Assessment of Challenges on Value Added Tax (Vat) Revenue Collection Practice and Administration: A Case Study of Afar Regional State Revenue Authority Office

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Abstract—**The main objectives of this study are to assess the challenges of VAT revenue collection practice and administration in case of Afar region revenue authority office. Descriptive research design was used in conducting this research. Mixed research method was used and the target population of the study were Afar region VAT tax payers and the main office employees. The sample size of the respondents was selected using convenience sampling method for tax payers and census method for employers. Both Primary and secondary source of data were used and two hundred forty-eight (248) copies of self-administered question were distributed. The numbers of questionnaires completed and returned were two hundred twenty-four (224), constituting 90.5% response rate. In order to analyze and present the results of this study for descriptive analysis the results of SPSS version 20 software were analyzed using frequency, percentages and charts. The result indicates as there is a different challenge which affects VAT revenue collection performance and administration. Such as, there is no efficient and enough revenue collection tools and machines in the office and also all VAT payers do not use modern technology, staff are not capable using ICT system to collect and report on VAT revenues collected each period., problem is these rules and regulation is not available to public and there is a problem with its implementation with government requirement, there is a lack of potential, confidence in decision making and adequate administration skill related to VAT. Finally, based on the findings possible recommendations were given. These include, to create an efficient VAT administration, the tax authority needs to strengthen itself by educating and training its employees and tax Simplicity is the most important indicator for VAT revenue performance VAT authority offices should be equipped with necessary new technology for tax purpose and adequate skilled human resources and by computerizing its operations and devoting additional resources.an efficient, effective and proper VAT administration is required by setting clear and transparent rule and regulation**

Index Terms—**Assessment, VAT Revenue Performance**

I. INTRODUCTION

1.1 Background of the Study

A tax is a liability imposed up on the tax assesses who may be individuals, groups of individuals, or other legal entities. It is a liability to pay an amount on account of the fact that the tax assesses have income of a minimum amount and from certain tangible or intangible property, or that they carry on certain economic activities which have been for taxation (Ebeke and Ehrhart ,2011).

Taxes are generally categorized into two as direct and indirect taxes. VAT is categorized under indirect taxes. The concept of value added tax was generated in 1954 by a French economist Maurice Laurie who was joint director of the French tax authority and rapid spread of value added tax is among the most important tax development of the late 20th century. It defined as tax levied and collected on sales of goods and services, with systematic offsetting of tax charged on goods and services purchased as inputs against that due on outputs. VAT is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government. In other words, a taxpayer does not receive a definite and direct quid pro quo from the government. Despite its name, VAT is not generally intended to be a tax on the value added; rather it is usually intended as a tax on consumption (Yesegat,2009).

The tax is charged at all stages of production and distribution chain, beginning with importers and producers and ending with retailers, with the provision of some mechanism enabling firms to offset the tax they have paid on their own purchases against the tax they charge on their sales. This feature of the tax makes VAT to be a broad- based tax levied at multiple stages of production and distribution unlike a retail sales tax that VAT replaced in most countries (Ebrill, 2001).

The VAT is extending around the world more quickly than any other new tax in modern history. The main reason for the rapid of this form of taxation was the early adoption of this form of tax developing and transition economy (DTE) by the International Monetary Fund (IMF) in particular and by international agencies and advisors in general (Richard and Joseph ,2005).

The issue of taxes is paramount important to every government. This is because the success or failure of every government depends on its ability to undertake development projects and improve on the life of the people. Government, therefore, needs to raise enough revenue to meet its commitments. The primary purpose of tax is to collect revenue to finance government expenditure (Keen & Lockwood, 2010).

Ethiopia introduced value added tax (VAT) in the year 2003 at the rate of 15% (fifteen percent) as a replacement to sales tax .The main reasons for introducing VAT were to broaden the tax base, to attain economic neutrality, to promote exports, to attain its administrative advantages and it is collected at all stages in the production and distribution process beginning with the importers and producers of raw materials and ending with the retailers. Direct taxes contributed 37.5 percent to total tax revenue while that of indirect taxes was 62.5 percent. From the indirect tax portion VAT contributed high percentage around 55% -60% (NBE 2016/17 Annual Report), Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra 2004).

Value Added Tax (VAT) raised more government revenue than the replaced Sales Tax. This helped the government to design new developmental goal. Currently, the Ethiopian government vision is to bring rapid and sustainable development, which is essential to supporting the second development and transformation goal of reducing poverty by half and achieve middle-income country with good governance. The objective mainly requires domestic revenue mobilization. Otherwise, will be a dream to realize the Government's vision depending on external finance sources, which is subject to uncertainty. Indeed, this does not mean external sources are not important; rather it is to stress the fact that domestic resource should take the largest share in financing development endeavors in developing economies 2025 (National Bank of Ethiopia annual Report 2016).

According to the VAT proclamation 587/2008, supply of goods and rendering of services are subject to standard 15% tax rate except those exempted and zero rated by the tax law. The standard rate is the same as the repealed sales tax, which applied only to imports and domestically manufactured goods. VAT exemption has been extended to the basic necessities such as Education, Medical services, Electricity and Water, Kerosene, Basic foods, Transportation Services, the sales of a used residence or the lease of private house, the supply of goods and rendering services in the form of humanitarian aid, etc.

Afar Regional state is one of the ten regional states consisting of the federal state of Ethiopia. Afar regional state is not an exception when it comes to the VAT revenue collection practice. As empirical evidence on the ground shows there are different challenges in VAT revenue collection practice and administration. The VAT revenue of the region has been improving even if it still faces a lot of ups and downs. For instance the lower amount of revenue from VAT in Afar regional state including all the region in Ethiopia is due to poor VAT administration, the incapacity of tax authorities to implement the attributes of the tax in practice, resistance against VAT registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, evasions and fraud became the major reason for ineffectiveness in VAT revenue collection and administration. Therefore, this study assesses the challenges on VAT revenue collection practice and administration in Afar regional revenue Authority.

1.2 Statement of the Problem

Government performs many activities to fulfill social welfare in a given country. Common expenditure programs include health and welfare programs, defense spending, social security, and interest and repayment of principal on government debt (Eric, 2008). In Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country economy has been growing at a remarkable rate averaging more than 10 percent, but the tax to GDP ratio remained low at 13.4 percent in 2015 which is below the Sub-Saharan African average of about 20 percent. This implies the slow growth in the tax to GDP ratio suggests that growth in tax collection is not commensurate with the economic growth perhaps indicating a huge untaxed potential. The main reason of this low tax revenue collection performance is due to poor tax administration (IMF, 2015).

The major source of government income is tax in most economies, especially in developing countries like Ethiopia. The Tax revenue in Ethiopia is mainly generated by indirect taxes such as VAT, excise taxes and foreign trade taxes. To fulfill the public needs, governments in any country plan to collect tax revenues from the taxpaying community (Yesegat,2009).

According to Ebeke and Ehrhart (2011) among other taxes, Value Added Tax (VAT) is the basic source of income. They argued that VAT does indeed have a stabilizing effect on the tax revenue ratio. They also founded that countries which have adopted the VAT system enjoy much more stable tax revenue than other countries. VAT is, therefore, less vulnerable to evasion than a retail sales tax, for which collection occurs during the final stage of production. Aizenman and Jinjarak (2008) emphasize that VAT collection efficiency remains largely dependent on the quality of enforcement and the efficiency of monitoring, both increasing with political stability and the ease and fluidity of political participation. VAT is the principal source of revenue for the Ethiopian government like to other VAT implementing countries.

Yesigat (2009) has founded that VAT has a significant role in the revenue system of the Ethiopian government and to sustain VAT‟s revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible.

Ethiopia tax revenues raised by VAT are usually garnered at the expense of erosion in its salient features. This may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large. Currently the government of Ethiopia is not collecting enough taxes (African Economic Outlook, 2015).

Many studies were conducted in Ethiopia on tax revenue and VAT administration such as, Dheressa, Reddy, and Yadeta (2015) Value Added Tax administration have many challenges, Such: Resistance against Value Added Tax registration, Low level of tax awareness, weak audit and enforcement capacity of the tax authority, evasions and fraud.

According to Getnet (2017) The major challenges in the collection of VAT revenue were: consumers are not willing to transact with a proper VAT receipt, tax authority Poor tax enforcement capacity, unfair competition between VAT registered and unregistered tax payers, lack of skill and experience to detect any tax fraud and evasion, tax authority lack of potential to refund excess VAT credit, administration weakness and lack of consistency are the major challenges to collect VAT revenues properly.

Markos (2010) concluded that there are different challenges for VAT administration and revenue performance such as, awareness of the tax payers; poor implementation on the side of branch office is the main constraint and challenge for the smooth implementation of VAT, and attitude of the tax payers for paying tax.

Accourding to Aizenman and Jinjarak (2008), most taxpayers lack sufficient knowledge of tax assessment, collection procedures and, they do not know why they are paying taxes; what types of taxes are expected from them; and the applicable rules and regulations. Due to this and other factors mentioned, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. According to Taye, 2011 studies on VAT administrative practice in Ethiopia and he concluded that there are different factors which affect VAT revenue and administration practice such as administrative weakness, existence of corruption activities, lack of modernized technology for VAT, evasion and fraud, and miss understanding of tax paying community.

Haileab, Hayleasilassie and G/Michael,2016 conducted study on assessment of the extent and cause of non-compliance with VAT obligation in Afar region and they concluded there is a clear VAT non-compliance in the region due to low audit probability, the perceived fairness of VAT, dis satisfaction with service of tax authority, business people's perception about the VAT collection and also Kinfu K. and Mesued M. conducted study on assessment of challenges and opportunities of VAT implementation in Afar regional state and they concluded that lack of awareness among VAT payers, luck of good administration on VAT, most of VAT registered business peoples can't tax, and many business owners are not registered for VAT , unfairness computation between VAT registered and TOT payers etc … are the main challenges of VAT implementation in Afar region.

Generally, the previous studies focus on the legal aspects of non-compliance with VAT and challenges and opportunities with its implementation. Therefore, to fill the gap this study assesses the challenges on VAT revenue collection practice and administration on the case study of in Afar regional state.

1.3 Research Questions

1. What are the basic challenges that hinder effective VAT revenue collection from VAT registered business owners' side in Afar regional state?
2. What are the problems on VAT revenue collection practice from administration system of revenue authority Afar regional State?
3. What are the methods taken for increasing or improving the VAT revenue collection practice and administration system of Afar regional State?

1.4 Objectives of the study

1.4.1 General Objectives of the study

The general objective of the study is to assess the challenge of VAT revenue collection and administration in the case of Afar Regional State Revenue and Customs Authority.

1.4.2 Specific Objective of the study

- To identify the basic challenges that hinder effective VAT revenue collection in selected town of Afar regional state.
- To assess the problems on VAT revenue collection practice from administration system of revenue authority in selected towns in Afar regional State.
- To assess the methods taken for increasing or improving the VAT revenue collection and administration system in selected towns of Afar regional State.

1.5 Significance of the Study

This study will help policy makers to understand better about the VAT revenue collection and its administration in selected towns Afar region. Besides, the study will help the VAT revenue collection and administration to identify their problems and inefficiencies to take corrective action, to improve revenue performance within the authority and it uses the management of revenue authority of Afar region. In addition, the study will add something to the existing literature and serve as a reference for those who are willing to conduct further study in the study area.

The results of this study can use to design growth-oriented programs and carry out tax changes which are growth enhancing. The study also provides an empirical groundwork on Ethiopians VAT revenue structures upon which prudent tax measures could be based. It will also use for authority might be able to see its level and performance of tax related activities, and learn some lessons and build some corrective measures for the weaknesses based on recommendations to be forwarded.

II. METHODOLOGY OF THE STUDY

The purpose of this chapter is to describe the choice of appropriate research method for the study. Research design is specific research methodology philosophies and techniques used to achieve the objective of the study. It includes philosophies and techniques used in opting alternative research methodology and technique such as qualitative, quantitative and mixed methodologies, sources of data, sampling plan and method of analysis.

2.1 Research Design and Research Approach

2.1.1 Research Design

According to Kothari (2004), research design is a plan, a roadmap, and blueprint strategy. That is used by researchers to collect and analyze data so as to obtain answers to research questions. It is "a blue print that is used to conduct a study with maximum control over factors that may interfere with the validity of the findings" (Burns & Grove 2003). It is the conceptual structure within which research is conducted; it outlines the objectives of a study, specifies the sources of data to be collected, and identifies possible constraints that may affect the study (Saunders, 2003).

The research design in this study descriptive research design. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or a group. It deals with the relationship between variables and development of generalizations and use of theories that have universal validity. It also involves events that have already taken place and may be related to present conditions (Kothari, 2004). So, the study uses descriptive research design to assess VAT revenue collection; challenges and administration in Afar regional state revenue authority.

2.1.2 Research Approach

According to Creswell (2011), the mixed research approach uses separate quantitative and qualitative methods as a mean to offset the weakness inherent within one method with strengths of other method. The study was conducted using mixed research approach. The rationale for combining both quantitative and qualitative data is to better understand a research problem by combining both numeric values from quantitative research and the details of qualitative research in order to neutralize limitations of applying any of a single approach. For the mixed methods a research project takes extra time because of the need to collect and analyze both quantitative research and the flexibility of qualitative inquiry. Since the problem is identifying factors that influence VAT revenue performance, then a quantitative approach is best. It is also the best approach to test a theory or explanation.

Furthermore, since either the quantitative or qualitative strategies are those that involve collecting and analyzing both forms of data in a single study. Recognizing that both methods have limitations, researchers felt that biases inherent in any single method could neutralize or cancel the biases of other methods. So, by taking the above reasons in to consideration the study uses mixed research design for this particular study.

2.2. Sources of Data and Method of Data Collection

A. Sources of Data

Primary source of data was collected through the use of interviews and questionnaires. The study uses both quantitative and qualitative methods of data collection to gather the data. Most of the closed ended questions were designed on an ordinal level of measurement basis, and others as multiple choices, some of the closed ended questions were contain a five scored likert scales to provide respondents a wider range of alternatives with end points. The primary data were collected with the help of the tax payers and tax officers, including the managers of the revenue authority.

Secondary Sources of Data: Secondary data were obtained from source of literature such as books, journals, newspapers, publication, reports, articles and other research related to this study. These sources are very useful in the literature review about VAT revenue collection practice challenges.

B. Method of Data Collection

Interview- According to Yin (2003) the interview tool is very important source of getting information and this method of data collection created and promoted the understanding of the perceptions and values of revenue collected for service provision and enabled the researcher to gather additional information that were not given by the respondents when filling in the questionnaires. It involved the presentation of oral (verbal) stimulus and replies in terms of oral (verbal) responses. The advantage of using interviews was demonstrated by the fact that it is a quick method in gathering information and the researcher knows whether the respondents understand the questions or not. The study was used interview to the office manager in order to solicit information regarding VAT revenue collection: challenges and opportunities in Afar regional state revenue authority.

Questionnaire- Questionnaires was used to obtain information regarding revenue performance from VAT revenue collectors or employees and taxpayers. The questionnaire consisted of properly constructed in order to make it easier to obtain precise answers from the respondents. Expert opinion was sought validate the content and the structure of the questionnaire. Questionnaires complemented and supplemented information obtained under interview and documentary review. The reason was to obtain consistency of responses to the questions asked in repeated measurements (Carmines and Zeller, 1979).

The questionnaires for the survey which answered by selected branch officials, process coordinators and team leaders of tax assessment and collection department. Most of the questions would be close ended with 3-and 5-point scales, Yes and No questions, and categorical scaled questions.

2.3 Target Population, Sampling Techniques and Sample Size

2.3.1 Target Population of the Study

According to Burns and Grove, (2003) states that a population is all the elements that meet the criteria for inclusion in a study. According to Nachmias (1996), a population element is the subject such as a person, an organization, customer database, or the amount of quantitative data on which the measurement is being taken. Population can be defined as the total collection of individuals whom researchers seek to make inference on (Cooper &Schindler, 2014).

The target population of this study were the employees who are directly involved in VAT collection and administering departments. This means, process coordinators, team leaders, senior officers, and junior officers are included in the target a and VAT registered tax payers in the revenue Authority in Afar Regional State.

According to Afar regional revenue Authority Office document in the year 2011 E.C. Total number of VAT taxpayers in four Wereda and one city administration is total populations of the study is 656 VAT registered tax payers. These are Awash (162), Aba'ala (160), Asayita (95), Mille (65) and Samara Logia (174).

2.3.2 Sampling Technique

A sample refers to a set of individuals/companies/ selected from an identified population with the intent of generalizing the findings to the entire population. A sample is drawn as a result of constraints that make it difficult to cover the entire research population (Leedy and Ormord, 2005) Based on the information obtained four woredas and one city administration selected out of 34 woredas based on the density of these taxpayers. Four woredas and one city administration were densely populated taxpayers registered so the four woredas and one city administration was be purposively selected. The researchers use convenience sampling technique for tax payers in order to have more effective responses by taking the people which are not busy at the time of distributing and collecting questionnaires. This technique is important in increasing the response rate of the questionnaires (Fox, Hunn and Mathers, 2009). The census method was used for employees concerned or related with the issue of VAT in each office

2.4 Sample Size

According to Polit (2001), Sampling refers to the statistical process of selecting and studying the characteristics of a relatively small number of items from a relatively large population of such items, to draw statistically valid inferences about the characteristics of the entire population. Prior to the actual data collection, emphasis was made on the determination of sample size that is mainly dependent on the purpose of the study, available resource and precision (variance) required. The use of a sample enables a study to save time and money, and get more detailed information (Bluman, 2009). A sample reflects the population as a whole i.e. it a true representative of the population.

According to Sangeeth, (2007), sampling formula uses two key factors: (1) the risk the researcher is willing to accept in the study, commonly called the margin of error, or the error the researcher is willing to accept, and (2) the alpha level, the level of acceptable risk the researcher is willing to accept that the true margin of error exceeds the acceptable margin of error. The sample were determined from the total population based on (Yamane, 1967) formula as follows

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

Where;

n =designates the sample size the study uses;

N= designates total number of populations

e = level of precision

So, there is 2,165 VAT registered business owners but most of the registered business owner is not active and the active VAT payers in those four woredas and one city administration is 656.

$n = 656 \ / \ 1 + 656(0.05)2$ = 248 Therefore, n = 248 were taken as a sample size from VAT registered tax payers

Table for Sample Size Determination

No.	Name of study area	VAT registered tax payers	Sample size
1	Samara logia	174	66
2	Asayita	95	36

3	Aba'ala	160	59
4	Mille	65	24
5	Awash	162	61
6	Total	656	248

Source: own computation

2.5 Method of Data Analysis and Interpretation

In the qualitative part of the study, after the data was collected and processes manually, descriptive technique is adopted for analysis of the data. The statistical analysis conducted based on Percentages, Tables and Figures. In case of descriptive statistics, a quantitative method of data analysis is adopted. The data collecting from survey questionnaires are carefully code and checking for consistency and entering into the Statistical Package for Social Scientists (SPSS) statistical package. The analysis is performing with a method of SPSS version 20. The raw data analyzed, presented, and interpreted to give solutions for the study.

III. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

3.1 Descriptive analysis of the finding

Table VAT administration related questions and response

Questions	Response	Frequency	Percent
There is efficient VAT administration in Afar region revenue authority office.	Strongly dis agree	42	18.7%
	Dis agree	114	50.8%
	Neutral	35	15%
	Agree	33	14.7%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table respondents were asked whether they believe that there is efficient VAT administration in Afar region revenue authority office and most of the VAT payer 114(50.8%),) are disagreed and 42(18.7%) of the respondents are strongly dis agree. on the other hand, 35 (15%) of respondents responded that neutral there is effective and efficient VAT administration. This means as the majority of the respondents responded disagree. Therefore, the researchers concluded that there is no effective and efficient VAT administration in Afar region revenue Authority Office.

Table 3.2 question and response on awareness in relation with VAT payers

Question	Response	Frequency	Percentage
The VAT revenue office follows in increasing the awareness of tax payers about the VAT registration process and on other related issue	Strongly disagree	45	20%
	Dis agree	87	38.8%
	Neutral	52	23.3%
	Agree	40	17.8%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table 4.2 respondents were asked whether they believe that The VAT revenue office follows in increasing the awareness of tax payers about the VAT registration process and on other related issue in Afar region revenue authority office and most of the VAT payer 52(23.3%),) are neither agreed nor disagreed (neutral) on the other hand 40(17.8%) of respondents responded that agreed that there is effective and efficient VAT administration 87(44.8 and 45 (12.5%) responded disagree and strongly disagree respectively. From the above interpretation the researchers concluded that as the majority of the respondents responded disagree. The researcher concluded that the revenue office did not follow in increasing the awareness ot tax payers about VAT registration in Afar region authority Office.

Table 3.3 question and response about corruption and administration system

Questions	Response	Frequency	Percent
There are strong control measures of fighting corruption in the administration system of the of VAT revenue office	Neutral	42	18.75%
	Dis agree	55	24.5%
	Agree	72	32.1%
	Strongly agree	55	24.5%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table 3.3 above respondents were asked whether they believe that there is strong control measures of fighting corruption in the administration system of the of VAT revenue office and 42(18.5) responded that neither agreed nor disagreed (neutral), 71(31.2%) were responded agree on there is strong measure of fighting corruption and 55(24.5%) were responded strongly agree. From this interpretation of the respondents the researchers concluded that the majority respondents responded agree. Which means that of revenue office exercise strong control measure of fighting corruption on VAT revenue but still corruption did not decrease.

Table question and response about fairness in administration

Question	Response	Frequency	Percentage
There is fairness in administration system by imposing the VAT penalty on tax payers by the authority	Strongly disagree	62	27.6%
	Agree	42	18.75%
	Neutral	41	18.3%
	Dis Agree	79	35.5%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table respondents were asked whether they believe that there is fairness in imposing the VAT penalty on tax payers by the authority and 62(27.6%) were strongly disagree and 42(42.7%) agreed about the fairness and transparency of VAT in the region. On the other hand respondents 41(18.3%) neutral and 79(35.5%) responded disagree. From this interpretation the student researchers concluded that as the majority of the respondents responded there is no fairness in administration system by imposing the VAT penalty on tax payers by the authority in the office.

Table question and response about corruption and fraud related issue

Question	Response	Frequency	Percentage
There are cases where VAT revenue collection staff have been charged with corruption/fraud related issues on VAT revenue collection	Neutral	42	18.75%
	Agree	94	41.9%
	Dis agree	21	9.3%
	Strongly agree	67	29.9%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table respondents were asked whether they believe that there are cases where VAT revenue collection staff have been charged with corruption/fraud related issues on VAT revenue collection the majority of respondents 94(41.9%) responded agree and 67(29.9%) were responded strongly agree. on the other hand, 42(18.75%) of respondent responded neutral or that neither agreed nor disagreed. So, from this the researcher concluded that the majority of the respondent is responded agree that means there is cases where the office employees are charged with corruption and other related issues in the VAT in Afar region revenue office.

Table question and response about corruption related issue

Question	Response	Frequency	Percentage
There are cases where VAT revenue collection staff receive bribes from the tax remitters so that the former	Neutral	26	11.6%
	Agree	114	50.8%
	Dis agree	18	8%

avoid remitting their dues to revenue office	Strongly agree	66	29.4%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table respondents were asked whether they believe that there are cases where VAT revenue collection staff receive bribes from the tax remitters so that the former avoid remitting their dues to revenue office and the 26(11.6%) respondents. were responded neutral or neither agreed nor disagreed. On the other hand, 114(50.8%),18(8%) respondents were responded agree and dis agree respectively. So, from this interpretation the researcher concluded that according to the majority of the respondents responded agree. This means in the revenue office there are cases where revenue collection staff receives bribe from tax payers and avoid remitting their duties to revenue office.so, this indicates that the right VAT revenue did not collect by employers to the office.

Table Question and response about Technology

Question	Response	Frequency	Percent
These VAT revenue collection tools, equipment and machines are efficient	Strongly dis agree	65	29.3%
	Dis agree	87	39.9%
	Agree	35	15.5%
	Strongly agree	12	5%
	Neutral	25	11.%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table respondents were asked whether they believe that These VAT revenue collection tools, equipment and machines are efficient 65(29.3%) of the respondents responded that strongly dis agree. On the other hand, 87(39.9%) of the respondent responded dis agree and the other 35(15.5%) of respondents responded agree and the other responded neutral or neither agreed nor disagreed. As indicated on the above table the majority of the respondent's response on the efficiency of revenue collection tool machine and equipment are disagree. From this interpretation the researchers concluded that there are no efficient revenue collection tools in Afar region revenue office.

Table question and response about utilization of technology

Questions	Response	Frequency	Percent
All tax payers are utilizing modern technology to easy VAT matter	Strongly dis agree	95	42.4%
	Dis agree	89	37.9%
	Neutral	14	6.2%
	Agree	26	11.6%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in table above respondents were asked whether they believe that all tax payers are utilizing modern technology to easy VAT matter and 95(42.4%) of the respondent were responded strongly dis agree and also 89 (37.9%) were responded dis agree. On the other hand, 14(6.2%) were responded neutral and 26(11.6) were responded agree. So, as indicated on the above table and interpretation the majority of the respondent's responded strongly disagree. From this interpretation the researchers concluded that the majority of VAT payers did not use modern technology to make easy VAT matters.

Table question and response about technology usage

Question	Response	Frequency	Percentage
The staff are capable of using the ICT systems to collect and report on VAT revenues collected during each year.	Strongly dis agree	65	29%
	Neutral	28	12.5%
	Agree	78	34.8%
	Strongly agree	53	23.6%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As indicated in the above table 4.9 the respondents were asked whether the staff are capable of using the ICT systems to collect and report on VAT revenues collected during each year and 78(34.8%) of the respondents responded that agree and also 53(23.6%) respondents were responded were strongly agree. On the other hand, 28(12.5%) respondents were responded were neutral or neither agreed nor dis agreed. As the above interpretation the majority of the VAT payers responded. Even if half of the respondents responded agree half of the respondents were responded strongly disagree respectively. So, the researcher concluded that even if the majority respondent's response is agreeing half of them are disagreed on the capability of staff in using ICT to collect and report VAT revenues to the office authority.

Table 3.10 Question and response about Government policies

Question	Response	Frequency	Percent
The policies, rules and regulations governing VAT revenue collection within the office are available to the public.	Strongly dis agree	62	27.7%
	Dis agree	94	41.9%
	Agree	24	10.7%
	Neutral	44	19.6%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output ,2025

As shown in table respondents were asked whether they believe that the policies, rules and regulations governing VAT revenue collection within the office are available to the public and 62(27.7%) respondents were responded strongly dis agree and also 94(41'9%) of the respondents were responded dis agree. On the other hand, 44(19.6%) of respondents were responded neutral. Therefore, according to the above table and interpretation of the majority of the respondent's response was disagree. So, the researchers concluded that the polices, rules and regulation which governs the VAT revenue collection of the region is not available to public.

Table 3.11 question and response about rules and regulation in the office

Questions	Response	Frequency	Percent
There are policies, rules and regulations governing revenue collection within the VAT revenue office	Strongly dis agree	55	24.5%
	Dis agree	45	20%
	Agree	40	17.8%
	Neutral	84	37.5%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As indicated in the above table the respondents were asked whether there are policies, rules and regulations governing revenue collection within the VAT revenue office and 55(24.5%) of the respondents were responded strongly dis agree and also 45(20%) of the respondents were responded disagree. On the other hand, 84(20.8%) of respondents were responded neutral. Therefore, as the above table and interpretation the majority of the respondents responded neutral. So, the researchers concluded that there is no good or efficient policies, rules and regulation governing revenue collection within the VAT revenue authority office

Table question and response for implementation of policies

Question	Response	Frequency	Percentage
The implementation of policies, rules and regulations are done in line with the government requirements	Strongly dis agree	45	20%
	Dis agree	97	43.3%
	Neutral	34	15.1%
	Agree	48	21.4%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in above table respondents were asked whether they believe that the implementation of policies, rules and regulations are done in line with the government requirements and 45(20%) of the respondents were responded strongly dis agree and 97 (43.3%) of the respondents were responded dis agree. On the other hand, 48(21.4) of the respondents responded agree. According to the above table and interpretation the most of the respondent's responded disagree. Therefore, the researchers concluded that the policies, rules and regulation are not implemented in line with government requirement in Afar region revenue authority office.

Table Question and response about Evasion

Question	Response	Frequency	Percent
The use of cash register machine reduces the possibilities of VAT evasion	Disagree	42	18.7%
	Neutral	26	11%
	Agree	120	53.5%
	Strongly agree	36	16.5%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in the above table the respondents were asked whether the use of cash register machine reduce the possibilities of VAT evasion and 42(18.7%) of the respondents were responded disagree and 26(11%) of respondents were responded neutral or neither agree nor disagree .On the other way, 120(53.5%) of the respondents response were agree and the remaining 36(16.5%) of the respondent were responded strongly agree. From the above table and interpretation, the majority of the respondent's response were agreed. So, the researchers concluded that if there is expansion way of modern technology and implemented by the authority and tax payers such as cash register machine the possibility of evasion is decreases

Table Question and response about Evasion

Questions	Response	Frequency	Percent
The cause of VAT evasion is the existence of high tax rate	Strongly dis agree	26	11.6%
	Dis agree	47	20.9%
	Neutral	27	12%
	Agree	124	55.5%
	Total	224	100%
Complexity of VAT laws, rules and regulation will lead to tax evasion	Strongly dis agree	20	8%
	Dis agree	32	13.75%
	Neutral	24	11.5%
	Agree	156	69.9%
	Total	224	100%

Source: Questionnaire and SPSS version 20 output, 2025

As shown in the above table the respondents were asked whether the cause of VAT evasion is the existence of high tax rate and 26(11.6%) of the respondents were responded were responded strongly disagree and 27(12%) of respondents were responded neutral or neither agree nor disagree. On the other way, 124(55.5%) of the respondent's response were agree and the remaining 47(20.9%) of the respondent were responded disagree. From the above table and interpretation, the majority of the respondent's response were agreed. So, the researchers concluded that high tax rate will leads to evasion and also directly affect VAT revenue collection performance and administration.

As indicated in the above table the respondents were asked whether the complexity of VAT laws, rules and regulation will lead to tax evasion and 20(8%) of the respondent's response were strongly disagree and also 32(13.75%) of respondents were responded disagree. On the other hand, 24(11.5%) of respondent's response were neutral or neither agree nor disagree and also the remaining 156(69.9%) of respondents were agree. According the above interpretation and table the majority of the respondent's response were agree. This implies that absence of simple tax system or complexity of VAT rules and regulation will leads to the tax evasion.

Table Question and response about Employees Competence

Questions	Response	Frequency	Percent
The office employees understand the VAT law in Ethiopia	Strongly dis agree	73	32.5%
	Dis agree	59	26.3%
	Neutral	36	16%
	Agree	57	25.4%
	Total	224	100%
The tax office staff are technically competent in executing their duties and responsibilities	Strongly dis agree	52	23.1%
	Dis agree	75	33.4%
	Neutral	42	18.75%
	Agree	55	24.5%
	Total	224	100

Source: Questionnaire and SPSS version 20 output, 2025

As indicated in the above table the respondents were asked whether the office employees understand the VAT law in Ethiopia and 73(32.5%) respondent were responded strongly dis agree and 59(26.3%) of respondent were responded disagree .on the other hand 57(25.4%) of the respondent were responded agree and 36(16.3%) of respondents response were neutral or neither agree nor disagree .According to this interpretation the majority of the respondents response were strongly dis agree this implies that most of the respondent were dis agreed by the office employees have good understandability of VAT laws in Ethiopia. As indicated in the above table the respondents were asked whether the tax office staff are technically competent in executing their duties and responsibilities and 52(23.3%) of the respondents response were strongly disagree and 75(33.4%) of respondents were responded disagree .On the other hand of42 (18.75%) the respondent were responded neutral neither agree nor disagree .According to the table and interpretation the majority of respondents response were disagree. So, from this the researchers concluded that VAT revenue office staffs are not competent in executing their duties and responsibilities.

Discussion for interview question with Manager of the region revenue office

- What are the problems that hinders VAT revenue collection performance in your office?

According to the manager response there are different problems which affect VAT revenue performance in Afar region VAT revenue authority office. Among those problems in the office were lack of sufficient and enough modernized technology which controls revenue collected during each period ,inefficiency of awareness creation to tax payers about their responsibilities and right about VAT payment process ,about the VAT registration process and identification ,in some extent there is the possibilities of corruption which is done by tax payers and employees are the major factors that hinder VAT revenue performance in Fiche town revenue authority office.

- How do you evaluate the trend of VAT revenue performance of Afar region revenue authority office?

According to the managers response the trends of VAT in the revenue office shows improvement since its implementation in the region. Which means that the amount of VAT revenue collected during each year is increasing year to year even if it does not increase as the planned way. However, the VAT revenue collected was decreasing in year 2018/ 2019 when we compare with another period from its implementation.

- How do you evaluate the VAT revenue office employees and tax payers with regard to understandability of VAT rules and regulation?

According to the manager response most of the VAT revenue office employees have bachelor degree and they update their knowledge time to time through different training at different level .As his opinion all of the VAT office employees have good understandability of VAT rules and regulation but, the there is some problem on its implementation and as he explained the some of the VAT payers did not understand the VAT rues and regulation .Therefore, this misunderstand ability of tax rules and regulation as well as duties and responsibilities were the main problem of VAT revenue performance in the office.

- Is there any activity which is done in your office to increase or improve VAT revenue performance? if yes please mention some of them

Yes, according to him there are different activities the revenue authority office to increase its performance. Among those some of them are, awareness creation to tax payers through creating different opportunities to tax payers, in same extent different ICT revenue controllers were applied to achieve the concept of the right revenue collected should be submitted to right government treasury and different mechanism were applied to identify those VAT unregistered business activities in the town are the main activities which is done to improve VAT revenue performance

IV. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

Based on the findings of the study the following conclusions were drawn.

VAT was first introduced in France in 1954 as an alternative to other consumption taxes, such as the sales tax and the turnover tax, the fast speed of the adoption of VAT by several countries has called the attention of many researchers. Ethiopia also introduced value added tax (VAT) in the year 2003 at the rate of 15% (fifteen percent) as a replacement to sales tax. The main reasons for introducing VAT were to broaden the tax base, to attain economic neutrality, to promote exports, to attain its administrative advantages and it is collected at all stages in the production and distribution process beginning with the importers and producers of raw materials and ending with the retailers. In fact, the incredible ability of VAT to raise revenues has been the subject of study for many years now. Extensive literature exists on the VAT administration, whether focusing on a particular country, or in a set of countries, but there are little or no empirical studies focusing on challenges of VAT revenue performance Ethiopia.

In this dissertation researchers hope to contribute to the set of studies on factor affecting VAT revenue performance by studying the specific case of Afar region revenue authority. To do so, researchers were collected in the study; two main sources of data are used; primary and secondary data. For the primary data, two main target groups were identified; taxpayers and tax officers including managers of the region revenue office. The researchers were selected samples from the respondents by using census method for employees and convenience sampling method was used. Questionnaires were also distributed to selected employees and tax payers as well as interview question for managers were asked. Using those data the researcher performed SPSS version 20 software to run output of descriptive statistics and inferential statistics by using ordered logistic regression analysis. According to the result shows there is poor or week VAT administration related with transparency, fairness, in level of awareness creation, VAT registration process and identification and there is lack of effective and efficient administration system in the region. There are also possibilities of fighting corruption by the office administration and concerned body. According to respondents result, even if there is measure fighting of corruption in the office there are cases where VAT revenue collection staff are charged with corruption and receive bribes from tax payers and tax payers do activities with fraud related issues.

According to the analyzed data there is no efficient and enough revenue collection tools and machines in the office and also all VAT payers do not use modern technology as well as the staff are not capable using ICT system to collect and report on VAT revenues collected each period. On the issues related with government policies and regulation, most of the respondent's response is there is policies, rules and regulation in the region VAT revenue office. But the main problem is these rules and regulation is not available to public and there is a problem with its implementation with government requirement. As most of the respondent response the reason for tax evasion is complexity of tax lows and high tax rate. About employee's competence is also analyzed as the result indicates the office employees have understood the VAT lows in Ethiopia. But there is a lack of potential, confidence in decision making and adequate administration skill related to VAT.

4.2 Recommendation

Based on the findings of the study, the following recommendations are forwarded that may help the tax authority and other policy makers. The following measures should be taken by the tax revenue authority:

- As indicating in the finding of the study the effectiveness, efficiency as well as awareness creation which provided by the authority is poor or week. So, an efficient, effective and proper VAT administration is required by setting clear and transparent rule and regulation. The tax office should build a favorable alliance with third party to get relevant information about the taxpayer. Moreover, the tax office should increase taxpayer educational programs to increase tax awareness by tax payers. Taxpayers should understand and accept that their hard-earned birr is spent wisely and effectively to fund a range of government programs and priority services including education, health care, environmental protection and community services.

- To create an efficient tax administration, the tax authority needs to strengthen itself by educating and training its employees, by computerizing its operations and devoting additional resources. Training should include customer service training and cross functional training for employees so they have an understanding of the entire system of tax administration. The authority should make the tax law and procedures simple, understandable, and transparent.
- As shown in the study result the VAT revenue collection tools and equipment is not efficient, all vat payers did not use modern technology and the staff are not capable to use modern technologies. so, VAT authority offices should be equipped with necessary new technology for tax purpose and adequate skilled human resources and by computerizing its operations and devoting additional resources. Training should include customer service training and cross functional training for employees so they have an understanding of the entire system of tax administration.
- The tax authority must maintain adequate management information system. So that, taxpayers must receive clear, concise and up-to-date information on describing what is to taxable, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay taxes. The tax office should offer sustainable training and prepare discussion or forum for collaborators such as legal bodies, city administrators, and security bodies as they have direct or indirect contributions for the implementation of the tax revenue using technology.
- The legal system should be strong and independent institution which is responsible for dealing the problem and to weaken corruption. So having an efficient and motivated employee and concerned body including all tax payers to make a big difference and this can mitigate the incidence of corruption in the Town.
- The study result shows that the complexity of tax laws, existence of high tax rate and lack cash registered machine were the cause for evasion. Tax Simplicity is another important indicator when assessing the tax systems. The more complex a tax system, there are greater opportunities for tax avoidance, evasion and other forms of abuse and also greater chance for exclusion for non-tax experts who are unable to understand the system. The simplicity of a tax system can be measured for instance by the ease to calculate tax liability, the number of tax rates and allowances and the number of loopholes in the system. In addition, simplicity criterion means that tax rules should be understandable, accessible, and uncomplicated.
- There is need to enhance the capacity of the employees of the of the region revenue office. Of course, the study shows that both short term and long-term trainings are given. But still, there is a need for changing the attitude towards customer handling and other service giving methodologies. Each employee has to be convinced that developing his/her own capacity is a continuous process and each of them has to take responsibility of doing so using different mechanisms.

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