



## Assessment of Determinants of Tax Collection (the Case From Negele Town Administration East Guji Zone Oromia Regional State, Ethiopia)

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**Abstract** – This study was focus on Determinates related with tax collection in Nagele Town East Guji Zone Oromia Region, Ethiopia. It is known that the existence of state without tax is unthinkable because, government raises fund from tax collection. So, studies of Determinates associate with tax collection and finding appropriate solution may help to contend with development constraints success fully through detail investigation. As a result of this fact, the study design and look at the Determinates relate with tax collection in Nagele Town, with the key objective of assessing Determinates relate with tax collection. This may help the Towns revenue and tax office to look at original Determinates. The research design is qualitative research design and the sample size was 156 from tax payers and tax collectors. The result reviled that the absence of sufficient awareness of the tax payers and willingness of the tax payers are the main determinants of tax collection in the study area.

**Keywords:** Tax, Awareness of tax payers, Willingness of tax payers, Tax collection System.

### 1. INTRODUCTION

Tax revenue is the key source of revenue for governments in both advanced and emerging countries regarding funding public spending (Desta & Reta, 2022) Farther more, Taxes are the primary source of government revenues. Taxation policies depend of the socio economic and political structure of a country. In Ethiopia though taxation came into being with the emergence of state and government, but, there is no reliable documentary evidence exists as to when exactly taxation was introduced. The main purpose of generating revenue from various sources is to finance public expenditures. The governments generate revenue from tax and other non-sustainable sources. The collection of money from available sources of revenue by government needs the availability of democratic government, foreign and domestic creditors and donors, efficient tax system and awareness of the society regarding the use of tax payment for government and its contribution for the development of the country's economy. In Ethiopia, payment of tax is considered by the society as a debt imposed by government to increase the wealth of the government officials. To avoid the negative attitude of the tax payer a well designed tax system is necessary. In addition, educate the society regarding its obligation and the purpose of tax collection, minimizes the wrong attitude of the tax payer. So, this study was designed to minimize Determinates that face during assessment and collection and to minimize wrong attitudes of tax payers are some Determinates of tax collection for instance in 2007 E.C, the proposed amount of tax was greater than the amount that actually collected and also some Determinates related with awareness and willingness of taxpayers.

### 2. RESEARCH QUESTIONS

- What are the major bottlenecks affecting tax collection system in the Town?



- What are the Determinates and weaknesses in the side of government bodies (tax collectors) or the system?
- What are the gap and weakness in the side of tax payer societies?

### 3. OBJECTIVES OF THE STUDY

- To assess the Internal factors affecting tax collection system.
- To examine the Environmental (external) factors that influences the tax collection system.
- To put some possible recommendation and to make this study's result base for further investigation.

### 4. SIGNIFICANCE OF THE STUDY

- Pave the way for improvement of tax collection system.
- Encourage compliance of tax payers
- Create fairly clear image how the tax collection and Determinates with tax collection are taking place.
- Enable revenue bureau to find out whether it's strategy are effective or not.
- The result of this study will serve as a reference for further investigation

### 5. LITERATURE REVIEW

#### **Purpose of Taxation**

According to American economist Richard Musgrave, A purpose of tax collection is to distinguish between objectives of resource allocation income redistribution and economic stability (economic growth) or development and competitiveness listed as separate goals, but they can generally be subsumed under the other three. The other main function of taxation is to permit the state to provide services for the population. Infra structure and services are what we expects from taxation.

#### **Role of Taxation in Development Strategy**

The role of taxation in fiscal policy and the development strategy has to be viewed in the back ground of the function which a taxation system performs, its main function in relation to economic development are as follows. The primary function of tax system is to raise revenue for the government for its public expenditure. So the first foal in the development strategy as regards taxation policy is to ensure that this function is discharged adequately. The second function of taxation is to reduce inequalities through a policy of redistribution of income and wealth. Higher rate of income taxes, capital transfer taxes and wealth tax are some means adopted for achieving these ends. The 3rd role of taxation is for the social purposes such as discouraging certain activities which are considered undesirable. The excise taxes on liquor and tobacco. The special excises duties on luxury goods. Betting and gamming levy are example of such taxes. Which apart from being lucrative revenue sources have also goals. The 4th is to ensure economic goals through the ability of the taxation system to influence the allocation of resources. This includes:

- Transferring resource from the private sector to the government to finance the public investment program.
- To distribute the direction of private investment in to desired channels through such measures as regulation or tax rates and the grant of tax incentives etc. this insides in investment incentive to attract foreign direct investment (FDI) into the country.



- Influencing relative factor prices for enhanced use of labor and economic use of the capital and foreign exchange. The fifth function of tax action on is to increase saving and capital formation in private sector party for borrowing by the government and partially for enhancing investment resources within the private sector for economic development. (B.P herber, 1999)

## 5.1 Characters of Good Tax System

- Tax is compulsory contribution:-it is a compulsory payment from the person to the government without expectation of any direct returns from it.
- Taxes are levied by the government:-no one has the right to imposes taxes except the government. Only the government has the right to impose taxes and collect tax proceeds from the people.
- Common benefit to all:- the tax collected by the government is spend for the common benefits of all people.
- No direct benefit:- the government compulsorily collects all types of taxes and does not give any direct benefits to the tax payers for the taxes paid and the tax payers cannot demand any direct benefits against the payment of taxes.
- Certain taxes levied for specific objectives:- though taxes are imposed for collecting revenue for the government to meet its expenditure on social wants and merit wants for example heavy taxes are levied on luxury goods to reduce their consumption.
- Attitude of the taxpayers:- the attitude of the tax payers is an important variable determining the contents of good tax system.
- Good tax system should be in harmony with national objectives:- a good tax system should run in the same direction with important national objectives.
- Tax system recognizes basic report of tax payers:-a good tax system recognizes the basic rights of tax payers. The tax payer is exacted to pay the tax but not undergo the harassment. (Tax system manual by Addis chamber 2004)

## Taxation Principles

Taxation principles are basic concepts by witch government is meant to be guided in designing and implementing all equitable taxation regime these includes:

- Adequacy:-taxes should be just enough to generate revenue required for provision of essential public services.
- Broad basing:- taxes should be spread over as wide as possible section of the population or sector of economy to minimize the individual tax burden.
- Compatibility- taxes should be coordinated to ensure tax neutrality and over all objectives of good governance.
- Convenience:- taxes should be enforced in a manner that facilitates voluntary compliance to the maximum extent possible.
- Ear marking:- tax revenue from specific source should be dedicated to a specific purpose only when there is a direct cost and benefit like between the tax sources and expenditures such as use of motor fuel tax for road maintenance.



- Efficiency:-tax collection efforts should not cost an inordinately high percentage of tax revenues.
- Neutrality taxes should not favor only one group or sector over another and shouldn't be designed to interfere with or influence individual decision making.
- Equity:-taxes should equally burden all individuals or entities in similar economic circumstances.
- Predictability:-collection of taxes should reinforce their inevitability and regularity.
- Restricted exemptions: tax exemptions must only be for Specific purpose (such as to encourage investment) and for Limited period.
- Simplicity:-tax assessments determination should be easy to understand by an average tax payers.

## 5.2 Major Types of Taxes in Ethiopia

**Direct taxes:** direct taxes are those which are paid entirely by those person whom they are imposed. A direct tax is one paid directly to the government by the persons on whom it is imposed. Examples include some income taxes, some corporate taxes and transfer taxes such as estate (inheritance) tax and gift tax.

**Indirect taxes:** are computed indirectly in the cost of goods or service you purchase such as taxes imposed on companies for doing business. A good example of indirect tax would be shipping cost wich are included in the cost of merchandise you buy at the store. Cost on commodities like custom duties, sale taxes, excise taxes etc. included in types of in direct taxes (Gebrie worku mengesha,2004)

### Types of Indirect Tax

**Employment Personal Income Tax:** every person deriving income from employment is liable to pay tax on that income at the rate specified in schedule. Employment income shall be includes any payment origins in cash or in kind received from employment by an individual. Employees have an obligation to with hold the tax from cash payment to an employee, and pay the tax authority the amount with hold during cash calendar month in applying the procedure , income attributable to the month of Nehassie and Pagume shall be aggregated and treated as the income of one month If the tax on income from employment, instead of being deducted from the salary or wage of the employee is paid the employer in whole or in part, the amount so paid shall be added to the taxable income and shall be considered as part there of( Gebrie worku Mengesha ,2008)

### Business Profit Tax

This is the tax imposed on the taxable business income /net profit realized from entrepreneurial activity. Taxable business income would be determined per tax period on the basis of the profit and loss accounting standard corporate business are required to pay 30% of fiat rate of business income tax. For with incorporated or an individual business are taxed in accordance with the determined schedule and rate. In the determination of business income subject tax in Ethiopia, deductions would be allowed for expense incurred for the purpose of earning, securing and maintaining that business income to the extent that the tax payer can prove the expenses.

- The following expenses calculating shall be deductible from gross income in calculating taxable income.
- The direct cost of producing the income such as the direct cost manufacturing, purchasing, importation, saving and such other similar cost.
- General and administrative expense connected with the business activity.



- Premium payable on insurance directly connected with the business activity.
- Expenses incurred on connection with the promotion of the business inside and outside the country. Subject to the limits get by the directive issued by the minister of revenue.(IBID)
- Classification of taxes based on their effect on income
- Taxes, based on their impact on income can be classified as progressive proportional and regressive.

**Progressive Taxes:** If the tax system is progressive, the proportion of income taken in tax (the tax rate) rises with income or spending power, here as the income or spending incase, the marginal rate of tax for the increased income or spending also rises. It is also possible to have a progressive expenditure tax where the rate of tax rises with increment to consumption expenditure. There is some empirical evidence that the UK Value Added Tax (VAT) is actually progressive: people with higher incomes tend to increase their spending on items subject to the tax to such an extent that the payment becomes a bigger proportion of income (W.pearce; 1984, 358). In developed countries they use a progressive income tax, for example the USA income tax is the most progressive tax in the world Progressive taxes the most equitable than repressive or proportional taxes in the sense that they are lived according to the ability to pay. Some criticize progressive taxes that too much degree of progression discourages work effort and risk taking, but some egalitarian economists and politicians tend to favors progressive taxes. In Ethiopia some of the progressive taxes are personal income taxes of proclamation 30/1992 and 107/1994 and the rental income taxes of proclamation 64/1993. The income level will be categorized in different income brackets and taxed by progressive rate

**Proportional Taxes:** This kind of tax is a tax whose rate remains constant as the size of the base increases. A proportional tax rate is usually stated as a flat percentage of the base regardless of its size. For example, the property tax usually operates with proportional rates, and the tax might be expressed as 1% of the assessed property. Sales and excise taxes, payroll taxes, and most customs duties are also levied on the basis of proportional rates (Douglas and Green wald; 1983;275). These kinds of taxes in Ethiopia are seen in the mining income tax proclamation 23/1996, which states that both large and small – scale miners shall pay 35% of their mining income.

**Regressive Taxes:** In these kinds of taxes the marginal rate of tax decreased, as the income or consumption increases. This tax has a larger share of income from the low –income tax payer than from the high income tax payer. A tax which is technically proportional in terms of the tax base, can often be considered regressive in teems of tax payers income. Common examples of such regressive taxes are sales taxes, excise taxes and property taxes. For example an excise tax on cigarettes is based on the number of cigarettes sold and thus by definition is proportional since the number of cigarettes consume may rise as income rises, as income rises, however, the rate of the tax decreases with increasing income and thus can be called regressive. The effect of regressive tax is to increase inequalities of income, by placing a larger burden on the poor than of the rich. (Green wald; 1983,1127) Most of the indirect taxes are regressive, for example excises and sales taxes, the same amount of tax is paid per unit purchases. This amount of tax represents a higher proportional of income to the poor. Some people argue that regressive taxes encourage people to work harder to be elevated above the lower income group.

### 5.3 Procedures of Tax Collection

Tax from category “A” and “B”, tax payer is collected based on tax payers declaration of the annual, sales / income to the tax authority. Based on this the authorized official approves the declaration. Following the approved, tax is collected from tax payers and they will be delivered receipt and clearance letter. The tax



assessment for category “C” tax payers is made based on the subjective estimation of daily sales by district assessment committee. After the assessment was made, the committee will decide on the daily or annual sales of the taxes payers while considering different factors which will inters provide a basic in determining the amount to be paid by the tax payer. (Ministry of finance and economic development Addis Ababa 1996)

## Empirical Review

According to Kangave (2005) discussed tax administration in Uganda’s context. It then discussed Uganda’s tax structure, the problems faced in administering taxes, and it gave possible solutions to the problems the author identified in his research. The author, in his research, identified corruption, tax evasion, and inadequate resources for tax administration poor quality of audits and inadequate support for tax administration as problems or challenges of tax administration that have weakened the ability to achieve desired revenue targets. More over, (Harris, 1989). divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation. Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers’ ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003) and (Eriksen and Fallan, 1996) claimed that ‘knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. The research done by Eriksen and Fallan has illustrated the importance of tax knowledge in a tax system, especially in a SAS. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. Eriksen and Fallan’s study is divided into three main parts. Firstly, the investigation is focused on taxpayers’ knowledge. Secondly, the research tries to reveal the overall impact of tax knowledge on tax compliance behavior among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers’ behavior because in SAS, tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system. Coming back to Ethiopian case In terms of tax assessment and collection problems, (Asamenew,2012). found that the major causes are there exist inefficiency and insufficient number of tax assessment and collection officers, most taxpayers lack sufficient knowledge of tax assessment and collection Procedures. Thus, most of taxpayers 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 he recommend that negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. Farther more, (Araya ,2011). found that majority of the respondents have low understanding about their responsibility and accountability in relation to tax collection. As a result, they did not perform their obligations related to tax collection activities, and the required tax has not been collected even from governmental bodies. According to (Araya, 2011). the survey result showed the tax authority of the city administration is not efficient and effective in various aspects such as improving the tax assessment and collection system, creating awareness, enforcing the tax law, providing services, and information regarding tax. Therefore, it is not easy to bring about voluntary compliance and narrow the tax gap; hence, the problems in this regard were visible and needs improvement. Besides, the ( Kwabena ,2011) findings on the knowledge of tax systems revealed that most self-employed are not knowledgeable of the tax system in Ghana. To affirm this internal revenue service organizes educational programmers, for the self-employed category of the taxpayers and find out the possible impact on revenue mobilization from the informal sector. The analyses on education the research shown that, only 27 out of 189 respondents representing 14.3% have received some tax education while the remaining 85.7% have never received any form of income tax education. According to (Hagos,2011)



and (Iemessa, 2007). awareness creation by the authority on taxpayers were rated about 87.8% and 74% of the respondents responded that below enough and poor and this shows that the awareness creation activities of the tax authority were ineffective and inefficient in according to awareness creation. Therefore, they established that the awareness creation problem was a series and the root cause of all problems relating to the tax collection and assessment. Due to this, the authority may not achieve the expected future voluntary compliance in the absence of services along with the taxpayer’s lack of tax awareness. Without educating taxpayers and creating tax awareness, making power visible to the community might detect the deliberate evasions and frauds but not be a solution to create a compliant taxpayer those does not comply unknowingly (Getaneh, 2011). To summarize, the empirical findings found that the determinants of the tax assessment and tax collection problems were lack of equity and fairness of the tax system, low level of awareness of taxpayers, ineffectiveness and inefficiency of tax the authority, poor service delivery, lack of trust of the tax payers on tax collectors and tax assessment system procedures

## 6. METHODOLOGY OF THE STUDY

### 6.1 Research Design

In this study, the type of research was qualitative research design. Qualitative data was collected and analyzed to describe the challenges of Tax Administration in case of Negele town Administration Revenue Authority. And analyzed by using table and narrative form

#### Sample Size and Sampling Designs

There are different tax base and tax payers in the town such as employees and traders. From 2642 registered tax payers in the town the study would be conducted on 156 registered tax payer of all sector from 3 kebeles of the town. Among different sampling techniques the researchers select simple random sampling technique. The sample size (156) will determine by using the following formula which came from statistics subject, as following using 90% confidence level. (Source kotare 2004)

$$n = \frac{Z^2 pqn}{e^2 (N-1) Z^2 pq + e^2}$$

n = sample size

Z<sup>2</sup> = from table of using confidence level

P = probability to be selected

q = probability not to be selected

N = Total population in town

e = error of confidence level

Therefore, the sample size of the researchers is

$$N = \frac{(1.6)^2 (0.5 \times 0.5) 2642}{(0.1)^2 (2642-1) + 1.6^2 (0.5 \times 0.5)}$$

$$= \frac{1690.88}{10.84} = 156$$

10.84

## 6.2 Type of source of data

To conduct this study both primary and secondary data would be collected. The primary data will be collected by using questionnaires from tax payers, employees of revenues bureau and personal interview with the manager of the bureau. The secondary data will collect from the previous year reports of the bureau, from different books, and related published materials.

### Data Collection Tools and methods

Primary data will be collected through questionnaire which includes closed and open ended questions for the tax registered tax payers and officials. The questions prepare for the tax registered tax payers included close ended; that have four alternatives, three alternatives and with two alternatives. On the other hand, some questions designed open and this type of question was prepared to gather information freely which is not covered by the close ended questions. The interview questions were designed only for the tax collection officials and this will be designed to gather information from the respective bodies and to strengthen the data will be collected from tax collectors. An in-depth interview will be conducted on face-to-face.

## 6.3 Method of Data analysis and Presentation

**Table -1:** Interview Result shows the major Determinants of Tax collection in Negele Town

SN	Variables (Items)	Alternative Reasons(Responses)
1	What are the major bottlenecks affecting the collection of tax in the town?	-lack of awareness on the importance of tax -Willingness of getting profit without paying tax -Illegal trade
2	What are the determinants or weaknesses in the side of tax collectors?	-lack of accurate information on the number of tax payers -setting tax without identifying the capacity of the tax payers -un fair treatment of tax payers
3	What are the gaps or weaknesses in the side of tax payers?	-Hiding their annual income and expenditure -Fail to register their sells income and expenditure scientifically -Considering tax collectors as if they punish them -willingness to become profitable in illegal way without paying tax

After gathering the data, quantitative information was analyzed and presented through table, percentage and frequencies and narrative form. Then the data was analyzed by using descriptive analysis method.





## 7. RESULT AND DISCUSSION

Table 1. Interview Result shows the major Determinants of Tax collection in Negele Town

As indicated in the table 1 above, majority of the respondents are revealed that, the major bottlenecks affecting the collection of tax in the town are lack of awareness on the importance of tax, Willingness of getting profit without paying tax and Illegal trade. Farther more, the respondents stated that, the willingness of the tax payers to become profitable without paying tax is resulted from absence of awareness about rules and regulation of tax payers. This resulted in participating in illegal trade. In addition to that, as the observation of the researcher, since the area of the study is located around the border of the country, majority of the tax payers are participating on illegal trade and pay less tax than they earn.

In other words, as shown in the above table of respondents result, the determinants or weaknesses in the side of tax collectors are lack of accurate information on the number of tax payers, setting tax without identifying the capacity of the tax payers and un fair treatment of tax payers. According to the respondents, most of the time the tax imposed on the payers is not considering the capacity of the tax payers. The government is collecting tax without having sufficient information about the annual income and expenses of the tax payers which is resulted in un fair tax collection system

On the other hand, the tax payers revealed that, there is un equal treatment of tax payers by tax collectors. Some payers are imposed less amount of tax where as they impose more tax on other payers. This leads to affect the moral of tax payers who are legally operating their business. Farther more, there is less follow up on those trading on the street illegally which affect those who are trading by keeping the rule and regulations of the government.

In other cases, according to the respondents, the gaps or weaknesses in the side of tax payers are stated as Hiding their annual income and expenditure, Fail to register their sells income and expenditure scientifically, considering tax collectors as if they punish them and willingness to become profitable in illegal way without paying tax. But the tax collectors revealed that now they plane to train and aware the tax payers about the issues seen around the tax payers in order to increase their knowledge which resulted in increasing the amount of tax collected in the town.

## 8. SUMMARY OF FINDINGS

To begin with Governments around the world always use taxation as a means for financing their spending by imposing charges on citizens and corporate entities (Nguyen-phuong, 2022). While doing this, the government has to impose tax on tax payers in order to collect sufficient tax from the payers which enable the government get more revenues to finance various public projects in the country. But, due to various factors, the government does not collect more tax from tax payers and face financial shortage. Accordingly in order to know the determinants of tax collection, the current study focuses on Assessing the determinant factors of tax collection in Negele town Admnstration East Guji Zone of Oromia Region Ethiopia.

According to the respondents response, the followings are the major determinants of tax collection in the study area:

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## 9. CONCLUSIONS

The role of taxation in fiscal policy and the development strategy has to be viewed in the back ground of the function which a taxation system performs, its main function in relation to economic development. To do so, effective and available tax should be collected from the tax payers. How ever there are various constraints that determine the tax collection system. The current study revieled that, the major dinterminants of the tax collection system in the study area were both from the side of tax payers and tax collectors. Determinants of tax collection system in the side of the tax payers are hiding their annual income and expenditure, fail to register their sells income and expenditure scientifically, Considering tax collectors as if they punish them and willingness to become profitable in illegal way without paying tax. Where as determinants of tax collection system in the side of tax collectors includes: lack of accurate information on the number of tax payers, setting tax without identifying the capacity of the tax payers and un fair treatment of tax payers

## 10. RECOMMENDATION

Depending up on the out come of the study, the researcher forward the following recommendations for both tax payers and tax collectors:

The tax collectors (Government bodies) should have sufficient information on capacity of tax payers, aware the tax payers on the rules and regulation of tax, the importance of tax paying for the development of the country, how to registor their annual ncome and expenditure as well as awer them on the problem of illegal trade in the development of the country. On the other hand, the tax payers should increase their motives on paying tax, registor their annual income and expenditure, doing collaboratly with tax collectors and avoid participating on illegal trade

## 11. SUGGESTIONS FOR FUTURE RESEARCH



This study has been done with qualitative approach. However, future researchers can undertake a quantitative approach to understand more determinants of tax collection system. The data was analyzed by using table and narrative form. Therefore farther study by using other statical method may needs to take place to get further result on determinants of tax collection system.

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