

Challenges of Taxation Power in Oromia National Regional State: Analysis of Constitution, Law and Practice

**A Research Conducted in Collaboration with Oromia State Leadership Academy and
Oromia Justice Sector Professionals Training and Legal Research Institute**

Researchers

- Dame Chali
- Teferi Bekele
- Mesfin Debebe
- Jemal Beriso
- Abdi Asefa
- Wakgari Dulume
- Tarekeng Kenea (involved in data gathering)
- Moti Abdisa (involved in data gathering)

Editors: Tesfaye Boresa
Nohe Takele
Shambel Hordofa

July 2019

Adama

Table of Contents

Contents	Page
EXECUTIVE SUMMARY	i
CHAPTER ONE	1
1. INTRODUCTION	1
1.1. Background	1
1.2. Statement of the Problem	5
1.3. Objectives	8
1.3.1. General Objectives	8
1.3.2. Specific Objectives	8
1.4. Research Questions	9
1.5. Significance of the Study	10
1.6. Scope of the Study	11
1.7. Organization of the Paper	11
CHAPTER TWO	12
2. CONCEPTUAL, THEORETICAL FRAME WORKS AND EXEPERIENCES OF TAX ASSIGNMEN IN SOME FEDERATIONS	12
2.1. Conceptual and theoretical frame work	12
2.1.1. Tax in General	12
2.1.2. Purpose of Tax	16
2.1.3. Types of Revenue	19
2.1.4. General Principles of Taxation	19
2.2. Factors that Affect Revenue Generation	22
Factors motivating people to avoid their tax obligation	27
2.4.1. Canada	31
2.4.2. Switzerland	34
2.4.3. The United States of America	37
2.4.4. Nigeria	39
CHAPTER THREE	43
RESEARCH METHODOLOGY	43
3.1. Research Design	43
3.2. Data and Data Sources	45

3.2.1. Primary Source of Data.....	45
3.3. Sample Design	45
3.4. Sample Size.....	50
3.5.1. Data Processing.....	52
3.6. Ethical Consideration.....	53
CHAPTER FOUR.....	54
4. THE ANALYSIS OF CONSTITUTIONAL AND LEGAL ISSUES	54
4.1. Constitutional Issues	54
4.1.1. Areas which Need Reassignment.....	57
4.1.2. Joint power of Taxation	57
4.1.3. Taxes on Natural Resources.....	59
4.1.4. Tax on companies	60
4.1.5. Residual Taxes	61
4.2. Legal Issues.....	61
4.2.1. Federal Legislations Related to Taxes	62
4.2.2. Oromia Regions Taxes Legislations	66
CHAPTER FIVE	73
5. PRACTICAL ISSUES: DATA PRESENTATION, ANALYSIS AND INTERPRETATION	73
5.1. Results and Discussions	73
5.1.1. Back ground of the respondents.....	73
5.1.2. Data Presentation and Analysis.....	78
5.4 Data Presentation and Analysis for Tax Payers Data.....	82
5.4.1 Tax fairness and correctness	83
5.5 Data Presentation and Analysis for Experts.....	98
CHAPTER SIX.....	118
6. Conclusion and Recommendation	118
6.1 Introduction.....	118
6.2 Conclusion	118
6.3 Recommendation	123
References.....	126

EXECUTIVE SUMMARY

One of the basic features of federalism is constitutional division of power between the center and the federating units. Each level of government is autonomous in areas assigned to it by the constitution. However, the autonomy of each level of government does not make sense unless the assigned function is backed by finance thereby necessitating generation of adequate revenue, including tax revenue. It is generally true that tax is the most important source of revenue for countries. However, it is uphill battle for developing countries to revitalize tax revenue. If we consider Ethiopia's performance tax to GDP ratio, it is not very much remarkable. This is also the case in Oromia region. For instance, by the year 2008 E.C, revenue generated by Oromia state alone covered only 28% of its total cost. The remaining 72% costs were covered by subsidies and grants made by the federal government. In the long run, this could challenge the federation as it is difficult to envisage genuine federalism without adequate revenue necessary for discharging functions and responsibilities.

This research deals with analyzing constitutional, legal and practical issues of taxation power in Oromia National Regional State. Methodologically, the research employed both qualitative and quantitative approach. Qualitative approach (doctrinal analysis, interviews, Focus Group Discussion, and semi-structured questionnaires) is used to deeply understand the existing gaps with the present assignment of taxation power between the federal and regional governments under the FDRE Constitution; and to know the existing challenges of collection as well as its practices at Oromia Revenue Authority. Quantitative data collected from both taxpayers and tax officials in Oromia by questionnaire are analyzed by using SPSS to identify practical problems hindering tax revenue capacity of the region.

The overall findings of the research can be clustered into constitutional, legal and practical issues.

A) Constitutional Issues

1. Tax Sources That Need Reassignment

A lesson drawn from experiences of several federation shows that taxes on the income and winnings of national lotteries and other games of chance are best administered at regional

levels. However, in Ethiopia, they are assigned to the federal government. Similarly, property taxes are allocated based on the ownership right of that property. But, property taxes by their nature are best administered at regions. Hence, the FDRE Constitution should be amended to reassign taxes on the income and winnings of national lotteries and other games of chances and properties to regional governments.

2. Joint Taxes

Regarding joint taxes under the FDRE Constitution, two things worth considering: taxes on companies and mechanism of knowing the truth or otherwise of the shared amount of taxes to the regional government.

- ✓ *The assignment of company taxes in Ethiopia is not justifiable when viewed from the perspective of theories of fiscal federalism. The theory of fiscal federalism advocates that company taxes are best administered by the federal government because of their mobility factor (operating in more than one federating units). But, in Ethiopia, it is not the mobility factor, rather the type of business organization that is used to allocate taxation power on companies. Hence, it is good to revise the constitution so as to make company operating within specific region to be taxed by that region. And, companies operating in more than one region to be taxed by the federal government.*
- ✓ *The practice of joint taxes in Ethiopia currently is the federal government levy and collects taxes while regions take their shares from proceed according to the formula set by the House of Federation. The challenge in this regard is difficulty of checking genuineness of the share transferred to regions (Oromia in our case) by the federal government. This is because, there is no nationally integrated system-based mechanism by which states can check the amount of taxes collected from joint taxation and transferred to them. Hence, it is appropriate for Oromia Revenue Authority to deal with Ministry of Revenue to device system-based mechanism of checking the collected and transferred amount of joint taxes as this increases confidence and trust between the federal and regional governments.*
- ✓ *One problem that is massively affecting tax revenue generation of Oromia from joint tax is the practice of using Tax Identity Number (TIN) address to determine who should share proceeds of joint taxes. This practice of using TIN address and registration place without considering residence-based taxation need is causing joint taxes to be shared*

between federal and Finfinnee; or only federal government takes income taxes from these companies in the name of Finfinnee as federal city. And this is highly affecting Oromia's tax revenue generating capacity. Thus, this practice needs to be replaced by residence based taxation principle so that proceeds of joint taxes from companies operating within Oromia are shared between Oromia region and the federal government.

3. Undesignated Taxes

Considering the historical background of Ethiopia, the federation favors autonomy of the states. This is discernable from the provision of the FDRE Constitution which assigns residual (undesignated) power to the states (Article 51 and 52). The tax assignment made by the constitution, however, is blamed for tilting the balance toward the federal thereby giving little attention to the principle of fiscal decentralization. This is vividly observable from the undesignated taxation power under Article 99 of the FDRE Constitution which left the matter for future decision by the two federal Houses (HoPRs and HoF). Hence, it is good to leave residual power of taxation for regions so that fiscal autonomy of the states is strengthened.

B) Legal Issues

The research analyzed different tax related laws of both Federal and Oromia Regional States which have potential of affecting tax revenue generating capacity of Oromia. These laws include: Value Added Tax, Federal Income Tax, Federal Tax Administration, Investment Laws, Mining Operation Proclamations from federal tax laws; and Agricultural Income Tax, Oromia Income Tax and Oromia Tax Administration Proclamations from Oromia region's tax legislations. Analysis of these laws reveals the following:

- 1) Some laws such as investment proclamations are negatively affecting income generation capacity of Oromia because of incentives they provide. For example, they exempt from taxes for decades. There are even cases whereby the projects stop their production upon the end of exemption period thereby resulting in zero benefit both to the country and Oromia. This calls for legislator to rethink on investment incentives that includes exemption from taxes.*
- 2) Proclamations such as federal income tax and mining operation are creeping to take revenue sources assigned to region exclusively and jointly to both levels of government by favoring the federal government. For instance, from a contrary reading of a provision*

of mining operation proclamation that says: artisan and small scale is taxed as per regional laws [Art 65 (2)], it seems large-scale mining is totally taken to the federal government alone although such taxes are joint taxes as per the FDRE Constitution. Moreover, the federal income tax included mining income tax as if it were federal exclusive taxation power. But, all mining income taxes are given to regions except that of large-scale mining which is joint tax. Hence, such laws should be amended conforming to the tax assignment in the FDRE Constitution.

- 3) VAT proclamation is vague and negatively affecting Oromia tax revenue. It is not clear whether all proceeds from VAT is shared or only VAT collected from joint taxes are shared. For instance, as observed from practice in Oromia, even tax officials are not clear with which VAT from which sources should be sent to the federal government and which one is left to them. All VAT collected in the region is sent to federal in blocked account and share of the region will be back from the federal government. Regions, including Oromia should not have given VAT collected from sole proprietorship. But, since VAT proclamation is not explicit on the issue, the exclusive tax revenue that is due for Oromia is unduly being shared with the federal government. Hence, it is suggested to amend VAT proclamation to make it clear on the issue. Until that, tax officials of the region should understand the true meaning of the proclamation and accordingly.*

C) Practical Issues

The existing practical challenges hindering tax revenue generation capacity of Oromia are explained both from tax authority and taxpayers.

- 1) Because of budget constraint, the tax authorities are not supported with adequate infrastructures such as technology and human power. Their collaboration with stakeholders such as trade and market development offices is also not strong enough. Moreover, they lack full understanding of tax laws, especially on VAT and joint taxes. The existing systems mainly on daily income estimation of taxpayers are highly subjective and susceptible to abuse. These all resulted in ineffective and inefficient tax administration in the region; weak control of unlawful trade practices, corruption and contrabands; and weak control of tax evasion and misdeeds. Hence, government should reconsider the budget allotted to tax authorities so that tax authorities can equip themselves with necessary technologies and*

adequate human power. Tax authorities should also work in close collaboration with its stakeholders to bring informal economies to tax net.

- 2) Tax payers' attitude towards paying tax and their low awareness about the tax system is another challenge to generate adequate tax revenue in Oromia. The manifestations are hiding property owned from tax estimators and collectors, amending and registration of false transactions, having two books of accounts, using false evidence and receipts are some of the practices. Therefore, Oromia Tax Authority and Oromia Medias should work on enhancement of taxpayers' education and sensitization.*

CHAPTER ONE

1. INTRODUCTION

1.1. Background

The economic strength of a state is measured alongside its revenue generating capacity. States generate revenues to ensure economic development and, in particular, economic growth.¹ Government collects revenue to effectively perform its duty and cover its expenditures. Income from taxation is one way through which government revenue is generated.² Thus, public revenue collection is an integral component of fiscal policy and administration. It is the fuel of economic development and ideal source of government funding. Public goods such as roads, power, municipal services, and other public infrastructures are normally supplied by public agencies due to their non-rivalry and no excludability nature. To discharge this responsibility, government needs revenue.³ Thus, the revenue collected must be enough for the government to perform its tasks. To do this, domestic mobilization of resources is vital for increasing its revenue. But, it is part of creating an inclusive and democratic revenue administration system. This promotes culture of government accountability and enhances social justice.⁴ The revenue system is also a central element in supporting a strong citizen–state relationship that underpins effective, accountable and stable governments. Overall, tax as government revenue is important for improvement of public living standard and growth. It can be used as a tool for implementing government policies and strategies.⁵ In the same manner, UNDP in its working paper 77 has indicated that taxing is the main source of revenue for government of developing countries. Domestic resource mobilization therefore is the appropriate and reliable source for economy of developing countries for sustainable development.⁶

¹Michael C. Durst (2017), *Assisting Developing Countries in Taxation after the OECD’s BEPS Reports: A Suggested Approach for the International Donor Community*; ICTD Working Paper 71, p7.

²The Federal Democratic Republic of Ethiopia Government capacity building strategy document prepared by Information Minister in 1994 p259.

³Ayele Bogale Fikadel, Getnet Begashaw, Bekalu Tefera. 2017. EFFECTIVENESS ON TAX ASSESSMENT AND COLLECTION PRACTICE OF CATEGORY “C” TAX PAYERS: THE CASE OF HALABA CITY ADMINSTRATION .rint ISSN: 2249 – 3492, Online ISSN: 2249 – 3506.

⁴Birhanu Sisay, (2018). *Contribution and Challenges of Indirect taxes: VAT & Excise Tax*, 2018

⁵Mesele Kebede and Tesfahun Tegegn, *Problems Associated with Tax Payers and Revenue Authority in Case of Dessie Town, Northern Ethiopia*. *Journal of Poverty, Investment and Development* ISSN 2422-846X, An International Peer-reviewed Journal, Vol.25, 2016

⁶UNDP Working Paper (2016), *Performance and Prospects of Tax Collection in Ethiopia*, p 4.

With growing donor fatigue and dwindling domestic revenue reserves in most developing countries, the need to strengthen national revenue collection systems has become particularly imperative.⁷ A well-functioning revenue collection system is necessary for strong, sustained and inclusive economic development. The real challenge for nations is to ensure that taxpayers are treated with fairness, justice, and equity, while national governments assert their jurisdiction as taxing authorities. Moreover, revenue collection should comply with best practices and principle of taxation such as equity, ability to pay, economic efficiency, convenience and certainty. Tax administration therefore, should aim at improving the registration, assessment, collection of revenue, and fully exploiting taxation potential of that country.⁸

Low income countries face a number of challenges to increase their revenue. Because their source-base are affected by factors such as a small tax base, a large informal sector, misuse of transfer pricing, high debt burden, growth instability, low levels of per capita income, weak tax administration, domestic savings and investment plus weak governance, and capacity.⁹ A core challenge for African countries is finding the optimal balance between a tax regime that is business and investment friendly, and one which can leverage enough revenue for public service delivery to enhance the attractiveness of the economy.¹⁰ It has been evidenced that expenditure programs in developing countries have been hampered by low tax revenues.¹¹ Due to this, most developing countries face substantial fiscal challenges: spend more; spend better; tax more; tax better.¹² One of the priorities of Ethiopian government is to bring rapid and sustainable development to the country. The achievement of this rapid and sustainable development requires sustained and dependable domestic revenue mobilization scheme which would otherwise be

⁷ Zhou Gideon and Madhikeni Alouis, Systems, Processes and Challenges of Public Revenue Collection in Zimbabwe. American International Journal of Contemporary Research (2013), Vol. 3, No. 2.

⁸ Getachew Assefa, Tax Assessment and Collection Practices of Category “A” Taxpayers in Arada Sub City (Unpublished, 2013)

⁹ Wondwossen Jerene, (2016). Challenges of Value Added Tax (VAT) Collection Performance: A Case Study of Hawassa City Revenue Authority (South Ethiopia). The International Journal of Business & Management (ISSN 2321–8916).

¹⁰ OECD, (April 2009). TAXATION FOR INVESTMENT AND DEVELOPMENT: An overview of policy challenges in Africa.

¹¹ UNDP Working Paper, Performance and Prospects of Tax Collection in Ethiopia (2016), p 3.

¹² Richard M. (2007). Tax Challenges Facing Developing Countries: A Perspective from Outside the Policy Arena. Article in SSRN Electronic Journal March 2007.

detrimental to realizing government vision. This is because development through external financing sources, which is subject to uncertainty, is not sustainable in the long run. For domestic revenue mobilization, taxation is vital. The newly implemented overall tax program of Ethiopia consists of direct and indirect taxation scheme. Direct tax includes employment income tax, business income tax, rental income tax and other income tax. Indirect tax includes VAT, excise tax, customs duty and sur-tax in Ethiopia.¹³

In federal states like Ethiopia, power sharing among federal and regional government is common. Among powers shared between federal and regional government, taxation power is one. The sharing of the power is done through constitutional provisions. In the case of Ethiopia, the FDRE Constitution under Article 95 says “Federal Government and the States shall share revenue taking the federal arrangement into account.” Accordingly, starting from Article 96 taxation power is divided among federal and regional governments. The tax assignment made by the FDRE Constitution however, is challenged by different scholars who evaluated the matter from the point of fiscal federalism theory. The fiscal federalism theory is said to be the best way of assigning taxation power in federal system. Fiscal federalism demands fiscal decentralization; and the idea behind such decentralization is to generate economic efficiency of the public sector.¹⁴ But, this does not mean that the principles of fiscal federalism must be strictly adhered to. A deviation justified by political and social situation of a country is also witnessed in practice. Under Ethiopian constitution, the authority to tax emanates from the FDRE Constitution, and taxation power is given to both federal and states. Thus, to effectively collect taxes on their respective areas of taxation, both levels of governments (federal and state) have enacted different legislation and established institutions so far. For instance, Oromia National Regional Government has introduced different legislation starting from the Revised Oromia Constitution, proclamations and regulations regulating tax and taxation. Nevertheless, the amounts of taxes collected by the region annually is said to be very low as compared to potential tax source in the region. The challenges in this regard need to be researched in order to increase revenues of the region. This research aims at assessing constitutional (allocation of taxation power as allocated

¹³Yemisrach Chane and Hayat Mohammed, An Assessment on the VAT Collection Problem of ERCA in the Case of Mercato No.1 Tax Payers Office (2014).

¹⁴Abu Girma Moges, An Economic Analysis of Fiscal Federalism in Ethiopia, (2001) P4

under the FDRE Constitution), legal, and practical challenges hindering effective generation and collection of tax revenue in the region. Even though there are some studies aimed at Ethiopian taxes, we did not find a comprehensive research assessing all constitutional, legal and practical challenges in one. Moreover, researching regional taxation power is a neglected research area. For instance, a research conducted by United Nations Development Program (UNDP) revealed the encouraging progress made in the past decade in Ethiopia; with regard to mobilizing more revenues from domestic sources, particularly in tax. It, however, concluded tax to GDP ratio is minimal despite the increment of Ethiopia's GDP.¹⁵ The research identified failure to collect necessary taxes; but did not investigate legal and practical challenges that caused the reduction of tax to GDP ratio.

Asaminew Emerta on his part researched on the Underground Economy and Tax Evasion in Ethiopia; and concluded tax is not collected exhaustively on all kinds of business activities making underground economy a loophole for tax evasion.¹⁶ His research focuses on broadening tax bases to raise more revenue; did not investigate practices and prospects of tax collection relating to legal and practical challenges of raising revenue from taxation; and therefore, that research differs from ours.

Tadese Lencho, a prominent tax scholar in Ethiopia, also conducted different research on Ethiopian tax law. In one of his article entitled "*The Ethiopian Tax System: Excesses and Gaps*" he assessed Ethiopian tax system in a very general way. He concluded that taxation power emanates from constitution and is divided between federal and regions; such division however is not strictly followed and there is a situation whereby federal government collects taxes violating regional power of taxation.¹⁷ The research analyzed some of federal tax laws; however, clearly made assessing regional taxation out of the scope which makes that endeavor different from ours.

¹⁵ UNDP Working Paper, Supranote 11.

¹⁶ Asaminew Emerta (2010), the Underground Economy and Tax Evasion in Ethiopia: Implications for Tax Policy p22.

¹⁷ Tadese Lencho (2012), THE ETHIOPIAN TAX SYSTEM: EXCESSES AND GAPS, Michigan State International Law Review [Vol. 20:2] P 330.

In his other research, Tadese Lencho analyzed Ethiopian income tax law in view of fiscal federalism doctrines and stated how it diverged from those doctrines. To the extent it discusses the allocation of income tax power, his research in part shares similarity with this research. However, this research is comprehensive as it includes all power of taxation enshrined in the FDRE Constitution, therefore it is different in scope from Tadese Lencho's paper. Besides, this study considers how the constitutional allocation of taxation power has a bearing on the fair distribution of revenue among regional states and how it ultimately affects the Ethiopian federation. And, it also discusses the problems in the ONRS tax administration. It is therefore unique in this regard from previous studies.

In Oromia National Regional State, there is no comprehensive research conducted with regard to regional taxation power and challenges related to revenue generation and tax collection. Therefore, a study that assesses constitutional, legal and practical challenges of tax collection in Oromia National Regional State that identifies challenges and forward recommendation is a very important one. It is against this backdrop that this research is conducted.

1.2. Statement of the Problem

Tax is a crucial revenue source for economic development of a country. Revenue generated from taxation has an irreplaceable role for economic development and other undertakings of a given country. Revenue generated from domestic sources determines the effectiveness of the implementation of the goals of local governments.¹⁸ Though revenue generated from domestic sources is indispensable, designing a system that efficiently collect tax revenue is an uphill battle for developing countries. Political, economic structure, social and cultural problems obliterate the developing countries effort to collect tax effectively.¹⁹

¹⁸Maurice Ayodele et al, 2015. Challenges of Expanding Internally Generated Revenue in Local Government Council Areas in Nigeria. *Journal of Sustainable Development*; Vol. 8, No. 9; 2015 ISSN 1913-9063 E-ISSN 1913-9071.

¹⁹Timothy Besley and Torsten Persson, Why Do Developing Countries Tax So Little? *Journal of Economic Perspectives*(2014), Vol.28,No.4, F100.

Ethiopia is a federal state as advocated by the FDRE Constitution.²⁰ In federalism different powers are shared among federal and regional governments. This means, genuine federalism presupposes autonomy of states; and this autonomy could only be realized with financial capacity of the autonomous state. Financial capacity could be insured in part if the autonomous state has full power to generate revenue from activities conducted within its jurisdiction. At this juncture, it is worthwhile to examine whether the autonomy guaranteed by the constitution is practically genuine. As cited by Teferi Bekele in his article titled *Examining the Design of FDRE Constitution in Light of Arend Lijphart's Guidelines for Constitutional Design for Divided Societies* and published on *Haramaya Law Review* Vol. 5(1), several studies show that Ethiopian federalism shows centralizing tendency in practice despite constitutional provisions; and this is manifested in two ways: high party centralization and fiscal dependence of the states on the federal government.²¹ Federalism in nomenclature and centralism in practice is serious problem particularly on revenue generation and taxation power and can really challenge the federal system in the long run warranting a solution through research.

Tax administration in developing countries lacks the capacity to monitor compliance among taxpayers.²² Fragile tax administration system, an informal economy that usually escapes the tax net and the under development of modern attitude that paying tax is both right and duty of citizens to support the growth of a nation are handicaps to effective collection of tax revenue.²³ An effort to generate maximum possible revenue needs to balance the economic and welfare interests of the citizens.²⁴ The Ethiopian revenue generation systems with its crawling tax administration are not raising adequate revenue to support economic growth. In the past decade, Ethiopia has made encouraging progress in mobilizing more revenues from domestic sources,

²⁰FDRE constitution under Article 1 explicitly established a federal form of government. See Proclamation No. 1/1995, Proclamation of the Constitution of the Federal Democratic Republic of Ethiopia. This could be understood from the nomenclature of the State. Accordingly, Ethiopian state shall be known as The Federal Democratic Republic of Ethiopia.

²¹See for example, Alefe Abeje, The Role of the Federal System on the Structure and Operation of Political Parties in Ethiopia, *EUROPEAN SCIENTIFIC JOURNAL* (2014); Zemelak Ayiteneu, The Politics of Sub-national Constitutions and Local Government in Ethiopia, 16 *PERSPECTIVES ON FEDERALISM*, Issue 2 (2014); ASNAKE KEFALE, *FEDERALISM AND ETHNIC CONFLICT IN ETHIOPIA: A COMPARATIVE REGIONAL STUDY* (New York: Routledge 2013); Mehari Taddele, *Federalism and Conflicts in Ethiopia*, Conflict Trend, available at www.meharitaddele.academia.edu/TeshagerMehari pdf

²² Zhou Gideon and Madhikeni Alouis Surpra note 7

²³ Timothy Besley and Torsten Persson, *supra* note 19.

²⁴ Zhou Gideon and Madhikeni Alouis *supra* note 7.

particularly in tax revenue. Tax collection increased from Birr 12.4 billion in 2005 to Birr 165.3 billion in 2015 indicating over thirteen-fold increases in the decade. Similarly, the share of domestic revenue in the total public revenue increased from 77 percent to 94 percent in the same period, and the share of tax revenue stands at 83 percent in 2015. However, there is a challenge to increasing the tax revenue proportionate to GDP; the tax to GDP ratio remained low at 13.4 percent in 2015 which was way below the Sub Saharan Average of about 18 percent, over 20 percent for emerging economies and above 30 percent for developed economies. In 2005 Ethiopia's tax to GDP ratio was 12.5 percent after a decade of robust and strong economic growth this ratio came to 13.4 percent posting very little progress.²⁵

At Oromia National Regional State (hereafter ONRS) level, tax revenue collected by the regional tax administration is too low to cover the expenditure responsibilities of the region. For instance, in 2008, only 28% of the state budget is covered by revenue generated by the region. In terms of money, the revenue only covers ETB 10.44 billion out of ETB 46.4 billion.²⁶ A study conducted on the efficiency and effectiveness of ONRS administration also shows that revenue generated by the region covers only the salary of the employees.²⁷

The contemporary tax revenue collection system of the ONRS can debilitate the future spending capacity of the region unless a viable solution is implemented. In 2009 the government has managed to collect 91 percent and 76 percent of the planned direct and indirect tax respectively. The structure of the regional tax revenue was dominated by direct tax with declining share of the indirect tax. In 2009 the regional government direct and indirect tax revenue collection were Birr 6.7 Billion and Birr 2.5 Billion respectively. The direct tax took 73 percent of the total tax revenue and indirect tax covered only 27 percent of the total regional tax revenue. The direct tax has shown 0.2 percent growths while the indirect tax decreased by 2.1 percent between 2008 and 2009. The higher decline in fiscal capacity influenced the regional tax-GDP ratio. Although the economy has been growing at a remarkable rate, the slow growth in the tax to GDP ratio

²⁵ UNDP Working Paper, *Supra* note 11, P4.

²⁶ Oromia Broadcasting Network (OBN), At ONRS level there are 383,238. Refer to <http://www.orto.et/web/newsom/-/akka-naannoo-oromiyaatti-kaffaloota-gibiraa-383-238-tu-jira>, accessed on 27-03-2011.

²⁷ A study conducted on the effectiveness and efficiency of ONRS Institutions.

suggests the growth in tax collection is not commensurate with the economic growth perhaps indicating a huge untaxed potential tax sources or tax evasions.

Tax administration must be equipped with strong enforcement muscle to police the defaulting tax payers. In this regard, the Oromia Revenues Authority (hence forth ORA) enforcement trend signifies its inefficiency and ineffectiveness. There are instances of intervention from within the executive branch to block the enforcement of legally granted power of the ORA, thereby dwarfing its enforcement muscle. In light of the aforementioned ideas this research analyzed the tenability of allocation of taxation power under the FDRE Constitutional framework in light of the theories of fiscal federalism. It also interrogated legal and practical gaps in tax administration system of ONRS. The tax evasion, abuse of power and unpatriotic habits of tax payers that cultivate the culture of avoiding payment of taxes is discussed in the research.

1.3. Objectives

The main objectives of this research include the following:

1.3.1. General Objectives

The main objective of the study is to examine the taxation power and revenue generation and collection activities of ONRS. It involves analysis of constitutional, legal, policy and practical challenges to the tax administration system of ONRS.

1.3.2. Specific Objectives

The study concentrates on the following specific objectives:

1. To analyze division of tax power mentioned under the FDRE Constitution vis-à-vis theories of fiscal federalism.
2. To examine the designation of tax power and expenditure responsibilities in Ethiopian federal system in light of best experiences of countries that effectively implemented fiscal decentralization.
3. To analyze challenges to the effective enforcement of existing tax legislations in ONRS.
4. To investigate practical problems and capacity gaps in the tax revenue generation and collection activities of ORA. Evaluate whether the ORA is well equipped with the latest technology, skilled human power, and its steadfastness in terms of networking and collaboration with stakeholders.

5. To analyze the favorability of tax administration system of ONRS and its compatibility with canons of taxation.
6. To identify tax crimes, especially tax evasion and abuse of power and to examine the contributing factors to those crimes and noncompliance of tax payers.
7. To come up with suggestions that must be taken to align division of tax power in Ethiopia with principles of fiscal federalism and to ascertain practical measures that could help in improving tax revenue generation and collection.

1.4. Research Questions

This study focused on answering the following specific research questions:

1. Does the division of taxation power mentioned under the FDRE Constitution conform to theories of fiscal federalism?
2. What lessons can Ethiopia draw from best experiences of federal jurisdictions that effectively implemented principles of fiscal decentralization?
3. What are the challenges hindering effective enforcement of existing tax legislations in ONRS?
4. What practical problems and capacity gaps obstruct tax revenue generation and collection activities in ORA?
5. How favorable is the tax administration system of ONRS and how compatible it is with canons of taxation?
6. To what extent do tax crimes, especially tax evasion and abuse of power affect generation and collection of tax revenue? What are the contributing factors for those crimes and noncompliance of tax payers?
7. What implication does the current allocation of tax power in the FDRE Constitution have on the federation?
8. What measures must be taken to align division of tax power in Ethiopia with best principles of fiscal federalism? What are the practical measures that would help in improving tax revenue generation and collection?

1.5. Significance of the Study

In a federal system misplacing tax power and expenditure responsibilities would have a dire consequence. The organ that shoulders considerable expenditure responsibilities must be granted with the power to raise adequate revenue that covers its expenditure responsibilities. In Ethiopia, regional states mainly depend on the federal government so as to cover their expenditure responsibilities. At ONRS level the revenue generated from tax is insignificant to cover the regional expenditure. The regional tax revenue generation and collection capacity is ineffective and inefficient to satisfy the development aspirations of the region.

Analyzing the compatibility of Ethiopian fiscal decentralization as incorporated in the FDRE Constitution with fundamental principles of fiscal federalism would demonstrate shortcomings of Ethiopian fiscal federalism. It is vital to incorporate tenable doctrines of fiscal federalism into Ethiopian tax regime. Basic fiscal federalism principles, if properly imported into Ethiopian fiscal decentralization regime, could alleviate the existing vertical and horizontal fiscal imbalance. The regional tax power and capacity to raise tax revenue would be strengthened. Best experiences of different countries on the allocation of revenue and expenditure in a federal system is disclosed.

By exploring the legal and practical gaps and challenges in tax administration system and suggesting the way outs, it serves as an input for ORA to establish a solid tax revenue generation and collection system. It also supports ORA's effort to increase revenue collected from tax by suggesting on how to put in place a better, favorable and modern system of generating and collecting tax revenue. ORA will be directed on how to effectively track down tax crimes and police them and how to legally flex its tax law enforcement power. The study is also useful to taxpayers by indicating how to educate them on a variety of issues regarding tax and its administration.

In short, legislators, policy makers, tax officers, ORA, taxpayers, other stakeholders and society at large are beneficiaries from practicable constitutional, legal and policy recommendations of the study.

1.6. Scope of the Study

The study analyzed constitutional division of taxation power under the FDRE constitution in light of fiscal theories. It analyzed practical and legal problems in the ONRS tax administration system. Accordingly, the shortcomings in the ONRS tax legal framework and obstacles in the implementation of the laws were criticized. The study also explored tax payers' attitude towards payment of tax and delves into the problems they face in the tax administration system.

The study does not include federal tax legislations with the exception of VAT proclamation and other relevant legislations that incorporate investment incentives thereby adversely affecting the generation and collection of revenue at ONRS level. VAT proclamation is analyzed because regional states are mandated with its administration. Caffee Oromia and Federal Ministry of Revenue will be engaged for relevant information and data. Three categories of taxpayers at selected zones and woredas will be centers of focus. The research will be a cross sectional study relying on both analytical and descriptive research methodologies.

1.7. Organization of the Paper

The study is organized into six chapters. The first chapter is an introduction. It provides background information and puts in perspective the problems to be probed in the study. The second chapter presents literature review. The third chapter discusses research methodology. The fourth chapter analyzes constitutional and legal challenges based on theories of fiscal federalism and experiences of certain countries. Here, tax power as articulated in the FDRE Constitution is analyzed and some ONRS tax legislations are investigated. The fifth chapter deals with the practical problems in the tax administration system of ONRS and it incorporates the presentation and discussion of research findings. Finally, the sixth chapter presents the summary, conclusion and recommendations.

CHAPTER TWO

2. CONCEPTUAL, THEORETICAL FRAME WORKS AND EXPERIENCES OF TAX ASSIGNMENT IN SOME FEDERATIONS

This chapter is organized into four sections. The first section deals with conceptual and theoretical framework of taxation in general. This would assist in understanding the power of taxation and problems associated with taxation. The second section identifies factors affecting tax revenue generation. The third section deals with how to assess and determine tax burden. Finally, the fourth section explores experiences of certain federation with regard to tax assignment between/ among different tiers of government.

2.1. Conceptual and theoretical frame work

2.1.1. Tax in General

Tax is the preferable way of interacting and intervening in the works and livelihood of private individuals and enterprises.²⁸ In modern fiscal system, tax is a backbone of government expenditure.²⁹ Though there are other ways through which government could raise revenues for its endeavors, none are as effective as tax.³⁰ According to the UN General Assembly, to achieve sustainable development goals countries must be able to raise adequate internal tax revenue.³¹ This is because, development through foreign help alone would not be feasible in the long-run and the grant might come with strings attached to it. Thus, a country must understand what tax means for a country to raise enough of it. But, the term is not easy to define. Due to this difficulty scholars have tried to define tax in terms of its characteristics.³² Generally, tax could mean a payment that is made by individual and enterprises to a government to perform its duty.

²⁸Yohannes Mesfin & Sisay Bogale (2009), Tax Law Teaching Material Prepared under the Sponsorship of the Justice and Legal System Research Institute, p 8.

²⁹Yonas Girma Adimassu and Ümit Süleyman ÜSTÜN (2017), a Review of Constitutional Principles Regarding Taxation: Ethiopian and Turkish Perspective, p 3.

³⁰William Kratzke, Basic Income Tax 2016-2017 Fourth Edition, CALI eLangdell Press (2016), P 1.

³¹On goal 17 target 1 of A/RES/70/1 Transforming our world: the 2030 Agenda for Sustainable Development, Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection is one way to realize sustainable development goals by 2030.

³²Yohannes Mesfin & Sisay Bogale, supra notes 28 at 9.

Alternatively, it could be referred to as a chargeable income during a year.³³ For a tax to be paid well, a voluntary tax compliance practices need to be emphasized. Voluntary tax compliance refers to self-assessment of a taxpayer on his/her tax ability and then remit relevant amount of tax to the government without much enforcement from the authorities.³⁴ Organization for Economic Cooperation for Development has defined tax as compulsory and non-returnable payment that is due to upon individual citizens and institutions by government's imposition.

Baurer (2005) argued that it is a well-known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for government. It is even more important in an economy like ours that is struggling to remain afloat.³⁵ Tax revenue is the source of funds used for development projects such as provision of infrastructure like good roads, power and water supply, health services and etc. All of which combined create an enabling environment for businesses and in turn the economy at large to grow. However, Bofah (2003) stated that tax revenue collection is one significant issue of economic development among others. It has been said that 'what the government gives it must first take away'. Because the economic resources available to society are limited and so, an increase in government expenditure normally means a reduction in private spending. Taxation is one method of transferring resources from the private to the public sector, but there are others, i.e., creation of more money, to charge for the goods and services it provides or to borrow. Taxation has its limits as well, but they considerably exceed the amounts that can be raised by resorting to the printing press, charging consumers directly, or borrowing. But, as have been mentioned above are questionable in their sustainability. Therefore, while governments often use all four methods of raising resources, taxation is usually by far the most important source of government revenue.³⁶ As important as tax revenue is to a nation, many people still find it difficult to comply with their tax obligation. No one really likes paying taxes, yet they are inevitable for the provision of social welfare.³⁷

³³Chijoriga, M.M, New Areas for Enhancement of Revenue Collection and Broadening Tax Base of the Country (Unpublished Report, 2012).

³⁴ Fjeldstad, O.-H, 'What's trust got to do with it? Non-payment of service charges in local authorities in South Africa', The Journal of Modern African Studies, Vol. 42 (4), (2009).

³⁵Fjeldstad, O.-H, *supra* note 34.

³⁶Chaudhry, I.S , Determinants of Low Tax Revenue in Pakistan, Pakistan Journal of Social Sciences, Vol. 30. No 2, December, 2010, pp 439-452

³⁷Nightingale, K., Taxation Theory and Practices (4th ed. England Pearson Education Ltd, 2002)).

Only a few people are enthusiastic about paying tax.³⁸ The reality is that people must generally accept tax policy to gain compliance.³⁹

To achieve this scholars argue while mentioning Smith's 1776 work which have posited that a good tax should have the qualities of equitability, efficiency, neutrality, flexibility and simplicity.⁴⁰ These principles still holds today and even act as a guide for policy formulation. However, the ability to achieve all in a single tax policy might practically be impossible; hence some conclude that there is no good tax.⁴¹ This is because an efficient tax might be inequitable.⁴² And an efficient tax may not necessarily be considered fair and one that is considered equitable may not be efficient.⁴³ Ordinarily, people abhor tax payment due to its effect on their income. It is therefore imperative that a good tax system must be in-consonance with canon of taxation to avoid the negative impact that it might bring or as much as possible to mitigate them.⁴⁴ World Bank stated that the tax system in Ethiopia was to estimate tax compliance costs for private businesses in Ethiopia and assess business taxpayers' perception on the tax system and the business environment at large.⁴⁵ World Bank have in addition stated that the tax system in Ethiopia mainly from a survey of both formal and informal businesses in Addis Ababa and four major towns in the four largest regional states (Adama, Hawassa, Mekele and Bahir Dar) have shown this shortage.

Additionally, some have pointed out that tax legislation is unclear and causes random and partly ad-hoc collection procedures.⁴⁶ Assessors are considered to have wide discretionary powers to interpret tax laws, for instance, to allow or disallow expenses or charges or to exempt import duty on items imported. Therefore, reforms of tax legislation and procedures, including measures

³⁸ Rick Owens, Ready-to-wear Collection, (2006)

³⁹ Nightingale K., *supra* note 37.

⁴⁰ James, S. and Nobes, C., Economics for Taxation (9th ed. Birmingham, Fiscal publications (2009).

⁴¹ Nightingale, K., *supra* note 37.

⁴² Lamb, M. (ed.) (2005). Taxation: an Interdisciplinary Approach to Research, New York, Oxford publication.

⁴³ *Ibid.*

⁴⁴ Smith (1776),

⁴⁵ World Bank, Tax Compliance Cost Burden and Tax Perceptions Survey in Ethiopia (2016).

⁴⁶ Luoga, The Viability of Developing Democratic Legal Frameworks for Taxation in Developing Countries: Some Lessons from Tanzanian Tax Reform Experiences (2002).

to improve transparency in the taxpayer–tax officer relations, should take place concurrently to reduce opportunities for corruption and the demand for corrupt services.⁴⁷

When considering what measures should be taken to improve a tax system in a country, literacy rate is by far the most important element in success of tax revenue collection, since documentation is the backbone of an effective tax system.⁴⁸ Documentation comes from a literate tax base. In the present day, world literacy does not only mean being able to keep records on books, but also includes knowledge of information technology and its usage. Taxes yield less revenue in less literate economies. Tax collection requires consistency in implementation and such consistency comes from political stability. Taxes and law and order are indirectly related. A country with stable law and order would mean greater investment coming in, more jobs creation, resulting in greater purchasing power of consumers who in turn are subjected to paying tax. Awareness on the benefits of paying taxes to the public as a tool to increase tax morale of the people should be taken as long-run policy implication.⁴⁹

Under Ethiopian tax system, tax has been defined under Proclamation No. 983/2008 of the Federal Government and Proclamation No. 203/2009 for Oromia National Regional Government. The Federal Proclamation provided that; “tax” means a tax imposed under a tax law and includes the following, withholding tax, advance payments of tax and installments of tax payable under the Income Tax Proclamation, penalty, late payment interest. The Oromia National Regional law also defined it similarly with minor addition of any tax that is payable under relevant tax laws. Under the Federal Customs Proclamation No. 622/2009 tax also includes customs that is paid on import and exported goods. Over all, tax is understood and accepted to be a revenue source for government expenditures in all countries of the world.⁵⁰ The authority to tax in a democratic countries emanates from the constitutions of a country (for example, the Ethiopian Government tax authority comes from the provision of art. 51(1), 52(11),

⁴⁷Ibid.

⁴⁸Bofah K., (2003). The Impact of Tax on Investment and Business Decision http://www.ehow.com/facts_5910416_impact-tax-investment-businessdecisions.html

⁴⁹Bahiigwa, G., Ellis, F., Fjeldstad, O-H. and Iversen, V. (2004). “Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction.” EPRC Research Series No. 35 (January),

⁵⁰Ethiopian Chamber of Commerce (ECC), Ethiopian Business Development Services Network (EBDSN) 2005.

96-100 of the FDRE Constitution). Accordingly, the authority to tax has to be divided among the federal and regional tiers of government in a federally structured country.

In any situation, a tax system must take into account how to model its tax power division and expenditure power between the levels of government that exist in a country. To this end, tax incidence model focuses on the equity implications (or fairness) of alternative local revenue policies.⁵¹ The health of the tax/revenue system and the consequent quality of service delivery is constrained by a number of challenges including: (1) the high costs of collection relative to yield for some taxes; (2) low compliance rates for some taxes; (3) the lack of voice felt by taxpayers and negative perceptions of service quality, which affect willingness to pay taxes; (4) the propensity for some employees to ignore central government legislation in their search for new revenue sources (a dynamic that was documented following recent tax reforms in Tanzania); and (5) leakage of revenues from privatized tax collection arrangements, which can introduce wide margins between payment by taxpayers and yield to authorities.⁵²

2.1.2. Purpose of Tax

The income that is generated from tax is an essential ingredient for a countries developments endeavor.⁵³ The very purpose of tax is to increase the government revenue so that government could implement important works that could help the whole of the community. Additionally, government may use tax to control inflation in the economy and this could be taken as short-term goals of taxation, tax may also be used to narrow dawn the income gap between the rich and the poor through variably taxing the rich and the poor or progressively taxing as income increases. Through intervention into market government may use tax as a means to influence the interest of consumer by charging higher rate of tax on goods that the government deems harmful or to protect domestic production.

⁵¹Garde, M , “A model of Tax Administration Reform”, Manila Bulletin (2004), Available from http://www.dlsu.edu.ph/research/centers/cberd/pdf/bus_focus/model_for_tax_admin_reform, Accessed 28/07/2010

⁵²Sarzin, (2007)

⁵³Prof. Ing.VladimírMokrý, CSc , University of Economics in Bratislava National Economy; Taxes, Taxation and the Tax System BIATEC, Volume XIV, 12/2006 , F17.

According to IMF, taxation has four main purposes, each one of potentially great significance in the attempt to improve the welfare of citizens living in poverty.⁵⁴

1) **Revenue:** is the most obvious and direct role of taxation. Three separate calls on the public purse can be identified, each of which must ultimately be met by tax revenues:

- i. The short-term need to address immediate problems of human development, and provision for basic needs, including the provision of food, clothing and emergency medical treatment;
- ii. The need for investment to address less pressing but equally important human development issues – those stemming from a more complex approach to poverty, including education and preventative medicine and to simultaneously improve economic potential; and
- iii. The creation and/or long-term maintenance of the institutions and governance structures needed as guarantors of quality of life, and prospects for its further improvement.

2) **Redistribution:** is the second role of a tax system. It is of course not valuable for its own sake but specifically, rather, to the extent that it can allow a given society to achieve human development gains by lifting its poorest members out of poverty. Where a society has wealth sufficient to meet the first demand on revenues above, inequality may form the obstacle to widespread human development. Immediate gains from direct quality of life enhancement are complemented by longer-term benefits through the effective increase in the society's (economic) development potential.

3) **Representation:** is the final potential advantage generated by a well-functioning tax system. On the one hand, this relates directly to the claim 'no taxation without representation'. The connection between representation and taxation goes further however. Citizens may feel they have a lower stake in governance and policy outcomes when they are excluded from government as the community purchase of a public good.

4) **Re-pricing economic alternatives:** is the fourth purpose of taxation policy. Specifically, taxation can be governments' main tool by which to influence the behavior of their individual and corporate citizens. Addressing externalities by e.g. increasing the costs of polluting behavior, or the incentives to save, can deliver substantial benefits.

⁵⁴International monetary fund annual report 2015, 2016

A significant share of the tax revenue increase in Africa stems from natural resource taxes, while non-resource-related revenue has increased by less than 1% of GDP over 25 years. To achieve an optimal tax policy, African policymakers are challenged by the need to balance the following imperatives⁵⁵:

- **Mobilizing domestic resources and broadening the tax base:** to secure steady revenue streams for development financing and to diversify the revenue sources, especially in a context of tariff liberalization that impacts strongly on tax revenue;
- **Fighting tax evasion, spurred by tax havens:** regulatory weaknesses, and some corporate practices;
- **Improving the investment climate for enterprise development:** largely shaped by the tax regime; and
- **Promoting good governance:** underpinned by effective taxation that promotes the accountability of governments to citizens and the investment community.⁵⁶

For a government to dispose of its traditional functions such as provisions of roads, security and infrastructures, fund is necessary. And traditionally tax is the main sources of this fund.⁵⁷ The importance of tax as a revenue source for a government is rightly emphasized by the Secretary General of Organization for Economic Cooperation and Development OECD, Angel Gurría as, Tax is at the heart of our societies. A well-functioning tax system is the foundation stone of citizen-state relationship, establishing powerful links based on accountability and responsibility. Providing government with resources to invest in infrastructure, education, health, and social protection systems is critical for inclusive growth and sustainable development.⁵⁸ In light of this

⁵⁵ Ibid.

⁵⁶ International Monetary Fund (IMF), “Monetary and Fiscal Policy Design Issues in Low Income Countries,” August (2005).

⁵⁷ John Kay (2018),

⁵⁸ OECD/ATAF/AUC, Revenue Statistics in Africa (2018), OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264305885-en-fr>, F3. This writing explained tax as follows; “The term “taxes” in this publication is confined to “compulsory, unrequited payments to general government”. As outlined in the Interpretative Guide to the Revenue Statistics, taxes are “unrequited” in the sense that benefits provided by government to taxpayers are not normally in proportion to their payments. Multilateral Agreement on Investment (MAI) Expert Group No.3), said “tax” is confined to compulsory, unrequited payments to general government.. See for detail ‘Definition of Taxes, Negotiating Group on the Multilateral Agreement on Investment (MAI), Expert Group No.3 , on Treatment of Tax Issues in the MAI, DAF/MAI/EG2(96)3’.

statement internal revenue mobilization is critical goal of taxation and its function could be summarized as;

- a. Financing administration costs (e.g. emoluments and employee costs);
- b. Financing maintenance costs and thus promoting ownership of projects;
- c. Permits collection of localized and low yielding revenues;
- d. Guarantees sustainability of service delivery and autonomy of local governments
- e. Regulates businesses and provides important infrastructure and services such as markets and public conveniences at a charge;
- f. Reduces pressure on central governments and reliance on donors

2.1.3. Types of Revenue

Though as has been mentioned earlier tax is the main source of revenue for a government, government can generate income from sources that are other than tax.

a) Tax Revenues

These include; Direct taxes such as corporate tax; personal income tax, withholding tax- rents, management and professions fees, property tax etc and indirect taxes such as import duty, excise duty (imports and local goods), VAT (imports and local supplies) and stamp duty.

b) Non-Tax Revenues

These include; Fees such as passport, driving license etc; fines and penalties regarding the breach of law or non-fulfillment/failure; surplus from public enterprises such as dividends from profits.⁵⁹

2.1.4. General Principles of Taxation

The role of taxation as instrument of public policy remains controversial. Still governments continue to use taxes as their major instruments in the attainment of various public policies. Some goals of taxation may tend to recur in the literature under various guises. However, at least one goal of taxation appears to be beyond the pale of controversy, that is tax is an instrument of raising revenues to provide public goods, but that is no reason to conclude that the goals of

⁵⁹Chijoriga, Supra note 33.

taxation are now settled.⁶⁰ They determine what is taxable and what is untaxable, at least by omission, if not by intent. They determine, in the technical language of taxation, what constitutes a tax base, the rate or rates under which the tax base should be taxed and who should pay tax and who ultimately bears the economic burden of taxation. All these questions require the legitimacy of the “criteria” by which taxes need to determine all these things in life.⁶¹ Generally, a classical economist Smith (1776) forwarded canons or general principles of taxation which he indicated that should be observed when imposing a tax, and these are; equity, certainty, convenience, productivity, buoyancy and economy. These canons if followed in tax assessment, collection and administration, could contribute in improving the revenue collection and administration. However, what should be noted about these canons is that their number is not fixed. Because some writers and scholars put forward canons that are greater in number than these of Smith’s. In this sense one should bear in mind that every writer puts forward a number of canons that could help them address issues that they wanted to be emphasized. Keeping in mind this notch about canons, the following are some of the canons that have been reoccurring in literatures.

- a. **Convenience:** Under the principle of convenience, every tax ought to be levied at the time that it is most likely to be convenient for the taxpayer to pay. Both the time and mode of payment should be convenient. For instance, farmers should be taxed when they sell their crops, office workers to be taxed when they receive their salaries, traders taxed when they make profits.⁶²
- b. **Equity:** Under the equity principle, the amount of tax burden on taxpayers should be equal or proportional to their incomes such that the higher the income earners pay more taxes (tax liability) than the low-income earners. Adam Smith’s principle of equity is based on humanitarian grounds. Equity takes two forms, horizontal equity, and vertical equity. Horizontal equity means that people in the same income bracket should be taxed equally

⁶⁰Taddese Lencho, The Ethiopian Income Tax System: Policy, Design And Practice, A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in the Department of Interdisciplinary Studies in the Graduate School of the University of Alabama (2014), P.41

⁶¹Ibid.

⁶²Smith supra note 44.

while vertical equity means that people in different income brackets should be taxed differently.⁶³

- c. **Certainty:** The canon of certainty has to be put into consideration in order to improve on the Local revenue. The taxpayer must be protected from unnecessary harassment by revenue officials by advocating for the certainty and non-arbitrariness of the taxes, fees, and charges that each individual is bound to pay. This is because unpredictable taxes discourage investment and reduce effort of work.⁶⁴
- d. **Productivity:** Tax productivity is the ability of a given tax to generate as more revenue as possible for Government. Therefore, a tax should be more effective and productive as possible. The tax system should yield enough revenue to the treasury, so that the local council does not resort to deficit financing.⁶⁵
- e. **Flexibility/Buoyancy:** The tax should change directly with the change in tax base. A tax should be able to change directly with the changes in the economic situations or incomes or tax bases with the Local administration, for instance if the taxpayers' incomes rise, even the taxes on them should be able to adjust directly and taxes should reduce as incomes reduce. The fees/tax structure should be adjustable to the changing requirements of the Governments with ease; and the local revenue system should not be complicated.⁶⁶
- f. **Diversity:** It is risky for the Local Government to depend upon very few sources of local revenue. Such system is bound to breed a lot of uncertainty for the treasury. If local revenues come from diversified sources, then any reduction in a particular revenue item is bound to be very small, hence the principle of diversity. However, too much multiplicity of taxes should be avoided as it may lead to unnecessary cost of collection and hence violate the economy principle. Fiscal authorities should be in position to predict and accurately forecast the revenue a particular tax will generate and at what rate it will flow in, for this is because inelastic tax is usually unproductive⁶⁷

⁶³Ibid.

⁶⁴Bahl, R.W., Reaching the Hardest to Tax: Consequences and Possibilities, paper presented at the "Hard to Tax: An International Perspective" conference. Andrew Young School of Policy Studies, Georgia State University, (May 2003), Pp 15-16

⁶⁵Ibid.

⁶⁶Smith *supra* note 44.

⁶⁷Bahigwa, G., Ellis, F., Fjeldstad, O-H. and Iversen, V., "Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction." EPRC Research Series No.35 (January (2004)).

g. **Simplicity:** The type of tax, method of assessment and collection must be simple and understandable by both the taxpayer and the tax collector. A good tax should be one which is easy to understand. The tax payer must be able to know the exact amount that he/she has to pay and when to pay without any difficulty.⁶⁸ Complicated taxes tend to lead to disputes, delays, and high collection costs in terms of time and resources. Organizing assessments bases on the principles ultimately improves on the local revenue collection hence service delivery and the reverse is true. The sources of complexity are many and varied. One source of complexity is vagueness. The virtue of simplicity is lost when tax legislation uses terms so vague that men of common intelligence must necessarily guess at its meaning and differ as to its application. The sheer size of the tax rules that taxpayers have to consult in order to understand their obligations is another indicator of the level of complexity, although some details can throw many a light over a matter that is vague. Complexity is also generated by the existence of various exceptions, exclusions, deductions and credits, which add layers after layers of complexity over a tax code. Specially, the problem is multiplied if these exceptions, exclusions, deductions and credits are not readily visible to all intended beneficiaries.

2.2. Factors that Affect Revenue Generation

Developed countries shape their tax systems in such a way to cover all direct and indirect taxes and diverse enough to include all citizens and corporations.⁶⁹ Unlike the developed nations, developing countries, social, political and administrative issues have impaired development of their tax system in similar fashion.⁷⁰ Due to this reason, developing countries are plagued with problems of tax evasion, tax avoidance and tax power abuse. This has put tremendous stress on their ability to mobilize internal revenue sources. Beside this, the difference between tax planning and execution also plays in government's ability to raise fund. Any reasons such as government ability to control tax evasion and tax avoidance as well as the possibility of tax power abuse by the authorities are usually raised as causes. In historical context, tax evasion and

⁶⁸ Mugume (2006)

⁶⁹Addressing tax evasion and tax avoidance in developing (2010), GIZ Sector Programme Public Finance, Administrative Reform, p.1

⁷⁰Ibid.

avoidance as well as tax power abuse are as old as taxation themselves.⁷¹ Though revenue that a country mobilizes is highly essential for sustainable development, a country's tax system must be free of or as much as possible be able to minimize these impediments to achieve its targets.⁷² This also helps to increase citizen trust in their governmental machinery. This shows that, a country's achievement in good tax system is a substantial step toward democratization and country building.

If the authorities regarding tax evasion, avoidance and tax power abuse are not clearly defined and its consequence is not clearly designated in a tax system, it would give great discretionary power for the tax authority. Because, tax authority would be given the power to determine which act fall under which category.⁷³ Even though the definition given to tax avoidance, evasion and tax power abuse might vary depending on legal system and tax system, it is imperative to understand how these concepts are understood and implemented in the world and Ethiopian tax system.⁷⁴ In a country's tax system, if these activities are on the rise it shows the existence of a profound problem and should be dealt with swiftly or it would have great consequences on the ability of the countries to implement their developments agenda. It will also have an impact on a country's institutions to provide what the public requires of them.⁷⁵ These problems account for developing nation's difference between taxes planned and taxes collected which leads to their inability to provide social service for their citizens.⁷⁶

Compared to developed nations, in developing countries shadowy and underground economy is big. This affects from what source the countries are able to raise tax. This is because their revenue option would be limited since much of the transaction and interaction done in the economy is beyond the reach of the government tax power.⁷⁷ In addition to these problems

⁷¹Ibid.

⁷²Ibid.

⁷³Tatenda Dalu, Vincent Gamuchirayi Maposa, Stanford Pabwaungana and TapiwaDalu (2012), Impact of Tax Evasion and Avoidance on the economy: A case of Harare, Zimbabwe, Research Gate, p. 285

⁷⁴Ibid.

⁷⁵Ibid.

⁷⁶Clemens Fuest and Nadine Riedel (2009), Tax evasion, tax avoidance and tax expenditures in developing countries: A review of the literature, Oxford University Centre for Business Taxation (Report prepared for the UK Department for International Development (DFID)), p.1

⁷⁷Ibid.

associated with problems of tax collection and revenue raising, tax administration and implementation of the funds raised is also problematic.⁷⁸ Overall, to increase a country's performance in the area of revenue raising and its implementations, it is important to have a well-defined tax power and authority.

In revenue collection three things are considered important to enhance revenue collection process.⁷⁹ They are a) optimum rate structure; b) appropriate rules and regulations – in the form of good regulations and; c) human resource capacity. However, to increase control in order to reduce leakage, the government is expected to perform some or all of the following actions; a) Surprise audit to complement self-assessment procedures; b) Improving the control process; c) Efforts to enforce a strict and heavy penalty for non-compliance; d) Administrative discipline to financial staffs that may have contributed to leakage in revenues; e) Efforts to link tax payment with services provided by local government.⁸⁰

Tax evasion

This act is done overall to evade totally from paying tax to the government. To achieve these actors may use concealing tax due to be payed, amount of their revenue, concealing their revenue source or raising, or lowering its amount when presenting to the authorities, or using reasons that may be used to lower tax responsibilities arbitrarily. The act of tax evasion could be done on isolated income or could also be that the whole source of the income could be illegal or no in the formal economy and is not registered for tax.⁸¹ This act in itself consists of an act of trying to conceal paying tax due or avoid paying them so that the tax payer is not responsible to pay tax due to him legally. The act is performed by concealing the source or information about the income generated from the authorities.⁸² In performing this act, the mental status of the perpetrator is always in the state of mind that he/she is not supposed to pay tax and this shows that the act is in itself illegal from the beginning.

⁷⁸ Ibid.

⁷⁹ Mahdavi, S. (2008). The Level and Composition of Tax Revenue in Developing Countries: Evidence from unbalanced panel data. *International review of Economics and Finance*, 17,607-617

⁸⁰ Garde, M (2004) "A model of Tax Administration Reform", Manila bulletin. Available from http://www.dlsu.edu.ph/research/centers/cberd/pdf/bus_focus/model_for_tax_admin_refor P F. Accessed 28/07/2010

⁸¹ Clemens supra note 76.

⁸² Farny Otto, Franz Michael, Gerhartinger Philipp, LunzerGertraud, Neuwirth Martina, Saringer Martin (2015).

Tax evasion is a complicated issue and deserving of attention because, it directly affects the amount of revenue that a government is able to raise and can go as far as eliminating the source of revenue from the reach of government. Thus it will also have a direct impact on the market because, the ordinary competitiveness in the market will be affected since the actors in the market are not affected equally by the impact of tax. Even though these effects are hard to eradicate, it is imperative to reduce their effect overall.⁸³ In addition, this act affects the equitability of tax and contributes to income difference and status quo persistence because it allows few to get rich by evading tax and thus needs attention. This act beyond reducing government revenue it affects the distribution of wealth and allows it to be concentrated in the hands of few. In addition, it will affect the competitiveness of the market in favor of the wrongdoers.

Scholars present the arguments that if the duty of taxpayer is clearly known to the taxpayer beforehand to the tax payers, their interest to engage in the activities of tax evasion could be lowered. On the contrary, if the amount of tax due to taxpayer is not known since it is not the duty of taxpayer to pay high tax thus it is in the best interest of taxpayer to want to pay less tax and this might lead to the taxpayer to engage in nefarious activity of tax evasion.⁸⁴ What makes this act form the act of tax avoidance is that the tax payer is not accepting the tax duty imposed on him as a legitimate duty and are performed using illicit means in achieving the evasion.⁸⁵

The act is basically based on three acts, they are;

- I. There is the tax duty that is payable to the government by the taxpayer.
- II. The taxpayer using different illicit methods to evade the tax authority or paying taxes.
- III. The taxpayer performs these acts willingly and knowingly.

Under these implications, another point that might need emphasis is what kind of acts are used to commit tax evasion. Thus, acts such as keeping two books of accounting (one for personal actual business accounting and one for tax purposes), registering false accounting or exaggerating,

⁸³Marcel (2014),

⁸⁴Ibid.

⁸⁵The Basics of Tax Evasion, Tax Avoidance And Tax Minimization, <https://www.lowtax.net/blogs/The-Basics-of-Tax-Evasion-Tax-Avoidance-and-Tax-Minimisation-572162.html> (accessed on December 6, 2018).

preparing false and forged receipts and evidences and using them, destroying books of accounting, concealing property and such acts are used to commit the acts of tax evasion.⁸⁶

Tax Avoidance

The act of tax avoidance is carried out without going outside the legal boundary like the aforementioned act tax evasion, which is illegal. On the contrary, this act is carried out within the legal boundary by using legal loopholes and insufficiencies that exists.⁸⁷ This means that the beneficiaries of tax avoidance are technically working within the boundary of the law. However, they are working the law against the intention of the legislature. Usually the act of tax avoidance is carried out by targeting such acts and works that are used for tax deduction and avoidance. Scholars mention that, tax avoidance might be influenced by the effect tax laws and systems might have on tax payer's behavior. Thus could be avoided by reducing such negative effects that tax laws and system might have on tax payers behavior.⁸⁸

Acts that could be example for tax avoidance is aggressive tax planning which is for the purpose of tax reduction or avoidance altogether, relation that is organized for the purpose of tax deduction, and tax credit that is legally allowed are considered to be ways that tax avoiders use. But, this does not mean that they are illegal since there are those that are genuinely qualified for such benefit under the tax system. Even though these acts are not illegal, they are being employed contrary to what they are intended for. In developing countries even though they are promulgating laws that are designed to curtail this problem, tax payers are practically benefiting from the legal loopholes and deficiencies that are rampant in this laws.⁸⁹ This shows that, there is a direct correlation between the laws and the behavior of taxpayers that need further studying and the influence that the laws might have on taxpayer behavior. The legality and none of the acts concerned depends on the legal provision of the law whether it has allowed or not.⁹⁰ But, the issue that could be noted is that what kind of acts are allowed and not should be clearly demarcated by laws so as to differentiate between tax evasion and tax avoidance.

⁸⁶Ibid.

⁸⁷Understanding the Key Elements of Tax Evasion, Legal Ink Magazine, (2018).

⁸⁸ Peter Alldridge, (2017),

⁸⁹ I.J.J. Burgers, J.N. Bouwman, N.J. Schutte, A.J. van Herwaarden (2015),

⁹⁰ Clemens supra note 76.

Tax Power Abuse

The issue who has tax power and how are employing it should also be addressed from the perspective of the tax authority. Under the above two subtopics, tax abuse from the perspective of taxpayer have been tackled. These have been dealt with widely under literatures. On the contrary, this issue was not given due attention from the perspective of tax power abuse by the authorities. Thus, government institutions in their tax power have the power to promulgate laws and implement them and in this there is much discretion for the abuse of these powers.⁹¹ The government organs power how it is implemented and its boundary should be examined. In this sense the implementation of the tax power should not be contrary to the fair distribution of tax that is propagated by the principles of taxation.⁹²

For curtailing the above problems of tax evasion and avoidance, laws are put in place. However, the prerogative that is played by the tax authorities in the implementation of these laws is huge. Thus, their use of the discretionary power that is given to them affects the materializations of the laws purpose. This addition of another variable to the mix makes the already complex problem of tax system more complex and the problem deeper.⁹³ To solve this tax system must have a clear and advanced way of dealing with the administrative problems that could be raised.

Factors motivating people to avoid their tax obligation

2.2.1. Economic Based Theories

They are also known as deterrence theory and they place emphasis on incentives. The first and well known theory of economics suggests that “taxpayers are moral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection”. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risk. This process is referred to as “playing the audit lottery”.⁹⁴ Therefore according to the theory, in order to improve compliance, audits and penalties for noncompliance should be increased.

⁹¹Francisco Alfredo Garcia Prats, (2010),

⁹²Ibid.

⁹³Ibid.

⁹⁴Trivedi and Shehata (2005),

2.2.2. Psychology Theories

Psychology theories on the other hand posit that taxpayers are influenced to comply with their tax obligations by psychological factors. They focus on the taxpayers' morals and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax or revenue systems.⁹⁵

2.3. Tax Assessment

Assessment is the determination of the amount tax to be paid in respect of a particular revenue item and raising a formal notification of the amount to be the basis for its determination, the due date and mode of payment among other to the taxpayer. An assessment must be based on a clearly defined tax base and must reflect the rates applicable to a tax base. The assessment exercise helps Governments to keep a record of the amount and due date for payment of the respective revenue items assessed, the name, location and other details of the taxpayer.⁹⁶

The assessment exercise requires first the identification of suitable assessors and then training them before embarking on the assessment exercise. A good revenue system must have a team of well-trained assessors whose main responsibility is to prepare, raise, and distribute assessments in line with the regulatory and policy framework for Local and central Government.⁹⁷ Effective assessment should put into consideration the following principles.

- a) Ability to pay. This principle has to be exercised in that the taxpayer should be able to pay the tax assessed on him. The ability to pay is determined by earned income, disposable income, expenditure, and domestic obligations of the taxpayer.⁹⁸
- b) Simplicity. The type of tax, method of assessment and collection must be simple and understandable by both the taxpayer and the tax collector. A good tax should be one which is easy to understand that to say.⁹⁹ The tax payer must be able to know the exact

⁹⁵Chaudhry, I.S (2010). Determinants of Low Tax Revenue in Pakistan. Pakistan Journal of Social Sciences. Vol 30, No 2, December, 2010 pp 439-452

⁹⁶Fjeldstad, supra note 34.

⁹⁷Gordon, (2010),

⁹⁸Fjeldstad, supra note 34.

⁹⁹Mugume supra note 68.

amount to pay and when and how much to pay without any difficulty. Complicated taxes tend to lead to disputes, delays, and high collection costs in terms of time and resources. Organizing assessments basing on the principles ultimately improves on the Local revenue collection hence service delivery and the reverse is true.

- c) Elasticity. This element should exist in assessment under Local revenue collection to improve on the tax base and taxes should change directly with change in the tax base and the reverse is true, hence the revenue is generated.¹⁰⁰

2.4. Experiences of Some Federations on Tax Assignment

One of the basic features of any federation is that political power (commonly related to legislative, executive, judicial and financial functions) is constitutionally divided between the federal and states, and that both orders of government are autonomous with respect to the powers granted to it.¹⁰¹ This is called expenditure responsibility and becomes meaningful when supported by division of taxation power. Just like division of expenditure responsibilities, division of taxation power varies across federations.

According to Anwar Shah, four general principles require consideration in assigning taxing powers to various governments. These are economic efficiency, national equity, administrative feasibility and fiscal need/revenue adequacy. Let us see them one by one.

- A) **Economic Efficiency**: dictates that taxes on mobile factors and tradable goods that have a bearing on the efficiency of the internal common market should be assigned to the national government.¹⁰² This is because; sub-national assignment of taxes on mobile factors may facilitate the use of socially wasteful beggar-thy-neighbour policies to attract resources to own areas by regional and local governments.¹⁰³ In a globalized world, even the national assignment of taxes on mobile capital may not be effective in the presence of foreign tax

¹⁰⁰Chaudhry, (2010),

¹⁰¹Assefa Fiseha, *Federalism and the Accommodation of Diversity in Ethiopia: A Comparative Study* (3rd Revised Ed.),p93.

¹⁰² Anwar Shah, *Principles of Fiscal Federalism in the Practice of Fiscal Federalism: Comparative Perspective* (A Global Dialogue on Federalism, Volume IV),p20.

¹⁰³ Ibid.

havens and the difficult of tracing and attributing incomes from virtual transactions to various physical spaces.

- B) **National equity:** national equity considerations warrant that progressive redistributive taxes should be assigned to the national government. This assignment limits the possibility of regional and local governments' following perverse redistribution policies using both taxes and transfers to attract high-income people and to repel low-income ones. Doing so, however, leaves open the possibility of supplementary, flat-rate, local charges on residence-based national income taxes.
- C) **Administrative feasibility** (lowering compliance and administration costs): suggests that taxes should be assigned to the jurisdiction with the best ability to monitor relevant assessments. This criterion minimizes administrative costs as well as the potential for tax evasion. For example, property, land, and betterment taxes are good candidates for local assignment because local governments are in a good position to assess the market values of such assets.
- D) **The Fiscal Need or Revenue Adequacy:** criterion suggests that, to ensure accountability, revenue means (the ability to raise revenues from own sources) should be matched as closely as possible to expenditure needs.

These four principles suggest that user charges are suitable for use by all orders of government, but the case for decentralizing taxing powers is not as compelling as is that for decentralizing public service delivery. This is because; regional and local taxation can introduce inefficiencies into the allocation of resources across the federation and cause inequities among people in different jurisdictions. Moreover, collection and compliance costs can increase significantly and these problems are more severe for some taxes than for others. Hence, the selection of which taxes to decentralize must be made with care, balancing the need to achieve and sustain fiscal and political autonomy and accountability at regional and local orders of government against the disadvantages of having fragmented tax system.¹⁰⁴

¹⁰⁴ Ibid.

Researchers expounded experiences of four federations (America, Canada, Switzerland and Nigeria) on tax assignments based on the relevance they have with Ethiopian federation. Whether the federation is center-seeking or not is criteria used to select the countries for the study. This is because Ethiopian federation is not a center-seeking; and the experiences of the countries not center-seeking and best experienced are taken. The United States federal system has influenced many other federal systems including Ethiopia's vertical division of power. In a way modern federalism as we understand it today is America's unique contribution.¹⁰⁵ Canadian federation is selected as it represents best-practice system of fiscal federalism.¹⁰⁶ Switzerland is known for highly favoring autonomy of Cantons. Nigeria gear to favor federal; but best experience on natural resources.

2.4.1. Canada

Like any federal country, political power is divided between the federal and provincial governments. The constitution lists a number of powers that are exclusively federal, such as defense, international trade, criminal justice, money and banking, international waterways, unemployment insurance, bankruptcy, and divorce.¹⁰⁷ Exclusive provincial powers listed in the Constitution include health, education, social services, civil and property rights, administration of justice, highways, and matters of a local nature.¹⁰⁸ Other areas are shared between the federal and provincial governments, including immigration, agriculture, and pensions, although only in the former two is the federal government paramount.¹⁰⁹ Moreover, residual powers are given to provincial government.¹¹⁰ Below provincial governments, there are local governments whose powers emanate from provincial legislations.¹¹¹ They are responsible for local matters, such as local policing, water, sewage and garbage, local roads, and recreation.¹¹² They often participate in the delivery of provincial services, such as welfare and education.¹¹³

¹⁰⁵ Assefa supra note 101 at 6.

¹⁰⁶ Robin Boadway, *Fiscal Federalism in Canada* in *The Practice of Fiscal Federalism: Comparative Perspectives* (A Global Dialogue on Federalism, Vol II, 2007), p 99.

¹⁰⁷ *Ibid* at 102.

¹⁰⁸ *Ibid*.

¹⁰⁹ *Ibid*.

¹¹⁰ *Ibid*.

¹¹¹ *Id* at 104.

¹¹² *Ibid*.

¹¹³ *Ibid*.

In order to finance these responsibilities, taxation power is also divided between federal and provincial levels of governments. The federal government can also use any form of taxation it chooses, and it is free to spend as it sees fit and to borrow and to lend.¹¹⁴ Provinces can raise revenues for their own purposes using “indirect taxes,” although in practice this has been widely interpreted to include virtually any tax, except that aimed at taxing non-residents.¹¹⁵ The provinces also own the natural resources within their borders and can manage and tax them as they see fit.¹¹⁶ This has turned out to be a very important feature of the Canadian federation and one that has led to intergovernmental conflicts. Provinces have unfettered control over their own budgets, including the ability to borrow and lend. Local governments rely on property taxes and user fees and have the freedom to set their own tax rates.¹¹⁷ With limitations, they can also borrow and lend money.

Both federal and provincial orders of government have access to the main taxes so that a degree of revenue-raising autonomy can be achieved.¹¹⁸

The general framework of tax assignment among the different levels of governments in Canadian federation can be depicted by the following table.

Taxes	Determination of base	Determination of rate	Collection & administration	Shares in revenue (%)		
FEDERAL						
Income tax	Federal	Federal	Federal	64.7	35.3	
Consumption tax	Federal	Federal	Federal	45.3	54.7	
Payroll tax	Federal	Federal	Federal	68.6	31.4	
User fees	Federal	Federal	Federal	24.4	23.3	
STATE OR PROVINCIAL						
Income tax	Federal	Provincial	Federal	64.7	35.3	
Consumption tax	Provincial	Provincial	Fed & prov	45.3	54.7	

¹¹⁴Id at 102

¹¹⁵Ibid.

¹¹⁶Ibid.

¹¹⁷Ibid.

¹¹⁸Ibid.

Payroll tax	Federal	Provincial	Federal	68.6	31.4	
Resource tax	Provincial	Provincial	Provincial		0	
Health premium	Provincial	Provincial	Provincial		0	
Property tax	Provincial	Provincial	Provincial			
User fees	Provincial	Provincial	Provincial	24.4	23.3	.3
LOCAL						
Property tax	Provincial	Local	Provincial	0	2.2	97.8
User fees	Local	Local	Local	24.4	23.2	52.3

It is possible to read from the table that provincial governments have many tax bases on which they levy, collect and use so as to discharge their expenditure responsibilities. Their having exclusive power of taxation on natural resources is worthy commenting. As indicated above, taxes and charges imposed on natural resources which are unevenly distributed (for example, Alberta is highly endowed with natural resources than any other federating units) constitutes a significant source of revenue for provincials.¹¹⁹ Royalties and the sale of licenses are used in the case of oil and gas, and mining income taxes apply to minerals of various sorts.¹²⁰ Fees are also obtained from renewable resources such as timber. In some cases, especially hydroelectricity, provincial Crown corporations are used to generate profits for general revenues.¹²¹

Viewed from the perspective of fiscal federalism, allocating such unevenly distributed tax bases to provincial layer of government is not advisable as it increases horizontal imbalance among federating units and hence becomes source of fiscal conflict. It could also raise questions of national equity and efficiency. Of course, fiscal conflicts in Canada emanate because of either vertical or horizontal imbalances. Vertical imbalance is manifested when the federal government makes conditional transfers to provincial governments or when there is lack of appropriate balance between the revenue and expenditure responsibilities of the two tiers of government.¹²²

¹¹⁹Ibid at 111

¹²⁰Ibid.

¹²¹Ibid.

¹²²Ibid at 107.

Horizontal fiscal imbalance is mainly because of the rapid increment of price in oil and gas deposits.¹²³

In Canada, fiscal disputes and issues of fiscal inefficiency are addressed in one of the following four ways:

- 1) *The constitution precludes provinces from interfering with interprovincial trade in goods and restricts them to using direct taxes on their residents*
- 2) *The federal government has used its spending power to induce provinces not to impose mobility restrictions on entitlements for social programs*
- 3) *Federal-provincial tax harmonization agreements have been relatively effective in harmonizing federal and provincial income tax bases and, to a lesser extent, sales tax systems*
- 4) *The federal and provincial governments **have negotiated the extensive and detailed agreement** on internal trade, which covers a wide variety of areas including procurement, labour market regulation, investment, and policies that affect the flow of goods and services across provinces.*¹²⁴

2.4.2. Switzerland

Switzerland is a small country with an extensive federal structure.¹²⁵ As of 2019 the population size of the country is 8.6 million.¹²⁶ Since the constitution of 12th September 1848, in Switzerland, there are three layers of government: (1) the communes, at the local level, (2) the Cantons, at the intermediate level and the Confederation, at the national level-which are interconnected by many vertical and horizontal relationships.¹²⁷ The Swiss Constitution divided power between the Federation and Cantons in truly federal way. The constitution specifies the powers of the federation, the joint powers of the federation and the Cantons. It vests the

¹²³Ibid.

¹²⁴Ibid, F109.

¹²⁵A Global Dialogue on Federalism, The Practice of Fiscal Federalism: Comparative Perspectives, Vol. IV, p 319.

¹²⁶Switzerland Population, <http://www.worldometers.info/world-population/switzerland-population/> <accessed on 4/19/2019>.

¹²⁷Bernard Dafflon, Fiscal Federalism in Switzerland: A Survey of Constitutional Issues, Budget Responsibility and Equalization Working Paper Nr 278 (1999), P2.

residuary powers with the Cantons. The Cantons enjoy autonomy in respect of the legislation and administration of all those subjects which have not been given to the federation.¹²⁸

Article 3 of the new Federal Constitution of 1999 guarantees the Cantons' sovereignty in all the spheres in which the Constitution does not explicitly provide for the federal government's competence.¹²⁹ Each new competence for the centre therefore requires a constitutional amendment, which necessitates the consent of both a majority of the voters and a majority of the Cantons. The autonomy of the Cantons is also guaranteed by the legislative power with two Chambers. The Confederation has authority only in those areas in which it is empowered by the federal Constitution (e.g., foreign affairs, defense, customs, and monetary policy).¹³⁰

More than any other countries states or cantons have fiscal autonomy and power. When such power and autonomy is threaten by federal government there is possibility of asking for referenda; and 50% referenda in the world is taken in Swiss due to fiscal policy.¹³¹ Swiss cantons¹³² have extensive fiscal autonomy. Contrary to most other countries, the Swiss fiscal system is characterized by an extensive fiscal federalism with high fiscal autonomy at all governmental levels, by direct popular rights which include fiscal referenda at the cantonal and local levels, and by particular constitutional and/or statutory fiscal restraints in order to prevent excessive public debt.¹³³

In Swiss, fiscal constitution canton/states have substantial autonomy not only in expenditure but also in revenue. In Swiss, personal and corporate income taxes could be taxed at state and local level. Cantons have the basic power to tax income, wealth, and capital. The municipalities can levy a surcharge on canton taxes. The federal government relies mainly on indirect (proportional)

¹²⁸Top 9 Federal Features of the Swiss Federation Political System <http://www.politicalsciencenotes.com/switzerland/top-9-federal-features-of-the-swiss-federation-political-system/1438> <accessed on 4/17/2019>.

¹²⁹Bernard *supra* note 127 at 4.

¹³⁰ A Global Dialogue on Federalism, *supra* note 125 at 321.

¹³¹Id at 319.

¹³²Switzerland consists of twenty “full cantons” and six “half cantons.” With respect to fiscal matters, there are twenty-six cantons with twenty-six different fiscal constitutions. See for detail the 1848 Federal Constitution of Swiss Article 3. These constituent polities have their own income and property taxes.

¹³³Lars P. Feld and Gebhard Kirchgässner, Sustainable Fiscal Policy in a Federal System: Switzerland as an Example (2005), p281.

taxes, a value-added tax, and specific consumption taxes, such as the mineral oil tax.¹³⁴ Both federal and canton enacts tax laws in Swiss. In the course of enacting such laws, if the confederation interfere too much of cantons' interest, cantons can launch referendum opposing such law provide at least eight of cantons demand referenda. The first of such referendum was held in 2004 canton's opposing tax reform that taxes owner-occupied houses and apartments. The referendum was successful, and the reform was rejected. Since then, the federal finance minister has been much more hesitant to mingle with issues that touch canton interests. The experience of Switzerland shows centralizing and federal interference on state taxation autonomy may lead in to disintegration of federation. This shows Ethiopia too has to rethink on allocation or resource taxation made by the FDRE Constitution.

Tax assignments for various layers of government in Swiss

Taxes	Determination of base	Determination of rate	Collection & administration	Shares in revenue (%)		
FEDERAL						
Direct federal income tax	Federal	Federal	Canton/ local	70.00	30.00	0.00
Withholding tax	Federal	Federal	Canton/ local	90.5	9.5	0.00
Capital transfer tax	Federal	Federal	Canton/ local	100.0	0.00	0.00
Value added taxes	Federal	Federal	Canton/ local	100.0	0.00	0.00
Excise taxes	Federal	Federal	Canton/ local	100.0	0.00	0.00
Import duties	Federal	Federal	Canton/ local	100.0	0.00	0.00
Patents and concession	Federal	Federal	Canton/ local	100.0	0.00	0.00
STATE OR CANT						
Personal income taxes	Canton	Canton/ local	Canton/ local	0.0	54.9	45.1
Property taxes	Canton	Canton/ local	Canton/ local	0.0	55.3	44.7
Corporate income taxes	Canton	Canton/ local	Canton/ local	0.0	55.6	44.4
Capital taxes	Canton	Canton/ local	Canton/ local	0.0	60.6	39.4

¹³⁴A Global Dialogue on Federalism Volume, supra note 125 at329.

Real estate taxes	Canton	Canton/ local	Canton/ local	0.0	26.5	73.5
Property gain taxes	Canton	Canton/ local	Canton/ local	0.0	53.8	46.2
Property transfer taxes	Canton	Canton/ local	Canton/ local	0.0	72.2	27.8
Heritage and gift taxes	Canton	Canton/ local	Canton/ local	0.0	91.5	8.5
Motor vehicle taxes	Canton	Canton/ local	Canton/ local	0.0	100.0	0.00
Amusement taxes	Canton	Canton/ local	Canton/ local	0.0	31.8	68.2

2.4.3. The United States of America

The United States has operated as a federal country for more than 200 years.¹³⁵ Fiscal federalism and federalism more generally, attracts less attention in the United States than it does in many other federal countries. Taxes and expenditure assignment issues are less discussed in the political, media, or general public arenas. This may be a sign/indication that many people believe the system is working pretty well and does not require serious reform. In USA, the responsibilities of government are apportioned among the levels of government.¹³⁶ For example, the central government has general responsibility for defense; the states, for most prisons and roads; and local governments, for schools. Certain powers, such as taxation and the regulation of commerce, are shared. This is because once expenditure responsibilities are divided among federal, state, and local governments, it is necessary to ensure the means of fulfilling such responsibility. The ability to raise revenues via taxes will be considered first.¹³⁷ Experts advise on kinds of taxes to appropriate for central government and for regional and local governments. Accordingly, taxes that are most appropriate for central governments are taxes on highly mobile factors, taxes used to redistribute income, taxes with unstable revenue patterns, and source-based taxes such as corporation income taxes.¹³⁸ Taxes most appropriate for non-central governments

¹³⁵Ibid at 345.
¹³⁶Gregory Gleason (2016), FISCAL FEDERALISM IN THE US available at: <https://www.researchgate.net/publication/265045678> <accessed on 4/23/2019>.
¹³⁷Daphne A. Kenyon (2018), *Fiscal Federalism*, [http://encyclopedia.federalism.org/index.php/ Fiscal_Federalism](http://encyclopedia.federalism.org/index.php/Fiscal_Federalism) <accessed on 4/23/2019>.
¹³⁸ Gregory Gleason, supra note 136.

are taxes on immobile factors such as property, and residence-based taxes such as personal income and retail sales taxes.

The US Constitution imposes relatively few limitations on taxation at the US federal (Article 1 Section 8) and sub-national government levels.¹³⁹ The only restriction imposed on state taxing power is the prohibition against taxing exports from a state. Thus, federal, state, and local governments overlap considerably in their use of revenue sources.¹⁴⁰ For instance, corporate income taxes are source of revenue for both federal and states. In the United States of America, state can tax corporate; and taxing state shall apportion the corporate tax base for multistate firms basing on the activity sufficiently connected to the state. Whether a corporation's income can be taxed by certain state or in a given state is based on the connection of the activity to such state.¹⁴¹ There are court rulings that have established the environment within which state collect corporate income taxes. For example, in 1977 the US Supreme Court set up a framework for determining when a corporation's income can be taxed in any given state.¹⁴² Currently, Congress has several pieces of legislation that address many of these same issues. Such legislations proposed to allow states to tax corporate income only when firms have physical presence in the state. This shows irrespective of where the head state or which state or tier of government licensed the corporation, destination basis is made criteria for a state to collect the taxes. Actually, state in USA cooperates in the tax collection and they established multi-state tax commission organization so that taxes are collected effectively.

According to Kurt Schmidheiny¹⁴³, USA is known for its fiscal decentralization preceded by Canada and Switzerland. This shows in comparative terms, the United States is moderately non-centralized country and taxation power is shared among federal, state and local; even though their constitution do not mention local government which are treated under state laws.¹⁴⁴ The major feature of the distribution of powers, which applies symmetrically to all 50 states, is the

¹³⁹A Global Dialogue on Federalism, supra note 125 at 353.

¹⁴⁰Id at 349.

¹⁴¹Ibid at 361.

¹⁴²Complete Auto Transit Inc. v. Brady 430 us 274 (1977).

¹⁴³Kurt Schmidheiny (2017), Emerging Lessons from Half a Century of Fiscal Federalism in Switzerland p3.

¹⁴⁴Ronald L.Watts and Marianne Vigneault, Fiscal Federalism in the United States (2000), p1.

arrangement whereby the Constitution lists subject matters delegated to the federal government and leaves fairly substantial residual authority to the states. In USA, excise tax is given to regional states. Moreover, property taxes are almost exclusively taxed by local governments and generate nearly three-fourths of local revenues. Most local governments with taxing authority can levy property taxes too.

Taxes	Determination of base	Determination of rate	Collection & administration	Shares in revenue (%)		
				F	S	L
FEDERAL						
Personal income	Federal	Federal	Federal	100.00	0.00	0.00
Corporate income	Federal	Federal	Federal	100.00	0.00	0.00
Gasoline	Federal	Federal	Federal	100.00	0.00	0.00
STATE OR PROVINCIAL						
Personal income	state	state	state	0.00	100.00	0.00
Property	state	state	State/local	0.00	100.00	0.00
Alcohol/tobacco	state	state	state	0.00	100.00	0.00
User fees	state	state	state	0.00	100.00	0.00
LOCAL						
Property tax	Provincial State/local	Local	Local	0.00	0.00	100
Excises	State/local	State/local	State/local	0.00	0.00	100
User fees	State/local	State/local	State/local	0.00	0.00	100

2.4.4. Nigeria

The Nigerian constitution recognizes three tiers of governments: federal, state and local. The Constitution spells out the assignment of functions and areas of fiscal jurisdiction among the various units of the Nigerian federal system. Regarding expenditure responsibility, the constitution indicates the exclusive federal legislative list¹⁴⁵, concurrent legislative list on which both federal and states governments enact laws¹⁴⁶ and residual functions¹⁴⁷. Coming to taxation, the major sources of revenue – import duties, mining rents and royalties, petroleum profit tax,

¹⁴⁵Section 4 (Second Schedule) of the 1999 Nigerian Constitution.

¹⁴⁶Section 4 (Second Schedule) of the 1999 Nigerian Constitution.

¹⁴⁷Section 4 (7a) of the Nigerian Constitution.

corporate income tax, excise duties and value-added tax and personal income tax come under the jurisdiction of the federal government.¹⁴⁸ On the other hand, entertainment taxes, road taxes (motor vehicle and driver's licenses), pools, betting and lotteries taxes, gambling taxes, land registration, survey fees, development levies, property taxes fall under the jurisdiction of state governments.¹⁴⁹ Similarly, local governments have tax jurisdiction over market and trading licenses, and different fees like motor park dues, marriage, birth and death fees, registration fees, public convenience, sewage and refusal disposal fees, signboard and advertisement permit fees.¹⁵⁰

In spite of the assignment tax revenue at different levels of federation, Nigerian fiscal federalism is characterized by its excessive centralization-hence high vertical fiscal imbalance.¹⁵¹ The general picture of tax assignment among different levels of Nigerian federation can be summarized by the following table.

Taxes	Determination of base	Determination of rate	Collection & administration	Shares in revenue (%)		
				F	S	L
FEDERAL						
Import duties	Federal	Federal	Federal	100		
Company income tax	Federal	Federal	Federal/State	70	25	5
Withholding tax on companies	Federal	Federal	Federal/State	100		
Petroleum profit tax	Federal	Federal	Federal	100		
Capital gains tax	Federal	Federal	Federal	NA	NA	NA
Minus rents & royalties	Federal	Federal	Federal	100	-	-
Stamp duties	Federal	Federal	Federal/States	NA	Na	-
Value added tax (VAT)	Federal	Federal	Federal	100	-	-
Education tax	Federal	Federal	Federal	100	-	-

¹⁴⁸Akpan H. Ekpo, Federal Republic of Nigeria in *The Practice of Fiscal Federalism: Comparative Perspectives* (A Global Dialogue on Federalism, Vol II, 2007), P213

¹⁴⁹Ibid at 226-227

¹⁵⁰Ibid at 227

¹⁵¹Ibid at 214

Personal income taxes	Federal	Federal	Federal/State	80	20	
STATE OR PROVINCIAL						
Entertainment tax	State	State	State	NA	NA	NA
Road taxes (motor vehicle and driver's licenses)	State	State	State	NA	NA	NA
Pools, betting, and lotteries; Gaming taxes	State	State	State	-	-	-
Land registration	State	State	State			
Survey fees	State	State	State			
Development levies	State	State	State			
Property taxes	State/Federal	State/Federal	State/Local			
LOCAL						
Market and trading licenses and fees	Local	Local	Local	NA	NA	NA
Motor park dues	Local	Local	Local	NA	NA	NA
Marriage, birth & death	Local	Local	Local	NA	NA	NA
Registration fees						
Bicycles, truck, canoe, and wheel barrow fees	Local	Local	Local	-	-	-
Public convenience, sewage, and refuse disposal fees	Local	Local	Local			
Signboard and advertisement permit fees	Local	Local	Local			

Oil-producing Areas and Resource Control

Crude oil is the primary engine for national economic growth and development. It contributes almost 90% of Nigeria's total foreign exchange earnings.¹⁵² The national budget is also predicted on the expected annual production and price of crude oil.¹⁵³ It is, thus, quite reasonable to expect

¹⁵²Ibid.

¹⁵³Ibid.

that the areas producing the nation's crude oil would be very highly compensated for what is taken from them as well as for the devastation of the land engendered by the exploration process.¹⁵⁴ Exploration results in environmental degradation of all types – land (despoliation of farmlands), water (destruction of fishing areas and sources of drinking water), and air (release of many pollutants causing diseases in humans, animals, and plants).¹⁵⁵ The devastation and degradation suffered by the oil-producing areas are indications of the extraordinary expenditure needs of those areas that ought to be addressed by intergovernmental transfers.

¹⁵⁴Ibid.

¹⁵⁵Ibid.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter will present research methodology used to conduct this study.

3.1. Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions¹⁵⁶. In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It ensures that the study would be relevant to the problem and that it uses relevant procedures. The types of research employed under this study will be descriptive and analytical research method. The major purpose of descriptive research is description of the state of affairs as it exists at present. Then this study describes and critically assesses the Challenges of assigning taxation power between the federal and regional government under the FDRE Constitution and mobilizing revenue for Oromia National Regional State. The studies concerning whether certain variables are associated are examples of diagnostic research studies. As against this, studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation are all examples of descriptive research studies. Most of the social research comes under this category. From the point of view of the research design, the descriptive as well as diagnostic studies share common requirements and as such we may group together these two types of research studies.

As such, descriptive research and analytical research methods are employed. Descriptive research is a research that includes surveys and fact-finding inquiries of different kinds¹⁵⁷. By this method, the researchers will describe the reasons as to why tax revenues are not properly collected in the region. Analytical research, on the other hand, is a research which a researcher has to use facts or information already available and analyze them all to make a critical evaluation¹⁵⁸. In this research, the analytical Research Method is used to examine tax- related constitutional, legal and policy frameworks. For example, whether the allocation of taxing power between the federal and regional states is in line with the established theories of fiscal federalism is an issue examined by analytical research method. Moreover, whether the existing tax policy

¹⁵⁶John A.H. et al., 2007:20-84.

¹⁵⁷C.R. Kothari, Research Methodology Method and Techniques (2004), p20.

¹⁵⁸Id at 21.

and law are adequate to combat tax crimes like tax evasion and tax abuse is resolved by analytical research method.

Because of this, the research mixed up descriptive and analytical methods. While descriptive research is basically quantitative, analytical research is qualitative by its nature. Hence, the methodology of the research is a combination of quantitative and qualitative. According to Mark et al.¹⁵⁹, mixing qualitative and quantitative approaches gives the potential to cover each method's weaknesses with strengths from the other method. Its central premise is that the use of quantitative and qualitative approaches (mixed research) provides a better understanding of research problems than either approach alone.

The purpose of the qualitative aspect of this study is to deeply understand the existing gaps with the present assignment of taxation power between the federal and regional governments under the FDRE Constitution on the one hand, and the existing challenges of collection and its practices at the Oromia Revenue Authority within the existing constitutional and legal framework, on the other hand. Doctrinal analysis (established fiscal theory literature, and constitutional and legal texts), interviews and semi-structured questionnaires is employed to collect and analyze data.

On the other hands, quantitative research generates statistical data through the use of large scale survey research, using methods such as close-ended questionnaires and/or structured interviews.¹⁶⁰ Moreover, Creswell noted that quantitative approach employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield numeric data that can be analyzed using statistical procedures.¹⁶¹ Once the survey data have been collected, they were then analyzed so that the causal connection specified by the hypothesis or research questions is verified or answered¹⁶². Thus, it is a means for testing objective theories through examining the relationship among variables. It minimizes bias from the researcher's

¹⁵⁹Mark et al (2009:101)

¹⁶⁰Dawson, (2002),

¹⁶¹Creswell (2009),

¹⁶²Scott and Morrison, (2006),

influence and employs large sample size. Though, the results can be believed on and the results can be generalized to larger population. So that, it has limited scope.

3.2. Data and Data Sources

The study will use both primary and secondary data sources.

3.2.1. Primary Source of Data

The primary data will be collected through interviews, questionnaires and focus group discussion. Accordingly, tax payers of level A-C, Oromia Revenue Authority staffs at regional, zonal and woreda level, tax auditors at Oromia Auditor General, leaders and judges at Supreme and High courts of the region, a presiding judge at Tax Appeal Commission, members of Tax Grievance Hearing Committee at zonal and regional level, Legal Directorate Director at Minister of Revenue, Chairperson of Budget and Financial Standing Committee at Caffee participated by filling out questionnaires, responding to interviews, or participating in focus group discussion as the case may be. A mixture of open and closed ended questionnaires, interviews and Focus Group Discussion guides are used for data collection purpose. Moreover, texts of the FDRE Constitution, the Oromia National Regional State Constitution, tax laws and policies of the Oromia National Regional State, and some applicable federal tax laws are used as a primary source of data.

3.2.2. Secondary Source of Data

Secondary data was collected from textbooks, journal articles, regional and local government reports, tax cases decided by courts and tax appeal commission, internet, and from published and unpublished documents.

3.3. Sample Design

According to the data obtained from Oromia Revenue Authority (December, 2018) there are 22,290 A level tax payers, 26,905 B level tax payers and 348,725 C level, total **397,920 tax payers** in Oromia National Regional State.

Sample design is a definite plan for obtaining a sample from a given population. Conducting a study on the complete enumeration of all population or census survey is difficult to cover due to

different constraints especially if the inquiry is large¹⁶³. In sampling analysis, if the sample size is too small, it may not serve to achieve the objectives and if it is too large, we may incur huge cost and waste resources. As a general rule, one can say that the sample must be of an optimum size i.e., it should neither be excessively large nor too small.

Therefore, in order to proportionally include appropriate number of Taxpayers, the sample size were determined using the following formula developed by Kothari¹⁶⁴.

$$n = \frac{Z^2 * p * q * N}{(e^2(N - 1)) + (Z^2 * p * q)}$$

Where:

n= required sample size

Z^2 = is the abscissa of the normal curve that cuts off an area α at the tails ($1 - \alpha$ equals the desired confidence level. The value for Z is found in statistical tables which contain the area under the normal curve. e.g., $Z=1.96$ at 95% confidence level; and $Z^2=3.841$).

N= the population size (N=397,920)

P= the population proportion (assumed to be 0.5, this would provide the maximum sample size)

e = is the desired level of precision or margin of error (5% error or 0.05)

q= 1-P

Thus;

$$n = \frac{(3.841 * 0.5) * (1 - 0.5) * 397,920}{((0.05^2) * (397920 - 1)) + (3.841 * 0.5) * (1 - 0.5)} = 399.61$$

Accordingly, among 397,920 A, B and C level Taxpayers of the Oromia revenue Authority level, 400 of them were identified as a sample size to respond to the questionnaire, as illustrated in above. We then proportionately calculated for the three levels (A, B and C) of tax payers.

Hence, for Level A tax payers the sample size will be 22 tax payers, for B level tax payers the sample size will be 27 tax payers and for C level tax payers the sample size for this study will be 351 tax payers.

¹⁶³Cohen et al., (2007),

¹⁶⁴Kothari supra note 157 at 179.

The number of sample respondent from Taxpayers was selected from the target population using simple random sampling techniques to respond to the questionnaire. This sampling technique was used because it assures to be able to represent not only the overall population, but also key groups of the population; and it gives each possible sample combination an equal probability of being picked up and to have an equal chance of being included in the sample.¹⁶⁵

Furthermore, top experts of tax and members of top level management of Oromia Revenue Authority as well as the selected Zones will be selected as a sample purposively using Census sampling technique to respond the questionnaire and interview. As stated by Kothari, Census sampling technique enables to select all existing respondents and takes place when the researcher included all members of the population to the study; usually if the number of population is small.¹⁶⁶ Thus, these groups will be selected for this study as sample respondents; because they are small in number and their positions are important in describing the practices and challenges of revenue collection at Head Office of Oromia Revenue Authority. This helped the researcher to get significant information from them for the study.

In addition, at woreda level we used another technique to select respondents that is, we selected simple random sampling technique to respond to the questionnaire.

Therefore, in order to proportionally include appropriate number of Taxpayers, the sample size were determined using the following formula developed by Kothari¹⁶⁷.

$$n = \frac{Z^2 * p * q * N}{(e^2(N - 1)) + (Z^2 * p * q)}$$

Where:

n= required sample size

Z^2 = is the abscissa of the normal curve that cuts off an area α at the tails ($1 - \alpha$ equals the desired confidence level. The value for Z is found in statistical tables which contain the area under the normal curve. e.g., $Z=1.96$ at 95% confidence level; and $Z^2=3.841$).

¹⁶⁵Creswell, supra note 161.

¹⁶⁶Kothari supra note 157.

¹⁶⁷Ibid.

N= the population size (N=8108)

P= the population proportion (assumed to be 0.5, this would provide the maximum sample size)

e = is the desired level of precision or margin of error (5% error or 0.05)

q= 1-P

Thus;

$$n = \frac{(3.841 * 0.5) * (1 - 0.5) * 8,108}{((0.05^2) * (8,108 - 1)) + (3.841 * 0.5) * (1 - 0.5)} = 366.7$$

Accordingly, among 8,108 employee of the Oromia revenue Authority at woreda level, 367 of them were identified as a sample size to respond to the questionnaire, as illustrated above.

We then proportionately calculated the number of respondents who participated from each woreda included in this study. The number of zones, woredas and towns was selected purposively depending on the concentration of tax payers and tax performance of the zones. The tax performance of the zones is derived from the annual reports of Oromia Revenue Authority.

The above described sample design is designed to collect data from tax payers of the region, and experts and leaders of Revenue Authority in the region. But, the sources of primary data for the research are not limited to these groups. As indicated above, court presidents or judges, tax auditors, tax grievance hearing committee members, tax appeal commission judges do participate in responding interviews. Because of their positions, they are all key informants at least to respond some research questions, mainly the ones related to tax dispute settlements and identification of other existing gaps in law, policy and practice. Accordingly, the following ones participated in responding to interview questions:

1. Judicial Service Process Owner, Cassation Division Team Leader and two judges at Oromia Supreme Court level.
2. A President or a judge at High Court in all zones selected for the study
3. A Presiding judge of Oromia Tax Appeal Commission.
4. A member of Tax Grievance Hearing Committee at zones and regional level.
5. Audit Directorate Director and two tax auditors at Oromia Auditor General.
6. Budget and Finance Standing Committee Chairperson at Caffee Oromia.
7. Legal Affairs Directorate Director at the Federal Ministry of Revenue.

To indicate in table form:

Table 3.1 List of Interview participants

Name of Institution	Position of participants	Total number of participants
Oromia Supreme Court	<ul style="list-style-type: none"> - Judicial Service Process Owner, - Cassation Division Team Leader - two judges 	
High Courts in all zones selected for study	- A President or a judge in all zones selected for study	
Tax Appeal Commission and Tax Grievance Committee	<ul style="list-style-type: none"> - A Presiding judge of Tax Appeal Commission - A member of Tax Grievance Hearing Committee at all zones and regional level 	
Oromia Auditor-general	<ul style="list-style-type: none"> - Audit Directorate Director - Two tax auditors 	
Federal Revenue Ministry	- Legal Affairs Directorate Director	
Coffee Oromia	- Budget and Finance Standing Committee Chairperson	
Total		

Table 3.2 Cluster Sampling of zones and selected woredas

No	Cluster	Composition	No. of Woreda in the zone selected	Names of selected woredas/towns
1	Eastern Oromia	<ul style="list-style-type: none"> • East Hararge, 		1 1. Haromaya
				1. Aweday
				2. Meta
		<ul style="list-style-type: none"> • Arsii 		1. Tiyo
				2. Hetosa
				3. Ledo Hetosa
				4. Limmu & Bilbilo
		<ul style="list-style-type: none"> • East Showa 		1. Adama Tullu
				2. Ada'a
3. Dugda(Maki)				
2	Western Oromia	<ul style="list-style-type: none"> • Jimma 		1. Gomma
				2. Shabe
				3. Karsa

		<ul style="list-style-type: none"> • South West Shoa 		<ol style="list-style-type: none"> 1. Waliso 2. Bacho 3. Tole
3	South and South East	<ul style="list-style-type: none"> • West Arsi 		<ol style="list-style-type: none"> 1. Arsi Negelle 2. Gadab Asassa 3. Bishan Gurracha
		<ul style="list-style-type: none"> • Bale 		<ol style="list-style-type: none"> 1. Gasara 2. Goba 3. Madda Walabu
	Total	7		
4	Town Administration	<ol style="list-style-type: none"> 1. Adaamaa 2. Shashamane 3. Sebeta 4. Jimma 5. Bale Robe 6. Burayu 7. Bishoftu 		

3.4. Sample Size

This study employed different kinds of data gathering tool and also there is a multiple stage sampling used to find a representative sample. Therefore, for different data gathering tools we used varied number of respondents according to their characters. For questionnaires we used 10% of employees from each tax authority selected from the 21 woredas in Oromia region. At Woreda level we conducted 1 FGD in each woreda. The study also conducted interviews at regional, zonal, and woreda level.

Table 3.3 Sample size of respondents

<i>No</i>	<i>Type of data collection</i>	<i>Total population</i>	<i>Sample size</i>	<i>Participants</i>
1	Closed Ended Questionnaire	<ul style="list-style-type: none"> • Experts at ORA • Experts at ZRA • Experts at WRA • Tax payers 	Census Census 367 400	<ul style="list-style-type: none"> • Oromia Revenue Authority • Zonal revenue authority • Woreda revenue authority • A,B, and C tax payers

2	Interview	<ul style="list-style-type: none"> • 4 leader from ORA • 1 leader from Zone • 1 leader from woreda 		Region, Zone and Woreda leaders (Revenue Authority)
		<ul style="list-style-type: none"> • 1 process owner, 1team leaders and 2 judges at OSC¹⁶⁸ • 7 presidents & 7 judges at High Court 		Region and Zone
		<ul style="list-style-type: none"> • 1 Presiding judge at Tax Appeal Commission • 2 Members of Tax Grievance Committee • 1 Directorate Director & 2 auditors at Oromia Auditor-General • 1 Legal Affairs Directorate Director at Federal Ministry of Revenue • 1 Budget and Finance Standing Committee Chairperson at Caffee 		Region
3	Focus Group Discussion	22 Focus Group Discussion (1 FGD from each woreda)	8-12	Indirect tax payers, tax officers, individuals who rent houses, land holders and owners of buildings
4	Tax cases decided by courts	<ul style="list-style-type: none"> • 10 cases from OSC • 35 cases from High Courts (5 cases from each zone) 		
5	Tax cases decided by Tax Appeal Commission	<ul style="list-style-type: none"> • 5 from Tax Appeal Commission 		

¹⁶⁸OSC shorthand for Oromia Supreme Court

3.5. Methods of Data Processing and Analysis

3.5.1. Data Processing

The methods of data processing in this study were both manual and computerized system. In the data processing procedure editing, coding, classification and tabulation of the collected data will be used. Data processing has two phases namely: data clean-up and data reduction. During data clean-up the collected raw data was edited to detect anomalies, errors and omissions in responses and checking that the questions were answered accurately and uniformly. The process of assigning numerical or other symbols came next which was used to reduce responses into a limited number of categories or classes. After this, the processes of classification or arranging large volume of raw data into classes or groups on the basis of common characteristics were applied.

3.5.2. Methods of Data Analysis

Both primary and secondary sources of data are analyzed using both qualitative and quantitative methods. The statistical package for social sciences (SPSS) version 20 was used for processing and analyzing the data obtained from questionnaires. Descriptive statistics like frequencies, percentage and figure will be applied to facilitate meaningful analysis and interpretation of research findings. Qualitative data obtained through interviews, FGD and open-ended questionnaire were analyzed thematically with the use of direct quotations and narrations from the participants which helped in the enrichment and complementarities of the quantitative data. Doctrinal analysis was also another way of analyzing the research. It was used mainly to know the existing constitutional, legal, policy, and even practical gaps as far as substantive and procedural aspects of taxation are concerned. These were primarily examined against the established theories of fiscal federalism and other literature.

The statistics, which focus on the description of data presented, are known as descriptive statistics, in neither which hypotheses are being tested nor inferences drawn about a wider population. In contrast, inferential statistics are used in order to draw conclusions about a wider population from sample data and to examine differences, similarities and relationships between different variables. There are two aspects to inferential statistics: the first concerns the making of

inferences about populations from data drawn from samples and the second aspect comes from the testing of hypotheses or the study of relationships¹⁶⁹.

Quantitative and qualitative data are analyzed in different ways. For qualitative data, the researcher might analyze as the research progresses, continually refining and reorganizing in light of the emerging results. For quantitative data, statistical software is used since it is large data so as to make the process easy and efficient to use. For this type of analysis time has to be put aside for the data input process which can be long and laborious. However, once this has been done the analysis is quick and efficient, with most software packages producing well presented graphs, pie charts and tables which can be used for the final report¹⁷⁰.

3.6. Ethical Consideration

In conducting this study, an ethical considerations and safety measures will be made. Accordingly, before going to the field the letter was written to the selected zones, woredas and the neighboring regions for cooperation during data collection. When we go to the field and contact with respondents, the purposes and importance of the study was explained for the participants of the study and informed consent was obtained from each of them. Thus, participants will have the right to permit or refuse in the collection of data in any form; full right is deserved to withdraw at any time: to change ideas or to edit recorded materials. Besides, the privacy of the participants is promoted and they were informed that whatever information they provide will be kept confidential. That is, the confidentiality and anonymity of information is strongly maintained.

¹⁶⁹Sapsford et al. (2006),

¹⁷⁰Dawson, supra note 160.

CHAPTER FOUR

4. THE ANALYSIS OF CONSTITUTIONAL AND LEGAL ISSUES

4.1. Constitutional Issues

It is general truth that both federal and regional governments discharge their governing responsibilities in federal states. The same is true in our case. As per Article 94 (1) of the FDRE Constitution, both federal and regional governments borne their respective expenditures needed to discharge the functions assigned to them. One way through which bearing ones' own expenditure could be possible is by raising revenue in their administrative boundaries through taxes. The divisions of taxation power under the FDRE constitution are exclusive federal power of taxation (Art.96), exclusive regional power of taxation (Art. 97), concurrent (joint) power of taxation (Art. 98), and undesignated (residual) power of taxation (Art.99).¹⁷¹

The exclusive jurisdiction of the federal government's taxing power is those sources listed under 96 of the FDRE Constitution. For instance, levying and collecting custom duties, taxes and other charges on imports and exports is exclusively given to federal government and over 75% of federal government revenue source is said to be this one.¹⁷² According to this supreme law, there is no legal way for federal governments to levy and collect taxes alone on other sources than those listed under Article 96.

Similarly, exclusive tax jurisdiction of the states is listed under Art. 97 of the FDRE Constitution. Regional governments were empowered to levy and collect taxes and duties on revenue sources reserved to them.¹⁷³ For instance, States shall levy and collect profit and sales taxes on individual traders carrying out a business within their territory.¹⁷⁴ As per provision of Article 97 (5), states have power to levy and collect taxes on income derived from private houses and other properties within the State. Taxing properties situated within the region may include even federal properties situated in the region provided it is profit making property.¹⁷⁵

¹⁷¹ Some like Dr. Taddese Lencho identifies six types of division of taxation as related tax -----

¹⁷²Interview with Kuma Shumi, Head of Sebeta City Administration Revenue Authority on 29/5/2011.

¹⁷³See the FDRE Constitution Art. 52 (2 e).

¹⁷⁴See the FDRE Constitution Art. 97 (4).

¹⁷⁵See the FDRE Constitution Art.100 (3) for detail.

Article 98 of the FDRE Constitution is the joint taxation power of the federal and regional governments. According to this provision, both governments have concurrent power on the revenue sources listed under this Article; be it to levy or to collect taxes. So, it is incorrect if only one tier of government is doing the task alone without the consent of the other. Joint taxation power literally presupposes both governments share the proceeds derived from such activity. Customarily there are two trends on joint taxation through which fiscal imbalance or mismatch of revenue means and expenditure is tackled.¹⁷⁶ According to Shah, Tax-base and revenue-sharing mechanisms are customarily practiced on concurrent taxation power assigned by constitution in developed and developing countries respectively. Tax-base sharing is when two or more orders of government levy rates on a common base while revenue-sharing is when one tier of government has unconditional access to a specified share; though levying and collection of tax is done by other tier of government in most cases federal government. Revenue-sharing agreements typically specify how revenues are to be shared among the federal government and the state. The trend of Ethiopia on joint taxation is revenue-sharing. Oromia for instance do not involve in levying and collection of joint tax but share revenue collected from such source according sharing formula enacted by the HoF which was enacted in 2004 E.C.¹⁷⁷

The evil part of this is that it is massively affecting tax revenue generating capacity of Oromia from joint tax is criteria used to determine who share proceeds from the joint taxes. In Oromia, there are bundles of PLCs and Share Companies which are treated as joint taxation power of federal and Oromia as per Article 98 (2) of the FDRE Constitution. However, the practice currently in this regard is Plc and Share Companies are paying their tax at registration place and where they take Tax Identification Number (TIN). It is the registration places that take the share of income derived from Plc and Share Companies. Accordingly, different companies while working in Oromia merely because they take their TIN address outside the region particularly

¹⁷⁶Anwar Shah, introduction: principle of fiscal federalism available at http://www.forumfed.org/libdocs/_Global_Dialogue/Book_4/BK4-en-int-Shah.pdf

¹⁷⁷The percentage share of federal and regions is determined to be equal share on trade profit, taxes on dividend, employment income tax of workers in public enterprises jointly established, be it on large scale mining or companies; 70% for federal and 30% for regions on sales tax related to above; and 60% for federal and 40% for regions on royalties of resource taxes. See for detail the federal democratic republic of Ethiopia ministry of revenue federal inland and revenue authority letter written on 21/12/95 numbered Ref. No /2032/9

Finfinnee; the proceeds of joint taxes is automatically changed from Oromia to Finfinnee which researchers argue unfair.

The current practice that use TIN address as criteria to share joint taxes is massively affecting Oromia's tax revenue generating capacity could be argued against from two points of view. The first one is from position of Finfinnee as part of Oromia. Obviously Finfinnee is the capital city of Oromia and its existence within Oromia regional state is confirmed by the FDRE Consitution. As such whether companies TIN address and its registration is in Finfinnee or Oromia should not make change; since once capital may not be outside of a region's jurisdiction. So, even when TIN address of registration gives sharing power of joint taxes Oromia will not lose much since majority of companies operating in Oromia are registered and get their TIN from Finfinnee.

The other is from residence based taxation point of view. The resident based taxation instructs that, a country can tax persons if they are residents or domiciled in the country regardless of the source of income. In the case of companies, the place of incorporation can be considered as residence or domicile of a country or regional state of federating units.¹⁷⁸ This means the region within which companies work can tax or at least unconditionally get share in joint taxation. This argument is supported by an article published on tax justice network. In that article, income or profits which result from international activities such as cross-border investment may be taxed where the income is earned (the source country), or where the person who receives it is normally based (the country of residence). Residence taxation of income is based on the principle that people and firms should contribute towards the public services provided for them by the country where they live, on all their income wherever it comes from.¹⁷⁹

Regarding undesignated (residual) power of taxation (Art. 99) of the FDRE Constitution, the House of Federation and the House of Peoples' Representatives, shall in a joint session, determine by two-thirds majority vote on the exercise of powers of taxation which have not been

¹⁷⁸ Tojo Jose 2016, what is the difference between residences based taxation and source based taxation? <https://www.indianceconomy.net/splclassroom/what-is-the-difference-between-residence-based-taxation-and-source-based-taxation/> accessed on 6/25/2019.

¹⁷⁹ Tax Justice Network, https://www.taxjustice.net/cms/upload/pdf/Source_and_residence_taxation_-_SEP-2005.pdf accessed on 6/22/2019.

specifically provided for in the Constitution. This means, residual power of taxation, depending upon decision of joint session of the two Federal Houses can be assigned to either level of government or concurrently to both levels of government unlike residual legislative power which is totally reserved for the states

With this constitutional framework, let's proceed with analyzing Ethiopia's tax allocation to tiers of government based on surveyed experiences of certain federations and existing fiscal theories.

4.1.1. Areas which Need Reassignment

Under the FDRE Constitution, some tax bases are misallocated and needs reassignment. For example, the power to tax the income and winnings of national lotteries and other games of chance is given to the federal government (Art.96 (4)). But, the experiences of surveyed countries like Nigeria show that such taxes because of their very nature are best administered at state level of government.

Similarly, under the FDRE Constitution, property tax is allocated between the federal and state governments. Taxation power on property is allocated based on the ownership of the property. If the property is owned by the federal government, taxation power belongs to the federal government (art.96 (6)). On the other hand, if the property is owned by the state government, taxation power belongs to the state government (art.97 (6)). Again, there are cases whereby the Federal and State Governments have concurrent power of taxation on jointly established enterprises¹⁸⁰ although such enterprises are not established yet. However, almost all surveyed foreign experiences like Australia, Brazil and Canada show that property tax is best administered at state or local level of government. Hence, there is no need to divide the power of property tax into two levels of government in Ethiopian case.

4.1.2. Joint power of Taxation

Regarding joint (concurrent) taxes, the constitution stipulates that the revenue derived from concurrent tax sources shall be divided between the center and the regional governments as

¹⁸⁰ the FDRE Constitution, Art.98 (1).

determined by the House of Federation taking the federal arrangement into account.¹⁸¹ The sources of joint taxes are: 1) on profit, sales, excise and personal income taxes on enterprises which the center and regional governments jointly established 2) on sales and excise taxes and profits of companies¹⁸² 3) on dividends due to shareholders 4) on income derived from large-scale mining and all petroleum and gas operations and royalties on such enterprises.¹⁸³

One basic issue related with such types of taxes is how to determine the basis for the apportionment of revenue since the constitution does not set a percentage for the share of the center and the sharing region. Literature in the area tells us that the share of the percentage can be determined considering factors such as how much the financial capacity of the center is dependent on shared taxes, whether or not the division of shared taxes plays a role in income distribution, and the need to reward efficient regions.¹⁸⁴ In Ethiopia, both levels of government proposed and the House of Federation decided the share of the federal and state governments as indicated by the following table:

			The share of the centre & the regions on a tax-by- tax basis from each type of tax %	
1		Types & source of joint revenue	Share of the centre	Share of the region
	1.1	Revenue from enterprises jointly established by the center and region	Not available	Not available
2		Revenue from companies		
	2.1	Profit taxes	50%	50%
	2.2	Service, sales (VAT) and excise taxes	70%	30%
	2.3	Taxes on dividends	50%	50%
3		Revenue from large-scale mining and all petroleum and gas operations		
	3.1	Tax on profits	50%	50%
	3.2	Royalties	60%	40%

¹⁸¹ The FDRE Constitution, Arts. 62 and 95.

¹⁸² There is a difference between the Amharic and English version of Art. 98 (2) of the FDRE Constitution. While the English version limits the scope only to profit taxes on companies, the Amharic version says sales and profit taxes on companies. Moreover, excise tax is not included under Art. 98 (2).But it is not reasonable to exclude it. Hence,it is good understand the content of Art.98(2) to include profit taxes, sales taxes and excise taxes (For details, see Solomon, *infra* note 187, P142)

¹⁸³ The FDRE Constitution,Art.98.

¹⁸⁴ Teresa Ter-Minasian, *Intergovernmental Fiscal Relations in a Microeconomic Perspective: An Overview*; in Teresa Ter-Minasian (ed.) *Fiscal Federalism in Theory and Practice* (IMF, Washington DC,1997),Pp11-12 as cited in Solomon, *infra* note 187,p213-214

As one can grasp from the above table, the overall share balance tilted toward the federal government. Considering the role of the federal government in income distribution and the substantial contribution of these taxes such as taxes on companies, one can justify as to why the balance of percentage is tilted toward the centre. Let us consider some of them separately.

4.1.3. Taxes on Natural Resources

A constitutional provision on natural resource taxes tells us that both layers of government can jointly tax incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.¹⁸⁵ What constitutes large-scale and small-scale mining operation is a matter defined by another law. There is variation among federations regarding assignment of natural resource tax. For example, in Canada, it is totally assigned to the provincial level of government.¹⁸⁶ In Brazil and Nigeria, where natural resource tax is not totally assigned to the federal government, states and municipalities receive adequate compensation for the exploration of petroleum, gas, hydroelectricity, and other mineral resources inside their territory or in the adjacent maritime platform. So much so that sub-nationals from where natural resource is explored receive special treatment than other sub-nationals and the federal government. Normally, tax on natural resources is not exclusively reserved to the states because it may aggravate the gap between resource-rich and resource-poor states.¹⁸⁷

In Ethiopia, too, the revenue from taxation on income from large-scale mining and all petroleum and gas operations and on royalties collected from both operations are shared between the federal and regional government.¹⁸⁸ The appropriate revenue-sharing mechanism should address at least two contending interests. First, the region where the natural resource belongs may at times raise a sense of entitlement.¹⁸⁹ The exploration activity may impose additional costs in the region such as on the environment/security. Second, all the regions and peoples of Ethiopia have a vested interest in the income generated from mining operation, as the constitution confers ownership

¹⁸⁵the FDRE Constitution, Art.98 (3).

¹⁸⁶ This has obviously dual implications. First, it ensured the autonomy of the provincials substantially by covering their expenditure responsibilities. Second, it increased horizontal imbalance among federating as a drawback.

¹⁸⁷ Solomon Nigussie, Pp142-143

¹⁸⁸ the FDRE Constitution Art.98(3).

¹⁸⁹ Solomon, supra note 187 at 143.

rights on natural resources to the state and to the peoples of Ethiopia.¹⁹⁰ The present tax revenue sharing on natural resources 50% (federal government) /50% (for states) for profits and 60% (for federal) / 40% (for states) for royalty.¹⁹¹ Even if all Nations, Nationalities and Peoples of Ethiopia are owners of natural resources under the constitution, making such share is important to ensure regional fiscal autonomy. Moreover, in line with experiences of certain federations like Brazil and Nigeria, one can safely conclude that at least the idea of compensating the specific state where that natural resource is situated is reflected in sharing of joint tax revenue on natural resource.

The main question that remained unsolved is the mechanisms by which the states can check the fact that their share is appropriately transferred to them. Interview conducted with Oromia Revenue Authority on the issue reveals that there is no dependable system technology by which the states can properly do that.¹⁹² The existing trend is simply comparing the transferred amount with the previous years. If the transferred amount by this year is less than the previous year, that will lead to suspect wrong amount of transfer.¹⁹³

4.1.4. Tax on companies

According to Art.98 (2), taxes on the profits and sales of companies (partnerships and private limited companies) and dividends due to shareholders' are sources of concurrent taxes.¹⁹⁴ From the perspective of theories of fiscal federalism, the allocation of company tax is basically seen from the mobility factor of the economic activities of the companies. They usually operate in more than one state because their economic activities involve a multitude of factors from different jurisdictions, i.e., factors of production (capital, labour, land) may be used from several states and products and sales are going back to these regions.¹⁹⁵ But in Ethiopia, it is not mobility, rather the type of the enterprise that primarily distinguishes the issue.¹⁹⁶ Except for sole

¹⁹⁰ the FDRE Constitution Art.40 (3).

¹⁹¹ See the above table (Table at page 60).

¹⁹² Interview with Tarekegn Kenea, Tax Officer at Oromia Revenue Authority, 10/10/2011

¹⁹³ Ibid.

¹⁹⁴ Although excise tax is not mentioned under Art.98 (2), in practice, it is actually levied on products or the sale of companies. Hence some argue that its exclusion is 'a slip of a pen' as there is no reason to exclude it (Solomon Nigussie, p142).

¹⁹⁵ Solomon, supra note 187at 142.

¹⁹⁶ Ibid.

proprietorship, private enterprises such as a partnership and private limited companies are taxed by the federal government.¹⁹⁷ However if these companies are not engaged in business in several regions (say in case of laundry or a beauty salon), allocating them to the federal government serves little purpose.¹⁹⁸ Hence, it is reasonable to assign such kinds of businesses to regional states so as to enhance regional fiscal autonomy. If such allocation is made, the potential challenge would be how to know whether the business is operating in one or more than one states. And this can be handled by integrating (networking) tax revenue data of the country. Moreover, the business and licensing proclamation no 980/2016 obliges business organizations to notify the government whenever they open a new branch.¹⁹⁹

4.1.5. Residual Taxes

Regarding undesignated (residual) power of taxation, Art. 99 of the FDRE Constitution reads, the House of Federation and the House of Peoples' Representatives, shall in a joint session, determine by two-thirds majority vote on the exercise of powers of taxation which have not been specifically provided for in the Constitution. This means, residual power of taxation, depending upon decision of joint session of the two Federal Houses can be assigned to either level of government or concurrently to both levels of government unlike residual legislative power which is totally reserved for the states.²⁰⁰ This has potential to substantially limit fiscal autonomy of states though the FDRE Constitution in principle advocates autonomy of states. To some extent, it also deviated from the general fiscal principle of revenue follows function.

4.2. Legal Issues

In the above section, we have tried to analyze the FDRE Constitution with regard to assignment of taxation power between federal and regional governments. Now we will try to assess some of federal and Oromia regional state laws with regard to taxation. This part intends to examine how these laws are affecting revenue generation capacity of the region. In general, most of the legislations that have been enacted by the regional government have been focused in

¹⁹⁷ Ibid.

¹⁹⁸ Ibid.

¹⁹⁹ Commercial Registration and Licensing Proclamation, Proclamation No.980/2016, Art.5 (4).

²⁰⁰The FDRE Constitution Article 52(1) reads as follows: All powers not given expressly to the Federal Government alone, or concurrently to the Federal Government and the States are reserved to the States.

implementing the federally enacted counterpart legislation. When the contents of the laws are considered they are almost exact copy of the federally enacted legislation with minor changes as to nomenclature and application clauses. This has labeled the legislations as copy of federally enacted laws rather than regional laws. These have led to the laws not being fully utilized to solve the regions apparent problems of not being able to raise enough revenue that it supposed to. Because, the laws have worked not on expanding the regions revenue raising capacity. But, rather on implementing the existing revenue sharing quota.

4.2.1. Federal Legislations Related to Taxes

A) Federal Tax Administration Proclamation No. 983/2016

The proclamation is enacted with the intension of governing the administration of domestic taxes with a view to render the tax administration system more efficient, effective and measurable. This proclamation included duties and responsibilities of tax authorities, taxpayers, supports needed from different sectors, how taxes disputes should be resolved and administrative as well as criminal responsibilities for violation of tax laws. This proclamation is all about tax administration and doesn't have any effect on revenue generation of Oromia region and we believe detail look into the proclamation is of no use for the purpose this research.

B) Federal Income Tax Proclamation No. 979/2008

This is a vast proclamation divided into 11 sections with 102 Articles. Under Article 7, the part dealing with scope of applicability of the proclamation, it says it is applicable to all Ethiopian residents with respect to their worldwide income and non-resident with respect to Ethiopian source of income. The proclamation is meant to regulate all income taxes from employment income taxes under schedule A²⁰¹, taxes from rental of buildings under schedule B²⁰², taxes from trade under schedule C²⁰³, and other income taxes under schedule D²⁰⁴. In addition, the proclamation has incorporated how incomes from mining and petroleum production will be levied and collected. As per Article 37 taxation of license of mining and petroleum operation is

²⁰¹ Federal Income Tax Proclamation No.979/2016 Article 10-12.

²⁰² Federal Income Tax Proclamation No.979/2016 Article.13-17

²⁰³ Federal Income Tax Proclamation No.979/2016 Article.18-27

²⁰⁴ Federal Income Tax Proclamation No.979/2016 Article.51-64

regulated by this proclamation and mining income tax proclamation 53/1993 and amendments thereto is repealed by this proclamation.²⁰⁵ This proclamation is one implemented by federal government and it may give interpretation that collection of mining income tax is given to federal government while actually the FDRE Constitution give levying and collection of mining income tax for both federal and regional governments. So, this has potential effect of reducing Oromia regional state tax.

Progressive type of taxation is applicable in Ethiopia in general and in Oromia in particular. Progressive taxation is used for employment income tax²⁰⁶, rental income tax²⁰⁷, and business income tax for individuals,²⁰⁸ while flat rate of 30% is applicable for bodies; be it rental income tax or business income tax.²⁰⁹

C) Value Added Tax Amendment Proclamation No. 609/2008

Ethiopia introduced value added tax (VAT) in the year 2003 as a replacement to sales tax. Since then VAT is becoming the principal source of revenue for the Ethiopian government. This proclamation replaced the previous sale tax proclamation with the view to minimize the damage that may be caused by attempts to avoid and evade the tax and helps to ascertain the profit obtained by the taxpayers.²¹⁰ It is enacted to easy tax administration, to reduce consumption and to increase saving which in turn enhance investment.²¹¹ VAT is applicable to any transaction taken throughout the country by those registered to use sale machine based on the type of activity they work on or by the amount of annual transaction they carry out. So, it is collected throughout the country and shared between federal and regional governments. The percentage of share between federal and regions is 70%, 30% respectively. This percentage is determined in 1995 G.C.²¹² The percentage is not fair since the federal government benefit without any effort while regions, Oromia for our purpose. Two problems are observable from the VAT proclamation.

²⁰⁵Federal Income Tax Proclamation No.979/2016, Art.100 (1 (b)).

²⁰⁶Federal Income Tax Proclamation No.979/2016 Art. 11

²⁰⁷Federal Income Tax Proclamation No.979/2016 Art. 14(2).

²⁰⁸Federal Income Tax Proclamation No.979/2016 Art. 19(2).

²⁰⁹For detail, see Federal Income Tax Proclamation No.979/2016 Arts.14 (1) and 19(1).

²¹⁰Value Added Tax Proclamation No.285/2002, the preamble.

²¹¹ See for detail the preamble of Value Added Tax Proclamation No.285/2002.

²¹² Look at the FDRE Ministry of Revenue Federal Inland Revenue Authority letter written numbered 01/ ለ 1/1/1 by 8/11/1995.

First, it negates constitutional provision in the sense that, taxes from individual traders is assigned to regions and there should be no room to take some taxes from individual traders either as joint or federal taxation power. In case of VAT the practice is all areas collect VAT and send to federal government in block account and the federal government share to them according to sharing formula which is said to be 70, 30. If it had to be shared between federal and regions, fairness of the percentage needs investigation since it is reducing revenue of regions in general and Oromia region in particular.

The second problem revolves around substance of the proclamation. Especially the penalty provision is affecting some since there is possibility of incapability to pay 50,000 which thereby pool them out of the trade negatively affecting revenue of the region.²¹³ Others prefer to be punished comparing benefit they get from such punishment vis a vis conducting transaction without using cash register. The penalty provision did not take into consideration different things.

D) Mining Operations Proclamation No. 678/2010

Large scale mining and all petroleum and gas operations income tax is designated as the concurrent power of the federal and state governments.²¹⁴ With the exclusion of large scale mining, states are also empowered to collect taxes on income derived from mining operation as stated under article 97 (8) of FDRE Constitution. The HPR of the federal government issued proclamation number 678 of 2010 to regulate the development and utilization of mineral resources. Under article 65 (2) of proclamation number 678 of 2010 income tax from large scale mining shall be governed by Mining Income Tax Proclamation Number 53 of 1993 as amended by Proclamation Number 23 of 1996. Despite large scale mining being a concurrent taxation power of the federal and state government, it is the HPR of the federal government that issued the proclamation that regulates the taxation of large scale mining. The authority that issues license for large scale mining is also the FDRE Ministry of Mines and Energy.²¹⁵ It is not clear what role and say the states which are concurrently empowered over large scale mining by the

²¹³ FGD Bishoftu, Oromia, Ethiopia, Conducted on 9/02/2019.

²¹⁴ The FDRE Constitution, Art.98.

²¹⁵ Mining Operations Proclamation No. 678 of 2010, Art. 2 (16) cumulative with 26 (1).

constitution had in the promulgation and subsequent administration as well as revenue sharing of large scale mining. The Mining Operations Proclamation No. 678 of 2010 under article 65 (2) states that artisanal and small-scale mining income tax can be collected as per the laws of concerned state. A contrary reading seems as if large scale mining is given to federal and others to regional states. Actually practice shows large scale mining is taxed by federal government which has negative effect on the revenue generation of Oromia.

E) Proclamation and Regulation on Investment (Proclamation No 769/2012 and Regulation No. 312/2014) ²¹⁶

If properly implemented investment is a very important instrument to bring about development. Because of this, many developing countries provide different incentives. The type of incentives could be fiscal, financial, or other types.²¹⁷ Fiscal incentives may include reduction of the standard corporate income tax, tax rate, investment and reinvestment allowances, tax holiday, accelerated depreciation, exemptions from import duties.²¹⁸ Financial incentives are government grants, subsidized credits, government equity and participation.²¹⁹ Regulatory incentives, subsidized services, market privileges, and foreign exchange privileges are other types of incentives for the investors.²²⁰ The rationale behind investment incentives is to attract investors so as to secure economic benefits such as job creation, technology transfer, regulation of foreign exchange.²²¹

Tax incentives as a type of fiscal incentives for investment are used to attract investors. But, they vary in form and across jurisdictions. In Ethiopia too, investment proclamation and its implementing regulation provide many tax incentives for the investors.²²² These could be exemptions from payment of customs duty while importing capital goods and construction

²¹⁶ Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers (Amendment) Regulation No 312/2014.

²¹⁷ Tesfaye Abate, Investment Law (Teaching Material Prepared under the Sponsorship of the Justice and Legal System Research Institute, 2009), Pp 211.

²¹⁸ Bhalla and Ramu (2001), p503 in Tesfaye Abate, supra note 217 at 211

²¹⁹ Ibid.

²²⁰ Ibid.

²²¹ Ibid.

²²² A Proclamation on Investment, Proclamation No.769/2012; Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers (Amendment), Regulation No 312/2014.

materials and/or exemption from income tax depending upon the type of investment the investor engaged in. Income tax exemption could, for example, last for a decade or even more.²²³ This obviously has negative implications as it decreases the amount of tax revenue.

4.2.2. Oromia Regions Taxes Legislations

In general most of the legislation that has been enacted by the regional government has been focused in implementing the federally enacted counterpart legislation. When the contents of the laws are considered they are almost exact copy of the federally enacted legislation with minor changes as to nomenclature and application clauses. This has labeled the legislations as copy of federally enacted laws rather than regional laws. These have led to the laws not being fully utilized to solve the regions apparent problems of not being able to raise enough revenue that it supposed to. This is because the laws have worked not on expanding the regions revenue raising capacity. But, rather on implementing the existing revenue sharing quota.

A) A Proclamation to Amend Rural Land Use Payment and Agricultural Income Tax of Oromia Regional State's Proclamation No 99/2005 (Proclamation No 131/2007)

Going over this proclamation, one can easily grasp two things. The first is the amount of tax levied and collected from farmers is very small. For rain dependent farmers, depending upon land size (hec.), the amount of tax ranges from 15 birr (for land size < 0.5 hec.) to 260 birr (for land size > 5 hectares). Given that 87% of Ethiopian population lives on agriculture, taxing maximum of 260 birr substantially reduces the amount of regional revenue incurred from tax. Similarly, those farmers who produce using rain and irrigation, it ranges from 45 birr (for land size < 0.5 hec.) to 280 birr (for land size > 5 hec.). In both cases, the tax rate is progressive upto 5 hectares and flat above 5 hectares. In such arrangement, a farmer holding 6 hectares and 10 hectares makes equal payment, i.e., 260 or 280 birr as the case may be. This is definitely unfair as it contradicts with the principle of ability to pay.

²²³A Government or nongovernment organization or private investor who develops forest based on the directives of Oromia Investment Commission shall be exempted from rural land use payment (see Art.2(4) of Proclamation No 131/2007 A Proclamation to Amend Rural Land Use Payment and Agricultural Income Tax of Oromia Regional State's Proclamation No 99/2005).

The second is the existence of tax exemption on rural land use. Accordingly, a government or nongovernment organization or **private investor** who develops forest based on the directives of Oromia Investment Commission shall be exempted from rural land use payment. Considering that the government develops forests and makes its use for the benefit of the public, one can trace the reason why the government is exempted from tax. But, it is difficult to trace the reason why non-governmental organizations and private investors are exempted from tax as it is presumed that most of them work for profit. The implication of this on revenue generation for the government is obviously negative.

B) Proclamation for Amendment of Oromia National Regional Governments Income Proclamation, Proclamation No.202/2009

Regarding the scope of application the proclamation clearly meant to be in congruent with the provisions of the constitution. Because it clearly state under art. 4, that it will exclude all the constitutionally federal mandated incomes as per art. 96 of the constitution. Under art.10 the proclamation has widened its application by covering that anybody that has an income also has the responsibility to pay tax. The proclamation is roughly divided in to general parts that deals with definition and other things related to scope of the proclamation, specific tax base part that specifically lays out tax bases that are subjected income tax and at what rate. (starting from art. 11-73) and the penalty part which outlines any offence that are related to tax evasion and avoidance that might occurs in the process of income taxation. In its preamble though the proclamation has stated to work toward inclusion of trade activities that are outside the tax net. In reality the content of the proclamation is not focused on businesses that are outside the tax net, rather on business that are already in the tax system. Having said that, the proclamation has tried to do so by definition. The proclamation would be functional against registered and unregistered business that of any kind that earn any income. Because, it literally indicates under art. 10, that anybody who earns any income is liable to tax as per the proclamation. Furthermore the proclamation has included under its scope the taxation of any income generating activities that are not exclusively given to the federal state by virtue of art. 96 of the Constitution are subjected to the proclamation. Which means that the concurrent revenue power that has been mentioned under art. 98 of the constitution would be subjected to the Oromia National Regional taxation authority. This would make the revenue raising capacity of the region more prominent. Over all the Proclamation 202/2009 did not reinvent the wheel but rather used the design queue that has

been set by the constitution and proclamation 979/2008 of the Federal income proclamation. The provision of the Proclamation 202/2009 goes in line with the power revenue division that is envisioned under the Constitution Art. 96-100.

On the issue of business organizations and companies that work in the region the proclamation has avoided clear contention with the constitution. The proclamation tried to cover the business organization that work in the region through inclusion by definition. Such as defining what means by resident business organization and what is meant by dividend (art. 2(7) of proclamation 202/2009). The proclamation definition for organization that works permanently in the region (dhabbata dhaabbiidhaan hojjetu) tried to expand the state's power of taxation across all business organization that permanently work in the region. But as per article 98(2) of the Constitution it has been designated as concurrent power of taxation of the states and the Federal government. As has been mentioned earlier the proclamation has taken the prerogative of subjecting the concurrent power of the federal and state power of taxation that has been mentioned under art. 98 of the constitution. Additionally the Proclamation has further qualified branches and other company operating in the region to liable to income tax payments under art. 7. By this argument the proclamation has clearly indicated that PLC is subjected to the regions income tax proclamation. This could be hailed as the right track toward expanding the tax base for the regions ability to raise revenue.

On the source of income the proclamation has introduced a general definition of source of income which could help in covering all the incomes that are generated from the region to be taxed by the region. Thus the proclamation clearly stipulated under art. 8 all the connections that should be taken in to consideration, when defining the sources of income and, whether it should be subjected to the taxation power of the region. One can see that the proclamation rightfully covered all the connections that indicated that the income was earned from the region and thus should pay tax for the region. Because connection such as employment income that emanated from the region should be taxed by the region are mentioned. Also all commercial income that emanated from the region is supposed to be taxed by the region according to the proclamation. Additionally none residents that perform business in the region through themselves or their business are subjected to the regions taxation power.

The proclamation also covered the issue of dividends that is paid to its members as income that is gained in the region. The issue of entertainment tax is also covered by the proclamation. Though, the issue is limited to sports and entertainment and further to the specific. Under entertainment tax proclamation 202/2009 has limited its application to only entertainments such as soccer and concerts as indicated under art. 50. Additionally the entertainment tax that is due is only for teams or entertainment providers that are out of Ethiopia. The law seems to suggest that in Ethiopian entertainers are not subjected to the tax. On employment income the proclamation has used the approach of residence and where the work is done when defining employment income under art. 8(1) of proclamation 202/2009. This could be said to be new idea which could be taken as a deviating point from the constitutional division based on employer. This seems to have expanded the employment income tax that could be levied that is under art. 97(1) of the constitution. Since the proclamation has basically taken the place of employment as a base for determination withers the employee should pay tax to the region or not.

The proclamation has divided tax payers like its counterpart of the Federal tax proclamation and inadvertently took the estimation for tax payers under the category “c” of tax payers. The issue with this is that though the law clearly indicates the mandatory deduction of general expenses that is allowed for the tax payers as later will be indicated in data gathered the practical application is in a bit of predicament. Because the estimation practically take in to account what is present in the shop at the time of arrival of the estimating group not what the tax payers actually have. This is observed in contrary provision under art. 21 and 22 of the proclamation. On oil and mineral business, the region has levied an income tax of 25% after deductions. This is without qualification of any federally registered or not of the business with goes in line with the thought that it is a concurrent area regional governments can regulate it with their own laws. The proclamation in nowhere mention the issue of division between large-scale and small-scale mining. Thus seems to direct the application of the provision of the proclamation on all mining activities. Because under art.5 of the proclamation has provided that it would be applicable to all class of business persons and organizations. Furthermore, the proclamation provides that, where the place of production of the mineral or oil is in the region, then it will be taken as a business that is residing in the region and will be subjected to taxation (art. 6).

The proclamation has introduced new tax bases such as inheritance tax (art. 53), profit tax (art. 52), windfall gain or profit (art.56), undivided profit (art. 57), a profit earned by a non-resident through their permanent business in the region (art. 58), any income that is not classified under the schedule are taxable flat rate (art. 58). These are incorporated as additional tax base but, as will be discussed this area are not being focused on to expand the tax base of the region.

C) Oromia Regional Government Income Tax Proclamation No. 203/2009

This proclamation is responsible for tax administration and collection in region. For most the proclamation is a strait forward proclamation which is intended for implementation proclamation 202/2009 which is considered in the previous topic. With regard to employees, the proclamation directs that the employers must register them with the tax authority to get them TIN if they are unregistered according to art. 11 (3). Thus seems to indicate that the all employees in the region save those that are exclusively under the Federal jurisdiction must be registered with the authority. This also goes in line with the advocated principle that every tax payers should have one TIN as provided under art. 15. The very purpose of TIN is to track the tax record of the tax payer. This is mentioned under art. 16 of the proclamation. However, the reality is that there is no way to track the TIN that a person gets from the from different locality. This is being manifested in reality through the non-traceability of transaction which would be discussed under the next chapter as a problem in relation to VAT and other transaction that require receipt. Apparently the problem of cancelation of TIN registration is not as is provided under art. 17 of the proclamation which requires the clearance for any transaction is not affected.

For the purpose of taxation, the taxpayers are required to keep documentation as per art.19 of the proclamation. However, these only work for taxpayers who are by law required to keep record. However, these taxpayers are required to keep the record of their transaction and issue receipt for any transaction they make. The real problem is they do not keep a good record and usually issue a receipt for their transaction. This prominent problem exists in practice as would be discussed under chapter five especially with VAT registered taxpayers. By law tax payers can declare their tax liability through self-assessment or through any determination made by the authority based on reliable and verifiable source of information as per art. 25 of the proclamation. In such case if taxpayer failed to declare their assessment the authority would be forced to estimated mode of assessment as per art. 28. But, the taxpayer would still have the right to lodge complaint in

accordance with art. 28(3) of the proclamation. Additionally the tax authority could make jeopardy assessment in case of fear of default or the taxpayer unwillingness to assess itself. In any case, of the assessment the taxpayer can appeal to the tax authority for review of the tax or any amendment needed.

Under art. 40, 56, 59 and 89 the proclamation generally indicates that if the taxpayer failed to object the assessment made, he shall be liable to pay them. Thus, the taxpayer has the right to appeal to the tax board, the high court, and Supreme Court consecutively if he chooses to. To avert the default of taxpayer the law has provided procedures to insure the taxpayer's compliance with his/her obligation. These are present under art. 41 and 42. This indicate that any non-collected tax is the problem of implementation not that of the law. Because the law have provided the authorities with option vast as far as the seizure power of the taxpayers property in case of default without waiting for court warrant. For securing of payment of tax that could be due, the law has further provided the authorities with the power to ask for preservation of funds and assets that are deposited with the financial institutions in the country. This includes any materials that have been deposited with the institutions for safekeeping as per art. 44. These actions must be backed by court order within 10 days. If the financial institution failed to comply with this orders they shall be personally liable for the tax debts of the personally. The tax authority has the power to claim any property from third parties through garnishee. Additionally law goes as far as providing the power of the tax authority to request instating of departure prohibition if the taxpayers is risk of flight. The tax authority also has the power to close the business or part thereof for 14 days. Unfortunately, this is the most exercised power of the tax authority. If the taxpayer is responsible for tax is transferring his assets to related persons, the transferee shall be personally liable for the tax due in addition to recovering of parts of the property transferred. Furthermore, the authority is under art. 50 is given the power to regulate fraud that is aided by professionals such as certified auditors, accountants or public auditors. Thus, if they have knowingly participated in the fraud or evasion they shall be jointly and severally be liable for the amount of evaded or deducted tax with the tax payers. For investigation and searching of the and suspected persons personal and premises the authority is empowered to enter, search and seize without notice.

An appeal procedure that is present under art. 56 is a little bit unorthodox considering an ordinary procedure of appeal in ordinary courts in civil cases. Because, it requires taxpayer to object within 21 days any authorities decision. The authorities are given the power to reject any objection that did not provide valid ground of objection and any amendment that the taxpayer wishes. Thus, the tax authority if it believes that valid ground is presented pass the objection to the tax objection review authority. If not, shall reject the objection upon which the taxpayer shall be entitled to object again on valid ground within 21 days.

The tax objection review committee shall make recommendation to the authority. The authority shall make its objection decision based on the committee's recommendation. This procedure shall make the authority review its own decision effectively hearing appeal of its own decision, which could work against the taxpayer's right. The taxpayer if not satisfied with the authorities decision or no decision has been given within the given time can further present its appeal to tax appeal commission. But the appeal can only be valid if the 50% of the tax imposed is paid which could be referred to as hurdle that could be hard to clear by taxpayer. The taxpayer if not satisfied with the decision of the tax appeal commission can further take his/her appeal to high court and further to Supreme Court consecutively. The appeal to high court shall be treated as valid if and only if the taxpayer has paid 75% of the tax in question further limiting the taxpayers right of appeal. Furthermore, the ordinary court can only entertain tax appeal cases on issue of laws not on issue of tax amount and facts. However, the problem lies in the identification of what constitute the issue of facts in practice. From these procedures of appeal the following could be concluded, the procedure is narrow and effectively limits the taxpayer's right of appeal. The amount of money that is paid to be heard could prove to be problematic.

Ideally, the law requires the tax-registered person to present their clearance to participate in any bidding or renew their license. But the practice of the bodies working in congruent is not less than often. This has led to problem of tax evasion and fraud practice between the tax authority and license renewing authority.

CHAPTER FIVE

5. PRACTICAL ISSUES: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This study is broad in its scope because it covers the challenges of revenue generation and collection in the region; as well it tries to investigate gaps in the working laws, procedures and the constitution. Therefore, the study has analyzed the findings of the topics in separate chapters for the simplicity and research management. Thus, this chapter has focused on explaining the research participant's background and their responses mainly on the questions and objectives rose in the questionnaires collected from the experts and tax payers in the region.

5.1. Results and Discussions

5.1.1. Back ground of the respondents

For the purpose of this research different types of data have been gathered from various respondents using different types of data gathering tools. The total sample frame and the data type have been explained in detail in chapter three. Therefore, under this chapter we will try to show the detail background of respondents who have participated in answering questionnaires.

In this research, data have been gathered from different parts of Oromia including federal and regional offices, zones, woredas and major cities from west, east, south and central parts of the region. The respondents' backgrounds like sex, age, educational background, job experience have been discussed. Questionnaire data for this study have been collected from two distinct groups of respondents, i.e. from three levels of tax payers (level A, B and C levels of tax payers) and from different levels of public servants. Therefore, the study has analyzed the response from both groups of the respondents.

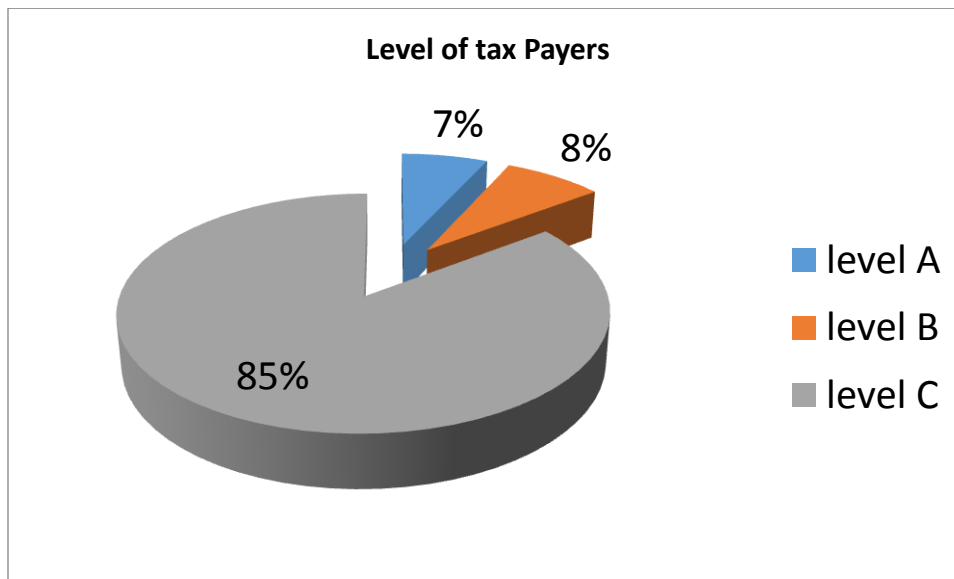
Table 5.1 Types of respondents (n=1015)

Types of Responders	Frequency	Percent
Experts	621	61.18
Tax payers	394	38.82
Total	1015	100

Source: Data gathered by OSLA & OJSPTLRI, 2019

The above table shows the number of data collected for the study and we can see from the figure that the response rate according to the plan was good. From the total size of questionnaire planned, this study has managed to collect 97% responses. From the total respondents around 61% of the respondents are experts mostly from woreda level, the second is from zone and few are from regional revenue authority. Three levels of tax payers were also involved in this research; from the total sample size about 39% of the respondents are tax payers from different zones and city administrations.

Chart 5.1 Level of tax payers (n = 394)

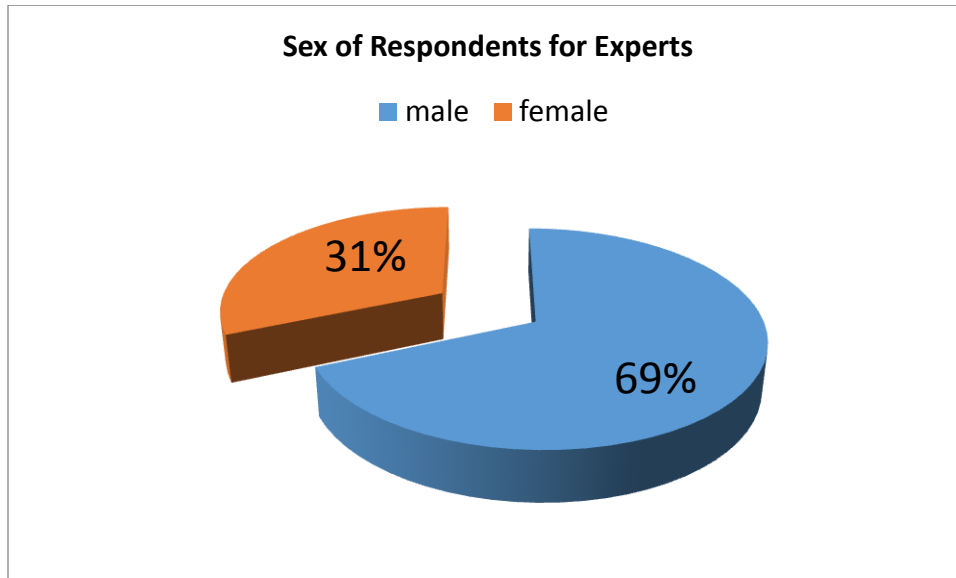


Source: Data gathered by OSLA & OJSPTLRI, 2019

This study has involved three levels of tax payers. The number of tax payers from each level involved in this study is proportional to the number of tax payers in the region. Therefore, from the above pie chart we can see that the majority of the responses are collected from the level C

tax payers mainly from woreda level tax payers. The number of tax payers involved in the study for level A and B tax payers is almost equal which is 8% of the respondents are B level tax payers and the remaining 7% of the tax payers A level tax payers.

Chart 5.2 Sex of respondents for Experts (n= 621)

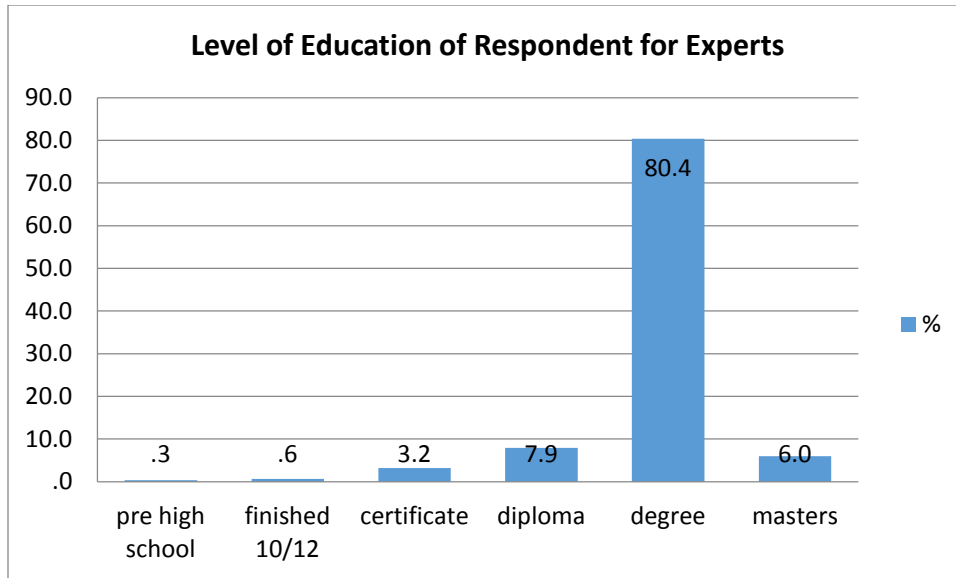


Source: Data gathered by OSLA & OJSPTLRI, 2019

As we can see from Chart 5.1 the number of male respondents stands at 69% and that of the females is 31%. The difference in the number of respondents between male and female emanates mainly because of less number of females in revenue authority offices of the region.

5.2.1.3 Education level of respondents

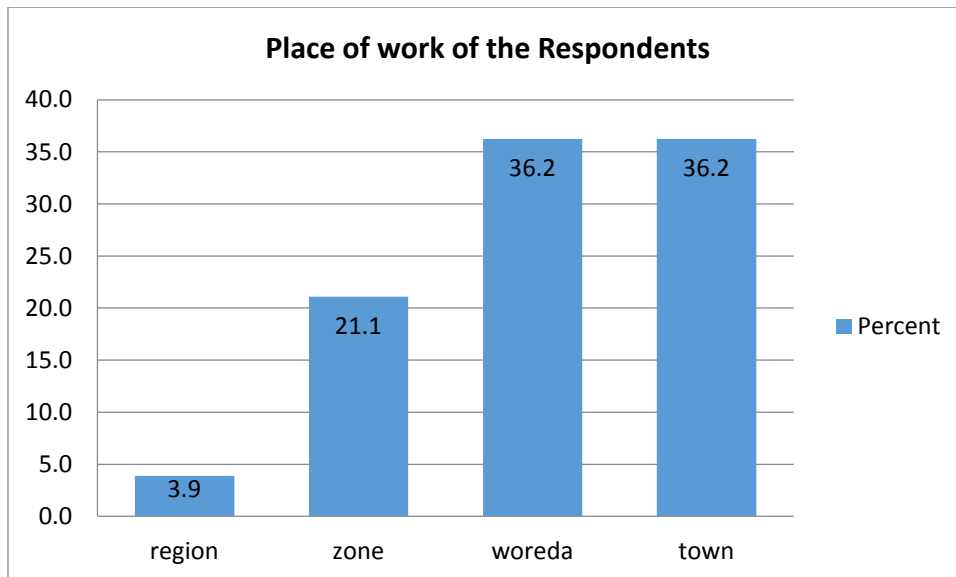
Chart 5.3 Education level of respondents (n= 621)



Source: Data gathered by OSLA & OJSPTLRI, 2019

As indicated in chart 5.3, the education level of the respondents is very promising which is the reflection of the public servants we have in the region. We can say most of the respondents have first degree level of education at 80% followed by diploma which is 7.9% of the respondents. This shows most of the respondents are well capable to analyze the situation and answer the questionnaires for this study.

Chart 5.4 Place of work of the respondents for experts (n=621)

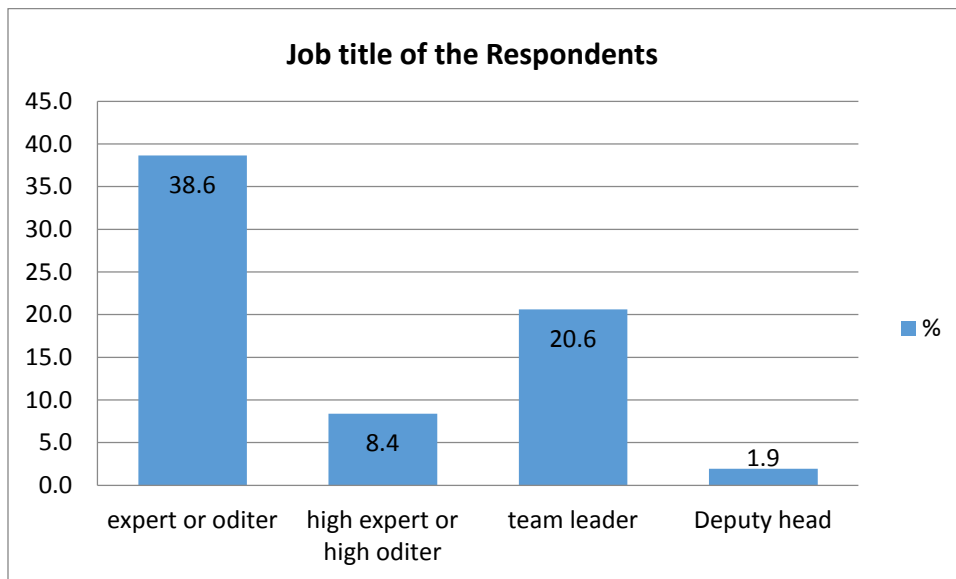


Source: Data gathered by OSLA & OJSPTLRI, 2019

We can infer from the chart 5.4 that most of the respondents of this study are from Woreda and town administration. 73% of respondents are from Woreda and towns and 21% of respondents are from zonal Revenue Authority offices. A very small number of respondents are from the regional revenue authority. The study has tried to incorporate different layer of experts in the region to give their impression on the problem under investigation. This would help the researcher to have broader and comprehensive information for the research.

5.2.1.4 Job level of respondents

Chart 5.5 Job level of respondents (n= 621)



Source: Data gathered by OSLA & OJSPTLRI, 2019

Chart 5.5 shows that most of the respondents in this study are experts which amount about 50% of the respondents followed by team leaders which is about 20%, the rest around 30% of the respondents do not respond to this particular question but overall we can say that the majority of the respondents for this study are experts at different layer of public sector mainly from revenue authority.

5.1.2. Data Presentation and Analysis

Table 5.2 Awareness of tax payers

	Experts		Tax Payers	
	Frequency	Percent	Frequency	Percent
yes	183	29.5	309	78.4
no	59	9.5	24	6.1
a little	375	60.4	60	15.2
Total	617	99.4	393	99.7

Source: Data gathered by OSLA & OJSPTLRI, and own computation 2019.

Table 5.2 tries to find out if the tax payers have enough awareness as to why they are paying taxes. The results we see on table 5.2 from experts and tax payers are quite different. Tax payers have quite high valuation of their awareness on the issue of taxes which is 78% of the responses from the tax payers say they do know why they are paying taxes, only 6% of the responses said they do not have enough awareness and 15% of the responses said they have a little awareness on why they are paying taxes.

Contrary to the tax payer's valuation, experts of revenue authority said the majority of the tax payers (about 60%) have a little awareness as to why they pay taxes and only about 30% of the responses say they do have enough awareness. Only 9.5% of the responses said tax payers do not have enough awareness as to why they pay taxes.

Based on the findings of table 5.2 and the results of qualitative data gathered and own observation we cannot conclude that the awareness level of tax payers on why they are paying taxes is enough. Moreover, it is rather better if we rely on the data solicited from the taxpayer by the FGD. In almost all FGD²²⁴ conducted claim of the taxpayers for their reluctance to pay their

²²⁴ FGD conducted at Agaro town with taxpayers representatives, experts from trade sector, Small and Medium Enterprises and revenue authority on 8/6/2011 E.C; conducted in Menna Woreda with traders and experts on 6/6/2011 E.C. FGD conducted in Toke Kutaye Woreda with representatives of traders, experts from trade sector,

taxes willingly is because of their knowledge as to why they are paying taxes and governments failure to do necessary infrastructure by the taxes collected. Moreover, taxpayers are expected to know why they pay taxes when they are given awareness about the matter. Revenue authority of the region is the institution responsible for awareness creation about taxes. Interviews²²⁵ with heads of revenue authorities at zonal, towns and woreda levels revealed tax payers were not given awareness as they had to be. Lack of awareness also resulted in reduction of taxes ought to be collected.

Tax awareness should start from regional authorities.²²⁶ Leaders themselves do not have the right attitude toward taxation.²²⁷ Even though taxpayers teaching are one of the focus areas of revenue authority, practically, the job done is insignificant. Some tax payers are knowingly failed to pay but others evade because of low awareness. In addition, there is no teaching curriculum which the authority has to think on.

Lack of awareness is seriously affecting our taxpayers, especially on VAT.²²⁸ Although the tax authority is mandated to do the task of awareness creation, it cannot do that because of budget deficiency. Even it is hard to get computers to prepare training manuals. Accessing taxpayers is also not easy. Tax payers are quitting their business because of lack of awareness on how to manage their business with regard to tax laws and procedures. Some VAT registers do not know how they get registered for VAT; they were only told that they were VAT registered.²²⁹

The problem of lack of awareness is manifested not only with taxpayers but also with leaders of tax authority.²³⁰ It is good if the recruitment system for tax authority leaders is merit-based.²³¹ Merit-based recruitment, gives a chance to have vibrant tax authority leaders and this in turn

Small and Medium Enterprises and revenue authority on 19/6/2011; FGD conducted in Ada'a Berga Woreda with representatives of traders, experts from trade sector, Small and Medium Enterprises and revenue authority on 13/6/2011 E.C.

²²⁵ Interview conducted with Kuma Shuma, Head of Sebeta city administration revenue authority on 29/5/2011 E.C; Ayisha Rago head of Jima zone revenue authority on 4/6/2011 E.C and Bekelu Desta Head of West Showa zone revenue authority on 12/06/2011

²²⁶ Abduljabar Yusuf, Deputy Head at East Hararge Zone Tax Authority, 12/6/2011; Aliyi Siraj, Tax Operation Officer at East Hararge Zone Tax Authority, 12/6/2011

²²⁷ Abduljabar Yusuf, Deputy Head at East Hararge Zone Tax Authority, 12/6/2011; Aliyi Siraj, Tax Operation Officer at East Hararge Zone Tax Authority, 12/6/2011.

²²⁸ FGD at Batu on 3/6/2011.

²²⁹ FGD at Limmu & Bilbilo Woreda on 6/6/2011.

²³⁰ FGD at Batu supra note 228.

²³¹ Ibid.

helps to have a strong collaboration with concerned sectors (See question no 2). Having tax officers who are aware of tax laws and rules is timely since taxpayers are becoming proficient in tax laws.²³²

Table 5.3 Do they [taxpayers] register properly and notify the authority

Response	Experts		Tax Payers	
	Frequency	Percent	Frequency	Percent
Yes	78	12.6	212	53.8
No	229	36.9	102	25.9
A little	311	50.1	73	18.5
Total	618	99.5	387	98.2

Source: Data gathered by OSLA & OJSPTLRI, and own computation 2019.

The above table is concerned with tax payer’s honesty in registering and notifying their transactions to revenue authority. Table 5.3 reveals an interesting result that only about 54 % of the tax payers said they register and notify the authority, while about 26% of the respondents said they do not register and notify the authority properly. 18% of the responses said they notify and register the authority occasionally.

On the other hand, if we look at the result from the experts, the result clearly validate the idea that tax payers are not quite honest in registering and notifying the authority. If we see the results from the table only 12.6% of the respondents say, tax payers would properly register and notify the authority, about 37% of the responses said they do not properly register and notify the authority and the majority of the respondents said tax payers would register and notify their transactions a little or few times.

From table 5.3 , taxpayer’s and experts response on the honesty of taxpayer’s to register their income and notify revenue authority significantly vary and we accepted that of experts response

²³² FGD at Limmu & Bilbilo supra note 229.

concluding taxpayer are not quite honesty in registering and notifying the authority. We reached on such conclusion basing on different interviews we conducted with officers of revenue authorities at deferent levels.²³³ The interview result shows prevalence of tax evasion and tax avoidance. We have also came up with many court cases that shows dishonesty of taxpayers as they often fail to give receipt to customer which is one means of hiding their income.

Likewise the researchers tried to explore additional information from respondents with open ended questionnaires for what reason that they were not properly register and notify their true income. Most of respondents explained that taxpayers have little awareness on the importance of tax, proliferation of contrabands and absence of issuing receipts mainly from distribution center/wholesalers/ specifically from ‘Merkato’²³⁴ and taxpayers also have no interest to issue receipt.

In addition to this, the expert of the tax authority has no trust on the tax payers’ statement of daily sales volume as most of the merchants conceal their true income to get cross-cut prosperity. They also unnecessary claim deduction of expenses to avoid their tax duty. They have no files that show their true expenses and they suspect that if they clarify their true income, like revenue put high tax on them. Selfishness and unpatriotic behaviors is seen from taxpayers. Moreover, the revenue experts themselves have no commitment to control tax hiding. There is no a strong regulation and the authorities by themselves were exposed to high corruption. Because of this, there is no fair taxation among similar businesses in the same area and that their daily/annual income are inflated in the process of estimation.

Table 5.4. Do the tax payers have clear understanding on how the tax is levied upon?

<i>Response</i>	Experts		Tax Payers	
	<i>Frequency</i>	<i>Percent</i>	<i>Frequency</i>	<i>Percent</i>
yes	94	15.1	94	23.9

²³³ Interview conducted with Kuma Shuma, Ayisha Rago and Bekelu Desta, *supra* note 225; and Interview conducted with Mr. Nuredin, Deputy head of Seka Cokorsa Woreda revenue authority on 5/6/2011.

²³⁴ The largest open market in Ethiopia and a center for distribution of goods and items

no	167	26.9	142	36.0
some	356	57.3	132	33.5
Total	617	99.4	368	93.4

Source: Data gathered by OSLA & OJSPTLRI, and own computation 2019

One of the issues raised in this study deals with the knowledge of the tax payers on how the tax is levied. Table 5. 4 shows the result for both experts and tax payers. Only 24% of the tax payers and 15% of experts said that tax payers have clear understanding on how the tax is levied. 36% of the responses for the tax payers and 27% of the experts revealed that tax payers do not have clear understanding on how the tax is levied. Majority of the experts said tax payers have some knowledge on how the tax is levied, while 33% of the tax payers said they have some knowledge on how the tax is levied.

The result from both the tax payers and experts indicates that there is a gap on knowledge of the tax payers on how to the tax is levied on them. The results from other data gathering tools also reveal the existence of this problem in this regard. This is mainly attributed to lack of giving adequate trainings to tax officers. Even if it is given, it is limited only to Bureau/ Zonal leaders & officers.²³⁵ Because of this, the understanding of taxpayers in the town is greater than the understanding of tax officers in remote areas and this is challenging to make effective control on possible tax evasions²³⁶. Long-term and short-term trainings should be arranged for them.²³⁷

5.4 Data Presentation and Analysis for Tax Payers Data

Data gathered from three levels of tax payers will be analyzed in the first part of the discussion. Responses from 394 tax payers have been discussed on the major subject of this study including tax fairness and correctness and challenges of tax collection problems in the region. We have also incorporated the findings from FGD and interviews conducted with tax payers,

²³⁵ Fekadu Teshome, Operation Coordinator at Bishoftu Woreda Tax Authority, 29/5/2011.

²³⁶ Fekadu Teshome, *Ibid*; Solomon Kabada, Head of Revenue Authority at Haromaya Woreda, 13/6/2011.

²³⁷ Nuru Kumbi, Head of Tax Authority at Lode Hetosa Woreda, 7/6/2011.

representatives of the tax payers and higher experts from Revenue Authority and trade and industry offices of woreda, and zonal level offices.

5.4.1 Tax fairness and correctness

In order to measure the fairness and correctness of the tax system, the study has used few variables that would enable the researchers to find out the tax payers view on tax fairness and correctness. By using the tax payer's responses to the questions we would try to pin point the problem area in revenue assignment and collection in Oromia National Regional State.

Table 5.6 Fairness and correctness of the tax system (n= 394)

No	Fairness of the tax system	Fair	Medium	Not Fair	Mean	SD
1	Did you think that the amount of tax you pay is fair in relation to the benefit that you received from the government?	14.97	40.86	42.13	2.2772	.71230
2	Do you think that the amount of tax you pay is fair in relation to the ability to pay?	17.51	37.06	43.65	2.2661	.74386
3	Did the tax system consider natural calamities and economic situations while determining your tax liability?	5.84	44.16	46.95	2.4241	.60466
4	Did the revenue authority give periodic training about tax and related issues?	5.33	51.78	41.12	2.3643	.58396
5	Is there any disciplinary problem on the side of tax collectors?	13.45	46.19	37.06	2.2441	.68114
6	Did the authority arrange a convenient way of collecting tax (time efficient & effective)	28.43	46.45	21.57	1.9289	.71744
7	How often did the authorities use technologies in tax administration operations	18.53	49.24	25.89	2.0786	.68509

Source: Data gathered by OSLA & OJSPTLRI, and own computation 2019

Scale: 1 = Fair,

2 = Medium

3 = Not Fair

Table 5.6 has shown the summary of tax fairness and correctness for different variables. If we look at the values we get from the table some stand out findings about the tax system fairness and correctness. As we can see from the table for the variables which asks about the revenue authorities consideration about natural calamities and economic situation while determining tax liabilities and the other variable about the revenue authorities status on giving periodic training about tax and related issues have scored not fair ($\mu = 2.42$ and $\mu = 2.36$) respectively. If we see the values for the other three items which are fairness of the tax system in relation with the benefit they received, the amount of tax assigned in relation with the ability to pay and third the existence of disciplinary problems on the side of tax collectors the mean value computed shows that it is not fair ($\mu = 2.27$, $\mu = 2.26$ and $\mu = 2.24$ for the three items respectively). On the other hand the score for the two items remaining on the use of technologies in tax administration and the revenue authorities ability to arrange convenient way of collecting taxes have scored medium with the score ($\mu = 2.07$ and $\mu = 1.92$) respectively. For the items listed in the above table we can see their values one by one below.

Regarding tax fairness and correctness the researchers have found many complaints from the tax payers, there are times whereby equal treatment of taxpayers is missing. This is so, especially in case of registering traders into VAT.²³⁸ Sometimes traders who do not qualify for VAT are registered for VAT; and those who qualify are not registered for VAT.²³⁹ This is mainly because of being discriminatory in income estimation.²⁴⁰ The existence of discrimination is also manifested in case of landholding tax-any farmer holding any land size pays equal amount of tax (260 birr) and this is treating unequals equally.²⁴¹

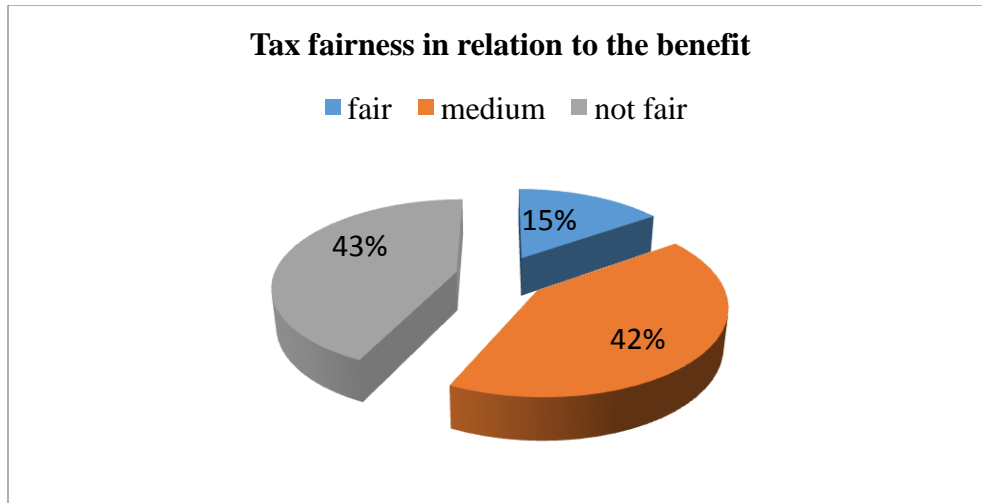
Chart 5.6 Tax Fairness in Relation to the benefits received (n=394)

²³⁸ FGD at Batu, supra note 228.

²³⁹ Ibid.

²⁴⁰ Ibid.

²⁴¹ FGD at at Limmuu and Bilbilo, supra note 229.



Source: Data gathered by OSLA & OJSPTLRI, and own computation 2019

If we look at the above chart for the tax fairness in relation to the benefit the tax payers receive from the government, only 15% of the respondents responded that the amount of tax they are paying is fair and 43% have responded that the amount they are paying is not fair. 42% of the respondents feel that the amount of tax they are paying in relation with the benefit they receive from the government is medium. This happens because of ineffective tax administration. In different interviews²⁴² and FGD²⁴³, both revenue authorities and taxpayers admitted assessment problem. Tax authorities do not make necessary preparation beforehand but simply organize committee at the time of tax imposition. The amount of tax supposed to be paid by taxpayer is determined without proper evaluation of the capacity to pay and income they generate. The 2009 E.C. tax imposed is largely blamed in that regard.²⁴⁴

²⁴²Interview conducted with Ayisha Rago Head of Jimma Zone Revenue Authority on 4/6/2011 E.C; Esmael Ababor Deputy, President at Jimma Zone High Court on 5/6/2011; Wayesa Baqana, Beka Deribi, and Fayera Taresa, inspection team at the High Court of West Showa Zone on 11/6/2011 E.C; Yilma Wayyesa, Budget and Finance Standing Committee Chairperson of the regional Council (Caffe) on 26/6/2011; Fayisa Tolesa, A judge at Oromia Supreme Court.

²⁴³FGD conducted in Menna Woreda with traders and experts on 6/6/2011 E.C; FGD conducted in Agaro town with tax payers representatives, experts from trade sector, Small and Medium Enterprises and revenue authority on 8/6/2011 E.C.

²⁴⁴Interview with Bekelu Desta, Head of West Showa Revenue Authority conducted on 12/06/2011 E.C; FGD conducted in Ada'a Berga Woreda with representatives of traders, experts from trade sector, Small and Medium Enterprises and revenue authority on 13/6/2011 E.C. FGD conducted in Agaro city with tax payers representatives, experts from trade sector, Small and Medium Enterprises and revenue authority on 8/6/2011 E.C; Interview with Wayesa Baqana, Beka Diribi, Fayera Taresa, supra note 242.

Hiding properties by tax payers when estimation is conducted is another challenge.²⁴⁵ “When estimation committee work on tax estimation on transaction the taxpayers are aware that they are coming for evaluation and estimation, the taxpayers would take away (hide) some of the properties with a view to reduce the amount of tax duty estimated. Contrary to this, those who do not have information do not hide the properties of taxable transaction. This creates disparities on the amount of assigned tax. At the end of the day, the taxpayers blame tax estimation committee that even though they run similar transaction, the tax estimators’ valuation is biased”²⁴⁶

And this results in two drawbacks:

- 1) *Escalation of grievances by the taxpayers*
- 2) *Losing tax revenue by the government.*²⁴⁷

According to tax proclamation, tax categories of A, B, & C are determined based on need and ability to pay tax. For example, a retailer whose daily income is estimated to 1667 belongs to category C; 1667-3333 =B, and > 3333 belongs to category A. By this calculation, a taxpayer whose annual income is <500,000= C, 500,000-1000, 000 =B, and >1000, 000 =A

Daily income estimation is made by estimation committee whose compositions are the following:

Member	Number
1. Head of Tax Authority	1
2. Coordinator of Revenue Operation	1
3. Head of Trade & Market Office	1
4. Head of Cluster & Economic Development	1
5. Two representatives from traders	2

The problem with this committee is it does not have adequate understanding on what it estimates. This may lead to unduly exaggeration or reduction of the amount of taxable income. Hence, it is

²⁴⁵Silashi Endale, Deputy Head at East Shewa Zone Tax Authority, 29/5/2011.

²⁴⁶FGD at Limmu & Bilbilo Woreda on 6/6/2011; FGD conducted at Metta Woreda Tax Authority, Conducted on 24/6/2011.

²⁴⁷ Badiriya Rashid, Head at East Shewa Zone Tax Authority, 29/5/2011; Silashi Endale, Deputy Head at East Shewa Zone Tax Authority, 29/5/2011.

good if estimated by institutionalized experts. Taxpayers also suggest the estimation to be made not by the committee but by market experts.²⁴⁸

Grievance committee members	Position (Role)
• Woreda Manager	Head
• Head of Tax Authority	Secretary
• Head of Trade & Market Office	Member
• Head of MMD	Member

The problem here is that the same committee, estimation committee also serves as grievance committee. This shows that the work procedure has a problem.²⁴⁹ Moreover, once tax is estimated, it lasts for three years according to the existing directive. In practice, even there are cases where it lasts for six years.²⁵⁰ There should be a system that helps us to revise the estimation monthly, quarterly, half-a-year and yearly and take the average.²⁵¹ But, when you trade either you are benefited or you lose. Hence, it is not good to wait for three years. The researcher asked whether they presented their case to court for declaration of bankruptcy and they responded that they are category C taxpayers and do not have documents to adduce. There should be a room for revision once estimation made.²⁵²

Bureau or Zonal officials are making unnecessary influence upon us.²⁵³ They want to fix the minimum amount of tax estimation (E.g., it should not be below 250 birr) without properly knowing facts.²⁵⁴ Because of many reasons, the estimation we conduct is not fair nowadays²⁵⁵. Because of this, it is difficult to fully implement it.²⁵⁶

²⁴⁸ Mr Gaberelu Abarra, Head of Revenue Authority at Tiyo Woreda, 8/6/2011;

²⁴⁹ Mr Gaberelu Abarra, *ibid*.

²⁵⁰ Jafar Mikael, Revenue operation coordinator at Aweday Town Tax Authority, 13/6/2011

²⁵¹ Such is the practice in Revenue Authority of Tigray Regional State.

²⁵² FGD conducted at Aweday Town Tax Authority on 12/6/2011

²⁵³ FGD conducted at Aweday Town Tax Authority on 12/6/2011.

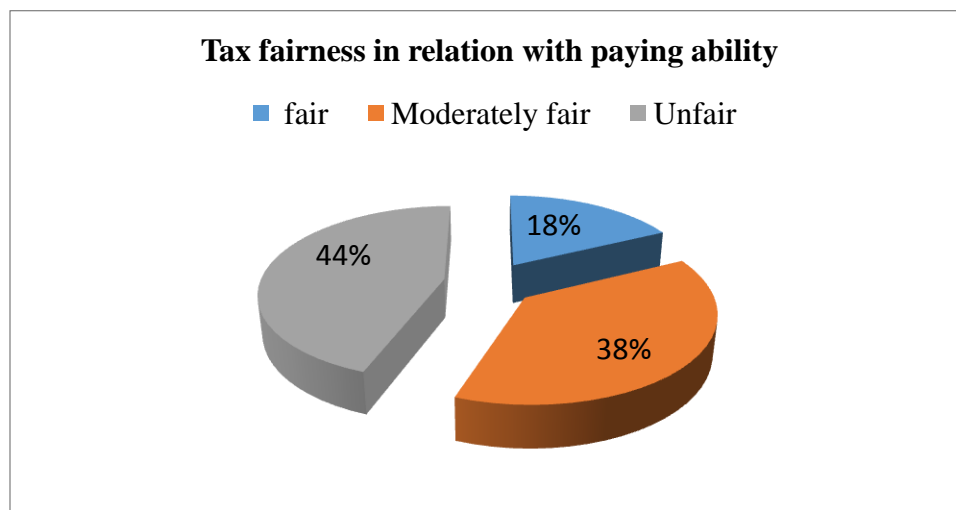
²⁵⁴ FGD conducted at Aweday Town Tax Authority on 12/6/2011.

²⁵⁵ FGD conducted at Metta Woreda Tax Authority on 24/6/2011.

²⁵⁶ FGD conducted at Metta Woreda Tax Authority on 24/6/2011.

- From the Tax Authority perspective, there is a need to transfer a taxpayer from category D to C; from C to B; from B to A following the estimation.²⁵⁷ This sometimes has the risk of wrongly transforming the taxpayer to inappropriate category by exaggerating the amount of estimation.²⁵⁸ In tax estimation committee, taxpayers are also members but some of them claim that their views did not get appropriate weight in many cases.²⁵⁹
- Especially, it is the Zone Tax Authority that registers taxpayers to VAT; but they do not have adequate information and this may create grievance among taxpayers.²⁶⁰ The risk may not be limited to grievance but also extend to make them out of business. For example, in Ada'a Woreda, the young organized on barber shop business are required to pay high tax by estimation and at the end of the day they stopped working the business at all and became dependent upon their family.²⁶¹ This could be verified by making analysis of a number of licenses issued by Trade and Market Office and returned to the same within a certain time (a year, for example)²⁶².

Chart 5.7 Tax Fairness in relation with the ability to pay (n=394)



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

²⁵⁷ FGD conducted at Dugda (Maki) Tax Authority on 1/6/2011

²⁵⁸ FGD conducted at Dugda (Maki) Tax Authority on 1/6/2011;

²⁵⁹ FGD conducted at Dugda (Maki) Tax Authority on 1/6/2011

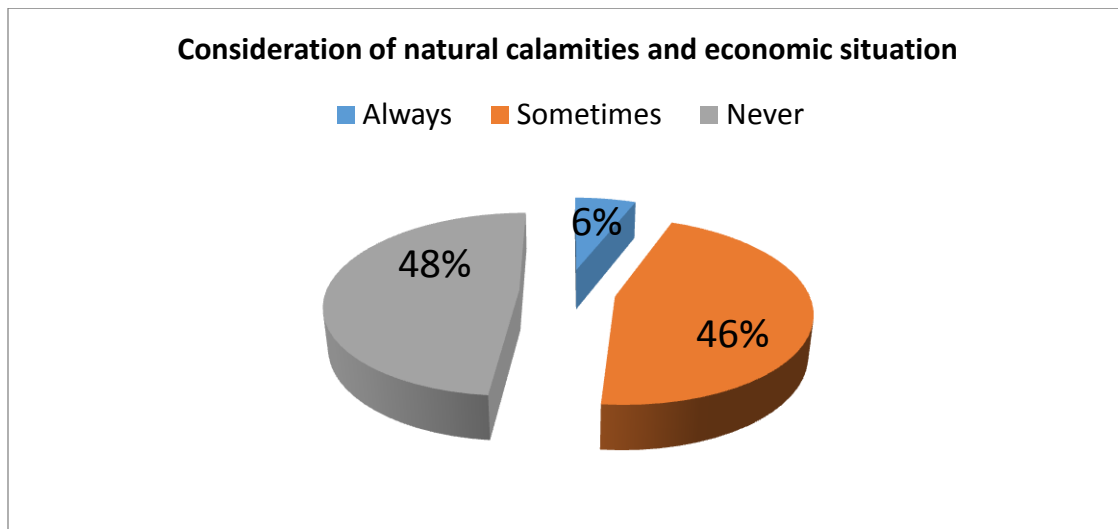
²⁶⁰ FGD conducted at Dugda (Maki) Tax Authority on 1/6/2011

²⁶¹ FGD conducted at Ada'a Woreda Tax Authority on 30/5/2011

²⁶² FGD at Ada'a Woreda on 30/5/2011

Chart 5.7 reveals that the ability of the tax payers in relation with the paying ability is not fair. From the chart we can see that only 18% of the respondents responded that the amount of tax they pay and the ability to pay the tax is fair. The majority of the respondents about 44% said the ability to pay in relation with the paying ability is unfair. About 38% of the respondents responded that the amount of tax they are paying and their ability to pay is medium. On the other hand if we look at the data gathered by interviews and FGD it reveals existence of problem as the proactive measure is hardly taken by tax administration authorities to make imposition of taxes on taxpayers based on their paying ability.²⁶³

Chart 5.8 Tax system considerations of natural calamities and economic situations while determining tax liability



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

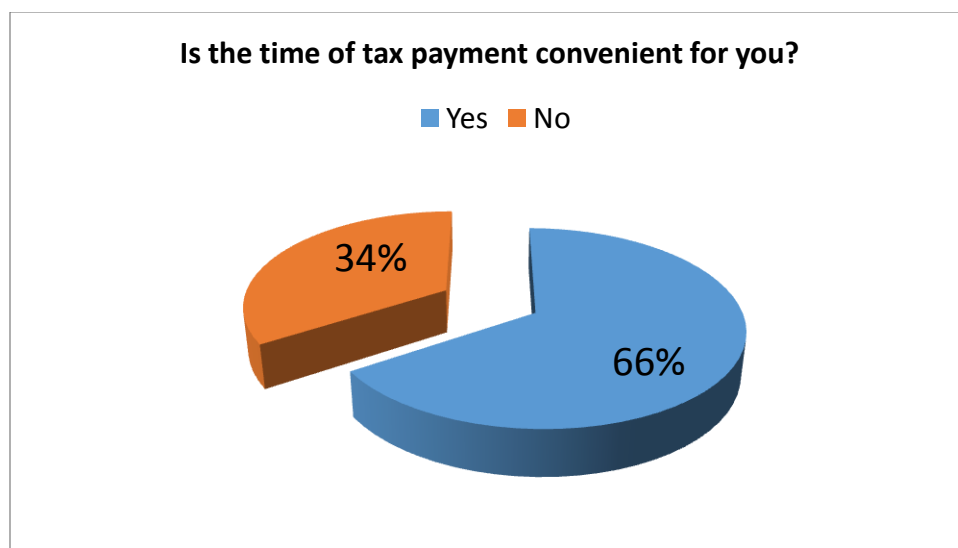
Chart 5.8 shows if revenue authorities at different levels consider natural calamities and economic situations while they levy and collect taxes. The bar chart shows that revenue authority's consideration for natural calamities and economic problems is very low. Only 6% of

²⁶³ Interview with Bekelu Desta, Head of West Showa Revenue Authority conducted on 12/06/2011 E.C; FGD conducted in Ada'a Berga Woreda with representatives of traders, experts from trade sector, Small and Medium Enterprises and revenue authority on 13/6/2011 E.C. FGD conducted in Agaro city with tax payers representatives, experts from trade sector, Small and Medium Enterprises and revenue authority on 8/6/2011 E.C.

the respondents say that the authority would consider the problems while the majority of the responses show that the revenue authority would not consider natural calamities and economic situations.

Data gathered through interviews and FGD confirms the above data. The problem still lies with tax administration; since they simply rely on eye evaluation²⁶⁴ on what can be observable at the time of tax assignment and determination of the amount of tax payers expected to pay. Moreover, assessment and evaluation is made once for the term of three years minimum especially for the ‘C’ level taxpayers. Since natural calamities are unforeseeable from its nature, natural calamities are hardly considered at the time of tax assignment by tax authorities.

Chart 5.9 Convenience of tax payment for the tax payer (n=394)



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

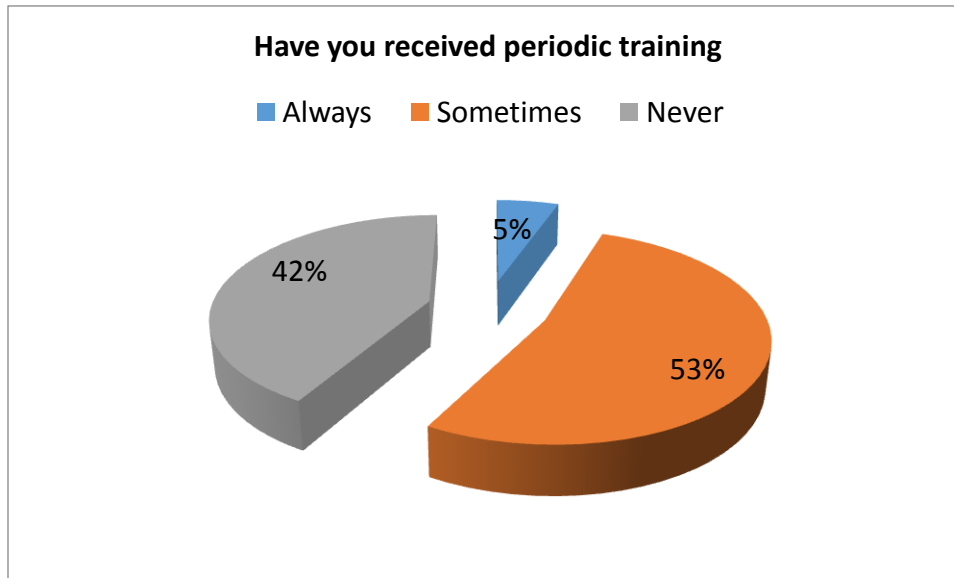
One of the items this study tries to find out is if the time for tax payment is convenient for them to pay. We can see from Chart 4.9 that majority of the respondents 66% to this question have

²⁶⁴ Interview conducted with Ayisha Rago head of Jima zone revenue authority on 4/6/2011 E.C. FGD conducted in Menna Woreda with traders and experts on 6/6/2011; Interview with Bekelu Desta, Head of West Showa Revenue Authority conducted on 12/06/2011 E.C; Interview conducted with Kuma Shuma, Head of Sebeta city administration revenue authority on 29/5/2011 E.C; FGD conducted in Menna Woreda with traders and experts on 6/6/2011 E.C; FGD conducted in Ada'a Berga Woreda with representatives of traders, experts from trade sector, Small and Medium Interprises and revenue authority on 13/6/2011E.C

responded that the time for payment is convenient for them to pay taxes. However 34% of the respondents responded that the time for payment is not convenient.

If we look at the discussion in FGD and Interviews conducted, it is possible to say that there is no great deal of problem related with the time of payment.

Chart 5.10 Periodic training given by the revenue authority on tax and related issues



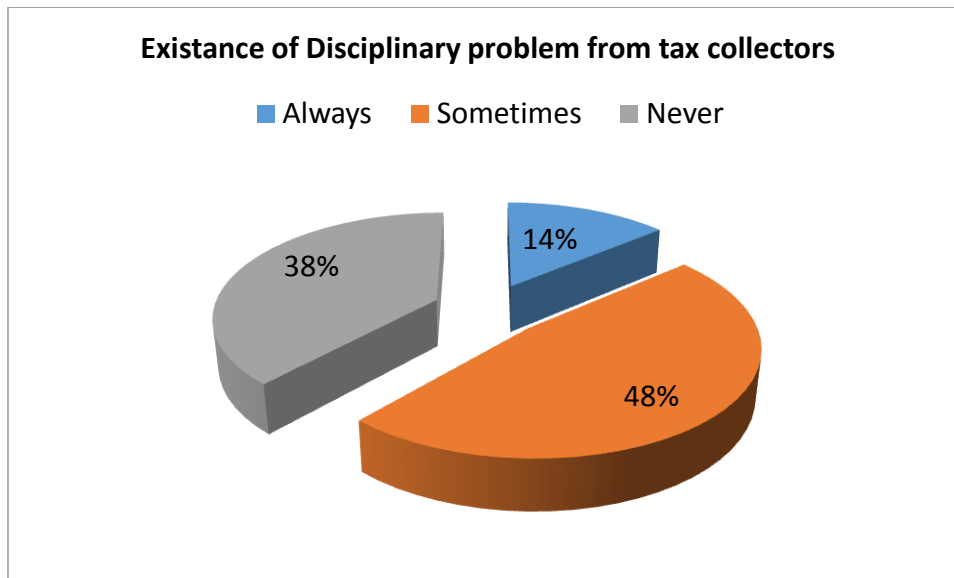
Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

One of the major issues raised in the study is to know whether the tax payers have enough training on issues concerning taxes and related issues. The results shown on chart 5.10 clearly reveal that the amount of periodic training given is very low. Only 5% of the respondents responded that they get a periodic training on the issues of tax and related issues. Majority of the respondents 53% say they sometimes get training. However a very great number which is about 42% of the respondents say they never have training on tax and related issues. We can conclude only from this result only that revenue authority has to work on training issues. The results of FGD and Interviews conducted also shows existence of low periodic training by tax authorities so as to enhance the knowledge and importance of tax for the country. Interviews²⁶⁵ admitted

²⁶⁵ Interview conducted with Ayisha Rago head of Jima zone revenue authority on 4/6/2011 E.C. According to Ayisha, human power the office has at the time of data collection is only 53% of what BPR said is necessary for the effective performance of the office. Different officers; like Nuredin of Saqa Coqorsa revenue authority office,

limited nature of training given to taxpayers but due to lack of human power they have and logistic problems of their offices. Researchers' observation even the offices of the authority also confirmed the existence of such problems.

Chart 5.11 Disciplinary problems on the side of tax collectors



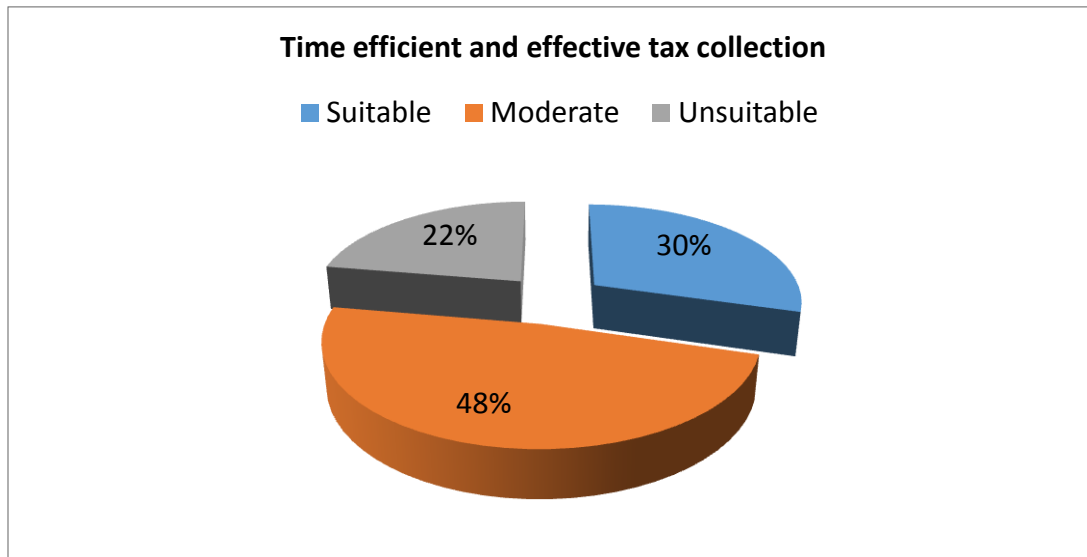
Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

Regarding the existence of disciplinary problems from the tax collectors the study has tried to measure with the three scale question. Accordingly, majority of respondent 48% said tax collectors have disciplinary problem; while 14% said tax collectors always have disciplinary problems. Though significant number of respondents that account for 38% said tax collectors never reflect disciplinary problem, the result indicates that revenue authority should look/monitor activities of their officers at tax collection. For instance in an interview with Husen Usman,²⁶⁶ director of legal service directorate at Oromia Revenue Authority misconduct of tax collection officers has been reported and even there were situations when investigation and criminal charges were opened to their tax collectors. This call for critical look at disciplinary problem of their officers of tax collection as it negatively impacts generating tax revenue of the region on one hand; and reduces tax paying interest of tax payers.

Tolasa of Ada'a Barga, Kuma of Sabata City and so on said budget and logistic constraint is what hinder them to give awareness for taxpayers for the efficient tax collection and altitudinal change of tax payers.

²⁶⁶ Interview with Husen Usman, director of legal service directorate at Oromia Revenue Authority, 23/2/2011 E.C.

Chart 5.12 Existence of convenient way of collecting tax (time efficient & effective)

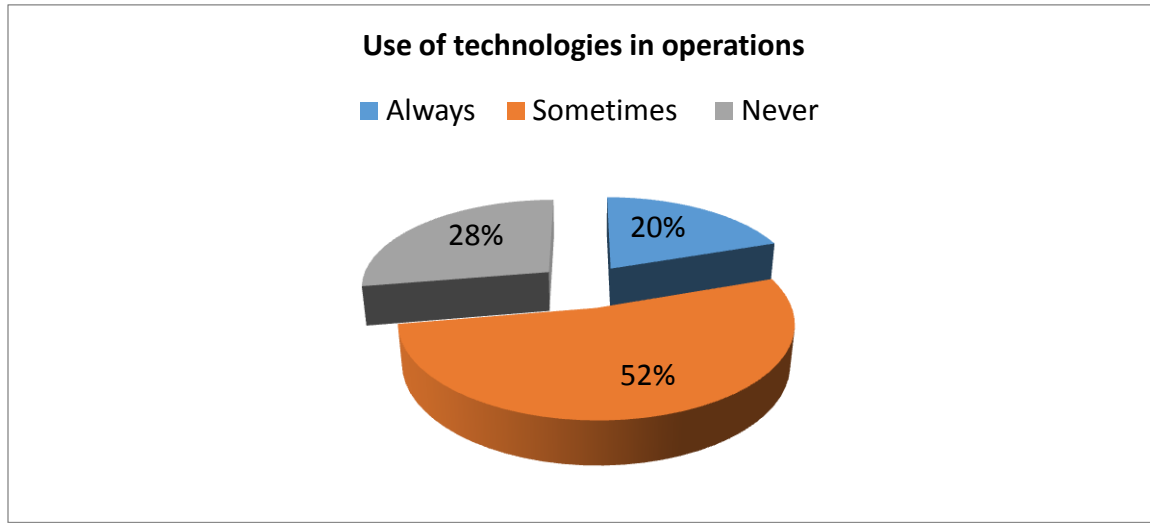


Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

The other major area of concern is regarding the convenience of the tax system. The result from the chart 5.12 shows that regarding the time efficiency and effective tax collection status the results found is promising. Only 22% of the respondents revealed that the tax collection system is unsuitable. 30% of the respondents claimed that the tax system is suitable and 48% of the respondents claimed it is moderate.

Regarding the tax system convenience especially with time and effectiveness the respondents of the FGD and Interviews have raised that time is not as such problematic.

Chart 5.13 Use of technologies in tax administration operations



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

Chart 5.13 is focused on the level of use of technologies in the operation of tax administration. The chart shows that the use of technologies in Oromia Revenue authority is medium. The majority of the respondents which account to 52% of the respondents say that revenue authority use technologies in their operations sometimes. A good number of them 28% of the responses show that the authority never uses technologies. Only 20% of the respondents say the revenue authorities use technologies always. From the researchers observation at woreda level in order to use technologies there are many problems observed. Most of the woredas studied do not have enough computers, generators and internet connections. Even at zonal level the researchers have observed problems with connections to use technologies to facilitate tax administration.

The problem is evident in the FGD and interviews conducted at different places²⁶⁷ revealed modernizing tax collection and administration system is lacking in Oromia and it is affecting revenue generating capacity of the region.

²⁶⁷ For instance, interview conducted with Ayisha Rago head of Jima zone revenue authority on 4/6/2011 E.C; Interview conducted with Kuma Shuma, Head of Sebeta city administration revenue authority on 29/5/2011 E.C. FGD conducted in Menna Woreda with traders and experts on 6/6/2011.

Table 5.7 Challenges of tax collection Process (n= 394)

No	Challenges of tax collection process	Agree	Medium	Disagree	Mean	SD
1	Revenue authority experts have the ability and experience to solve and control complex issues raised	30.20	48.48	16.24	1.8529	.68479
2	Corruption practice in state government hinders revenue generation	36.55	21.57	35.03	1.9837	.87762
3	Fraudulent actions of the revenue collector hampers revenue collection	30.71	26.14	35.03	2.0470	.84572
4	Poor services rendered by state government are responsible for low revenue generation	44.92	23.10	22.08	1.7465	.82541
5	State government staff are well monitored in the process of collecting revenue	34.77	37.82	20.30	1.8443	.75512
6	Wrong attitude about importance of tax among tax payers prevents taxes to be collected	54.82	22.08	14.72	1.6492	1.81594
7	Low tax payment capacity were hindering revenue collection	51.78	24.11	16.75	1.6219	.77358
8	Traditional mode of tax collection are hindering revenue collection	53.55	21.83	14.97	1.5730	.76010
9	Revenue authority staffs are fair and neutral in assigning and collecting revenues	22.59	35.28	33.76	2.1219	.77574
10	Tax payers have problems in using cash register machine	42.64	25.63	19.54	1.7370	.80048

Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

Scale: 1 = Agree 2 = Midium 3 = Disagree

All three levels of tax payers at woreda and zonal Revenue Authority are asked to answer ten questions regarding tax collection challenges they observe in their locality. From the ten items we have asked, the top challenges the tax payers have rated is traditional mode of tax collection, wrong attitude about the importance of tax among tax payers and low tax payment capacity

($\mu=1.57$, ($\mu=1.64$, ($\mu=1.62$) are respectively rated as the challenges of revenue collection in Oromia region. Next to the three top items listed challenges of revenue collection, we can see from the table that two items that is, poor services rendered by the state government and tax payers inability to use cash register machine have come at 4th and 5th level according to the tax payers rating of the challenges of revenue collection with ($\mu= 1.74$ and $\mu= 1.73$) respectively. The table shows the effect of the items concerning corruption practice in the government organization and fraudulent actions of the revenue collectors are medium as a challenge for the tax collection problem. For the item concerning the revenue authority staffs neutrality and fairness, the table shows that the tax payers have revealed existence of problem in that regard. Regarding the fairness and neutrality of the staffs almost 34% of the respondents disagree that the staffs at revenue authority offices are fair and neutral in tax assignment and collection. So, in the process of tax collection, wrong attitude on paying taxes, traditional model of tax collection, low level of paying capacity, poor service by tax authorities and failure to use cash register machine by taxpayers are highly challenging tax collection process in Oromia and it is affecting negatively revenue generating capacity of the region.

On the other hand there is a problem with using cash register machine according to tax payers FGD which claims that the attitude toward using this machine (especially for VAT registers) has a problem.²⁶⁸ Taxpayers perceive that taxes generated from using machine will be used for dispositions of federal government; if that is the case, why do I use it?²⁶⁹ “I am not comfortable with cash register machine. At a time I was penalized for not properly using it. I dislike it!”²⁷⁰

It is good if a certain adjustment is made on the administration of cash register machine. If a taxpayer stopped his transaction, the machine will be stored at Biftu Adunya. If you want to store, you store at Biftu Adunya with rent.²⁷¹ The machine should also be renewed and failure to do so results in high penalty-good to reduce its degree.²⁷² There is also no adequate training of trainees (ToT) on how to use the machine. For example, only one tax officer has taken its

²⁶⁸ FGD at Itaya, supra note 250.

²⁶⁹ Ibid; FGD at Aweday town Supra note 251.

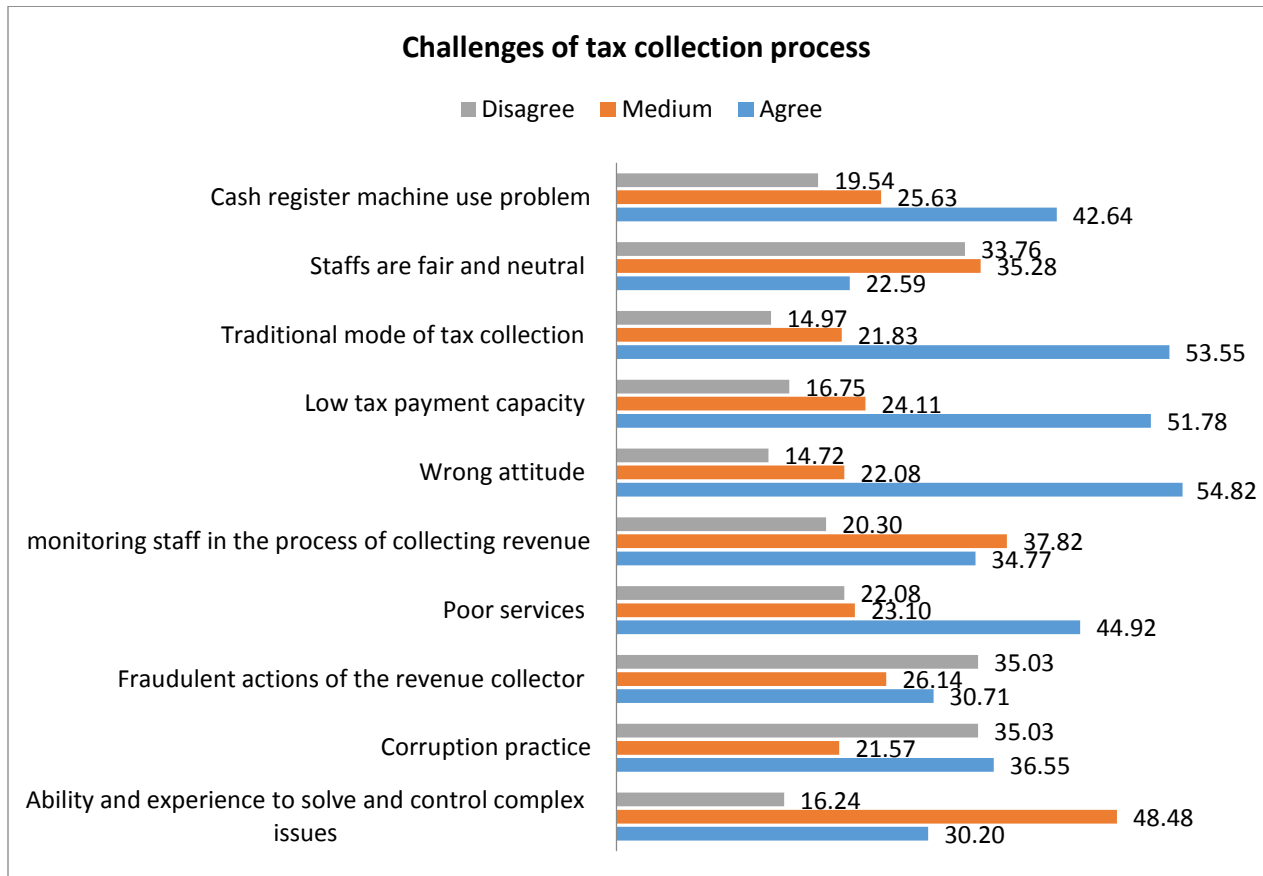
²⁷⁰ A taxpayer participating in FGD at Adami Tullu Tax Authority, on 3/6/2011.

²⁷¹ FGD at Itaya supra note 250.

²⁷² FGD at Itaya supra note 250.

training among us.²⁷³ It is difficult to think that only one tax officer can train all these taxpayers in the Woreda.²⁷⁴

Chart 5.14 Challenges of tax collection process



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

²⁷³ Ibid.

²⁷⁴ Ibid.

5.5 Data Presentation and Analysis for Experts

Table 4.8 Challenges facing revenue collection (n= 621)

No	Challenges Facing Revenue Collection	Agree	Inconcl- usive	Disagree	Median	SD
1	Weak administrative capacity to assess taxes and levies and then to enforce revenue laws and by-laws	64.25	14.01	17.39	2.00	1.08
2	The system of tax administration is unsuitable and kills time	64.41	9.98	21.42	2.00	1.14
3	Very poor use of technology in tax administration	68.60	7.89	20.93	2.00	1.22
4	Taxpayer resistance and low tax morale on the part of the citizenry	76.17	8.05	13.04	2.00	1.09
5	Corruption, including embezzlement of revenue	46.54	23.67	25.12	3.00	1.23
6	Political pressure on the revenue collectors to relax in revenue collection	50.89	14.81	30.11	2.00	1.27
7	Ensuring that all due government revenue is collected and tax evasion and avoidance are controlled	77.62	5.96	14.33	2.00	1.07
8	Addressing stakeholders' (community) expectations by exercising Various statutory powers fairly in accordance with the law without political interference	72.14	9.34	15.78	2.00	1.09
9	Expediting tax decision making and rulings by putting in place well established procedures and criteria	72.79	8.21	16.75	2.00	1.11
10	Low integrity of leaders, experts and tax collectors	47.34	18.20	30.60	3.00	1.26
11	Poor laws and guidelines to control tax payers who want to evade tax.	49.28	13.53	33.66	2.00	1.34
12	There is poor procedure to implement laws on tax evaders and tax exemption	64.09	8.53	25.12	2.00	1.26

13	Low awareness of the public about the tax system	76.81	6.76	13.37	2.00	1.07
14	Lack of Qualified and Experienced Revenue Officers	49.60	14.65	33.49	2.00	1.25
15	Lack of awareness of the tax laws by Tax authority	47.18	14.49	35.91	3.00	1.27

Source: Data gathered by OSLA & OJSPTLRI, and own computation, 2019

Scale: 1 = Strongly Agree 2 = Agree 3= Medium 4 = Disagree 5 = Strongly Disagree

One of the major concerns of this study is identifying the major challenges of revenue collection in Oromia National Regional State. We have identified fifteen items that could be the source of challenges for revenue collection in the region so that the experts at region, woreda and zone could rate the challenges.

We can see from the table 4.8 above that there are five major items that the respondents agree that it is a challenge for revenue collection process in the region. These five items are: 1. Taxpayer resistance and low tax morale on the part of the citizenry ($\mu = 2.01, \delta=1.09$) 2. Low awareness of the public about the tax system ($\mu = 2.05, \delta=1.07$) 3. Ensuring that all due government revenue is collected and tax evasion and avoidance are controlled ($\mu = 2.09, \delta=1.07$) 4. Addressing stakeholders' (community) expectations by exercising various statutory powers fairly in accordance with the law without political interference ($\mu = 2.18, 1.10$) and 5. Expediting tax decision making and rulings by putting in place well established procedures and criteria ($\mu = 2.21, \delta=1.11$). These five items are rated clearly that they are the major challenges for revenue collection by experts.

In addition to these top five challenges, according to expert's ratings of the challenges we can group four items which can come next to the above items which could be the source of challenges for revenue collection in the region. These items are: (1. Very poor use of technology in tax administration ($\mu = 2.25, \delta=1.22$) 2. Weak administrative capacity to assess taxes and levies and then to enforce revenue laws and by-laws ($\mu = 2.37, \delta=1.08$) 3. The system of tax administration is unsuitable and kills time ($\mu = 2.37, \delta=1.14$) 4. There is poor procedure to implement laws on tax evaders and tax exemption ($\mu = 2.38, \delta=1.26$).

For the remaining six items, although we can see that there is strong claim that they agree on the existence of those challenges in revenue collection. The mean values for six remaining items are greater than 2.5 for 1. Political pressure on the revenue collectors to relax in revenue collection. 2. Corruption, including embezzlement of revenue 3. Poor laws and guidelines to control tax payers who want to evade tax. 4. Lack of Qualified and Experienced Revenue Officers 5. Low integrity of leaders, experts and tax collectors 6. Lack of awareness of the tax laws by Tax authority.

In general, if we look at the result from table 4.8 the items listed in the table to measure challenges facing revenue collection in Oromia region, although the result shows that the problem emanated from the combination of factors, we can pin point a very important issues that affects revenue collection according to its wait and severity. The critical challenges listed by the experts focuses on the attitude of tax payers, their morale and awareness and the second most important issue raised is the administrative capacity of the authority like human, technology, laws, procedures etc.

The results of FGD and Interview conducted also shows that the tax system is not encouraging to willingly pay the tax.²⁷⁵ Several factors account for this.

a) The first is unlawful trade practices.²⁷⁶ So many people are engaging in small scale trades, i.e., they are acting as a retailers. For example, they hold and sell so many tradable materials on the road without paying any tax to the government.²⁷⁷ For example we can see Bulbula town as one case.²⁷⁸ Municipalities simply give work place and collect only 30 birr per month. There is huge difference between 30 birr and other formal tax duty.²⁷⁹ They do not concern much whether they are lawful traders or not. In rural kebeles, many unlawful trade practices are expanding. Its manifestations are many: trading teff and trading alcoholic drinks

²⁷⁵FGD conducted at Adami Tulu Tax Authority, on 3/6/2011; FGD conducted at Tiyo Woreda Tax Authority, on 6/6/2011.

²⁷⁶ FGD conducted at Adami Tulu Tax Authority on 3/6/2011; FGD conducted at Limmu & Bilbilo Woreda Tax Authority, on 6/6/2011; FGD conducted at Metta Woreda Tax Authority, on 24/6/2011.

²⁷⁷FGD conducted at Adami Tulu Tax Authority, on 3/6/2011; FGD conducted at Maki town Tax Authority, conducted on 1/6/2011.

²⁷⁸ FGD conducted at Adami TuluTax Authority, on 3/6/2011.

²⁷⁹ Ibid.

like local arake.²⁸⁰ Many persons buy and sell teff. But they do not pay tax.²⁸¹ Bear traders pay tax; local areke traders do not pay tax. Local leaders (Kebele Chairperson) do all know this. Again, trading on licensed commodities and unlicensed commodities side by side is becoming fashion of the day. For example, although you are licensed for coffee alone, you also sell bear and you pay tax only for the coffee.²⁸² This is seriously affecting not only legal traders but also the government.

Unlawful trade practices on chat

There is no direct contract/agreement between buyer and seller of chat.²⁸³ The true buyer is usually in Somali or Somali land.²⁸⁴ The seller sells the chat with promise that he will be given the money after the chat is sold (only cigarette bonos is given to farmers). The seller does not receive money immediately after selling (duubee gurguruuti jira).²⁸⁵ There is no guarantee that the chat seller will collect the money.²⁸⁶ If the intermediary buyer denies or the market fails, the farmer (chat owner) is at risk of collecting the money.²⁸⁷

The beneficiaries of chat trade are neither farmers nor government, but the intermediaries (mainly the true buyer and the one who makes direct dealing with him).²⁸⁸ The beneficiaries are the exporters.²⁸⁹ Here, chat is transacted in cheap prices and becomes expensive when exported.²⁹⁰ But, the exporters are not Oromos.²⁹¹ Sojik are exporters. Sojik belongs to Somale now situated at Dire Dawa. Biftu Dinsho is another exporter. Although it is Oromo institution it is weak and dominated by Sojik. It seems that it is politically made to eject us from the market.²⁹² That is why we say, we are not being benefited from our chat.²⁹³ Our farmers were

²⁸⁰ FGD at Limmu & Bilbilo supra note 229.

²⁸¹ FGD at Adami Tulu supra note 277.

²⁸² Ibid.

²⁸³ FGD at Aweday town supra note 251.

²⁸⁴ Ibid.

²⁸⁵ Ibid.

²⁸⁶ Ibid.

²⁸⁷ Ibid.

²⁸⁸ Ibid.

²⁸⁹ Ibid.

²⁹⁰ Ibid.

²⁹¹ Ibid.

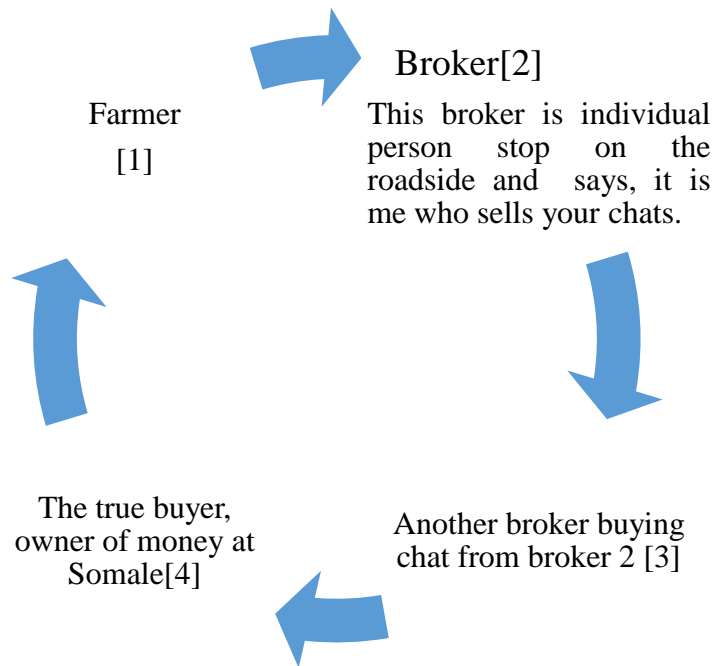
²⁹² Ibid.

²⁹³ Ibid.

being benefitted during transitional time (when OLF controlled the area).²⁹⁴ During that time, our farmers were selling (to the extent of exporting) chat for themselves (Yeroos qonnaan bulaan gurmaa'ee ofumaaf gurgurachaa ture).²⁹⁵ There was an association known by the name “Lagamares Association”-the members come together from the two Hararghe zones.²⁹⁶It was established to supply Vegetables including chat. Latter it was changed to Biftu Dinsho Association²⁹⁷.

The demand and supply direction (route) of chat trade in Aweday looks the following:-

Farmer (1)→ ‘broker’ (2)→ another broker buying chat from broker (3)→the true buyer at Somale (the owner of money) (4)



²⁹⁴ Ibid.

²⁹⁵ Ibid.

²⁹⁶ Ibid.

²⁹⁷ Ibid.

The first day, the true buyer (4-above) sends money to broker (3-above) so as to buy chat for him. The next days, the true buyer requests broker (3-above) to buy chat for him by his money promising that he (4-above) will refund him (3-above). Broker 3 makes similar dealings with broker 2; and broker 2 with farmer. Latter, so many uncertainties will happen. They may deny one another and line of connection may be disconnected. Such practices are making many chat traders abnormal. But, the tax authority of the town registers and knows them as “Category A” taxpayers.²⁹⁸

Overall, the attention given to coffee by the government is not given to chat transactions.²⁹⁹ Transactions on chat do not go in line with the principles of free market economy³⁰⁰. Because, before Abiy assume Prime Minister Position, it was war generals who were ordering on chat³⁰¹. Even after the new reform, no significant change is made on chat transaction.³⁰² The generals have association of their own for trading chat- Kal Association.³⁰³ The only solution for our farmer is establishing trade and market center (Jiddu gala gabaa hundeessuu).³⁰⁴

- b) The second is the tax authority is not making timely audit for taxpayers.³⁰⁵ The tax payers are staying for 3 or 4 years without being audited. When tax audit of cumulative years is made at once, it becomes beyond the capacity of taxpayers- the tax duty becomes in millions forcing the taxpayers to resign the work itself in some instances as is the case in meat traders of Maki town³⁰⁶
- c) Third, there are cases whereby tax authority is geographically less accessible to taxpayers. For example, there are many taxpayers (1000 taxpayers) in Bulbula town of Batu Woreda. But, they came to Batu in order to pay their tax duty although they are in need of paying there at Bulbula.

²⁹⁸ Ibid.

²⁹⁹ Ibid.

³⁰⁰ Ibid.

³⁰¹ Ibid.

³⁰² Ibid.

³⁰³ Ibid.

³⁰⁴ Ibid.

³⁰⁵ FGD at Batu supra note 228; FGD at Tiyo on 6/6/2011; FGD at Dugda (Maki) supra note 255.

³⁰⁶ FGD at Maki supra note 255.

- d) Fourth, the tax system has a problem on promotion. Even if you advanced your education level, there is no promotion³⁰⁷. The new structure has also problem. It allowed only three tax officers for tax collection in 1st level woreda. Three officers cannot handle this huge task of tax collection. Again, it allowed only six officers on education and grievance handling process.³⁰⁸ Again, this is not feasible.
- e) Fifth, there is no adequate human power. For example, in Metta Woreda Tax Authority, the structure needs 34 employees. But, in reality there are only 15 employees.³⁰⁹
- f) Six, there is shortage of logistics necessary to discharge duties³¹⁰. There are, for example, woredas which do not have a single motor vehicle and adequate computers. In such context, it would be difficult to follow up whether or not taxpayers are properly using cash register machine. The budget allocated to the sector, especially at Woreda is also minimal. In such context, how can tax authority give awareness to taxpayers, investigate any suspicion on tax abuse and evasion? No way!

“As you have already seen, a taxpayer coming into our office does not have a clean chair to sit. Budget allocated to tax authority is very minimal. At times, we are even challenged to organize taxpayers’ file in good order. There is significant difference between Bureau and Zones on the one hand, and Woreda tax authority on the other hand as far as logistics is concerned. Woredas do not get the attention they deserve-as a last resort we are requesting NGO’s this day”- a point raised by Kaho Shana at FGD conducted at Maki town.

- g) Seventh, lack of adequate awareness on tax laws, especially on VAT. You get initiation only when you know well the substance of something.³¹¹ Tax payers should know when and how to record and report income and consequence of failure to do it. Lack of adequate awareness

³⁰⁷ FGD at Itaya supra note 250.

³⁰⁸ Ibid.

³⁰⁹ FGD at Metta Woreda supra note 254.

³¹⁰ Ibid.

³¹¹ FGD at Dugda (Maki) Woreda supra note 255.

exists not only with taxpayers but also with tax officials.³¹² Tax officers should have enough knowledge on tax proclamations and regulations before making taxpayers know them.³¹³

- h) Eighth, the existing collaboration between tax authority and other stakeholders is not a strong. Had it been strong, unlawful trade practices will not be as such expanded.³¹⁴ Integrated sectors are also not very much effective. For example, when tax authority struggles with unlawful trade practices (eg traders who buy agricultural products in rural villages without license-internal contraband), the support from police is weak.³¹⁵ Again, when public prosecutor of tax authority prosecutes taxpayers for committing tax crimes, the support from police to bring the suspect is weak.³¹⁶

³¹² FGD at Ada'a Woreda supra note 260.

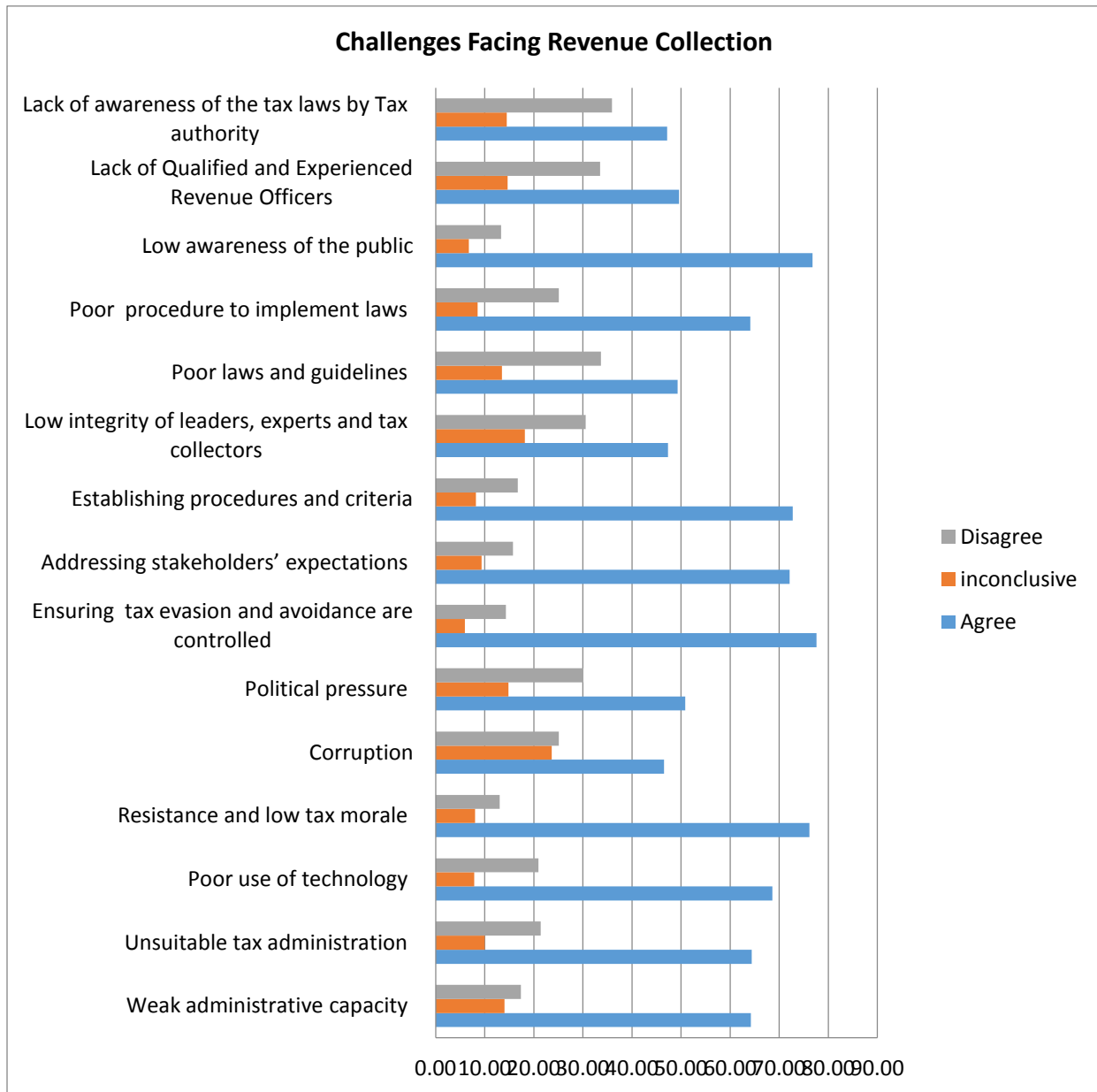
³¹³ Ibid.

³¹⁴ FGD at Adami Tullu Woreda Tax Authority, on 3/6/2011; FGD at Metta Woreda Tax Authority, on 24/6/2011; FGD at Awaday woreda on 12/06/2011; FGD at Tiyo Woreda Tax Authority on 06/06/2011

³¹⁵ FGD at Limmu & Bilbilo supra note 229.

³¹⁶ Ibid.

Chart 5.15 Challenges facing revenue collection in Oromia National Regional State



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

Table 5.9 Strategies for the Enhancement of Revenues

No	Strategies for the enhancement of revenues	Agree	inconclusive	Disagree	Median	SD
1	Establishing more accessible and transparent payment facilities	76.49	8.86	12.40	2.00	1.10
2	Improvement on the fiscal policy, legal and regulatory framework (e.g. equal treatment of all investors)	76.01	9.82	12.88	2.00	1.04
3	Broadening the tax base	75.85	8.53	10.47	2.00	1.06
4	Increasing income and property estimation	48.79	18.36	28.66	2.00	1.22
5	Increasing the number of tax payer and taxable items	72.30	12.40	12.72	2.00	1.10
6	Bringing the illegal economies to legal economies	78.90	7.09	12.56	1.50	1.14
7	Building strong financial management and building strong financial administration system	80.35	7.09	10.14	2.00	1.06
8	Using resources effectively, reducing expenditure, spending on the right project and maintaining the balance between capital and revolving budget	76.01	9.02	13.37	2.00	1.15
9	Improving the administration of tax (focusing on improving the capacity of the tax authority to function its duties.	79.23	6.60	13.20	1.00	1.17
10	Enhancement of taxpayers' education and sensitization (e.g. understand the need to pay taxes the principle of large numbers)	79.07	5.31	13.69	1.00	1.15
11	Citizens' access to and right to information on taxes collected and how revenue are spent	78.10	9.18	11.59	1.00	1.18
12	Providing a very suitable taxpaying system for the tax payer	82.61	7.09	9.18	1.00	1.05
13	Building trusted procedure and system of tax administration	84.54	6.44	7.73	1.00	0.99

Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

Scale: 1 = Strongly Agree 2 = Agree 3= Medium 4 = Disagree 5 = Strongly Disagree

Many people sometimes debate on the strategies we should use to enhance revenue. Some come up with good arguments on how the revenue potential of a certain area collected efficiently. In this study, we have tried to delve in and find out the most important strategies to enhance revenue of the region. Different levels of experts from different parts of Oromia have been

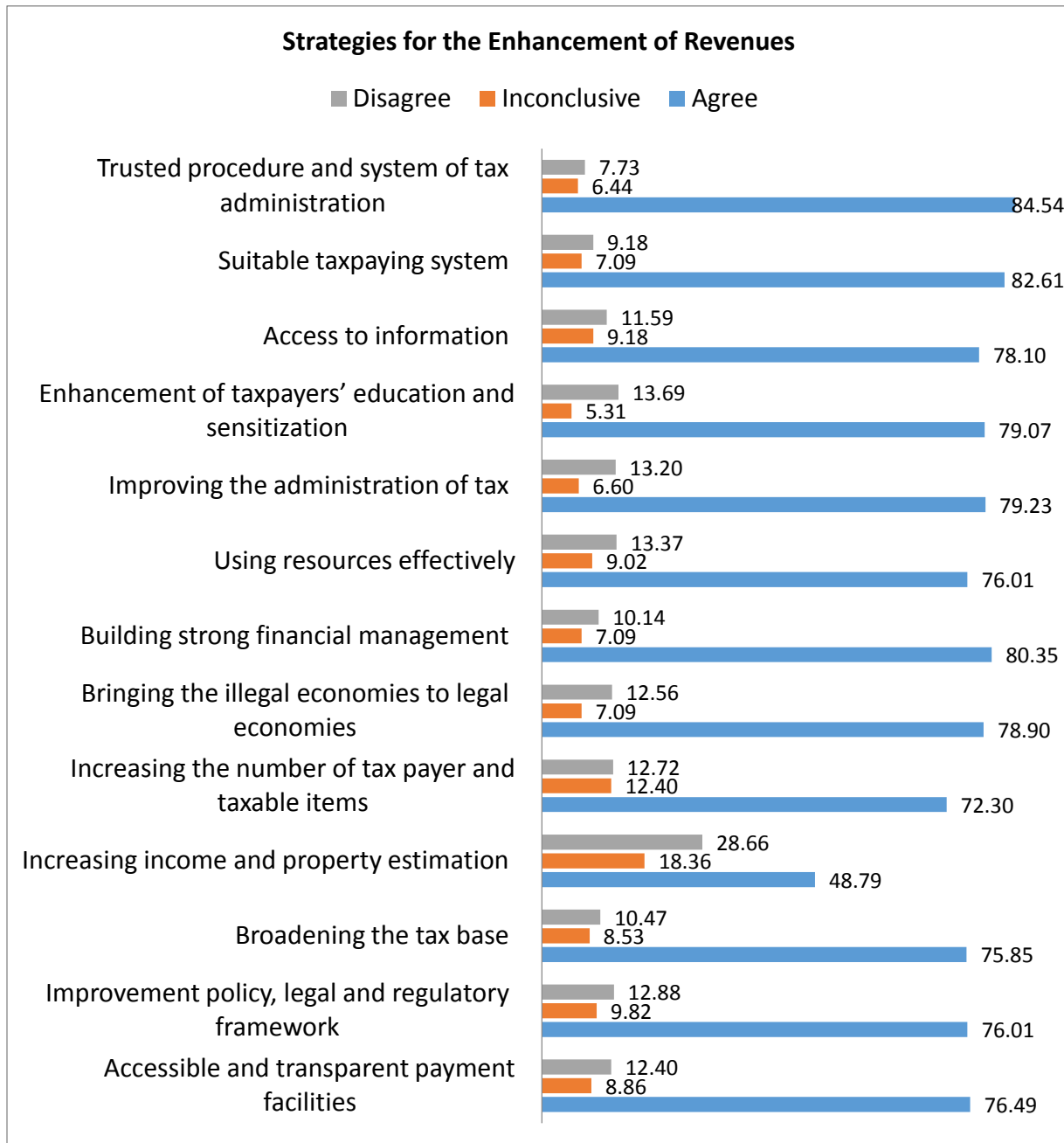
involved in rating their views on how to enhance revenue. Thirteen items have been identified as a strategy of revenue enhancement and participants of the study have cast in their feeling on how to increase revenue in the region.

If we look at the results of the items listed in the table 5.9 the respondents unequivocally responded that all of the listed strategy is important in enhancing revenue in the region except one item which states increasing income and property estimation as a strategy to enhance revenue which is rated medium.

From the listed items the top three strategies for enhancing revenue in the region is 1. Building trusted procedure and system of tax administration 2. Providing a very suitable taxpaying system for the tax payer 3. Building strong financial management and building strong financial administration system.

In addition to that, for all items except one, the mean value for the items is either 2 or less than two which clearly shows that it is important to use the above strategies to enhance revenue of the region.

Chart 5.16: Strategies for the enhancement of revenues



Source: Data gathered by OSLA & OJSPTLRI and own computation, 2019

Table 5.10 Tax Misdeed and Corruption

No	Tax Misdeed and Corruption	High	Medium	Low	Median	SD
1	How do you rate your knowledge on the subjects of tax evasion, tax avoidance and tax power abuse	42.35	42.51	12.40	3	0.92
2	How do you rate tax evasion practices and existences in your woreda/town/zone					
2.1	Having two transaction record book (false and real record book)	32.37	22.87	40.42	3	1.34
2.2	Registration of false transaction and amending the book of accounts	41.55	27.38	27.70	3	1.26
2.3	Using false evidences and receipts	29.15	23.67	44.44	3	1.34
2.4	Hiding account books	28.34	25.60	41.06	3	1.31
2.5	Hiding property owned from tax estimators and collectors	52.66	19.00	20.61	2	1.82
3	How do you rate the existence of tax evasion for different types of taxes in your town/woreda					
3.1	VAT	59.58	18.04	13.37	2	1.21
3.2	Employment income tax	41.71	24.80	28.02	3	1.32
3.3	Transaction income tax	54.11	30.92	11.76	2	1.02
3.4	Building rent income tax	49.92	20.77	25.60	2	1.29
3.5	Turnover tax	47.34	28.02	18.20	2	1.17
3.6	Excise tax	19.81	17.39	36.07	3	1.38

4	At what stage do you think tax evasion is the worst					
4.1	At the estimation phase	59.26	16.59	11.92	2	1.15
4.1	At the payment phase	44.44	23.19	17.71	2	1.21

Source: Data gathered by OSLA & OJSPTLRI, and own computation, 2019

Scale: 1 = Strongly Agree 2 = Agree 3= Medium 4 = Disagree 5 = Strongly Disagree

Table 4.10 deals with issues of corruption and tax misdeeds. In the table we can see three categories of questions. The first part tries to deal with the existence of tax evasion and misdeeds, the second part tries to categorize tax evasion and misdeeds into the types of taxes and the third part asks about at what stage the problem is evident. If we see the first part from tax evasion and misdeed practices, hiding property owned from tax estimators and collectors is rated high by experts the median value for this is 2 which means High according to the scale. The other items which deal with evasion and misdeed have scored median value of 3, which means medium. But if we rate the four remaining items according to their severity; Registration of false transaction and amending the book of accounts will come second, Having two transaction record book (false and real record book) will be third and Using false evidences and receipts and Hiding account books will come fourth and fifth.

The second issue we see is rating the types of taxes according to their involvement in tax evasion and misdeed. Accordingly, as it can be inferred from the table, four types of taxes have scored high in terms of involvement in tax evasion and misdeed. The score for the four items, i.e. 1. VAT, 2. Transaction income tax 3. Building rent income tax 4. Turnover tax the result for these four items measured with median value is 2, which is represented in the score High. Therefore, we can conclude that for these four items there is high scenario of tax misdeed and evasion. Employment income tax and excise tax has scored medium.

The result from interviews and FGD also reveals that VAT is very susceptible to evasion since most of the time tax payers do not give receipt and the trend of customers to ask for receipt is

very low.³¹⁷ Moreover, since administration of VAT is given to federal government by law, it is difficult to administer when it comes to regions on one hand; and there is wrong attitude that revenue generated from VAT is for federal government and little focus is given to its collection.

Some tax officers may abuse their power.³¹⁸ They may unnecessarily favour some of the taxpayers especially during estimation³¹⁹.

Tax payers hide their property from tax liability by using different techniques. These patterns are as follows:

- *Hiding their property like storing elsewhere during estimation since they get information from the tax officers themselves as to when tax estimation is conducted. Selling and storing area is totally different. What tax estimator sees and estimates is different from the reality.*
- *Not using cash register machine; especially on transactions conducted during night*
- *Not issuing receipts by traders including importers and wholesalers in Addis (Merkato).*
- *Concealing the amount of taxable income*
- *Exaggerating deductible expenses*
- *Mixing and trading lawful transactions with unlawful transactions*
- *Having two books of accounts:-one using for getting loans from the bank & the other using for getting trade license.*

Major Reasons for evading tax:

2. Expansion of contraband (illegal trade)
3. Absence of educative measure/penalty on unlawful traders.
 - Although tax crimes are committed on all types of taxes, it is more prevalent on indirect taxes, mainly VAT.
 - Not properly executing tax rules and regulations (Aangotti gara malee fayyadamuu osoo hin taane akkaataa dambiin eeyyamuun raawwachuu dhabuun ni jira)³²⁰

³¹⁷ Interview conducted with Kuma Shuma, Head of Sebeta city administration revenue authority on 29/5/2011 E.C. Interview conducted with Ayisha Rago head of Jima zone revenue authority on 4/6/2011 E.C. Interview conducted with Bekelu Desta Head of West Showa zone revenue authority on 12/06/2011.

³¹⁸ Nuru Kumbi, Head at Lode Hetosa Woreda Tax Authority, 7/6/2011.

³¹⁹ Ibid.

- Government revenue is not being properly collected. For instance, if a trader buys a bull for 20, 000 birr, he/she is expected to pay 3000 birr vat. Again, if the same trader buys 10 bulls he/she has to pay 30, 000 birr. However, the tax payer is paying only 3000 birr in practice because of lack of continues follow up.³²¹

Criminal Cases: the police do not cooperate in presenting the suspect.³²² The competence of public prosecutors of tax authority is also challenging.³²³ The overall purpose of taxation is not properly understood and fully implemented by tax administrators³²⁴.

Civil Cases: There are no real civil cases in practice.³²⁵

- The problems of tax evasion, abuse and avoidance are visible in all tax types but extremely visible in VAT.³²⁶
- Wholesalers at Jigjiga, Harar and Dire Dawa do not issue receipts for our traders.³²⁷ But, they pay VAT for us for which they are not refunded and this in effect means they are paying money from their own pocket.³²⁸

Nature of tax cases:

They are mainly related with receipts:

- ✓ Issuing VAT receipts only when there is tax officer (Hojjetaa galii yoo argan qofa nagahee muruu)³²⁹

³²⁰ Mr Girma Dadhi vice Darector of Oromia Revenue Authority; Mr Abdisa Dhufera Head of plan and budget at Oromia Revenue Authority; Mr Husen Usman legal Advisor at Oromia Revenue Authority; Mr Iticha Head of Revenue Authority at Dugda Woreda, 1/6/2011; Mr Gaberelu Abarra Head of Revenue Authority at xiyo woreda, 8/6/2011; Kalil Heyyi Head of Revenue Authority at Hexossaa Woreda, 7/6/2011, Mr Solomon Kabadaa Head of Revenue Authority at Haromaya Woreda , 13/6/2011.

³²¹ Mr Iticha Head of Revenue Authority at Dugda Woreda, 1/6/2011

³²² Nuru Kumbi supra note 356.

³²³ Ibid.

³²⁴ Ibid.

³²⁵ Ibi.

³²⁶ Abduljabar Yusuf, Deputy Head at East Hararge Zone Tax Authority, 12/6/2011; Aliyi Siraj, Tax Operation Officer at East Hararge Zone Tax Authority,12/6/2011.

³²⁷ Abduljabar Yusuf, Deputy Head at East Hararge Zone Tax Authority, 12/6/2011; Aliyi Siraj, Tax Operation Officer at East Hararge Zone Tax Authority,12/6/2011.

³²⁸ Abduljabar Yusuf, Deputy Head at East Hararge Zone Tax Authority,12/6/2011; Aliyi Siraj, Tax Operation Officer at East Hararge Zone Tax Authority,12/6/2011.

³²⁹ Mr Iticha ----- Head of Revenue Authority at Dugda Woreda, 1/6/2011; Mr Gaberelu Abarra Head of Revenue Authority at xiyo woreda, 8/6/2011; Kalil Heyyi Head of Revenue Authority at Hexossaa Woreda, 7/6/2011;Mr Solomon Kabaddaa Head of Revenue Authority at Haromaya Woreda , 13/6/2011.

- ✓ *Adducing wrong receipts*
- ✓ *Not adducing issued VAT receipts*
- ✓ *Claiming the loss of receipt before adducing it to tax authority*
- ✓ *Claiming the loss of cash register machine*³³⁰

The critical question is why the Tax Authority failed to control these crimes? The number of taxpayers in East Shewa Zone is more than 5000.³³¹ The numbers of tax officers assigned to follow up these taxpayers are only six (6).³³² The figure shows great disproportion making continuous and regular follow up less effective.³³³ But, the new structure cascaded operational tasks into the six sub-cities and the role of zonal tax officers is to conduct tasks of strategic, supervision and addressing big issues.³³⁴ Hence, the gap may be addressed.³³⁵

Once in a year, there is an assessment of unlawful trade practice campaign in Bishoftu.³³⁶ The objectives of the campaign are to bring traders into the tax net and to make traders renew their license (b/se there is no tax collected without renewing license)³³⁷

³³⁰ Badiriya and Silashi supra note 329.

³³¹ Ibid.

³³² Ibid.

³³³ Ibid.

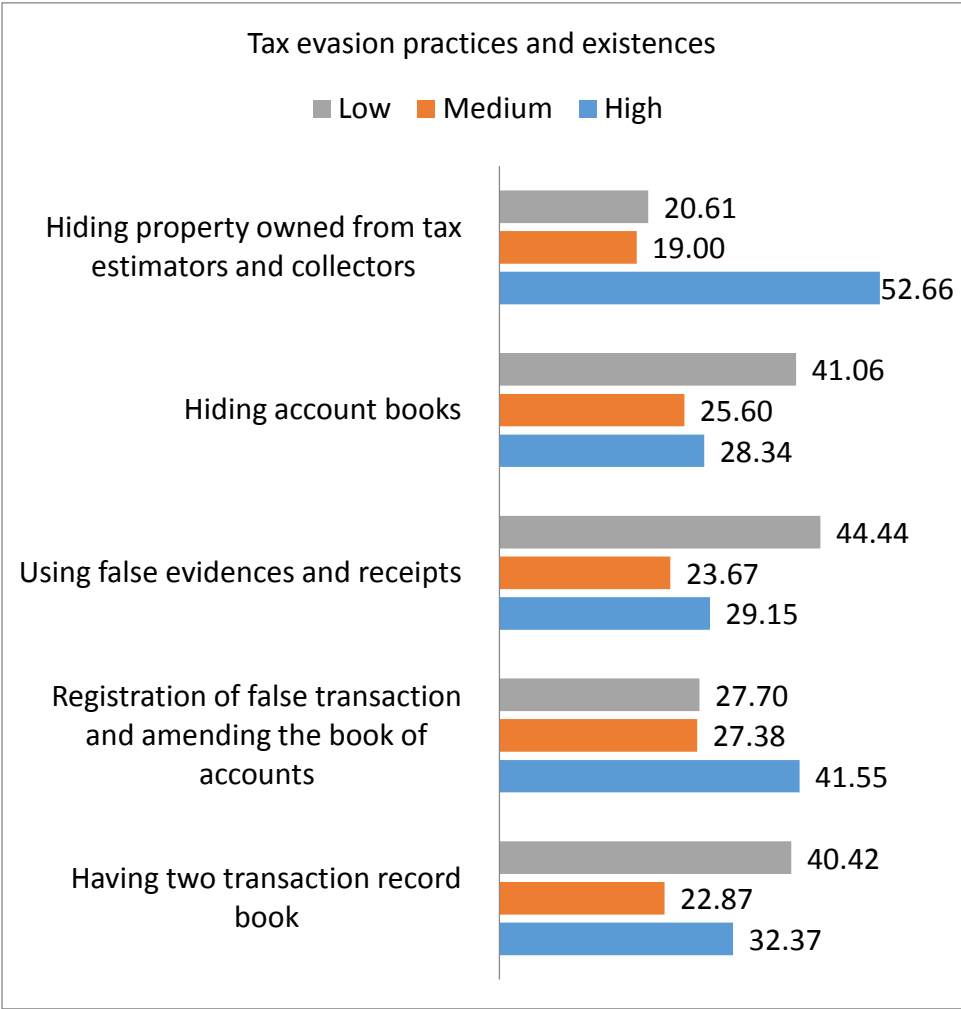
³³⁴ Silashi Endale, Deputy Head at East Shewa Zone Tax Authority, 29/5/2011.

³³⁵ Badiriya Rashid, Head at East Shewa Zone Tax Authority, 29/5/2011.

³³⁶ Fekadu Teshome, Operation Coordinator at Bishoftu Woreda Tax Authority, 29/5/2011.

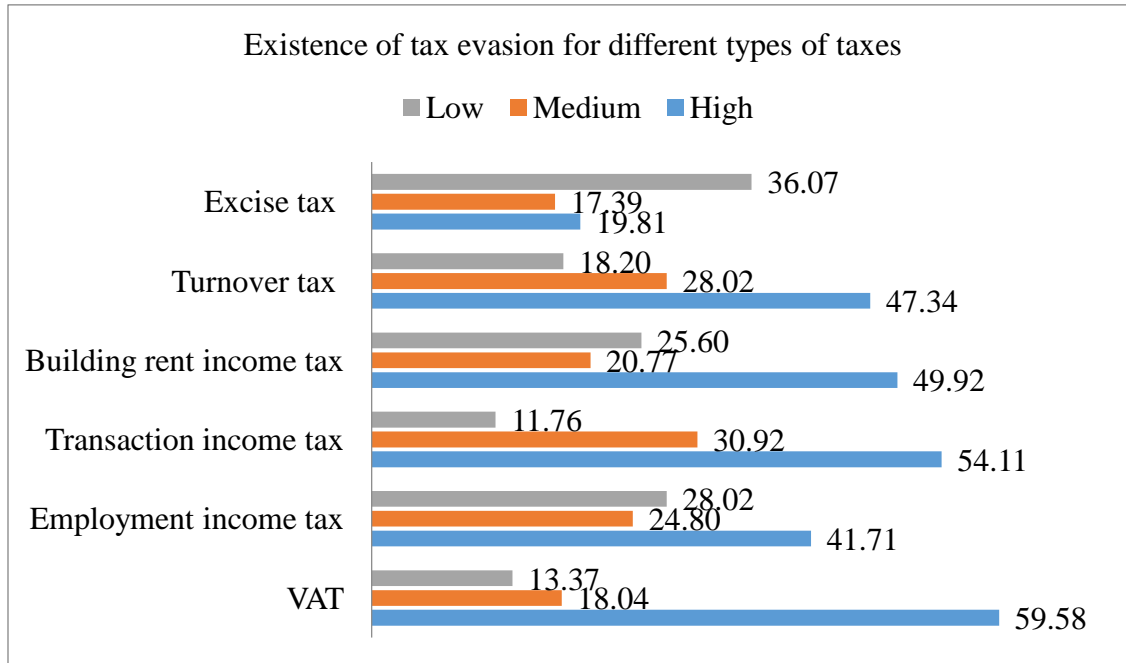
³³⁷ Ibid.

Chart 5.17 Tax Evasion Practices and Existences



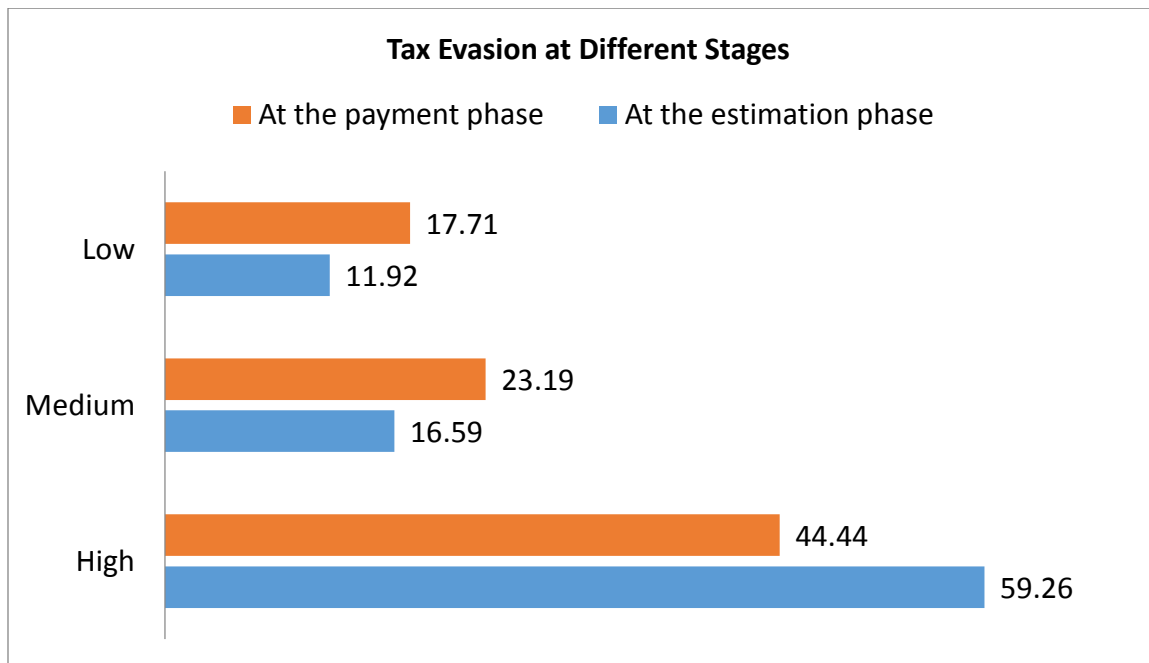
Source: Data gathered by OSLA & OJSPTLRI, 2019

Chart 5.18 Existence of tax evasion for different types of taxes



Source: Data gathered by OSLA & OJSPTLRI, 2019

Chart 5.19 Tax evasion at different stages of tax administration



Source: Data gathered by OSLA & OJSPTLRI, 2019

Chart 5.19 shows the severity of tax evasion at different stages. As can be seen from the chart tax evasion is high at both stages of tax administration. However we can see that tax evasion is higher at the estimation stage. The results from FGD and Interviews also revealed prevalence of evasion at estimation using different tools. For instance at estimation taxpayers³³⁸ who got about the day when tax authorities go for observing business activities to their work places, they always try to hide their assets so that the amount of payment be reduced.

³³⁸ Interview conducted with Ayisha Rago head of Jima zone revenue authority on 4/6/2011 E.C. FGD conducted in Menna Woreda with traders and experts on 6/6/2011. Interview with Wayesa Baqana, Beka Deribi, Fayera Taresa, inspection team at west showa zone high court on 11/6/2011 E.C. Yilma Wayyesa, Budget and Finance Standing Committee Chairperson of regional council (Caffe) on 26/6/2011.

CHAPTER SIX

6. Conclusion and Recommendation

6.1 Introduction

This chapter contains two sections. The first section presents conclusions drawn from the analysis of data and discussion of findings in line with the research objectives. The second section of the chapter is the recommendations part. This part forwards recommendations based on the findings of the study.

6.2 Conclusion

In the analysis part of this study, various methods of data analysis and data is used to answer the research questions of this study.

Financial autonomy is one of the most important things that hold a country having different federating units together. On contrary to this, centralizing finance and reliance on federal grant is disintegrating potential. In a country with varying natural resource endowment in its federating units, the issue of fiscal autonomy is thorny; since states with limited natural resource prefer centralization of taxation while those endowed with natural resource opts for autonomy. That is why the principle of fiscal federalism is highly practised in federal countries to allow the federation move in unison toward fiscal equality. Over all, the principle of fiscal federalism demands alignment of revenue with expenditures to have a functioning fiscal federation.

In federal states, power is shared between federal government and regional state government. In such system, both federal and state governments have certain functions for which they are responsible. The same is true in Ethiopia and the FDRE Constitution has made such division. The same constitution also assigned taxation power to both tiers of governments so as to enable them cover their expenditures. The tax assignment made by the constitution however is widely blamed for tilting toward the federal government against principle of fiscal decentralization. A close look at Ethiopian federation seems to favor autonomy of states from its outset. However, in the area of fiscal power the constitution rather gear to center. Such is observable from taking the undersigned taxation power from state unlike other legislative functions. This has been observed in the constitutional power division of Arts. 51 and 52 which is starkly in contrast to the revenue

power division. Article 99 of the FDRE Constitution has not given the undesignated taxation power to the state.

Moreover, on the area of concurrent power of taxation, the House of Federation decided the share of federal and regional governments. But, states have no mechanism by which they follow their share is appropriately transferred from the federal government and therefore are obliged to receive what is granted to them by the federal government. This has greatly hampered revenue generating capacity of Oromia National Regional State.

Unjust intervention by the federal top executive on exclusive taxation power of region, including Oromia region through directives and letters is also observable. For example, although the constitution gave exclusive power to tax on agricultural products which in the view of researchers include Khat (Jimaa), in practice, the late Prime Minister unduly took the power to tax Awaday khat from Oromia.

Oromia is the region of investment area where investors prefer to conduct their business activities. Actually investment is the most important thing to bring about development if implemented properly. Ethiopia has enacted investment proclamation to encourage investment inflow. To that effect, different investment incentives were included in the proclamation as well as its regulation. Types of incentives that are meant to attract investor could be reduction of the standard corporate income tax, tax rate, investment and reinvestment allowances, tax holiday, accelerated depreciation, exemptions from import duties. Since investments are largely conducted in Oromia, these incentives are obviously reducing revenue generating capacity of the regional government. The worst scenario is investors leave when the period of incentives ends. This calls for rethinking on investment incentives.

VAT is an area of challenge and where prevalence of tax evasion is observed. The problem of VAT arises from the law, practice and administration. The instances are many. For example, penalty provision of VAT proclamation did not contextualize the amount of business transaction as well as paying capacity of a taxpayer. Sometimes, taxpayers responsible for such violation will be out of business activity due to excessive penalty and this is indirectly reducing the regions revenue generating force. On the other hand, the penalty clause in the VAT law is encouraging further violation of the law as a business transaction that is led to punishment is still

profitable after penalty. Knowledge and attitude of citizens to ask for receipt is minimal; and this is reducing revenue that could have benefited them indirectly while they actually pay and individuals are making use of it. Administrative problem in this regard is observable as experts of revenue authority most of the time focus on certain groups of persons who are actually tax payers while traders who are outside the tax net are not focused. Even tax authorities themselves do not pay attention to VAT as they believe it is for the federal government.

Agricultural tax levied and collected from farmers is very small. Given population of Oromia is largely agricultural dependent, revenue generating capacity of the region is very limited. Moreover, there are some exemptions for rural land use. A Government, non-governmental organizations or private investor who develops forest based on the directives of Oromia Investment Commission are exempted from rural land use payment. Government organizations giving public services shall be exempted from land use payment but not profit making. Government National Parks are also exempted from rural land use payment; no possible justification as they are profit making. This is against constitutional provision that allows regions to tax on any property situated in the region including federal government's property when it is established to make profit. This will indirectly hinder the regional government's revenue raising ability.

Creating awareness for the citizens, leaders and even for revenue authority workers is very important. Lack of awareness about tax administration, laws and procedure is apparent at a large scale in the region. Knowledge of tax payers on how taxes are levied on them is very minimal. Tax payer grievances and discontent on tax estimation emanates from tax estimators and tax appeal committee members identity and qualification to estimate taxes, although most of it is corrected after protest and tax appeal it have raised many question on its appropriateness and those members are the one who act as tax appeal committee in most cases.

Tax payer's attitude to pay taxes needs a great attention to boost tax collected in the region. The results of the study shows that the major problem is not the amount of tax levied, but how fairly all tax payers according to their paying capacity is taxed, basing tax estimation on clear and transparent data, taking natural and other economic issues into consideration, administrative capacity of the revenue authority to control illegal and informal economies are some of the real problem on the ground. Tax payers are not honest in registering and notifying their incomes

properly. This dishonesty from the tax payers has a chain of dishonesty from the central market “Merkato” which is a nucleus for almost all the economic activities of the country. Whole sellers at “Merkato” would either avoid or give wrong receipt which in turn affects all transactions afterward. Expansion of contraband trade and poor mechanism of controlling those trades is another major problem in almost all parts of the region. Selfishness or greediness to pay tax due to lack of knowledge could also be the reason why tax payers do not wholeheartedly pay taxes.

Regarding tax fairness and correctness the study has observed numerous issues that need proper interventions. The manifestation of unequal treatment of the tax payers, unbalanced levy of taxes on businesses who are honest and dishonest, inconsistent registration of tax payers for VAT and discontinued follow up of business activities are creating unfair treatment for the tax payers. Decisions on certain issues like fixed tax, penalties and uniform criteria for urban and rural areas are also a major setback. For example if penalties for Level A and Level B tax payers are similar for those tax payers who have enough it is not a great deal but for low capacity tax payers it could mean closing the business at all. Tax estimation is another major element in the region's tax administration system that creates grievance and discontent among tax payers. As the name implies estimation does not base on clear and transparent data. The study has found out that on estimation phase the way estimation is conducted in the region has many drawbacks. Unfairness, external pressure, limited knowledge and data from the estimators are some problems on the estimation phase. The study has found out that there is a significant problem on composition of tax estimators and tax appeal committee. Even leaders at revenue authority have reservations on the capacity of the tax estimators and tax appeal committee's expertise knowledge and judgment. The other problem is the composition of tax estimators and tax appeal committee is similar and at some point those who have estimated at the initial phase would be assigned as tax appeal committee which is not correct.

Tax system in Oromia National Regional State has many challenges. The region's share of tax revenue from the total expenditure of the region is very low. There are many challenges contributing to low revenue generation in the region. Even though the list of challenges that are affecting the tax system could be long, we would focus on the very important ones. We can list daunting challenge like informal trades, contraband; illegal activities as a primary challenges that are disrupting and affecting the system. It affects could be felt through creation of unfair

competition, low tax payers morale, decrease in taxpaying capacity of the formal tax payers and erosion of trust in the tax system. The other major challenge is the administrative capacity of revenue authority especially at zone and woreda level. Lack of proper attention to the sector in terms of budget, logistics, infrastructure, lack of training for experts, low use of technology, traditional way of collecting taxes, lack of human power are some of the challenges of revenue authority.

Other challenge is municipality tax which is a very big challenge that needs attention. Town administrations do not have proper structure, rule and regulations to collect taxes.

Devising a very effective ways or methods of enhancing revenue in the region is very important. Enhancing revenue of the region requires building a strong, trusted and effective tax administration organization. Tax administration firm or organization in turn needs to build a trusted procedure and system of tax administration. Providing a suitable taxpaying system for the tax payers is one of a very important ingredient to raise revenue. Tax payer attitude towards taxation is a very important subject. If tax payer sees tax owed as a burden that means he/she will always devise ways to evade taxes which is very difficult for tax authority to control. Therefore, tax payer education and sensitization is a very important strategy to improve tax revenue collection.

Another issue concerning tax power and ability to raise enough tax revenue is related with PLC. Basically, taxes on PLC are joint (concurrent). With regard to such taxes the practice in Ethiopia is the federal government collects the taxes and shares the proceeds with regional governments according to the formula devised by the House of Federation. But regions, including Oromia does not have a mechanism of knowing the share transferred to them is the proper amount.

The study has observed that there is influx of tax payers to transform their businesses in to Plc. These drive by tax payers have a daunting effect for regional revenue generation capacity because of the assumption that PLC do not pay taxes for local or regional revenue authorities and they are the ones who have the real potential to raise the regions revenue generation capacity. Moreover, organizations like banks, universities, federal organizations that are based in the region and get services from the region pay their income taxes for federal, which is not fair

because they also get services from the region and should pay taxes in areas they are working and living.

6.3 Recommendation

Genuine federalism pre supposes separation of power which includes fiscal decentralization. Our federation advocates autonomy of regional states but seems to favor centralization when it comes to fiscal matters. A reviewed experience also shows centralization of fiscal matter has potential of disintegrating a federal state; [Swiss is the case in point]. Since our federation favors states autonomy on one hand and centralization has potential for initiating referendum on the other hand, it is good if the provision of the FDRE Constitution for undesignated power of taxation leave the matter to regions like other functions. Thus, amending that provision is recommended.

A lesson drawn from experiences of several federation shows that taxes on the income and winnings of national lotteries and other games of chance are best administered at regional levels. However, in Ethiopia, they are assigned to the federal government. Similarly, property taxes are allocated based on the ownership right of that property. But, property taxes by their nature are best administered at regions. Hence, the FDRE Constitution should be amended to reassign taxes on the income and winnings of national lotteries and other games of chances and properties to regional governments.

The present constitutional assignment of company taxes in Ethiopia is not justifiable when viewed from the perspective of theories of fiscal federalism. The theory of fiscal federalism tells us that because of mobility factor (operating in more than one federating units), company taxes are best administered by the federal government. But, in Ethiopia, it is not the mobility factor, rather the type of business organization that is used to allocate taxation power on companies. Hence, it is good to revise the constitution so as to make company operating within specific region to be taxed by that region. And, companies operating in more than one region be taxed by the federal government.

Regarding sharing of joint taxation, following the decision of the House of Federation, it is the federal government that transfers the amount of money due for the states. There is no nationally integrated system based mechanism by which states can check the transfer amount of money is exactly what is due for them. They (states) trust and receive the amount transferred to them.

Hence, it is appropriate for Oromia Revenue Authority to deal with Ministry of Revenue to device system based mechanism of checking the transferred amount of tax as it increases confidence and trust.

Oromia regional government should extensively apply the taxation power given to it in order to generate enough revenue. Particularly, Oromia regional state in general and Oromia revenue authority in particular must quickly act on joint taxation power. There is no legal ground why federal government only levies and collects taxes on companies [PLCs and share companies]. Caffee Oromia has to work on amending laws like rural land use payment proclamation. The proclamation prohibit to tax properties situated in the region against constitutional provision that empower them to tax including federal properties if it is for profit making. Oromia Rural Land Use Payment and Agricultural Income Tax Proclamation No 131/2007 exempted government national park even though they make profit. This provision needs to be amended.

Awareness creation is important for experts of revenue authority, taxpayer and citizens at large. Especially, experts need to be trained on VAT law. The view that VAT is for federal government should be changed. Moreover, regional revenue authorities should challenge federal counter part when they try to intervene in their revenue generating resources. Penalty provisions of VAT proclamation need to be amended in a way that contextualizes the person at hand.

The new proclamation allows for taxation of any income in the region weather they are in the tax net or not. Thus the government should devise a method for taxing the illegal economy to encourage them to come to the tax net or discourage them from continuing in the dark economy.

- The regional government should work on to clarify the hazy area around tax power and its division with the federal government and regional government. This would clearly show what mandate does the regional government have and on what it needed to work on to improve its revenue source.
- Secure high-level political commitment and buy-in from all stakeholders. While a clear mandate is necessary, it is not sufficient. Many newly elected governments do have such a mandate, but not all of them reform. Therefore, political commitment at the highest level and broad buy-in are needed. Social dialogue enhances the likelihood of reforms being implemented and sustained. Effective communication with stakeholders that emphasizes the

intended benefits of reforms can help overcome resistance of vested interests. And compensating the losers has proved effective in winning public support for tax reform initiatives.

- The regional government should focus on broadening its tax base. Because it would help in covering for revenue lost from lower tax rates. This will also insure better compliance, and stricter enforcement. Elevating the pressure from tax payers who are in the tax net.
- The regional government should also make it easier to pay taxes by introducing measures such as an electronic tax filing system. In this way, technology could both improve efficiency and reduce opportunities for corruption. In parallel, the government should lower the minimum capital required to start a business, which also generated more tax revenue and encourage the inclusion of more tax payers that are outside the tax net.
- Simplify the tax system and curb exemptions. A simpler tax system with a limited number of rates is critical to fostering taxpayer compliance. Notably, in fragile states, where many interests are horded the focus should be first on simplifying taxes, procedures, and structures. Simplicity of the tax system and legislation is the guiding principle for fragile states. This makes tax administration less challenging in weak states that lack such basic institutions as security and a well-functioning judicial system.
- Setting up the new VAT department with fully trained staff, putting in place the supporting IT system and procedures, and training potential registrants and practitioners. The VAT was broad-based, with a single flat rate and a limited number of exemptions for financial, medical, and educational services would make it easy for administration and collection.
- Enhanced audit and verification program: a risk-based audit, which links the likelihood and nature of an audit to the taxpayer's inherent risks, is the most effective type in terms of encouraging compliance.

References

A) Books and Journals

- Robin Boadway (2007), *Fiscal Federalism in Canada in the Practice of Fiscal Federalism: Comparative Perspectives (A Global Dialogue on Federalism, Vol. II)*
- Taddese Lencho (2014), *The Ethiopian Income Tax System: Policy, Design And Practice (A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in the Department of Interdisciplinary Studies in the Graduate School of the University of Alabama)*
- Taddese Lencho (2012), *The Ethiopian Tax System: Excesses and Gaps, Michigan State International Law Review [Vol. 20:2]*
- Taddese Lencho 2010, *Income Tax Assignment under the Ethiopian Constitution: Issues To Worry About, Mizan Law Review Vol. 4 No.1.*
- Solomon Nigussie (2008), *Fiscal Federalism in the Ethiopian Ethnic-based Federal System, Wolf Legal Publisher*
- Assefa Fisseha (2005), *Federalism and the Accommodation of Diversity in Ethiopia: A Comparative Study (3rd Revised Ed.)*
- Asaminew Emerta (2010), *the Underground Economy and Tax Evasion in Ethiopia: Implications for Tax Policy Implications for Tax Policy.*
- Bahiigwa, G., Ellis, F., Fjeldstad, O-H. and Iversen, V. (2004). "Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction." *EPRC Research Series No. 35 (January)*,
- Bahl, R.W. (2003). *Reaching the Hardest to Tax: Consequences and Possibilities*, paper presented at the "Hard to Tax: An International Perspective" conference. Andrew Young School of Policy Studies, Georgia State University, May
- Baurer, L. I. (2005) *Tax administrations and small and medium enterprises (SMEs) in Developing Countries*. Retrieved from [http://www.ifc.org/ifcext/sme.nsf/AttachmentsByTitle/BEE+SME+Taxation/\\$FILE/SME+Taxation+Toolkit.pdf](http://www.ifc.org/ifcext/sme.nsf/AttachmentsByTitle/BEE+SME+Taxation/$FILE/SME+Taxation+Toolkit.pdf)
- Bilquees, L., (2004) *Taxes, mobile capital, and economic dynamics in a globalizing world. Journal of Macroeconomics, 32*
- Bird, R.M. and Tassonyi, A. (2006). "Constraining Sub national Fiscal Behavior in Canada: Different Approaches, Same Results?" in J.A. Rodden, G.S. Eskeland, and J.I. Litvack,

- eds., *Fiscal Decentralization and the Challenge of Hard Budget Constraints*. Cambridge, MA: MIT Press.
- Bofah K., (2003) *The Impact of Tax on Investment and Business Decision* http://www.ehow.com/facts_5910416_impact-tax-investment-businessdecisions.Html
- Chaudhry, I.S (2010) *Determinants of Low Tax Revenue in Pakistan*. *Pakistan Journal of Social Sciences*. Vol 30. No 2, December, 2010
- Chijoriga, M.M (2012). *New Areas for Enhancement of Revenue collection and Broadening Tax Base of the Country*. Unpublished Report.
- Fjeldstad, O.-H. (2009). 'What's trust got to do with it? Non-payment of service charges in local authorities in South Africa' *The Journal of Modern African Studies*, Vol. 42 (4), (forthcoming).
- Garde, M (2004) "A model of Tax Administration Reform", *Manila bulletin*. Available from http://www.dlsu.edu.ph/research/centers/cberd/pdf/bus_focus/model_for_tax_admin_refor_P_F. Accessed 28/07/2010
- Gupta, A.S. (2007). *Determinants of Tax Revenue Efforts in Developing Countries*. Working Paper 184: International Monetary Fund, Washington, DC.
- James, S. and Nobes, C. (2009) *Economics for Taxation*. 9th ed. Birmingham, Fiscal publications.
- Kemal, M.A. (2007). *A Fresh Assessment of the Underground Economy and Tax Evasion in Pakistan: Causes, Consequences and Linkages with the Formal Economy*. Working Paper 13: Pakistan Institute of Development Economics
- Kiabel, D. B. and Nwukah, G. N. (2009) "Boosting Revenue Generation by State Governments in Nigeria: The Tax Consultant Option Revisited". *European journal of sciences*, vol. 8, no 4. Available from: http://www.eurojournals.com/ejss_8_4_02.pdf. Accessed 16/04/10
- Laffer, A. (2009) *Taxes, Depression, and Our Current Troubles*. *Wall Street Journal*, 22nd Sept. Eastern Edition. <http://www.proquest.com/>. Accessed 20/04/10.
- Lamb, M. (ed.) (2005). *Taxation: an Interdisciplinary Approach to Research*, New York, Oxford publication.
- Lutfunnahar, B. (2007). *A Panel Study on Tax Effort and Tax Buoyancy with Special Reference to Bangladesh*. Working Paper 715: Policy Analysis Unit (PAU) Research Department Bangladesh Bank

Mahdavi, S.(2008). The Level and Composition of Tax Revenue in Developing Countries: Evidence from unbalanced panel data. International review of Economics and Finance, 17,607-617

Michael C. Durst (2017), Assisting Developing Countries in Taxation after the OECD's BEPS Reports: A Suggested Approach for the International Donor Community; ICTD Working Paper 71

Tesfaye Abate (2009), Investment Law (Teaching Material Prepared under the Sponsorship of the Justice and Legal System Research Institute)

Nightingale, K. (2002). Taxation Theory and Practices. 4th ed. England Pearson Education Ltd
Tarsiimoo fi sagantaawwan dandeettii raawwachiisummaa Mootummaa Federaalawaa Dimokraatawaa Rippaablika Itoophiyaa bara 1994 bahe

Teera, J.M. (2002). Determinants of Tax Revenue Share in Uganda (unpublished).

Abu Girma Moges (2001), An Economic Analysis of Fiscal Federalism in Ethiopia.

UNDP Working Paper (2016), Performance and Prospects of Tax Collection in Ethiopia p 1.

World Bank(2016). Tax Compliance Cost Burden And Tax Perceptions Survey In Ethiopia

B) Constitution and Laws

- The 1995 FDRE Constitution
- Federal Tax Administration Proclamation No. 983/2016
- Federal Income Tax Proclamation No.979/2016
- Value Added Tax Amendment Proclamation No. 609/2008
- Mining Operations Proclamation No. 678/2010
- Customs Proclamation No 622/2009
- A Proclamation on Investment, Proclamation No.769/2012;
- Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers (Amendment), Regulation No 312/2014.
- A Proclamation to Amend Rural Land Use Payment and Agricultural Income Tax of Oromia Regional State's Proclamation No 99/2005 (Proclamation No 131/2007)
- Proclamation for Amendment of Oromia National Regional Governments Income Proclamation, Proclamation No.202/2009

- Oromia Regional Government Income Tax Proclamation No. 203/2009

C) Focus Group Discussions Used in the Course of Analysis

- FGD conducted at Aweday Town Tax Authority on 12/6/2011
- FGD conducted at Agaro Town Tax Authority on 8/6/2011
- FGD conducted at Itaya Town Tax Authority on 7/6/2011.
- FGD conducted at Menna Woreda Tax Authority on 6/6/2011
- FGD conducted at Toke Kutaye Woreda Tax Authority on 19/6/2011
- FGD conducted at Ada'a Barga Woreda Tax Authority on 13/6/2011
- FGD conducted at Batu Woreda Tax Authority on 3/6/2011.
- FGD conducted at Limmu & Bilbilo Woreda Tax Authority on 6/6/2011.
- FGD conducted at Metta Woreda Tax Authority, Conducted on 24/6/2011.
- FGD conducted at Dugda (Maki) Tax Authority on 1/6/2011
- FGD conducted at Ada'a Woreda Tax Authority on 30/5/2011
- FGD conducted at Adami Tulu Tax Authority, on 3/6/2011;
- FGD conducted at Tiyo Woreda Tax Authority, on 6/6/2011.

D) List of Interviews used in the Course of Analysis

- Girma Dadhi vice Darector of Oromia Revenue Authority;
- Abdisa Dhufera, Head of Plan and Budget at Oromia Revenue Authority
- Husen Usman, director of legal service directorate at Oromia Revenue Authority, 23/2/2011 E.C
- Kuma Shuma, Head of Sebeta city administration revenue authority on 29/5/2011 E.C.
- Ayisha Rago, Head of Jima zone revenue authority on 4/6/2011 E.C.
- Bekelu Desta, Head of West Showa zone revenue authority on 12/06/2011
- Abduljabar Yusuf, Deputy Head at East Hararge Zone Tax Authority, 12/6/2011
- Aliyi Siraj, Tax Operation Officer at East Hararge Zone Tax Authority,12/6/2011
- Nuredin, Deputy head of Seka Cokorsa Woreda revenue authority on 5/6/2011.
- Fekadu Teshome, Operation Coordinator at Bishoftu Woreda Tax Authority, 29/5/2011
- Solomon Kabada, Head of Revenue Authority at Haromaya Woreda, 13/6/2011.

- Nuru Kumbi, Head of Tax Authority at Lode Hetosa Woreda, 7/6/2011
- Esmael Ababor Deputy, President at Jimma Zone High Court on 5/6/2011;
- Wayesa Baqana, Beka Deribi, and Fayera Taresa, inspection team at the High Court of West Showa Zone on 11/6/2011 E.C;
- Yilma Wayyesa, Budget and Finance Standing Committee Chairperson of the regional Council (Caffe) on 26/6/2011;
- Fayisa Tolesa, A judge at Oromia Supreme Court.
- Badiriya Rashid, Head at East Shewa Zone Tax Authority, 29/5/2011; Silashi Endale
- Silashi Endale, Deputy Head at East Shewa Zone Tax Authority, 29/5/2011
- Gaberelu Abarra, Head of Revenue Authority at Tiyo Woreda, 8/6/2011
- Jafar Mikael, Revenue operation coordinator at Aweday Town Tax Authority,13/6/2011
- Nuru Kumbi, Head at Lode Hetosa Woreda Tax Authority,7/6/2011
- Kalil Heyyi, Head of Revenue Authority at Hexossaa Woreda, 7/6/2011
- Mr Iticha, Head of Revenue Authority at Dugda Woreda, 1/6/2011