FACTORS AFFECTING VALUE ADDED TAX (VAT) COLLECTION PERFORMANCE: A CASE STUDY IN SILTIE ZONE REVENUE AUTHORITY, SNNPR, ETHIOPIA

1. Lecturer & Head, Department Of Accounting and Finance, College Of Business and Economics, Wachemo University, Ethiopia
   Mr. Dereje Lemma Lalisho,
   Email: derelema12@gmail.com
2. Mr. Wabela Kemal Shukre   E-mail: abumuaz250@gmail.com

ABSTRACT

The purpose of this study was to assess the factors affecting the revenue performance of VAT in the Siltie zone revenue authority office. The researcher used a casual type of research design using the quantitative and qualitative (mixed) approach, and a stratified and purposive sampling technique was employed to gather the data from the sample of VAT payers and concerned tax officials. The researcher was used 510 VAT registered taxpayer's and 70 employees are working directly to the VAT-related concern so; the target population of the study is 580. To determine the required sample size the Yamane sample determination formula was used and the sample size of this study was 237. The researcher was used questionnaires and interviews to collect primary data and the last five years (2013/14-2017/18) annual report of the revenue office and relevant documents to collect secondary data from data sources. In order to analyze the collected data, Percentages, table, pie charts, graphs, Microsoft excel, and software package social science (SPSS) version 20 was used. The findings of the study show that awareness creation training of VAT payers, modern tax technology usage, organizational strength of tax authority, educational status of VAT payers, effective VAT audit, and enforcement have a statistically significant and positive relationship with the performance of VAT revenue collection. Besides this, the variable VAT evasion and avoidance have a negative relationship with VAT revenue collection and statistically significant. On the other hand, taxpayer identification has a positive relationship with VAT revenue collection, and corruption and embezzlement have a negative relationship with VAT revenue collection and found to be statistically insignificant. Finally, based on the findings, possible recommendations were given. These include; the authority should conduct consistent awareness creation training programs, should increase the number of modern tax technology users, the tax authority must be strength its service delivery system, minimize VAT evasion and avoidance activities, establish effective audit and enforcement mechanisms, and increase taxpayer identification system

Keywords: Value Added Tax; Factors Affect VAT Collection, Tax Authority, and VAT Payer

1. Introduction

This is an introduction of the study in hand that introduces the background of the study, statement of the problem, objectives of the study, research hypothesis, limitation of the study, scope of the study, significance of the study and organization of the study.

1.1. Background of the Study

Government as any organization needs revenues in order to run both public and administrative activities. For this accomplishment, different sources of finances are used under different circumstance. Taxes are one of the most important sources of the government revenue. As the result, the government should levy and imposed tax from different type of tax sources and tax payers. Taxes are levied for the benefit of the government as whole, not for the advantages of individual or particular class. Then tax is a compulsory payment imposed by the government that without any expectation of direct benefit /no quid pro quo/ or return to the tax payers (Bhatia, 2008).

According to Connolly and Munro (1999), in the world taxation is not only an important economic issue but also it is a political issue. Tax contributions are important for different public services such as, security, health, education, building infrastructure and welfare programs. The growth of global economy has been another factor leading to change in the tax system. As a result tax is the main source of revenue for both developed and developing nations to maximize their economic development as well as national security. Taxes have usually two parts, direct tax and indirect tax, according to the point at which they are actually paid. One of the main parts of indirect tax is VAT.

VAT was the main part of the revenue system for an ever-increasing number of African nations. Whereas, the VAT system have been adopted with different mechanisms, especially by both internal and external pressures. External pressures included influences from international financial organizations and, sometimes, advice from agencies of former colonial Powers. Internal pressures include difficulties collecting sufficient revenue from income taxes, excise tax and other levies (Krever, 2008)

In Ethiopia VAT was introduced in 2003 after enactment of Value Added Tax proclamation No.285/2002 and its regulation No.79/2002.There are two tax rates applicable for VAT in Ethiopia: 15 percent, which is the standard VAT rate applicable to all taxable goods and services, zero rate applicable to a certain category of goods and services including exports among others and exemption on food staff, agricultural, education, health and the like, as amended VAT proclamation No.609/2017 with registration threshold of one million ETB.

Ethiopia has made progress in mobilizing domestic revenue since the mid-1990s, but still lags countries in the region and other low income countries. The tax-to-GDP ratio rose from 8.6 percent in 2008/09 to 12.7 percent in 2014/15, but it has declined since then to 11.1 percent in

2017/18. Recently the government of Ethiopia plan to achieve the GTP II objective of over 17 percent tax-to-GDP ratio by 2020 that necessitates the improvement of tax administration practice particularly VAT, since it contribute more than other types of tax (AEO, 2016).

VAT is recent phenomenon to Siltie zone. It was adopted in 2011 after eight years implementation in the country. In the last five years on average, Siltie zone revenue authority planned to collect ETB 239,063,327.40 was tax revenue, but collected was 190,872,710.60 million was tax revenue which is undermined by ETB 48,190,616 million compared to the plan, which means achieved only 79.8 percent. Total VAT collection plan for the last five years on average was ETB 85,128,007.00, but collected ETB 41,831,288.22 which means achieved 49.14 percent and share of the total zonal tax revenue is only 21.92 percent (according to zonal annual report,2017/2018).

Therefore, the researcher's intention in this study was assessing the factors that affecting VAT collection performance in case of Siltie zone revenue authority main branch office.

1.2.Statement of the Problem

The economic resource available to society are limited and so increase in government expenditure, then government needs to raise revenue to meet its fiscal responsibility. However, reductions of tax cause a substantial decline in revenue of the government. The reduction in revenue is worsening the budgetary deficit. Thus, tax reduction needs to be coordinated with fiscal reforms. The general advice of international institutions such as the International Monetary Fund and World Bank given the developing countries over the past few decades has been to replace foreign trade tax (import tariff revenue) with domestic consumption tax, particularly with value-added tax (VAT) and to maintain relatively high corporate income tax rates(Delessa,2014).

In Ethiopia, VAT collection faces diverse factors internal and external tax administration challenges and issues. Ethiopian Revenue and Customs Authority (ERCA) have recorded significant gaps between VAT revenue targets and the actual amount collected. This means that ERCA has not been achieving an acceptable degree of tax compliance from a fast growing taxpayer population. It has been reported that tax evasion remains particularly high creating a need to improve the situation (Jalata, 2014).

In many under developed countries like Ethiopia, the low revenue yield of taxation can only be attributed to the fact that the tax provisions are not properly enforced, either on account of the inability to collect VAT , or on account of straightforward corruption. But factors on the other side of the system get little attention, i.e. minor attention is given to the tax background of tax payers, their awareness level, tax evasion, low usage of electronic tax machine , compliance behavior and its determinants when designing a given tax system . The tax system must be fair, both to promote the objective of an equitable distribution of income and to assure continued voluntary compliance by the taxpayer (Eckstein, 1979) as cited by (Tulu, 2007).

The proclamation No 285/2002 authorized the FIRA and now ERCA, to administer the VAT. For the sake of simplicity, ERCA delegated regions and city administration to collect VAT from their own taxpayers starting from September 2011/12. The revenue office is still not collecting the potential VAT which it can generate. To tackle this problem, the government has endorsed various tax and tax administration reforms (Tesfaye, 2015). However, reforming the tax system could not still brings the required result due to a number of challenges that the VAT collection faces and the actual amount of VAT could not be collected properly (Tadele, 2010).

Although studies made internationally on internal factors affecting performance of the collection of local value added tax revenue (Karanja, 2012), identifying the effective factor for the improvement of tax compliance (Mahmoud,M.,2014), assessment of the factors affecting the revenue performance of value added tax (Gerald M.,2013),Determinants of Value added tax revenue (Asirifwa D.,2011) and VAT implementation and its related problems conducted by (Mamo, 2011), The impact of Electronic Tax Register on Value Added Tax conducted by (Taye 2011), assessment of value added tax collection challenges conduct by (Shaiku S.,2016) and identifying factors that affecting VAT revenue performance and its management Practices conducted by (Lidetu A.,2018) are conducted in nationally.

Trends of VAT Collection Performance in Siltie Zone

Years	VAT collection in Million Birr	Growth Rate
2013/14	7,531,376.00	–
2014/15	20,840,951.00	63.86%
2015/16	51,640,599.86	42.21%
2016/17	63,125,985.22	18.19%
2017/18	66,017,529.00	4.38%
Average growth rate		25.73%

 Source: the revenue office annual report (2013/14-2017/18)

From table 4.13 above, VAT collection performance in million Birr in Siltie zone revenue authority office in the years 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 was 7,531,376.00,29,840,951.00,51,640,599.86, 63,125,985.22 and 66,017,529.00 respectively. This implies that, the amount of VAT collection performance was increasing at a decreasing rate for the last five years and the average growth rate of VAT revenue was 25.73%. Even if the average growth rate of VAT revenue was 25.73% the growth rate of VAT collection was decrease from year to year. As shown from table 4.13 it was decreased from 63.86% in 2013/14 to 4.38% in 2017/18.

 Therefore, on the basis of theoretical and empirical framework this research assessed the performance of the VAT revenue collection in Siltie Zone to yield adequate revenue for the Zone treasury and to promote voluntary tax compliance. Unfortunately, there is no recorded study that

has been conducted in Siltie Zone to explore reasons behind under potential VAT revenue collection. Therefore; this study conducted to identify those factors affecting the performance of VAT revenue collection of the country in general and particularly in Siltie zone in order to increase government revenue and assure economic stability.

1.3. Objectives of the Study

The general objective of the study was to assess factors affecting VAT collection Performance in Siltie zone revenue authority main branch office.

1.3.2. Specific Objectives

The specific objectives of the study include the following:-

1. To evaluate the level of voluntary compliance for VAT payers

 2. To examine VAT payer's awareness level about VAT Laws.

3. To identify the main factors that affecting VAT collection performance.

1.4. Research hypothesis

The following research hypotheses were formulated and tested:

Ho1: There is a negative and statistical significant impact of Corruption and embezzlement on VAT Collection performance.

Ho 2: There is a negative and statistical significant impact of Effective VAT audit and enforcement practice on VAT Collection performance.

Ho 3: There is a negative and statistical significant impact of Education status of VAT payers VAT Collection performance.

Ho 4: There is a negative and statistical significant impact of organizational strength of tax authority on VAT Collection performance.

Ho 5: There is a negative and statistical significant impact of Modern tax technology usage on VAT Collection performance.

Ho 6: There is a negative and statistical significant impact of tax evasion and avoidance on VAT Collection performance.

Ho 7: There is a negative and statistical significant impact of taxpayer identification on VAT Collection performance.

Ho 8: There is a negative and statistical significant impact of training of tax payers on VAT Collection performance.

1.5. Scope of the study

The study was focused particularly on the factors affecting VAT collection performance in Siltie Zone revenue authority main branch office and its branch office due to shortage of time and finance to address the VAT administration as the whole. This study also limits only for the last five years (2013/14-2017/18) to take in order to evaluate the performance of VAT collection on the study area and the sample data for analysis was gathered from VAT register taxpayers and tax officers in Siltie zone revenue authority main branch office.

1.6.Description of the Study Area

Overview of Siltie zone Location, area, population and administrative division Siltie Zone is located south of Addis Ababa at the range of 173 kilometers and at a distance of 158 km to Northwest direction of the South nation nationality people Region state capital city of Hawassa. Siltie zone is relatively bordered by Gurage to north, east and northeast, Halaba zone to the south west, Hadiya zone to the south east and Oromia region to west. It was established in 1993 E.C. currently it has 19 years old. Its capital city is Worabe. It has an estimated total population of 1milion, of which 93.5% rural and 6.5% are urban dwellers. It's an estimated area of 3047.83 square kilometers; the term Siltie is a modern ethno of the speakers of the Siltiegna language. Currently Siltie zone was organized in eight rural woreda and one urban city administration. Those are misrak Azernet Berbare, Alicho wuriro, Hulbarag, Siltie, Sankura, Lanfuro, Dalocha, mirahab Azernet Berbera woreda and Worabe city administration.

1.7. Research Methodology

A survey data collected from 274 VAT registered taxpayers (among total of 510 VAT registered taxpayers) business income tax) in the Siltie Zone. Inaddional to primary data and secondary data were collected from quarter/ annual report (2013/14-2017/180 and relevant documents to collect secondary data from data sources. A structure interview with Sliste Zone revenue authority branch office were addressed for indentify the challenges that were facing while collecting VAT from organization point of view.

2. Review of Literature

Theoretical Framework of VAT

2.1.1 Meaning of VAT According to Herouy (2004), 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 ultimately by the final consumer. It is not a charge on companies. 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 (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. This mechanism sure that the tax is neutral regardless of how many transactions are involved.

2.1.3. VAT Development in Ethiopia.

The Ethiopian government has introduced VAT as part of the overall tax reform program. The tax reform program is preceded by establishment of a new Ministry of Revenue as a first step to improve tax collections and to combat fiscal fraud. Various activities have been conducted subsequent to this : the increase in the sales tax and the removal of import duty surcharge in 2000; a new legislation on presumptive taxation and a 5 percent withholding tax on imports became effective in February 2001; legislation was approved in March 2001 to introduce the TIN system to reinforce the collection powers of revenue agencies, and a tax reform implementation task force was established; a large taxpayer was made operational in July 2001; in October 2001, a draft VAT legislation was submitted to parliament and this is approved and implemented beginning January 1,2003. A revised income tax law has been approved and made operational. This revised law includes enhanced enforcement procedures and an improved penalty regime, with a view to increasing the efficiency of income tax collection, and ensuring the recovery of income tax arrears (Taye, 2011)

Factors Affecting of VAT Collection Performance After the introduction of VAT, VAT revenue collection has shown growing trends as compared with the replaced sale tax. The impact of VAT on government tax revenue is also shown in the structure of tax. The contribution of VAT on domestic goods and services as well as foreign trade shows a substantial increase though the domestic source is by far lower than that of foreign trade. This might be associated with administrative difficulty to collect the tax from the domestic economy and the existence of illegal practices on VAT. VAT collection from imported goods is easy since it is collected at entry point. In principle, VAT is collects from consumption of goods and services. So, the maximum potential that can be collected from consumption expenditure is VAT rate multiplied by consumption expenditure of the particular years. Problems that are, observed during the collection of VAT related with external and internal factors. These are:-

2.5.Corruption and Embezzlement

Institutional corruption is defined as an unlawful or unauthorized act engaged in by a public official using his or her position to receive a bribe, directly or through a family member or associate, in exchange for making a benefit available to a member of the public (e.g., a taxpayer). Opportunities for corruption in revenue administration are affected by demand from companies and individuals for corrupt actions and the supply by tax officials of corrupt acts. Demand for corruption increases with the complexity of tax systems, for example, if the law gives tax officials excessive discretion (Patrick and Davina, 2007). There is wide agreement among researchers that corruption has a significant negative impact on tax revenues. Studies in developing countries indicate that often more than half of the taxes that should be collected

cannot be traced by government treasuries due to corruption and tax evasion. This finding led the IMF to conclude that efforts to lower corruption would increase tax revenues significantly (Ghura 1998).

2.2.2. Effectives VAT Audit and Enforcement Practices

There appears to be a considerable VAT evasion in developing countries (Pedone 1982 cited in Jantscher 1990). As Edmiston and Bird (2004) noted the only real solution to the evasion problem is a good tax administration and, especially, a strong VAT audit program. A strong VAT audit program needs, among other things, an appropriate audit case selection method. Jantscher (1990) noted that cross checking purchases and sales data by various taxpayers would provide an effective tool for selecting VAT taxpayers for audit and hence improve audit results.

2.2.3   Educational Status of VAT Payers

It is a continuous variable that refers to the number of years of formal schooling the VAT payers attended. Educated VAT payers are expected to have better skill, better access to information and make better use of their available resources that increase revenue collection of VAT. Girma (2015) argued that education had positive significant effect on VAT collection performance. It can be understand that by making informed decisions educated taxpayers choose the best recording system to record their business process. Hence, this variable was hypothesized to affect VAT collection performance positively.

2.2.4   Organizational Strength of Tax Authority

According to Bird and Old man (1967), no tax will work effectively, unless its administrators maintain an aggressive attitude with respect to the correctness of the taxpayers'actions. Some taxpayers will fail to file or make mistakes through ignorance or neglect; others will deliberately cheat. A passive attitude by the authorities towards these errors and falsifications will soon undermine the entire structure, since the diligent and honest taxpayers will almost in self-defense be forced to the level of the careless and dishonest. A tax administration which seeks compliance must protect those who comply or else compliance will not be forthcoming. Most commentators, policy makers, and tax administrators agree that voluntary compliance would be greatly facilitated by the existence of a simplified tax structure.

2.2.5   Modern Tax Technology Usage

Ethiopia improves tax collection methods to increase government revenue and decrease evasion. The current information communication technologies are now modernizing tax collections. The Ethiopia Revenue and Custom Authority (ERCA) adopted the Electronic Tax Register (ETRs) Automated system for Customers data management. The use of sales register machine in Ethiopia across the country keeps on increasing. In Ethiopia Electronics Tax Register machine has been began in Addis Ababa, in February, 2008 and its use has expanded significantly during

the past 10 years. Currently Until January, 2018 the total number of 53,241 tax payers purchase 59,876 ETRs. The tax payers who use the machine can quickly process their customer's transactions and accurately keeps records.

2.2.6   Tax Evasion and Avoidance

Tax evasion and avoidance are not only the problem of developing nations but also it is a worldwide phenomenon. But the problem is especially critical in transition and developing economies, since they do not have an appropriate infrastructure in place to collect taxes. Tax avoidance is the legal arrangement of the taxpayer's affairs in order to minimize the tax liability. Whereas, tax evasion is an illegal acts. Sometimes, however, the borderline between avoidance and evasion can become blurred, a fact that is evidenced by the huge body of ant avoidance legislation and the development of case law in this area (Nightingale 2003).

2.2.7   Awareness creation training of Taxpayers

Economy activator in value added tax system has a two-side role: it has the role of actor in tax affairs organization and the role of tax accommodation officer for consumer. Any shortage in doing the duties on timely and correctly will have terrible consequences. But from the viewpoint of the organization, due to center role of actor of value added tax system this mean to fail or breakage. Training or education is the most complementary part of the value added tax operation. Modern nature, short term courses, self-representation and majority of actors in contrast with traditional system make it urgent and necessary. In this regard in article 35 of law, the organization of country tax was responsible to prepare the necessary design for developing, equip, train and extending tax culture by media and concerns in the country level and in five year in maximum (shahriari rad and Moshtagh sefat,2009) as cited by Hammed Erfani, (2013).

2.2.8   Taxpayers identification

Those who explained argued that; most of the traders do not keep proper records of their transactions and those who keep proper records mostly default by keeping two different records to evade tax. Mostly they undervalue their turnover so that it does not qualify for VAT. Most small traders do not wish to register for VAT; because they will be forced to sale their products are at a relatively higher price and so fail to compete effectively in the market. Therefore the respondents say that, the TRA should employ effective methods in effective identification of the taxpayers as many of them do not wish to register voluntary.

2.5 Empirical Review

This section was deals with the empirical frame work supported by different researchers regarding the VAT collection problems. Accordingly, the following studied papers were selected from other countries and from Ethiopia to show the findings and the recommendations that are related to this study.

2.5.1 Studies in Ethiopia

In Ethiopia there are some studies done on regarding the VAT collection problems. Among these some of them are reviewed as follows:

Shaiku Shaihda. (2016): on the research title ―assessment of VAT collection challenges in Gondar city‖. His study addressing issues relating to assessments of VAT collection challenges in Gondar city administration revenue office. He used descriptive type research design and using quantitative and qualitative (mixed) approach. The findings of his study shows that taxpayer's lack of awareness about VAT, poor performance of penalty for noncompliance, poor tax collection enforcement, not participatory planning system, high tax evasion, ineffective VAT audit practice, absence of continues tax education program and inconvenience of the tax office location are the main constraints. Finally, the researcher recommended that effective tax collection enforcement, effective VAT audit practice, develops participatory planning system, enforce tax payers that are eligible to VAT but not registered and develop continuous tax education program for VAT payers.

Lidetu Alemu (2018): on the research title ―on identifying factors that affecting VAT revenue performance and its management Practices in Soddo, Areka, and Boditi towns in wolaita zone‖. The researcher used casual research design; the target population on his study was 1600 VAT registered organization, 200 ultimate tax payers and 100 tax officials from tax experts. The findings of the study shows that awareness of the society, tax technology, VAT evasion, tax audit and enforcement, VAT administration and politico-legal factors have statistically significant and positive relationship with the performance of VAT revenue collection. On the other hand, the variable service delivery has a positive relationship with VAT revenue collection but found to be statistically insignificant. Finally based on the findings, possible solutions were given. These include; the authority should conduct a consistent awareness creation programs to update the business community and the society at large about the concepts, rules and regulations, advantages and uses of the Value Added Tax, should increase the number of users of ETRs and improve taxpayer identification and registration, minimize VAT evasion activities, establish effective audit and enforcement mechanisms, and minimize bureaucracy.

Hailemariam Mamo(2011): on the research tittle ―implementation of value added tax and its related problems in Ethiopia :(the case of ERCA)‖ identified VAT related challenges: misunderstanding of the public in general and business community in particular regarding the VAT laws, resistance against registrations for VAT by some traders, administration inefficiency from ERCA, provisions of understated financial statements, and non-issuance of invoices or issuance of illegal invoices exercised by registered business enterprises.

Wollela Abode (2016): on the research tittle ―value added tax withholding in Ethiopia: implications for revenue performance and refund‖. This study assesses the trend in the revenue performance of VAT, taxes in general, and the introduction of VAT withholding scheme.

Identified the following problems related to VAT administration, taxpayer's identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing. In addition tax awareness gap and lack of trust between taxpayers and administrators due to under staffing of the tax authority. Therefore, from the above studies, even if, VAT collection performance increase from year to year and VAT plays an important role for government revenue. Then from the perspective of the researcher, when it compares from collection of VAT to TTR ratio is insignificant and the collection of VAT generally in Ethiopia and particularly in Siltie zone is not collected as their potential.

2.5.2 Similar Study in Other Countries

Asirifwa Diana Adisa (2011): on the research title ―The Determinants of Value added tax revenue in Kenya‚‚.His study evaluates VAT revenue productivity for the period 1995/96 to 2009/10. The analysis showed that the determinants of VAT revenue have a significant effect on the responsiveness of VAT revenue. This implies that the growth in VAT revenue during the period of study was accounted for by changes in its determinants. His study also finds that multiple rates, higher range between highest and lowest non-zero VAT rates, and the longer the VAT has been in operation (age of the VAT) are associated with higher revenues. His study provides for decision makers with an analytical framework which can be used to estimate the associated revenues for a VAT in Kenya and guidance to policymakers in countries planning to introduce a VAT. It identifies the determinants of VAT revenues which properly understood, documented, and captured in relevant tax revenue models, would make it possible to estimate accurately VAT revenues within a specified period of time.

Gerald Masalu (2013): on the research title ‗assessment of the factors affecting the revenue performance of value added tax in Tanzania‚‚. A case study design was adopted. The researcher uses multiple regression method using the SPSS software was used to analyze the data. He found that several structural factors like manpower, taxpayer identification, taxpayer sensitization, taxpayer assessment and corruption and embezzlements are significant and strong affect VAT collection performance. His findings revealed that; the means of fighting corruption and embezzlements affect the revenue performance of VAT positively, the perpetuation of VAT exemptions affect the revenue performance of VAT negatively as the government forgoes a lot of funds through these exemptions. Among the institutional factors, he found corruption has a significantly negative effect on revenue performance. Political and economic stability are other effective factors, but only across certain specifications.

2.6 Research Gap

Generally, international studies attempt to identify the factors affecting VAT collection performance for developed and developing countries by using primary and secondary source of data while in Ethiopia there are some studies available to find the factors affecting VAT collection performance however, those researchers used different variable to their study and the

results are conflicting and need further investigation to identify factors affecting VAT collection performance. In Siltie zone Revenues Authority (SZRA) Branch Office there is no conducted studies on factors that affect VAT revenue. So the researcher has seen this knowledge gap and proposes to conduct this research. The researcher believes that this study fills some gaps in the area of VAT revenue factors not tested in the above study for the coming researchers and current policy recommendations in addition to fill the literature and addresses the issue in depth by considering relevant to archive full potentiality on VAT revenue performance and follow ups as well as conduct awareness on the alternative recommendations can be made to improve the performance of VAT revenue. The researcher also feeling that no study has been carried out on the factors (Organizational strength of tax authority, education status of VAT payers, corruption and embezzlement) affecting VAT revenue in Ethiopia, as this may not be the only factors affecting VAT revenue. Therefore a research gap exists that need to be filled by doing a thorough survey on the factors affecting VAT collection revenue in SZRA

2.7 Conceptual Framework

Conceptual framework of VAT collection performance
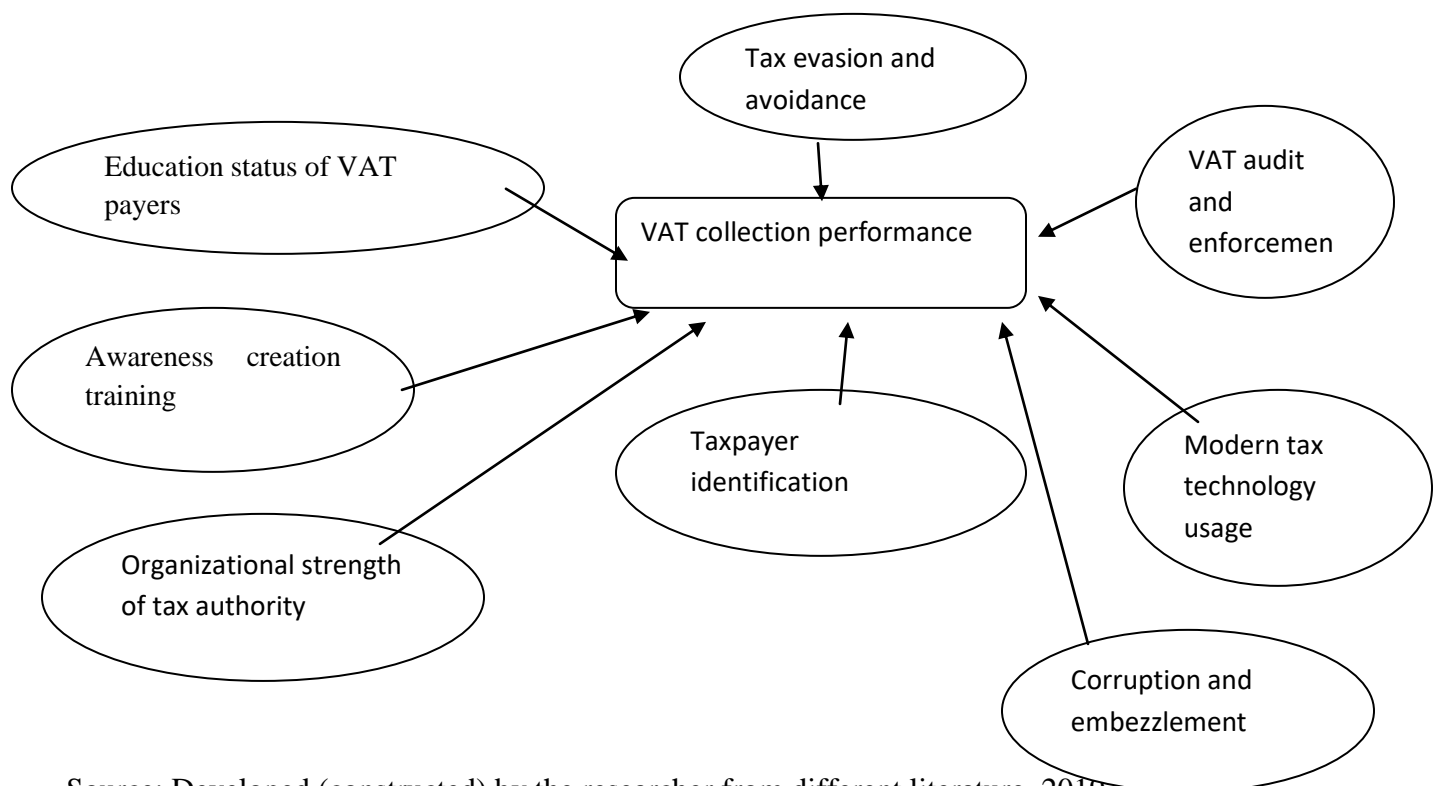
Source: Developed (constructed) by the researcher from different literature, 2019

3. Result and Discussion

Multiple Regression Results In this study, multiple regression analysis was carried out to get the predictive value of the constructs considered. Since the model is developed in such a way that each construct is being affected by other constructs, it is necessary to carry out a separate regression analysis against each variable which are considered to be affected by other variables. This was basically made to determine the linear combination of the hypotheses. This part discuss about the regression of VAT collection performance (VACP) on the independent variables corruption and embezzlement (CE), effective VAT audit and enforcement practice (EAEP), education status (ES), organizational strength of tax authority (OSTA), modern tax technology usage (MTTU), tax evasion and avoidance (TEA), training (TR) and tax identification (TI) by the following regression tables. Table 4.19 multiple regression result

Independent Variables	Coefficients	Std. Err.	T-Statistic	Prob.
CE	- . 07770252	0.64037		
EAEP	.20668742**	.0711644		
ES	.37424431***	.0249183		
MTTU	.38844972***	.0757194		
TEA	-.20879347**	.0488539		
TR	.03497309***	.0718455		
OSTR	.57156779***	.010264		
TI	.01894082	.0161345		
CONSTANT	.86425098***	.2075104		

Number of observation = 212 F(8, 203) = 248.07 Prob > F = 0.0000***

Adj R-squared = 0.8840 R-squared = 0.8880

Note: Symbols ***, ** and * indicates significant at 1%, 5% and 10% levels, respectively a. Predictors: (Constant), CE, EAEP, ES, OSTA, MTTU, TEA, TR and TI b. Dependent Variable: VATCP Source: Survey data, 2019 SPSS output

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From table 4.19 above, it can be seen that the multiple regression (correlation) /R/ value of 0.942(94.2%) indicates a positive relationship between the dependent and independent variables and R Square value for the model showed that 88.8% of the dependent variable in the model can be predicted by the independent variables. The remaining 11.2% of the dependent variable is explained by other variables which are not depicted in the model.

The previous study is also reviewed corruption and embezzlement is significant (Gerald M., 2013). Thus, the model for predicting perceived VAT collection performance becomes:

VATCP=0.864-0.078CE+0.207EAEP+0.374ES+.035OSTA+0.388MTTU-0.209TEA+0.035TR+0.019TI, the β-values (beta coefficient) tell us about the relationship between the outcome and each predictor. If the value is positive we can tell that there is a positive (direct) relationship between the predictor and the outcome, whereas a negative coefficient represents a negative (an inverse) relationship. For these data all predictors, except corruption and embezzlement, and tax evasion and avoidance have positive β –values indicating positive (direct) relationships. So, there is a positive (direct) relationship between the predictors (effective audit and enforcement, education status, organizational strength of authority, modern tax technology usage, training and taxpayers identification and an outcome (VAT collection performance) since the value of beta coefficient is positive. Therefore, Cash Registration machine and Standard Integrated Government Tax Administration System (SIGTAS) of SiltieZone Revenues Authority (SZRA) as modern tax technology usage (MTTU) is good and helps to VAT collection process, VAT collection performance is also improved. Similarly, the VAT payers'education level, organizational strength of tax authority and awareness creation training is high with significantly predicts the dependent variable (VAT collection performance, (F=10.548; p <0.001)).

4.11. Hypothesis Testing

4.11.1 Corruption and Embezzlement

Ho1: There is a negative and statistically significant impact of Corruption and embezzlement on VAT Collection performance.

In the test statistics in table 4.19 shows that VAT collection performance is negatively and insignificantly influenced by the variable of corruption and embezzlement. The variable CE (corruption and embezzlement) implies holding other things constant a 1% increase in corruption and embezzlement results in a decrease the percentage change of VAT collection performance by 0.0777 and statistically insignificant. There is a higher corruption and embezzlement leads to a low level of VAT collection revenue. The researcher therefore concludes that the first hypothesis which states that there is negative and significant relationship between corruption and embezzlement and VAT collection revenue from 2013/14 to 2017/18 is rejected due to non significance and the alternative hypothesis that there is a negative and significant relationship between corruption and embezzlement and VAT collection revenue for the study period was accept. The result is opposed with priori expectations and the findings of Gerald M., (2013).

4.11.2 Effective VAT Audit and Enforcement Practice

Ho2: There is a negative and statistical significant impact of effective VAT audit and enforcement practice on VAT collection performance. Effective VAT audit and enforcement

practice has a positive and statistically significant impact on VAT Collection performance. The sign of the coefficient is as expected and does have an impact on VAT Collection performance. Therefore, the researchers concludes that the research hypothesis which states that there is a negative and significant impact of Effective VAT audit and enforcement practice on VAT collection performance from 2013/14 to 2017/18 is hereby reject and the alternative hypothesis that there is a positive and statistically significant impact of effective VAT audit and enforcement practice on VAT revenue for the study period was accept. This result supports prior expected sign of the coefficient as found by Lidetu Alemu (2018); Wollela A. (2008).

4.11.3. Education status of VAT payers

Ho3: There is a negative and statistically significant impact of Education status of VAT payers on VAT Collection Performance. Education status of VAT payers has positive and significant effect on VAT collection revenue, in the study period. The ES (Education status of VAT payers measured by the formal grade completed) implies holding other things constant a 1% increase in the school completed results in an increase the percentage change of VAT collection performance by 0.3742 percent and the relationship is statistically significant at 1% significance level. The survey results revealed that, if a VAT payer gets education increased by one year of schooling, the percentage change of VAT collection performance increases by 0.3742 percent and statistically significant at 1% significance level. This indicates that attending formal education improves the VAT collection performance and the share of VAT revenue to TTR. Therefore, the researcher concludes that the null hypothesis which states that there is a negative and significant relationship between Education status of VAT payers and VAT collection performance from 2013/14 to 2017/18 is hereby rejected and the alternative hypothesis that there is a positive and statistical significant impact of Education status of VAT payers on VAT collection performance for the study period was accept. The result of this study is congruent with the findings of Gerald, M. (2013).

4.11.4 Organizational strength of tax authority

Ho4: There is a negative and statistically significant impact of organizational strength of tax authority on VAT Collection revenue. Organizational strength of tax authority (OSTA) has a positive and statistically significant impact on VAT collection revenue performance. A positive sign is expected for this study as predicted in theory that organizational strength of tax authority are producing items that are easier to tax meanwhile, business owners typically keep better and organized records of their activities which contribute to positive VAT revenue as found in prior studies by Desta k., (2010). Therefore, the researchers concludes that the research hypothesis which states that there is a negative and statistically significant impact of organizational strength of tax authority on VAT collection performance from 2013/14 to 2017/18 is hereby reject and the alternative hypothesis that there is a positive and statistically significant impact of organizational strength of tax authority on VAT collection performance for the study period was accept.

4.11.5 Modern Tax Technology Usage

 Ho5: There is a negative and statistically significant impact of Modern tax technology usage on VAT Collection performance. The regression model shows that VAT revenue is positively and significantly affected by modern tax technology usage. The MTTU (modern tax technology usage) implies holding other things constant a number of modern tax technology user increased by1% the results is the percentage change of VAT collection performance increase by 0.3885 percent and statistically significant at 1% significance level. The researcher therefore, concludes that the research hypothesis which states that there is a negative and statistically significant impact of modern tax technology usage on VAT revenue from 2013/14 to 2017/18 is hereby rejected and the alternative hypothesis that there is a positive and significant impact of modern tax technology usage on VAT revenue for the study period was accept. The result of this study is congruent with the findings of Lidetu Alemu (2018) and Shaiku, S. (2016).

4.11.6 Tax Evasion and Avoidance

 Ho6: There is a negative and statistically significant impact of tax evasion and avoidance on VAT Collection performance.

The TEA (Tax evasion and avoidance) has a negative and statistically significant impact on VAT collection performance. The sign of the coefficient is as expected does have an impact on VAT collection revenue. The negative impact of tax evasion and avoidance is reasonable since the percentage change of VAT collection performance in Siltie zone has decreased dramatically in recent time while the share of VAT revenue in the zonal TTR has decreased as indicated in the descriptive analysis (See Figure 4.7). Therefore, the researchers concludes that the null hypothesis which states that there is a negative and significant impact of tax evasion and avoidance on VAT revenue from 2013/14 to 2017/18 is hereby accept and the alternative hypothesis that there is a positive and statistically significant impact of tax evasion and avoidance on VAT revenue for the study period was rejected. This result supports prior expected sign of the coefficient as found by Lidetu A. (2018) and Shaiku.S. (2016).

4.11.7 Awareness Creation Training of VAT Payers

 Ho7: There is a negative and statistically significant impact of training of tax payers on VAT Collection performance. Awareness creation training of VAT payers has positive and significant effect on VAT payers, in the study period. The TR (awareness creation training of tax payers measured by the amount of round) implies holding other things constant a 1% increase in the training of VAT payers the results in an increase in the percentage change of VAT collection performance increased by 0.0350 percent and the relationship is statistically significant at 5% significance level. Therefore, the researcher concludes that the research hypothesis which states that there is a negative and significant impact of training of VAT payers on VAT revenue from 2013/14 to 2017/18 is hereby rejected and the alternative hypothesis that there is a positive and

significant relationship between training of tax payers and VAT revenue for the study period was accept. The result of this study is congruent with the findings of Lidetu A. (2018).

4.11.8 Taxpayer Identification

Ho8: There is a negative and statistically significant impact of taxpayer identification on VAT Collection performance.

The TI has a positive but statistically insignificant relationship with VAT revenue. Therefore, the researcher concludes that the alternative hypothesis which states that there is a positive and significant relationship between training of tax payers and VAT revenue from 2013/14 to 2017/18 is rejected due to non significance and the alternative hypothesis that there is a positive and statistically significant impact of training of tax payers on VAT revenue for the study period was accept. The result of this study is congruent with the findings of Wollela A., (2008) and Gerald M., (2013).

4.5.2 VAT collection performance trends

VAT is increasingly being used throughout the world, including many African countries to raise government revenue with less administrative and economic costs than other broadly based taxes. It is believed to be a good means to raise government revenue even when relatively poorly administered. Ebrill and keen (2001) also strength the above idea empirically. They found that in the countries that have adopted VAT, revenue from this source accounted on average 27percent of total tax revenue or 5 percent of the GDP.

Desalegn M. (2014), during 2003 up to 2012in Ethiopia, the growth rate of VAT was 66.27 percent on average. With this point of view, the survey of secondary data of VAT collection trends in Siltie zone revenue office was shown in the following table.

Table 4.13Trends of VAT Collection Performance

Years	VAT collection in Million Birr	Growth Rate
2013/14	7,531,376.00	–
2014/15	20,840,951.00	63.86%
2015/16	51,640,599.86	42.21%
2016/17	63,125,985.22	18.19%
2017/18	66,017,529.00	4.38%
Average growth rate		25.73%

 Source: the revenue office annual report (2013/14-2017/18)

From table 4.13 above, VAT collection performance in million Birr in Siltie zone revenue authority office in the years 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 was 7,531,376.00,29,840,951.00,51,640,599.86, 63,125,985.22 and 66,017,529.00 respectively. This implies that, the amount of VAT collection performance was increasing at a decreasing rate for

the last five years and the average growth rate of VAT revenue was 25.73%. Even if the average growth rate of VAT revenue was 25.73% the growth rate of VAT collection was decrease from year to year. As shown from table 4.13 it was decreased from 63.86% in 2013/14 to 4.38% in 2017/18.

According to this data, the researcher obtained information from tax collection and assessment core business process team leader and office manager through interview, currently most of VAT payers did not issuing of VAT invoice to their customers during sale transaction. This ideas is support by VAT payer itself as presented from table 4.10, almost fifty percent of VAT payer respondents have not used cash registered machine properly. In addition, according to the interview most VAT payers have lack of awareness, there was low enforcement mechanism in the tax authority, weak performance of VAT audit in the revenue office and the habit of customers to ask VAT invoice during the sales made was minimum were the others reasons. Because of this the VAT collection growth rate was decreased from year to year in the zone.

4.5.3 Planned and actual VAT revenue collections Figure 4.13 Planned and actual VAT revenue collection for the last five years in million Birr

2013/14	2014/15	2015/16	2016/2017	2017/18
Plan	15.8	75	111.35	120.4	103
actual	7.5	29.8	51.6	63.1	66.01

Source: the revenue office annual report (2013/14-2017/18)

As indicated in figure 4.13, the revenue obtained from VAT is increasing from year to year. While, the percentage of VAT collection performance comparing with their plan was only 40.02%, 39.79%, 46.38%, 52.40% and 64.09%, for the year 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 respectively. This indicates that there was a fluctuation in VAT collection performance for each year. The only two fiscal year that was achieved above fifty percent was 2016/17 and 2017/18; rather the other fiscal year was achieved below fifty percent.

According to the information obtained from the respondents of tax collection and assessment core business process directorate director, the reason of this poor performance of VAT collection was due to a variety of hindering factors includes weak tax enforcement of the authority for non-compliant taxpayers, high tax evasion, ineffective tax audit practice in the authority. In addition to the above information, according to the information obtained from the plan and performance follow up director, the reason for the underperformance of VAT was due to the plan amount is simply falling from the south nation nationality people revenue Authority to the Siltie zone revenue office by not considering the number of VAT payers and their ability to pay tax. Additionally, the tax authority has not continuous tax education program to aware the VAT payers in VAT laws and regulations. Generally, the average percentage of VAT collection performance for the last five years comparing with the actual plan was only 49.14%.

5.2 CONCLUSIONS

Based on the discussion and analysis made in chapter four the researcher concluded its findings as follow.

- ✓ Siltie zone VAT revenue collection performance in the last five years (2006 to 2010 EC) has been less than 100% of the plans. This is proved by this study; lack of awareness creation training for VAT payers, less usage of tax technology especially less usage of cash register machines, increasing rate of different VAT evasion and avoidance activities by business firms and the consumers, less VAT audit and enforcement, there is corruption and embezzlement acts in the authority, there are a number unregistered VAT payers, and inadequate education status of VAT payers. Lastly, the weak organizational strength of tax authority also has statistically significant and positive relationship with collection performance of VAT.
- ✓ In Siltie zone, there are large numbers of potential tax payers in the market that are eligible to VAT but not registered because of weak administration of the office to enforce them for registration, some tax officials intentionally leave potential taxpayers, lack of information for the authority about unregistered taxpayers and some traders fear of VAT registration for losing their customers. Even taxpayers that are registered for VAT, many of them are not declare their VAT transactions and did not pay the collected VAT on time according to VAT laws. This is due to VAT payers are not penalized by the tax authority for not issuing VAT invoices to their customers; the tax authority was weak in tax collection enforcement strategy to improve VAT compliance, most taxpayers behavior was affected by the other taxpayer's non-compliance behavior.
- ✓ Test results for OLS assumptions are heteroscedasticity test. That the results p-value of the variables is all not greeter than 0.05 and the parameter estimates of the coefficients of the independent variables cannot be BLUE. That it indicates there is symptoms in the present of hetroscsdacity. This problem adjusted by Robust OLS analysis with heteroscedasticity consistent covariance matrix was estimated. The other important OLS test which was performed in this research was the autocorrelation test by using the Durbin–Watson test from the regression. Autocorrelation test using the Durbin-Watson statistic: logarithmic transformation can be applied the result is 1.619. The conclusion from the test shows there is the no problem of auto correlation. Another third important OLS test that was conducted in this paper was the normality assumption by Bera- Jarque (BJ) test. The result depicts the histogram is bell-shaped and the normal P-P plot distribution generally normal and the dot following the diagonal line. Fourth test which is conducted in this study is the multicolinearity test, this help to determine whether there is similarity between independent variable and to avoid double effect of independents variable from the model. Test of multicolinearity as a basis on VIF value of multicolinearity test result using SPSS. As indicated on the correlation matrix output collinearly mean value of VIF obtained between1 to 10, it can be conclude that there is no multicolinearity symptom.

✓ The explanatory power of the VAT revenue in terms of 0.884 which shows that, there is a linear relationship between VAT revenue and corruption and embezzlement, effective VAT audit and enforcement, education status of VAT payers, the organizational strength of tax authority, modern tax technology usage, tax evasion and avoidance, the awareness creation training for VAT payers and taxpayer identification with all these factors affect for 88.4% differences in total VAT revenue per year. The remaining 11.6 % could be due to other factors not included in this study.

5.3 RECOMMENDATIONS

The following recommendations are suggested to improve the VAT collection performance in Siltie zone. Then to sustain the VAT system as a good means to raise government revenue, the revenue authority office should have to take the following measures:

➢ There is a strong believes that well-informed taxpayer society can be considered as an important asset for the tax authority. Therefore, the authority should conduct a consistent awareness creation training programs to update the business community and the society at large about the concepts, rules and regulations, advantages and uses of the Value Added Tax.

➢ Modern Tax technology usage should be increased in order to collect more VAT revenue. Using ETRs reduces time and money of tax payers and also reduces VAT evasion. Siltie zone revenue authority should continuously follow up the existing business organizations and make to be registered those who did not registered organization for VAT and to use Electronic tax register machines. The process of VAT registration of the authority should be smooth and easy for taxpayers.

➢ Collecting VAT revenue is affected by different factors. One of the main influential factors is VAT evasion and avoidance in the Siltie zone. The number of VAT evasion and avoidance activities has been increased especially products by offering invoices of VAT inclusive and VAT exclusive, resistance from the business community against registration for VAT, preparations of understated financial statements and making a business transaction reports under threshold level after it has launched.

➢ Strong audit and enforcement is very important element to enhance VAT revenue collection and to reduce tax evasions and avoidance. So, the authority has to audit and enforce VAT registered organizations. The authority should have audit plan based on risk assessment. This enables the authority to focus on targeted areas in order to detect noncompliance. So the authority has to establish effective audit and enforcement mechanisms.

➢ The share of VAT revenue from total tax revenue was lower than other major taxes. Therefore, the revenue office should give much attention for these issues to maximize the revenue income from VAT.

➢ It is recommendable that, the revenue office should be maintained effective tax enforcement strategy and VAT auditing to control VAT payers that are not declare their VAT transactions and did not pay the collected VAT on time, not issuing of VAT invoice to their customers, collected the tax with illegal invoice and report personal expense as a business expense for the sake of VAT refund.

➢ The revenue office should have consistently enforce those large number of potential taxpayers in the market that are eligible for VAT but not registered and take actions for those dishonest practices of some tax officials.

Finally, In order to reduce the VAT payer's non-compliance behavior and to increase the zonal VAT collection performance, the revenue office should provide continuous tax education and training program and apply equity and fairness tax system to their tax payers on VAT laws and regulations. In addition to this, to eradicate the knowledge gap of tax officials according to VAT laws and regulations, the revenue office should give additional, manual training for tax officials in relation to VAT laws.

Recommendation for further research Finally, while this research yields a number of findings related to existing factors affecting for low VAT collections, VAT payer's compliance level and VAT payer's awareness level in accordance with VAT rules and regulations, the researcher belief the limitation discussed in chapter one provides implication for further research. In addition, researchable topics considered for further research can be the role of tax intelligence and investigation on VAT collection, the role of SIGTAS on VAT collection, and the role of tax auditing fighting corruption. in addition to this, Identifying the trend of VAT refund and revenue performance regional state remains a topic worthy of future researcher, researcher was only focused on VAT payers, and then it is recommended that, it is better to study the whole category of tax payers to show the capacity of tax collection in the zonal level.

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