

# INVESTIGATING PRINCIPLES AND OBJECTIVES OF OROMIA REGIONAL STATE INCOME TAXES SYSTEMS: EVIDENCE FROM WESTERN OROMIA

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**Abstract:** *The research has been conducted in Ethiopia, Oromia Regional State chiefly, Ambo, Nekemte, Gimbi, Dambi Dollo and Shambu Municipalities. The rationale behind this piece was to inspect the principles and objectives of Oromia region income taxes framework, particularly, business income tax. Likewise, the article was examine whether the regulatory framework on income taxes using at western Oromia is filled with the fundamental canons and objectives of taxation as it affect tax fairness, obedience behaviour, tax morale and tax attitudes in return revenues and expenditures capacity of the governments. For aim of this piece, the researcher was use qualitative research method as it helps to deeply scrutinize and portray issues of Oromia region incomes taxes principles and objectives. The basic sources of data for this piece were constitution, proclamation, prior works, journal articles, Medias report as well as other pertinent website. The major finding of this critique was that the Oromia income taxes laws including business income tax are crammed with basic principles of taxation such as principles of equity, benefit, ability, certainty, economy, convenience, productivity, expediency, neutrality, simplicity and diversity. Accordingly, the objectives of the Oromia region income taxes system are, increases regional revenues, improve the living standard of the communities, equality and equity; encourage private investment, better taxpayers services, reduce harmful consumption, facilitate saving and investment, stabilization of regional economic, enhance regional accumulation of capital, reduction of unemployment; diminish illegal trades, reduce tax frauds; enhance effectiveness and efficiency of tax administrations ,enforcement and implementation of the contemporary system of taxation. However, the researcher was explored that these principles and objectives are not properly implemented in Oromia regional state of Ethiopia specifically, Ambo, Nekemte, Gimbi, Shambu and Dambi Dollo Towns due to tax evasion and avoidance; low compliance behaviour, gloom economy, unlicensed business activities, affiliated business with government officials, corruption, inequality and inequity, inappropriate tax assessments procedures by revenue administers, lack of coordination and communication, lack of knowledges and awareness, mismatch among the number of business activities and revenue collected; inadequate benefit compared to resources and revenues derived from the areas; inappropriate manners ,time and amount of tax revenue; inefficiency and ineffectiveness towards tax administrations; complexities of the income tax system; excessive income tax rate; unsuitable diversification of income tax systems; wrongly interpretation of benefit principles by the merchant and low degree of modern tax systems. Hence, this revealed the existences of ambiguity on the natures and practicality of income taxes policies, principles and hierarchies among the multiple goals and canons of profits taxes framework in Ethiopia and Oromia including western part. Based on the finding the researcher suggested that it is desirable if the governments and revenue authorities at all level works on how to improve the level of implementation of the fundamental principles and objectives of taxation advocated by economist, work with universities and researchers so as to heighten taxpayer's compliance behaviour, tax morale, tax knowledges, perceived fairness and attitudes in response high amount of government's revenues , expenditures and economic growth and developments. Finally, the researcher recommended that prudent if all citizens and business enterprises in the country and Oromia regional state pay proper amount of tax as the tax is crucial to reduce the current economic, socials and political issues.*

**Keyword:** Principles, Objectives, Income, Tax, Systems

## 1. INTRODUCTION

Tax is not a recent phenomenon. For instance, in the Rome Empire the concepts of taxation were originated by Caesar Augustus. At that time municipals administrations had the duties to collect taxes from residents similar to the current municipals administers. During that time the phrase known as “no one can hide from death and tax” was possibly applied because Holy Bible reveal that Jesus Christ and his followers were paid appropriate tax to the king of Roman empire. This reflected that in early days, government’s responsibilities were vey vast and revenues from taxes are recognized greatly from every potential sources and all citizen of the country’s were subjected to taxes. Since, with the progression of time, duties and activities of the governments have expanded ordinarily, the monetary necessities of the governments have likewise ascended to a bigger degree. The incorporation of new capacities left no alternative to the government yet to make more funds in the form of taxes. As, by it’s extremely nature of being a mandatory tax without an immediate quid ace quo (advantage), tax forces a sacrifice on citizens. Consequently, in spite of the fact that the administration has coercive capacity to impose tax on anything on globe and there is no restriction to this power, it is fundamental that specific canons and guide lines ought to be trailed by the tax experts prior to formulating a tax framework, as it has broad consequences for the economy. In the ancient days, the leaders were not expected to defy arbitrarily the basic canons of taxation. At whatever point, the standards of tax revenue collection are alluded to, lion's share of individuals think tightly about the four popular principles of Adam Smith because most of the sound framework of tax is one which clings to these renowned principles. These principles are recognizing as the essential standards of tax levy, assessment and collection in every country all over the world. These have in reality contributed significant benefit in fiscal idea and educating for many years. Therefore, this article was focused on investigating principles and objectives the Oromia regional government income taxes system as it affect the fairness perceptions and tax compliance behaviors of the taxpayers as well as revenues of the governments.

## 2. THEORETICAL BACKGROUND

All over the world, the reasonable implementation of specific country taxes structure are mostly measured by the four Adam Smith 1976 and Stiglitz's 1980 as well as advocated by others economists. Therefore, the two theories, namely Adam Smith and Stiglitz's are indicated the features of superior tax structure from the prospective of revenues administrations and taxpayers. Subsequently, this study aimed to explore these canons together with tax principles originated by other economists so as to measure whether the income taxes basically business income tax of Ethiopia and Oromia regional state applying in Ambo, Nekemte, Gimbi, Dambidollo and Shambo municipalities are realized them.

The first principle notify that the amount of tax levy on the taxpayers shall be certain and objective with regard to the period, modes, place and amount of tax disbursement. In other words, it should be unambiguous and unadorned to the providers as well as to all other interest bodies. The second principle stresses that the period, modes, amount and the processes of tax collection must be convenient for the providers to disburse it. For example, it is more favorable to collect profit tax from profit taxpayers where and when they obtain more revenues via the electronic payment systems and cheques. The third canon explains that the tax must be collected at low cost or economically. Likewise, the huge sum of government revenues collected from the tax must be used in efficient, effectiveness and economic ways in order to boost economy of the country. The fourth standard of taxation describe that tax systems must be preserve the capacity to disburse and benefit received then equity among the taxpayers (Smith, 1976). Furthermore, Stieglitz (1980) advocated five fundamental canons of taxations specifically, economy, simplicity, flexibility, transparency and fairness that are used to measures the adequacy of particular country's the tax rules. Accordingly, these canons elucidate that a good tax rules ought to maintain suitable economy, efficient and effective distribution of the resources; simple and not costly to manage; elastic with financial conditions; tax liability must be known to taxpayers and it ought to be fair to the contributors. According to Rosume (2005) the fundamental functions of taxation are allocation and redistribution of resources in the economy ways and stabilization of the economy of the nation. Thereafter, the ideas and hypotheses of tax collection are not just focused on raising huge sum of revenue for the administration yet in addition took legitimate consideration of the social equity and welfare of the general population.

While these are the facts regarding the role of tax principles and objectives in boosting the revenues and expenditures capacity of the government as well as the degree of taxpayer's compliance and fairness perceptions little were done on the incidence and effectiveness of these principles in Ethiopia, Oromia region income tax laws ,specifically, business income tax. Thus, researcher has been motivated to examine the canons and objectives of Oromia regional state income taxes systems, particularly, the business income tax structure evidence from selected towns of western Oromia. First, it focused on examining objectives of the Oromia region income taxes laws, mainly, business profits tax regulatory framework which are used in Western part. Second, it explored the theories of tax principles and identified the basic principles of the income taxes rules, expressly, business income tax rules evidences form Western area.

## 3. RESEARCH METHODOLOGY

### 3.1. Research Design

The study was use a qualitative research approach because it is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives. Subsequently, the researcher has been used this approach as it helps to scrutinize and reveal the matters of Oromia regional state income taxes principles and objectives properly. Moreover, the investigator was use qualitative research method so to qualitatively examine and describe the issues of principles and objectives of Oromia region profits taxes frameworks.

### 3.2. Data and Sources of Data

For the intent of this piece, the researcher has been utilized secondary sources of data. Accordingly, the basic sources of data for this critique were constitution, proclamation, prior works, journal articles, Medias report as well as other pertinent websites of Ethiopia and Oromia regional state revenues authorities.

## 4. RESULTS AND DISCUSSION

### 4.1. Critical Objectives Of Income Tax Systems

Normally, taxes are the legal requirements that all taxpayers must pay within specified period of time for the purposes maintaining peace and security; public goods and services; ensuring economic stability; narrow the gap between rich and poor. As a consequence, to date governments demands high amount of incomes from direct and indirect taxes relative to prior periods because the desire of the citizens' is highly depends on technology, unemployment, sever inflation, epidemic diseases and complex nature of the security. The major sources of revenue for the government are direct taxes where business profit tax has a lion's share. Accordingly, next to employee income tax business profit tax is the principal sources of government revenue in Oromia, specifically, Western area.

The Oromia National Regional State's Revenue Authority has its own mission, visions, values and mandates. Accordingly, the mission of the Oromia revenue office focus on improving taxpayer's voluntary obedience, retain honesty, enhance the knowledge of the personnel's, modernizing and harmonizing the tax management systems, increase revenue and expenditure capacity of the state that enough to sustain the growth and development of the economic.

The vision of the office is deals with facilitating fairness and implementing contemporary tax systems throughout the region including Ambo, Nekemte, Gimbi, Shambo and Dambidollo towns. The basic values of the authority are serving the taxpayers in

line with trust, respect, honest, protect, and support; enforcing tax rules; professionalism, team work, integrity, accountability, transparency cooperation and coordination. Subsequently, the office is targeted to offer TIN for the taxpayers; issue certificate on VAT for an appropriate taxpayer; grant the right to print invoices; BPR, tax clearance and training for taxpayers on tax matters ([www.oromiyaa.gov.et/web/revenu-biro1](http://www.oromiyaa.gov.et/web/revenu-biro1)).

Oromia regional governments imposed and amassed taxes including business profit tax to preserve domestic and international issues. In view of that, a critical examination of the objective and principles of Oromia regional government business profit tax rules that implemented in Ambo, Nekemte, Gimbi, Shambo and Dambidollo towns are mandatory. Because if the legal frameworks on business income tax system is lack the basic principle and objectives of taxation it become vague to the users and affect their fairness perception and compliance behaviour as well as government revenues and expenditure. Therefore, the researcher looked at other pertinent files indicates the objectives and principle of taxation in which business profit tax system is not peculiar.

Broadly, the overall objective of the current income tax systems, specifically, business profits tax regulatory framework of the Oromia region that are practicing in Western part was designed to increases regional revenues, improve the living standard of the communities, equality and equity; encourage private investment, taxpayers services, reduce harmful consumption, facilitate saving and investment, stabilization of regional economic, enhance regional accumulation of capital, reduction of unemployment; diminish illegal trades, reduce tax frauds; enhance effectiveness and efficiency of tax administration, enforcement and implementation of the contemporary system of taxation (Oromia Revenue Authority, Tax Law Booklet in English, 2008).

However, most of these objectives are not properly applied in Western part of Oromia Regional State. For example, though the government is targeted to raises profits taxes to maintain economic growth and preserve the peace and stability, the facts on the ground is outrageous. According to the current Oromia regional government's taxes report, the local governments were not collected profit tax as planned from business income enterprises and individuals traders because of shadow economy, tax evasion, avoidances and low degree of business income taxpayer's tax compliance behaviour. Additionally, the report of revenue department at all level revealed that for the last decade the amount of revenue collected from these traders and enterprises are relatively low compared to the number of business organizations resides in Ethiopia in general and selected towns of Western Oromia region in particular. Indirectly, it means that the region and the towns administrations are not achieve the desired goal of business income taxes regulatory framework for the last fiscal periods. For instance, the prime minister of Ethiopia sadly expressed that the ratio of tax to GDP is only accounted to 10% which even less than other African countries.

Furthermore, the administrations at all level of Oromia are disputing the number of business organizations and degree of actual revenue collected from theses enterprises specifically western parts. As a consequence, the local governments are facing shortage of funds, incapable to preserve security of the citizens, sever poverty, huge gap between rich and poor citizen, high unemployment, enormous illegal trade, tax scams, inefficient and ineffective administration of taxes, low degree of taxpayers services, unfair enforcement by some tax officials and low extent of modern tax systems are remain nuisance to the government of Ethiopia expressly Oromia region including Ambo, Nekemte, Gimbi, Shambo and Dambidollo Towns. For instance,

Honorable Ms. Adanech Abebe who is the Ministry of Revenue vowed that ERCA is not collected the planned tax revenues for the first quarter, particularly, from large group of taxpayers because of disappearance of cash register machine; unable to determine appropriate taxable income; shadow economy; corruption and provision of inaccurate invoices; lack of proper tax audit functions; inadequate supervision; lack of communication and coordination among the authorities (Official Facebook of OBN Afan Oromo October 31, 2011/2018 at 7:48AM). Subsequently, she explained that out of the fifty four billion and eight hundred thousand Ethiopia Birr targeted to collect in first quarter the Authority is only collected forty four billion Ethiopia Birr (the Reporter Amharic version, 2018).

Likewise, the prime mister of the country Honorable Doctor Abiy Ahemed on the Tax Movement Conference held in Addis Ababa on December, 2018 with prominent business men vowed that the government is not collected business profit tax from all business enterprises and individuals traders in habited in the country because of low compliance behaviour, illegal trade, unlicensed business, affiliated business with government officials, corruption, inequality and inequity, inappropriate procedures by revenue administers, lack of coordination and communication, lack of knowledges and awareness, mismatch among the number of business men and revenue collected (OBN Afan Oromo December 22, 2018 at 1:09 AM). In other work, he was notified that the low level of tax collection damaged the level and quality of public goods and services; capital accumulation of the state then economic growth and development in the country where Oromia regional state specifically, Ambo, Nekemte, Gimbi, Shambo and Dambidollo not an odd (EBC News December 21/2018 at 10:30Pm).

Moreover, even if the Ethiopia and Oromia regional governments are endeavor to maintain equity and equality among the peoples and taxpayers; preserve security of the nations; mitigate taxes frauds and shadow economy as well as reduce unemployment rate through better income tax system, they are remaining the critical agendas of the conferences and Medias. They are lingering chronic to the country and regional social, political and economic developments. For instance, the very recent reports of the Minister of Revenue, Revenues and Customs authorities attested the presence of low degree of revenue collections, higher level of shadow economy, corruption, tax avoidance and evasions. Thereafter, the Ministry of Revenues indicated that the Revenues departments are only collecting taxes including income taxes from 60% of the taxpayers. This means, about 40% of the taxpayers knowingly or unknowingly excluded from tax group and tax disbursement. With reference to economy gaps among the people; unemployment rate and security of the nation, the issues are worse in Oromia Region, chiefly, Ambo, Nekemte, Gimbi, Shambo and Dambidollo municipalities. Hence, the researcher recognized that the degree of accomplishing the fundamental objectives of taxations, specifically, income taxes systems in Ethiopia and Oromia regional state are scanty. Generally, these are acknowledge how much the governments and revenues administrations department's at all level incorporating western Oromia are facing difficulty in achieving the fundamental objectives of taxation.

#### 4.2. CANONS OF OROMIA INCOME TAXES SYSTEMS

Numerous tax administrations in both advanced and developing countries have adopted basic principles of tax for intent of increases efficient and effectiveness in tax administrations. The income taxes, primarily, business profits tax system of Oromia regional is acknowledged the canon of capacity, certainty, connivance, equality, economy, productivity, simplicity and diversity of Adam Smith (1976) and others. So, the business income tax systems of Oromia region is designed in line with the 1976 Adam smith canons of taxation and others ground principles.

#### 4.2.1. Ability to pay principle

Ability to pay principle states that each individual must pay relative to his/her ability to pay to the governments. This principle intended to boost the perceptions of the taxpayers that he/she has involves equal forgo in paying tax. Accordingly, the notions of the ability to pay relay on the significant idea of fairness in taxations and indicated progressive kind of tax. It explains that the amount of tax must rise with the increase in profits and vice versa. In the words, Adam Smith (1976):

"The subject of every state must to contribute towards the support of the government as early as possible in proportion to their respective abilities that is in proportion to the revenue which they respectively enjoy under the protection of the State".

This statement indicates that business profit taxpayers with a high capacity to disburse must disburse high profit tax and vice versa. In context of this study, business profit taxpayers with a high ability to pay must pay more profit tax. Accordingly, category "A" business profit taxpayers must pay more profit tax than categories "B and C" business income taxpayers. Similarly, category "B" business income taxpayers ought to pay more profit tax than category "C" business profits taxpayers. Thus, this revealed that the business income tax structure that is under use at western Oromia is in accordance with ability to disburse principle.

This principle realizes fairness based on absolute, proportional and equal sacrifice approach. It suggests that all taxpayers should bear an equal sacrifice in the payment of taxes. This principle of equity or principle of equal sacrifice in its barest form asserts that similar persons should be treated similarly or individuals of equal ability to disburse should be taxed equally. Therefore, this principle is recognized based on the three fundamental forgoes principally, absolute, proportional and marginal equal sacrifices.

Albeit the top up revised income tax laws of Oromia region has realized the principle of tax fairness hitherto the problem is involves in Western part, because the government extremely widen the business profit tax base, tax bracket and tax rate to facilitate economic growth and development as well as income of the government. For instance, in the year 2016 the Oromia regional government upwardly reforms the business income tax structure so as to increases revenues productivity and upholds the economic growth and development. In real income tax systems the government must match revenue productivity principle with equity, ability to pay convenient and benefit obtained otherwise it damage fairness of the tax. As a consequence, category "A" increased from 500,000 to over 1,000,000 Ethiopia Birr; Category "B" increased from 100,000 to more than 500,000 but less than 1,000,000 and Category "C" raised from less than 100,000 to more than 1,00,000 Ethiopia Birr but less than 500,000 birr. Conversely, this upward reform critically condemned by politician and tax professionals as it damage principles of tax equity. If one can compare the capital and the annual turnover of the taxpayer's with the incremental rate it is very complicated and reflected that the government highly focused on revenue productivity principles. This canon states that government must focus producing more revenues from small number of taxpayers so as to decreases the cost of collection.

Let see the impact of upward amendment of the business income tax structure purposely category "A, B and C" business profit taxpayers on the canon of equity, ability to disburse, convenient and tax compliance behaviour. Like I said before, the category "A" business income taxpayers represent those taxpayers their annual revenue is more than one hundred thousand Ethiopian birr while category "B" represent business profit taxpayers whose their annual revenue is more than five hundred thousand Ethiopian birr. On the other hand, category "C" business income taxpayers indicate those taxpayers their yearly revenue is more than one hundred thousand Ethiopian birr but below five hundred thousand. The extent of increment is revealed in the below table.

Table 1

The impact of the 2016 change in profit taxpayers tax category				
Category	Before	Now	Differential	Remark
A	>500,000 EBR	>1,000,000 EBR	500,000 EBR	Excluded 500,000 EBR
B	>100,000 EBR	> 500,000 EBR	400000 EBR	But less than 1000,000 EBR
C	<100,000 EBR	>100,000 EBR	100,000 EBR	But less than 500,000 EBR

As indicated on the above table, category "A" business taxpayer's income tax structure increased from the previous more than 500,000 Ethiopian Birr to 1,000,000 Ethiopian birr which showed incremental tax revenue of 500,000 Ethiopia Birr. This mean that, the business income structures of category "A" profit taxpayers is augmented by at least 100% in one fiscal period. The tax bracket of category "B" business profit taxpayers augmented from the prior greater than 100,000 Ethiopian Birr to 500,000 Ethiopian birr. As a result, it pointed out differential tax revenue of 400,000 Ethiopian Birr. Similarly, is increased by 40% in single tax year.

Regarding category "C", the issue is too worse as the amount is increased from prior below 100,000 Ethiopian Birr to more than 100,000 Ethiopian Birr. However, at the time of income tax revision, the revenue of these taxpayers was critically decreased due to persistent inflations, political instability and market boycott throughout the region exceedingly in Ambo, Nekemte, Shambo, Gimbi and Dambidollo Towns.

For instance, the political parties, activists and practitioners argued the reform as it made quickly to overcome the deficiency of the finance that the government faced due to sever political instability, economic distress and shortage of international aid. Also, these stakeholders disputed that the government simply made the reform to encourage economic growth and developments disregarding the basic principle of taxation. For example, one of the merchant in Nekemte municipal complained that "the revenues department mechanically increased my taxable income from previous year of 1,200 Ethiopian Birr to 32,000 Ethiopia Birr with no concrete evidence." Thus, the income tax structure of this taxpayer was robotically increased by 30800 Ethiopian birr in specific fiscal period. Similarly, many traders have been expressed their angry saying "*Mootummaa keenya gibira humnaa olii nutti fe'uudhaan gabaa keessaa dhiibee nu basaa jira.*" Literally, it means that "Our own government enforces us to refrain from the market by imposing surfeit profit taxes on us."

This mean that, taxpayers whose their actual annual incomes are less than 1,000,000 Ethiopia Birr are required to pay at the rate of more than 35%, while they are actually subject to ether "B or C". Afterwards, taxpayers whose their actual annual revenues are more than 5, 00,000 Ethiopia Birr are required to pay at estimated rate. Although the business profits tax system is

recognize the concept of ability to pay, yet most of the profit taxpayers in Oromia mostly, Ambo, Nekemte, Shambo, Gimbi and Dambidollo towns are paying business profits taxes beyond or else less than their capacity due to the inapt grouping of the taxpayers. Most of the taxpayers' believed that this matter is happened due to malpractice by some tax collectors and estimators during tax assessments and declarations.

In connection with this, Lenco (2014) stated that the scheme to address fairness in the Ethiopia tax rule and regulations is frequently impaired because it was made to boost the incomes of the government, facilitating investment and sustaining growth of the economy. Even if the ability to pay principle is one of the fundamental goals in the Oromia tax rule and regulations the practice is debatable. AICPA (2007) explained that tax rule and regulation of one country must consider the situation of income and wealth; misery and fluctuation at the time of tax reform in view of the fact that the income and wealth of the taxpayers can increases or decreases by unforeseen factors. Hence, the researcher postulated that the current business income tax systems of Ethiopia and Oromia region to certain level blighted principle of ability to pay.

#### 4.2.2. Benefit principle

The benefit principle divided as cost and value services principles. The former principle state that the taxes must be shared relative to the expenditure of services provided by the government. The later principle pointed out that, a person must pay relative to the value of the services he/she has obtained from the state. This principle maintains tax fairness based on the advantage (security, health and educational services, infrastructure and irrigation) that the peoples received from the state. By the same token, higher the benefits obtained; higher must be the sum of tax on the recipient concerned. Accordingly, this principle entail that the revenue departments must recognize exchange fairness and distributive justice theory at the time of levy the taxes.

According to the FDRE constitution article no. (100) sub article (2) both level of governments required to identify whether the taxes that they have been imposed consider benefit obtained from public goods and services (security, health and educational services, infrastructure and irrigation). Conversely, Lenco (2012) stated the constitutions and proclamations do not indicate the ways that the taxpayers normally confront real taxes if they are not receive benefits from the governments in response to the amount of taxes that they have been disbursed. As a result, many people in Ambo, Nekemte, Shambo, Gimbi and Dambidollo Towns are criticizing their government due to inadequate benefit compared to resources and revenues derived from the areas. Similarly, various professionals in the area disputed the futility of benefit principle as it is nil more than clemency in the tax laws with few value on the position.

This is evidence for infringe of the ideas of benefit principle in Oromia regional state in general and Western part in particular. The other indicator for the impairment of benefit principle in west Oromia is that numerous authorities and merchants in Ambo, Nekemte, Shambo, Gimbi and Dambidollo Towns are wrongly infers it. For example, several individuals and private limited companies inhabited in study areas are disputed the concept as follows:

“Since I registered and licensed my business at the federal government I am not disburse profit taxes to the local government revenue authority”.

“Because I obtained TIN from Other regions I am not disburse to this revenue authority”.

“If not I get services from this town I am not pay profit taxes here”.

“As I registered the head quarter of my company in other tax environment I am not pay profits taxes to Oromia and local government”.

But according to the benefit principle it is a must for these individual and organizations to disburse their profit tax at these town's revenue authority because there are several public goods and services that they are receiving from Oromia region and towns. Simultaneously, there are many situations (for example, security services, roads services, health services, light, telephone, sewerage services and other infrastructures) where it is difficult to debarred none disbursing entities from getting the services. Thus, it is must for these traders and business enterprises to disburse appropriate profits tax for the public goods and services that they are obtaining from theses municipals since it would be complex to refuse to offer these kinds of services to them.

#### 4.2.3. Principle of convenience

Principle of convenience is the other the principle that the researcher is identified in the business income tax system of Oromia region. By this principle, Smith means that,

“All tax must be imposed on the taxpayers in right time and places using right methods in which it is very convenient to them and administer too.”

In the context of this paper, the Oromia Revenue Authority must be levied income tax on the business profit taxpayers in time and manners in which it is convenient to these taxpayers. This principle is focus on the application of appropriate subject of taxation and the choice of proper time for the tax collection. Also, it states that the tax must be levied and collected in a convenient way to the taxpayer in all matters. Thereafter, the tax must be levy and collect from the profit taxpayers when they derived significant amount of revenues via online tax system.

According to the Oromia income tax proclamation No. 201/2016 category “A” business income taxpayers require to pay profit tax within four months from the end of the taxpayer's tax year and category “B” taxpayers compel to pay within two months from the taxpayer's tax year. Lastly, category “C” business income taxpayers require to pay between the months of July 1 to July 31 of every year. However, some business profit taxpayers in Western Oromia questioned the time, place and method of income tax payment due to unpredictable nature of their business activities; distance of revenues offices, shortage of infrastructures and inappropriate mode of disbursement.

To end with, most of the business profit taxpayers criticized the manners that the revenue offices apply at the time of assessing and collecting profit tax; making administrative decisions on tax matters, issues of TIN and tax clearing because it take them more days to pay their tax obligations, to know the decisions passed by tax administers; TIN and to get tax clearance form. For example, those business man and enterprises engage on coffee trade and agricultural products generated more amount of revenue between the months of November and March. But they ought to pay their profit tax probably between the month of July and September of the fiscal year. Thus, these conditions affirmed the presence of inconvenience to the profit taxpayers Western Oromia mainly Ambo, Nekemte, Shambo, Gimbi and Dambidollo Towns towards tax assessment procedures, methods and period

of disbursement. With reference to this, Smith (1976) explain that if the periods and methods of tax collection are not match with the time a taxpayer earned more amount of income the possibility of tax avoidance and evasion are high.

#### 4.2.4. Canon of Economy

The present Oromia business income tax system also documented the canon of economy. This stresses that the smallest probable sum of money must be used for the purpose of collection of taxes. By the same token, most portion of the compilation must be transferred to the state funds. Smith (1976) notified that "each tax revenue should be so contrived as both to take out and keep out of the pockets of the people as the little as possible over and above what it brings into the public treasury of the state". However, the present Oromia regional state business income tax report indicated that the state is not collecting the planned profit tax due to frauds and illegal trades within the region. Concerning this, the president of the region explained that there is plainly few amount of money in the treasure of the regional governments that was collected from the taxpayers. This means that, the maximum amount of the funds derived in the form of profit taxes are used for other purpose such as collection and administrations of taxes. Moreover, he disclosed that to date only the smallest amounts of the funds are transferred to the regional state treasures (OBN TV, 2017).

Generally, this canon express that the cost of tax collection must be small in amount in order to increase efficiency and effectiveness towards tax administration. Accordingly, this principle is harm if the revenue authority incurs high amount of administrative costs such as: high allowances, superfluous meeting and consume more proportion of tax revenues.

#### 4.2.5. Canon of simplicity

Income taxes systems must recognize canon of simplicity to make the tax rule and regulations easy and understandable to the taxpayers and stakeholders. For the intent of improving the level of understanding of the taxpayers on the legal documents, evaluating and computing the taxable income, the tax system must be simple and understandable. Similarly, it reveals that the tax rule must moderately easy, unadorned and comprehensible to the taxpayers because complex and awkward tax rules cause coercions , frauds , enforce the taxpayers and revenues authority to spent more of their time and efforts on none value added activities and increases tax administration expenses. Hence, disregarding this principle in given tax system causes errors and irregularities towards assessment and disbursement of the business profits tax. Alternatively, it initiates the taxpayers to coercion and harsh penalties.

With reference to the Oromia business profits tax system, the researcher found a number of complexities on the terms, words and sentences that were used in the business income tax systems (for instance, business activities, schedule, gross, deductions, income, property, tangible and intangible assets and depreciation) relative to the knowledges of both profit taxpayers and some tax administers. For example, for the purpose of simplicity the Oromia Revenue Authority made proclamation No. 203/2017 that clearly reveals the major concepts and ideas used in connection with tax administrations. Moreover, the Ministry of Revenue via OBN on January 23, 2019 at 10:59pm affirmed that complexity of the tax administration structure and laws are the major challenges impaired tax collections in the country where Oromia regional government is the one. In spite of its complexity the legal framework and the structure of the revenue authority designed and structured in the way it provides an opportunities and benefit for certain tax administrators and affiliated companies with them. Hitherto the some dilemmas are exists in Ambo, Nekemte, Shambu, Gimbi and Dambidollo Towns towards complication of business income tax system.

#### 4.2.6. Canon of certainty

The recent business income taxes systems recognize the Adam smith (1976) canon of certainty. Smith (1976) notify that the amount of tax that the taxpayers require to disburse must be certain and logical to them. In the same way, the period of assessment, disbursement, methods of disbursement and accounting systems must be certain, understandable and clear to the taxpayers. Hence, this principle helps to boost the extent of tax compliance and tax fairness by vacating every doubt in the discharging their tax obligation.

Regarding this, the income tax proclamation No 202/2016 clearly indicate the period of tax declaration , tax assessments, tax payment, types of report to be provided by the taxpayers and the rate of income tax. But certain taxpayers, specifically, category "A, B and C" business profit taxpayers such as micro and small scale enterprises have been questioned method of assessment, auditing, time of declaration and procedure of tax disbursement.

#### 4.2.7. Principles of productivity and diversity

The income tax systems of the region ensure the principles of productivity and tax diversity. The former principle states that one tax laws must generate adequate tax revenues to the state. Despites, the tax systems must facilitate productivity through reducing consumptions and enhancing work, saving and investments. Accordingly, one of the objectives of the Oromia business profits tax system is encouraging economic growth and development through increasing the level of investment and saving as well as reducing shadow economy. Albeit, the existing profits tax rule is reformed to encourage productivity, economic growth and developments yet the level of productivity in the region was diminished as results of gloom economy, market boycott and political instability.

In the same way, this canon realized that the tax system shall generate adequate revenue for the governments because currently the government expenditures are augmenting as a result of its diverse functions. Moreover, this principle states that the government must choices a little tax that yields more revenues at low cost of collection. Accordingly, the hub of this principle is generation of more sums of revenues disregards its impacts on production of state economy. This is one of the areas where the Ethiopia exclusively Oromia states are face challenges as they had been increased the structures of income taxes to improve productivity of revenues demanded by the economy. They faced challenges from taxpayers and practitioners because this canon focus on generating high degree of state's revenue though levying high taxes and incorporating diverse persons which are against canon of fairness and capability to pay the tax.

The second principle is focus on diversifying tax systems. The principle expresses that the tax systems of a country must be diversify in nature in order to allocate the tax burden against the whole people. According to this rule, the burden of taxes must be widening with the intention to include all individuals under particular tax bracket. Equally, the burden of the tax must be diversifying so that all individuals must disburse according to his/her capacity and ability to disburse. So as to realize this principle, the regional state inflicts both direct (business income taxes, employees income taxes, withholding tax, rental income taxes, agricultural income taxes, petroleum and mining income taxes, income taxes foreign exchanges, income taxes sea and inland transport) and indirect taxes ( excess tax, customs duties, turnover taxes, and VAT. Nevertheless, relative to other African countries the business profits taxes system of Ethiopia in general and Oromia region in particular is not well diversifying. For example, the business income tax system of Oromia regions disregards many NFP and unlicensed business entities engaging on business type activities. Regarding this the Ministry of Revenue through OBN on January 23,2019 at 10:59Pm disclosed that the narrow base of the income tax system is one of the critical factors harm the tax revenues because recently the revenue authority collecting the income taxes and other only from 60% out of the whole business enterprises and individuals traders. This revealed that the revenues department not collects business income tax and other taxes from 40% of the business enterprises and individuals traders due to the narrow base of the taxes including profit taxes. By the same token, the tax systems condoned huge number of taxpayers including individuals' traders and business enterprises which are required to pay the tax. Therefore, this assured that the current business income tax system of the region and country are not well diversified though the principle is placed in the tax legal documents.

#### 4.2.8. Principle of Coordination

The other canon of taxation that the study was explored in connection with business income tax rule of the region are principle of expediency and coordination. In view of that, the former principle indicates that, a tax must be imposed on the taxpayers after realizing all positive and adverse issues such as: economic, political and social matters. So, the 2016 income tax explicitly, business income tax reform made by Oromia Revenue Authority was not properly maintained principle of expediency as it made at the time of sever economy, political and social conditions.

The principle of coordination clarifies that appropriate coordination among stakeholders must be strong in order to boost tax compliance. In the context of Ethiopia, there should be strong coordination among the federal and regional revenue authorities. Likewise, there should be vigor coordination and communication between the Oromia regional revenue offices including west Oromia branches. Thus, poor coordination and communication among various levels of revenue departments pertaining to impose and collect profit taxes is critically affect tax fairness, tax compliance and government revenues. Besides, this condition currently provides opportunities for the fraudsters and illegal traders which are critical paralyzed the revenue and expenditure capacity of the federal government as well as Oromia regional state including western part. With reference to this, Ethiopia Ministry of Revenues notified that one of the causes for low collections of revenues in the first quarter of 2018 was unhealthy communication and coordination among the revenues authorities. The office realized that weak coordination and communication among multiple levels of revenue departments in the region is increase the possibility of tax evasion and avoidance.

#### 4.2.9. Principle of tax equity

The regional income taxes systems apply principle of tax equity but the taxpayers dispute the unproductive of it. This principle impaired as result of tax frauds and errors committed by the revenue authority regarding income tax declaration, assessment, computation of daily income taxes , determining group of the taxpayers and inappropriate penalties. For instance, taxpayers in similar level of annual taxable income asked to pay differently due to bribes, corruptions, friendship, political powers and political ideology in the region. As a consequence, certain dimensions of tax fairness such horizontal, vertical, retributive ,personal , administrative and exchanges fairness are to some extent violated in the region specifically in Ambo, Nekemte, Shambo, Gimbi and Dambidollo municipal administrations. In addition, one of the points that justify the defect of principle of equity in west part of Oromia is that most of the government revenues are collected from governments employees. This disclosed that, most of the businesses profits taxpayers in these cities are reduce tax incomes from their book of accounts. Moreover, lack of standard assessment and self-assessment concepts towards micro and small scale enterprises are one of the issues that affect the rule of tax fairness in Oromia region, primarily, West Oromia.

Also the regional business profits taxes system is disclose principle of neutrality. These models tell that the taxation rules should free from any unfriendly outcome influences the fairness and value of the tax framework. At the end of the day, the duty frameworks must not make any deflationary or inflationary impacts in the economy of the nation. It expresses that the duty frameworks must be balanced out the economy of the land. In Ethiopia and Oromia area this standard is hindered as a result of the motivator and duty shield that was accommodated financial specialists includes on assembling, horticulture and fares by the government. Additionally, it is damaging in Oromia local state in light of the fact that a large portion of the administration that are including on business type functions are ignored installment of their proper business income tax. Overall, the present business profits tax law of Oromia region comprises the fundamental principle of taxation pushed by Adam Smith and different financial experts. In any case, numerous citizens and taxation experts have question whether these standards of tax assessment made in a helpful and down to earth suggestions under the entire tax matters. Afterwards, it is very questionable to observe whether all these principles are appropriately implemented in the Oromia tax environment mostly western Oromia. For that reason, the study was investigated functioning of these principles are dodging over what the canons uttered, the administration and enforcement of income taxes at the place. The study is explored the existence of critical gaps between what the principles supposed and the practice at the position.

This is probably why the current political, economic and social turmoil outbreak in the region over the new income tax proclamation No. 202/2016 and tax administration proclamation No. 203/2016. Thus, one can concluded that most of the canons of taxations present in the income tax systems linger on the paper with no actual practices on the ground. Furthermore, most of these types of strategies are mysterious in Oromia region in particular and Ethiopia in general. Apart from few quiet positions to business income tax laws at the time of income taxes improvement, disputes resolution, the structure of business profit tax and principles of taxation in Oromia Region is meek and conceivably unproductive. Therefore, the currents profit tax disputes and shortages of fund including Ambo, Nekemte, Shambo, Gimbi and Dambidollo municipals administrations are acknowledges the

incidence of doubt pertaining to Oromia business income tax laws and principles which are used at selected areas of Oromia national regional state.

Thus, the study observed that, the current business profits tax revision by the Oromia Revenue Authority is to some extent harm the principle of equity, convenience, certainty, and ability to pay principle because it is impractical to increases the tax rate by huge amount during social, economic and political distress. Moreover, it magnifies the presence of problem on procedures that the revenue authority uses to assess and estimate the daily sales in Ambo, Nekemte, Shombo, Gimbi and Dambidollo cities. Lastly, the researcher expected that upward reform is decisively condemned by business profits taxpayers realizing that their tax obligation was beyond their ability.

## 5. CONCLUSION

The goals and canons of the regulatory framework of Ethiopia and Oromia income taxes systems, mainly, business income taxes are to boost customer's services, government revenues, tax efficiency (collection) and inspire consciousness within the taxpayers of funding public expenditures. The Oromia National Regional State declared that their mission and objective for introducing modern tax systems was to give taxpayers better equity, conveyance, augmented benefit, certainty and simplicity. Accordingly, the overall objective of the Oromia Regional State's Revenue Authority is focus on improving taxpayer's voluntary obedience, retaining honesty; enhancing the knowledge of the personnel's and taxpayers; modernizing and harmonizing the tax systems, increase revenue and expenditure capacity of the state ; sustaining the growth and development of the economic; improving the living standard of the communities; encouraging exports and import; equality and equity in the region; encouraging private investment, reducing harmful consumption; enhancing regional accumulation of capital, mitigating of tax frauds and shadow economy; enhancing efficiency and effectiveness in tax administration; better taxpayers services; professionalism, team work, integrity, accountability, transparency cooperation and coordination.

The income tax systems including business income tax rule of the regional state is recognize basic principles of taxations such as, principles of equity, ability to pay, economy, simplicity, neutrality, certainty, productivity, tax diversity, expediency, coordination and benefit principle. However, these principles are not properly applying in the region ,largely western part such as Ambo, Nekemte, Shombo, Gimbi and Dambidollo towns due to malpractices during tax assessment, declarations and collection of profit tax; most of the government officials who are engaging on business activities are not paying their appropriate profits tax and their participation of shadow economy; complexity of the profits tax system; inadequate efficiency and effectiveness in tax administration; frauds and illegal trades; wrongly interpretation of benefit principle; mismatch between benefit and contribution in the area; weak taxpayers services; lack of communication and coordination among revenue authorities; inappropriate assessments and estimations procedures of daily sales, narrow tax base and upward revision of the business tax rule at the time of political and economic distress, tax incentive and tax shelter for particular group of taxpayers.

As a consequence, the researcher concluded that the aforesaid parameters are the fundamental causes for the ambiguities and antipathies on the nature and practicality of tax policies, principles and hierarchies among multiple goals and principles of profits taxes in region, particularly, Ambo, Nekemte, Shombo, Gimbi and Dambidollo towns. The differences in profits tax burdens among the various schedules of the Oromia regional income tax systems including business profit tax are worse. Subsequently, the researcher generalized that, unseemly implantation of these principles and goals in Oromia region particularly, western part are possible distress the degree of perceived tax equity and tax compliance behaviour in return revenue and expenditure capabilities of the regional governments and municipals administrations.

## 6. RECOMMENDATION

- ❖ To the government and Oromia Revenue Authority including Ambo, Nekemte, Shombo, Gimbi and Dambi Dollo town's divisions, advisable if they will be properly implement the basic principles of taxations such as, principles of equity, ability to pay economy, simplicity, neutrality, certainty, productivity, diversity, expediency, coordination and benefit principle to conquer the current income taxes, particularly, business profits tax related matters in the region. By the same token, sensible if the government will be emphasized on fundamental canons of taxation at the time of business income tax revision than only focusing on generating more amounts of funds to surmount the shortage of finances; sustain economic growth and development. Further, the researcher recommended that ability to pay, benefit, equity, certainty, convenience and economy principles are extremely imperative and become the major determinants of addressing the short and long term economic, social and political objectives of the governments through enhancing the degree of tax revenues and reducing shadow economy and tax fraudsters.
- ❖ In order to address certainty principles the individuals and business enterprises wholly informed about the time, place, who disburse the taxes and the amount of tax that they will be paid. In the same way, the correct, uncomplicated and certain tax laws must be provided to the taxpayers in efficient and effective ways so as to diminishes difficult towards the ideas of tax

rule and misconceptions. Specifically, advisable if the government and revenues authority make special code of practice indicate details the informations that the taxpayers can expect so as to aids to reduce uncertainty and ambiguities. For instance, Lymer and Oats (2008) recommended that to be certain and clear to the interest parties the financial information and activities must be provide ahead to accomplish the desired objectives of taxation.

- ❖ As the tax principles and goals influence the perception, attitude, morale and obedience behaviour of the taxpayers, better if the structure and forms of disbarments will be convenient for the taxpayers and collectors. In other word, so as to measure and amass the appropriate sum of tax revenues the same as indicated in the income tax proclamations in the most effective and efficient ways and at a lowest tax expenses; boost taxpayers buoyancy in the equity and truthfulness of the business profit tax structures; hearten tax self fulfilment and offer the taxpayers healthier justice and integrity, enhance certainty, conveniences and simplicity, advisable if the government and revenues departments focuses on the basic canons of taxation. Subsequently, prudent if the government balance these principles in order to reduce conflict among them because in the ideal tax frameworks probability they will be colliding is high. For instance, a principle of productivity is against the concepts of equity, ability to pay, benefit and diversity. Thus, the researcher recommended that the government shall implement the policy of progressive income tax framework to reduce these problems because it considers equity, ability to pay and benefit received. Concerning this Sandford, (1993) explained that revenue authority must emphasise on both their expediency and convenience of the taxpayers with regard to tax rules, assessments, recording, calculation, disbursements, procedures, administrations and expenditure of managing tax because it encourage the taxpayers in comprehending legal framework of tax and facilitate them to smoothly record taxable income properly.
- ❖ Revenue departments had been made a tax assessments and levy devoid of some understandable basis in the course of which to convene the objective, resultant in the community further trailing confidence in the revenue administers in Oromia mainly, western parts. By 2016/2017, numerous anti-tax complaints were staged in different areas of Oromia mainly Ambo, Nekemte, Gimbi, Dambi Dollo and Shambo towns. For that reason, in ordered to reduce such resentments and problems, prudent if the revenue authority properly concern the basic principles of taxation that facilitate tax self assessments and compliances. Additionally, advisable if the governments and revenues offices at all level widen the implementation of modern tax systems like electronic payment methods and the culture of tax self-assessment systems in order to increases efficiency and effectiveness of tax administrations in return best obedience behaviour and degree of government revenue as well as expenditures. With regard to the taxpayers, better if the whole business enterprises properly paid the tax in line with the objective and principles of taxation as lack of revenues challenges the government to provides public goods and services such as road, school, hospital, security, electricity, water, and others infrastructures as well as preserve economic growth and developments.

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