

# Assessment of Challenges in Collection and Implementation of Rental Income Taxation the Case of Jigjiga City Revenue Authority, Somali Regional State

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**Abstract:-** The general objective of the study was to assess the challenges of collection and implementation of rental income taxation in Jigjiga city revenue authority. The specific objectives of this study were to investigate the challenges of rental income taxation in Jigjiga City Revenue Authority, to analyze the attitude of rental income taxpayers toward taxation, and to analyze the collection systems of rental income tax in Jigjiga City Revenue Authority. In selecting the sample in this research mixed sampling design was used; which means both (random) sampling and (purposive) sampling techniques. Jigjiga city revenue authority Kebele 01 and Kebele 06 were selected randomly. For the purpose of this study both qualitative and quantitative types of data were used from different data sources. To achieve those objectives, the researchers used both primary and secondary data. Primary data was collected through a survey questionnaire which was developed formerly for the sampled respondents, and with the concerned officials, as well as personal observation by the investigators. The secondary data was collected from different documents and sources. The collected data witnessed the existence of negative attitudes and perceptions of rental income taxpayers toward taxation. The result shows that the collection period of rental income tax in the authority is short and it can cause unnecessary fines. Lack of awareness of taxpayers, poor attitude of taxpayers, inadequate knowledge of workers, a limited number of tax officials, lack of access of documented information, and lack of effective implementation of rules and regulations by taxpayers are the challenges that Jijiga city revenue authority faced.

**Keywords:-** Rental Income Tax, Tax Payer's Attitude, Rental Income Tax Challenges Introduction.

## I. INTRODUCTION

### 1.1 Background of the Study

Tax is one of the most important sources of government revenues is contribution extracted by the state. It is non-penal but compulsory transfer of resource from the private to the public sector (Vadde, 2014). In most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax systems that permit a

government to sufficiently finance its expenditures (Berhane & Yesuf, 2013). Taxation in developing countries is a challenging topic and has attracted increasing attention in the last two decades (Vadde, 2014). Many problems observed like poor administration, failing to collect sufficient tax revenues, tax structures where tax horizontal and vertical fairness considerations are not integrated, (Teddele, 2010). In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among rental taxpayers (Tanzi, 2000). The identified problems facing taxpayers were tax fairness and justice, organizational strength of the tax authority, the awareness level of the taxpayers, cultural factors, and delivery of social services by the government (Kebede & Tegen, 2016). The developing countries tax revenue is in a weak position because of both a complex tax system and widespread corruption. Complex and fragmented tax administration has its source in part in developing countries (Crandall and Bodin, 2005). Rental Tax is the main source of revenue for developing and developed countries (Vadde, 2014). One major problem observed from the tax office was the lack of stiff search and control of registered and unregistered rental income taxpayers (Berhane & Yesuf, 2013). Taxation of rental income influences the relationship between house owners and house renters (Berhane & Yesuf, 2013). Tax is the main source of revenue for the government of the Federal Democratic Republic of Ethiopia. The collection of Rental income tax as other Tax remains minimal for many reasons (Berhane & Yesuf, 2013). The rental income tax is the tax imposed on the income from the rent of buildings. Since any income that has received from renting out a property is legally responsible for income tax, the owners of the property have to include it in their tax return (Berhane & Yesuf, 2013). This income could be from renting out land or buildings. The business house rental income tax is one of rental income taxes, which is imposed on the house owners who rent out all or part of their house Business house rental income tax is being currently enforced in Ethiopia (Berhane & Yesuf, 2013).

### 1.2. Statement of the Problem

In Ethiopia, there is a serious problem in developing adequate tax systems (Mohamed Awol, 2013). Like the other tax systems, the system of house rental taxation has confronted with many challenges both on the side of the tax

payers and the officials (Annual report of Adigrat City Revenue Development Office 2011/12). The average rate of rental income taxation in Ethiopia is similar to those of less developed countries but we can't say that the tax collection process in our country is not out of a problem. There are money challenges with different tax payment processes and the tax system isn't understandable and transparent for the taxpayers especially the illiterate taxpayers. After a survey for the community, we founded that the tax system isn't clearly detailed. And society is complaining the implementation of tax is subjective, and they are frequently subjected over taxation. It's therefore very important to make clear the Ethiopian tax system (EBDSN and ECC, 2005).

Although there is no empirical study that has been done before in the region and Jigjiga city revenue authority to identify the challenges of rental income tax, there are many problems in the collection and implementation of rental income tax in the Somali region, this study will attempt to investigate the challenges of rental income tax collection in Jigjiga city Revenue Authority. Jigjiga is among the major places in which highly the rental income tax is collected. This study will document important information on the subsector, which has not been yet carried out before in Jigjiga city.

This paper will answer the following questions

1. What are the challenges of collection of rental income taxation in Jigjiga city revenue authority?
2. What is the collection procedure of rental income tax in the study area?
3. What is the attitude of the tax payer to ward rental income taxation

### 1.3 Objectives of the Study

#### 1.3.1 General Objective

The general objective of the study is to assess challenges of collection and implementation of rental income taxation in Jigjiga City Revenue Authority.

#### 1.3.2 Specific Objectives

The specific objectives of the study are:

1. To investigate the challenges of rental income taxation in Jigjiga City Revenue Authority
2. To analyze the attitude of rental income taxpayers to ward taxation
3. To analyze the collection systems of rental income tax in Jigjiga City Revenue Authority

## II. LITERATURE REVIEW

Tax is the main source of revenue for the government of Federal Democratic Republic of Ethiopian. In Ethiopia, the tax is categorized into two broad categories direct and indirect taxes. Rental income tax is categorized under the direct tax. It's a type of tax in which imposed on the income from rental houses and buildings. It's imposed annually by determining its value in given rates. Because this income is received from renting out of a property it's legally responsible for income tax and the owners of the property have to include their tax return. The income can be from renting land or

building. The rental income tax will be imposed on the owners who rent out all or part of their property. This type of tax is started enforcing currently in Ethiopia (Berhane & Yesuf, 2013). Although the rental income tax existed in the income tax proclamation for a long time but it was started enforcing recently. It's imposed by the owners who rent out their property (Consulting, 2013). Understanding rental income tax is highly important for the government because the rental income taxation causes an increment in renting price of houses and buildings. This influences the income of renters because housing is the most important component of households' consumption expenditure and income. Poor perception of the taxpayer on the payment of tax, delay in tax declaration, starting a business without a license was faced during tax collections, the fairness of tax and equity, the strength of tax authority, the awareness level of taxpayers and provision of social service were problems faced by the taxpayers (Kebede & Tegen 2016) Berhane and Yesuf (2013) assessed the challenges and opportunities of house rental income business tax in Regional state of Tigray. The study collected data via a survey questionnaire. The study findings established that there exists in efficiency and insufficient number of business house rent tax assessment and collection officers in the regional state of Tigray. Moreover, the study found that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of business house rent tax payers do not know the existing applicable rules and regulations. Further, the study found that due to negligence, delay in tax payment and evasion are taken by tax payers as solution to escape from payment of proper business house rental income taxes. Suresh Vadde (2014) conducted on an empirical study attitude of rental income tax payers mekele city. The study findings revealed that the attitude of rental income tax payers influenced by many factors which eventually influence their behavior. Some of those actors are perceptions of the system, understanding of the tax system or tax laws, motivation such as rewards and punishments such as penalties.

## III. RESEARCH METHODOLOGY

### 3.1 Research Design

This study was a descriptive type of research study. According to Creswell (1994) descriptive method of research means gathering information about the present existing condition. The researcher gives the focus on describing the event instead of judging. Descriptive research is a type of research that describing the condition and details of present situation to obtain accurate information about people, event or situations. We also used a quantitative and qualitative approaches for the analysing of data.

### 3.2 Data Sources and Collection Methods

Both qualitative and quantitative type of data was used from Primary and secondary sources. Primary data collected from questioner, interviews, with tax payers, tax collectors and personal observations. Secondary data collected from different related documents, findings and websites newspapers, finance, statistics offices and government organizations of the area used as secondary sources.

### 3.3 Sampling Design

In selecting the sample in this research mixed sampling was used; which means both (random) sampling and (purposive) sampling techniques. Jigjiga city revenue authority Kebele 0 and Kebele 06 were selected randomly.

### 3.4 Sample Size Determination and sampling techniques

Kebele 01 and 06 was selected randomly among 20 Kebele of woreda. The samples sizes of the respondents will also be selected based on the proportion of population live in these Kebeles who pays the rental income tax. The research used mixed sampling; which means both (random) sampling and (purposive) sampling techniques. Thus, the sample size was determined by using the above **Yamane's** formula (1967) sample size is obtained as follows: as follows:

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

Where, N indicates the population size, and e indicates the margin of error. For this research, we used a 5% margin of error. In this study we used mixed purposive and random sampling techniques. For various reasons such as, cost and energy, census for all population is impossible. Hence, sample size determination techniques will be employed to select the sample Respondents. The Selected number of population in the two Kebeles i.e. 01 and 06 are 250 and 200 respectively, which totally yields 450 population groups. So by using the above **Yamane's** formula (1967) sample size is obtained as follows:

$$n = \frac{450}{1 + (450 \times (0.05)^2)} = 212$$

For whom 50% of the respondents are tax payers while the left 50% are tax officials. For this research among the 212 respondents 106 of the respondent were tax collectors and 106 were tax payers.

### 3.5 Method of Data Analysis and Presentation

The data collect for this study was analyzed based on descriptive analysis to address the objectives of the study in the most excellent way. Moreover, it was analyzed and presented by using analytical tools like; tabulations and descriptions that make it graspable. Qualitative data was analyzed through interpretation and conceptual generalization. For quantitative data, descriptive statistics was used.

## IV.RESULT AND DISCUSSION

As was already mentioned in the research methodology part, a questionnaire was used as the primary data collection method. Questionnaires were distributed to the respondents by categorizing them into two. The first type of questionnaire was distributed to the taxpayers (house owners) and the second type of questionnaire was distributed to the revenue bureau officials. Out of the 212 questionnaires 106 were distributed to the house owners (renters), and 106 questionnaires distributed to revenues bureau officials.

Descriptive statistics were used to analyze the data. The majority of the respondent's ages were between 20 and 40, only 7% of the respondents age were more than 40, most of the respondents were male while 30% of the respondents were female. Regarding the education background, the result shows that 75% of the respondents were undergraduate 20% were diploma level and 5% of the respondents were secondary level of education. The first question we wanted to know the renting experience of the respondents. The result showed that 50% of the respondents have renting experience of more than 20 years and 30% of the respondents have to renting experience below 20 years while the rest 20% of the respondents have below 10 years of experience. According to the result, 80% of the respondents have more than 10 years of renting experience and this helps us to know how the tax payers pay the tax and it's also important when we want to measure the attitude of rental income taxpayers toward the payment of tax. Berhane & Yesuf (2013) stated that the relationship between taxpayer and tax collector plays a big role in influencing the perceptions that shape tax behavior. OECD (2010) warns that the revenue body must be cautious when using controlling and supportive approaches to influence behavior. If the taxpayer distrusts the tax collectors it will influence the perception and attitude of the taxpayers. 96.2% of the respondents responded that the tax they are paying isn't fair while 3.8% of the respondents agreed that it's fair. Also, the result shows that more than 90% of the respondents didn't know the exact taxable rate of their property. 70% of the respondents answered that they didn't get training and awareness regarding the tax payment and collection procedures while 30% of the respondents get awareness from different sources. 65% of the respondents agreed that they don't know why they are paying tax. Also, 85% of the respondents agreed the convenience manner and time of payment in jijiga city revenue authority is poor while the rest 15% answered that it's good. 85% of the respondents agreed that there is tax fraud made by the tax collectors.

There is no awareness creation from the tax authority and the taxpayers don't know the purpose of tax payment where the tax is spent and this is resulting in low tax compliance (Berhane & Yesuf 2013). The result shows that there are a negative attitude and perception of taxpayers toward rental income taxation in jijiga city revenue authority and the taxpayers are complaining that the system and procedures of taxation aren't understandable. The taxpayers don't know the taxable rate of their property. There is no good relationship between taxpayers and collectors, there is no effective communication and this negatively influences the perception and attitude of taxpayers. Regarding the challenges of rental income tax collection lack of awareness of taxpayers, poor attitude of taxpayers, inadequate knowledge of workers, a limited number of tax officials, lack of access of documented information, and lack of effective implementation of rules and regulations by taxpayers were the challenges faced during rental income tax collection. When we come to the collection system of rental income tax in the study area the respondents were asked how they collect and implement the rental income tax in the city and their responses were. Based on the new Ethiopian income tax proclamation no. 979/2008, they implement the rental income

tax to the income greater than 7200 (Ethiopian Birr) annually and they impose a tax for the rental property through given rates, any property which is rented fully or partially will be imposed the rental income tax. The taxpayers will pay the tax through appointed banks. Deductions are allowed to the taxpayers based on the federal rental income tax proclamation. For properties owned by the partnership, profits are to be taxed according to their profit sharing ratio. Any tax which is not paid by the due date will attract a 20% penalty of the tax payable. The date of tax payment will start on the first day of the tax officials inform the payer to pay the tax. The period allowed by the taxpayer to pay the tax is three days. According to the above explanations, Jigjiga city revenue authority imposes a tax on the payer within a period of three days if the payer fails to pay at that period they will attract a penalty. The shortness of this period can cause to a penalty for voluntary payers. As some of the tax collectors witnessed it's better to increase the period of tax payment.

should enhance the documentation system that they are using for future use of the data.

These problems need attention to overcome the challenges and to enhance the rental income tax collection procedures of Jigjiga city revenue authority

- To give training and Awareness to the rental income Tax Payers so that the tax payer can get knowledge about why he/she is paying the tax and also the taxable rate of his property, and also to enhance the Attitude of Tax payers towards rental income tax by giving training and encouraging them to pay the rental income tax
- To upgrade the Knowledge of tax officials and enhance the tax collection ability of the workers by giving regular training
- To increase the number of Tax officials
- To store and document the information related to the rental income for future use

## V. CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusions

The study had three objectives that guided the data collection and analysis. The results and analysis were organized based on the objectives. The study shows that most of the respondents are undergraduate degree holders, and this is a benefit to ease the tax collection procedures. Regarding the renting experience of the respondents majority of the respondents have experience of more than years. The result shows that the rental income taxation in jijiga city revenue authority isn't fair, the rental income taxpayers responded that they don't know the reason for taxation and taxable rate of their property. The study also shows that there is tax fraud made by the tax collectors. The manner of tax payment is time-consuming and the authority uses a manual system of payment. There is no good documentation in the study area and the communication system is poor. The above factors negatively influenced the attitude and perception of taxpayers toward rental income taxation. Lack of awareness of taxpayers, poor attitude of taxpayers, inadequate knowledge of workers, a limited number of tax officials, lack of access of documented information, and lack of effective implementation of rules and regulations by taxpayers were challenging factors during the procedures. The shortness of the collection period of rental income taxation causes a penalty to some voluntary taxpayers.

### 5.2 Recommendations

The study, therefore, recommends to the Jigjiga city Revenue Authority should be held on public awareness campaigns to educate the public on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. This will increase the responsibility in tax payment. Active information management is also necessary. The authority must conduct training about the rental income tax policy and tax calculations for the taxpayers. on the other hand, jigjiga city revenue authority should provide training for their employees to reduce tax fraud and to improve the performance of the authority also they should increase their work force to collect the desired amount of rental income tax in the city and they

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