

**REGISTRATION OF VALUE ADDED TAX IN ETHIOPIA: AN
APPRAISAL OF THE PRACTICE IN DEBRE MARKOS, FINOTE SELAM
AND MOTTA TOWNS**

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ABSTRACT

VAT (Value Added Tax) registration is the primary concern in VAT administration system for any country in the world. An appropriate registration of traders who fulfilled the legal requirements is a crucial point for the implementation of VAT laws. The justification for the researcher to conduct this research was, on one hand, existences of many unlawful VAT registered persons in the study area. On the other hand, there are larger numbers of VAT unregistered traders while they should have been registered which in turn results unfair competition among traders. Besides, high compliant cost of VAT registration coupled with lack of awareness on the benefits of VAT registration results complicated problems of VAT registration. The principal objectives of this research were to examine reasons for refusals of traders for VAT registration and to explore the factors that contribute for the weak enforcement of VAT laws. In doing this, the study employed qualitative research approaches so that it was devoted in-depth analysis of laws and practical examination. The research relied on both primary and secondary data to gather the necessary information. Interviews, FGD (Focus Group Discussion) and legal analysis were part of primary data gathering tools. The finding of the research revealed that there are so many reasons for refusal of VAT registration. Among other things, the high compliance cost and the complexity of the input VAT refunding system are the basic reasons for traders to be reluctant to get registered as VAT collector. On top of that, there is always fear of administrative and criminal liability on the side of traders. The study area is full of corruption so that there are enormous traders who failed to register for VAT though

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actually, they fulfilled the legal requirements. Conversely, there are also enormous traders who registered without qualifying the requirements set under VAT laws. Moreover, the research found that the threshold requirement is fair, but the rate is unfair for traders. The gap between ToT (Turn over Tax) and VAT rate is quite different so that it affects competition. Finally, the study ends by providing possible solutions that may serve as inputs for tax authority and policymakers to re-design the VAT laws and its enforcement framework in Ethiopia. Inter alia, the researchers recommend, reduction of the VAT rate from fifteen percent, easing the compliance cost of VAT administration, creation of awareness about the benefit of VAT and staffing offices of revenue with disciplined and skilled personals.

Key Words: Compliance Cost, Ethiopia, Traders, VAT Registration

1. INTRODUCTION

1.1. Background of the Study

All countries in the world require finance in order to cover their cost of expenditures. Starting from the earlier society, to provide social services expenditures and infrastructure, governments are financing their capital either from tax sources or from non-tax sources. It is unthinkable for governments to perform their tasks and cover their expenditures unless they collect taxes.¹

In the modern time, taxes are not only sources of revenue for governments but also it has various purposes like creating employment opportunities, encouraging investments, discouraging harmful products, and creating one economic community. Even though, governments were collecting taxes to achieve its objectives starting from the earlier time in all over the world, there were no diversified tax sources as modern time. Governments did not collect taxes from each chain value of goods and services until the mid-19th century.²The concept of VAT is a recent phenomenon which was introduced as a national tax for the first time in France on April 10, 1954.³Since then, it has become the main source of indirect tax in many countries of the world having different stages of economic development. Despite the fact that, VAT is the recent

¹Okoye, E. *Effective Value Added Tax: an Imperative for Wealth Creation in Nigeria*, Global Journal of Management and Business Research, 2013, p 91

²MisganawGashaw, *Tax Reform Discourse and Its Implication on Development: Evidence from the VAT Introduction in Ethiopia*, Mekelle University Law Journal Vol.3 No. 1 (2015), p 22(hereinafter Misganaw)

³ Ibid

phenomenon, it has become very vital sources of revenue for governments almost for all countries in this contemporary world.⁴Now a day, because of its effectiveness, efficiency, simplicity, and ability to raise public revenues compared to other public revenue sources, VAT has become the most widely used forms of consumption taxes in the world.⁵

Despite the fact that modern tax system introduces in Ethiopia after the end of Italians occupation, the value added tax had become one of the most recent and tax systems in Ethiopia which is introduced in 2002.⁶ Ethiopia launches VAT based on the IMF (International Monetary Fund) recommendations. After the introduction of VAT in 2002 (effective January 2003), the federal government generates significant revenue.⁷Taxes were collected from the final consumers from the sales of goods and services. Taxes levied on consumptions of goods and services were not based on each chain additional value of goods and services.

Notwithstanding its significance revenue generation for Ethiopian government, there is a serious problem of VAT administration by tax authorities.⁸ Inter alia, the existences of many unqualified VAT registered persons and the existences of larger number of VAT unregistered traders while they should have been registered are the principal problems in VAT administration.⁹To assess the prevalence of those problems, to examine the reasons for refusal of VAT registration, and finally to identify the factors that contribute for the weak enforcement of VAT laws, the study was conducted in Debre Markos, FinoteSealm and Motta towns Administrations.

2. RESEARCH METHODOLOGY

2.1. Data collection and Sampling

Combination of doctrinal and empirical research methods has been employed to achieve the research objectives. The qualitative data were collected from Amhara National Regional State

⁴ Ibid

⁵A. Giesecke, Tran Hoang Nhi. *'a General Framework for Measuring VAT Compliance Rates*, Centre of Policy Studies and the Impact of Project G-206, 2010, p 10

⁶ Taddese Lencho, *Towards Legislative History of Modern Taxes in Ethiopia (1941 -2008)*, Journal of Ethiopian Law, 2012, p12

⁷DasalegnMosissaJalata, *Value Added Tax as a Tool for National Development in Ethiopia*, Research Journal of Finance and Accounting, 2014, p188.

⁸WollelaAbehodieYesegat, *Value Added Tax Administration in Ethiopia: a Reflection of Problems*, EJournal of Tax Research, 2008, p 2

⁹Ibid

(ANRS) tax revenue bureau, Debre Markos, FinotSelam and Motta towns administration which are part of East and West Gojjam zone. The city administrations have selected based on the presence of enormous traders which are part of the research domain area of Debre Markos University. The researchers used semi-structured interviews with Revenue Authorities at Woreda and zone levels and focus group discussions to collect data from VAT registered and non-VAT registered traders in the study area. Hereunder, it's explained in detail the data collection methods used for the research.

2.2. Focus group discussions

The researchers conducted three different focus group discussion with VAT registered traders and revenue officials in *Debre Markos, Motta and Finot Selam* towns. Eight persons (five VAT registered traders and three revenue officers) were part of the focus group discussion in each town that was guided and facilitated by the researchers. The focus group discussions have provided important insights on the issue and it has helped us to refine more specific research objectives and to structure our interview guidelines to make them clear and specific to the issues this research aims to investigate.

2.3. Semi-Structured Interviews

The researchers conducted interviews with VAT registered traders, non-VAT registered traders and various tax accountants at different capacity based on purposive sampling method. The participants have selected purposively based on their experience, position, expertise, education, and other attributes to acquire profound information in order to achieve the research objectives. Since the research was qualitative, we conducted interviews until the data matured. The interviews were also conducted at the regional level to scrutinize the status quo of VAT in ANRS. The interviews and the focus group discussions were entirely conducted by the researchers in person to enable generating relevant data, keeping the research objective in mind. Scholarly written literature, report and policy documents from concerned organs were also source of secondary data.

2.4. Data Analysis Method

As stated above, the researchers employed a qualitative research approach. Accordingly, first, the researchers were identified the theme and organization the themes into categories. Following the identification of thematic and core categories, the data are coded to determine category members.

After careful identification of the thematic unit and categories, the researchers used the descriptive and narrative method of data analysis.

3. REGISTRATION OF VALUE ADDED TAX UNDER ETHIOPIA'S LAW: AN APPRAISAL OF THE PRACTICE IN *DEBRE MARKOS, FINOTE SEALM AND MOTTA TOWNS*

3.1. Power of Levying VAT under the FDRE Constitution

The fundamental power to levy VAT emanates from the FDRE Constitution of 1995 which, following the federal structure, shares tax powers between the Federal Government and the Regional States.¹⁰The Ethiopian Constitution allotted the taxation powers between the Federal Government and the Regional States. It classifies taxation powers as taxes exclusive to the Federal Government, taxes exclusive to the Regional States, taxes concurrent with both the Federal Government and the Regional States, and taxes undesignated. The FDRE Constitution follows what might be described as the principle of residually, in the assignment of expenditure powers that are specified in Article 52 of the Constitution. The positive elucidation seems all expenditure powers that are not expressly stated as federal powers or concurrent powers of the Federal Government and the Regional States are assumed to be reserved as the powers of the Regional States. However, this is not the case for taxation powers and taxes not designated as “federal exclusive,” “state exclusive” or “concurrent to both” should be referred to the joint session of the HoF (House of Federation) and HPR (House of People Representatives), which shall determine by a two-thirds majority vote on the exercise of powers of taxation. The FDRE constitution under Article 99 plainly stipulated that “*The House of the Federation and the House of Peoples' Representatives shall, in a joint session, determine by a two-thirds majority vote on the exercise of powers of taxation which have not been specifically provided in the Constitution.*”

As per the FDRE constitution the joint session of the HoF and the HPR in April 2002, designated the power to levy VAT to the Federal Government.¹¹Therefore, regional states do not have the power to levy VAT in Ethiopia although they can collect such tax on behalf of the Federal Government by delegation. Moreover, the two houses and also determined the VAT revenue

¹⁰FDRE Constitution, 1995, Article 95-99, Proc. No 1, Neg. Gaze, Year 1, No. 1.

¹¹Berhanu Assefa, *Undesignated Powers of Taxation in the Distribution of Fiscal Powers between the Central and State Governments under the FDRE Constitution*, Addis Ababa University, 2006, P 16.

distribution between the federal government and the regional governments.¹² Accordingly, VAT that is collected from sole traders goes totally to the regional governments.¹³ On the other hand, VAT that is collected from federal government's public enterprises directly goes to the federal government.¹⁴ Finally, VAT that is collected from entities (body), like companies, is distributed seventy percent to the federal government and thirty percent to state governments.

3.2. Purpose of VAT Registration

Almost 150 countries including many African countries nascence VAT currently to raise government revenue with less administration and economic costs than other broadly based taxes.¹⁵ Needless to say VAT plays a pivotal role in generating massive revenue for the governments. As a part of the global development agenda, VAT was introduced in Ethiopia in the heart of "*developing countries notion of VAT as money machine*' and *developed worlds understanding of VAT as the only layout of development.*"¹⁶ The 2002 Ethiopian tax reform culminated with the introduction of VAT that achieved significant transformation especially in increasing the revenue of the federal government. The percentage of VAT revenue contribution to total government income is tremendously rising from time to time in Ethiopia.¹⁷

Though the palpable objective of VAT is generating income for the government, it also plays as an instrument to equitable development.¹⁸ The government uses the proceeds of VAT to different poverty reduction programs such as building infrastructures-road, health, education, safety net programs etc.¹⁹ Since it's nascent, VAT has been more revenue productive than other forms of indirect tax to Ethiopian government so that it served as a mainstay for the country development. Thus, the primary purpose of VAT is to raise revenue to the government that can contribute to cover the cost of huge public expenditure.

¹²TaddeseLencho, *The Ethiopian Tax System: Excesses and Gaps*, Michigan State International Law Review, Vol. 20:2, p 333

¹³ Ibid

¹⁴ Ibid

¹⁵Bizualem Belete, *Practices and Challenges of Value Added Tax Implementation in Ethiopia Post January 2003 Assessment*, Addis Ababa, February 2015, p 11.

¹⁶Richard M. Bird, *Value-Added Taxes in Developing and Transitional Countries: Lessons and Questions*, (Unpublished), 2005, p. 24

¹⁷DakitoAlemu, *Empirical Analysis of The Contribution of VAT for Economic Development and Social Spending in Ethiopia*, Addis Ababa, June 2011, P 93

¹⁸Misganaw, p 33

¹⁹ Ibid

3.3. Prerequisites of VAT Registrations under the Ethiopian Tax Laws Regime

VAT is among the indirect and multiple stage sales taxes systems. The introduction of VAT in Ethiopia was in large part helped by the involvement of the IMF.²⁰The IMF sent its technical staff back in 2000 who recommended among other things that Ethiopia introduce VAT by January 2003. The recommendations of the technical team were based on their prediction that Ethiopia would experience significant shortfalls of revenues from customs tariffs (due to tariff reductions).²¹The team also mentioned some of the superior qualities of VAT in light of Ethiopian context.

Accordingly, at the time, Ethiopia has been recommended to introduce VAT with a standard rate of fifteen percent, a single VAT rate, initial registration threshold of 250, 000 ETB (Ethiopian Birr), limit exemptions to few transactions, and introduce the ToT as an equalizing/supplementary/ tax on small taxpayers. Ethiopia declined only one advice that is introducing VAT with initial registration threshold of 250,000 ETB and the government fixed the threshold at 500,000 ETB. In December 2017, the ministry of finance and economic cooperation informed the minister of revenue to raising the VAT threshold to one million Birr.²² Consequently, the minister of revenue by circular letter makes the VAT threshold one million ETB as of February 08/2018.²³

Ethiopia launches VAT as a federal tax in spite of the possible constitutional hurdles although the Federal Government later agreed (since 2004) to share the proceeds of VAT with the regions. In Ethiopian tax system, registration of taxpayers (as used in the VAT laws) does have a conspicuous place under the laws. However, registered persons are not the only persons who/which collect VAT from consumers and account same to the Government. This is because Article 3(1(b)) states, “*A person carrying out taxable import of goods to Ethiopia, with respect to such import are duty bound to collect VAT.*”

Under the Ethiopian VAT regimes someone to be registered for VAT two things ought to be cumulatively consummated. To start with, the individual must be one who/which supplies

²⁰.Id, p 5

²¹Misganaw Gashaw, p 11

²²Ministry of Finance and Economic cooperation, Letter to Ethiopian Revenues and Customs Authority, December 05/2017

²³Ethiopian Revenues and Customs Authority, circular letter to revenue authorities, December 13/2017

taxable transaction by engaging in taxable activities that peruses "A person who carries on taxable activity."²⁴ The second thing that has to be cumulatively fulfilled in addition to the first requirement is that the annual turnover of the supplier should meet the threshold provided in the law. It provides under Article 16 (1) and (2) of VAT proclamation that reads;

A person who carries on taxable activity and is not registered is required to file an application for VAT registration with the Authority if (a) at the end of any period of 12 calendar months the person made, during that period, taxable transactions the total value of which exceeded 500,000 ETB; or (b) at the beginning of any period of 12 calendar months there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 ETB.

As stated in the VAT proclamation under article 16, a person who [which] carriers on taxable activity and is not registered is required to apply for registration for VAT if in any period of calendar 12 months the person made, during that period, taxable transactions the total value of which exceeded 1000,000.00 ETB.²⁵In this case, the value of the person's taxable transaction is determined as per Article 12 of the VAT proclamation by taking in to account the amount the person receives or is entitled to receive in return for the supply of goods or rendering of services, whether from the customer or any other person. On top of that, a person is required to register for VAT if at the beginning of any period of 12 calendar months if there are reasonable grounds to expect that the total value of the taxable transactions to be made by the person during that period will exceed a million ETB. These two requirements are, in fact, applicable to compulsory registration not for voluntary type of registration. Notwithstanding those people gave in article 16 of the VAT Proclamation, directive number 25/2001 has given the lists of people who are obliged to register for VAT. These people include: traders engaged in sale of gold, electronics business, plastic business, shoe factories, sale and preparation of leather products, contractors from level 1-9 and traders engaged in sale of computers and computer accessories.²⁶ Nevertheless, the Ministry of Finance and Economic cooperation by circular letter avoided the

²⁴ The Value Added Tax Proclamations, 2002, Art. 16 (1), Proc. No. 285, Neg. Gaz., Year 8, No 33. Taxable Activity is defined in Article 6 of the VAT proclamation and Article 4 of VAT regulation. Accordingly, a taxable activity is an activity carried on continuously or regularly by any person in Ethiopia or partly in Ethiopia whether or not for pecuniary profit, in whole or in part, the supply of goods or services to another person for consideration.

²⁵The Ministry of Finance and Economic cooperation, Letter to Ethiopian Revenues and Customs Authority, December 05/2017, in Amharic, unpublished and Ethiopian Revenues and Customs Authority, circular letter to all revenue authorities, December 13/2017, in Amharic, unpublished

²⁶ *Supra* note 17

above lists of traders from the ambit of VAT registration unless they met the base yearly turnover exchange requirement.

For the voluntary registration, the primary component that implies carries on taxable activities ought to be fulfilled however not the minimum threshold prerequisite according to article 17 of the VAT proclamation. Rather than the base limit prerequisite, the proclamation puts another requirement requiring the regularly supplying or rendering at least 75% of his goods and services to registered persons.

As far as the registration procedure is concerned, the proclamation under Article 18 and the VAT regulation under Article 8 clearly stated that the person should file a form as is established by the implementation directives issued by the minister of revenue to register for VAT. After registrations, the authority shall issue registrations certificate that incorporates the full name and other relevant details of the registered person, the date of issuance of the certificate, the date from which the registration takes effect and the registered person's taxpayer identification number. A registered person who conducts taxable activity in a branch or division shall be registered only in the name of the registered person. Under the proclamation Article, 16(4) registrations for branches were not possible as a rule. The directive issued by the minister of revenue allows and gives a guideline how it could be effective and what condition should be fulfilled to register branches independently from head offices.²⁷ The Proclamation, as usual, has contained general provisions and the regulation has provided some detail provisions that are instrumental for proper implementation of the Proclamation.

Generally, in addition to mandatory registration, voluntary registration is possible if person regularly supplying at least 75% of his goods or services to registered persons. However, the Authority may deny the application for registration if the person has no fixed place of abode or business or the Authority has reasonable grounds to believe the person will not keep proper records or will not submit regular and reliable tax returns as required under the VAT proclamation particularly under article 18(8(a and b)). Some traders are interested to register for VAT for different reasons. According to the tax authority in Debre Markos Town, persons aspire

²⁷The VAT registration Directive, 2007, Art. 6(2), Direc. No. 25, No. 25

for voluntary registration to get tax credits for them and to enable the ones who purchase goods or services from them (the former) to get input tax credit.²⁸

Another point worthy of mentioning in relation to registration is deregistration (cancellation of registration). For a number of reasons, a person may not remain registered perpetually. This means that there are circumstances whereby a registered person changed into non-registered.²⁹ As per Article 19(1) of the proclamation, a registered person is allowed to apply for cancellation of VAT registration only where either of the following conditions is happened. First, a VAT registered person can apply for cancellation where he/she/ it has already ceased to make taxable transactions. Secondly, a VAT registered person can apply for deregistration at any time after a period of three years of the date of his/her/ its most recent registration for VAT if his/her/its total taxable transaction annual turnover in the period of 12 calendar months are expected to be not more than 1,000,000.00 ETB.³⁰ If any one of the above grounds surfaces out, deregistration can take place.

3.3.1. Reasons for Reluctance of VAT Registration

FGD participants and the interviewee respondents stated so many consequences of being VAT collectors. Those consequences make other traders to hesitate for VAT registration though obliged to register.³¹ There are so many civil and criminal liabilities stipulated under the VAT proclamation so that VAT registered traders be continuously in concern of liability. All of the FGD participants unanimously agreed that there are so many traders who are criminally punished in addition to administrative measures. VAT registered traders do not operate with certainty since they suspect that one of the customers may give falsified information to the revenue offices to harm them. According to the informants, the revenue offices in the study areas are welcoming every whistle-blower. The authority is taking measures without any verification so that traders are in fear of liabilities. One of the participants revealed that;

Even revenue workers are spaying each VAT registered traders to make them criminalizing due to his/her failures to issue VAT invoice to customers. Mainly, they act

²⁸Interviewer with Mr. GetahunAnmaw, on 28 February 2017, Debre Markos Town Revenue office head

²⁹The Value Added Tax Proclamations, 2002, Art. 19, Proc. No. 285, Neg. Gaz., Year 8, No 33. and the Value Added Tax regulations, 2002, Article 10, Reg. No. 79, Neg. Gaz., Year 9, No. 19

³⁰The Value Added Tax Proclamations, 2002, Art. 19, Proc. No. 285, Neg. Gaz., Year 8, No 33.

³¹Interviewer with Mr. Aschalew Kebede, on 12 January 2017, prosecutor of Finote Selam revenue office

as a client and by any means try to escape from receiving VAT invoice. Then right away make traders criminally responsible. Subsequently, VAT registered traders do not operate with complete confidence and certainty, unlike non-VAT registered traders. Because of worry of liability, other traders are not cooperative enough for VAT registration although they are qualified to be registered.³²

Therefore, the criminal as well as civil liability attached with VAT makes VAT registered traders uncertain on their business.³³ Absence of conducting business with certainty and full confidence causes others to urge loopholes not to be registered as VAT collectors.

The other reason for refusal of traders for VAT registration is its nature on moving ability of traders to create competition. The FGD participants clearly expressed that the consumers preferred to consume from non-VAT registered traders since they need an opportunity to urge a similar products or services by fifteen percent cheaper price. One of the interview respondents revealed that “*VAT registered traders are requiring the tax authority to deregistration claiming that consumers do not interested to consuming their products and/or services.*”³⁴ Besides, FGD participants publicized that:

Giant traders from Addis Ababa would not be willing to sell their products if they asked VAT invoices. In this scenario, we are not only act as a VAT collector but also as VAT payers too. Without producing evidence as to our VAT payment when we bought, it is unthinkable to get refund. In this scenario, VAT is not only a tax on consumption per se but also a tax on business per se. Either the government implements VAT laws properly across the country, or the revenue office in our town should tolerate us depending on our scenario.³⁵

³² FGD conducted in FinoteSelam town with VAT registered traders and revenue officers, December 2016

³³ As per articles 45, 46 and 47 of the VAT proclamation, VAT non-compliance like failure to register for VAT, failure to issue a tax invoice, failure to maintain record such as original tax invoices received and a copy of tax invoices issued and failure to file timely return shall be liable to administrative penalties ranging from a fine 100 percent of the amount of tax payable and a fine of up to 50,000 Birr. Besides, VAT noncompliance also attracts criminal liability as per article 48 of the alluded proclamation above. Accordingly, tax fraud - making false or misleading statements is punishable with a fine ranging from 1,000 Birr to 100,000 Birr and an imprisonment ranging from 3 years to five years where the making of false or misleading statement is made knowingly or recklessly such an offence is punishable by a fine of up to 200,000 Birr of an imprisonment of up to 15 years. Sentenced for 15 years makes the business terminated. There are traders who are sentenced for 15 years so that their business is either relegating or terminating due to they are imprisoned.

³⁴ Interviewer with Mr. FentahunLakew, on 11 March 2017, head of East Gojjam Zone Revenue office

³⁵ FGD conducted in Motta town with VAT registred traders and revenue officers, December 2016

As stated above, the VAT laws do not yet properly implemented across the country and it has an impact on traders who established business in the study areas. Due to the failure of the merchants situated in Addis Ababa to issue VAT invoice, small traders in other areas are losing their refunding rights.³⁶These things have an impact on their ability to compete with those non-VAT registered traders.

High VAT rate made goods and services expensive that lead to unfair competition between VAT registered and non VAT registered traders that supply the same product or services.³⁷The dominance of VAT unregistered businesses, while they should have been registered in the study areas results unfair market competition according to the research participants.

Moreover, according to the participant's view, the compliance cost for VAT is high. For instance, there is VAT declaration every month, use cash registration machines and other related duties imposed on VAT-registered person as indicated under Sales Register Machines Directive No. 46/2007. On top of that, in ANRS only Ambasel Trading PLC (Private Limited Company) supplies the cash register machines and accessories.

It is hard to get machines and accessories easily unlike other materials which are imperative to run business. The cost of the machine is high since it is only supplied by single trader, Ambasel PLC. Hence, it is another reason that discourages other non-VAT registered traders to be registered for VAT. Generally, the FGD participants and the interview respondents stated various reasons for refusal of traders to get registered for VAT in the study areas. Those reasons are factors that contribute other non-registered traders not cooperative to be registered for VAT though they fulfilled the requirements. The FGD participants clearly indicated, *“fear of compliance costs and other factors make traders to be reluctant to register for VAT and ultimately make the tax authority task much hard to enforce VAT laws.”*

³⁶Interview with Mr. YtayhFentie, on 11 January 2017, Tax Education Officer at Amhara Region Revenue Authority

³⁷BirhanMesfin, Value Added Tax Revenue Performance And Administration Problems in Case of ERCA in Gondar, Addis Ababa, February, 2014, p 55

On the other hand, non-VAT registered traders, and the tax authority in the study areas point out some of the advantages of VAT registration. The data found in interview with -VAT registered traders and revenue authority officers revealed that non-VAT registered persons are ToT collectors and by its nature ToT is not only a tax on consumption per se but also a tax on business per se. This means, ToT affects both the consumer and traders' pocket, unlike VAT which only touches consumer. Traders do not have any idea about the good quality of VAT over ToT.³⁸ Because there is no refunding system by deducting the input ToT from output ToT unlike VAT. Due to this reason, ToT affects traders' pocket unlike VAT and non-VAT registered traders are ToT collectors and payer for the government. The researchers believe that if traders had known the advantages of VAT, they would have been interested to be registered for VAT even voluntarily without qualifying the threshold requirement. Besides, the tax authority is not doing enough to aware the good quality of VAT over ToT for traders.³⁹

The tax authority and non-VAT registered traders admitted that government supports VAT registered traders in every situation like auctions.⁴⁰ Furthermore, the tax authority most of the time accepts business income tax declaration of VAT-registered traders without rejection.⁴¹ Hence, government supports VAT registered traders in different scenarios considered as advantage of VAT registration. However, this support is not capable to attract other non-VAT registered traders to be registered enthusiastically.

3.4. Factors Contribute for the Weak Enforcement of VAT Laws

According to the research participants, there are so many factors that contributed for the weak enforcement of VAT laws. There are enormous VAT unregistered traders while they should have been registered and the vice versa is true according to the informants. The dominance of VAT unregistered businesses, while they should have been registered results unfair market competition.⁴² This is undeniable fact and it is an indication for the improper enforcement of VAT laws.

³⁸Interview with AtoMulugeta Belay, on 16 January 2017, legal prosecutor at Amhara Region Revenue Authority

³⁹Interviewer with MrGetenet Hassen, on 24 December 2016, Prosecutor of Motta Town Revenue office

⁴⁰Interviewer with Mr. Kitachew Atnafu, on 06 April 2017, head of FinoteSelam Town revenue office

⁴¹ Ibid

⁴²Competition is a competitive rivalry that takes place between and among firms/traders through price, quantity, service quality, or a combination of these and other factors that consumer may value. To secure fair competition, the playing field, should be the same to all traders who/which are producing or providing similar production or services.

The FGD participants clearly stated that; *“One of the reasons for the registration of traders for VAT without fulfilling the legal requirements by the tax authority is due to the tax authority strong ambition to realize their extensive plan.”* The tax officers also admit their extensive plan but denied an allegation as to the registration of traders for VAT without fulfilling the legal requirements.⁴³The tax authority extensive ambition to generate high revenue for the government triggers the registration of traders for VAT without qualifying the minimum annual threshold.

The other factor that has contributed for the weak enforcement of VAT laws according to the participants is low awareness about VAT laws by the revenue officers.⁴⁴ Traders are wondering the revenue workers knowledge to enforce VAT laws properly due to their low academic status. They believe that most of the revenue offices workers step up their career standing from low position.

According to FGD participants, the corrupt practices of rich traders and politicians have an adverse impact on the proper enforcement of VAT laws. Particularly political influence makes the revenue officers weak, and it is the main factor for failures to register all traders who qualified for VAT registration. One of the interview respondents revealed that; there are higher officials at zonal, regional and federal level who give protection to their affiliated traders not to register for VAT. Those who have an influential official informed to make their shop vacant while the revenue workers are assessing and evaluating the qualification of traders to register for VAT. Conversely, others who do not have any idea about the surprise visit of revenue officers will be registered for VAT. Sometimes zonal and regional revenue officers improperly give direction to revenue workers not to register some selected traders.

Moreover, the government believes that mandatory registration for VAT triggers the existence of political disturbance in Ethiopia.⁴⁵The current political turmoil that happened in Ethiopia makes the government weak to enforce laws. Though traders are fulfilled the requirements for registration for VAT, they may oppose the registration and the tax authority may leave them not to aggravate the current violence.

If the government imposes VAT to one of a trader and exempts to the other that produced or supplied the same products or services with the same capital size, it will trigger for the existence of unfair competition.

⁴³Interviewer with Miss FirehiwotAsmare, on 18 April 2017, Debre Markos Town revenue authority accountant

⁴⁴ Ibid

⁴⁵Interviewer with Miss TigistFetene, on 28 April 2017, Debre Markos Town revenue authority head

Poor records keeping of book of account of the traders make the revenue office workers task burdensome.⁴⁶Traders are not willing to give their annual transaction to determine whether they qualify for VAT registration or not. Most of the traders in the towns are trading in primordial ways without making analysis of their income and expense. On top of that, there are illiterate traders who are unable to make standard records of book of account.⁴⁷The revenue officers are not capable of verifying trader's status in the absence of any evidence from traders themselves or other third parties.⁴⁸Besides, to escape from VAT registration, traders are changing their trade name repeatedly so that they are always taking new trade licenses.⁴⁹Due to these reasons, revenue officers consider those traders as a new trader so that failed to register for VAT.

Absence of full workforce from the revenue office is also hampering the enforcement of VAT laws.⁵⁰ For instance, when the study was conducted the revenue offices did not have its own police force that makes the default traders forced to complying VAT duties. FGD participants and interview respondents revealed that the declining the confidence of the society in general and traders in particular upon the ruling party, failures to conduct full-fledged researchers on the daily income of traders by the tax authority are other pooling factors that have direct role in the weak enforcement of VAT laws.⁵¹

4. CONCLUSION AND RECOMMENDATIONS

4.1. Conclusion

The study has tried to investigate and identify reasons for reluctance of VAT registration and factors for the failure to enforce VAT laws properly in Debre Markos, FinotSelam and Motta town administrations. It has examined the legal requirements that have to be fulfilled to be registered for VAT under the VAT laws. Moreover, it revealed the factors that hinder for the proper registration of traders for VAT such as lack of skilled human resources, absence of honesty, rent seeking, and inability to convince traders about the good quality of VAT to traders are some of them on the side of the tax authority. On the other hand, poor record keeping and

⁴⁶ Supra note 28

⁴⁷Supra note 44

⁴⁸Interviewer with Miss FirehiwotAsmare, on 28 April 2017,Debre Markos Town revenue authority accountant

⁴⁹ Supra note 29

⁵⁰Supra note 45

⁵¹Supra note 48

canceling trade license and requesting new license are the factors that triggered by the trader themselves.

Furthermore, the study appreciated some of the reasons for the reluctance of traders to get registered for VAT. Among the reasons, fear of competition, fear of criminal liability, hard to get refund by reducing the input VAT from output VAT, and high compliance costs in administering VAT are the principal reasons for traders to be reluctant in registering for VAT.

4.2. Recommendations

Based on the findings of this research, the researchers would like to recommend the followings:

- i. One of the unique features of VAT in Ethiopia is the high compliance cost that is imposed as a duty of VAT collectors. The findings of this research revealed that declaration with generally accepted accounting standards in each month; use of cash register machine; keeping book of account to get refund and sever criminal liability attached with VAT are some of the factors that discourage others to be enthusiastic for VAT registration. Hence, as much as possible the ministry of revenue shall make the VAT declaration in every three months instead of every month. Besides, most of the research participants revealed that the cash register machine exclusively supplied by *Ambasel* Trading PLC, which is owned by *Tiret* corporate. However, the register machine must be accessible like any material for the sake of the VAT collector's interest.
- ii. In terms of liability, the office of revenue should focus on civil liability since the criminal liability may cease the business and ultimately may have an impact on the country economic performance at large. The criminal liability should be imposed selectively to those who repeatedly failed to comply the VAT laws and should be applied as a last resort. The stringent criminal liability should be mitigated and better to make the civil liability tough instead.
- iii. Lack of awareness creation by the tax authority to taxpayers is one of the finding of this research. Awareness creation about Ethiopia's tax laws in general and VAT laws in particular to the taxpayers and tax withholders is an elemental duty of the ministry of revenue. An indication of lack of awareness is that VAT registered traders do not have any idea about the difference between the impact VAT and ToT. The tax authority in each level should

convince the VAT registered traders about the advantage of VAT over ToT. Therefore, the office of revenue should provide an intense awareness to traders on the duties and rights of the VAT-registered person, and the criminal and civil liability of failure to comply with their duties before taking measures.

- iv. Traders who are obliged to collect VAT in the study areas believe that VAT affects competition since other non- VAT registered traders have an advantage of supplying their products or services at fifteen percent lower price to their customers. This makes other not to be cooperative to get registered for VAT. They are always changing a trade name to escape from registration despite the fact that they qualified to register. The researchers believe that this comes from the high difference rate applied for VAT and ToT. Thus, better to make the VAT rate lower from fifteen percent to make equalization with ToT payers and ultimately to attract traders for voluntary registration.
- v. Finally, the ministry of revenue should take appropriate measures on its staff when they fail to be honest for their duties. There are still workers in the revenue office who do not believe taxpayers are the milestone of the government revenue and fail to give much respect for them. They are abusing their power to get special benefit from VAT collectors. Besides, the ministry of revenue should update the knowledge of its workers in various ways for the proper enforcement of tax laws in general and VAT laws in particular. Hence, the ministry of revenue should staff its office in all level with necessary workforces that have the required knowledge and skill in the implementation of tax laws in general and VAT laws in particular.

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II.

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III. Interview

Interview with Mr. YtayhFentie, on 11 January 2017, Tax Education Officer at Amhara Region Revenue Authority

Interviewer with Mr. Getenet Hassen, on 24 December 2016, Prosecutor of Motta Town Revenue office

Interviewer with Mr. Aschalew Kebede, on 12 January 2017, prosecutor of Finot Selam revenue office

Interview with Ato Mulugeta Belay, on 16 January 2017, legal prosecutor at Amhara Region Revenue Authority

Interviewer with Mr. Getahun Anmaw, on 28 February 2017, Debre Markos Town Revenue office head

Interviewer with Mr. Fentahun Lakew, on 11 March 2017, head of East Gojjam Zone Revenue office

Interviewer with Mr. Kitachew Atnafu, on 06 April 2017, head of Finot Selam Town revenue office

Interviewer with Miss Firehiwot Asmare, on 18 April 2017, Debre Markos Town revenue authority accountant

Interviewer with Miss Tigist Fetene, on 28 April 2017, Debre Markos Town revenue authority head

IV. Government Documents

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