

Assessment on the Implementation of Value-Added Tax (VAT) in Mekelle City Administration

Simon Tareke Abay

Adigrat University, College of Business and Economics, Department of Accounting & Finance

Abstract: Taxes are important sources of public revenue. Value Added Tax (VAT) is a tax on consumer expenditure. It is collected on business transactions and imports. A taxable person can be an individual, firm, company, as long as such a person is required to be registered for VAT. Even if VAT is one of the most important sources of revenue and its implementation in Ethiopia is infant. This study tried to explore the major problems and prospects of Value-Added Tax (VAT) implementation in Mekelle City Administration. By considering the population size and availability of large numbers of VAT registered business firms, a total of 150 respondents from VAT collectors (registered business firms) and 50 respondents from VAT payers (consumers) were considered. The data gathered from both business tax payers and ultimate consumers were analyzed using soft ware package of Statistical Package for Social Scientists (SPSS) version 16. The result of the study indicated that significant number of business community felt that the government is the sole beneficiary of VAT, the willful registration of the businesses has not yet come to the desired level, there is negative perception about the fairness of the payment across the businesses, significant decline in the number of the customers following the implementation of VAT has been observed, many consumers believe that VAT has been the very reason for business firms to impose higher price on products or services delivered and failure to give VAT & to tear down receipts.

Keywords: Value Added Tax (VAT), Mekelle City Administration, Consumers, Business Community

1. Introduction

1.1 Background of the Study

"VAT" - value added tax - has spread throughout the world since its introduction in 1955. Its format has changed and now incorporates what was once an offshoot - "GST" (goods and services tax). France was the first country to introduce VAT effective from April 10, 1954. By 1969, only eight nations had adopted VAT, out of this Cote-Devoir was the first country in Africa to introduce VAT in 1960. Since 1979 VAT has been adopted as the main form of an indirect tax by many countries in different parts of the world. (Misrak, 2008)

Value Added Tax (VAT) is a general consumption tax assessed on the value added to goods and services. In other words, it is a consumption tax because it is borne ultimately by the final consumer. In many countries it is regarded as one of the main source of government.

VAT is an indirect tax levied on domestic consumption of goods and services as well as on imported goods. It can be considered as the most important tax innovation of the second half of the twentieth century. VAT is primarily collected by business firms or individuals at all stages of production and distribution beginning with importers and producers of raw materials and ending with retailers. In line with this perception, VAT is implemented in many developed as well as developing countries. (Hailemariam, 2011)

Value added tax (VAT) was first started in France in 1948 G.C, where it was initially applied up to the manufactured stage and give credit for tax on capital goods. Moreover, Cote d'Ivoire is the first country in Africa to introduce VAT. Nowadays, many countries in the world have made VAT part of their tax system, where Ethiopia's standard

VAT rate is 15%, Nigeria and Algeria have the minimum and maximum standard VAT rate in Africa with 5% and 21% respectively. (Misrak, 2008)

VAT in Ethiopia is at its infant stage. It came into realization in January, 2003 (Proclamation No. 285/2002) replacing the former sales tax system. Ever since, it is playing an important role in the economy in terms of its contribution to ever-increasing domestic revenue and reducing budget deficit.

1.2 Problem Statement

Many countries in the world generate their revenue from taxes. In Ethiopia the principal taxes currently in place are Corporate Income Tax, Turn Over Tax/Value-Added Tax (VAT), Excise Tax, Customs Duty, Income Tax from Employment and income tax from business. These taxes can be classified as direct and indirect taxes. VAT is one of those indirect taxes which have been introduced in Ethiopia few years back.

A good VAT administration is critically in fully implementing the design attribute of tax and reducing gap between effective taxation and what it is purported to be in legislation. More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objective of the government. Nevertheless, although the number of VAT registered of business firms is increasing from time to time, implementation of VAT as a tax system is facing many bottlenecks both from the side of implementers and business community.

Albeit, VAT is one of the most important sources of revenue and its implementation in Ethiopia is young, research studies related to VAT and its implementation in Tigrai in general & Mekelle City in particular are small in number. This study has been conducted to identify the major bottlenecks and prospects of VAT implementation. It is in light of this

scenario that this research study assesses the implementation of VAT and identifies the major problems and prospects in its implementation in Mekelle city administration.

Thus, the following research questions are raised:

1. What are the major problems encountered by the business firms?
2. What are the perceptions payers towards VAT?
3. What are the major problems encountered by the authority (ERCA)?
4. What are the perceptions of business community towards VAT?

1.3 Objective of the Study

1.3.1 General Objective of the Study

The main objective of the study was to assess the implementation of Value-Added Tax (VAT) implementation in Mekelle city administration.

1.3.2 Specific objectives

1. To identify the major problems encountered by the business firms;
2. To evaluate the perception of payers towards VAT;
3. To evaluate the perception of business community towards VAT;
4. To identify the major problems faced by the authority (ERCA).

1.4. Research Methodology

1.4.1. Description of the study area

Mekelle city was founded in 1876 and it is located in the northern part of Ethiopia in Tigray regional national state. It is located around 780kms north of Ethiopia from the capital Addis Ababa. The city is capital of the region / Tigray regional national state/ and is considered as a special zone having its own seven sub-cities. Moreover, the city is an economic, cultural and political hub in the region.

1.4.2. Study Design

Both quantitative and qualitative data analysis techniques were employed to analyze the data collected from primary and secondary sources. The quantitative data analysis was applied to explore prospects and identify major problems observed in implementing and administering VAT and the perception of business community towards VAT. While, qualitative data analysis was made for comparative analysis in assessing the relevance/deviation of practice of VAT in relation to the content of the Ethiopian VAT law.

1.4.3. Sampling Procedure and Sample Size

There are several approaches to determine the sample size. In selecting sample respondents from the business community, non-probable sampling- judgmental/purposive sampling technique is used on their line of business so as to ensure business diversity. Whereas, convenience sampling method was considered in selecting final consumers for this study. Accordingly, 150 VAT registered business firms are selected using the purposive sampling technique. On the other hand, 50 sample respondents of consumers were selected based on convenience sampling. Consequently, this

research study has total respondents of 200 from both registered business firms and final consumers.

1.4.4. Type and Source of Data

The study has implemented both primary data and secondary data. As part of primary data source, questionnaires were distributed to *VAT collectors (registered business firms) and VAT payers (consumers) to assess the perceptions major problems in the implementation VAT. Meanwhile, a Key Informant Interview (KII) with higher officials of ERCA* was conducted. In due course of KII, issues in relation to major progresses of VAT administration and challenges observed hindering successful implementation of VAT was raised as an agenda.

To enrich the primary data analysis and support it by some related theoretical concepts, the secondary data sources are, obviously, found to be important in every type of research. In line with this, a relevant literature which mainly focused on the basic concepts, definition and principle of VAT and the most frequently challenges observed in VAT administration and remedial action taken by reviewing experience of various nations. Moreover, in order to assess the compliance/deviation of practice of VAT from the national law of VAT, the content of the National VAT proclamation No. 285/2002 was visited. In fact, information regarding the regional and national growth of revenue collected from VAT was obtained from secondary sources. All such data obtained from previously conducted research findings, reports, and relevant reviews of literature and documentary materials, some of which is gathered from Regional bureau of Trade and industry and federal bureau of Inland Revenue.

1.4.5. Data Analysis and Presentation

Once the data gathered from both business tax payers and ultimate consumers were organized and presented, they were analyzed using the soft ware package of Statistical Package for Social Scientists (SPSS) version 16. In addition to this, to capture and incorporate all the non quantifiable data and triangulate the data obtained through survey questionnaire, qualitative data analysis is employed. Furthermore, the data was presented using tables, bar charts and pie charts as well.

Review of Literature

2.1 Definition of Value-Added Tax (VAT)

- Value Added Tax (VAT) is a general consumption tax assessed on the value added to goods and services.
- It is a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services.
- It is a consumption tax because it is borne ultimately by the final consumer.
- It is charged as a percentage of prices, which means that the actual tax burden is visible at each stage in the production and distribution chain.
- It is collected fractionally, via a system of deductions whereby taxable persons (i.e., VAT-registered businesses) can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities (Herouy, 2004).

2.2 VAT Terminologies

According to Misrak (2008), some of the terms in the VAT literature are:

- **Output tax:-** is the VAT that a business pays over taxable supplies made and can be recovered only on so far as your business in VAT registered and make taxable output.
- **Input tax:-** the VAT that a business collects over on taxable supplies (VAT paid on sales).
- **VAT payable:-** this is the VAT to be paid to the authority /ERCA/ by the taxable person. It is computed as:

$$\text{VAT payable} = \text{Output tax} - \text{input tax}$$
- **Zero rating:-** the supply is charged with VAT at 0% but credit can be taken for VAT paid on purchase used to make supplies.
- **Positive rate:-** the supply is charged with a rate of 15%.

- **Exemption:-** the supply is exempted from VAT. No VAT is charged on the supply and no credit can be taken on the purchase used to make supply.

2.3 VAT Rate

According to International Monetary fund (IMF) report (2004), more than 4 billion, 70%, of the world's population now live in countries with VAT and VAT raises about \$18 trillion in tax revenue, roughly one-quarter of all government revenue. Nowadays, among 190 countries of the world, over 136 (72%) of them have made VAT part of their tax system; and from 53 members of countries of Africa Union, 33 (60%) of them have introduced VAT. Those African countries with their rates and year of introduction are presented in table 2.1.

Table 1: African Countries with VAT

Country	Date Introduced	Standard Rate (%)	Country	Date Introduced	Standard Rate (%)
Algeria	1992	21	Mauritania	1995	14
Botswana	2002	15	Mauritius	1998	10
Burkina Faso	1963	18	Morocco	1986	20
Benin	1991	18	Mozambique	1999	17
Cameroon	1999	18	Namibia	2000	15
Chad	2000	18	Niger	1986	17
Congo Republic	1997	18	Nigeria	1994	5
Cote-Devoire	1960	20	Senegal	1980	20
Ethiopia	2003	15	Rwanda	2001	15
Egypt	1991	10	South Africa	1991	14
Gabon	1995	18	Sudan	2002	10
Ghana	1998	10	Tanzania	1998	20
Guinea	1996	18	Togo	1996	18
Kenya	1990	16	Tunisia	1998	18
Madagascar	1994	20	Uganda	1996	17
Malawi	1989	20	Zambia	1995	17.5
Mali	1991	15			

Source: (Misrak, 2008)

The VAT rates of some European and non-European countries (other than African countries) are also presented below:

Table 2: World Countries with VAT

Country	Standard Rate (%)	Country	Standard Rate (%)	Country	Standard Rate (%)
Australia	20	Romania	19	Lebanon	10
Belgium	21	Slovakia	19	Moldova	20
Bulgaria	20	Slovenia	20	Macedonia	18
Cyprus	15	Spain	16	Malaysia	5
Czech Republic	19	Sweden	25	Mexico	15
Denmark	25	United Kingdom	17.5	New Zealand	12.5
Estonia	18	Argentina	21	Norway	25
Finland	22	Australia	10	Paraguay	10
France	19.6	Bosnia & H	17	Peru	19
Germany	19	Canada	6	Philippines	12
Greece	19	Chile	19	Russia	18
Hungary	20	China	17	Serbia	18
Ireland	21	Croatia	22	Singapore	5
Italy	20	Ecuador	12	South Korea	10
Latvia	18	El Salvador	13	Sri Lanka	15
Lithuania	18	Guyana	16	Switzerland	7.6
Luxembourg	15	Iceland	24.5	Thailand	7
Malta	18	India	12.5	Turkey	18
Netherlands	19	Israel	15.5	Ukraine	20
Poland	22	Japan	5	Venezuela	8
Portugal	21	Kazakhstan	14	Colombia	45

Source: (Misrak, 2008)

The standard rate for all goods and services will be fixed by law. It will be applied as a percentage of the selling prices or import value of the item. VAT in Ethiopia has a fixed rate of 15%. For every taxable transaction by a registered person, every import goods other than an exempt import, and an import of services, 15% of the value shall be applied as value added Tax. However, a zero-rate is normally applied to all goods sold outside the country. No rate is applied to goods which are exempted.

2.4 Merits and Demerits of VAT

A. Merits of VAT

1. The polarity of VAT with authority is mainly due to its administrative advantage. It is much easier to assess tax liability of a firm by using credit method. There is greater scope for cross-checking of return submitted by firm. A general VAT is supposed to be neutral to the resource allocation forms of production and business organization, in contrast, turnover tax encourage vertical integration of production so as to avoid the intermediary sales and taxes to acquire a competitive advantage over other. For example, a bicycle factory which is manufacturing its own steel pipes and rims etc. would pay smaller turnover from another which has to purchase this material from other firm. A VAT, on the other hand, is neutral between these processes of integration and therefore helps the economy in adopting that form of production which is economically more suitable.
2. VAT is also neutral between factors costs because it taxes all value added. As against this, the existing corporation taxation discourage the use equity capital and punishes profit earning, VAT does not hinder adoption of technology which may be capital intensive.
3. It is argued that VAT avoids cost-cascading effect. The conventional sales tax lead to compounding of tax liability, while VAT does not.
4. An implied advantage of VAT is its neutrality with regard to resource allocation.
5. A very important advantage quoted in favor of VAT is that lesser tax evasion. Firstly, this happens because the tax is divided into part and therefore the incentive to evade tax by any one firm is reduced. Secondly, it is in the interest of firm to the account for the tax paid by earlier firms through which is the inputs have come otherwise this firm pays the tax itself. If any firm therefore understands its inputs, it will be caught by the disclosure of firms buying input from it. These types of cross-auditing enable the authority to plug the tax leakages.
6. The use of VAT helps a country in encouraging its exports. In order to get competitive edge over others, a country may refund the taxes paid the on the exportable goods. It is easier to separate the tax from cost of production in case of VAT, but not so in case of other taxes which get mixed up with the cost of production (since they relived at gross value in each case). To other advantage is that the. General agreement on trade in tariffs also recognized VAT rebate as legitimate practice of encouraging exports.
7. It is also claimed that VAT is conducive efficiency since a firm is not exempted from its tax liability even if it runs into loss. It pays a tax not on its profit but on the value

produced. It therefore, tries to improve its performance, and reduced the cost of production.

8. It is argued that for various reason, some good should enjoy a tax exemption (zero tax rate) while the remaining one s need not be subjected to a uniform tax rate. In practice, it has been possible to incorporate these features into VAT. Multiple (including zero) rates are now commonly found in vat systems. A multiple tax rate variety can also easily accommodate credit systems (that is, dedicate tax liability of a firm by the amount of taxes paid by other firm on its purchases). All this imports a great deal of administrative flexibility to VAT so that its exact content can be modified to suit different policy objective of the authorities.

B. Demerit of VAT

VAT, however, is not just a bundle of advantages. Rather it has serious limitations especially for underdeveloped countries because what it has not yet become popular. (Hlbhiatia, 1996)

1. VAT is a complicated system and need an honest and efficient government machinery to do the cross checking and link up various production activities and the resulting tax liability of each firm. It is, therefore, necessary in its financial and economic structure and the firm should be in the habit of keeping proper accounts.
2. This system depends a lot upon cooperative the tax payer. Each firm itself calculate its tax liability to begin with, and also find out the taxes paid by curlier firms. Once, however, the seller realize that the administrative machinery or the government is ill-equipped to do all the necessary cross-checking, they will resort to the creation of false purchase invoices showing taxes paid by others. To the extent this happens becomes a major possibility and a common practice.
3. Unless the rates of VAT are extraordinary high, the state would end up with smaller tax revenue as against the collection from sales tax.
4. Even if the tax payers are fully honest of, the system of taxation forces them to maintain elaborate and costly account. This becomes uneconomical, especially for smaller firms.
5. The difficult of maintaining accounts, cross checking and preventing tax evasion increase if the system contains some exceptions (such as for food item) and differential rate of taxation (luxurious are likely to be taxed at higher rate than necessity). It would be naïve to assume that a modern government would like to have a tax system which is claimed to be neutral in its own allocate and distributive effects. The realities of non-competitive market, income and wealth inequalities, and (in under developed countries) the need for quickening the pace of capital formation cannot be ignored VAT has to be selective in coverage and with differential rate. And once the authority decides to adopt the selective pattern, vested interest developed and exert pressure for exemption and concession. In such circumstances actual decision may not remain fully objective.
6. Critics of VAT doubt that it includes efficiency. The claim that in a shortages economy like ours speculative hoarding, non-competitive price rise and similar practice are quite common. In a seller market, producers and sellers have no incentive to increase their efficiency and

reduce cost since goods will sell irrespective of their in for quality and high price. All told, VAT requires a highly efficient administration and competitive market. An underdeveloped country faces these limitations in greater intensity. The direct taxation inquiry committee (1976) in its report in 1977 examined feasibility of VAT system. It comes to the conclusion that under our administrative and other circumstances, we should be cautious in adopting this tax form. It recommended its adoptions on an experimental basis, in a phased manner, to limited number of manufacturing industries (Ibid).

3. Results and Discussion

In this Section, the data gathered from VAT payers (Businesses) and data gathered from consumers is analyzed and discussed. The data gathered from these bodies is quantitative in nature; hence, it is analyzed using the Statistical Program for Social Science (SPSS) output. Moreover, the data collected ERCA staff members using interview schedule is qualitatively discussed.

3.1. Perception of VAT Payer Business Firms

The importance of correct and desirable perception VAT payers on the VAT implementation system regarding the equity, fairness and getting appropriate service from VAT authorities that implement the system is very important. This information is worthwhile ironing out because it is informative the attitudes, challenges and complaints the VAT payers are facing on the course of implementing the VAT system. Besides, it is very suggestive about the gaps and misunderstandings on the awareness side of the VAT payers and on the demands the payers have to be met which may be due to the inefficiency of the VAT implementing government agency and its employees.

Thus, this study has tried to excavate these important VAT payers' side perceptions as an important step to bring faire and holistic judgments and challenges about the implementation VAT system with all actors of the system. Moreover, the VAT system implementation progresses and challenges cannot be entirely understood without the understanding the perceptions and views of Tax payers.

Table 3: Awareness Creation about VAT

<i>How did you hear about VAT and its implementation for the first time?</i>			
	<i>Source of information</i>	<i>Frequency</i>	<i>Percent</i>
	Government training	132	88
	Media	16	10.7
	Neither of the two	2	1.3
	Total	150	100.0

Source: Own survey, 2012

The information as to how the VAT payers learned about the beginning of the VAT system of taxation in their administrative zones are diverse. As per the data of the respondents, it reveals that there was no uniform approach which served the creation of awareness of the VAT system to the VAT payers. Majority of the respondents (88%) of the respondents confirmed that they have had attended government training program regarding the implementation

and guidelines of the VAT system by concerned government authorities, while it was responded that 16 (10.3%) of them were able to learn about VAT from media channels. On the other hand, very few 2(1.3%) of them responded that they have had no formal channel either from media or training and just learned from their direct experience of VAT payment which they were requested to be involved in by government VAT implementing authorities. The data shows that the government authorities were fairest able to create the awareness on VAT system to potential VAT Payers before the implementation of the VAT system into practice.

3.2. Attitudes towards VAT

It is very important to know as the attitude of the VAT payers towards VAT can bring to the economy and how it benefits the government and private sectors. The response to the question as to who benefits from VAT tax collection shows not all VAT tax payers have the same understanding

Table 4: VAT Beneficiaries

Who do you think is the primary beneficiary of VAT?			
	<i>Primary Beneficiary</i>	<i>Frequency</i>	<i>Percent</i>
	Government	74	49
	Society	16	11
	Businesses/Investors	0	0
	All	60	40
	Total	150	100.0

Source: Own survey, 2012

As depicted in Table 3.2., 74(49%) of the VAT payers responded that believed that the government is the primary beneficiary while only 16(11%) responded that the society is the primary beneficiary. 60(40%) of the responded on the other hand responded that both the society and the government are both beneficiaries of the VAT system, on the other hand none of the respondents have forwarded that businesses/investors are the sole beneficiary of the system. The data shows that while the rationale that the benefit of the system goes to the society, most of the respondents felt that the government is the sole beneficiary of the system. Hence, there is a need for more creation of awareness on VAT payers as to the fact that VAT is important source of revenue of the government and yet the ultimate beneficiary is the society. Thus, it is evident from this responses that there is a need for campaigns by government authorities in reshaping this perception of few VAT payer sections of the businesses that believe that government is the only beneficiary of the VAT revenue.

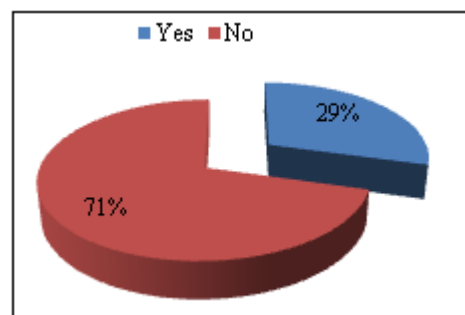


Figure 1: Firms attitude on VAT registration

Source: Own survey, 2012

In relation to creating healthy and correct perceptions on the VAT payment system, it is very understandable that the first step is creating the awareness of the importance of registration of VAT for those who are eligible to VAT paying status. The data for the request on the approval of businesses on their registration of VAT payment system is very suggestive on the fact that although the government authorities have disseminated information on the importance of VAT to VAT Paying businesses, the required correct perception on the system and the willful registration of the businesses has not yet come to the desired level. This is indicated on the data from Table 4.5, that only 124 (36.5%) of the respondents positively answered that they had positive approval for the registration of VAT while the significant respondents went on explaining they were not registered with their willpower interest to the VAT system. The implication could be that, the habit and willingness to pay the required income tax based on value added income has not yet taken root into the perception of VAT paying businesses. This is also an indication that there is a need to exert more effort into alleviation of this perception problem by the concerned government authorities.

Most of the respondents who do not support of being registered for VAT were also asked to pass on their reasons and they have forwarded different reasons which can be summarized into the following points:-

- Since, there are many unregistered business firms, many of their customers have shifted to those firms and as a result, their sales/revenue has deteriorated significantly since.
- Similarly, as the controlling system of the authority is not well-developed, there are different business firms in selling their product and services VAT free which is affecting their businesses badly.
- Some few respondents have also explained that the introduction of VAT has brought them different complexities in their day-to-day activities and their record keeping system. As a result, they have been forced to hire additional professional employees which therefore imposed them to incur additional expenses.

3.3. Mode of Payment

It is understandable the extent of success in settling VAT payments depends on the sophistication of the mode of payment. As is known, the more the modern the VAT paying and receipts registration system is, the more is the smooth and tamely settlement of the payment is expected to be.

Table 5: VAT payment settlements

How do you settle VAT during payments?	Frequency	Percent
Cash register machine	150	100
Receipt	0	0
Total	150	100.0

Source: Own survey, 2012

The data on this regard showed that out of the sampled 150 VAT paying businesses, all of them are using cash registration machine. This shows that as most VAT payer business are located in has played an important role in introducing and supplying registration machines so that the

VAT system will be effective in minimizing VAT tax evasions.

3.4. Tax Evasion

A very important thing that quotes in need of VAT is less tax evasion. VAT in Ethiopia could be helpful in simplifying and modernizing the tax administration with its invoice based characteristics and its requirements for the registrants to hold a systematic book of accounting.

It is expected that the VAT registered businesses must provide the right receipt for their customers for the products or services rendered. Thus, the business firms need to have sufficient amount of receipts to run their operations and collect the right amount of VAT from their customers.

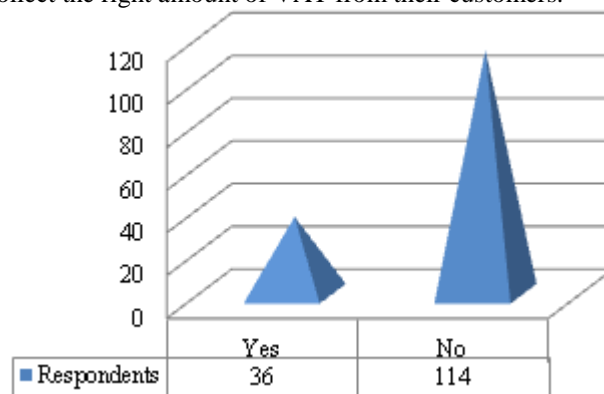


Figure 2: Shortage of receipts

Source: Own survey, 2012

As indicated in the above figure, even though, majority of the respondents did not face any shortage of receipts so far, 36(24%) of the respondents have revealed that there are occasions where they face shortage of receipts.

Table 6: Similar Firms Evading Cash Delivery

Do you believe that there are similar firms evading to deliver the cash to the government?	Frequency	Percent
Yes I do	95	63
No I don't	48	32
I don't know	7	5
Total	150	100

Source: Own survey, 2012

The establishment of fair and equitable VAT payment is very important component of VAT implementation issue. But, in line to the actual shape that the VAT system is having on the ground, perception of the fairness and equity of the VAT process implementation through the eyes of VAT paying businesses is also no less important.

The response to the fact to what extent businesses believe other businesses are evading the right payment shows majority 95(63%) of the VAT payers have negative perception about the fairness of the payment across the businesses; whereas, 48(32%) of the respondents believe all businesses are paying correct amount of VAT. Only 7 (5%) responded that they don't have the actual information. The other issues that are related to the perception of fairness of VAT across all businesses through the conception of the sampled businesses is whether they believe there are

businesses that are eligible for VAT registration yet not registered. The response of most of sampled businesses was stunning as indicated in the below table; 110(73%) of the respondents believed that there are potential firms not yet VAT registered. It is only 40(27%) of the VAT payers who have responded they don't have the knowledge to comment on the question. While the reality on the ground requires further study on the potential and actual VAT payers in Tigray region, there is no doubt this perception has to be curbed either through awareness creation or through actual assessment undertakings to include the remaining potential VAT payers into the actual payment scene.

Table 7: unregistered businesses

Do you think that there are VAT unregistered businesses in your area?			
	Frequency	Percent	
Yes	110	73	
I don't know	40	27	
Total	150	100.0	
If your answer for the above question is 'Yes', Give the main reasons.			
Government evaluation is poor	115	77	
Discrimination by some employees	35	23	
Other	0	0	
Total	150	100	

Source: Own survey, 2012

But one important issue that the study tried to find out was what are the factors contributed to these VAT payers to believe there are more potential businesses not yet registered. Majority number of the respondents 115(77%) of the VAT payers reported that government assessment on income generation and eligibility for VAT registration is poor while the rest 35(23%) of them believed that some employees of the revenue collection authority office follow discriminatory assessment approaches. While this claim has to be proved the extent of its credibility by further investigation by the Revenue authorities, this perception is suggestive the potential weakness sources of the VAT system, i.e. the effectiveness and accuracy of the assessment and establishing discipline and non corrupt personality of the VAT implementing workers.

It would generally imply that the VAT authority agency has to establish both the principles of fairness and equity in practice and also it has to ensure this is what is happening to the perception of the businesses too. This would imply for better facility, transparent, uncorrupted and capacitated human resource establishment that would solve this problems both at practical and perception levels.

3.5. Effect of VAT on Customers

Due to the fact that the price of goods and services is expected to increase with the introduction of VAT; it would be necessary to assess whether the system has brought a change in the number of customers or not.

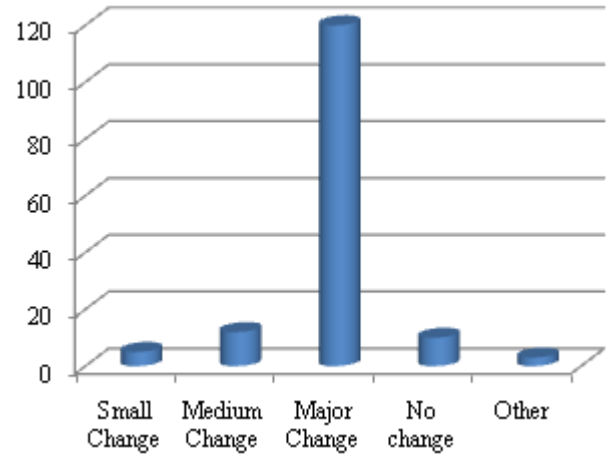


Figure 3: Effect of VAT in the number of Customers

Source: Own survey, 2012

As indicated in the above figure, based on the responses of the business firms majority of the respondents, 120(80%) have confirmed that there has been a significant turn down in the number of their customers following the implementation of VAT system.

3.6. Competence of ERCA's Employees'

Notwithstanding, most of the businesses have responded in the preceding discussions about the level of their perception and level of awareness. However, it is inevitable that the level of capacity, motivation and manpower adequacy of the employee's of the authority has to be assessed for effective implementation of the system.

The below table shows that 13(9%) of the respondents have replied Excellent, some 35(23%) have responded as Very good, majority 77(51%) responded as Good, 20(13%) and the remaining 25(17%) responded as Not good and Very poor.

Table 8: Competence of ERCA's employees

How do you rate the overall capacity and motivation of ERCA employees in your area?	Frequency	Percent
Excellent	13	9
Very good	35	23
Good	77	51
Not good	20	13
Very poor	5	4
I don't know	0	0
Total	150	100.0

Do you think that ERCA has enough manpower to provide quality and timely service?	Frequency	Percent
Yes	34	23
No	96	64
I don't know	20	13
Total	150	100.0

Source: Own survey, 2012

Having adequate human resource is important to provide more effective and timely service. Thus, the respondents were asked to present their outlook on this regard, and it can be shown in the above table that out of total respondents 34(23%) have affirmed that the authority in their area has

adequate manpower. Whereas, most of the respondents 96(64%), feel that authority in their area does not maintain adequate man power. The remaining 20(13%) could not comment on the issue.

3.7. Analysis on the perception of consumers/ community regarding VAT

As part of the survey, assessing the perception of the community is one pillar objective of this paper. This subsection, therefore, gives a highlight on the awareness the community regarding the VAT imposed finally on them, on the basis of the response obtained from the sample respondents. The Data collection was carried out by distributing 50 questionnaires selected simple random sampling.

Table 9: Age and Gender of respondents

Age	Sex		Percentage (%)		Total	
	Number of Male	Number of Female	Male	Female	Number	Percentage (%)
18-34	4	4	8%	8%	8	16%
25-35	20	6	40%	12%	26	52%
36-50	10	6	20%	12%	16	32%
Above 50	-	-	-	-	-	-
Total	34	16	68%	32%	50	100%

Source: Own survey, 2012

The above table shows that out of the total respondents, 8% of the male and female respondents are categorized under the age category of 18-24, whereas 40% of the male respondents and 12% of the female respondents are under the age category of 25-35, while 20% the male respondents and 12% of the female respondents are in between 36-50 years of age and neither of the male respondents nor of the female respondents are categorized above 50 years of age. This indicates that most of the respondents are around the young age category, which means in the more productive age.

Table 10: VAT Rationale

Do you know why you pay VAT	Sex		Percentage		Total	
	Male	Female	Male	Female	Number	(%)
As a national responsibility	14	4	28%	8%	18	44%
Because the government forced me to pay	4	4	8%	8%	8	14%
For national merit	16	8	32%	16%	24	62%
Total	34	16	68%	32%	50	100%

Source – Own Survey, 2012

In line with this, as indicated in the above table, 44% of the respondents believed that they pay VAT as it is their national responsibility followed by some 62% of the respondents who perceive that VAT should be paid because it has a national merit which could ultimately benefit the society, although few of them complaint that they are paying tax because they are forced by the government. By and large, the above statistical data shows that majority of the respondents have relatively good perception towards VAT.

Moreover, one can see from the same table that the level of perception among male and female respondents is different.

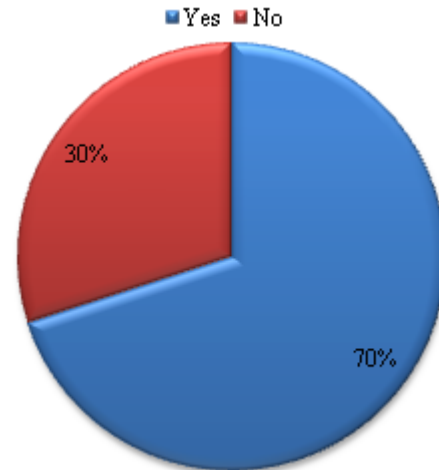


Figure 4: Payments in the absence of receipts
 Source – Own Survey, 2012

One of the national duties VAT customers should contribute to the proper implementation of VAT is that they should ask for VAT cash receipt voucher immediately after they are served so that they will tear it down and prevent using it by irresponsible VAT tax payers for VAT evasion purposes. The results of the responses from the customers showed that some 70 percent of the consumers pay the bill even without receiving VAT voucher while the rest 30 percent of them refuse to pay the price.

Likewise, it is reported that most respondents never tear the VAT voucher they received. This clearly indicates that a lot has to be done in improving the awareness of the final VAT payer consumers since an income from VAT is the basis for the economic growth of the nation without which the country will always be dependent of foreign aid.

Table 11: Consumers preference on business firms

Do you prefer VAT Registered or non registered businesses?				Frequency	Percent
	VAT registered b/c no difference in price			12	24
	NON registered b/c of lower price			21	42
	In different so long as no difference in quality			17	34
	Total			50	100

Source – Own Survey, 2012

One of the ways that can influence the attitude of the VAT service customers is their attitude to the choice of VAT business services and non VAT registered services of the same service. 12(24%) of the respondents reported they prefer VAT registered because there is no significant price difference between VAT and non VAT services. 21(42%) of the respondents answered they prefer non VAT services citing lower price advantages over the same VAT charged services. But most of the respondents which constituted 17(34%) of them reported their difference for VAT and non VAT related similar services depends on the extent of the quality of those services. This would mean they don't mind charged on VAT basis so long as they enjoy higher quality products and services.

4. Conclusions & Recommendations

Conclusions

VAT is one of the sources of government revenue. Nowadays, many countries in the world have made VAT part of their tax system, where Ethiopia's standard VAT rate is 15%, Nigeria and Algeria have the minimum and maximum standard VAT rate in Africa with 5% and 21% respectively. However, its implementation is faced different challenges. The major ones are all business firms those with legible registration threshold are not registered assuming that they would lose their customers.

It was found that while the intent that the benefit of the system goes to the society, most of the respondents felt that the government is the sole beneficiary of the system. The data for the request on the approval of businesses on their registration of VAT payment system is very suggestive on the fact that although the government authorities have disseminated information on the importance of VAT to VAT Paying businesses, the required correct perception on the system and the willful registration of the businesses has not yet come to the desired level.

The study revealed that there has been a major decline in the number of their customers following the implementation of VAT system. Majority of the consumers get to know about VAT from government media, thus it can be concluded that the government media has played an important role in awareness creation of the system, nevertheless, considerable number of the consumers have never heard of the system prior its implementation. Many consumers believe that VAT has been the very reason for business firms to impose higher price on products or services delivered and in some cases, they believe that the rate of the VAT charged is more than double since it is imposed on the total price of the product.

The level of enforcing business firms to provide bill during payments is low as majority of the consumers fail to ask for receipt during payments, similarly many consumers fail to tear down the receipt as it give the chance to use illegal businesses for tax evasion.

Recommendations

Based on the summarized finding, the following suggestions are forwarded for improving the awareness of the business community and tax payers to enhance the effectiveness of the implementation of VAT. There is a need for more creation of awareness on VAT payers as to the fact that VAT is important source of revenue of the government and yet the ultimate beneficiary is the society. Thus, it is evident from this responses that there is a need for campaigns by government authorities in reshaping this perception of few VAT payer sections of the businesses that believe that government is the only beneficiary of the VAT revenue. This is also an indication that there is a need to exert more effort into increasing the willingness of VAT payers to get registered based on their goodwill and positive motivation.

Besides, concerned authorities need to facilitate the ownership of the VAT registration machine either by providing loan or facilitating the availability of those

machines to the VAT payers and increase the supply of the machine as well. Moreover, there may be a need for clear standards as to which VAT payer businesses should be already able to possess the machine and start their payment in modern system based on their VAT income level. There is a need to exert more efforts unto creating awareness that the existing VAT system is fairness in terms of collecting income across all VAT payers and it has tried to include all potential VAT payers in to the actual VAT system. And any inefficiencies, corruptive procedures and discriminatory approaches to VAT payers differentially shall be identified and exhaustively combated by the implementing agencies. Even though, there is a good motivation and knowledge of the concept by the authority employees, there is a need of additional manpower to provide timely operation.

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