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CHALLENGE OF BUSINESS INCOME TAX: THE CASE OF MEKELLE TOWN, TIGRAY, ETHIOPIA

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ABSTRACT

For many decades, the tax contribution to GDP was much lower, and it needs improvements to its filing system, assessment, and collection process to enhance the government revenue. On the other hand, the Ethiopian government has a strong belief and commitment to poverty reduction and ensuring sustainable development, and it is impossible to achieve such a goal without generating sufficient revenue that can cover the government expenditure. To narrow the gap between the revenue and expenditure of the government, the effective collection of business taxes has played an important role. Therefore, the researcher tried to fill the tax gap by assessing the challenges of collecting business taxes in Mekelle town. To attain the objective of the study, the survey method was used, and data were collected by distributing questionnaires to a sample of 163 taxpayers and tax collectors in categories A, B, and C and conducting informal interviews with the tax collectors. The study focused solely on business income taxpayers. In the process of business tax collection, it was observed that different problems and challenges have been encountered, and the main challenges were the availability of illegal traders, the attitudinal problem of taxpayers towards the tax system, and the weakness of tax collectors in tax collection and administration. The research findings showed that most of the respondents have positively agreed with the availability of illegal traders in the town and negatively disagreed with the tax system and organizational strength of the tax authority. As a result, the branch office has lost a lot of birr per year. The study's findings recommend that the first step is to control unregistered traders. Secondly, there arises awareness that payment of taxes is compulsory and the duty of every responsible citizen for the common welfare and socio-economic development of the country. Thirdly, it is important to build the implementation capacity of the branch office's tax collectors in registering, filing, assessing, and collecting processes, as these will enhance their efficiency and effectiveness in ensuring compliance with tax regulations.

Keywords: Business, income tax, Revenue, Mekelle City, and Challenges

1. Introduction

People think that the new moral code that democratic governments must teach all citizens includes the idea that everyone should pay their fair share of taxes on time. People are also increasingly aware that tax evasion and fraud are two of the biggest crimes that affect society and that tax thieves steal millions of dollars every day (Oberholzer, 2008). The existing tax system in Ethiopia is less than 50 years old and has been changed by law many times in the last few years. But the progress isn't as significant as it could be since it doesn't do enough to convince people to think more about taxes. Most of the time, the country's tax system functions well because the law makes sure it does (Terkper, 2003).

A good approach to collect and evaluate business taxes is excellent for the economy of the whole country and the economy of the municipality in particular. But the tax that should be collected from people who work in Mekelle town is very different from the tax that is actually collected. To put it another way, the tax that was supposed to be collected was substantially different from the tax that was actually collected. A key reason for the tax gap was that those who owed taxes and people who might owe taxes didn't follow the regulations, and tax collectors were dishonest when they were collecting and figuring out how much taxes were owed. This involves not disclosing all of your income and the usual method that tax collectors and people who work for a company are paid (Fjeldstad, 2005).

The Constitution of the Federal Democratic Republic of Ethiopia says that the states and the federal government should share the money they make. The Constitution provides that regional states can choose their own rules and laws about income tax as long as they follow the federal income tax legislation. The federal income tax declaration no.286/2002 divides taxpayers into three groups: "A," "B," and "C." The group they are in depends on the type of business they run and how much they sell. After that, the Tax Authority will decide if the taxpayer should stay in the same group or move to a different one.

Companies in category "A" are those that are registered in Ethiopia and make at least Birr 500,000 a year. People in group "A" must keep all of their records and accounts so that they can send in a balance sheet and a profit and loss statement that shows the gross profit, general and administrative expenses, depreciation, and provisions and reserves, along with supporting vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).Companies in category "B" earn between Birr 100,000 and Birr 500,000 per year. At the end of the year, these taxpayers have to file a profit and loss statement. The legislation says that all records and accounts must have the right vouchers to back them up (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2). The Tax Authority puts people in category "C" if they estimate their yearly income is less than Birr 100,000. This is only true if they are not in categories "A" or "B" right now.

On the other hand, standard assessment is used to find out how much money Category "C" people owe in income tax. The Council of Ministers Regulation adopted Schedules specified a fixed amount of tax for this manner of assessment. This category of taxpayers is the hardest to tax. This is because these people pay taxes based on what the tax authorities think they make, not what they really make. The assessment committee chooses how much money they make each day, and the taxpayers don't have much say in the matter.

There are many things that affect how willing people are to work with the government and its institutions in general, and how willing they are to pay taxes in particular. Economists emphasize the significance of external factors such as tax rates, income, the probability of audits, and the severity of penalties. Conversely, psychological research indicates that internal factors are equally significant: taxpayers' comprehension of tax legislation, their sentiments regarding the government and taxation, cultural influences, personal norms, perceived social norms and equity, and their motivation to comply are all critical determinants of their tax payment behavior (Taliercio, R. 2004). Empirical investigations into the determinants of tax behavior have yielded ambiguous results about the precise influence of economic factors; certain studies propose that audits and penalties enhance compliance, while others reveal negligible or even detrimental impacts (Frey, S. B. & Torgler, B. 2007). The differences in the patterns of results show that psychological and economic elements work in different ways in different places. And created a model that indicates that audits and fines are reasonable when individuals don't trust the government, especially the tax authorities, and the government has the ability to undertake audits correctly.

When there is a lot of mistrust, people can think they have to follow the rules. But if individuals trust each other, audits and fines would be seen as signs of distrust and dictatorship. This wouldn't make people more likely to follow the rules; in fact, it might make things worse. When people trust each other, they have really good things to say about the tax system and the people who work for it. They also help each other without being told to. A strong grasp of taxes, a positive attitude, personal and social norms of cooperation, and the idea that the tax system is fair (Singh, V. 2003) all make people more likely to work together, trust each other, and follow the laws.

So, voluntary compliance means that those who pay taxes want to follow the law and do their best to pay their taxes on time. The tax system has to be fair in order to fulfill the goal of a fair distribution of income and make sure that taxpayers keep paying their taxes freely (Schneider & Enste, 2000). For the tax system to work well, taxpayers need to work together and not just do what they're told. In other words, tax law can't cover every situation, hence it needs to be backed up by additional rules (James and Wallschutzky, 1999). Administrative procedures, rulings, and appeal mechanisms improve how the tax system works, but taxpayers need to be willing to work together for it to work well.

The author has tried to figure out what makes taxpayers more likely to pay their taxes on time. That's why it's crucial to learn about the challenges that come up when collecting corporate income taxes. This is crucial not only for maintaining the country's tax base and helping the government make decisions about taxes, but also for making it easier for the government to promote itself and its services to the people. Numerous scholars have examined this domain across various regions globally. No research has been completed in Ethiopia, namely in Mekelle Town, on this subject. This study aimed to evaluate the many problems encountered in the thorough collection process of corporate income tax within the municipality.

The major purpose of the study was to find out what problems there were with the procedure of collecting corporation income tax in Mekelle Town. To help the study reach its main goal, specific goals were set: to look into how business income tax collection procedures are put into place, to talk about the problems with the business income tax collection process, and to find problems caused by illegal traders in the business tax collection process.

People think that the new moral code that democratic governments must teach everyone includes the need to pay their fair share of taxes on time. It has also made people more aware that tax evasion and fraud are two of the most detrimental types of crime that damage society and that tax thieves take millions of dollars every day (Oberholzer, 2008).

The tax system in Ethiopia is less than 50 years old, and the law has amended it many times in the last few years. But the progress isn't as big as it could be since it doesn't focus on getting taxpayers to think more about taxes. The country's tax system mostly relies on legal enforcement to make sure it works properly (Terkper, 2003).

A good way to evaluate and collect business taxes is good for the overall country's economy and the town's economy in particular. But there is a big difference between the tax that should be collected from persons who work in Mekelle town and the tax that is actually collected. In other words, the tax that was expected to be collected was very different from the tax that was actually collected. A big reason for the tax gap was that people who owed taxes and others who might owe taxes didn't follow the rules and that tax collectors were dishonest when they were collecting and assessing taxes. This includes the underreporting of income and the standard way that tax collectors and firm income earners are assessed (Fjeldstad, 2005).

The Constitution of the Federal Democratic Republic of Ethiopia provides that the federal government and the states in the region should split the money they make. The constitution says that regional states can make their own rules and laws for income tax as long as they obey the federal income tax law. According to federal income tax proclamation no. 286/2002, taxpayers are divided into three groups: "A," "B," and "C." This is based on how much they sell and what kind of business they run. After that, the Tax Authority will decide whether the taxpayer should stay in the same group or migrate to a new one.

If a company is registered in Ethiopia and makes at least Birr 500,000 a year, it falls into Category "A." People in group "A" must keep all of their records and accounts so that they can send in a balance sheet and a profit and loss account that shows the gross profit, general and administrative expenses, depreciation, and provisions and reserves, along with supporting vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).Businesses in category "B" make between Birr 100,000 and Birr 500,000 a year. At the end of the year, taxpayers in this group must submit in a report on their profits and losses. According to the law, all records and accounts must have the necessary vouchers to back them up (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2). The Tax Authority puts taxpayers in category "C" if they think their yearly turnover is Birr 100,000 or less. This is only true if they are not currently in categories "A" or "B."

On the other side, standard assessment is used to figure out how much income tax Category "C" taxpayers owe. The Council of Ministers Regulation established Schedules set a fixed amount of tax for this mode of assessment. This is the hardest group of taxpayers to tax. This is because these taxpayers pay a set amount of taxes on what the tax authorities think they make, not on what they really make. The assessment committee decides how much money they make every day, and the taxpayers don't have much voice in the matter.

There are a lot of elements that determine how inclined people are to work with the government and its institutions in general, and how keen they are to pay taxes in particular. Economists stress the importance of external variables, including tax rates, income, audit likelihood, and penalty harshness. On the other hand, psychological research shows that internal factors are just as important: taxpayers' understanding of tax laws, their feelings about the government and taxes, cultural influences, personal norms, perceived social norms and fairness, and their motivation to comply are all important factors that affect how they pay taxes (Taliercio, R. 2004). Empirical studies on the drivers of tax behavior have produced inconclusive findings about the specific impact of economic variables; some studies suggest that audits and fines increase compliance, but others indicate minimal or even adverse effects (Frey, S. B. & Torgler, B. 2007). The variation in result patterns revealed that economic and psychological factors operate differently in diverse environments. And made a model that shows that audits and fines make sense when people don't trust the government, especially the tax authorities, and the government has the power to execute audits well.

People may feel that they have to follow the rules when there is a lot of suspicion. However, if people trust each other, audits and fines would be perceived as signals of authoritarianism and distrust. This would not only not increase compliance, but it could potentially make it worse. People have excellent opinions of the tax system and tax authorities when they trust each other. They also work together without being asked. A willingness to work together, trust, and follow the rules is based on a strong understanding of taxes, a positive attitude, personal and social norms of cooperation, and the belief that the tax system is fair (Singh, V. 2003).

So, voluntary compliance indicates that those who pay taxes desire to follow the law and try to pay their taxes on time. In order to reach the goal of a fair distribution of income and make sure that taxpayers keep paying their taxes freely, the tax system must be fair (Schneider, & Enste. (2000).). Taxpayers need to cooperate together for the tax system to work successfully, not just do what they are told to do. In other words, tax law can't cover every case, hence it needs to be supported by other rules (James and Wallschutzky, 1999). Administrative procedures, rulings, and appeal mechanisms enhance the functionality of the tax system; yet, a requisite degree of voluntary cooperation from taxpayers is crucial for its effective operation.

The essay has sought to assess the factors affecting taxpayers' voluntary compliance with tax obligations. Because of this, it is important to find out what problems arise while collecting business income taxes. This is important not only for informing government policy on taxes and protecting the country's revenue base, but also for making it easier for the government to market itself and its services to the public. Many researchers have looked at this area in different parts of the world. There have been no research conducted in Ethiopia, particularly in Mekelle Town, regarding this topic. This study sought to assess the numerous challenges faced in the comprehensive collection process of corporate income tax within the municipality.

The main goal of the study was to look closely at the process of collecting company income tax in Mekelle Town and figure out what problems it had. To help the study reach its main goal, specific goals were set: to look into how business income tax collection procedures are put into place, to talk about the problems with the business income tax collection process, and to find problems caused by illegal traders in the business tax collection process.

2. Review Literature

Tax may be defined (Russell, 2010) as a compulsory contribution (levy) by an economic unit to a government without expectation of direct and equivalent return (quid pro quo) from the government for the contribution made. The government needs financial resources to act as a government and play the role that is expected of it by the public. So what the government gives, it must first take away. Society's limited economic resources mean that an increase in government expenditure typically results in a decrease in private spending. In this regard, James (2000) states that taxation is one method of transferring resources from the private to the public sector. Other writers (Auld & Miller, 1984) describe the role of taxes as an instrument that stabilizes the economy and reduces private demand so that resources can be released for public sector use. Generally, governments levy taxes for multiple purposes, but mainly to raise funds in order to cover public expenditures and, on the other hand, to properly allocate resources.

Misrak T. (2008) states that the history of taxation in Ethiopia relates to the country's government structures, but reliable documentary evidence justifying the emergence of government and taxation—specifically when taxation was introduced—is scarce. Even in developing countries, different studies have started to concentrate on attitudes of taxpayers towards taxation by taking into account its contribution to economic development. And all countries follow their own tax regulations to collect the tax revenue (AIBUMA, 2010).

The tax system in Ethiopia in the recent past indicates that until the year 1992, it had a central tax system where all tax revenues belonged to the central government. Later in the fiscal year 1992/93, the Ethiopian tax system changed from a central taxation system to a federal taxation system. Because of the establishment of regional governments, Proclamation No. 33/1992 was enacted to differentiate revenues belonging to federal and regional governments (Pashev 2005). Revenue belonging to the federal government includes duties and taxes levied on import and export items, personal income tax from central government employees, profit tax, and sales, as well as excise taxes from enterprises owned by the central government and taxes from national lotteries.

Revenues belonging to regional governments are personal income tax from employees of the regional government, rural land use fees, profits and sales tax collected from individual traders, rent of houses and properties, profit taxes, and personal income tax and sales tax collected from enterprises owned by the regional governments.

Revenues jointly shared are taxes from profit, personal income, sales, and excise taxes of jointly owned enterprises; dividends and sales tax of organizations; profit tax from large-scale mining, petroleum, and gas operations, and tax on capital gains (Mokhtari, M. 2010).

In the current situation, the government has established so many finance offices at the regional, zonal, and Wereda levels throughout the country to collect the business tax revenues. Among the finance offices established at the zonal level, the Mekelle Finance and Economic Development Office is one of them, which undertakes the responsibilities of tax collection and assessment by its revenue department by addressing all tax policies to the concerned taxpayers.

3. Research Methodology

3.1 Research Design

The research design of this study was a survey study, whereby data were obtained from various populations, facilitating the attainment of the study's aims. The study's demographic was confined to business income tax payers and tax authority officers in Mekelle town. The study's overall population was divided into two groups. These were those who paid taxes and people who collected them. Taxpayers, on the other hand, are divided into three main groups. Category "A" tax payers are any business that is registered in Ethiopia or another nation that makes at least Birr 500,000 a year. Any business with an annual turnover of more than Birr 100,000 can be put in category "B" if it isn't currently in category "A."

Businesses that make up to Birr 100,000 a year are put in category "C" unless they are already in category "A" or "B" (The Ethiopian business income tax legislation No.78/2002).

To incorporate the minority group within the study population, a non-proportionate stratified random sampling approach was utilized to choose sample respondents. The study population was divided into four main groups. These were: business income taxpayers in category "A" (16), category "B" (51), category "C" (1555), and employees of the tax authorities (14). Populations were included. The study's total population was 1636. Based on earlier study and the lowest requirements (10% to 30%), the researcher took 163 (10%) of the total population. Below is a summary of the sample proportion for each category:

Table 1. Summary of Population and Sample by Category

Target Group	Category	Population	Sample	%
Business income tax payers	A	16	8	5
	B	51	16	10

Target Group	Category	Population	Sample	%
	C	1555	131	80
Tax collectors	—	14	8	5
Total		**1636**	**163**	**100**

Source: Mekelle Town Finance & Economic Development office report (2025)

The survey study was covered 163 samples of taxpayers and employees of the tax authority from 1636 target population. The sample constitutes 10 percent of the total population. The questionnaires were distributed to these 163 taxpayers and employees of the tax authority and all questionnaires was administered and collected. This was due to unlimited effort of the researcher at the time of distribution and collection of these questionnaires as well as more cooperation of the respondents.

3.2 Data Type/ Source and Collection Methods

The research included both primary and secondary data. The primary data was gathered via standardized questionnaires administered to category ‘A’, category ‘B’, and category ‘C’ business taxpayers, as well as staff of the tax authority in Mekelle Town. Also, five individuals were chosen for an informal interview based on their job authority. These employees were planners, data collectors, decision makers, and tax collectors. This unstructured interview lets you ask more questions about the one you already have because it is adaptable.

We also got secondary data from the Mekelle Revenue & Economic Development Office's database. This information shows how many people are in each group of taxpayers and tax authority workers. Also, numerous journals, articles, and other website materials that were published and not published were employed as data sources for the study field.

The data gathering strategy was based on the questionnaire's framework, which first identified the demographics of the respondents. The questionnaire included both closed and open-ended inquiries. Closed-ended questions are popular because they make it easier for people to fill out the questionnaire and for researchers to analyze the results.

Most of the closed-ended questions used a Liker style scale with five points, from 1 to "Strongly Disagree" to 5 to "Strongly Agree." Adding open-ended questions, on the other hand, lets people give answers that the study didn't ask for. The responses from open-ended questions and informal interviews were examined throughout the various portions of the study. In general, the people who answered the questions gave useful insights and also shared some other thoughts and suggestions. Because the people who answered the questions do not speak English as their first language, the questionnaire was translated into Tigrigna.

3.3 Data Analysis Technique

The survey tool employed in this research comprised a 5-page questionnaire, inclusive of a cover page. There were 39 questions in the questionnaire, which was split into five parts. The first two sections asked about the respondents' backgrounds and their general knowledge of taxes. Section three had questions about merchants who break the law. Part four was about the tax authority's strengths and weaknesses. Section five talks with how people feel about paying taxes.

From section three to section five, each question had a certain number of items that were shown on a Likert-type scale. This is because there could be more than one answer, and it needs to be ranked or prioritized with a 5-point scale from 1 to 5, with 1 being "Strongly Disagree" and 5 being "Strongly Agree."

The Questionnaire aimed to evaluate the many obstacles encountered in the business tax collecting process arising from illicit traders, tax non-compliance, and the inadequacies and unethical conduct of tax collectors in Mekelle town. In this research project, 163 questionnaires were provided to the sample population, all of which were administered and collected from the respondents. The informal interview, in contrast, consisted of 9 questions derived from the questionnaire, addressing all three objectives of the study.

The researcher employed a descriptive approach of data analysis to ascertain the obstacles associated with the business income tax collection process by examining the qualitative information gathered from respondents, including business income tax payers and tax collectors. We used SPSS software to organize the data we collected and then used statistical tools like percentages, tables, and figures to show it.

4. Results and Discussions

4.1 Demographic Characteristic

The characteristics of the respondents had its own role negatively or positive of tax because the business activities are depend on the demographic population. Based on the Chart 1, categories ‘A’, ‘B’, ‘C and Tax col their gender, age and educational background is summarized below.

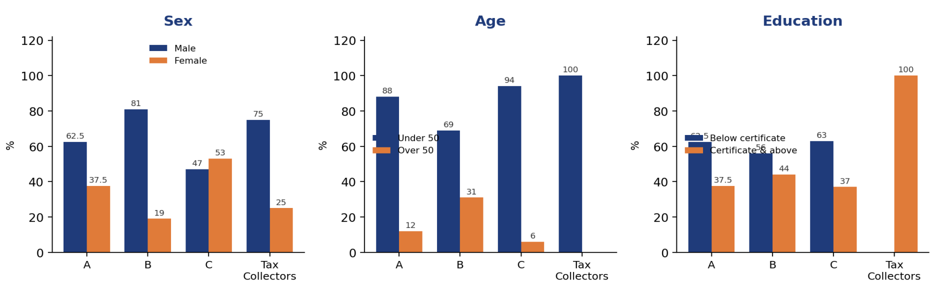

Figure 1. Characteristics of Respondents (by category, %)

(Reconstructed from the percentages reported in the manuscript; original chart not embedded in the source file.)

Source: Researcher’s own computation 2025

As shown in Figure 1 above, respondents were categorized based on their sex, age, and educational background. Based on sex characteristics, the male and female respondents for each category were stated as category ‘A’ 62.5% and 37.5%, category ‘B’ 81% and 19%, category ‘C’ 47% and 53%, and tax collectors 75% and 25% for male and female respondents, respectively. This clearly indicates that the females in category ‘C’ were higher than males, and this shows females became more economic participants in different sectors, especially in small and medium-sized business enterprises.

Based on age characteristics of the respondents, each category was classified as under 50 years of age and above 50 years of age, and for category ‘A,’ 88% and 12%; category ‘B,’ 69% and 31%; category ‘C,’ 94% and 6%; and tax collectors, 100% and 0% for under and above 50 years of age of respondents, respectively (see Figure 1). This indicated most of the taxpayers were younger people who are active in the business areas in Mekelle Town, and this new generation will have a good implication to the tax revenue in particular and on economic development in general.

Based on the respondents' level of education, 62.5% of category 'A', 56% of category 'B', 63% of category 'C', and 0% of tax collector respondents were below certificate level. On the other hand, 37.5% of category 'A', 44% of category 'B', 37% of category 'C', and 100% of tax collector respondents had a certificate or above (see Figure 1).

This shows most of the respondents were under a certificate, and this lack of education could affect the business activities of the taxpayers in particular and the tax generation in general.

4.2 Tax Related Issues by Demographic Characteristics of Respondents

In order to know the general knowledge of the respondents about taxation in the study area, different questions were forwarded to them on different issues. The response of the respondents was briefly summarized based on their gender, age and educational backgrounds in the following table 1.

Table 2. Tax-Related Issues by Demographic Characteristics of Respondents

Response	Sex				Age				Educational Background			
	Male		Female		Under 50		Over 50		Below certificate		Certificate & above	
	No	%	No	%	No	%	No	%	No	%	No	%
Do you think payment of tax is necessary?												
Yes	85	100	77	99	148	99	14	100	96	100	66	99
No	0	0	1	1	1	1	0	0	0	0	1	1
Do you think the range / sales volume for each category is fair?												
Yes	64	75	62	80	118	79	8	57	77	80	49	73
No	21	25	16	20	31	21	6	43	19	20	18	27
Do you think taxpayers are transferred from one category to the next without official enforcement?												
Yes	58	68	15	19	72	48	1	7	52	54	21	31
No	27	32	63	81	77	52	13	93	44	46	46	69
The coordination of Tax Authority & Town Administration												
Yes	53	62	11	14	53	36	11	79	21	22	43	64
No	32	38	67	86	96	64	3	21	75	78	24	36
Which category is associated with more challenges in the collection process?												
Category A	22	26	15	19	31	21	6	43	20	21	17	25
Category B	13	15	7	9	18	12	2	14	12	13	8	12
Category C	50	59	56	72	100	67	6	43	64	66	42	63

Source: Researcher's own computation 2025

As shown in the above Table 4.1, the respondents expressed their opinion on tax related questions. The percentage of the respondents for each question was based on their gender, age and educational background.

For the necessity of tax, 100% of male, 99% of female, 99% of younger (under 50 years age), 100% of older(over 50 years age), 100% of below certificate and 99% of certificate and above accepted. The rest 1% for each female and younger and 1% for below certificate didn't accept the levy of tax (see Table 1). The study shows almost all of male and female, younger and older, below certificate and certificate & above responded the same answer and accepted the necessity of taxes since they know its purpose (as the comments of open-ended questions).

For the range of each categories of tax payer, 75% of male, 80% of female, 79% of younger (under 50 years age), 57% of older(over 50 years age), 80% of below certificate and 73% of certificate and were accepted. The rest of each category was responded as the proportion of category is not fair since it includes tax payer who have less capital. In this case, Younger respondents more accepted than the older for the range of categories. Generally, this indicates above average of all categories were responded as the provision of proportion for each categories of tax payers is good and considerable.

As stated in the above table, 68% of male, 19% of female, 48% of younger (under 50 years age), 7% of older(over 50 years age), 54% of below certificate and 31% of certificate and above were responded as tax payers are transferred from one category to the next category without official enforcement (see Table 1). The rest respondents of each category stated as tax payers do not transfer from one to the next category without governmental enforcement. In this case, males were more believed than female, younger than older, less educated than more educated were positively believed on the transfer of tax payers from one category to the next. However, as the average of responses rated in the above table, the tax payers didn't transfer from category 'C' to category 'B', and from category 'B' to category 'A' to pay their tax obligation without governmental or official enforcement.

As shown in the above table, 62% of male, 14% of female, 36% of younger (under 50 years age), 79% of older(over 50 years age), 22% of below certificate and 64% of certificate and above respondents were stated that there is good coordination between the tax authority and the town administration. On the other hand, 38% of male, 86% of female, 64% of younger (under 50 years age), 21% of older(over 50 years age), 78% of below certificate and 36% of certificate and above provided their idea that there is no coordination between the two administrations (see Table 1). Males than female, older than younger and more educated than less educated believed as there was no coordination. Based on the above responses it was observed that there was no good coordination between tax administration and town administration to control the tax payers to pay their tax obligations and this increase the tax non-compliance as well as the challenges of business tax collection process.

In relating to the category associated with more challenges at the time of business tax collection process, 59% of male, 72% of female, 67% of younger (under 50 years age), 43% of older(over 50 years age), 66% of below certificate and 63% of certificate and above stated that category 'C' is associated with more challenges of collection process and 26% of male, 19% of female, 21 % of younger (under 50 years age), 43% of older(over 50 years age), 21% of below certificate and 25% of certificate and above were responded that category 'A' is faced with more challenges in the collection process. The rest respondents of each category were responded that there is more challenges with category 'B' in the time of tax collection (see Table 1).

In general, the above responses from the categories of tax payers, category 'C' is associated with more challenges in the tax collection process and the reason was answered on the open-ended question and interviews asked that there was lack of experience to pay tax, problems of declaration of income, assessment problem of tax collectors, lack of awareness of tax payers were associated in category 'C' as a challenges during tax collection process.

On the other hand, as respondents reasoned out, category 'A' and 'B' tax payers had misuse of record keeping in their accounting systems.

4.3 Analysis on Business Income Tax Collection Procedures

This section was analyzed to identify how the business income tax procedures were operated or implemented. In relating to this procedure, developing the tax payers' knowledge about taxation and its purposes, providing sufficient services and constructing close relationship with taxpayers to guide and support them enables to increase tax compliance and decreases non-compliance for taxation. The tax authority is required to be effective with respect to tax collection and enforcement and Tax payers are required to file and pay their tax obligation in the specified period and if they have any appeal with the provision of assessment and declaration of income, it is possible to report to the review committee for re-examining the former decision. This enable to handle several tax payers who are not included in the tax bracket and large amount of uncollected tax exist in arrears.

Table 3. Responses Related to Business Income Tax Collection Procedures

Response	Category A		Category B		Category C		Tax Collectors		Total	
	No	%	No	%	No	%	No	%	No	%
The provision of declaration of income is good.										
S. Agree	0	0	1	6.2	8	6.1	0	0	9	5.5
Agree	2	25	4	25	45	34.4	5	62.5	56	34.4
No idea	4	50	2	12.5	49	37.4	0	0	55	33.7
Disagree	0	0	9	56.2	18	13.7	2	25	29	17.8
S. Disagree	2	25	0	0	11	8.4	1	12.5	14	8.6
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
The provision of assessment of tax is good.										
S. Agree	0	0	1	6.2	8	6.1	0	0	9	5.5
Agree	3	37.5	2	12.5	27	20.6	6	75	38	23.3
No idea	1	12.5	1	6.2	6	4.6	0	0	8	4.9
Disagree	4	50	9	56.2	77	58.8	2	25	92	56.5
S. Disagree	0	0	3	18.8	13	9.9	0	0	16	9.8
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Procedure of appeal & selection of Review committee is good.										
S. Agree	1	12.5	3	18.8	10	7.6	1	12.5	15	9.2
Agree	2	25	1	6.2	16	12.2	4	50	23	14.1
No idea	1	12.5	1	6.2	16	12.2	1	12.5	19	11.6
Disagree	3	37.5	4	25	42	32.1	1	12.5	50	30.7
S. Disagree	1	12.5	7	43.8	47	35.9	1	12.5	56	34.4
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Transparency										
V. Good	5	62.5	1	6.2	11	8.4	1	12.5	18	11.0
Good	0	0	1	6.2	14	10.7	6	75	21	12.9
Enough	0	0	4	25	21	16.0	0	0	25	15.3
Low	3	37.5	7	43.8	70	53.4	0	0	80	49.1
V. Low	0	0	3	18.8	15	11.5	1	12.5	19	11.7
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
The provision of record keeping requirement is good.										
S. Agree	0	0	2	12.5	14	10.7	1	12.5	17	10.4
Agree	5	62.5	8	50	63	48.1	5	62.5	81	49.7
No idea	2	25	2	12.5	14	10.7	1	12.5	19	11.7
Disagree	0	0	3	18.8	24	18.3	1	12.5	28	17.2
S. Disagree	1	12.5	1	6.2	16	12.2	0	0	18	11.0
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Accountability										
V. Good	3	37.5	1	6.2	7	5.3	1	12.5	12	7.4
Good	2	25	3	18.8	15	11.5	5	62.5	25	15.3
Enough	0	0	4	25	24	18.3	1	12.5	29	17.8
Low	3	37.5	4	25	68	51.9	0	0	75	46.0
V. Low	0	0	4	25	17	13.0	1	12.5	22	13.5
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Service delivery										
V. Good	1	12.5	1	6.2	8	6.1	2	25	12	7.4
Good	3	37.5	2	12.5	22	16.8	4	50	31	19.0
Enough	3	37.5	3	18.8	28	21.4	1	12.5	35	21.5
Low	1	12.5	8	50	59	45.0	0	0	68	41.7

Response	Category A		Category B		Category C		Tax Collectors		Total	
	No	%	No	%	No	%	No	%	No	%
V. Low	0	0	2	12.5	14	10.7	1	12.5	17	10.4
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Tax collection efficiency										
V. Good	1	12.5	1	6.2	8	6.1	1	12.5	11	6.8
Good	2	25	0	0	8	6.1	5	62.5	15	9.2
Enough	1	12.5	3	18.8	17	13.0	0	0	21	12.9
Low	3	37.5	6	37.5	56	42.7	2	25	67	41.1
V. Low	1	12.5	6	37.5	42	32.1	0	0	49	30.0
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Creation of awareness to the taxpayers										
V. Good	0	0	1	6.2	3	2.3	0	0	4	2.5
Good	2	25	2	12.5	8	6.1	4	50	16	9.8
Enough	1	12.5	0	0	5	3.8	4	50	10	6.1
Low	2	25	3	18.8	36	27.5	0	0	41	25.2
V. Low	3	37.5	10	62.5	79	60.3	0	0	92	56.4
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Honesty of the tax collectors										
V. Good	0	0	1	6.2	4	3.0	2	25	7	4.3
Good	0	0	1	6.2	19	14.5	4	50	24	14.7
Enough	4	50	4	25	33	25.2	2	25	43	26.4
Low	4	50	7	43.8	58	44.3	0	0	69	42.3
V. Low	0	0	3	18.8	17	13.0	0	0	20	12.3
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**
Qualification of employees with the national tax system										
V. Good	0	0	1	6.2	8	6.1	1	12.5	10	6.1
Good	3	37.5	1	6.2	21	16.0	3	37.5	28	17.2
Enough	4	50	9	56.3	38	29.0	3	37.5	54	33.1
Low	1	12.5	3	18.8	43	32.8	1	12.5	48	29.5
V. Low	0	0	2	12.5	21	16.0	0	0	23	14.1
Total	**8**	**100**	**16**	**100**	**131**	**100**	**8**	**100**	**163**	**100**

Source: Researcher's own computation 2025

Regarding to the provision of declaration of tax payers' income, 25% of category 'A', 56.2% of category 'B' 22.1% of category 'C' and 37.5% of tax collector responded as disagree and strongly disagree to the statement that the provision of declaration of tax payers' income is good where as 25% of category 'A', 31.2% of category 'B', 40.5% of category 'C' and 62.5% of tax collectors responded as agreed and strongly agreed. While the remaining 50%, 12.5% and 37.4% of categories 'A', 'B' and 'C' respectively have no idea. These responses clearly indicated that higher proportion of the total respondents said the provision of tax payers' income was good. However, taxpayers didn't provide the amount of items clearly at the time of assessment as commented in the open-ended questions by the taxpayers or respondents (see Table 2).

In the above table 4.2, 50% of category 'A', 75% of category 'B' 68.7% of category 'C' and 25% tax collectors were disagreed on the provision of assessment of tax but 37.5% of category 'A', 19.7% of category 'B' 26.7% of category 'C' and 75% of tax administrators were agreed (see Table 2).

And the remaining 12.5%, 6.2% and 4.6% of category 'A', 'B' and 'C' respectively said that no idea. From this information, it is possible to generalize that a higher proportions of category 'A' 'B' and 'C' were disagreed on the assessment of tax in the town (see Table 2).

As it shown in the above responses, category 'A' was less opposed than the other categories and this may be due to their sizable of capital is large. On the other hand higher proportions of categories 'B' and 'C' respondents didn't agreed on the declaration and assessment of tax. This is due to the fact that, their tax is not consider the size of the business specially for category 'C' tax payers levied based on standard assessment. This method is not considered tax payers specific conditions such as gains and loss in a particular year since the tax is assessed in two years of time interval. And the dissatisfaction of tax payers on the tax assessment may leads to termination of the business and tax evasions. Generally, the assessment problem is a one challenge of business tax collection which could be reducing the revenue of tax income of the government.

On the same table 37.5% of category 'A', 25% of category 'B', 19.8% of category 'C' and 62.5% of tax administrator respondents were agree and strongly agree on the procedures of appeal and selection of review committee. But 50% of category 'A', 68.8% of category 'B', 68% of category 'C' and 25% of tax administrators were responded disagree and strongly disagree. The remaining 12.5% of category 'A', 6.2% of category 'B', 12.2% of category 'C', and 12.5% of tax administrator respectively have no idea on the given statement. In this case, category 'C' taxpayers were more disagreed than the other categories. On the other hand, higher proportion of tax administrators were responded as agree and strongly agree than the other categories and this may indicates trying defending themselves. Generally, it is possible to conclude that above Average (65.1%) of the total respondent were disagreed on the procedures of appeal and selection of review committee. This happened due to unbalanced decisions of the appeal review committee. Since they are selected from different field of area they, may not have tax related knowledge that may be important for their decisions of the current appeals (see Table 2).

It is evident from table 4.2 that, 62.5% of category 'A', 12.4% of category 'B', 19.1% of category 'C' and 87.5% of tax collector respondents were rated as the transparency of tax administrators is above enough but 37.5% of category 'A', 62.6% of category 'B', 64.9% of category 'C' and 12.5% of tax collector were rated below enough. The remaining 25%, and 16% of category 'B' and 'C' respectively were rated as enough. Category 'A' believed than the other categories of taxpayers on the given statement and this may due to more protection given to them since they are less in number with more tax contribution. Generally, to conclude on the above responses, it is better of taking the total percentage of respondents which was 23.9% of the total respondents suggested above enough and 60.8% below enough. The remaining 15.3% responded as the transparency of tax administrators was enough? Based on the above responses, this reveals that the transparency of tax administrators is below enough. It is evident from previous studies Desta (2010) that, "improving relationship with the public and making the collection procedures simple and transparent motivates the taxpayers to pay their fair share of taxes voluntarily. '' (see Table 2).

Regarding to the provision of record keeping requirement, 12.5% of category 'A', 25% of category 'B' 30.5% of category 'C' and 12.5% of tax collector were responded as disagree and strongly disagree to the statement that, "the provision of record keeping requirement is good", where as 62.5% of category 'A', 62.5% of category 'B', 58.8% of category 'C' and 75% of tax collectors responded as agree and strongly agree. While the remaining 25%, 12.5%, 10.7% and 12.5% of categories 'A', 'B' and 'C' and tax administrators respectively said that no idea. As shown in the above response, categories 'A' and 'B' responded equally as agree & strongly agree than the other respondents and their suggestion is important since they are expected to use record keeping requirements and to provide financial statement at the tax year. These responses clearly indicated that higher proportion of the total respondents accepted the provision of record keeping requirements providing by the tax authority to concerned taxpayers(see Table 2).

From the same table, 62.5% of category ‘A’, 25% of category ‘B’, 16.8% of category ‘C’ and 75% of tax collector respondents rated the accountability of tax administrators is above enough but 37.5% of category ‘A’, 50% of category ‘B’, 64.9% of category ‘C’ and 12.5% of tax collectors were rated below enough. The remaining 25%, 18.3% and 12.5% of category ‘B’, ‘C’ and tax collector respondents respectively rated as enough. Further more, from the total respondents 22.7% were rated above enough and 59.5% of the total respondents were rated as the accountability of tax administrator is below enough. The remaining 17.8% responded as it is enough (see Table 2).

The above responses indicated that, the accountability of the tax administrators or tax collectors is below enough and they do not take their duties and responsibilities as it is observed from the above responses.

From the above table, it was observed that 50% of category ’A’, 18.7% of category ‘B’. 22.9% of category ‘C’ and 75% of tax collector respondents were rated that the service delivery by the tax authority is above enough. But 12.5% of category ‘A’, 62.5% of category ‘B’ 55.7% of category ‘C’ and 12.5% of tax collector respondents were rated below enough. The remaining 37.5%, 18.8%, 21.4% and 12.5% of category ‘A’, ‘B’, ‘C’ and tax collector respondents respectively rated as enough. In this case, categories of ‘B’ and ‘C’ didn’t satisfied by the service delivery of the tax authority than the other respondents. Generally, from the total percentage of respondents 26.4% were rated as above enough and 52.1% rated as below enough. The remaining 21.5% rated as the service delivery by the tax authority is enough. This indicated that, a higher proportion of each category respondents rated the service delivery such as consults, guidance and supporting to the tax payers by the authority is below enough (see Table 2).

Regarding tax collecting efficiency 37.5% of category ‘A’, 6.2% of category ‘B’, 12.2% of category ‘C’ and 75% of tax collector respondents were rated as the collection efficiency was above enough. And 50% of category ‘A’, 75% of category ‘B’, 74.8% of category ‘C’ and 25% of tax collector were responded below enough. While the remaining percentage of each category respondents rated as enough (see Table 2).

This clearly indicated that, relatively a higher proportion of category ‘A’, ‘B’ and ‘C’ were rated the tax collecting efficiency of the tax authority was below enough; on the other hand, a higher proportion of tax collector respondents rated as the tax collection efficiency is above enough and this indicated the tax authority may need to defend for its failure. Some of them commented that the tax authority doesn’t identified all business traders which should be taxed rather they imposes high amount of tax on the existing tax payers. Failure to bring business activity from the shadow economy in to the tax system puts compliant tax payers at a competitive disadvantage and to meet a predetermined revenue target leads to increase the burden on those tax payers who try to comply with the tax law and will discourages their future compliance. A study conducted in South Africa shows tax payers who believe that tax officials are efficient appear to be more tax compliant than those who are not believe tax officials are efficient.(Devos, K. 2008).

Concerning to creation of awareness to the tax payers 62.5% of category ‘A’, 81.3% and of category ‘B’ 87.8.% of category ‘C’ respondents were rated below enough. And 25% of category ‘A’, 18.7% of category ‘B’, 8.4% of category ‘C’ and 50% of tax collector were rated above enough (see Table 2).. While the remaining percentage of each category rated as enough. Category ‘C’ was more dissatisfied than the other categories of respondents on the awareness creation of the tax authority. Generally, above average (81.6%) of the total respondents were negatively responded on the awareness creation activities of the tax authority. This lack of awareness of tax payers is the root cause for all other problems for their voluntary compliance.

Because, as people have more knowledge about the tax system, they may both understand and appreciate the benefits received from the government and will motivated to pay tax. Previous studies in Indonesia show that knowledge is one of the factors in compliance which related to the taxpayers' ability to understand taxation laws, and their willingness to comply (Mengstu, Berhane, & Gebreslassie, 2020).

From the above fact, it is possible to conclude that regarding to operating or implementing the business taxes' procedures, most of the respondents were rated the authority's effort is below enough. This clearly confirms that the tax authority is not effective and not providing satisfactory services for tax payers. According to Trasberg (2004), in the course of economic reforms and strengthening of government capability, tax administration has increased efficiency and amount of taxes in most of New EU member countries. In line with decrease of tax burdens, taxpayers friendly tax procedures and transparent government activities, the extent of shadow economy activities decreased.

Similarly, 37.5% of category 'A', 12.4% of category 'B', 22.1% of category 'C' and 50% of tax collector respondents rated the authority with respect to their knowledge on tax related issue above enough. On the other hand, 12.5% of category 'A', 31.3% of category 'B', 48.8% of category 'C' and 12.5% of tax collector rated below enough. The remaining 50%, 56.3%, 29% and 37.5% of category 'A', 'B', 'C' and tax collectors respectively rated as enough. The above fact shows, most of the total respondents (44%) provided their idea that the knowledge of the authority in relation to tax related issues is below enough. A tax payer who believe that the tax knowledgeable officials are more tax compliant than those who believe that are not knowledgeable. And this implies tax knowledgeable officials have influences taxpayers to be more compliant to tax. This clearly demonstrates the amount of tax revenue may be affected by the knowledge of tax officials related to tax. In addition, taxation knowledge is necessary to increase public awareness especially in areas concerning tax laws, the role of tax on economic development and to explain how and where the money collected is spent by the government to current and future tax payers (Mengstu, Berhane, & Gebreslassie, 2020). And this implies increasing the knowledge of the tax authority employees about tax related issues is vital to increase the compliance behaviors of tax payers.

From the above fact, it is possible to conclude that in all the parameters most of the respondents responded as the authority's activities is below enough. This clearly indicates that the tax authority is not effectively perform its responsibilities and not providing satisfactory service for the tax payers. This also affects the willingness of voluntary tax compliance to pay their tax obligation. On the other hand, taxpayers had their problems relating to the declaration of income and items at the time of assessment (category 'C') and using of record keeping (category 'A'&'B'). These are the main challenges of business tax collection process relating to the objective of business tax procedure and implementation of the study.

5. Conclusions

Based on the finding, most of the respondents were rated as tax payers didn't transfer from category 'C' to category 'B', and from category 'B' to category 'A' to pay their tax obligation without governmental or official enforcement in Mekelle Town. As most of taxpayers commented on the open-ended question the reason for the failure of transfer was fear of tax increment as well as lack of awareness and motivations of the tax authority of the Town. On the other hand, question were raised to the respondents about the coordination of the two administrations and based on the responses it was observed that there was no co-ordination between the tax administration and town administration to control the tax payers to pay their tax obligations.

To sum up the category which associated with more challenges, even though, category ‘A’ and ‘B’ tax payers had zowa of record keeping in their accounting systems, most of respondents have responded that from the categories of tax payers, category ‘C’ is associated with more challenges in the tax collection process in Mekelle Town and the reason was answered on the open-ended question asked as there is lack of experience to pay tax, assessment problem of tax collectors, lack of awareness of tax payers are associated in category ‘C’ as a challenges during business tax collection process.

It is obvious that, tax authority is the responsible body for assessing and collecting the Town’s tax revenue. The amount of revenue collected is directly depending on the efficiency and effectiveness of the authority. In light of this fact the survey result showed that the tax authority of the Town administration was not efficient and effective in various aspects such as improving the business tax assessment and collection procedures, creating awareness, enforcing the tax law, providing services, and information regarding tax. It can be concluded that, with these challenges, it is not easy to bring about voluntary compliance and narrow the tax gap in the Town. The finding shows that higher proportion of the total respondents rated as the provision of record keeping requirement given from the tax authority was accepted. On the other hand, the provision of assessment of tax was unfair and declaration of tax payers’ income in the town was good, but not attractive. In addition, the procedures of appeal and selection of review committee was unfair as a result there were unbalanced decisions of the appeal review committee. Since they are selected from different field of area they may not have tax related knowledge that may be important for their decisions of the current appeals.

The survey study implies that, above average 81.6% of the total respondents had negative response on the awareness creation activities of the tax authority in Mekelle Town. This lack of awareness of tax payers is the root cause for all other problems for their voluntary compliance because as people have more knowledge about the tax system, they may both understand and appreciate the benefits received from the government and will motivated to pay tax. The tax authority didn’t aware the taxpayers regarding to tax related issues such as why to collect, how to collect, where to spent the collected money etc, totally there was a lack of dissemination of the rules and regulation of tax to the tax payers.

As the finding indicated, the accountability and transparency of the tax administrators or tax collectors was below enough and they didn’t take their duties of responsibilities and they didn’t improve relationship with the public and making the collection procedures simple and transparent. In addition, the tax collectors have a lack of tax related knowledge and this makes difficult to increase the tax compliance.

From this study it was concluded that the tax burden is a lot higher than what most taxpayers would like to pay. Most of the respondents feel that people should pay taxes according to their ability. In other words they feel that they do not pay about the same amount of tax as others in similar situations. This implies that, as long as the tax being levied is not fair and equitable it can reduce the number of current taxpayer’s compliance and also discourage the potential taxpayers from registering the non-compliances to tax payment voluntarily. On the other hand, there was a corruption with the tax collectors or tax administrators at the time of business tax collection process which can discriminate the voluntary compliance of tax payers.

Based on the survey evidence, it is possible to conclude on the provision of penalties as a higher proportion of the respondents were responded as the penalty for understatement of annual income and late payment were good and accepted. Even though, there is a lack of knowledge how to use the record keeping requirement, the penalty for failure of record keeping requirement was also accepted by most of respondents.

On the other hand, the findings evidenced that, tax payers know why they have to pay their tax obligation, as a higher proportion of the respondents responded, the tax payers are evading the tax because the burden of tax is so heavy, all people do not pay their tax obligation, large portion of collected money is wasted, it is not consider the tax payers' ability to pay and tax evasion is not considered as a crime by the tax payers. These problems lead the tax payers to evade their tax obligation. Generally, the lack of knowledge, the presence of corruption and unimplemented of rules and regulations of tax enforce them to evade their tax obligation and this makes difficult to narrow the tax gap in Mekelle Town.

Unlicensed or unregistered traders are one of the economic shadow of the society which influences the income of the tax compliance in particular and revenue of the government in general. In light of this fact, questions were rising to the respondents on the availability of illegal traders and Based on the findings, there is an unlicensed or unregistered trader in the town and they have their own negative impact on the structure of tax administration and town administration of the Town in particular and economic development of the country in general. Basically, the revenue of the legal traders diversified to different sales expenses such as rental payment, security payment, and tax payments. Due to this fact, the sales price also arranged with the consideration of these expenses. On the other hand, unregistered traders have no tax payment and other expenses, so the sales price is less and users also shift from legal traders to the illegal traders. As a result, sales volume of legal traders decreases.

Based on the survey study, most of the respondents from the total suggested that there was controlling mechanisms to enforce the unregistered traders for tax payment, the problem was a lack of employment of the different techniques such as unique identifiers (TINs), addresses and contacts details as legal residence and economic activities transmitted from the federal Government. Due to this fact, illegal traders became increased from time to time in the Town. In addition it is possible to conclude that although traders are licensed they are illegal since they do not register in the tax authority to pay their tax obligation.

6. Recommendations

The finding indicates that the evaluation of tax, together with the transparency and accountability of tax administrators, were significant obstacles in the technique or implementation of business income tax collection. So, it is best to have clear, basic, and easy-to-use administrative processes and procedures that are completely open. And they must take full responsibility for following the rules and laws about taxes. These can encourage tax compliance and prospective taxpayers to willingly fulfill their tax obligations.

The finding showed that taxpayers didn't know much about the tax system. So, to get people to pay their taxes in the short term, the tax authority should use panel discussions, workshops, seminars, and mass media to explain the tax system, including how to collect taxes, who to collect them from, when to collect them, and where to spend the money. In the long term, it would be better if the revenue authority worked with the ministry of education to create an educational curriculum that includes taxes and how they work, so that schools can teach the next generation of tax payers. Using these approaches can help make the business tax collection process easier.

The finding indicates that tax authority workers lack knowledge about taxation and exhibit corruption. So, the tax office should hire qualified people and give them more training and skills on tax-related issues so that they know they are responsible and build an ethical culture of avoiding corruption. This could help close the tax gap in Mekelle Town.

The survey investigation revealed that the review committee made inconsistent decisions on various appeals, attributed to the representatives' insufficient relevant expertise. So, the tax authority has to make the appeal and review committee selection processes better. It would also be better if the review committee included taxpayers so that they could better explain tax compliance and future taxpayers.

The finding demonstrates that the business income tax payers have to pay a lot of taxes. The tax authority should lower the tax rate by enforcing the tax law on people who don't pay their taxes and giving the money to all the people in the town who might have to pay taxes.

The provision of products and services is the primary factor that motivates potential taxpayers to fulfill their tax obligations. since of this, the Town government should make potential taxpayers happy by building roads, providing water, and offering internet services. This will help the tax administration get more people to pay their taxes voluntarily since they will know that the money is being utilized well.

The finding showed that the tax administration and the local administration did not work together to make sure that tax payers paid their taxes. So, the two administrations should work closely together to find and punish the unlawful traders who need to get a license and pay taxes. For this reason, a clean and up-to-date automated taxpayer registration system that includes a list of all taxpayers in the town, along with unique identifiers (TINs), addresses, and contact information for their legal residence and economic activities, should be linked to other asset ownership, such as land, vehicles, and bank accounts. This is an important step toward controlling illegal traders and getting more people to pay their taxes in the town. Conversely, taxpayers did not transition between categories; thus, the tax authority must ensure accurate record-keeping and enhance the standard assessment for declaring taxpayers' income to ascertain their annual sales volume, which facilitates their movement between categories.

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