

## Assessment of the practices and challenges of value added tax administration: case of Hawassa city revenue authority

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**Abstract** - This study aims to assess the practices and key challenges affecting Value-Added Tax (VAT) administration in Hawassa City Administration, with a focus on identifying both strengths and weaknesses in achieving VAT objectives. The research adopts a qualitative approach, utilizing both primary and secondary data sources. Data collection involved descriptive research methods supported by probability proportional to size sampling techniques. The data were analysed using the Statistical Package for Social Sciences (SPSS) version 20, with the aid of percentages, tables, figures, and charts. The findings indicate that the VAT administration in Hawassa faces several critical challenges, including a shortage of skilled personnel, limited staff capacity, inadequate managerial responsiveness, low levels of taxpayer awareness, invoicing irregularities, unfair competition, and inflation. These issues collectively hinder the effective implementation and performance of VAT policies. The study also reveals weaknesses in taxpayer registration, assessment, and collection processes. To enhance the efficiency of VAT administration, the study recommends strengthening institutional capacity, implementing consistent awareness campaigns, improving taxpayer identification and registration, and enhancing audit and enforcement mechanisms. These efforts are essential for reducing tax evasion and ensuring effective revenue collection. The study has practical implications for a wide range of stakeholders, including taxpayers, donors, policymakers, audit bodies, and local governments. By addressing the identified challenges, authorities can improve VAT revenue collection, which ultimately contributes to better public service delivery and improved living standards.

**Keywords:** VAT administration, tax compliance, revenue authority, taxpayer awareness, Hawassa city

### 1. Introduction

The introduction of Value Added Tax (VAT) is widely recognized as a key step toward improving tax administration and increasing domestic revenue generation, especially in developing countries. Many of these nations, including Ethiopia, rely heavily on foreign financial aid, which is often unstable and unsustainable for long-term development. As such, strengthening internal revenue mechanisms like VAT becomes critical to achieve economic self-reliance and reduce fiscal dependency.

VAT has become a major source of income across Africa. In countries like Egypt and Tunisia, the VAT-to-GDP ratio ranges from 2.7% to 6.5%, while in Ethiopia, it remains comparatively lower. Nonetheless, VAT contributes substantially to total tax revenue in Ethiopia. For instance, data from the

Hawassa City Revenue Authority indicate fluctuating collection performance over the years, with only the 2020/21 fiscal year surpassing its collection target. This inconsistency highlights underlying inefficiencies in VAT administration.

The Ethiopian government continues to prioritize tax revenue as a key fiscal policy tool, allocating over Birr 19 billion in projected VAT collections for 2023. However, this target faces challenges such as tax evasion, weak administration, limited technological integration, and low public awareness. These issues have been documented by researchers like Yitbarek (2020), Sinor (2016), and Yesegat (2008), among others. Although several studies have examined VAT implementation in various Ethiopian regions, many of them suffer from limitations such as narrow sample sizes, localized focus, or inadequate analytical methods. Despite existing research by Haile Mariam (2015), Angsom (2013), and Dheressa et al. (2015), knowledge gaps persist in understanding the real-world practice and challenges of VAT collection at the city level, particularly in Hawassa. Moreover, the increased number of registered Category "A" taxpayers in Hawassa underscores the urgency of evaluating whether the VAT system is functioning effectively under increased administrative demand.

VAT administration aims not only to collect revenue but also to promote voluntary tax compliance by registering taxpayers, processing returns, and managing audits and penalties. In principle, effective VAT administration should be integrated with broader tax reforms and supported by adequate organizational and technological resources. In Ethiopia, VAT is charged at 15% on taxable goods and services exceeding an annual turnover of one million Birr. However, as tax reforms evolve, so must the administrative infrastructure and compliance mechanisms.

Literature also highlights weaknesses in tax administration that compromise policy goals, such as equitable income distribution and economic stabilization. Studies by Tanzi (2013), Suleiman Aruwa (2014), and Kangave (2005) show that administrative problems in developing countries—including resource shortages, weak enforcement, and poor taxpayer services—lead to suboptimal tax performance. These issues are compounded by inconsistent taxpayer registration, invoicing, refund processing, and audit practices.

For example, Kangave's study on Uganda reveals how tax evasion, corruption, and low audit capacity obstruct revenue generation. Similarly, Jantscher (1990) and Dom & Miller (2018) emphasize that VAT systems in many developing countries fall short of public finance standards due to poor implementation rather than flawed design.

VAT administration is the systematic management of value-added tax (VAT) collection involving personnel, technological infrastructure, and regulatory frameworks. It includes functions such as taxpayer identification, registration, filing, payment, auditing, and enforcement. According to Estifanos and Temesgen (2019), these core tasks are crucial for effective tax governance, especially in developing countries where weak administration often impairs tax performance (Tanzi, 2013).

In Ethiopia, VAT is levied at 15% on taxable transactions and imports. Businesses with annual transactions exceeding 1,000,000 Birr are required to register for VAT, as per Proclamation No. 979/2016. The Ministry of Revenue oversees VAT implementation through a specialized department responsible for registration, audit, refund, enforcement, and taxpayer education.

Several empirical studies point to administrative challenges. Dheressa et al. (2015) identified poor service delivery, low tax awareness, and weak audit capacity in East Wollega Zone. Wollela (2008) found gaps in filing, registration, and VAT refunds, as well as a lack of public trust. Teklu (2011) and Yemsach Chane (2014) highlighted limitations in VAT performance analysis due to narrow sampling, excluding taxpayers' perspectives. Similarly, Asamnew (2012) showed administrative inefficiencies in Addis Ababa's Yeka sub-city, citing issues like lack of training and misuse of cash register machines.

Other external factors—like power and internet outages—further complicate VAT collection, causing delays and data losses. Tareke et al. (2013) observed that in the Tigray region, customer resistance, misuse of VAT receipts, and negative perceptions of fairness were prevalent, leading to tax evasion.

Overall, VAT administration in Ethiopia suffers from capacity constraints, compliance issues, and public mistrust. Studies recommend improving audit systems, expanding taxpayer education, and integrating technological solutions to strengthen VAT administration and enhance revenue performance.

Despite these observations, there is no universal administrative solution due to contextual differences in each country's tax system. However, aligning VAT administration with other tax mechanisms and laws may enhance efficiency and reduce complexity.

Given the above context, this study seeks to address several critical issues: (1) Inconsistent VAT revenue performance in Hawassa over recent fiscal years. (2) Lack of comprehensive empirical data on VAT practice and challenges at the city level. (3) Administrative gaps, such as limited taxpayer education, inefficient registration and audit processes, and inadequate technological infrastructure. (4) Research gaps in previous studies related to sample size, methodology, and geographic coverage.

By focusing on Hawassa City Revenue Authority, this research intends to fill the literature and practice gaps in understanding VAT administration effectiveness and provide policy-relevant insights for improving revenue performance.

## 2. Method

This study proposed that practice and challenges of VAT administration is determine by awareness of people about VAT, the technological system, Tax evasion, Tax administrative simplicity, Tax Audit and Enforcement and service delivery and fairness of selection of registration.

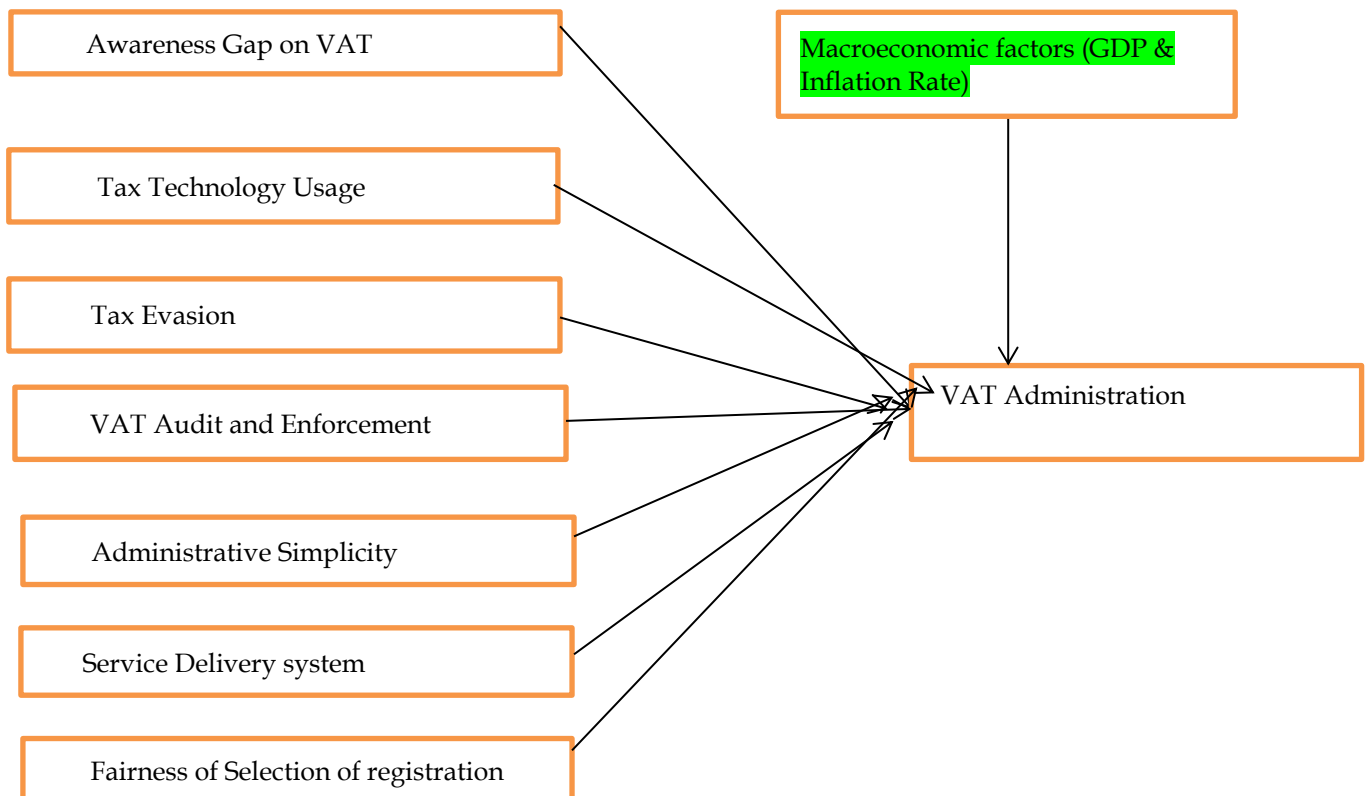


Figure1.1 Conceptual Framework Source: Researchers (2023)

This study used a descriptive research design. The purpose of using a descriptive approach was to explain or describe the situation or case in the research area in depth, as well as explain the reason for the existence of the same facts by focusing on the practice and challenges of VAT administration.

## 2.1 Sample Size

The sample size of VAT-registered firms in four sub-cities and tax officials of the authority was determined by a simplified formula provided by Yamane (1967) in order to determine the required sample size at a 95% confidence level, a degree of variability of 0.5, and a level of precision of 5%

$$n = \frac{N}{1 + N(e)^2}$$

Where 'n' is sample size (required responses), N is the population size (VAT registrant Tax payers and employees) and 'e' is the level of precision (margin of error).

$$\text{VAT registered tax payer} \quad n = \frac{N}{1 + N(e)^2} = \frac{414}{1 + 414(0.05)^2} = 203$$

$$\text{Tax office employees} \quad n = \frac{N}{1 + N(e)^2} = \frac{195}{1 + 195(0.05)^2} = 131$$

Table 1 probability proportional to size sampling method to select VAT registered tax payers

No	Sub cities	VAT registered tax payers	Proportion	Sampled
1	Tabor	149	0.36	73
2	Menhariya	100	0.24	49
3	Mehal	45	0.11	22
4	Tula	120	0.29	59
Total		414	1	203

Source, Hawassa city administration revenue authority branch office, 2022

## 2.2 Data Type & Collection Techniques

Both primary and secondary are used in this research. Primary data are obtained from sources like VAT-registered tax payers, tax officials, and tax investigators through a structured questionnaire, and secondary data are garnered from the VAT-planned and collected annual report from the Hawassa city administration revenue authority branch office and macroeconomic variables are obtained from national bank of Ethiopia and Central Statistics Agency.

### Reliability Test

The consistency of a questionnaire is assessed using reliability analysis. There are various reliability test methodologies, but Cronbach's alpha is deemed appropriate for this study. The most popular way to gauge reliability is with Cronbach's alpha. The following table showed the scales' Alpha coefficients. According to (Alan and Bell, 2003), Cronbach's alpha values around 0.7 are good. This study's alpha values are good, hovering around 0.760 and above.

Table 2 Result of Reliability Test

SERVEQAL Dimension	Numbers of Attributes	Cronbach's Alpha of Perceived performance
Vat Registration	6	0.741
Vat Assessment	6	0.709
Vat collection	4	0.904

Challenges of VAT administration	40	0.779
Perception of business community	6	0.767
Overall	62	0.760

Source: SPSS reliability result output

### 3. Results and Discussions

#### 3.1 Results

Table 3 Respondents opinion on VAT registration practice

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
			SD	D	N	A	SA			
1	Tax payers voluntarily registered as a tax payer with tax administration office	Tax officers	F	35	55	9	20	6	125	2.26
			%	28.0	44.0	7.2	16.0	4.8	100	
		VAT registered firms	F	36	73	5	37	22	173	2.89
			%	20.8	42.1	2.9	21.4	12.7	100	
2	Tax payer's registration is normally conducted in a good way?	Tax officers	F	1	13	1	65	45	125	3.48
			%	0.8	10.4	0.8	52.8	36.0	100	
		VAT registered firms	F	29	45	31	52	16	173	2.83
			%	16.8	26.0	17.9	30.1	9.2	100	
3	The process of VAT registration is smooth and easy for taxpayers	Tax officers	F	14	44	32	33	33	125	2.98
			%	11.2	35.2	25.6	26.4	1.6	100	
		VAT registered firms	F	38	35	36	46	18	173	2.82
			%	22.0	20.2	20.8	26.6	10.4	100	
4	The tax office gives training on registration exercises to tax payers.	Tax officers	F	5	49	40	28	3	125	2.80
			%	4.0	39.2	32.0	22.4	2.4	100	
		VAT registered firms	F	35	37	41	45	15	173	2.87
			%	20.2	21.4	23.7	26.0	8.7	100	
5	Tax payers are confident about the legal claim in their tax return.	Tax officers	F	7	38	47	31	2	125	2.86
			%	5.6	30.4	37.6	24.8	1.6	100	
		VAT registered firms	F	32	37	41	47	16	173	2.87
			%	18.5	21.4	27.3	27.2	9.2	100	
6	When tax payers registered, the office immediately gives them a tax identification number.	Tax officers	F	7	62	31	22	3	125	2.88
			%	5.6	49.6	24.8	17.6	2.4	100	
		VAT registered firms	F	25	37	44	49	18	173	2.99
			%	14.5	21.4	25.4	28.3	10.4	100	

Source: Filed survey, 2022 Grand average mean for both respondents=2.87

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

As revealed in Table 3, the average grand mean regarding the VAT registration practice dimension for both tax officers and VAT registered tax payers was 2.87, which shows an average or moderate mean. Accordingly, in the same table, the calculated  $\chi^2$  for item 1 is (0.01), items 3, 4, and 6 are (0.00), and item 5 is (0.05), which is less than the critical value ( $p < 0.05$ ). This shows that there is a statistically significant difference between the responses of the groups of respondents. However, item 2 (0.345) is greater than the

critical value ( $p \leq 0.05$ ). This shows that there is no statistically significant difference between the responses of the two groups of respondents.

According to the standard derived from its mean, there is variation in VAT registration practice because taxpayer registration is not typically conducted in a good way, taxpayers are not voluntarily registered with the tax administration office, and the VAT registration process is not simple and straightforward for taxpayers. Additionally, there is a lack of consistent training on registration exercises for taxpayers and tax officers, which was confirmed through interview results. The other issue, which is in contrast to the survey results shown from the interview results, was that there were taxpayers who owe money to many corporate entities but have various TINs. Additionally, the popularity of businesses operating without a TIN or registration led to duplication and falsification, and there was a lower usage of technology like computers to collect data on taxpayers.

### 3.1.1 VAT assessment practice

Table 4 Respondents opinion on VAT assessment practice

No	Items	Respondents	Rating scale						Total	Mean	X <sup>2</sup>
1			SD	D	N	A	SA				
	Tax payers take full responsibility for assessing their own VAT liability	Tax officers	F	13	22	28	53	9	125	3.18	0.00
			%	10.4	17.6	22.4	42.4	7.2	100		
		VAT registered firms	F	39	25	37	54	18	173	2.92	
			%	22.5	14.5	21.4	31.2	10.4	100		
	Tax payers have full responsibility to declare VAT in every 3 month	Tax officers	F	7	26	22	68	2	125	3.26	0.00
			%	5.6	20.8	17.6	54.4	1.6	100		
		VAT registered firms	F	30	40	33	54	16	173	2.92	
			%	17.3	23.1	19.1	31.2	9.2	100		
	The tax office considers the concerns of citizens when making decisions.	Tax officers	F	5	35	25	56	4	125	3.18	0.033
			%	4.0	28.0	20.0	44.8	3.2	100		
		VAT registered firms	F	27	47	39	45	15	173	2.85	
			%	15.5	27.2	22.5	26.0	8.7	100		
	The assessment of VAT is based on the office declaration	Tax officers	F	10	52	21	37	5	125	2.80	0.00
			%	8.0	41.6	16.8	29.6	4.0	100		
		VAT registered firms	F	27	47	39	45	15	173	2.74	
			%	15.5	27.2	22.5	26.0	8.7	100		
	The tax Office gives equal consideration to the views of all taxpayers	Tax officers	F	12	49	28	34	2	125	2.72	0.00
			%	8.0	26.4	36.0	28.0	1.6	100		
		VAT registered firms	F	31	55	29	34	24	173	3.04	
			%	17.9	31.8	16.8	19.6	13.9	100		
	The tax office goes to a great length to consult with the community over changes in the tax system	Tax officers	F	5	69	20	29	2	125	2.63	0.00
			%	4.0	55.2	16.0	23.2	1.6	100		
		VAT registered firms	F	30	33	31	59	20	173	3.03	
			%	17.3	19.1	17.9	34.1	11.6			

Source: Filed survey, 2022 Grand average mean for tax officers=2.96 and vat register tax payer = 2.92

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree



From the above table 4, the researcher concluded that the calculated grand average mean for the tax office and VAT registered tax payer are 2.96 and 2.92, respectively, which have variability. Regarding the VAT assessment dimensions resulted from the above table, the average grand mean of the VAT assessment was 2.96 and 2.92, which show an average or moderate mean according to Jeff (2011). Accordingly, in the same table, the calculated  $\chi^2$  for items 1, 2, 4, and 6 is 0.00, and item 3 (0.033) is less than the critical value ( $p < 0.05$ ). This shows that there is a statistically significant difference between the responses of the groups of respondents.

Therefore, VAT assessment according to the study through questionnaire instrument survey some of the possible reasons of the variability based on the survey study were the tax payers do not take full responsibility for assessing their own VAT liability, the tax office do not gives equal consideration to the views of all taxpayers, the assessment of vat was not based on the capacity to pay principle, the tax office could not consider the concern of citizens when making decisions which is contrary to Harris, (2019) posit that a good tax should have the qualities of equitability, efficiency, neutrality, flexibility and simple and the tax office does not go to a great length in consulting the taxpayers over changes in the tax system. In line with Tanzi (2013), states that although no one actually enjoys paying taxes, doing so is necessary for the provision of social welfare. Tax assessment and collection personnel do not treat taxpayers with the respect they deserve as citizens when making decisions, and this damages the taxpayers' belief in their need to pay.

From the interview results, the researcher concluded that less experienced tax officers, taxpayers who changed the type of their firm, and taxpayers who fabricated their address, lack of a taxpaying culture, weak accountability, lack of transparency, uncertain tax amendments, tax officer turnover, luck of awareness on tax rules and regulations, corruption on both sides, tax officials and taxpayers, which is in accordance with (Gupta & Jalles, 2022)

### 3.1.2 VAT Collection Practice

Table 5 Respondents opinion on VAT collection practice

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
1	Taxpayers can accurately determine their own VAT liability.	Tax officers	F	7	32	20	63	3	125	3.18
			%	5.6	25.6	16.0	50.4	2.4	100	
		VAT registered firms	F	38	43	18	54	20	173	2.86
			%	22.0	24.9	10.4	31.2	11.6	100	
										0.00
2	It is everyone's responsibility to pay the correct amount of VAT.	Tax officers	F	8	23	13	66	15	125	3.46
			%	6.4	18.4	10.4	52.8	12.0	100	
		VAT registered firms	F	39	42	19	50	23	173	2.86
			%	22.5	24.3	11.0	28.9	13.3	100	
										0.00
3	Tax payers have never attempted to avoid VAT.	Tax officers	F	21	49	16	37	2	125	2.86
			%	16.8	39.2	12.8	29.6	1.6	100	
		VAT registered firms	F	34	58	23	47	11	173	2.67
			%	19.7	33.5	13.3	27.2	6.4	100	
										0.00
4	Actual VAT assessed is always submitted and paid by tax payers on time.	Tax officers	F	24	48	13	39	1	125	2.56
			%	19.2	38.4	10.4	31.2	0.8	100	
		VAT registered firms	F	38	80	17	35	3	173	2.34
			%	22.0	46.2	9.8	20.2	1.7	100	
										0.00

Source: filed survey, 2022 Grand average means of tax officers=3.01 and vat register tax payer = 2.68

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

In the above table 5 shows that Grand average means of tax officers and the taxpayers regarding VAT collection dimensions result were 3.01 and 2.68 respectively which show average/moderate mean according to the standard. In addition, as revealed in the same table the calculated  $\chi^2$  for all items are (0.00) which are less than the critical value ( $p < 0.05$ ). This confirms that there is statistically significant difference between the responses of the groups of respondents.

Therefore, taxpayers do not file their taxes on time. According to survey results, taxpayers have overstated the amount of VAT returned; however, in interviews, taxpayers have minimized the amount of VAT payable. Taxpayers also believe that everyone is responsible for paying a fair amount of tax, which is contrary to the interview results from tax officials, which show that VAT registered taxpayers were not responsible to pay the correct amount of VAT and in the previous study by (Asamnew, 2012), which confirms the result. The above data obtained from all participants of the study revealed that the VAT collection practice in the four sub cities was less than the planed amount and this was supported by the actual collection performance under secondary data listed in table 13.

### 3.2 Discussion

#### 3.2.1 Challenges that affect Value added tax administration

Though the domestic source is far smaller than the foreign source, the contribution of VAT to domestic goods and services as well as international trade indicates significant growth (Keen & Syed, 2019). This could be a result of the domestic economy's inability to collect the tax administratively and the presence of unlawful VAT methods. Taxes on products and services are, in theory, recouped via consumption. The administration of VAT in Ethiopia first ran into a number of difficulties, as has been seen in many developing nations. Internal and external elements are also involved in the issues that are seen during VAT practice, such as tax evasion, creating fake invoices, and other social issues. In light of this, a survey was undertaken by inquiring about the bottlenecks or blocks that prevent the effective administration of VAT in the Hawassa four sub-cities that were chosen. Respondents in the survey included 173 VAT-registered tax payers and 125 tax officials from the revenue authority.

#### 3.2.2 Awereness gap

Table 6 Respondents opinion on awareness gap about VAT

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
1	Tax payers have enough knowledge about VAT	Tax officers	SD	D	N	A	SA			
			F	48	42	5	18	12	125	2.87
			%	38.4	33.6	4.0	14.4	9.6	100	
		VAT registered firms	F	37	59	8	45	32	173	
			%	21.3	34.1	4.6	26.0	18.5	100	2.51
										0.01
2	Revenue Authority offered adequate training about VAT to tax payers.	Tax officers	F	17	55	8	33	12	125	3.10
			%	13.6	44.0	6.4	44.0	9.6	100	
		VAT registered firms	F	23	82	21	40	7	173	
			%	13.3	47.4	12.1	23.1	4.0	100	2.75
										0.00
3	Adequate awareness creation training has been given to the VAT registered organization regarding the use	Tax officers	F	27	54	16	23	5	125	2.40
			%	21.6	43.2	12.8	18.4	4.0	100	
		VAT registered firms	F	41	91	10	26	5	173	
			%	23.7	52.6	5.8	15.0	2.9	100	2.21
										0.109



of cash register machine										
4	There is misunderstanding of the society as a whole to pay VAT and the reasons of paying taxes.	Tax officers	F	7	33	3	79	3	125	3.06
			%	5.6	26.4	2.4	63.2	39.2	100	
		VAT registered firms	F	25	26	18	90	14	173	3.24
			%	14.5	15.0	10.4	52.0	8.1	100	
5	Do you believe that Consumers are not willing to buy goods and services with VAT?	Tax officers	F	9	25	23	66	2	125	3.22
			%	7.2	20.0	18.4	52.8	1.6	100	
		VAT registered firms	F	25	27	24	73	24	173	3.25
			%	14.5	15.6	13.9	42.2	13.9	100	

Source: Filed survey, 2022 Grand average mean for tax officers=2.93 and vat register tax payer = 2.79

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

From the above table 6 the researcher concluded that the calculated grand average mean for tax officers and VAT registered tax payers is 2.93 and 2.79, respectively, which have variability and show an average or moderate mean according to the standard. Accordingly, in the same table, the calculated  $\chi^2$  for items 1 (0.01), 2, 4, and 5 (0.00), which are less than the critical value ( $p < 0.05$ ). This shows that there is a statistically significant difference between the responses of the groups of respondents. However, item 3 (0.109) is greater than the critical value ( $p > 0.05$ ). This shows that there is no statistically significant difference between the responses of the two groups of respondents.

Regarding the dimension of the awareness gap on VAT administration in Hawassa city revenue authority in selected sub-cities, the study through a questionnaire instrument survey identified some of the possible reasons: the tax payers do not have sufficient knowledge about VAT, the revenue authority does not offer continuous and adequate training about VAT, there is a misunderstanding of the society as a whole to pay VAT, and the reasons for paying taxes are that customers are not willing to buy goods with VAT. According to the World Bank (2019), most tax payers around the world have negative implications for paying tax. In line with the study by Suleiman A.S. Aruwa (2014) indicate that one of the issues affecting taxpayers' ability to understand tax regulations and willingness to abide by them is the awareness and knowledge gap on VAT. Therefore, the above data obtained from all respondents to the study revealed that there were challenges in the awareness gap for effective value-added tax administration. To mitigate these problems, tax education should start early, even in school, to inculcate a tax-paying culture and share ideas of nation-building with tax-payers.

### 3.2.3 Electronic Tax Registers (ETRs) Usage

Table 7 Respondents opinion on Electronic Tax Registers usage

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
			SD	D	N	A	SA			
1	Tax payers have enough knowledge about cash register machine?	Tax officers	F	41	56	8	13	7	125	2.94
			%	32.8	44.8	6.4	10.4	5.6	100	
		VAT registered firms	F	98	30	12	23	10	173	3.36
			%	56.6	17.3	6.9	13.3	5.8	100	
2	Using cash register machine facilitates the VAT collection process and your work	Tax officers	F	10	22	24	66	3	125	3.24
			%	8.0	17.6	19.2	52.8	2.4	100	
		VAT registered firms	F	13	34	14	101	11	173	3.24
			%	7.5	19.7	8.1	58.4	6.4	100	
3		Tax officers	F	38	61	3	15	8	125	0.00

	Do tax payer used cash register machine properly during sales transaction?		%	30.4	48.8	2.4	12.0	6.4	100	3.06	0.505
		VAT registered firms	F	33	97	3	22	18	173		
			%	19.0	56.1	1.7	12.7	10.4	100	3.49	
4	Using cash register machine to collect VAT can reduce administration cost.	Tax officers	F	3	38	15	61	8	125	3.26	0.01
			%	2.4	30.4	12.0	48.8	6.4	100		
		VAT registered firms	F	8	20	19	109	17	173	3.60	
			%	4.6	11.6	11.0	63.0	9.8	100		
5	The use of cash register machine has indispensable importance for VAT administration	Tax officers	F	7	42	12	62	2	125	3.08	0.00
			%	5.6	33.6	9.6	49.6	1.6	100		
		VAT registered firms	F	20	87	25	31	10	173	2.56	
			%	11.6	50.3	14.5	17.9	5.8	100		

Source: Filed survey, 2022 Grand average mean for tax officers=3.11 and vat register tax payer = 3.25 Rating Scale:

SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

In the above table 7 shows that the grand average means of tax officers and taxpayers regarding electronic tax register usage dimensions resulted in 3.11 and 3.25, respectively, which show an average or moderate mean according to the standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for items 1, 2, and 5 is 0.00, and item 4 is 0.01, which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents. However, item 3 (0.505) is greater than the critical value ( $p \leq 0.05$ ). This shows that there is no statistically significant difference between the responses of the two groups of respondents.

Generally, all the data analyzed above showed that most taxpayers do not have enough knowledge about cash register machines; they do not use cash register machines properly during sales transactions, according to the survey result, but in the interview result, the main reasons the VAT-registered business traders are using unregistered machines are to survive in the market competition as a result of non-registered traders in the market. As a result, they started a shift of business from the formal to the informal sector and flourished under unfair competition, amongst others. On the other hand, the technology has been working without any modification for more than fifteen years and doesn't have GPS to access all activities done in the business firms' regarding VAT. In line with this, the findings of Taye (2011) indicate that ETRs have a positive effect on VAT returns, and other independent variables have a significant effect on VAT income except compliance costs. These hence indicate that the ETRs usage exhibits one of the challenging factors for effective administration of the value-added tax in the four sub-cities of Hawassa revenue authority.

### 3.2.4 Tax Evasion

Table 8 Respondents opinion on Tax evasion

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
1	The cause for tax evasion is the rate of tax	Tax officers	SD	D	N	A	SA			
			F	15	61	19	26	4	125	
			%	12.0	48.8	15.2	20.8	3.2	100	2.54
		VAT registered firms	F	44	26	28	59	16	173	
			%	25.4	15.0	16.2	34.1	9.2	100	2.87
										0.00
2	Complexity of tax laws will	Tax officers	F	7	62	22	27	7	125	
			%	5.6	49.6	17.6	21.6	5.6	100	2.72
			F	33	39	24	65	12	173	2.91
										0.00

	leads to tax evasion	VAT registered firms	%	5.6	49.6	17.6	21.6	5.6	100		
3	The use of cash register machine reduces tax evasion or fraud.	Tax officers	F	6	45	17	51	6	125	3.05	0.115
			%	4.8	36.0	13.6	40.8	4.8	100		
		VAT registered firms	F	20	28	22	95	8	173	3.25	
			%	11.6	16.2	12.7	54.9	4.6	100		
4	Using cash register machine for VAT collection has indispensable importance for reduction of corruption	Tax officers	F	8	31	22	61	3	125	3.16	0.201
			%	6.4	24.8	17.6	48.8	2.4	100		
		VAT registered firms	F	19	25	15	101	13	173	3.73	
			%	11.0	14.5	8.7	57.4	7.5	100		
5	The chance of being detected is relatively low if an official is engaged in corrupt activities on cash register machine users.	Tax officers	F	5	32	51	31	6	125	3.01	0.05
			%	4.0	25.6	40.8	24.8	4.8	100		
		VAT registered firms	F	24	40	38	49	22	173	3.03	
			%	13.9	23.1	22.0	28.3	12.7	100		
6	The tax evasions by most VAT registered organization arise from lack of knowledge on tax issues like penalties, tax codes and tax	Tax officers	F	8	31	25	58	3	125	3.14	0.02
			%	6.4	24.8	20.0	46.4	2.4	100		
		VAT registered firms	F	26	38	36	54	9	173	3.01	
			%	15.0	22.0	20.8	31.2	11.0	100		

Source: Filed survey, 2022 Grand average mean for tax officers=2.94 and vat register tax payer =3.13

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

Table 8 shows the responding VAT-able organizations and tax officers' views on tax evasion. Both tax payers and tax officers agree with the ideas that the cause of tax evasion is the rate of tax, the complexity of tax laws, and that tax evasions by most VAT-registered organizations arise from a lack of knowledge on tax issues like penalties and tax codes. The use of cash register machines reduces tax evasion or fraud, and the grand mean of these is 2.94 and 3.13, respectively. In addition, as revealed in the same table, the calculated  $\chi^2$  for items 1 and 2 is 0.00, item 5 is 0.05, and item 6 is 0.02, which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents. However, items 3 (0.115) and 4 (0.201), which are greater than the critical value ( $p > 0.05$ ), This shows that there is no statistically significant difference between the responses of the two groups of respondents. They agreed that tax evasion is one of the challenges for effective VAT administration. In line with the study by Yiallourou (2019) indicates that taxpayers incur costs as a result of the complexity and difficulty of tax administration, which makes them more likely to engage in tax avoidance and evasion.

In addition, in his study of value-added tax evasion methods and the dimension of the informal economy, Tarekegn (2015) makes the case for this approach. These hence indicate that the tax evasion exhibits one of the challenging factors affecting the value-added tax administration in the four sub-cities of Hawassa revenue authority.

### 3.2.5 Audit enforcement

Table 9 Respondents opinion on Audit and enforcement										
No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
1	The audit process of the branch is in accordance with the VAT law.	Tax officers	SD	D	N	A	SA			
			F	8	37	9	68	3	125	3.17
		VAT registered firms	%	6.4	29.6	7.2	54.4	2.4	100	0.00
			F	26	45	19	64	19	173	
			%	6.4	29.6	7.2	54.4	11.0	100	
2	The VAT audit process of the office is suitable environment for the tax payers	Tax officers	F	3	39	14	67	2	125	3.21
			%	2.4	31.2	11.2	53.6	1.6	100	
		VAT registered firms	F	38	34	18	68	15	173	2.93
			%	22.0	19.7	10.4	39.3	8.7	100	
3	Do you agree the office is effective in VAT auditing	Tax officers	F	2	57	14	48	4	125	2.96
			%	1.6	45.6	11.2	38.4	3.2	100	
		VAT registered firms	F	38	78	16	33	8	173	2.39
			%	22.0	45.1	9.2	19.1	4.6	100	
4	The Branch have a standard audit manual and checklist	Tax officers	F	7	37	38	40	3	125	2.96
			%	5.6	29.6	30.4	32.0	2.4	100	
		VAT registered firms	F	24	49	28	59	13	173	2.93
			%	13.9	28.3	16.2	34.1	7.5	100	
5	The Audit process and selection criterion is done according to the audit Manual.	Tax officers	F	4	33	17	68	3	125	2.70
			%	3.3	26.4	13.6	54.4	2.4	100	
		VAT registered firms	F	36	48	21	60	8	173	2.61
			%	20.8	27.7	12.1	34.7	4.6	100	
6	There is poor tax audit enforcement capacity in the revenue authority	Tax officers	F	5	48	18	51	3	125	2.99
			%	4.0	38.4	14.4	40.8	2.4	100	
		VAT registered firms	F	15	22	11	90	35	173	3.62
			%	8.7	12.7	6.4	52.0	20.2	100	

Source: Filed survey, 2022 Grand average mean for tax officers=2.99 and vat register tax payer = 2.92  
Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

Table 9 indicated that the responding VAT-able organizations and tax officers' audit enforcement had an effect on VAT administration or not, and that the calculated grand average means for tax officers and taxpayers were 2.99 and 2.92, respectively, which show an average or moderate mean according to standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for all items is 0.00, which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents.

Generally, the data analysed in the above table scored an average or moderate mean. This indicates the same variability in the dimension of audit enforcement, where the audit process of the branch is not in accordance with the VAT law, the VAT audit process in the tax office is a suitable environment for the tax payers, but the office is ineffective in VAT auditing, and the audit process and selection criteria are not done according to the audit manual. Therefore, both tax payers and tax officers agreed that audit enforcement affects the performance of VAT administration. The interview with the audit team leader also provided additional risk indicators, such as a pattern of late tax payments, failure to file tax returns, a lack of tax declaration, abnormal and repeated loss reports, profits that significantly deviate from prior periods (underreporting income), reports of excessively deviated margins from specific industries, excessive deduction claims, unusual claims for credits and refunds, and taxpayers' prior case histories. Additionally, a thorough discussion with tax officials revealed that factors such as the target taxpayer's potential tax revenue and ability to pay taxes owed had been taken into account when conducting the audit job. According to Mihret (2011), a good audit plan with specific initiatives helps to avoid noncompliance.

Therefore, the four sub-cities survey results in Hawassa show that there is no risk-based audit program. Managers who were interviewed disclosed that the audit was organized to provide better service to taxpayers due to a lack of manpower and that attention was given to major transactions to the greatest extent possible in order to collect more tax. This demonstrates that the audit's primary objective was not to find violations in the targeted area. Respondent tax authorities and registered VAT tax payers feel that the office is ineffective in auditing and enforcing laws in this area. Additionally, VAT registrant taxpayers who responded do not trust the sub-city auditing procedures due to the auditors' incompetence, corruption, and other factors. All of them indicate that the audit enforcement in the four sub-cities was ineffective, making it impossible to uncover noncompliance and collect potential

### VAT 3.2.6 Fairness of registration selection

Table 10 Respondents opinion on Fairness of registration selection

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
1	The process of registration and selection for VAT is fair	Tax officers	F	15	64	15	28	3	125	2.52
			%	12.0	51.2	12.0	22.4	2.4	100	
		VAT registered firms	F	44	45	32	39	13	173	2.61
			%	25.4	26.0	18.5	22.5	7.5	100	
										0.00
2	Voluntary compliance of the tax payer registered for VAT is very low.	Tax officers	F	7	31	15	65	7	125	3.27
			%	5.6	24.8	12.0	52.0	5.6	100	
		VAT registered firms	F	31	58	31	41	12	173	2.66
			%	17.9	33.5	17.9	23.1	6.9	100	
										0.00
3	The ascendancy of nonregistered business entities existing market.	Tax officers	F	3	16	14	84	8	125	3.62
			%	2.4	12.8	11.2	67.2	6.4	100	
		VAT registered firms	F	47	62	22	32	10	173	2.40
			%	25.4	26.0	18.5	22.5	7.5	100	
										0.00
4	Most of the VAT payers are registered obligatorily.	Tax officers	F	4	36	17	61	7	125	3.25
			%	3.2	28.8	13.6	48.8	5.6	100	
		VAT registered firms	F	25	45	26	60	17	173	2.99
			%	14.5	26.0	15.0	34.7	9.8	100	
										0.013
5	Same tax officials	Tax officers	F	5	33	25	55	7	125	3.21
			%	4.0	26.4	20.0	44.0	5.6	100	

	intentionally leave potential tax payers	VAT registered firms	F	33	32	9	47	52	173		
			%	19.1	18.5	5.2	27.2	30.1	100	3.31	0.00
6	The tax administrations office is strong enough to control non-registered and illegal activities of VAT payers	Tax officers	F	2	46	19	51	7	125		
			%	1.6	36.8	15.2	40.8	5.6	100	3.21	0.00
		VAT registered firms	F	49	67	25	28	4	173		
			%	28.3	38.7	14.5	16.2	2.3	100	2.25	

Source: Filed survey, 2022 Grand average mean for tax officers=3.18 and vat register tax payer = 2.70

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

Table 10 shows that it was obvious above the standard mean used to decide. This is the pointer that all items under research questions had a total grand mean for tax officers of 3.18 and registered value-added tax payers of 2.70, respectively, which has variability. This indicates that it is average or moderate. In addition, as revealed in the same table, the calculated  $\chi^2$  for items 1, 2, 3, and 5 is 0.00, and item 4 is 0.013, which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents.

According to the study through a questionnaire instrument survey, some of the possible reasons for the variability were that the tax administration office is not strong enough to control non-registered and illegal activities of VAT payers, the same tax officials intentionally leave potential tax payers, most of the VAT payers are registered obligatorily, the ascendancy of nonregistered business entities in the existing market, The voluntary compliance of the tax payer registered for VAT is very low, and the process of registration and selection for VAT is not fair. These hence indicate that the fairness of registration selection is one of the challenging factors affecting the value-added tax administration in the sub-cities of revenue authority. Therefore, the authority must change the current threshold level to a more reasonable level in order to include at least those business companies that are actively competing in the market and balance the revenue from the tax. This can be done by strengthening its enforcement and follow-up procedures, increasing the number of qualified and experienced staff, increasing the threshold, and all of the above.

### 3.2.7 Administration simplicity

Table 11 Respondents opinion on Administration simplicity

No	Items	T Respondents	Rating scale					Total	Mean	X <sup>2</sup>
1	There is lack of clear division of duties and responsibilities among tax officers	Tax officers	SD	D	N	A	SA			
			F	10	30	19	56	10	125	3.21
			%	8.0	24.0	15.2	44.8	8.0	100	
		VAT registered firms	F	26	38	32	53	24	173	3.06
			%	15.0	22.0	18.5	30.6	13.9	100	0.02
2	There is Poor organization and ineffective communication among the tax payers.	Tax officers	F	13	38	25	47	2	125	
			%	10.4	30.4	20.0	37.6	1.6	100	2.90
		VAT registered firms	F	27	41	29	57	19	173	
			%	15.6	23.7	16.8	32.9	11.0	100	3.00
3	There is high turnover of managers and	Tax officers	F	5	28	42	49	1	125	3.10
			%	4.0	22.4	33.6	39.2	0.8	100	
			F	25	41	38	56	13	173	



	employees in the revenue office?	VAT registered firms	%	14.5	23.7	22.0	32.4	7.5	100	2.95	0.120
4	There is lack of manpower and material that are needed in the revenue authority	Tax officers	F	4	46	18	54	3	125	3.05	0.004
			%	3.2	36.8	14.4	43.2	2.4	100		
		VAT registered firms	F	28	43	37	45	20	173	2.92	
			%	16.2	24.9	21.4	26.0	11.6	100		
5	The revenue authority have Qualified human resource	Tax officers	F	1	65	18	39	2	125	2.81	0.00
			%	0.8	52.0	14.4	31.2	1.6	100		
		VAT registered firms	F	32	55	39	35	12	173	2.88	
			%	18.5	31.8	22.5	20.2	6.9	100		
6	The office has shortage of facilities such as transport, stationary computer stationery hinder high VAT collection	Tax officers	F	4	31	16	66	8	125	3.34	0.00
			%	3.2	24.8	12.8	52.8	6.4	100		
		VAT registered firms	F	37	28	35	51	22	173	2.96	
			%	21.4	16.2	20.2	29.5	12.7	100		

Source: Filed survey, 2022 Grand average mean for tax officers=3.07 and vat register tax payer = 2.96

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

Table 11 depicts the administrative simplicity grand average means for tax officers and taxpayers, which were 3.07 and 2.96, respectively, which show an average or moderate mean according to the best standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for item 1 is (0.02), item 2, item 5, and item 6 is (0.00), and item 4 is (0.004), which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents. However, item 3 (0.120) is greater than the critical value ( $p < 0.05$ ). This shows that there is no statistically significant difference between the responses of the two groups of respondents.

The analysis in the above table revealed that all items under the research question had a total of 3.07 and 2.96 grand average mean indicates that, the tax officers were agreed and the registered VAT payers disagree on the dimension of administration simplicity issues like lack of clear division of duties and responsibilities among tax officers, poor organization and ineffective communication among the tax officers, there is high turnover of managers and employees in the revenue office, there is lack of manpower and material that are needed in the revenue authority, the revenue authority face a problem of qualified human resource and shortage of facilities such as transport, stationary, computer are some of them that hinder high VAT collection. These, therefore, indicate that Hawassa revenue authority in the four sub-cities lacks administrative simplicity as a result of the aforementioned administrative difficulties. In line with this, Zeleke (2018) offers additional support for the idea of evaluating value-added tax administration procedures.

### 3.2.8 Service delivery and flexibility

Table 12 Respondents opinion on service delivery and flexibility

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
			SD	D	N	A	SA			
1	The Branch Office updates any	Tax officers	F	11	38	17	49	10	125	3.07
			%	8.8	30.4	13.6	39.2	8.0	100	

	changes of VAT to its customer.	VAT registered firms	F %	15 8.7	26 15.0	12 6.9	87 50.3	33 19.1	173 100	3.56	
											0.00
2	There is fast and excellent service in the tax office	Tax officers	F	19	53	21	30	2	125	2.54	
			%	15.2	42.4	16.8	24.0	1.6	100		
		VAT registered firms	F	32	59	14	27	13	173	2.43	
			%	18.5	50.3	8.1	15.6	7.5	100		0.018
3	The office does provide services in a timely manner.	Tax officers	F	5	27	19	74	-	125		
			%	4.0	21.6	15.2	59.2	-	100	3.33	
		VAT registered firms	F	32	35	38	55	13	173	2.90	
			%	18.5	20.2	22.0	31.8	7.5	100		0.020
4	Tax officials can give sufficient information to tax payers when ever asked.	Tax officers	F	9	64	10	41	1	125		
			%	7.2	51.2	8.0	32.8	0.8	100	2.96	
		VAT registered firms	F	34	42	36	42	18	125		
			%	19.7	24.3	20.8	24.3	10.4	100	2.81	0.020
5	The office has accessible information on government regulations of VAT that are relevant to business organization.	Tax officers	F	9	58	12	45	1	125	2.77	
			%	7.2	46.4	9.6	36.0	0.8	100		
		VAT registered firms	F	21	42	36	59	15	173		
			%	12.1	24.3	20.8	34.1	8.7	100	3.03	0.00
6	There is Effective Monitoring and evaluation procedure in the revenue office?	Tax officers	F	6	34	16	65	4	125		
			%	4.8	27.2	12.8	52.0	3.2	100	3.22	
		VAT registered firms	F	22	35	31	71	14	173		
			%	12.7	20.2	17.9	41.0	8.1		3.12	0.00

Source: Filed survey, 2022 Grand average mean for tax officers=2.98 and vat register tax payer = 2.97

Rating Scale: SD=strongly disagree, D=disagree, N= neutral A=agree, SA= strongly agree

Table 12 depicts service delivery and flexibility. The grand average means for tax officers and taxpayers were 2.98 and 2.97, respectively, which show an average or moderate mean according to standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for item 1 is (0.00), item 2 (0.018), items 3 and 4 (0.02), and items 5 and 6 (0.00), which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents. The analysis in the above revealed that all items under the research question had a total of 2.98 and 2.97. The grand average mean indicates that there is moderate or average variability where there is a lack of fast and excellent service in the tax office, tax officials cannot give sufficient information to tax payers when ever asked, and the office has insufficient information on government regulations of VAT that are relevant to business organizations.

This work shares Kopit's (2022) analysis that the organization's service delivery and flexibility are two of the most important factors in raising customer satisfaction, which is comparable to the viewpoint presented in this work. However, the Hawassa city revenue authority in the four sub-cities, as a result of the aforementioned administrative difficulties, is dissatisfied with the service delivery and flexibility of the authority. Therefore, service delivery and flexibility are two of the most challenging factors for the revenue authority to administer the VAT effectively.

### 3.2.9 The Perception of Business Community towards VAT

Table 13 Respondents opinion on perception of business community towards VAT  
Source: Filed survey, 2022 Grand average mean for tax officers=2.97 and vat register tax payer = 3.17 Rating Scale:

No	Items	Respondents	Rating scale					Total	Mean	X <sup>2</sup>
			SD	D	N	A	SA			
1	Everyone pays their fair share of income tax under the current income tax system?	Tax officers	F	8	92	7	15	3	125	0.00
			%	6.4	73.6	5.6	12.0	2.4	100	
		VAT registered firms	F	20	75	23	25	30	173	
			%	11.6	43.4	13.3	14.5	17.3	100	
2	High income earn should be pay more tax than low income tax earn	Tax officers	F	6	24	11	80	4	125	0.00
			%	4.8	19.2	8.8	64.0	3.2	100	
		VAT registered firms	F	24	37	40	52	20	173	
			%	13.9	21.4	23.1	30.1	11.6	100	
3	Individual who deliberately evade their tax should be penalized with the same amount of penalty regardless of the amount of tax evade	Tax officers	F	6	71	5	39	4.0	125	0.00
			%	4.8	56.8	4.0	31.2	3.2	100	
		VAT registered firms	F	30	34	19	77	13	125	
			%	17.3	19.7	11.0	44.5	7.5	100	
4	It is unlikely that tax payers will be caught when evading tax.	Tax officers	F	7	67	16	31	4	125	0.01
			%	5.6	53.6	12.8	24.8	3.2	100	
		VAT registered firms	F	27	36	18	75	17	173	
			%	15.6	20.8	10.4	43.4	9.8	100	
5	The current tax law and regulation is complex.	Tax officers	F	6	82	15	21	1	125	0.00
			%	4.8	65.6	12.0	16.8	0.8	100	
		VAT registered firms	F	19	38	25	68	23	173	
			%	11.0	22.0	14.5	39.3	13.3	100	
6	The government is the sole beneficiary of the VAT	Tax officers	F	6	43	19	55	2	125	0.00
			%	4.8	34.4	15.2	44.0	1.6	100	
		VAT registered firms	F	23	31	22	77	20	173	
			%	13.3	17.9	12.7	44.5	11.6		

SD=strongly disagree, D=disagree, N=neutral A=agree, SA= strongly agree

Table 13 depicts the perceptions of tax officers and VAT-registered tax payers on VAT. The calculated grand average means for tax officers and taxpayers were 2.97 and 3.17, respectively, which show an average or moderate mean according to the standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for all items is 0.00, except item 4 (0.01), which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents.

Generally, judging from the results, the possible reason for the variability is that everyone pays their fair share of income tax under the current income tax system; high-income earners should pay more

tax than low-income earners; the current tax law and regulation are complex; it is unlikely that tax payers will be caught when evading tax; the government is the main beneficiary of VAT; and individuals who deliberately evade their tax should not be penalized with the same amount of penalty regardless of the amount of tax evaded.

The data demonstrates that, despite the system's intended advantage being to society, the majority of respondents believed that the government was the only system beneficiary. Therefore, there is a need to increase perception among VAT payers of the fact that VAT is a significant source of funding for the government, even though society as a whole is the ultimate benefactor. These hence indicate that the perception of business communities on the value-added tax is low in the four sub-cities of revenue authority. As a result, it is clear that government authorities need to launch campaigns to change the image of some VAT-paying businesses that feel the government is the only recipient of the VAT revenue.

### 3.2.10 Macroeconomic Factor affecting Value added Tax

Table 14 Macroeconomic Factor affecting Value added Tax Administrations

Items	Respondents	Rating scale						Total	Mean	X <sup>2</sup>	
Economic growth measured by GDP positively affects VAT administrations	Tax officers	SD	D	N	A	SA					
		F	3	7	8	15	92	125	3.54		
	%	2.4	5.6	6.4	12.0	73.6	100				
	VAT registered firms	F	0	5	8	35	125	173	3.40	0.00	
		%	0	2.8	4.6	20.2	72.2	100			
	Grand average mean for tax officers 4.12 and vat register tax payer = 4.16										
Increase in General commodity price (Inflation) affect the VAT administration negatively	Tax officers	F	15	64	15	28	3	125	2.40		
		%	12.0	51.2	12.0	22.4	2.4	100			
	VAT registered firms	F	44	45	32	39	13	173	2.21	0.109	
		%	25.4	26.0	18.5	22.5	7.5	100			
	Grand average mean for tax officers 4.02 and vat register tax payer = 4.16										

Table 14 depicts the macroeconomic variables which affect VAT administrations. The calculated grand average means for tax officers and taxpayers were 4.12 and 4.16 with respect to GDP, respectively, which show an average or moderate mean according to the standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for all items is 0.00, which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents. However, The calculated grand average means for tax officers and taxpayers were 4.02 and 4.16 with respect to GDP, respectively, which show an average or moderate mean according to the standard. In addition, as revealed in the same table, the calculated  $\chi^2$  for all items is 0.00, which is less than the critical value ( $p < 0.05$ ). This confirms that there is a statistically significant difference between the responses of the groups of respondents. However for inflation (0.109) is greater than the critical value ( $p > 0.05$ ). This shows that there is no statistically significant difference between the responses of the two groups of respondents. The result is consistent with (Bikas & Andruskaite, 2013), (KRÁLIK & ERZSÉBET SZÁSZ, 2023), and (Puspitawati & Ramdhani, 2019).

## 4. Conclusions

### 4.1 Conclusion

A good tax system should exhibit key features such as economic efficiency, administrative simplicity, flexibility, political accountability, and justice. These characteristics ensure effective implementation, which in turn enhances government revenue to meet socio-economic demands. Value-Added Tax (VAT), an

indirect tax applied to both domestically produced and imported goods and services, is collected at each stage of production and distribution – from raw material producers to retailers – making it more effective than a traditional sales tax in combating tax evasion and double taxation.

In response to such advantages, many developing nations, including Ethiopia, have adopted VAT in place of the sales tax. Ethiopia implemented VAT on January 1, 2003, aiming to increase revenue, modernize tax administration, and stimulate investment and trade. Under the VAT law, a uniform 15% rate applies to most goods and services, excluding exports and exempt items. Mandatory VAT registration is required for any business whose annual turnover meets or exceeds 1,000,000 Birr.

This study assessed VAT administration in four sub-cities of Hawassa. Findings suggest that the introduction of information technology and modernization efforts have improved the effectiveness of VAT administration. These developments have facilitated better taxpayer identification, enhanced compliance monitoring, and opened new opportunities for data-driven administration.

Despite these advancements, several challenges remain. These include inefficient administration in controlling non-compliant taxpayers, low taxpayer awareness, reluctance among businesses to register for VAT, issuance of illegal VAT invoices, weak consumer demand for VAT-priced goods, and poor enforcement mechanisms. Moreover, macroeconomic factors also play a role – GDP has a positive impact on VAT administration, whereas inflation negatively affects its performance.

Root causes of these challenges include deliberate non-compliance, lack of skilled personnel and materials, negative public perception of VAT, low purchasing power, and weak auditing systems. While the authorities have responded through legal action, taxpayer education campaigns, mandatory registration drives, media engagement, and tax system upgrades, persistent issues still hinder optimal VAT collection.

The Hawassa Revenue Authority has taken proactive steps such as improving administrative procedures, enforcing registration, and educating both taxpayers and the public. However, further attention to macroeconomic variables like GDP and inflation is necessary when formulating VAT-related strategies to ensure more stable and predictable tax revenue outcomes.

#### ***Policy Implications***

- **Stronger Enforcement Mechanisms:** The existing tax administration lacks the capacity to effectively monitor and control non-registered and non-compliant taxpayers. Improved collaboration between the tax office and the business community is essential.
- **Administrative Modernization:** Sub-city tax offices should align with national tax laws, embrace technological advancements, upskill staff, and enhance taxpayer outreach to ensure consistent VAT collection.
- **Thorough Audits:** The tax administration must carry out rigorous investigations to ensure that VAT declarations and financial disclosures by taxpayers are accurate, complete, and credible.
- **Government Oversight:** Given VAT's contribution to national GDP, the government and the Ministry of Revenue must update the tax system, hire qualified personnel, adopt e-payment systems, and enforce continuous supervision and disciplinary measures against misconduct within the tax system.
- **Public Awareness Campaigns:** A well-informed public can significantly support tax compliance. The tax authority should launch regular awareness programs using mass media, educational seminars, and public workshops to highlight the benefits and legal aspects of VAT.
- **Investment in Technology:** The absence of well-equipped IT infrastructure undermines VAT efficiency. Equipping offices with modern technology is crucial to support digital VAT administration and secure taxpayer data.

#### ***4.2 Future Research Recommendations***

While this study provides insight into VAT administration in Hawassa, it is not without limitations. It focuses on only four sub-cities, which limits the generalizability of the findings. Future research should expand to include other cities or conduct a nationwide assessment for broader applicability.



Additionally, this research only considered a few macroeconomic variables—specifically GDP and inflation. Further studies could investigate how other factors such as export-import dynamics, the rule of law, and corruption control influence VAT administration and compliance.

Comparative studies between different regions or countries may also yield valuable insights into best practices and innovative solutions for enhancing VAT performance and policy implementation. Such research would contribute significantly to developing tax systems that are efficient, fair, and adaptable to diverse economic environments.

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