Analysis of the Contribution of Tax to the Local Government Revenue Generation

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ABSTRACT: The study aimed to analyze the contribution of tax to the local government Revenue generation in Southern Ethiopia, Wolaita Zone. The study employed descriptive design which includes surveys and fact-finding enquiry on tax trend, volume of volatility and major source of tax revenues. Taxation is intended at enhancing the revenue base of a nation through its contribution to the wealth of the economy. The total tax revenue for each year however differs, fluctuating from one year to another depending on how much each source adds to the total tax revenue. The contribution of each type of tax system is however dependent on many factors important among them are the economic situation of the time, government policies, emphasis effectiveness and reliability of the assessment collection system which all allows more tax revenue generation from one source than another. The financial impact of taxation to revenue Wolaita Zone, Southern Ethiopia, has been relatively about 65% each year. It was however discovered that this contribution is not the "optimal" and that a lot is still left to be desired about this contribution. The finding also shows that the volatility in ratio of tax to local revenue amounts 3.1%. Since direct tax is the significant source of the revenue structure of the study area it should be reshaped and need to respond to external economic, technological and demographic changes. This is the essence of analyzing tax contribution to revenue generation in Wolaita Zone Administration in Southern Ethiopia.

KEY WORDS: Local government, Revenue, Tax, Wolaita, Ethiopia.

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I. BACKGROUND OF THE STUDY

Governments play a central role in the economic growth and development of developing countries. More specifically, they often provide key services such as education and health care, and invest in vital infrastructures such as roads and power plants. Such public services and infrastructure build up a country’s stock of human and physical, which are indispensable for growth and development. Public services and infrastructure require a lot of resources. Since most governments depend primarily on tax revenues for fiscal resources, tax revenues enable governments to undertake growth- and development-condusive fiscal spending. Or, equivalently, inadequate tax revenues are a major constraint to the government’s capacity to foster growth and development.

In Ethiopia Fiscal federalism derives its nature and characteristics from constitutional provisions as well as the state of economic development, the pattern of income and resource distribution, and the institutional capacity of the system. The assignment of taxing power between the federal and the regional governments and the provision for concurrent power to share establishes the basic link in which the behavior of one of the parties would influence the decision making power of the other and its effective tax base (Girma, 2003).

According to GTP annual progress report (2014), in the past three years of GTP period, the share of domestic revenue in total government revenue was on average 90.44 percent indicating a significant increase in domestic capacity of undertaking socio-economic development with own resources. Furthermore, on average about 85 percent of the total domestic revenue in 2010/11 -2012/13 was generated from tax. The increase in domestic revenue and particularly tax revenue has led to an increase in tax revenue as a proportion of GDP. The tax to GDP ratio has increased from 11.7 percent in 2010/11 to 12.5 percent in 2012/13. Although the tax revenue has increased in real terms over the last three years, it still remains low compared to the tax revenue generating capacity of the economy, the financing requirements of the country’s development programs and the average performances of sub-Saharan countries. Therefore, focus needs to be made to further deepening the implementation of the undergoing tax reform and administration measures so as to further increase tax revenue in the future years.
II. STATEMENT OF THE PROBLEM

The best instrument which the governments can use as a source of revenue is taxation. It can be said, therefore, that a major function of taxation is to marshal the necessary funds to finance the ever-expanding level of public expenditures. As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services which otherwise would not be available to the general public by the market. The central aim of the tax system in Ethiopia is to collect sufficient money to finance the administrative machinery of the government as well as to finance the fulfillment of basic infrastructures like roads, telecommunication, electricity and other basic social services like education, health and water supply facilities.

It is obvious that tax is the most important source of government revenue since Ethiopian Millennium (new era for Ethiopians) which is a year with sharply designed development goals. To attain the designed Millennium Development Goals, the need to higher government revenue increase year to year. According to GTP I (2011) Federal democratic republic of Ethiopia, efforts will also be geared towards bringing new businesses that have been hitherto provided with tax incentives (tax holidays) in to the tax net. Accordingly, at the end of the plan period, share of total domestic revenue and tax revenue to GDP at current market price will reach 17.3% and 15.3% respectively. Budget deficit share to GDP @CMP will be maintained at the level of less than 2 % on average the macroeconomic stability. Even though this is below the world's developed countries standards, it is necessary to put large efforts at lower government level to attain this goal. The effort for better GDP have positive effect on internal revenue the country.

However, the addition of tax to total revenue fluctuates from one year to another. the other is some sources of taxations are underutilized and the other is highly exploited. Therefore taxation is not contributing the revenue to its optimum level. In recent time, like any other sub-national government administrations, Wolaita zone administration facing falling financial situations.

Against this limited financial background, the government is finding it difficult to cope with the increasing expectations of its citizens for the provisions like water provision and distribution, local roads building and maintaining, primary school and primary health care services, as well as veterinary services, agricultural activities management and natural resources protection.

For these government functions that involve huge outlay of expenditure, the government’s option to do in this circumstance is to rely on most important and reliable source of revenue generation. To provide enough social services for society, revenue should be above expenditure. Because of this, the most important motivation for fiscal policy on the world is the need to raise revenue. However, generation of tax revenue requires strong economic decisions and good tax administration. This is so because government has no better alternative other than taxation and asking its citizen to pay their taxes promptly so as to provide the aforementioned facilities.

Therefore, this study is to analyze the contribution of tax to the local government revenue generation in case of Wolaita Zonal administration, Southern Ethiopia, Hence the following objectives were formulated to achieve the aim of the study.

➢ To examine the trend of the contribution of taxation to the revenue of the local government,
➢ To measure the volume of fluctuation of revenue from taxation,
➢ To identify the major sources of tax revenue for the given local government

III. SIGNIFICANCE OF THE STUDY

The importance of analyzing the contribution of tax to local government revenue generation is straight forward. Dealing with the importance of taxation to government revenue will enhance the citizen knowledge in order to encourage the voluntary compliance to individual tax obligation This is the period of reducing regional budget subsidy and building their capacity to collect adequate revenue that compensate their expenses. Thus, examination of important sources of revenue is inevitable during trend analysis, the study will look at the problems associated with tax revenue and this project will tries to recommend solutions to encourage greater revenue generation and stability.

IV. SCOPE AND LIMITATIONS OF THE STUDY

It should be stressed that it is not only taxation that produces all the local government revenue in Ethiopia, other sources do exist but for the purpose of this research work the influence of other sources will not considered. Also among the layers of government (Local, regional and Federal), this study will concentrate only on tax bases that assigned to local government (Wolaita Zonal Administration). With regard to time frame, it includes the data of since 2011 G.C. (Ethiopian started Development planning or GTP I ) onward. It is so, because scholars argue that the GTP target would facilitate the fast economic growth and structural transformation in the country.
V. LITERATURE REVIEW

The Ethiopian federal system follows the conventional model of separate provision for the division of revenue sources between the federal government and regional governments (Assefa, 2007). The federal constitution has three lists in this regard: federal, concurrent and regional. In Ethiopia, the federal constitution declares that the federal government shall levy taxes and collect duties on sources reserved to it, and the states likewise exercise the same power with respect to sources that fall under their jurisdiction. Thus, the two tiers of government exercise their legislative and administrative powers within their respective taxation competences. As a result, the revenue generated from respective sources belongs exclusively to each level of government. The FDRE Constitution does not explicitly limit the powers of the states to alter the taxes or influence the tax bases. However, it provides general "directives on taxation" which they must consider exercising their taxation powers. Both levels of government have the obligation to ensure that any tax is related to the source of revenue taxed, and tax imposed by them should not adversely affect their relationship. If any tax imposed by a state affects interstate commerce, the central government intervenes. However, in practice tax legislation is uniform throughout the country.

5.1. Fiscal Function Assignment Issues

An important aspect of the exercise of fiscal federalism is the assignment of fiscal functions to the federal and the sub-national governments and the appropriate means of financing these responsibilities. The theory of fiscal federalism does not provide a clear-cut separation of fiscal responsibilities that would promote economic efficiency and resource distribution. The broad thrust of normative theory is that expenditure responsibilities in areas of macroeconomic stabilization and redistribution functions should remain within the domain of the federal government whereas allocation functions should be assigned to lower levels of government (Oates, 1999; Shah, 1999; Musgrave, 1983). The argument is based on the reasoning that lower levels of government have limited capacity and policy instruments to provide stabilization and redistribution functions. Due to the nature of the responsibilities, the federal government usually assumes macroeconomic stabilization and income redistribution functions and make sure that regional governments would not take measures that are not compatible with such functions. Moreover, there are functions such as national defense and foreign affairs that have national public good character and hence usually assigned to the central government.

5.2. System of Division of Revenue in Ethiopia

A. Federal Taxation Power of Federal Government

The federal constitution provides exclusive revenue sources under the title federal power of taxation ‘and state power of taxation’. As in most federal countries, in Ethiopia central governments have, relatively speaking, bigger sources of revenue. Taxation powers of the federal government include: employment from the employees of the federal government and its public enterprises and international organizations, federal stamp duties, monopoly tax, value added tax, national lottery, fees from licenses issued and services provided by organs of the federal government. This is on top of the federal government’s share on natural resources (mainly gold and natural gas). At federal level it is the federal parliament which is responsible for levying taxes assigned to the federal government (Art. 51).

B. Regional State Taxation Powers

Taxation power of the regional states within their jurisdiction include: taxation of employment income from employees of the state government; agricultural tax from farmers, tax on individual traders, houses and other property owned by private persons or regional government; employment, and sales tax from public enterprises owned by the state government; forest products, royalties and land lease fees from small mining undertakings. At state level, state councils (the legislative branches of state governments) are empowered to levy taxes on those tax bases (Art. 52(2)).

C. Concurrent powers of taxation

The Federal constitution provides that the federal government and states all collect taxes and shall share revenue taking the federal government in to account (Art.95). Article 98 lists concurrent powers of taxation as follows: profit, sales, exercise, and personal taxes on enterprises they jointly establish; taxes on the profits of companies and individuals to shareholders; taxes on the incomes of derived from large-scale mining and all petroleum and gas operations, and royalties on such operations (Art. 98). The federal government levy and collects taxes on those listed under concurrent powers of taxation, and the incomes are shared with the states, based on the decisions of the House of Federations, the upper chamber of the federal legislature. Regarding residual taxes they federal houses jointly decide by 2/3rds majority (Art.62). In general, the division of revenue raising power in Ethiopia is mainly structured according to the categories of taxpayers or particular
things as a source of revenue. The exclusive domain of each government is not the tax base but the tax source. Thus, it does not result in taxing the same income, transaction or thing by both levels of government. As a result, there is no limit to levy taxes for the federal government with the intention that sub-national governments can raise enough money. For those taxes which are not explicitly stated in the provisions of the constitutions of the constitution, it is to be determined by a 2/3 rd majority vote of the joint session of two houses of the federal parliament.

5.3. Classification of the taxes in Ethiopia

1) Import and export taxes and dues: In line with the federal tradition, import and export taxes and other dues are exclusively levied and collected by the federal government. Tax on foreign trade is a major source of tax in Ethiopia. As a developing country, the nature and type of export items are few in number and originate from specific regions.

2) Income Tax: Experiences show some federations allocated personal income taxes to the central government while others have done so to the regions (Solomon, 2006: 126). The Ethiopian constitution does not exclusively assign income tax to the federal government or to the states. The power to levy and collect taxes from income is assigned to both tier of government. Each of them is conferred power over specific sources. Federal government is given income of employees of federal government, of public enterprises owned by the federal government and international organizations. Incomes from employees of states and other private organizations are reserved to the states (ibid, 127).

3) Sales and Excise taxes: The federal government assigns exclusive powers to the federal government to levy and collect sales and excise taxes from sale, production or services of public enterprises owned by the federal government. The same pattern is followed as the power of the states: they can levy these taxes against public enterprises owned by them. In addition, the states can also levy and collect sales and excise taxes from individual traders within their jurisdiction (ibid, 130; Kibre, 1994: 26)

4) Property Taxes: The constitution gives the states a power to levy property taxes upon houses which are privately owned, land which is used by the royalists from the use of forests. They can also levy and collect tax and royalties on small-scale mining activities (ibid, 132).

5) Fees and other charges: Both federal and states have power to collect fees and other charges. Each level has exclusive powers to collect fees and charges if the service lies under their exclusive jurisdiction (ibid, 134).

5.4. The problems with revenue generation in Ethiopia

Overall, revenue generation efforts are plagued by six major problems. First, the tax base for important sources, such as the property tax and the business tax, is artificially small. This is because the municipalities have not been updating their records and also because informal business and properties are not included in the base. Second, the fees and tax rates tend to be obsolete and are, at times, difficult to administer. Third, collection rates are poor in many municipalities and they vary significantly from year to year. As a corollary, the default rates and cumulative arrears are high, and the problem appears to be worse in the case of property taxes. Fourth, the payment procedures are slow and inconvenient for tax payers. Fifth, the enforcement mechanisms are poor and the legal basis to support enforcement is very weak. This further encourages default and adversely affects efforts to settle arrears. Finally, the above problems in the system of tax administration are exacerbated by the weak human resource capacity of revenue staff and poor incentives for enhancing performance.

Municipal Budgeting Process although basic responsibilities for budget preparation clearly lie with municipalities, the system under which budgets are prepared and reviewed differs widely in practice. As noted in the previous section, the final budget envelope appears to be limited by the revenue base. The budgeting process, however, can begin either with a determination of expected revenue or with estimated expenditure. Each department then prepares a budget request that is submitted to the planning office, but the review processes differ considerably. The case studies outlined below show that the main variations in the budgeting process relate to: (a) the role of the municipality and its units relative to the sector units at the zonal and regional level; (b) the degree of public disclosure and consultation; and (c) the final authority that approves the budget (Municipal Decentralization in Ethiopia, 2001)

5.5. Correlation (Trend analysis) between Government tax revenue and country’s budget

According to some historians, the importance of budget in Ethiopia’s fiscal administration can be traced back to early references to budget appropriation and fiscal revenue in the 1931 constitution. Nevertheless, the significance of the budget instrument evolved slowly in the coming years. The overall size of the budget has grown by leaps and bounds even in the last two decades since the consolidation of the parliamentary system in the EPRDF era.

For example, in July 1996, the ministry of finance presented a budget bill for the fiscal year 1989 EC worth 9.58 billion birr to the first Ethiopian parliament in the post Derg era. In subsequent years, the house approved budget

One can also learn that after 2004, the budget started to expand aggressively jumping, for instance, from 22.07 billion to 30.04 billion birr between fiscal year 1997 and 1998 EC. The figure again jumped to 43.95 billion for fiscal year 2000 EC and nearly doubled to 77.23 billion for 2003; EC while crossing the 100 billion birr barrier to reach 121.81 billion birr the next fiscal year. Again, only after four more years the Ethiopian budget peaked to 241.34 billion birr in 2008 EC. Nevertheless, it took only two years to gain another 100 billion birr in 2010 EC proposing 320.8 billion birr.

In a nutshell, the proposed spending would see 117.3 billion birr out of next year’s budget redirected to the nine regional states and two city administrations, allocated based on a special formula devised by the House of Federation (HoF). The second largest chunk, in tune of 114.7 billion, is allotted to federal government’s capital spending complementing the 81.84 billion birr recurrent expenditure of the federal bodies. The last component which is a seven billion allocation is the support for regional states in their effort to meet the Sustainable Development Goals (SDGs).

Based on HoF’s formulation, which takes into consideration the revenue potential and expenditure needs of the regional states, Oromia is entitled to 39.85 billion birr out of 117.3 billion subsidy fund followed by the Amhara and Southern regional states each looking to cash a check for 24.98 and 23.25 billion birr, respectively, in the coming fiscal year. Somali Regional State is the next biggest earner on the subsidy budget taking home 11.54 billion birr followed by Tigray securing 6.97 billion birr, Afar 3.49 billion, Benishangul-Gumuz 2.11 billion, Addis Ababa 1.64 billion, Gambella 1.54 billion, Dire Dawa 1.02 billion and Harari 878.74 million birr.

Both Dire Dawa and Addis Ababa seem to be the latest inclusions to the subsidy illegibility list in connection to their status of being federal cities and not regional states. According to the principles guiding the subsidy grants, it is only the nine regional states which are original founders of the federation which are entitled to subsidy and to that end the likes of Dire Dawa has been appealing their case to HoF for many years.

On the revenue side, the national treasury is also aiming big this year planning to cover over 70 percent of the budget spending from domestic sources. For that to happen, it is eyeing 221.18 billion birr domestic revenue in the fiscal year (196.4 billion from tax and 24.6 billion from non-tax sources) apart from 45.7 billion birr foreign assistance and credit (17.13 billion birr in assistance and 28.62 billion birr in loan and credit). This leaves 53.88 billion in deficit, another macroeconomic variable which has shown a steady increase over the years in Ethiopia.

### 5.6. Causes of fluctuation for tax revenue

Determinants of Tax Revenue Many literatures suggest there are various determinants of tax revenue which includes the level of economic development, Fiscal Deficits and Debt, Trade Openness, Share of Aid in GNP, Population Density, Share of Agriculture in GDP, and Share of Manufacturing in GDP, Tax Evasion, and other.

**a. Level of Economic Development**

Economic development is assumed to bring about both an increased demand for public expenditure (Tanzi, 1987) and a larger supply of taxing capacity to meet such demands (Musgrave, 1969). A higher per capita income reflecting a higher level of development is held to indicate a higher capacity to pay taxes as well as a greater capacity to levy and collect them (Chelliah, 1971). There is also the consideration that, as income grows countries generally become more urbanized. Urbanization brings about a greater demand for public services while at the same time facilitating tax collection (Tanzi, 1987).

**b. Fiscal Deficits and Debt**

The growth of public spending has generated large fiscal deficits in many countries, leading to increases in the share of public debt relative to GDP (Tanzi & Blejer 1988). With a large debt, the government needs to raise the revenues necessary to service it. When the interest on the debt exceeds net borrowing plus the possible reduction in non-interest expenditure, the level of taxation must go up unless the rate of growth of the economy is high enough to neutralize the increase. Therefore public debt plays a role in determining the extent to which countries may take advantage of their taxable capacity (Tanzi, 1987). However, a high debt burden can also create macroeconomic imbalances that may tend to reduce the tax level. Servicing of the foreign debt requires a trade account surplus, which in turn may require a reduction in imports. This affects revenue given the high dependence of the tax system on the external sector (Tanzi, 1989). In general, however, on balance, a high debt burden would tend to raise the tax level, ceteris paribus (Tanzi, 1992). On the other hand, however, countries faced with an increased trade deficit may try to restrict imports as an alternative to exchange rate adjustment irrespective of the source of the trade imbalance. This will reduce revenue from import duties.
Analysis Of The Contribution Of Tax To The Local Government Revenue

c. Share of Aid in GNP

Aid and grants have been a major source of development finance for the majority of developing countries over the past few decades. Empirical literature has tended to evaluate the impact of aid by including it as a variable in a regression for the determinants of some economic performance indicator, emanating from the general concern that it might have a negative impact on some of such indicators. For instance, there is a general concern that aid may decrease taxation revenue in recipient countries. In fact, the results in Franco-Rodriguez, Morrissey, and McGillivray (1998) study on Pakistan were in agreement with this concern. 4. Population Density It is difficult to point out the direction of the effect, without a systematic study. However, population density is expected to have an adverse effect on the tax ratio, mainly because the higher the density of population the higher will be the use of taxable sources (i.e. rising the tax base), and the tax authorities could intensify their efforts to collect taxes at a relatively minimal cost as compared to a sparsely populated country. Conversely, in a thinly populated area, administrative costs are expected to be higher in terms of total yields and therefore, less encouraging for collection of tax revenues. In such a situation, the degree of tax evasion and tax avoidance may also be relatively higher than in the densely populated area (Ansari, 1982).

d. Share of Agriculture in GDP

Agriculture is considered to be a salient feature regarding the structure of the economy and as Tanzi (1992) asserts, a country’s economic structure is one of the factors that could be expected to influence the level of taxation. For developing countries, the share of agriculture may be an important influence on the tax share, from both the demand and supply point of view (Tanzi, 1992). On the supply side, it is very difficult to tax the agricultural sector “explicitly”, though it is often very heavily taxed in many implicit ways such as; import quotas, tariffs, controlled prices for output, or overvalued exchange rates (Bird, 1974; Ahmad and Stern, 1991; Tanzi, 1992). On the other hand, small farmers are notoriously difficult to tax and a large share of agriculture is normally subsistence, which does not generate large taxable surpluses, as many countries are unwilling to tax the main foods that are used for subsistence (Stotsky & Wolde Mariam, 1997). On the demand side, since many public sector activities are largely city oriented, it may be assumed that the more agricultural is a country, the less it will have to spend for governmental activities and services. Hence as the share of agriculture in GDP rises, the need for total public spending and so for tax revenue may fall.

e. Share of Manufacturing in GDP

Manufacturing enterprises are easier to tax than agricultural enterprises since business owners typically keep better books of accounts and records. Manufacturing can generate larger surpluses if production is efficient. Therefore the variable is positively related to the tax ratio.

f. Tax Evasion

Tax evasion is considered to be of serious concern to those dealing with taxation issues of a country because of the detrimental effects it is assumed to have on tax revenue and the tax system as a whole. One obvious consequence of tax evasion is the loss of tax revenue for government. The fact that some income goes untaxed and also certain indirect taxes such as VAT and excise duties are evaded, leads to the conclusion that tax revenues are lower than if everyone had paid their taxes. Over the years a growing amount of attention has been focused on the conjecture that a significant and growing hidden economy exists. Most of the authors who have attempted to deal with it have reached one common conclusion that the problem of the hidden economy cannot be dismissed as quantitatively trivial, especially because some of the analytical work has done on the subject have uncovered some intriguing issues. The major incentive for the effort to calculate the extent of the hidden economy has been dominated by the worries of fiscal authorities concerned with the loss of tax revenue through tax evasion. Attempts to estimate the amount of the tax revenue loss have produced appalling figures of tax revenue loss. For instance, Feige (1981) estimated the tax revenue loss in the United Kingdom to be around £9 billion. Other estimates of tax revenue losses in the United Kingdom, according to Pyle (1989) ranged between £2 and £11 billion per year. Estimates have also shown that revenue has been lost due to evasion of indirect taxes. Pyle reported the amount to lie between £250m and £ 500m per year due to evasion of VAT. Estimates have also been done in other countries and still figures are not small.

VI. RESEARCH METHODOLOGY

6.1. Brief History of Target area

Wolaita is a Zone in the Ethiopian Southern Nations, Nationalities, and Peoples' Region (SNNPR). It is named for the Wolaita people, whose homeland lies in this Zone. Wolaita is bordered on the south by Gamo
Gofa, on the west by the Omo River which separates it from Dawro, on the northwest by Kembata Tembaro, on the north by Hadiya, on the northeast by the Oromia Region, on the east by the Bilate River which separates it from Sidama, and on the south east by the Lake Abaya which separates it from Oromia Region. The administrative centre of Wolaita is Sodo. Other major towns are Areka and Boditi.

Based on the 2007 Census conducted by the Central Statistical Agency of Ethiopia (CSA), this Zone has a total population of 1,501,112, of whom 739,533 are men and 761,579 women; with an area of 4,208.64 square kilometers. Agriculture is the livelihood for more than 90% of the population in the rural areas. Animal husbandry is complementary to crop production, and the livestock population of Wolaita.

### 6.2. Research design

The study used descriptive design which includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening. Variables to be described are trends of tax contribution to revenue generation, volume and cause of fluctuation of tax revenue and identification of major tax revenue source.

### 6.3. Data Sources and Method of collection

The researcher extensively used secondary data that obtained from Wolaita Zone revenue and Customs Authority department and Wolaita Zone Finance and Economic Development office organizational records, surveys and annual reports.

The researcher collected data by reviewing different documents that has been recorded formerly or pre-analyzed for different purpose.

### 6.4. Method of Data Analysis

The data obtained from Wolaita Zone Finance and Economic Main Department and Custom and Revenue authority have been arranged in logical order in such a way that they reflect the components of fiscal decentralization mainly in the forms of tax to revenue ratio. After raw data converted into the revenue ratio at local government level, chart and tabular presentation tools are employed for descriptive analysis such as correlation, mean, standard deviation and etc purpose.

### VII. DATA PRESENTATION AND ANALYSIS

The central theme of this article is to analyze the contribution of tax towards local government revenue in case Southern Ethiopia, Wolaita Zone administration. To achieve this objective, the important measurements are the ratio of tax to the local government revenues, tax revenue growth rate and the relative contribution of different types of taxes to tax revenue.

<table>
<thead>
<tr>
<th>Year</th>
<th>Govt. Expenditure</th>
<th>Total revenue</th>
<th>% of revenue to expenditure</th>
<th>Subsidies from Regional Government</th>
<th>% of subsidy to Govt. Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>487,758,309.28</td>
<td>132,094,517.5</td>
<td>37.0</td>
<td>355,663,791.8</td>
<td>72.9</td>
</tr>
<tr>
<td>2012</td>
<td>597,475,008.19</td>
<td>177,796,338</td>
<td>29.7</td>
<td>419,678,670.2</td>
<td>70.2</td>
</tr>
<tr>
<td>2013</td>
<td>706,619,385.49</td>
<td>255,011,425.4</td>
<td>36.0</td>
<td>451,607,973.10</td>
<td>63.9</td>
</tr>
<tr>
<td>2014</td>
<td>855,922,792.22</td>
<td>326,345,772.6</td>
<td>38.1</td>
<td>529,577,019.67</td>
<td>61.8</td>
</tr>
<tr>
<td>2015</td>
<td>1,237,244,341.22</td>
<td>451,706,971.1</td>
<td>36.5</td>
<td>785,537,370.10</td>
<td>63.4</td>
</tr>
<tr>
<td>2016</td>
<td>2,443,465,626.00</td>
<td>530,965,605.1</td>
<td>21.7</td>
<td>1,912,500,020.89</td>
<td>78.2</td>
</tr>
<tr>
<td>2017</td>
<td>3,589,045,495.91</td>
<td>587,970,287.8</td>
<td>16.5</td>
<td>3,001,075,208.08</td>
<td>83.6</td>
</tr>
</tbody>
</table>

**Source: Own computation on data from Finance and revenue departments.**

From the above table (1) we can clearly understand that majority of funds for financing the expenditure responsibility since 2011-2017 comes from regional government subsidies in the form of block grant budget. The percentage of subsidy to total government expenditure oscillates between minimum of 61.80% and maximum of 83.60%. Within the specified period (2011-2017) the share of locally generated revenue indicates minimum 16.30% and maximum 38.10 % of the government expenditure. The dependency of Wolaita zone public expenditure on regional government subsidy and grants increased from time to time. In other side it shows the decrease of the contribution of locally generated revenues towards public spending (utilized budget). However, local governments may have dominant responsibility for education, health, water supplies and other inter-municipal issues, the undermined fiscal revenues by wreaked fiscal bases and collection problems making them highly relying on intergovernmental transfers (subsidies), and thus limiting their autonomy.
Table (2) Contribution of tax to the local government revenue in wolaita zone (2011-2017)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>Tax revenue</th>
<th>Tax revenue growth (%)</th>
<th>Tax to revenue ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>132,094,517.50</td>
<td>74,581,717.46</td>
<td>27.6</td>
<td>56.4</td>
</tr>
<tr>
<td>2012</td>
<td>177,796,338.00</td>
<td>110,727,466.80</td>
<td>48.4</td>
<td>62.2</td>
</tr>
<tr>
<td>2013</td>
<td>255,011,425.40</td>
<td>176,675,044.10</td>
<td>59.5</td>
<td>69.2</td>
</tr>
<tr>
<td>2014</td>
<td>326,345,772.60</td>
<td>223,271,795.30</td>
<td>26.4</td>
<td>68.4</td>
</tr>
<tr>
<td>2015</td>
<td>451,706,971.10</td>
<td>322,039,646.60</td>
<td>44.2</td>
<td>71.2</td>
</tr>
<tr>
<td>2016</td>
<td>530,965,605.10</td>
<td>352,914,653.00</td>
<td>9.5</td>
<td>66.4</td>
</tr>
<tr>
<td>2017</td>
<td>587,970,287.80</td>
<td>369,080,324.00</td>
<td>4.5</td>
<td>62.7</td>
</tr>
</tbody>
</table>

Source: Own Computation on data from Revenue and Custom Authority Department

The above table (2) clearly depicts increase of tax to revenue ratio of wolaita zone administration from 2011-2013 and decrease from 2015-2017. The tax revenue ratio of three years (2011, 2012 and 2017) are below the mean value of 65 %. The first two years are the periods during which the country Ethiopia, subsequently Wolaita zone started to operate according to the GTP I and the third year (2017) was the period with in GTP II It is observable, from the above information that there is volatility (standard deviation) of tax to revenue ratio of Wolaita Zonal administration which is about 5%.

For the period between 2011-2017 the mean share of tax revenue was about 65% of the total revenue earned by the local government. It shows that taxes in Wolaita zone have a significant contribution to the total revenue budget of the local government

With regard to tax revenue growth rate, the first three years of GTP I (2011, 2012 and 2013) shown increasing signals. The sharp increases in tax revenues can be attributed to a number of policy and administrative measures that were taken to improve local tax revenue collection. These included strengthening the capacity of the tax collection agencies, expanding the tax identification number system throughout the zonal administration, increasing tax compliance and taking stringent legal measures against tax evasion.

However, the data from 2015 up to 2017 show that the trend of growth rate of tax revenues has been declining over time.

As table (3) below shows, the correlation coefficient between tax and the revenue of Wolaita Zonal administration is 0.999 which indicates that tax is the significant source of revenue of wolaita zone.

Table (3): Correlations Between tax and revenue of Wolaita Zone

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>0.992</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Own computation from Wolaita Zone Revenue and Custom Authority Data

Figure 1: The Percentage Share of Different revenue sources 2011-2017

Source: Own Computations on data from Revenue and Custom Authority department
In the past seven years time, the average contribution of the direct tax has been around 51% of the total local government tax revenues of which business profit tax holds 15.17%. The share of other revenues like revenue collected from municipalities is about 33.8% and indirect taxes such as VAT and TOT indicates about 15.12%. Other revenues in a sense includes, administrative fees and charges, such as work permits, court fines and fees, forfeits, business and professional registration and license fees; sales of public goods and services; government investment income; and miscellaneous revenues. This implies that Wolaita Zonal administration highly relies on direct taxes such as business profit tax and employment income tax. The share of different types of tax in local government’s tax revenues is indicated in table (4) below.

Table (4): The relative contribution of different types of taxes to the tax revenue of Wolaita zone (2011-2017)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax revenues</th>
<th>Direct tax</th>
<th>Direct tax to total tax (%)</th>
<th>VAT to total tax (%)</th>
<th>TOT to total tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>74,581,717.46</td>
<td>66,828,030.47</td>
<td>8.93</td>
<td>2.649,405</td>
<td>0.35</td>
</tr>
<tr>
<td>2012</td>
<td>110,727,466.80</td>
<td>100,803,236.10</td>
<td>8.47</td>
<td>11,536,518</td>
<td>1.04</td>
</tr>
<tr>
<td>2013</td>
<td>138,615,044.10</td>
<td>134,805,572.20</td>
<td>7.73</td>
<td>27,327,847</td>
<td>1.54</td>
</tr>
<tr>
<td>2014</td>
<td>222,271,795.30</td>
<td>191,030,936.60</td>
<td>7.83</td>
<td>35,011,972</td>
<td>1.56</td>
</tr>
<tr>
<td>2015</td>
<td>322,039,646.60</td>
<td>244,971,452.50</td>
<td>7.86</td>
<td>54,797,154</td>
<td>1.70</td>
</tr>
<tr>
<td>2016</td>
<td>352,914,653.00</td>
<td>265,126,591.16</td>
<td>7.74</td>
<td>61,488,236</td>
<td>1.74</td>
</tr>
<tr>
<td>2017</td>
<td>369,080,324.00</td>
<td>274,368,778.90</td>
<td>7.77</td>
<td>65,369,430</td>
<td>1.71</td>
</tr>
</tbody>
</table>

Source: Own computation on data from revenue and custom authority department

Although direct taxes were playing significant role during beginning years of GTP I, its ratio to total tax revenue has steadily declined. Particularly maximum ratio attained since 2011 minimum ratio was during 2013 again it has revived back in slow rates. The following table (5) shows the minimum, maximum, mean value and standard deviation for the shares of direct tax, VAT and TOT.


<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct tax to total tax revenue</td>
<td>7</td>
<td>7.73</td>
<td>8.93</td>
<td>8.0471</td>
<td>0.46764</td>
</tr>
<tr>
<td>VAT to total tax revenue ratio</td>
<td>7</td>
<td>0.35</td>
<td>0.74</td>
<td>0.5771</td>
<td>0.10985</td>
</tr>
<tr>
<td>TOT to total tax revenue ratio</td>
<td>7</td>
<td>0.43</td>
<td>0.71</td>
<td>0.5600</td>
<td>0.10985</td>
</tr>
</tbody>
</table>

Source: Own computation on data from Revenue and Custom Authority Department

As the above data dictates the mean value for the ratio of direct tax to total tax revenue from 2011-2017 is 8.047, the percentage declined from time to time. The major direct taxes in the study area are business profit tax and employment income tax. Among indirect taxes that collected by the local revenue authority VAT and TOT are holding high shares, mean value of VAT is greater than the mean value of TOT. VAT to total tax ratio raised above its mean value (which is 1.377) since 2013-2017, which implies the increase of tax collection efficiency of revenue and custom authority department.

**VIII. CONCLUSION AND RECOMMENDATIONS**

Tax revenue and the demand for public goods and services does not follow proportioned pattern and this gives rise to the emergence of fiscal imbalances. A number of reasons, both economic and social, contribute to the mismatch between the expenditure responsibilities and the capacity of the local government to raise sufficient revenue to finance their expenditure.

As the research theme presents, the analysis of tax contribution towards local government revenue generation has been concluded both in aggregate and disaggregated individual tax type.

The responsiveness of tax revenue to the income of this sub regional area implies a functional relationship between the two, with tax revenue as dependent variable and local government income as an independent variable. The two variables are strongly correlated.

Both direct and indirect taxes are important for national as well as sub-regional parts of a country as they are linked with the overall economy.

The decline in the share of direct tax to total tax revenue probably resulted from individuals involvement in tax evasion the most and it is done through submitting false document, not maintaining proper accounts, over reporting of expenses, under reporting of incomes and maintaining different sets of invoices, operating business transaction in different names and maintaining multiple sets of bank accounts.

From this study it is possible to know people support on modernized taxing system (increased effect of VAT through cash register machine). It is more convenient source to collect government revenue, saving time, less procedural complication, easy to access, less paper work, more accurate information and safety of records.

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Measures to improve tax revenue administration can be as important as tax policy to raise revenues. Reforms to legislation at the national level is not the only solution to achieve high tax revenue, there are other areas of reforms, such as: seeing the taxpayer as a client and investments in staff recruitment, training and digitalizing and updating databases.

A strong enabling political environment, adequate resources and realistic reforms that focused on incremental changes to main revenue sources are important things for the success of reforms.

The problems can be solved to some extent by proper management of tax system and will lead to substantial increase in revenue. Wolaita Zonal tax administration system has been attempting to modify itself to meet changes in technology and economic policies.

REFERENCES


