THE EFFECT OF SELECTED FACTORS ON TAX REVENUE MOBILIZATION IN ETHIOPIA: THE CASE OF AMHARA REGION

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ABSTRACT

While many African countries raise 15% or more in tax revenue, some countries like Ethiopia still do not raise the necessary amount of resources to allow for the sound functioning of domestic institutions and basic service delivery. Therefore, this study investigated the perceived effect of selected factors on tax revenue mobilization in Ethiopia. Data is collected through a structured questionnaire and analyzed using univariate statistics namely one sample T-test and other descriptive statistics including proportions and means. The findings revealed that the political instability of the country has negatively affected the normal business operation of firms; reduced investments due to lower confidence of investors and negatively affected the taxable income of business firms. The results, however, revealed that closeness to general elections doesn’t affect normal business operation of firms. The findings also revealed that there is high corruption by tax officials in our region; taxpayer awareness creation to report any corruptive practices is also weak; measures by the tax authority to improve the accountability of tax officials are also limited or none and those corruptive practices have negatively affected the amount of tax the revenue office could mobilize. Finally, the study uncovered that the present tax audit practice does not reduce tax evasion and other irregularities in our region and that the awareness of taxpayers of tax audit per se doesn’t make the tax payers render a satisfactory tax return. We also found that the tax administrative structure lacks autonomy and there is the inadequacy of skilled and competent employees in the tax administration.

Contribution/Originality: This study contributes to the existing literature by investigating the relationship among tax revenue mobilization of the recent political instability, the level of corruption, the present tax audit practice, the level of autonomy of the tax authority and competence of revenue collectors in Ethiopia, specifically, in Amhara region.

1. INTRODUCTION

Taxation in developing countries has attracted increasing attention in recent years owing to its central role in ensuring sustainability and ownership in the development process, amongst others. In this regard, African governments and pan-African institutions on their part have given taxation a higher profile in the policy agenda, engaging in a number of important reforms in the last decade (Mascagni et al., 2014). Scholars on taxation strongly agree that there is considerable potential to increase tax revenue in most low-income countries of developing countries. Le et al. (2012) confirm that most low income countries have both low tax collection and low tax effort, the latter indicating that tax revenues are below their potential level. IMF (2011) also emphasizes that an increase...
was not only possible but also desirable. However, extensive political, economic and administrative challenges are critical factors in closing the tax gaps (Mascagni et al., 2014).

The implementation of Agenda 2030 and the African Union’s Agenda 2063 also hinges on Africa’s ability to mobilize sufficient, predictable and timely financial resources. The Addis Ababa Action Agenda reaffirms that mobilization and effective use of domestic resources are central to achieving the sustainable development goals (ECA, 2016). While many African countries raise already 15% or more in tax revenue, some countries still do not raise the necessary amount of resources to allow for sound functioning of domestic institutions and basic service delivery (Mascagni et al., 2014). In this respect, Reisen and Trotsenburg (1988) also noted that many developing countries urgently need to mobilize resources to service their growing public debt. The constant increase in the national budget and continuous need for further development and crisis management have also created a need for collecting higher revenues and various tax reforms.

Fjeldstad and Rakner (2003) noted that, despite important differences in their economic and cultural background, developing countries tended to modify their tax systems towards roughly the same direction. The trends noted in the modification of tax systems in different countries were introduction of the value-added tax (VAT) on consumables; lower personal and corporate income taxes; simplification of the tax bands and broadening of the brackets for personal and corporate income taxes; reduction of import duties and simplification of the rate structure; simplification of the excise duty structure; and abolition of export taxes. The tax reforms adopted in Ethiopia were similar to those that had been taking place in other African nations in that, VAT was introduced, personal and corporate taxes were reduced, the brackets for personal taxes were broadened and there was reduction/or exemption of import duties on certain investment goods.

Despite several reforms, the tax take (tax revenue as a share of GDP) figure for Ethiopia was below 15% of GDP, which is generally considered the threshold below which contemporary governments find it hard to finance their basic functioning and services. Vadde and Gundarapu (2012) also stated that Ethiopia, like any other developing countries, has faced difficulty in raising revenue to the level required for the promotion of economic growth. This suggests that there is a need for the tax authority to understand the factors that affect tax revenue mobilization. However, to the best of our knowledge, studies aimed at examining the perceived effect of the selected factors on tax revenue mobilization in Ethiopia are missing. Hence, this study aimed at examining the perceived effect on tax revenue mobilization of the political instability in the country, the level of corruption, the present tax audit practice, the level of autonomy of the tax authority and competence of revenue collectors.

2. REVIEW OF THE RELATED LITERATURE

In recent years, tax revenue mobilization in developing countries has gained increasing importance in the policy debate given the potential benefits of taxation for state building; long term independence from foreign assistance and the continuing acute financial needs of developing countries (Mascagni et al., 2014). Nevertheless, despite significant tax reforms, the performance of tax revenue mobilization has been weak, limited by structural factors such as low per capita income, large informal sector, large peasant agriculture and very small manufacturing and modern services implying very low effective tax bases despite the growth profiles (ECA, 2016). In this respect, the role of banks, pension funds, insurance sector, and stock markets remain critical to fuel investment in local businesses, infrastructure projects and services that are desperately needed for Africa’s continued transformation and growth (Ibid). In contrast, Heller (n.d) argues that the tax effort in two thirds of the countries in Sub-Saharan Africa has been disappointingly low, with tax to GDP ratio at or below 15 percent; indeed, almost one third have below 10 percent tax to GDP ratio.

Adam and Bevan (2004) and International Monetary Fund (2005) mention a 15% threshold as a reasonable amount of revenue to ensure basic government functioning Mascagni, Moore and McCluskey (2014).
Similarly, other experts on taxation in developing countries also strongly agree that there is considerable potential to increase tax revenue in most low-income countries. In its 2011 policy paper on the subject, the IMF stated that an increase was not only possible but also desirable (IMF, 2011). The findings of the World Bank (Le et al., 2012) also confirm that most low-income countries have both low tax collection and low tax effort, the latter implying that tax revenues are below their potential level. This raises an important concern: What specific factors explain the low tax to GDP ratio in developing countries?

Various studies show that corruptive practices, lack of qualified tax personnel and ineffective tax audit are critical factors negatively affecting tax revenue mobilization. According to Baurer (2005) failure to deal with corrupt tax administration employees can create problems for the business community. A study in Kenya established that tax officers accepted bribes when offered to reduce tax liability and demand for bribes when they visited, a situation that hugely affected revenue collection (Simiyu, 2010). Pashev (2005) had also revealed that tax administrators colluded with taxpayers to evade tax. Fjeldstad and Heggstad (2012) stress that measures are required to improve the accountability of revenue collectors and elected officials. Fairness will often influence behavior and lead to taxpayer satisfaction and tax compliance. Experiments have shown that people prefer an option in which they receive no reward to an option in which they are rewarded but are perceived as unfair (Braithwaite, 2009). Similarly, Reeson and Dunstall (2009) argue that people’s willingness to pay taxes are influenced by fairness – both in how a person is treated by the administration individually and whether other people are also paying their fair share; if a tax administration achieves both, there should be a compliance benefit. In this regard, the EC has also taken steps to combat corruption. Since 2009, the Commission has allocated over EUR 93 million on 69 projects dedicated to the fight against corruption around the world (EC, 2013).

As stated in Mascagni et al. (2014) tax authorities also suffer from weak capacity due to a shortage of skilled staff and the lack of modern infrastructure such as IT systems. Similarly, Kayaga (2007) emphasizes the need for trained tax officials; they assert that effective tax administration requires qualified tax personnel with requisite skills to maintain these systems and operate them to their fullest potential. Approaches to auditing in many countries are also highly inefficient and involve lengthy delays and frequent legal proceedings; in general, there is little incentive for compliance by taxpayers (Heller, n.d). Other factors affecting tax revenues include taxpayer ignorance, lack of sufficient workforce to enhance compliance of the entire taxable population, low levels of information penetration and high levels of illiteracy, among other causes (Waweru, 2005).

Vadde and Gundarapu (2012) stated that Ethiopia, like any other developing countries, has faced difficulty in raising revenue to the level required for the promotion of economic growth. Despite several reforms, the tax take (tax revenue as a share of GDP) figure for Ethiopia was below 15% of GDP, which is generally considered the threshold below which contemporary governments find it hard to finance their basic functioning and services suggesting that there is a need for the tax authority to understand the factors that affect tax revenue mobilization. Hence, this study aimed at examining the perceived effect of the political instability in the country, the level of corruption, the present tax audit practice, the level of autonomy of the tax authority and competence of revenue collectors on tax revenue mobilization in Ethiopia since studies aimed at examining the same are missing.

3. DATA AND METHODOLOGY
3.1. Research Approaches and Design

Every research requires a research approach that is carefully tailored to the exact needs of the problem under investigation (Creswell, 2009). In this regard, there are three approaches available to be applied by researchers namely quantitative, qualitative and mixed methods research approaches (Ibid). This study aimed at examining the perceived effect of the selected factors on tax revenue mobilization in Ethiopia by taking the case of Amhara region and to this end a quantitative research approach is used. The main advantage of this approach is that numbers are easy to work with; data are readily collected, coded, summarized, and analyzed. In addition, data collection is
relatively quick and less time consuming. Given the nature and objectives of the study, this study has adopted
descriptive research design where the perceived effects of the selected factors on tax revenue mobilization are
examined using univariate statistics; as a matter of fact, the appropriateness of a research design chosen is
determined by the nature of the topic, objectives of the study and hypotheses, among others.

3.2. Sampling and the Data

In Ethiopia, the tax law classifies the business income tax payers on business profit in to three major categories
with respect to their annual turnover as category A, B and C: Business taxpayers with annual turnover of Birr
1,000,000 and above are categorized under Category “A” taxpayers, business taxpayers with annual turnover of
between Birr 500,000 and Birr 1,000,000 as Category “B” taxpayers and business taxpayers with annual turnover of
less than Birr 500,000 as Category “C” Taxpayers. The study is limited to Category “A” business taxpayers in
Amhara region which are around 16,341 in number. It is impossible to consider all of these taxpayers as
respondents to this survey due to impracticality, time and cost. This study, therefore, is based on a sample of these
tax payer. The respondents for this study were Category “A” business income taxpayers as this category of
taxpayers are the right respondents given the nature of the investigative questions since these taxpayers maintain
organized records and are, thus, targets for tax audit. For this study, total sample of 500 respondents are
considered. This is arrived at using the Slovin’s Formula:

\[
n = \frac{N}{(1 + Ne^2)}
\]

Where:
\(n\) = Number of sample respondents
\(N\) = Total population
\(e\) = Error tolerance (0.05)

Thus:
\[n = \frac{16341}{(1 + (16341*0.05^2))}\]

\(n = 390\) respondents

Assuming a response rate of 80% and to achieve a usable response of 390 (approximately 400 respondents) our
sample size is revised upwards to 500 respondents (400/0.8). The tax payers are selected based on convenience
sampling. Structured questionnaire is used to collect primary data from the respondents. Kothari (2004) states that
a questionnaire is one of the most appropriate tools for collecting data from a large number of respondents. The
questionnaire contains Likert-type, dichotomous and categorical items in a manner we can address the objectives of
the study. In this regard, 500 questionnaires were distributed to Category “A” business income tax payers. Although
212 questionnaires were returned, 52 of them were incomplete and therefore 160 usable questionnaires
are used in this analysis.

3.3. Data Processing and Analysis

The customary first step in analysis is to edit the raw data the purpose being assuring data are accurate,
consistent with other information and complete, among other benefits (Cooper and Emory, 1995). This implies that
any questionnaires that are incomplete, inaccurate or inconsistent will be deemed unsuitable for the next phase of
data processing and analysis. Thus, in this study, first, data editing, coding and data inputting are made and then
data is analyzed using univariate statistics namely the one sample T-test and other descriptive statistics such as
proportions and means. One sample T-test is used to examine whether the value for a particular factor under consideration significantly deviates from a hypothetical mean (i.e. neutral value) or not; thereby telling whether the difference is real or a matter of chance.

4. RESULTS AND DISCUSSIONS

4.1. Characteristics of the Respondents

The personal characteristics of respondents including gender, age and educational qualification of the respondents are presented in Table 1.

<table>
<thead>
<tr>
<th>Demographic Variable</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>67.5%</td>
</tr>
<tr>
<td>Female</td>
<td>32.5%</td>
</tr>
<tr>
<td>Age of respondents</td>
<td></td>
</tr>
<tr>
<td>Below 25</td>
<td>21%</td>
</tr>
<tr>
<td>26-35</td>
<td>36%</td>
</tr>
<tr>
<td>36-45</td>
<td>27%</td>
</tr>
<tr>
<td>&gt;45</td>
<td>17%</td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>Non-educated</td>
<td>0%</td>
</tr>
<tr>
<td>Primary School</td>
<td>5%</td>
</tr>
<tr>
<td>Secondary School</td>
<td>29%</td>
</tr>
<tr>
<td>Certificate/diploma</td>
<td>29%</td>
</tr>
<tr>
<td>University Degree</td>
<td>36%</td>
</tr>
<tr>
<td>Master’s degree &amp; above</td>
<td>2%</td>
</tr>
</tbody>
</table>

Given the results in Table 1, from 160 taxpayers (respondents), 67.5 percent were males and 32.5 percent females. Regarding age, a significant proportion of the respondents (57 %) were within the age range up to 35. As to educational qualifications, while 38% of the respondents have first degree and above, all are found to have some level of education which shows that the respondents can understand the questionnaire and provide accurate responses.

4.2. Political Instability and Tax Revenue

To study the consequences of political instability, respondents (tax payers) were asked to rate the level of their agreement or disagreement on four items related to the same.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>SDA (%)</th>
<th>DA (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>SA (%)</th>
<th>Mean</th>
<th>t-value</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In the past few years, the political instability of the country has negatively affected normal business operations of your firm</td>
<td>1</td>
<td>11</td>
<td>6</td>
<td>28</td>
<td>54</td>
<td>4.23</td>
<td>14.9</td>
<td>0.0000</td>
</tr>
<tr>
<td>2</td>
<td>The closeness to general elections negatively affects normal business operations of your firm</td>
<td>13</td>
<td>24</td>
<td>19</td>
<td>24</td>
<td>19</td>
<td>3.14</td>
<td>1.31</td>
<td>0.0955</td>
</tr>
<tr>
<td>3</td>
<td>The political instability in Amhara region has reduced investments due to lower confidence of investors</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>39</td>
<td>50</td>
<td>4.29</td>
<td>17.4</td>
<td>0.0000</td>
</tr>
<tr>
<td>4</td>
<td>In my opinion, political instability of the region has negatively affected taxable income of our business.</td>
<td>3</td>
<td>6</td>
<td>-</td>
<td>35</td>
<td>57</td>
<td>4.38</td>
<td>18.6</td>
<td>0.0000</td>
</tr>
</tbody>
</table>
Table 2 shows that 82% of the respondents agree that the political instability of the country has negatively affected normal business operations of their firm; while 6% of the respondents were neutral and it is only 12% whose opinion is contrary to the first. The mean value is 4.23 and is statistically significant at 1 percent level of significance indicating that, in the past few years, the political instability of the country has adversely affected normal business operations. The results, however, revealed that the closeness to general elections doesn’t affect normal business operations of firms. This may be explained by the fact that unless the election process turns into violence or if violence occurs so long as the problem is solved quickly and peacefully, closeness to general elections doesn’t bring any harm. In this regard, the result shows a mean value of 3.14 which is statistically insignificant at 95% confidence interval and the slightly above 3 mean value can be taken to have occurred by chance.

The results in Table 2 also revealed that while 89% of the respondents agree that the political instability in Amhara region has reduced investments due to lower confidence of investors, 8% believe to the contrary and the remaining neutral. The result reveals a mean value of 4.29 and it is statistically significant at 99% confidence interval. The results of our study imply that the political instability affects the economy not only by disrupting normal business operations but also by reducing expansion projects and new investments. Finally, the findings showed that the political instability of the region has negatively affected taxable income of business firms. In this regard, virtually all the respondents (92%) believe that this is true. This item has also a mean value of 4.38 and is statistically significant at 1%. These findings have an obvious implication on how detrimental political instability is to the amount of tax revenue the government can mobilize on any particular period.

4.3. Corruption and Tax Revenue

To investigate corruption related issues, five items are included in the questionnaire and the results are shown in Table 3.

Table 3. Corruption and Tax Revenue.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>SDA (%)</th>
<th>DA (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>SA (%)</th>
<th>Mean</th>
<th>t-value</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>There is high corruption by tax officials in our region</td>
<td>2</td>
<td>10</td>
<td>24</td>
<td>18</td>
<td>46</td>
<td>3.96</td>
<td>10.7</td>
<td>0.0000</td>
</tr>
<tr>
<td>2</td>
<td>Tax authorities make taxpayers aware to report corruption practices by revenue officials</td>
<td>18</td>
<td>39</td>
<td>28</td>
<td>12</td>
<td>4</td>
<td>2.45</td>
<td>-6.7</td>
<td>0.0000</td>
</tr>
<tr>
<td>3</td>
<td>There are measures by the tax authority to improve the accountability of tax officials</td>
<td>24</td>
<td>38</td>
<td>25</td>
<td>13</td>
<td>1</td>
<td>2.3</td>
<td>-8.8</td>
<td>0.0000</td>
</tr>
<tr>
<td>4</td>
<td>Corrupt tax officials are creating problems for the business community</td>
<td>3</td>
<td>8</td>
<td>16</td>
<td>34</td>
<td>38</td>
<td>3.96</td>
<td>11.3</td>
<td>0.0000</td>
</tr>
<tr>
<td>5</td>
<td>In my opinion, the level of corruption in the tax revenue office of our region has negatively affected the amount of tax the revenue office could collect from individuals and business firms</td>
<td>2</td>
<td>8</td>
<td>26</td>
<td>21</td>
<td>43</td>
<td>3.95</td>
<td>11</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The findings revealed that a significant proportion of respondents (64%) agree that there is high corruption by tax officials in our region. The mean value and t-statistic also show that the result is statistically significant at 1 percent level of significance. The study also uncovered that the majority of the respondents (57%) believe that the tax authority’s taxpayer awareness creation to report any corruption practices by revenue officials is also weak. The mean value of 2.45 shows tax authority’s effort in this regard is low. The result is also significant at 99% confidence interval. The study also revealed that measures by the tax authority to improve the accountability of tax officials
are also limited or none. The result shows that 62% of the respondents accept this as true. The low mean value of 2.3 and the t-statistics also show the severity of the problem. Similarly, 72% of the respondents believe that tax officials are creating problems for the business community. It is only 11% that believe to the contrary.

The results further showed that the level of corruption in the tax revenue office of our region has negatively affected the amount of tax the revenue office could collect from individuals and business firms. This holds true in 64% of the respondents and only 10% believe to the contrary. In general, we believe that the results provide useful insights on the level of ethical behavior in the Tax Administration.

4.4. Tax Audit Practice and Tax Revenue

Regarding tax audit practice, the study revealed that while 37% of the respondents believe that the present tax audit solves the problems of tax evasion and other irregularities of our region, a greater proportion of the respondents (44%) believe the reverse is true. The item has a mean value of 2.83 and significant at 5% level of significance. The results also showed that 42% of the respondents claim that the present tax audit practice doesn’t ensure the submission of accurate tax returns. In a similar version of this item, respondents have been also asked to rate their level of agreement on the statement “The awareness of tax audit makes the tax payers to render a satisfactory tax return”. A significant proportion of the respondents (43%) believe to the contrary. While the former result is significant at 95% confidence interval, the latter is significant only at 90% confidence interval. (See Table 4).

Table 4. Tax Audit Practice and Tax Revenue.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>SDA (%)</th>
<th>DA (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>SA (%)</th>
<th>Mean</th>
<th>t-value</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The present tax audit solves the problems of tax evasion and other irregularities of our region</td>
<td>16</td>
<td>28</td>
<td>19</td>
<td>31</td>
<td>6</td>
<td>2.83</td>
<td>-1.79</td>
<td>0.0378</td>
</tr>
<tr>
<td>2</td>
<td>The present tax audit ensures the submission of accurate tax returns</td>
<td>24</td>
<td>18</td>
<td>17</td>
<td>36</td>
<td>5</td>
<td>2.79</td>
<td>-2.08</td>
<td>0.0198</td>
</tr>
<tr>
<td>3</td>
<td>The awareness of tax audit makes the tax payers to render a satisfactory tax return</td>
<td>16</td>
<td>27</td>
<td>15</td>
<td>38</td>
<td>4</td>
<td>2.87</td>
<td>-1.37</td>
<td>0.0857</td>
</tr>
<tr>
<td>4</td>
<td>There is an effective tax audit team in the revenue office</td>
<td>26</td>
<td>21</td>
<td>37</td>
<td>12</td>
<td>4</td>
<td>2.47</td>
<td>-5.86</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Finally, the results also revealed that while only 16% of the respondents believe that there is an effective tax audit team in the revenue office, a greater proportion (47%) claim to the contrary. The result is statistically significant at 1%. All these findings diminish the value attached to tax audit and make the very need for a tax audit team questionable.

4.5. Autonomy of Revenue Office and Tax Revenue

In this section, we discuss opinions on issues regarding the autonomy of the revenue office and whether it has impacted on tax revenue mobilization. In this regard, taxpayers were asked to rate their level of agreement or disagreement on the statement “Tax administrative structure in our country lack autonomy”, among others. The results are summarized in Table 5. The results revealed that while around 69% of the respondents agree that this is true, only 16% believe to the contrary. The mean value is 3.95 and significant at 1% level. The majority of the respondents (73%) also believe that politicians interfere much with the Ethiopian tax system. Although the statistically significant mean value of 2.78 shows that tax authority has low autonomy in recruitment and dismissal of its staff, a significant proportion of the respondents (44%) were neutral may be suggesting that the respondents don’t have knowledge of the issue.
The findings also revealed that while a limited proportion of respondents (26%) accept the claim that the tax authority makes most of the decisions itself after consulting with the necessary organ, a greater proportion of respondents (41%) have expressed their disagreement. Finally, the results have shown that the majority of respondents (64%) believe that the tax authorities lack autonomy and this in turn has affected the tax revenue of our region negatively. The results are statistically significant at 99% confidence interval. This shows how much autonomy is necessary for the revenue office and how detrimental unnecessary political interference is to our country’s tax revenue.

### 4.6. Revenue Office Staff Competence and Tax Revenue

Lastly, we have asked respondents to provide their opinions on revenue office staff competence and related issues. The results are presented in Table 6.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variables</th>
<th>SDA (%)</th>
<th>DA (%)</th>
<th>Neutral (%)</th>
<th>Agree (%)</th>
<th>SA (%)</th>
<th>Mean</th>
<th>t-value</th>
<th>Sig*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>There is inadequacy of skilled and competent employees in the tax revenue office</td>
<td>3</td>
<td>25</td>
<td>34</td>
<td>13</td>
<td>29</td>
<td>3.43</td>
<td>4.5</td>
<td>0.0000</td>
</tr>
<tr>
<td>2</td>
<td>Due to various problems, the tax authority is hiring employees who lack understanding of the tax laws</td>
<td>4</td>
<td>14</td>
<td>30</td>
<td>26</td>
<td>25</td>
<td>3.53</td>
<td>5.88</td>
<td>0.0000</td>
</tr>
<tr>
<td>3</td>
<td>The tax office has well-trained and competent staff for efficient and effective tax administration</td>
<td>23</td>
<td>20</td>
<td>33</td>
<td>20</td>
<td>4</td>
<td>2.63</td>
<td>-4.06</td>
<td>0.0000</td>
</tr>
<tr>
<td>4</td>
<td>Trained and well informed and knowledgeable staff of revenue office helped clarify all questions regarding taxation and made compliance with the tax laws easier</td>
<td>26</td>
<td>28</td>
<td>26</td>
<td>17</td>
<td>3</td>
<td>2.43</td>
<td>-6.26</td>
<td>0.0000</td>
</tr>
<tr>
<td>5</td>
<td>In my opinion, the lack of competence of employees of tax office is negatively affecting tax revenue of our region</td>
<td>4</td>
<td>19</td>
<td>26</td>
<td>23</td>
<td>28</td>
<td>3.53</td>
<td>5.55</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The study uncovered that there is inadequacy of skilled and competent employees in the tax revenue office and this is true in 42% of the respondents. In fact, a significant proportion of the respondents (51% and 43% respectively) believe that the tax authority is hiring employees who lack understanding of the tax laws and the tax office lack well-trained and competent staff for efficient and effective tax administration. Furthermore, the
respondents (54%) reject the claim that “Trained and well informed and knowledgeable staff of revenue office helped clarify all questions regarding taxation and made compliance with the tax laws easier”. Finally, the findings have shown that the majority of the respondents (51%) claim that the lack of competence of employees of tax office is negatively affecting tax revenue of our region. The results are statistically significant at 99 percent confidence interval.

5. CONCLUSIONS

This study investigated the effect of selected factors on tax revenue mobilization in Ethiopia by taking the case of Amhara region. In this study, the findings of the survey revealed that the political instability of the country has negatively affected normal business operations of their business firm; the political instability in Amhara region has also reduced investments due to lower confidence of investors; and that the political instability of the region has negatively affected taxable income of business firms. The results, however, revealed that the closeness to general elections doesn’t affect normal business operations of firms. This may be explained by the fact that unless the election process turns into violence or if violence occurs so long as the problem is solved quickly and peacefully, closeness to general elections doesn’t bring any harm.

The findings also revealed that there is high corruption by tax officials in our region; tax authority’s taxpayer awareness creation to report any corruption practices by revenue officials is also weak; measures by the tax authority to improve the accountability of tax officials are also limited or none; tax officials are creating problems for the business community; and that the level of corruption in the tax revenue office of our region has negatively affected the amount of tax the revenue office could collect from individuals and business firms. These results provide useful insights on the level of ethical behavior in the Tax Administration.

Finally, the study uncovered that the present tax audit practice is not solving the problems of tax evasion and other irregularities in our region; it doesn’t ensure the submission of accurate tax returns; that the awareness of taxpayers of tax audit per se doesn’t make the tax payers to render a satisfactory tax return and that the present tax audit team is not effective. All these findings diminish the value attached to tax audit and make the very need for a tax audit team questionable. We also found that the tax administrative structure in our country lack autonomy; politicians interfere much with the Ethiopian tax system and that the tax authority has low autonomy in recruitment and dismissal of its staff. The results further showed that the lack of autonomy of tax authorities has affected the tax revenue of our region negatively. The lesson is autonomy is necessary for the revenue office and unnecessary political interference is detrimental to our country’s tax revenue. We also found that there is inadequacy of skilled and competent employees in the tax revenue office; the tax authority is hiring employees who lack understanding of the tax laws and that the tax office lacks well-trained and competent staff for efficient and effective tax administration which in turn has negatively affected tax revenue of our region.

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