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Value Added Tax Administration in Ethiopia: A Reflection of Problems

Wollela Abehodie Yesegat*

Abstract

This paper examines VAT administration in Ethiopia and identifies key problems including lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing and filing requirements. The paper suggests that in Ethiopia attempting to implement what is legislated in the main areas (such as refunds) deserves the government's due attention. The study also emphasises the need to strengthen the administration capacity in general and the tax audit program in particular. Furthermore, the paper assesses the assignment of VAT revenue to regional governments and the decentralisation of its administration as a way forward for future research.

1. INTRODUCTION

Ethiopia introduced value added tax (VAT) in the year 2003 as a replacement to sales tax. VAT is the principal source of revenue for the Ethiopian government. For instance, in the 2006–07 fiscal year, federal VAT revenue (on domestic transactions) accounted for about 41 per cent of total federal revenues from domestic sources (EFIRA 2007). Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra 2004). To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large.

This paper examines VAT administration in Ethiopia. The remainder of the paper is organised as follows. Section 2 presents a brief review of the literature on VAT

* The author is a PhD candidate in the Australian School of Taxation (Atax) at the University of New South Wales and a lecturer at the Addis Ababa University, Ethiopia. The author would like to thank Binh Tran-Nam and Margaret McKerchar for their invaluable comments and suggestions. The author would also like to thank Richard Krever, Michael Walpole, Fiona Martin and Kathryn James for their helpful comments when an earlier version of this paper was presented at the *20th Annual ATTA Conference* held in January 2008 at University of Tasmania, Hobart. Finally, the author wishes to thank an anonymous reviewer for constructive comments.

administration. Section 3 presents the methods adopted. Section 4 presents VAT administration practices in Ethiopia with respect to the main administrative tasks, administrative costs and the administrative organs (the issue of who should administer the tax). Finally, conclusions and limitations of the paper are presented in Section 5.

2. LITERATURE REVIEW

VAT administration pertains to how tax authorities discharge the responsibilities entrusted to them. According to Jantscher (1990) these responsibilities include a range of related activities such as taxpayer identification and registration, invoicing, filing and payment requirements,[1] control of filing and payments, refunds, audits and penalties.[2] Perhaps peripherally, VAT administration is also concerned with issues of who should administer the tax, what organisational setup to use and what resources are available.

There may be weaknesses in how VAT administrators perform their duties. Weaknesses in VAT administration, in turn, may adversely impact on the salient features of the tax and government's policy objectives as a whole. In this regard, Tanzi and Pellechio (1995) (cited in Mikesell (2007)) noted that poor tax administration would change the manner in which taxation affects government's policy objectives, namely economic stabilisation, resource allocation and redistribution of income. In developing countries the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. Concerning the latter, Bird and Gendron (2005) noted that developing and transitional countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. In these countries, thus, simply adopting a successful VAT's design attributes of developed countries would not make the tax successful (Bird and Gendron 2005). The design ought to consider the tax administration dimension and the socio-economic realities of the developing country in question. In discussing the importance of tax administration in general, Bird (1989 and 2004) noted that tax administration dimension ought to be placed at the centre, not periphery, of tax reform. Jantscher (1990: 179) also stated that "…in developing countries tax administration is tax policy."

Considering the significance of tax administration, many studies have been conducted in some developing and transitional countries with respect to the main VAT administration tasks. These studies include Jantscher (1990), Edmiston and Bird (2004), Bird and Gendron (2005), Grandcolas (2005) and Bird (2005). These papers assessed how VAT administrators in developing and transitional countries perform their duties and how the effective taxpayer requirements differ from the legislation. More specifically, the analyses focused on practices of different developing countries with respect to taxpayer identification, invoicing, filing and payment process, control

[1] As invoicing, filing and payment requirements are taxpayers' activities, the discussion here focuses on whether the actual procedures by tax authorities, with respect to these requirements, are in line with the VAT legislation.

[2] Bird and Gendron (2005) and Grandcolas (2005) also noted the following key VAT administration activities: registration, collection, audit and enforcement.

of filing and payments, refunds, audits and penalties. In addition, the costs of VAT administration were briefly examined in the case of Jantscher's (1990) study. The main conclusion of these studies is that VATs prevailing in developing countries were quite different from the broad based tax discussed in public finance literature and that administrative problems have a major contribution to this divergence.[3] Administrative problems, in turn, may be partly caused by administrative resources constraint.

VAT administrative costs can include costs incurred by tax authorities in performing the tasks entrusted to them. In developing countries, estimates of VAT administrative costs are scant. In fact, as a measure of efficiency some governments attempted to develop percentages of administrative costs to the revenues generated by taxes. In the case of VAT, Jantscher (1990) indicated that fragmentary data, supplemented by the impressions of administrators, suggest that administrative costs usually range between one and two per cent of the VAT revenues collected. In addition to the administrative activities and the availability of administrative resources, VAT administration deals with issues such as administrative organs (who should administer the tax) and their mode of organisation. Of particular importance for this paper is the VAT administrative organ. It suffices, however, to note that for a successful VAT the significance of appropriate institutional setup with proper human and material deployment must not be underestimated.

In respect of the VAT administrative organs, as Martinez-Vazquez and Timofeev (2005) noted the assignment of responsibilities ought to be seen as an element that must interact and be compatible with the rest of the design of a decentralised financial system. The decision (who should administer VAT) should be made within the framework of the overall fiscal system, particularly the assignment of VAT. In this context, examination of the theory of fiscal federalism shows the guidelines for the assignment of functions and fiscal instruments to different levels of government. According to this theory, the central government should have the basic responsibility for macroeconomic stabilisation, income redistribution and resource allocation (Musgrave 1959 and Oates 1972 cited in Oates 1999). In view of this conventional theory and the practical difficulties of implementing the tax, sub-national VATs were considered to be unfeasible. In this regard, Bird and Gendron (1998) quoted that the usual understanding was not to assign the VAT to sub-national governments (McLure 1993) and that the simplest practical way to run a federal state sales tax system including VAT was to adopt a revenue sharing scheme similar to the federal republic of Germany (Tait 1988). As a result, in most countries that have already introduced VAT, the tax has been assigned to central (federal) governments.

However, against the above supposition that sub-national VATs are unworkable, recently, tax experts including Bird and Gendron (1998), Bird (2001), McLure (2000), and Keen and Smith (1996 and 1999) argued that sub-national VATs are feasible. Their arguments used the Canadian dual VATs and the VATs in the European Union

[3] Gray (1987) noted that in developing countries there is a big gap between what the tax system appears to be on the surface and what it is in reality (cited in Bird 1989). Typically in low income countries there is usually a gap between the effective tax system and what is legislated in the relevant tax law (IMF 1989).

member states as evidence.[4] They suggested different structures of sub-national VATs including dual and compensating VATs, which require a good administration[5] and information exchange among tax authorities. More specifically, Bird (2001) suggested that compensating VAT would be fairly feasible and potentially attractive in developing countries – at least in large countries in which states have major expenditure roles, the VAT is the major source of actual and potential revenue, and tax administration is not up to developed countries' standards. In general, however, according to Bird and Gendron (2005) in the context of developing and transitional countries a centralised VAT with some of the revenues shared with regional governments on a formula basis is the best approach to finance regional governments.

Following the assignment of VAT revenue, the question would be who should administer VAT? On this issue there are different possibilities, the extreme ones being central government only (centralised) or regional governments only (fully decentralised). Between these two extremes there may be different arrangements. There are arguments, at least conceptually, on the advantages and disadvantages of centralised and decentralised tax administration in terms of economies of scale and cost efficiency.Mikesell (2007) noted that innovation of new approaches and techniques are cited as advantages of decentralised administration while economies of scale and expertise are for a centralised administration. Martinez-Vazquez and Timofeev (2005) also indicated that the final decision may depend on how the objectives of the tax administration and the constraints involved are weighted and also on the nature of the trade-off among them.

In general, it can be concluded that although there have been studies on VAT administration in some developing countries, in Ethiopia there are no comprehensive studies that examine the administrative practices.[6] It is, hence, not known whether the administration of VAT in Ethiopia is as per the legislation, and which features of VAT are being affected due to administrative weaknesses. Furthermore, in Ethiopia, administrative practices that are compromising the VAT's operation are not known. In this context, the objectives of this paper are to examine the administration of VAT in Ethiopia and identify the main administrative problems that deserve the government's due attention, and briefly examine the decentralisation of VAT revenue and administration as a way forward for future research.

3. RESEARCH METHODS ADOPTED

To examine the VAT administration practices in Ethiopia and identify the main problems, data obtained through in-depth interviews with tax officials and surveys were used. Specifically, in-depth interviews were held with seven tax officials at different times. Three of the tax officials were interviewed at the same time while the remaining four were interviewed independently and with no interaction among each other.

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[4] Canada has demonstrated that with a good tax administration it is possible to operate sub-national VATs on a destination basis, at least for large regional governments (Bird 2001).

[5] Not all conceptually attractive assignments can be realised in practice for administrative reasons (McLure 2001).

[6] Teffera (2004) attempted to examine the implementation of VAT in Ethiopia using information obtained solely from the tax authority.

Surveys of taxpayers and tax practitioners (mainly accountants in the private practice) on VAT compliance costs in Ethiopia were conducted from mid November 2006 to July 6, 2007. These surveys were conducted using semi-structured questionnaires designed to elicit both quantitative and qualitative data on compliance costs and problems in the VAT system. Both surveys were conducted using face-to-face interview method.

The sample size for the taxpayer and tax practitioner surveys was 269 taxpayers and 33 tax practitioners. With respect to the taxpayer survey, because of problems (including difficulty of locating potential respondents and lack of cooperation and willingness from them) interviews were conducted with only 193 VAT registered businesses (71.8 per cent response rate). Compared to other compliance costs studies and considering the difficulty of collecting data in poor developing countries such as Ethiopia, a 71.8 per cent response rate was reasonably good.[7] In the case of the tax practitioner survey, face-to-face interviews were conducted with 29 tax practitioners (87.9 response rate).

For the purpose of this paper, the analyses are restricted to survey questions designed to obtain information about the problems in the VAT system. In particular, the paper examines the responses to the taxpayer survey question 'What aspects of the legislation and administrative procedures are problematic for you to comply with the VAT system?' Similarly, the question examined here from the tax practitioner survey is 'Do you have any comments on the VAT system in Ethiopia?' The responses of taxpayer and tax practitioner survey respondents to these questions are summarised and contained in Appendices 1 and 2 respectively.[8]

4. VAT ADMINISTRATIVE PRACTICES

Before turning to the discussion of the tax administration tasks, it is sensible to briefly review the major design features and administrative organs of VAT in Ethiopia. In terms of design VAT is imposed on the supply of goods and services other than exempted supplies (such as bread and milk). VAT is based on the invoice credit method in which taxpayers are given credit for the VAT paid on inputs when it is supported by the relevant documents. The tax is also based on the destination principle in that imports are taxed but not exports. VAT is chargeable at a standard rate of 15 per cent on all taxable supplies of goods and services other than those zero rated (mainly exports). VAT registration[9] is required by businesses that have annual turnover of Ethiopian Birr (ETB) 500,000[10] and more. The VAT legislation allows refunds to be made to mainly exporters within two months from the time applications

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[7] Although studies into the compliance costs of VAT in developing countries appear to be scant, face-to-face interviews into the compliance costs of taxes in both developed and developing countries revealed response rates in the range between 38 per cent and 100 per cent. However, the 100 per cent response rates obtained in empirical studies were typically not based on randomly selected survey respondents (see, for example, Plamondon (1993)).

[8] The results are based on the total number of respondents in the respective surveys for each response. Further, the discussions focused on the six (taxpayer survey) and seven (tax practitioner survey) most frequently reported responses to the relevant question.

[9] In addition to the annual turnover level as a basis for registration of taxpayers, Ethiopia uses sector specific registration schemes as reviewed later.

[10] US$1=ETB9.09 (as of October 30, 2007); annual registration threshold is thus about US$ 55,005.

are lodged. Non-exporting taxpayers are required to carry forward excess credits to the next five accounting periods; if there are still unused excess credits it is allowed (at least in the legislation) to be refunded within two months from the time of lodging applications.

VAT is administered by the EFIRA, ECA[11] and the Regional Government's Finance Bureaux [12]. The ECA administers VAT on imports into the country. The EFIRA with its VAT department, large taxpayers' office and branch offices (Addis Ababa branch and regional branch offices) administers federal and joint VAT on domestic transactions, while regional governments' finance bureaus administer their own VAT revenues.

With this overview of the design and administration of VAT in Ethiopia the following sections present how the tax authorities perform their responsibilities with respect to the major VAT administration tasks, including taxpayer identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refunds.

Taxpayer identification and registration

As mentioned previously, the VAT legislation requires businesses undertaking taxable activities in Ethiopia with an annual turnover of ETB 500,000 and more to register for VAT. After the VAT was operational with such a registration requirement, the authority devised forced–registration schemes. These schemes include selective registration requirements that compel all businesses engaged in a specific sector/form of ownership to register for VAT regardless of the level their annual turnover.[13]

In Ethiopia, where the awareness of taxpayers, the culture of paying taxes[14] and the capacity of tax administrators appear to be poor, using sector or ownership specific registration requirements is sensible. However, caution should be exercised in selecting the sectors that should be covered by the VAT. The decision ought to be based on a careful examination of sectors' nature, volume of operations and the level of keeping records.[15] Limiting the number of sectors to be covered by VAT under such a requirement at a manageable level is advisable.

In addition to the sector specific (selected) registration requirement, to encourage VAT registration, government institutions are obliged to transact with VAT registered

[11] The EFIRA and ECA have merged since the year 2008 (Yeneakal 2008).
[12] Ethiopia is a federal country with two self administering cities (Addis Ababa and Dire Dawa cities) and nine regional governments (Amhara, Afar, Oromia, Tigray, Benishangul, Gambella, Somali, Southern Nations, Nationalities and People, and Harari regional governments).
[13] According to this scheme, such businesses as importers, plastic and plastic products factories, computer and computer accessories suppliers, goldsmiths, electronic appliances suppliers, and private limited companies are required to register for VAT.
[14] In discussing the conditions for the choice of an appropriate organisational structure of tax administrations, Vehorn and Brondolo (1999) indicated that the conditions including a taxpaying population that is for the most part inclined to comply with the tax laws if the laws are explained clearly to them do not exist in developing countries.
[15] Examination of the nature and volume of operations of businesses engaged in a particular sector is desirable in order to determine whether those businesses are capable of having turnover up to the threshold level.

businesses for transactions valued ETB 100,000 and above. In general, according to discussion with tax officials, these schemes were designed to help the administration in bringing taxpayers (that were required to register but did not do so) into the VAT net. At March 2008, there were about 32,840 taxpayers registered for VAT (EFIRA 2008).

Examination of survey responses revealed several problems related to taxpayers registration. For example, 13 per cent of (taxpayer survey) and 62 per cent of (tax practitioner survey) respondents indicated the prevalence of VAT unregistered businesses and urged the government's due attention. The dominance of VAT unregistered businesses, according to survey respondents, resulted in uneven market competition and a loss of market share and profitability by registered businesses. Survey respondents identified weaknesses in the tax administration and exclusion of businesses with annual turnover less than ETB 500,000 as the major causes of the prevailing competition problem.

VAT filing and payment

VAT filing practices differ among countries. As Jantscher (1990) noted, in some developing countries[16] taxpayers effect provisional payments monthly and file returns annually; while most developing countries require monthly filing and payment of VAT and do not require taxpayers to furnish a yearly return. In the case of Ethiopia, taxpayers are required to file VAT returns accompanied by the appropriate payments on monthly basis and there is no year-end reconciliation requirement. Further, the VAT legislation allows taxpayers a 30-day period within which to file returns and make payments. Nevertheless, in practice, according to the outcomes of interviews with tax officials, there are three VAT reporting periods depending on whether a taxpayer is a nil, credit or payment filer.[17] The reporting time from the end of the accounting period is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers. According to tax officials, taxpayers that fail to meet the reduced deadlines would not be fined as long as they report within 30 days from the end of the accounting period. However, such taxpayers would be given verbal warning that if they do not keep the reduced reporting periods, penalty would be applied.

Concerning the reporting periods, 15.5 per cent of taxpayer survey respondents indicated that the reporting period, especially the 20-day period for credit filers, is very short. This is a problem especially for taxpayers conducting business at several locations since gathering documents from different offices takes time. Further, according to survey respondents, the shortness of the reporting period puts substantial pressure on employees and disrupts the normal operation of businesses.

The other aspect worth assessing is the return filing process. Return filing could be done by going to the premises of the tax authority in person, through the post office or electronically. In Ethiopia, taxpayers file VAT returns by going to the tax office in

[16] Countries including Argentina, Mexico and Peru.

[17] Nil refers to no activity, while credit and payment refer to situations where input VAT exceeds output VAT, and output VAT exceeds input VAT respectively.

person. This is a problem for taxpayers[18] that reside in remote areas (where the EFIRA does not have branch offices) and are forced to go to the capital city, Addis Ababa, or nearby cities where the tax authority has a branch office. In addition, in terms of the method of payment, in Ethiopia taxpayers with VAT liability greater than ETB 1,000 may be required to effect payments with bank certified payment orders (CPOs). The use of CPOs is, in fact, to mitigate the problem of insufficient fund balance that might arise from accepting taxpayers' cheques. Nevertheless, such a practice imposes a cost on taxpayers in the form of out of pocket payment (CPO preparation fees charged by banks) and time costs.

Generally, the above mentioned practices pertaining to reduced VAT reporting periods,[19] the method of effecting payments and the return filing process are likely to be translated into increasing taxpayers' compliance costs, especially on small businesses.[20] It is therefore worthwhile to strengthen the administration capacity of the tax authorities and reduce the burden on taxpayers (because this may, in turn, have an impact on their compliance decisions).

Control of filing and payment

In administering VAT in Ethiopia tax authorities use computer programs, namely: Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCUDA). The computer programs are used to maintain taxpayer register and process VAT returns. Detection of non-filers seems to be carried out mainly manually. As the outcomes of the in-depth interviews with tax officials showed, the tax authority tries to identify non-filers in collaboration with the Ministry of Trade and Industry. In Ethiopia every trader is required to renew business license annually with the pertinent offices under the Ministry of Trade and Industry or regional governments. To renew business licenses, traders are required to produce evidence from tax authorities that all taxes have been paid. The tax authorities on their part, before providing the evidence to taxpayers, check if there are delinquent taxes (including VAT).

In addition, tax authorities endeavour to follow-up non-filers identified by the computer programs. However, because of shortage of manpower, such follow-ups are usually carried out once in a 3 to 6 month period. The above practices pertaining to controlling VAT filing and payment delay the collection of the tax and jeopardise the government's revenue.[21] It is, hence, suggested that to ameliorate the potential impact of non-filers on the revenue performance of the tax, strengthening the administration capacity of the tax authorities, and effectively using the computer programs coupled with timely follow-up of non-filing taxpayers are worthwhile to consider.

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[18] This includes Federal or joint taxpayers who file their returns with the EFIRA including its branch offices.

[19] The segregation of the reporting period is likely to impose psychological burden on taxpayers in addition to out of pocket and time costs. The psychological burden may be due to the verbal warnings of tax administrators on late filers. Psychological burden may also arise because of the pressure on employees that the shortness of the 20 day period causes.

[20] For discussion on compliance costs and their regressivity see Sandford (1995), Evans et al. (1997) and Evans (2003).

[21] Jantscher (1990) noted that most developing countries detect non-filers manually after a long delay putting the collection of the delinquent tax at risk.

VAT invoicing

Jantscher (1990) noted that unlike developed countries most developing countries require some form of invoicing for all transactions subject to VAT including sales to final consumers. n Ethiopia, the VAT legislation states mainly two things. Firstly, the waiver of traders that have transactions with total consideration not exceeding ETB 10 from the requirement to issue invoices and secondly, simplification of the VAT invoice.[22] To facilitate the implementation of these provisions, the VAT legislation empowered the Ministry of Revenue to issue the relevant directives. However, as the interviews with tax officials showed, until June 2007 the pertinent directives had not been issued. Consequently, all registered traders (including those who have transactions with total consideration not exceeding ETB 10) were effectively required to issue the standard VAT invoice.[23]

Examination of survey responses in this regard showed that about 10.4 per cent of taxpayer survey respondents raise several problems. These problems include the difficulty of getting invoices on purchases and details of customers for the preparation of sales invoices, the problem of supplying without invoices (by giving the option of buying with or without invoices to customers) and using duplicated invoices. The optional issuance of VAT invoices in some sectors reveals that invoices are being used as a negotiation tool[24] between customers and VAT registered businesses. That is, full VAT is chargeable if a customer needs invoices. Such a practice can jeopardise the use of invoices as a revenue safeguarding tool. In addition, 20.7 per cent of tax practitioner survey respondents indicated the lack of consistency in using invoices and also emphasised the need to design a strategy that can encourage customers, including government institutions, to ask for VAT invoices.

As a whole, there appear to be various factors contributing to the invoicing problems mentioned above. These factors include lack of tax administrators' follow-up and control, lack of awareness among the society and the prevalence of poverty.[25] To mitigate these problems, enhancing tax education and follow–up programs are worthwhile to consider. Further, as the tax practitioner survey respondents suggested, designing a strategy that can encourage consumers to ask for VAT invoices could be helpful although this is likely to increase the administrative costs of the tax.

VAT audit

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

[22] Simplification of the VAT invoice pertains to the format and the amount of information to be contained in the invoice.
[23] Until June 2007, there was no simplified VAT invoice in Ethiopia.
[24] Jantscher (1990) noted that the use of invoices as a strategy in fighting VAT evasion is likely to be jeopardised by, among others, the attitude of consumers. Further, Jantscher showed the use of invoices in a Latin American country as a bargaining tool.
[25] In the fiscal year 2005–06, 38.7 per cent of the population was below the poverty line (CIA 2007).

purchases and sales data by various taxpayers would provide an effective tool for selecting VAT taxpayers for audit and hence improve audit results.

In respect of VAT audit in Ethiopia, the in-depth interviews with tax officials showed the selection of audit cases by the audit selection committee. The selection criteria include: credit declaration, nil VAT declaration, non-filers, unusual VAT filing patterns, and information obtained from third parties and the ECA. Cases selected based on the above criteria would be subjected to audit. In the 2004–05 fiscal year, tax authorities audited 189 taxpayers out of 17,278 registrants (1.1 per cent). Similarly, in the 2005–06 fiscal year, 347 taxpayers out of 22,215 registrants were audited (1.6 per cent).[26] These figures suggest the low audit rate which may have negative impact on the revenue potential of VAT and the level of compliance. This low audit rate is may be due to resource constraint.[27]

The resource constraint can be assessed in terms of the number of VAT administrative personnel, auditors in particular, in relation to the number of VAT registrants and also total number of employees in the tax authorities. Taking the total number of VAT administrative personnel in relation to the number of VAT registrants in the fiscal year 2004–05 showed a ratio of 1:234. Similarly, the number of auditors to total number of VAT registrants in the same fiscal year revealed a ratio of 1:786.[28] In addition, the proportion of VAT administrative personnel to the total number of employees at the EFIRA was about 10.4 per cent.

To examine whether the above ratios are sufficient, it would be worth cautiously comparing them with similar estimates in other, especially developing, countries. However, similar ratios in other developing countries appear to be unavailable. Therefore, these ratios would be scrutinised in light of features which are likely to be prevalent in developing countries, Ethiopia in particular. These features include low levels of literacy,[29] low and fragmented economy, small and inefficient VAT administration experience and poor taxpaying culture. In the context of these problems, the above estimated ratios are likely to be very small which, in turn, suggests that the tax authorities are not equipped with sufficient number of personnel.

Apart from the audit selection method and the audit rate, an equally important factor is the quality of auditors. In Ethiopia, the benefit schemes of civil servants (according to the Ethiopian Civil Service Regulations) widely differ from those of the private sector. Consequently, as the tax authorities are governed by the Ethiopian Civil Service Regulations, their employee compensation schemes are by far lower than those of the

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[26] The data was obtained from the VAT department at the EFIRA.

[27] In practice, because of mainly resource constraints, most developing countries have not implemented massive cross checking schemes in their audit programs (Jantscher 1990).

[28] During the 2004/05 fiscal year, VAT was mainly administered by the VAT department of the EFIRA. So, the computations were based on the number of VAT registrants until July 7, 2005 and the number of auditors and total VAT administrative personnel at the VAT department and regional branch offices of the EFIRA. According to the data obtained from the management information system and data processing department of the EFIRA until July 7, 2005 (the end of the fiscal year), 17,278 businesses were registered for VAT. Further, according to the EFIRA's employee's placement document for the 2004/05 and 2005/06 fiscal years, there were about 22 auditors and 74 VAT administrative personnel (including those at regional branch offices) out of the 712 employees at the EFIRA.

[29] The literacy rate for the year 2003 estimated at 42.7 per cent (CIA 2007).

private sector. Such a phenomenon is likely to impede the recruitment and retention of well trained and qualified personnel, auditors[30]in particular.

Examination of survey outcomes in this connection supports the above assertion. That is, 34.2 per cent of taxpayer survey respondents indicated that tax administrators are not qualified enough and also not capable of handling cases quickly, particularly at the time of audit. These taxpayer survey respondents further indicated that tax administrators lack confidence to make decisions and willingness to help taxpayers. The tax administrators also fail to give consistent[31] information on the same VAT issues. Similarly, 55.2 per cent of tax practitioner survey respondents emphasised the lack of well trained personnel and noted the necessity of staffing the tax authorities with qualified personnel.

In general, the quality of auditors (VAT administrators at large) that appears to be poor coupled with their relatively small number is affecting the effectiveness of the audit program. This is, in turn, likely to impact on the revenue that could be generated through effective audit programs and on the use of effective audits as tools of deterring noncompliance.[32] It is, thus, worthwhile for the government to consider the possibility of recruiting and retaining a sufficient number of qualified VAT administrators, auditors in particular. This can be achieved mainly through making revenue authorities autonomous in terms of setting better employee benefits schemes. As discussed in a later section, the autonomy has to be accompanied by the government's commitment to make sufficient resources available for the administration.

Penalties

From examination of the practices pertaining to VAT penalties, Jantscher (1990) noted that in most developing countries the stricter penalties in VAT laws are usually not applied, thus penalties have little deterrent effects. In Ethiopia, the VAT legislation proclaims that taxpayers that fail to fulfil the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment. The tax authority started enforcing the penalty provisions (including the stricter ones) of the VAT legislation to some extent.[33] For instance, although the legislation in general stipulates a penalty of 5 per cent of the amount of VAT unreported/underpaid, in practice (according to the outcomes of the in-depth interviews with tax officials) a late filing penalty of ETB 1,000 for each accounting period the tax remained un(der)-reported is imposed. In

[30] At the same time, young staff trained to be auditors would quickly leave to enjoy higher paying jobs in the private sector once they acquired the necessary accounting skills –state tax administrators have the problem of retaining personnel, especially auditors (Vehorn and Brondolo 1999).

[31] Different tax administrators give different information on the same tax issue.

[32] Considering the incapacity of the administration, the audit program in particular, taxpayers may be tempted to not comply. As Jantscher (1990) noted in developing countries taxpayers tend to register for VAT freely (to avoid taxes imposed on unregistered traders) because they know that the administration's resources are limited to check their reporting compliance.

[33] The VAT legislation promulgates taxpayers that fail to fulfil the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment.

addition, there are cases where taxpayers convicted of VAT evasion have been fined (both money and imprisonment).[34]

With respect to VAT penalty, 13.8 per cent of tax practitioner survey respondents indicated that the penalty is high. These tax practitioner survey respondents further noted that it is unfair to impose, practically, the same amount of penalty on taxpayers regardless of the amount of VAT un(der)-reported. Similarly, 4.1 per cent of taxpayer survey respondents indicated the lack of consistency in imposing penalties. Respondents of both surveys emphasised the importance of enhancing voluntary compliance and focusing on tax education instead of punishment when there are genuine mistakes.

In general, considering that VAT is still young (introduced for the first time in the year 2003) in Ethiopia, focusing on the implementation of strict penalty provisions (like imprisonment of taxpayers) instead of taxpayers' education may have negative impact[35] on the attitude of taxpayers beyond its deterrence effect. Further, the lack of consistency and transparency in administratively imposing the penalty may open a room for corruption. It is, thus, advisable to try to implement what is legislated in the law regarding penalties (on the financial penalty aspect).

VAT refund

Grandcolas (2005) and Jantscher (1990) noted that managing VAT refunds is one of the challenges of VAT administrations in developing countries. In managing refunds and combating refund frauds, different countries use schemes including denial of refund claims (except to exporters), carrying forward of refund claims, demanding a third party certification[36] of the claim, demanding guarantee, requiring taxpayers to have separate VAT bank accounts, zero rating of supplies to exporters and remission of input VAT on certain goods (mainly capital goods).[37] Some of these schemes are not only to combat refund frauds, but are also intended to reduce the strain on business cash-flows.

Looking closely at the practices concerning VAT refunds in developing countries shows that all developing countries give refunds to exporters and some require other VAT taxpayers to carry forward their excess credits indefinitely (Jantscher 1990). In Ethiopia, as shown previously, for the purpose of refunds, the VAT legislation categorises taxpayers into two groups: zero rated businesses (mainly exporters) and other (non-exporting) businesses. As the outcomes of the interviews with tax officials revealed, the tax authority makes refunds mainly to exporters in addition to employing

[34] For example, a newspaper reported that the Ethiopian Federal First Instance Court 8th Criminal Bench convicted a taxpayer of VAT evasion and passed a 10 year imprisonment and a fine of ETB 75,000 (EFIRA undated).
[35] Taxpayers may worry much (increasing the psychological costs of VAT compliance) and may hate the tax system. This in turn may exacerbate the gap between taxpayers and tax administrators, which is, according to Bird and Gendron (2005), already found to be wide in developing countries.
[36] Certification, for instance, by CPAs as is the case in Kenya.
[37] For more discussion on the various schemes that countries use in combating refund fraud and reducing refund requests see Harrison and Krelove (2005).

voucher system[38] for coffee exporters. According to interviews with tax officials the first cash refund to non-exporting businesses was made in February 2007. In addition, tax officials revealed that refund claimants in the non-exporting business category are mainly importers that claim have excess VAT credits which are not being used by carrying forward to the next five accounting periods (months). This was believed to be because at the time of import taxpayers pay VAT based on customs valuation, which is usually more than the price that taxpayers claim they sell their products. In this situation, in the opinion of the tax officials, giving refunds to taxpayers would have its own impact on the revenue position of the government. Further, the tax authority is not in a position (in terms of capacity) to administer the refund claims of these taxpayers.

In connection with customs valuation, 37.9 per cent of tax practitioner survey respondents showed that the valuations are unreasonably high. According to these survey respondents, the high customs valuation usually leads taxpayers, including genuine traders, to report excess VAT credits for a very long time. This in turn results in rejection of taxpayers' accounting records by the tax authorities and determination of taxes due[39] using the customs valuation as a basis. This practice is resulting in higher effective taxation and is also against the generally accepted accounting principles legislated to be followed in taxation in Ethiopia.

As a whole, instead of totally refusing taxpayers' refund requests, it is reasonable to re-examine the customs valuations periodically and endeavour to check selectively the sales invoices of traders with the invoices held by, at least, government institutions. In addition, strengthening the administration capacity of tax authorities and attempting to make refunds on genuine requests deserve the government's due attention.

Further, in connection with refunds, it is important assessing the practices in treating VAT on capital goods. In the Ethiopian VAT system, capital goods are treated in the same way as other merchandise items. Such a custom affects mainly taxpayers that are required to carry forward credit claims including those on capital goods to future periods. This procedure, apart from tying up investors' money for a very long time, is likely to constrain business cash-flows and impact negatively on investment. This coupled with the escalating inflationary[40] trend in Ethiopia evidences the effective taxation of capital goods against the hallmark of a consumption type VAT.[41] In light of the above, making a distinction between goods and devising a strategy by which the VAT on capital goods could be immediately refunded deserve the government's attention.

In addition to the concerns discussed thus far, about 25.4 per cent of taxpayer survey respondents noted that frequent changes in the administrative procedures, directives

[38] In Ethiopia to reduce the number of refund requests the government uses vouchers for coffee exporters. Coffee exporters can use vouchers as VAT payments to suppliers of coffee for export.

[39] As per tax practitioner survey respondents, for all taxes (both income tax and VAT) the customs valuation is used as a cost basis for the determination of selling prices and the applicable taxes.

[40] The annual average headline inflation stood at 19 per cent as of March 2008 an increase by 3.1 and 4.2 percentage points from its position at the beginning of the fiscal year and the same month a year earlier (NBE 2008).

[41] To the extent that excess credits stem from sizable purchases of capital goods, the difficulty in obtaining refunds erodes the value of the capital goods exemption that is the hallmark of the consumption-type VAT used in most developing countries (Jantscher 1990).

and personnel are impacting on the normal operations of taxpayers. About 6.7 per cent of taxpayer survey respondents also indicated that taxpayers and the society in general do not know much about the tax. These taxpayer survey respondents further noted that the tax authority has not made sufficient effort in increasing the awareness about the tax. About 34.5 per cent of tax practitioner survey respondents hence emphasised the need to strengthen the tax education program.

All the above problems pertaining to the administration of VAT in Ethiopia may be due in part to insufficient resources. It is therefore important to briefly assess the resources available for the administration of VAT in Ethiopia. In this respect, Yesegat (2008) estimated VAT administrative costs in Ethiopia in the 2005–06 fiscal year to be in the range of 0.66 to 0.8 per cent of VAT revenue. Further, Yesegat (2008) through comparative analysis with similar estimates in other countries suggested that in Ethiopia VAT administrative costs are at a low level. These low VAT administrative costs, as Jantscher (1990) contended, may not imply simplicity, but may show rather that important functions are being neglected and also may mean that the administration is concentrating exclusively on the largest taxpayers and ignoring the others. In this context the low level of VAT administrative costs in Ethiopia together with the administrative problems presented previously suggests that the tax authorities are not equipped with the necessary facilities (human and material). The relatively low level of VAT administrative costs appears to have contributed to the tax authorities' inability to implement the VAT legislation fully. As Bird (2005) noted the existence of a fundamental gap between the institutional requirements for a good VAT administration and the real fiscal institutions in place in a country is one of the factors contributing to the poor and unfair performance of VAT.

In general, in addition to the apparently low level of VAT administrative costs in Ethiopia, the above suggested strategies (to mitigate the caveats in the administration of VAT) boil down to the importance of accessing sufficient resources and equipping the tax administration with a sufficient number of skilled personnel and physical resources. It is hence proposed that the government ought to consider the possibility of recruiting and retaining a sufficient number of qualified VAT administrators. This can be achieved mainly through making revenue authorities autonomous in terms of setting better employee benefit schemes. The autonomy in the tax administration needs to be accompanied by access to resources for the availability of sufficient resources is fundamental in strengthening the administration of VAT in the country. Of course, increasing the resources by itself would not create effective VAT administration overnight. As Bird (2005) emphasised enhancing tax administration takes time. However, this does not mean that tax authorities should be devoid of the required resources. Tax authorities need both adequate resources and sufficient political support to enable them to do their essential jobs (Bird 2005). The additional VAT administrative costs may be financed with revenues that could be generated through enhanced administration. Enhanced tax administration which is partly possible through equipping the administration with the necessary facilities is likely to generate more revenue in a fairer manner.

In addition to the administrative tasks and the availability of resources, VAT administration is concerned with the issue of who should administer the tax. In Ethiopia, the VAT legislation entrusts the responsibility of administering VAT to the federal government. Accordingly, until September 2004, VAT was being administered by the federal government's revenue organs (the EFIRA and ECA). However, since September 2004, the EFIRA has delegated[42] to regional governments the administration of VAT for sole traders residing in their respective jurisdictions revealing the trend in decentralising the VAT administration. As indicated in the literature review, it is crucial to assess the decentralisation of VAT administration within the framework of the whole fiscal system. Consequently, before proceeding to the decentralisation of the administration, the following discussion briefly examines the assignment of VAT revenues in Ethiopia.

Proclamation No. 33/1992 and the Constitution of the Federal Democratic Republic of Ethiopia identify revenues belonging to the federal and regional governments and those jointly shared by both. In addition, on the assignment of revenues, Article 99 of the Constitution stipulates that the power of imposing and collecting taxes, which are not identified and given to a particular level of government to be determined by at least a two-thirds majority vote in a common meeting of the councils of federation and the representatives of peoples and nationalities.

Of particular importance for this discussion is the assignment of sales taxes. Sales taxes from organisations owned by the federal government and regional governments are stipulated to belong to the federal government and regional governments respectively. Sales taxes on imports belong to the federal government. Sales taxes from sole traders are entirely given to regional governments whilst sales taxes from private companies are legislated to be shared between the federal and regional governments. In the case of VAT revenue, the outcomes of interviews with tax officials revealed that neither Article 99 of the Constitution was applied nor did any written document on the assignment of VAT revenue exist. Instead, the assignment of sales taxes seems to have dictated, to some extent, that of VAT. Accordingly, while VAT revenue from sole traders is for regional governments, the VAT revenue from other sources is given either entirely to the federal government or jointly shared with regional governments.[43] This reveals that in Ethiopia VAT revenue is decentralised. The decentralisation is against the approach considered to be the best, in the literature, in financing regional governments, i.e., assigning VAT to central government and adopting some revenue sharing scheme with regional governments.

The decentralisation of VAT revenue, in Ethiopia, may result in distortions[44] including a revenue gain in one jurisdiction at a loss in another. To illustrate such a problem assume two sole traders (A and B) and two regional governments (1 and 2). Sole trader "A" resides in region 1 while "B" is in region 2. Sole trader "A" supplies goods subject to VAT to "B" (who is an exporter). Sole trader "A" files VAT return with

[42] The transfer of the administration of VAT from sole traders to the regional governments is through delegation as the VAT Proclamation No. 285/2002 empowers only EFIRA and ECA for the administration of VAT.

[43] Interviews with tax officials revealed that VAT from sole traders is to regional governments, from government owned enterprises to the federal government and from private companies to be shared between the federal and regional governments.

[44] Potential distortions of decentralisation of taxes include inefficiencies involving for example impacting on the levels of revenues in other jurisdictions, export of tax burdens, as well as certain equity issues associated with a generally regressive pattern of tax incidence (Oates 1999).

region 1 and "B" files VAT return with region 2. Region 1 collects VAT from sole trader "A" on the supplies made to "B". Region 2, on the other hand, gets nothing; instead it would be paying refunds to "B" for the VAT paid in region 1. This scenario, though simplified, can demonstrate how one regional government may lose VAT revenue due to the features of VAT in Ethiopia. Such a problem seems to be caused by the assignment of VAT revenue to regional governments with almost no thorough consideration of the associated consequences and the technicalities to deal with them. In fact, the assignment of VAT to regional governments, in Ethiopia, appears to be artificial and is intended to serve the politics involved.[45] This is because the assignment does not give the full autonomy to regional governments. VAT rates and the base are determined by the federal government[46] and the VAT proclamation which is used by both the federal and regional governments is enacted by the federal government. In addition to the problems, the decentralisation of VAT is against the understanding that VAT is a federal tax. [47]

The delegation of regional governments for the administration of VAT seems to have followed the assignment of VAT revenue. Consequently, some regional governments including the Addis Ababa city administration have started administering VAT, to some extent[48] in respect of their own taxpayers. In addition to the inherent administrative difficulties of VAT, the delegation, as per the interviews with tax officials, did not clearly layout the power of regional governments. Further, the delegation of regional governments has not cautiously envisaged technical issues pertaining to such things as refunds.[49] In general, in Ethiopia where administrative resources are limited and tax administration at regional governments appear to be weak,[50] decentralisation of VAT administration has dangers in terms of revenue loss and widening the gap between the effective taxation and the stipulations of the law. In the interviews with tax officials it was emphasised that the decentralisation would be a challenge to the overall tax system.

Besides the apparent weaknesses of regional governments compared to central governments, administration of VAT by different agents has its own bearing on VAT control. To ensure control, it would be better if only one agency is responsible for collecting a tax and ensuring the validity of claims for exemption or refund especially

[45] Tax policy is always about politics more than it is simply a matter of tax design and administration (Bird 2005). Evans et al. (2007: 65) also noted that "tax is politics with a dollar sign in front."

[46] An important precondition for the exercise of sub-national fiscal autonomy is the ability to decide on tax rates (McLure 2001). Bird (2001) also noted that the best way to achieve a good sub-national tax is by allowing those governments to establish their own tax rates with respect to at least some major taxes.

[47] At the 9th VADA (Value Added Tax Administration in Africa) Forum Ethiopian delegates (2006) in Zimbabwe also emphasised that the Ethiopian VAT is a federal tax to be administered centrally.

[48] The outcomes of interviews with tax officials showed that regional governments are not fully implementing the VAT legislation; they have not started giving refunds to even exporters.

[49] As per discussion with tax officials, so far, regional governments have not made any refund to entitled taxpayers compromising the basic attribute of VAT.

[50] On the weaknesses of regional governments, Oates (1999) quoted that in underdeveloped countries the weakness of local government in relation to the central government is one of the most striking phenomena (Martin and Lewis 1956). In discussing the decentralisation of retail sales tax administration, Bird (2001) also noted that developing countries have universally found it impossible to administer such taxes even at the national level let alone at regional levels. Mikesell (2007) also noted that not all administrative tasks are efficiently carried out by small governments.

when the horizontal flow of information between different agencies is difficult (Bird 2005)**.**

In general, the decentralisation of VAT revenue and its administration in Ethiopia is likely to impact on the proper functioning of the VAT system, and achieve the government's policy objectives at large. So, considering the practical difficulties of administering VAT at regional governments' level and the distortions of VAT revenue decentralisation (revenue import among different regional governments), it is worthwhile for the government to reassess the assignment of VAT revenue and the decentralisation of its administration.

4. CONCLUSIONS AND LIMITATIONS

VAT has a significant role in the revenue system of the Ethiopian government. To sustain VAT's revenue role in the government's finance, it is crucial to ensure that the revenue generated by this tax is raised as efficiently as possible. Nevertheless, in Ethiopia revenues generated by VAT are usually garnered at the expense of a compromise in its salient features. This is usually caused by factors including weaknesses in the administration, that is, the incapacity of the administration to put the attributes of VAT in practice.

A good VAT administration is critical in fully implementing the design attributes of the tax and reducing gaps between the effective taxation and what it is purported to be in the legislation. More broadly, a good tax administration, VAT administration in this case, is important to achieve the policy objectives of a government.

In the context of the above, this paper examined how VAT administrators in Ethiopia perform their duties and how the effective taxation requirements differ from the legislation (focusing on the key administration tasks). Furthermore, the paper attempted to identify key problem areas that deserve the government's due attention. Accordingly, procedures that taxpayers and tax administrators follow were examined in the light of the provisions in the legislation and the benchmark whenever available. Furthermore, relevant data from a compliance cost survey and in-depth interviews with tax officials were examined.

The findings of the analyses suggested that in Ethiopia there is divergence between the effective VAT taxation and the legislation. The main areas where there are gaps and problems include taxpayers identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing.[51] In addition, the outcomes of the surveys showed a paucity of tax awareness among the society and strong education programs as well as lack of trust between taxpayers and administrators as major challenges to the VAT system in the country. The gaps and problems identified in the study were partly because of under staffing of the tax authority. This, in turn, is attributable to limited tax administration resources.

[51] A study conducted by the Ethiopian Economics Association stated that ever since the introduction of VAT, its irregular implementation has been a major problem for businesses (Tadesse 2007). This supports the assertions in this paper.

It is hence suggested that the government would better look at the possibility of making sufficient resources available for the administration of VAT. Of course, this would be a challenge for countries like Ethiopia where resources appear to be limited. However, considering the role of VAT administration in the overall financial system of the Ethiopian government, allocating reasonably sufficient resources is worthwhile to consider.

Moreover, this paper examined the decentralisation of VAT administration following the assignment of VAT revenue to regional governments. As discussed previously, the Ethiopian government has assigned VAT revenue to regional governments without clearly envisaging the distortions which, until recently, have impeded many developed and developing countries from decentralising the tax. Following the assignment of VAT revenue, the administration has been partly delegated to regional governments. Both the decentralisation of VAT revenue and the administration do not appear to be with thorough consideration of the distortions, the inherent administrative difficulty of the tax and weaknesses in the tax administrations, especially, at regional governments' level. In this regard, it is suggested that before the tax has further consequences in the form of revenue losses and undesirable inter-governmental relationships it is worth to reassess the decentralisation. That is, the assignment of VAT revenue and the decentralisation of its administration ought to be re-examined in light of the design features of the tax, the constitutional inter-governmental fiscal relationships, the experiences in other developing countries and the capacity of the country in implementing sub-national VATs. This issue, therefore, could be future research agenda.

This study is not without its limitations. The major limitation is that it does not fully assess all activities involved in the administration of VAT in Ethiopia. More specifically, issues such as tax intelligence and investigation, taxpayers' education and services, and organisational setup of administrators are not examined. Albeit, this is the case, it is believed that the findings of the paper would shed light on the major gaps between the effective taxation and legislation and the problems of administering VAT in Ethiopia.

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Appendix 1

Summary of responses of taxpayer survey respondents to the question "What aspects of the legislation and administrative procedures are problematic for you to comply with the VAT system?"

Summary of responses	Count	Per cent
The reporting periods of 10 days for nil filers and 20 days for credit filers are very short. The 20 day period for credit filers is problematic especially for taxpayers conducting business at several locations as it takes a lot of time until documents are collected from different branches. There is also delay in getting customs declarations. So trying to report within 20 days sometimes leaves out some credits from being reported in the appropriate period.	30	15.5
The existence of unregistered businesses is creating unfair competition in the market and making registered businesses lose their market shares and profitability. Such a problem is because of the administrative weaknesses of the tax authority and the inherent design feature of the tax which excludes traders with annual turnover less than ETB 500,000 from the net. The VAT has to cover all traders.	25	13.0
Tax administrators are not qualified enough, lack politeness and confidence to make decisions and willingness to help taxpayers. Tax administrators do not give consistent information on the same case; they tend to take very long time in handling cases, especially at the time of audit. It is sometimes difficult for taxpayers to know well in advance what the administrators need in addition to the tax return, which obliges taxpayers to visit the tax authority repeatedly.	66	34.2
There is a very high frequency of changes in administrative procedures and directives including the requirements of the authority and the personnel who are directly involved in the administration of VAT. Changes are not communicated to taxpayers in due time. In addition, due to changes in personnel some information provided by those who were accomplishing some duty related to VAT may not be accepted by the new personnel causing undesirable inconveniency to taxpayers.	49	25.4
Taxpayers and the society at large do not know much about the tax. The government has not made sufficient efforts before and after the introduction of the tax in creating awareness among taxpayers and the society as a whole.	13	6.7
Problems relating to invoices including the difficulty of getting invoices even from registered traders, getting details of customers for the preparation of invoices, and keeping the sequential number of invoices especially for those taxpayers that have several sales offices. The existence of businesses that supply without invoices coupled with using duplicated invoices is another problem.	20	10.4

Sources: Taxpayer Survey and own computation.

Appendix 2

Summary of responses of tax practitioner survey respondents to the question "Do you have any comments on the VAT system in Ethiopia?"

Summary of responses	Count	Per cent
Failure of tax administrators in fully enforcing the law has caused problems to taxpayers that are part of the VAT net in the form of unfair competition with taxpayers that are required to register but did not do so. The level of the registration threshold also has its contribution to the competition problem. It would be hence worthwhile to consider the possibility of reducing or entirely abolishing the registration threshold.	18	62.0
The treatment of credit sales is creating financial difficulty among traders whose transactions involve credit sales. It would be worthwhile to consider the use of cash basis of accounting.	5	17.2
Customs valuations (on imports) are unreasonably high, resulting in reporting of credits for a long period by taxpayers including genuine ones. It also ties up taxpayers' money for a long period putting them in severe financial constraints. In such situations the administrators ignore the accounting records of taxpayers and estimate the tax using customs valuations as a cost basis.	11	37.9
Tax administrators lack the necessary skills, and are not well trained and are not in a position to give appropriate answers on taxpayers' requests. It is worth training administrators and recruiting qualified personnel. In addition, there is no consistency in the information obtained from different personnel on the same case.	16	55.2
Given the poor understanding of taxpayers, the authority did not make sufficient effort in creating awareness among taxpayers and the citizens as a whole before the introduction of the tax. Further, currently the government is not exerting efforts in creating awareness among taxpayers and others concerned. In curbing the various problems, tax education should be instrumental.	10	34.5
Lack of consistency in using invoices and the existence of under invoicing in some sectors. Under invoicing, especially on imports, is partly caused by the foreign exchange limits of the NBE which force taxpayers to get the foreign exchange permit up to the maximum amount allowed for a certain product and cover the rest with foreign currency obtained from the informal (black) market. Further, invoices are being used as a bargaining instrument (supply with or without VAT). These problems are partly due to the failure of administrators to follow-up taxpayers. It would be worthwhile to concentrate in developing strategies to encourage final customers to ask for invoices.	6	20.7
The VAT rate is high. The level of the rate has made goods and services very expensive and is contributing to the noncompliance of taxpayers. It would be better to reduce the rate and broaden the base.	6	20.7

Sources: Tax practitioner Survey and own computation.