.7
		Total	**317**	**100**
3.	I have poor understanding about tax	Strongly Disagree	11	3.4
		Disagree	36	11.5
		Undecided	66	20.8
		Agree	122	38.5
		Strongly Agree	82	25.8
		Total	**317**	**100**
4.	I am not willing to pay because of lack of awareness	Strongly Disagree	9	2.8
		Disagree	34	10.7
		Undecided	64	20.2
		Agree	118	37.2
		Strongly Agree	92	29.1
		Total	**317**	**100**
5.	I have taken awareness on tax assessment rule	Strongly Disagree	79	24.9
		Disagree	124	39.1
		Undecided	72	22.7
		Agree	25	7.9
		Strongly Agree	17	5.4
		Total	**317**	**100**

Source: Survey result, 2021

As it can be observed from the table 4.1 above, in regards of tax payer's knowledge and awareness about taxation the researcher asked, whether the tax payers don't know why they are

paying tax. Majority of the respondents F (224), 70.7% are agreed that they don't know why they are paying tax. However about F (40), 15.7% responded that they know why they are paying taxes and the remaining F (43), 13.6% are undecided on the issue. This indicates that majority of the tax payers don't know why they are paying tax. The researchers also asked the responded whether they don't know the advantage of paying taxes majority of the respondents F (295), 61.6% said that they don't know the advantages of paying taxes. Small number of respondents F (28), 8.8% responded that they know the advantage of paying taxes and the remaining F (94), 29.6% undecided on the point. The tax payers also requested whether they have poor understanding about taxation and majority of the respondents F (204), 64.3% said that they have poor understanding about tax. Few numbers of respondents F (48), 15.9% said that they have understanding about tax and the remaining number of respondents F (48), 15.9% undecided on the question. For the question under item no 4 the majority of the respondents F (210), 66.3% said that they are not willing to pay tax because of lack of awareness. A small number F (43), 13.5% respondents said that they are willing to pay taxes and the remaining numbers of respondents F (64), 20.2% remain undecided on the question. As it can be seen from this majority of tax payers are not willing to pay tax due to lack of awareness creation. Under question No 5 tax payers are requested if they have taken awareness on tax assessment rule. Largest part of the respondents F (203), 64% said that they didn't taken awareness on tax assessment rule.

Table: 4.2 Responses of tax payers regarding Tax assessment practice and procedure

No	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	The tax assessment procedures Lacks clarity	Strongly Disagree	7	2.2
		Disagree	17	5.4
		Undecided	53	16.7
		Agree	112	35.3
		Strongly Agree	128	40.4
		Total	**317**	**100**
2.	Tax is assessed based on simple guess	Strongly Disagree	4	1.2
		Disagree	21	6.6
		Undecided	72	22.7
		Agree	128	40.4
		Strongly Agree	92	29.1
		Total	**317**	**100**
3.	There is subjectivity in tax assessment	Strongly Disagree	9	2.8
		Disagree	36	8.2
		Undecided	66	15.8
		Agree	141	44.5
		Strongly Agree	91	28.7
		Total	**317**	**100**
4.	Tax assessments is influenced by the personal interest of the assessment team	Strongly Disagree	6	1.9
		Disagree	29	9.2
		Undecided	61	19.2
		Agree	148	43.5

		Strongly Agree	99	26.2
		Total	**317**	**100**
5.	Tax assessments is made by people who cannot understand about the nature of the business	Strongly Disagree	7	2.2
		Disagree	31	7.9
		Undecided	85	20.5
		Agree	151	47.6
		Strongly Agree	69	21.8
		Total	**317**	**100**

Source: Survey result, 2021

From the above table 4.2 item No.1, it can be observed that the greater part F (240), 75.7% of the respondents said that tax assessment lacks clarity. However, only small number of respondents F (24), 7.6% responded that there is clarity of tax assessment and the remaining F (53), 16.7% of respondents' undecided on this issue. This reflects that there is lack of clarity on tax assessment. The researchers asked the tax payers under item 2 of the above table, whether the tax is assessed based on simple guess. Majority of the tax payers F (220), (69.5%) agreed that tax is assed based on simple guess whereas very few F (25), (7.3%) of respondents disagreed with this issue. The rest F (97), 28.3% were neutral. This result indicates that tax assessment guess. From item no.3 of similar table 4.2, it can be seen that the majority F (221), 73.2%) of the respondents indicated that tax is subjective while very few F (45), (11%) of respondents disagreed with this issue. The rest F (66), 15.8% were neutral. This result indicates that tax assessment is subjective. Furthermore, item no.4 of this table reflects that the majority F (247), 69.7% of the respondents assured tax assessment is influenced by the personal interest of the assessment team on the other hand few F (35), 11.1% of them disagreed with this statement and the remaining F (61), 19.2% of them undecided on this issue. This result shows that tax assessment is affected by personal interest of the assessment team. More importantly, item no.5 in this table indicates that majority F (220), 69.4% of the respondents agreed with tax assessments is made by people who cannot understand about the nature of the business whereas, only a total of F (38), 10.1 % of the respondents disagreed with this statement. The remaining F (61), 19.2% of respondents remain neutral on this issue. These responses of respondents reflect that tax assessment is made by people who cannot understand about the nature of the business.

Generally as it is discussed in the above analysis, tax collection practices and procedures in Nekemte city has a problem on clarity of tax assessment, is subjective, affected by personal interest, is based on simple guess and made by people who don't have experience and made by people who cannot understand about the nature of the business.

Table: 4.3 Responses of tax payers regarding employees of revenue office

No	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	Tax collection officers are skilled enough to assess and collect taxes .	Strongly Disagree	78	24.6
		Disagree	137	43.2
		Undecided	53	16.7
		Agree	42	13.3
		Strongly Agree	7	2.2
		Total	**317**	**100**
2.	Tax collection officers are transparent,	Strongly Disagree	44	13.8

	genuine and properly follow the right tax collection procedure	Disagree	121	38.2
		Undecided	85	26.8
		Agree	61	19.3
		Strongly Agree	6	1.9
		Total	**317**	**100**
3.	Employees of revenue office are unbiased	Strongly Disagree	39	12.3
		Disagree	156	49.2
		Undecided	72	22.7
		Agree	38	12.0
		Strongly Agree	12	3.8
		Total	**317**	**100**
4.	The employees of tax authority mistreat me.	Strongly Disagree	13	4.1
		Disagree	57	18.0
		Undecided	62	19.6
		Agree	127	40.0
		Strongly Agree	58	18.3
		Total	**317**	**100**
5.	Employees of revenue office abuse their power	Strongly Disagree	27	8.5
		Disagree	58	18.3
		Undecided	76	24.0
		Agree	107	33.8
		Strongly Agree	49	15.4
		Total	**317**	**100**

Source: Survey result, 2021

One of the variables that may be expected to influence tax collection is the performance or the quality of employee of the revenue office. Based on this the respondents were asked to what extent they agree or disagree with the statements listed in the table 4.3.

As it is shown in the table 4.3 above majority F (215), 67.8% of respondents disagreed and others F (49), 15.5% of respondents agreed about tax collection officers are skilled enough to assess and collect taxes and the rest, F (53), 16.7% of them undecided on this issue. This indicates that tax collection officers are not skilled enough to assess and collect taxes.

More importantly as it can be seen in the same table above, majorities F (165), 52% of respondents disagreed whereas few F (67), 21.2% of them agreed that tax collection officers are transparent, genuine and properly follow the right tax collection procedure. The remaining, F (85), 26.8% of them was neutral. From this response, it can be understood that tax collection officers are not transparent and properly follow the right tax collection procedure. In addition, F (195), 61.5% of respondents for item no.3 of the same table disagreed that employees of revenue office are unbiased while very few F (50), 15.8% of them agreed with this issue. The remaining F (72), 2.7% respondents' undecided about it. This clearly shows that there is that the employees of revenue office are biased.

Under item no.4 of the above table, the respondents were asked whether the employee of tax revenue office mistreat them, about moderate number F (185), 58.3% of respondents agreed and others few, F (70), 22.1% disagreed with the statement. The rest F (62), 19.6% of the respondents were unresponsive about this issue. This result reflects that there is a mistreat tax payers by tax revenue office employee. Lastly, as shown in Table 4.3, item no 5, average numbers F (156),

49.2% of respondents agreed that employees of revenue office abuse their power whereas few F (85), 26.8% of them disagreed. The remained respondents F (76), 24% were neither agreed nor disagreed on the issue. This is reflects that the employee of revenue office misuse their power.

Table 4.4 Responses of tax payers regarding appeal to tax assessment

In regard to tax payers appeal to tax assessment researcher asked the following question as presented and analyzed below.

No	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	There is good review and appealing procedure	Strongly Disagree	125	39.4
		Disagree	114	36.0
		Undecided	52	16.4
		Agree	21	6.6
		Strongly Agree	5	1.6
		Total	**317**	**100**
2.	I am discouraged because of hard bureaucracy	Strongly Disagree	5	1.6
		Disagree	23	7.3
		Undecided	52	16.3
		Agree	141	44.5
		Strongly Agree	96	30.3
		Total	**317**	**100**
3.	I feel that the complaint handing committee are not neutral	Strongly Disagree	7	2.5
		Disagree	17	5.3
		Undecided	93	29.3
		Agree	138	43.3
		Strongly Agree	62	19.6
		Total	**317**	**100**
4.	The tax authority is willing to accept my complain	Strongly Disagree	60	18.9
		Disagree	129	40.7
		Undecided	82	25.9
		Agree	31	9.8
		Strongly Agree	15	4.7
		Total	**317**	**100**
5.	I feel discouraged since I don't know the procedure	Strongly Disagree	21	6.6
		Disagree	42	13.3
		Undecided	82	25.8
		Agree	117	36.9
		Strongly Agree	55	17.4
		Total	**317**	**100**
6.	I feel discouraged since it is must for me to pay half of the assessment before appeal	Strongly Disagree	21	6.6
		Disagree	79	24.9
		Undecided	60	18.9
		Agree	132	41.7
		Strongly Agree	25	7.9
		Total	**317**	**100**

Source: Survey result, 2021

As it can be observed from item No.1 of the table 4.4 above, in regards of tax payers appeal to tax assessment the researcher asked, if there is good review and appealing procedure. Majority of the respondents F (239), 75.4% are disagreed and few number of respondents F (26), 8.2% agreed with the statements. The remaining respondents F (52, 16.4%) are undecided on the subject. This result indicates that there is no good review and appealing procedure. Under item No 2 of the above table the respondents were asked, whether they are discouraged to appeal because of hard bureaucracy. The majority F (237), 74.8% of the respondents agreed while few respondents F (28), 8.9 % was disagreed with the statement. About F (52), 16.3% respondents were undecided on the statement. This result obviously shows that there is discouragement by tax payers to appeal because of bureaucracy. Moreover item no.3 of the above table, majority F (200), 62.9 % of the respondents confirmed that complaint handing committee are not neutral on the contrary very few F (24), 7.8 % of the respondents disagreed with the subject. The rest of respondents F (93), 29.3 % were indifferent about the matter. It can be concluded that the complaint handing committee are not neutral Respondents were also asked under item No.4 of the above table if tax authority is willing to accept tax payer complain. Most of the respondents F (189), 59.6 % were disagreed whereas few number of respondents F (46), 14.5 % were disagreed with the statement. The remaining F (82), 25.9 % respondents were neutral about the subject. This reflects that the tax authority is not willing to accept the tax payers complain on tax assessment. Moreover, item No.4 of the above table, the moderate number F (172), 54.3 % of the respondents showed that they feel discouraged since they don't know the procedure while only some F (63), 19.9 % of the respondents said that they don't feel discouraged since they know the procedure. Other few respondents F (82), 25.2 % were neutral. This result shows that there is discouragement since they don't know the procedure. Finally, item 5 of the table above shows that average F (157), 49.6 % the respondents feel discouraged since it is must for them to pay 50% of the assessment before complain and others F (100), 31.5 % while the rest 100(29.1%) of the respondents indicated that there is no such discouragement and some F (60), 18.9 % remained silent.

It can be summarized from the above analysis with regard to appeal to tax assessment that, tax payers faces a problem or challenges because there is no good review and appealing procedure, there is discouragement because of hard bureaucracy, complaint handing committee are not neutral and tax authority is not willing to accept complain.

Table 4.5 Responses of tax payers regarding Tax payment procedure

In regard to tax payment procedure researcher asked the following question as presented and analyzed below.

No.	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	The amount I pay exceeds my annual earnings.	Strongly Disagree	15	4.8
		Disagree	16	5.0
		Undecided	41	12.9
		Agree	138	43.5
		Strongly Agree	107	33.8
		Total	**317**	**100**
2.	The payment procedure is not easy and it takes me long time	Strongly Disagree	8	6
		Disagree	23	9.4

		Undecided	42	19.3
		Agree	182	41.2
		Strongly Agree	62	29.5
		Total	**317**	**100**
3.	I am required to pay other payments not related to my tax	Strongly Disagree	11	3.5
		Disagree	43	13.6
		Undecided	58	18.3
		Agree	152	47.9
		Strongly Agree	53	16.7
		Total	**317**	**100**
4.	There is reward given by tax authority for being best tax payers.	Strongly Disagree	52	16.4
		Disagree	162	51.1
		Undecided	46	14.5
		Agree	53	16.7
		Strongly Agree	4	1.3
		Total	**317**	**100**

Source: Survey result, 2021

As indicated in Table 2.5 of item No.1 above majority of respondents, that is, F (245), 77.3 % agreed that the amount they pay exceeds their annual earnings whereas minority of the respondents F (31), 9.8 % disagreed with the statement. The rest F (41), 12.9 % of respondents remain neutral with the issue. This shows that the amount they pay exceeds their annual earnings. Additionally as shown under item No.2 of the above table greater part F (244), 70.7 % respondents agreed that the payment procedure is not easy and it takes them long time whereas few respondents F (31), 15.4% disagreed with the subject. The remaining F (42), 19.3% respondents remain undecided. More over under item No.4 of table 4.5 above the respondents were asked whether they are required to pay other payments not related to tax. Majority of the respondents F (205), 64.6% agreed with the statement and only a small number of respondents F (54), 17.1% were disagreed. The rest of respondents F (58), 18.3% were neutral about the issue. The reveals that tax payers are required to pay other payments not related to my tax. Finally the respondents were asked under item No.4 of the above table if reward is given by tax authority for being best tax payers. Large number of respondents F (214), 67.5% disagreed with the subject while small numbers F (57), 18% of respondents were agreed. The remaining F (46), 14.5% were undecided on the matter. This shows that there is no reward given by tax authority for being best tax payers.

It can be concluded from the above analysis with regard to tax payment procedure that, tax payers are usually discouraged in that their tax liability exceeds their earnings, the payment procedure is not easy, required to pay non tax payments out of the range of their liability and the tax authority doesn't encourage them for being best payers.

4.1.2 Analysis of responses from employees of tax authority.

Based on the responses gathered from the employee of tax authority, an effort has been done to discuss problems regarding, tax payers' knowledge and awareness about taxation, tax assessment, employees of revenue office and daily income of tax payers. Accordingly, these variables are summarized and interpreted in the following tables.

Table 4.6 Responses of employee of revenue office regarding tax payers' knowledge and awareness about taxation.

No.	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	Awareness was created to tax payers by tax authority	Strongly Disagree	9	25.7
		Disagree	16	45.7
		Undecided	4	11.5
		Agree	5	14.2
		Strongly Agree	1	2.9
		Total	**35**	**100**
2.	Formal education and training is given to tax payer every year	Strongly Disagree	8	22.9
		Disagree	20	57.1
		Undecided	3	8.6
		Agree	2	5.7
		Strongly Agree	2	5.7
		Total	**35**	**100**
3.	Tax payers have understanding on tax regulations and payment procedure	Strongly Disagree	10	28.6
		Disagree	13	37.1
		Undecided	3	8.6
		Agree	5	14.3
		Strongly Agree	4	11.4
		Total	**35**	**100**

Source: Survey result, 2021

As it can be seen from table 4.6 of item No.1 above employees were asked, whether awareness was created to tax payers by tax authority. Majority of the respondents F (25), 71.4% disagreed with the issue whereas few numbers of respondents F (9), 25.7% were agreed. Only some respondents F (5), 14.2% were undecided on the matter. This reflects that no awareness was given to tax payers by tax authority. Furthermore respondents were requested under item No.2 of the above table, whether formal education and training was given to tax payers. Large parts of respondents F (28), 80% were disagreed while small numbers of respondents F (4), 11.4% were agreed. About F (3), 8.6% respondents were neutral. Finally employees were asked under item No.3 of the above table whether tax payers have understanding on tax regulations and payment procedure. Majority of the respondents F (23), 65.7% were disagreed whereas minority F (9), 15.7% were agreed. The remaining F (3), 8.6% respondents were impartial. It can be concluded from the above result that no training and awareness creation was given by the revenue authority of nekemte city for the tax payers so that the tax payers have poor understanding on taxation, tax regulations and payment procedure.

Table 4.7 Responses of Revenue Office Employees Regarding Tax Assessment rule

No.	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	Tax assessment rule is clear.	Strongly Disagree	7	20.0
		Disagree	13	37.1
		Undecided	2	5.7

		Agree	8	22.9
		Strongly Agree	5	14.3
		Total	**35**	**100**
2.	There is no standardized method for tax assessment	Strongly Disagree	2	5.7
		Disagree	6	17.2
		Undecided	4	11.4
		Agree	17	48.6
		Strongly Agree	6	17.1
		Total	**35**	**100**
3.	Standard assessment rule is Suitable	Strongly Disagree	7	20.0
		Disagree	19	54.2
		Undecided	1	2.9
		Agree	5	14.3
		Strongly Agree	3	8.6
		Total	**35**	**100**

Source: Survey result, 2021

According to the fact that presented on the table 4.7 of item no.1 employees were asked whether tax assessment rule is clear. More than half F (20), 37.1% of the respondents disagreed while small F (13), 37.2% respondents was agreed. The rest F (2), 5.7% of respondents were undecided on the issue. More importantly, item no.2 in this table indicates that majority F (23), 65.7% of the respondents agreed with tax assessment is not standardized whereas, only a total of F (8), 22.9% of the respondents disagreed with this statement. Rests of the respondents F (4), 11.4% were undecided on this issue. These responses of respondents reflect there is not standardized tax assessment. Lastly as it can be observed from item no.3 of the above table, F (26), 54.2% respondents of employees disagreed as F (8), 22.9% agreed when they are asked as to the suitability of tax assessment rule. About F (1), 2.9% of respondents were undecided. This suggests that employees' perception towards standard assessment rule suitability for tax assessment is low.

Table 4.8 Responses of employee of revenue office regarding their staff

No.	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	There is adequate tax collection staff	Strongly Disagree	12	34.3
		Disagree	16	45.7
		Undecided	2	5.7
		Agree	3	8.6
		Strongly Agree	2	5.7
		Total	**35**	**100**
2.	There are lack of training and experience of employee	Strongly Disagree	2	5.7
		Disagree	6	17.1
		Undecided	1	2.8
		Agree	21	60.0
		Strongly Agree	5	14.1
		Total	**35**	**100**
3.	Engaging in Corruption of tax	Strongly Disagree	1	2.8

		Disagree	3	8.6
assessment team is a problem in tax assessment and collection		Undecided	2	5.7
		Agree	21	54.3
		Strongly Agree	8	28.6
		Total	**35**	**100**

Source: Survey result, 2021

As it can be observed from table 4.8 of the above table the respondents were asked under item no.1 whether there is adequate tax collection staff. Majority of the respondents F (28), 80.0% were disagreed while very small F (5), 14.3% respondents was agreed with question. Only F (1), 2.8% respondent was undecided on the subject. This implies that there is no adequate tax collection staff. Under item no.2 employees were asked if there are lack of training and experience of employee. Most of the respondents F (25), 74.5% were agreed whereas few of them F (8), 22.8% disagreed with the statement. Only F (1), 2.8% respondent was neutral. Lastly under item no.3 of the above table majority F (29), 82.9% of the respondents agreed with the statement that engaging in Corruption of tax assessment team is a problem in tax assessment and collection while few F (4), 11.4% of them were disagreed. The rest F (2), 5.7% of respondents was neural on the issue.

It can be summarized from the above table regarding the employee of the tax authority there are a challenges such as insufficiency of tax officer, lack of experience and engagement of tax assessment team in corruption.

Table 4.9 Responses of employees of revenue office regarding daily income of tax payers

No.	Item	Responses	Response Rates	
			Frequencies	Percentages
1.	Tax payers give false information about their daily income	Strongly Disagree	2	5.7
		Disagree	4	11.4
		Undecided	2	5.7
		Agree	18	51.5
		Strongly Agree	9	25.7
		Total	**35**	**100**
2.	There is no clear guidelines to determine tax payers daily income	Strongly Disagree	3	8.6
		Disagree	3	8.6
		Undecided	1	2.8
		Agree	17	48.6
		Strongly Agree	11	31.4
		Total	**35**	**100**
3.	Daily income reported by tax payers is ignored because tax payers understate their daily income	Strongly Disagree	1	2.8
		Disagree	4	11.4
		Undecided	2	5.7
		Agree	20	57.2
		Strongly Agree	8	22.9
		Total	**35**	**100**

Source: Survey result, 2021

When we look at the response of the employee of revenue office under item no.1 of the above table 4.9, majority of the respondents F (27), 77.2% agreed that tax payers give false information about their daily income while minority F (6), 17.1% of them disagreed. Only F (2), 2.8% respondents were neutral on the subject. This reflects that tax payers give unreal information about their daily income. Moreover, item no.2 in this table indicates that majority F (28), 80.0% of the respondents agreed that there is no clear guidelines to determine tax payers' daily income whereas F (6), 17.2% of the respondents disagreed with this statement. Rests of the respondents were undecided on this issue. Finally under item no.3 of the above table most of the respondents F (28), 80.1% agree that daily income reported by tax payers is ignored because tax payers understate their daily income while few F (5), 14.2% of the disagreed. Only F (2), 5.7% respondents were neutral on the subject.

It can be summarized from the above results that, tax revenue authority faces challenges in relation to tax payers' daily income because tax payers give false information typically by understating their daily income and lack of clear guidelines to determine tax payers daily income.

Conclusions and Recommendations

Conclusions

As it can be seen from the data analyzed, both the revenue authority and Category "C" business income tax payers are countering several challenges with regard to tax assessment and collections. A challenges that facing revenue authority includes poor understanding or lack of awareness of the tax payers about taxation which causes the tax payers to have negative attitude and concealing of their daily income from tax assessment committee. Moreover the authority is facing insufficiency and unskilled manpower, unclear tax assessment guide and tax assessment committee interest in corruption. This may cause the inequality or putting of different tax amount even on tax payers that are doing the same business. Tax payers are also indicated an existence of a problem on tax assessment such as lack of clarity of tax assessment, subjectivity, effect personal interest, and assessment based on simple guess and made by people who cannot understand about the nature of the business. The business units or tax payers have also indicated that their liability is beyond the actually expected in that the amount levied from them exceeds their annual earnings, they are required to pay other payments not related to their tax, difficulty of payment procedures, and mistreatment by employees of tax authority.

Recommendations

Based on the findings of the study, the researcher forwarded the following possible recommendation. The study recommended that management of tax revenue authority has to work on the awareness creation to tax payers and making clear and transparent the tax assessment and collection procedure to the tax payers. This may create smooth relation between the tax payers and tax collecting authority to let the collection be efficient and proper going. Since tax assessment is one of the major activity in tax collection it must be protected from being subjective, as it has its own procedures and rules no one from the authority should practice personal interests than these rules and procedures and the authority should deeply investigate this and make the assessment procedures formal and standardized than making it personal. In addition the tax authority has to hire skilled personnel and apply scientific or modern technology of tax assessment way so as to improve effectiveness in tax assessment and collection system.

Data Availability statement

The datasets analyzed and that can support the findings of the current study are available from the author upon request.

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