TAXATION AND ITS IMPACT ON SMALL BUSINESSES IN ETHIOPIA: A CASE STUDY

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ABSTRACT

Business Profit Tax is the tax imposed on the taxable business income or net profit realized from industrial movement. Taxable business income probable is determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in conformity with the generally accepted accounting principles. Corporate businesses are required to disburse 30% flat rate of trade income tax. For not organized as entity or individual businesses the business income tax varies from 10% - 35%. Commonly tax on small business is estimated and imposed randomly without deep investigation of income of the businesses. Most of the time, the businesses who are able to pay tax are stopped up or decreasing their operation. The close or decrease in operation of the business has impact on the income of individuals who own the business as well as revenue of the government. Thus, the main objective of the study was to assess taxation and its impact on the development and expansion of small business shops and hotels in case of Aksum town Ethiopia.

The study used both primary and secondary data in order to collect information regarding the topic. The primary data used was questionnaire methods of data collection. And also secondary data was collected from written documents that exist in the authority office. The information that is obtained from primary and secondary sources was analyzed and interpreted using descriptive type of analysis. Finally, from the study different problems have been identified and, the study tries to give possible solutions for the problem.
INTRODUCTION

Taxation is a system of raising money to finance government. All governments require payment of money in the form of taxes from people. Governments use tax revenues to pay to government bureaucracy, soldiers and police, to build water dams and roads, to operate schools and universities, to provide food and medical care to the poor and for hundreds of other purposes. Without taxes a government could not exist [Gebrie, 2006].

It provides social amenities in the form of education, health and sanitation facilities. Government raises revenue from internal as well as external sources to incur such huge expenditure on various functions the government has to perform. The common sources are foreign and domestic borrowings, sales of public assets, income generated from different public undertakings, gifts, and donations, fines etc. Among these sources of revenue for government financing, tax plays the largest role. Taxation reallocates resources from private to government use in two distinct steps. First the ability of individuals to command resources is reduced because taxation reduces income for spending on market goods and services. Second the revenue allocated by government then is used to bid for resources necessary to provide government goods and services and to provide income support permanents to recipients of government transfers such as social security pension [Gupta, 2001].

If government are to promote growth, equity, environments protection, social security service etc, it should develop an acceptable tax policy that the peoples seem to be more willing if and they fees fairly treated relative to the individuals and groups with whom they compare themselves. A good tax system which would bring equitable economic growth and prevent tax evasion and avoidance should be developed.

In addition to others, taxes are important sources of public revenue. The public goods and services are normally subject to combined consumption, thus requiring that some of the earnings have to be given into government hands. Public goods are generally provided by public agencies due to their natures of non-rivalry and not excludability. The temperament of consumption of public goods is such that consumption by one does not diminish consumption for others. Above and beyond, consumption of public goods by an agent does not exclude others from doing same. Such character of public goods therefore creates them impossible for personal suppliers to avail them at market prices like other commodities. Government interference in the supply of public goods is, therefore, to be anticipated and can merely be done if the public pays taxes for the manufacture and supply of such goods [Ethiopian Chamber of commerce, 2005].

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3 Public goods and services refer to roads, power, Municipal services, and other public infrastructures.
A tax affects the decisions to buy and sell products and inputs and also affects the small business shops and hotels by shifting market supplies or demands of services. Taxes inevitably change their prices and there by influence the pattern of resource use. Taxes influence the price of goods and services traded in market with no externalities losses in efficiency are likely to result.

**Statement of the Problem**

Ethiopia being one of the developing country ,in which majority of the people live in poverty line the role of small business shops and hotels in observing labor force and sustaining the lives of the poor and those with no positions is very much significant .

Although small business shops and hotels have such for reaching capacities of observing labor forces and contribution of gross national output of the country in general and the study area in particular there are various constraints that can lead to poor performance and death of the businesses. Among these constraints; tax is the major obstacle to small business shops and hotels (Information from case study).

Commonly taxes of small business is estimated and imposed and most of the business those unable to pay taxes are closed, the close of the business has negative effect on the income of individuals who own the business as well as the revenue of the government.

There are also some cases in which the employees underestimates the income of the business owners due to business and corporations happened to get individual benefits .As a result the burden of a tax will increased and creates agreed problem on operation of the business.

Thus the study has conducted to find possible answers for the following questions.

- How tax are estimated and imposed on small business shops and hotels?
- Is taxation system affects small business shops and hotels and eventually leads them to shut down.
- What are the feasible problems to be solved improve of small business shops and hotels?

**Objective of the Study**

The overall objective of the study is to assess the taxation and its impact on development and expansion of small business shops and hotels in Aksum city, Ethiopia.

**Specific Objective**

The precise objectives of the study are:

- To assess how taxation imposed and estimated on a small business Shops and Hotels;
- To evaluate the impact of taxation system on small business Shops and Hotels and;
- To recommend the possible solution for the improvement of the tax estimation system of the small business shops and hotels.
In general, in taxation and its impact on small business shops and hotels there are so many questions which need to be addressed. Among of these questions the researcher tries to address the following questions:

1. What is determination of tax on small business shops and hotels?
2. Do you think the taxation has impact on small business shops and hotels?
3. Is there an existence of punishment by the tax authority?

**Significance of the Study**

The study focused on the taxation system and its impact on small business shops and hotels. The outcome of the study will use the owner of the business as well as the government. Generally it is believed to have the following importance:

- It gives information for the small business shops and hotels owners about the impact of taxation system on the business;
- It would provide information for the governments about the drawback of the system.
- It suggests some possible solutions on the impact of taxation system on small business shops and hotels.
- It may help further, for those who would like to study on the area in depth.

**The Scope of the Study**

The study would be limited to the impact of taxation imposed on the development and expansion of small business shops and hotels with some related problems that contribute to the hindrance of the sector in the study area (Aksum Town) more over the final findings or results recommended to economic agents of Aksum town in particular and throughout the country in genera.

**Methodologies of the study**

**Sources of Data**

Mainly two types of data are use in the study; these are primary and secondary data. Primary data was collected from those people who own small business shops and hotels. Secondary data are collected from official documents and records that are related to the case.

**Methods of Data Collection**

Different methods of data collection were applied in the study. According to the source of the data collection interview and questionnaires from primary data and from Secondary data information are collected from certain documents such as proclamation about taxes policies, reports and manuals.

**Sampling Techniques**

The Stratified sampling method was adopted by the researcher to collect data from operations, because the selected populations were not homogenous in various aspects. To make them more uniform.
composition they were subdivided according to their common variables in the shops and hotel commercial society of the confined place.

After total population was sub divided in to shops and hotels which were more homogenous than the total study population, then sampling technique used for each stratum shops and hotels. In the study area which was Aksum city, there were 782 (seven hundred eighty two) established shops and hotels, of which small shops were 744 (seven hundred forty four) and the remaining which accounts 38 (thirty eight) were hotel work for the societies.

From this total population 782 who were operating small business shops and hotels, the researcher selected 42 businesses as total sample size 34 from shop owners and 8 hotel owners, by using non probable personal judgment.

Methods of Data Analysis

Descriptive analysis like table, percentage, charts and others are used as method of data analysis for easy understanding and interpretation, percentages is used to make comparisons and interpretation. Tabulation was mostly used since it facilitates easy interpretations.

2. Review of Literature

A tax is a compulsory levy on those who have to pay these sums of tax irrespective of any proportionate return of services or goods by the state.

Taxations is a payment levied for which no good or service is received directly in return –that is, the amount of tax people pay is not related directly to the benefit people obtain from the provision of a particular good or service.

Taxation is the main sources of revenue for the government to finance its expenditure and taxes have been classified by various economists in various ways from different angles. They classify taxes according to how pays them the extent to which the burden of them can be shifted and various other criteria.

As long as governments exist, they have to come up with ways of financing their public funding. Methods of public financing have changed enormously over time.

Tax is a payment extracted by government from people and organizations to fund public expenditures without rendering proportionate benefits by the use of law.

Tax is a liability imposed upon the tax payers assessed from individuals, group of individuals, or other legal entities.

It is a liability to an amount on account of the fact that tax assesses as income of a minimum amount and quidproquo-means thing exchanged for another, equivalent in value.
Taxation reallocates resources from private to public use in two steps:

- First, the ability of individuals to command resources is because taxation reduces income for spending on market goods and services.
- Second, the revenue collected by the state then is used to bid for resources to provide public goods and services and to income support payments to receipts of government transaction as social security pension.

Historical Development of Taxation in Ethiopia

The determination of tax rate on any operating business is either by the presentation of income statements of the business to the internal revenue authority or depends on the capital of the business estimating the amount of tax to be paid by tax payer.

There are two important system of income tax that has been adopted by countries around the world. These are the global and the scheduler system of taxation. The basic feature of the global system of income taxation is that the tax is imposed on the total income of an individual regardless of the types of activities that he/she pursues and regardless of the sources from which he/she obtained his/her income. On the other hand the schedule system of income taxation which is the system adopted in Ethiopia taxes the different sources of income of an individual in consideration for the purpose of taxation. Accordingly, income is identified by its sources and each source has its own procedures and rates for the determination of income tax. The working law on income taxation in Ethiopia, the income tax proclamation No286/2002 has classified sources of income into four schedules. Therefore income taxation in the country is undertaken based on these schedules as follows: (They are categorized under direct tax).

- Schedule A; employment income
- Schedule B; rental income
- Schedule C; business income
- Schedule D; other income

Schedule A: payroll (employment income) – it is a tax levied from revenue generated from employment activities which includes all payments in cash and in kind by the employee. Income of causal employees who do not work for more than one month in a year, persons and provident funds contributed by the employer up to 15% of the basic salary of employee, compensation paid for personal injury, gratitude in relation to the death of other person are exempted from tax payment.

Schedule B: Rental income tax – it is income tax levied and collected on income from rent of buildings. The income includes rent of building, rent of furniture etc.

Schedule C: Business income tax – it is a tax paid by those individuals or bodies engaged in generating income from business activities such as industrial, commercial banking, transporting, mining etc. For the purpose of payment of business tax payers of schedule are categorized in to three categories.
Category A: includes any company and other entities whose annual turnover is greater or equal to Birr 500,000. This categorized of business men should maintain all business records and submit financial statements containing balance sheet and income statement.

Category B: includes those enterprises having annual income more than Birr 100,000 and less than Birr 500,000. They are required to submit the profit and loss statement with the supporting vouchers to the tax authority.

Category C: it consists of those business men annual turnover is estimated to be Birr 100,000 and less.

Schedule D: Other income- it includes income generated from different activities and the tax collected from such business are: tax on capital gain, income from technical service, tax on lottery and other chance winning, tax on loyalty, dividend and casual rental of property.

Indirect Taxes

Indirect taxes are those taxes the incidences of which are passed onto others (consumers). They are also referred to commodity tax and include import and export duty, sales and excise tax, value added tax, turnover tax. Sales tax of Ethiopia is currently replaced by turnover tax (TOT) for those whose annually gross sales in less than Birr 500,000 and value added tax (VAT) for those whose sales is greater or equal to 500,000 Birr.

Excise taxes are levied on certain types of consumption activities. It is imposed on goods imported and produced local and computed based on value of goods imported which includes invoices price and cost of production on goods produced locally.

The value added tax proclamation provides for imposing VAT on those persons whose annual taxable transaction exceeds Birr 500,000. However, to enhance fairness turnover tax is imposed on those persons who are not required to be registered for VAT. Therefore, persons who are not registered in VAT and engaged in supply of goods and services have to pay turnover tax on the value of goods they supply or the value of services they render.

In modern taxation, the following factors are considered as elements of taxation.

- It is compulsory contribution;
- Government only imposes taxes;
- In payment of tax an element of sacrifice is involved;
- Taxation is aimed at welfare of the community;
- The benefit may not be proportional to tax paid;
- Tax is legal collection.

Taxation as a branch of study is the domain of both public finance and accounting. Public finance embraces taxation in that determination of the source and magnitude of government revenue of which taxes constitute the largest part is the major concern of this principle.
On the other hand, expansion of knowledge by evolutionary and revolutionary changes in the economic, social and political organizations of human society dictated specialization within any field of study including accounting. Thus the complexity of tax regulations applicable to various business transactions and size faced taxation to branch out as a distinct specialized field of accounting in recognition of revenue and expense. Financial accounting is based on generally accepted accounting principles while tax accounting is in adherence with countries tax law and regulation [Gebrie, 2006].

Objectives of Taxation

Initially governments imposed taxes for three basic purposes; to cover the cost of administration, maintain law and order in the country and for defense. But now government’s expenditure patron exchanged and give serves to public more than these three basic purposes and it restore social justifies in the society by providing social services such as education, public health, employment, pension, housing, Sanitation and other public service. Therefore, governments need much amount of revenue than before. To generate more revenue government imposed taxes of various types. In general the objectives of taxation are:

1. Raising revenue: to render various economic and social activities a government needs large amount of revenue and to meet this government imposes various types of taxes.
3. Ensuring economic stability: taxation affects the general level of consumption and production. Hence it can be used as an effective tool for achieving economic stability. Governments use taxation to control inflation and deflation.
4. Reduction in regional imbalances: If there is regional imbalance within the country governments can uses taxation to remove such imbalance by tax exemptions and tax concessions to investors who made investment in underdeveloped regions.
5. Capital accumulation: Tax concession or tax rebates given for savings or investment in provident funds, live insurance, investment in shares and debentures leads to large amount of capital accumulation, which is sensational for the promotion of industrial development.
6. Creation of employment opportunities: governments might minimize unemployment in the country by giving tax recession or exemption to small entrepreneurs and labor intensive industries.
7. Preventing harmful consumption: Governments can reduce dangerous things on the society by levying leave exile tax on cigarettes, alcohols, and other products which worsen people’s health.
8. Beneficial diversion of resources: Governments impose heavy tax on non-essential and luxury goods to discourage producers of such goods and give tax rate reduction or exemption on most essential goods. This diverts producer’s attention and enables the country to utilize the limited resources for production of essential goods only.

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9. Encouragement of Exports: Government enhance foreign exchange requirement through export oriented strategy. These provide certain tax exemption for those exports and encourage them with arranging a free trade zones and by making bilateral and multi-literal agreement.

10. Enhance commodities of standard of living: the government also increases the leaving standard of people by giving tax concessions to certain essential goods.

**Principles of Taxation**

Most believe that a tax system should follow the main principles: fairness and efficiency. Scottish economies Ado smith laid out these principles in his land mark treatise the wealth of nations (1776) Economists believe two principles of fairness to determine whether the burden of a tax is distributed reasonably; the ability to pay standard and the benefits principles.

1. Ability to pay principle: the ability –to- pay – principle holds that people’s tax should be based up on their capability to pay, usually as measured by earnings or wealth. One implication of this principle is parallel equity, which states that people in equal position should pay the same amount of tax.

A second requirement of the ability –to- pay principle is vertical equity the idea that tax system should be distributed the burden fairly across people with different abilities to pay.

2. Benefit principle: The benefits principle of taxation states that only the beneficiaries of a particular government program should have to pay for it. The scrupulous application of the benefits principle is tremendously restricted, because the majority government services are devoted by the community as a whole. One can make a case that, for same taxes, there is a relationship between taxes paid and benefits received.

A good tax system should be efficient wasting as a little money and resources as possible. Efficiency can be measured by three measures which include administration costs, complain costs and excess burden.

1. Administration costs: running a tax collection authority requires money and this is cost for the office. The government is required to hire tax collectors together revenues data entity checks to practice tax returns. That is auditors to inspect doubtful returns, lawyers to handle disagreements, and accountants to follow the flow of money.

2. Compliance costs: complying with the system paying taxes costs taxpayer money above and beyond the actual tax bill. These costs includes the money that people spend on accountants tax lawyers and tax preparers as well as the value of taxpayers time spent filling out tax returns and kipping records.

3. Excess burden: a third measures of tax systems efficiency taxes in to account the fact that when the government levies a tax on goods it distorts consumers behavior people buy less of a taxed goods and more of other goods. Instead of choosing what goods to buy solely on the basis of their intrinsic merits, consumers are influenced by taxes.

**3. Discussions and Analysis**

The data collected from the owners of small business shops and hotels are analyzed and presented below.
The findings of the study are based on the analysis and discussion of the responses of the people who own small business and hotels in Aksum town Ethiopia. From the total people 782 who are operating small business shops and hotels distributed for 42 people. Among this 38 of the questionnaires were collected and the remaining 4 questionnaires were taken as uncollectable. Depending on this information obtained from the respondents almost all of the owners of small business shops and hotels are liable to tax to the extent the amount imposed on them.

Socio demographic form of respondents

Sex classification
The table below shows the sex classification of small business shops and hotels owners.

<table>
<thead>
<tr>
<th>Sex</th>
<th>Number of respondents</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>25</td>
<td>66%</td>
</tr>
<tr>
<td>Female</td>
<td>13</td>
<td>34%</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: own survey of 2012

As indicate in table 3.1 above 66 percent and 34 percent of the respondents from the sample served are male and female respectively. The participation of males is higher than female in running small business shops and hotels in the area.

Chart 3.1. Age distribution of small business shops and hotels owners.
From the total respondents of 38 owners of small business shops and hotels the age classification constitute below 20, 21-30, 31-40 and above 40 and the portion is 5 percent, 24 percent, 42 percent and 29 percent respectively. From this data we can infer that age groups of 31-40 years are operating the small business shops and hotels dominantly in the town, which covers highest portion 42 percent of the total age followed by age of above 40 years with 29 percent and age groups of below 20 years and 21-30 years cover small portion of the total age group which is 5 percent and 24 percent respectively.

From this we can understand their contribution for the growth of the country’s economy or it is important to identify the productive age group.

Educational Level of Small Business Shops and Hotels Owners

Education is essential for every economic activity. Without education operating any business activities are very difficult. As information from business operations indicates, in the study area almost all of owners of small business shops and hotels are literate. The details about the educational level of small business shops and hotels owners are shown below in the given table.

<table>
<thead>
<tr>
<th>Educational level</th>
<th>No of respondent</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td>literate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>primary</td>
<td>11</td>
<td>29%</td>
</tr>
<tr>
<td>secondary</td>
<td>21</td>
<td>55%</td>
</tr>
<tr>
<td>Above secondary</td>
<td>4</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: own survey of 2012

As indicated in 3.2 above 55 percent of the respondents from the sample surveyed portion have completed secondary school followed by primary level with 29 percent of respondents. 11 percent of the respondents have educational level above secondary level and only 5 percent of samples surveyed are illiterate. From this data we can conclude that almost all of the respondents are literate which is 95 percent of the total is and only few numbers 5 percent of the respondents are illiterate.

Analysis of Information from Respondents

Determination (impose) of tax on small business shops and hotels

According to proclamation NO 308/2002 the determination of tax rate on any operating business is either by presentation of income statements of the business to the internal revenue authority or dependent on
the internal operation of the business. After their income is established the amount they determined according to the range of their income as follows:

### Table 3.3. Determination of Tax on Small Business Shops and Hotels.

<table>
<thead>
<tr>
<th>Number</th>
<th>Yearly income in Birr</th>
<th>Tax rate</th>
<th>Reduced Birr</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Below 1800</td>
<td>Free</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>1801-7800</td>
<td>10%</td>
<td>180,00</td>
</tr>
<tr>
<td>3</td>
<td>7801-16800</td>
<td>15%</td>
<td>570,00</td>
</tr>
<tr>
<td>4</td>
<td>16801-28000</td>
<td>20%</td>
<td>1410,00</td>
</tr>
<tr>
<td>5</td>
<td>28001-42600</td>
<td>25%</td>
<td>2820,00</td>
</tr>
<tr>
<td>6</td>
<td>42601-60000</td>
<td>30%</td>
<td>4950,00</td>
</tr>
<tr>
<td>7</td>
<td>Above 60000</td>
<td>35%</td>
<td>7950,00</td>
</tr>
</tbody>
</table>

Source: Tax law of Ethiopia

Depending on daily income they determine the profitability rate of the business. After the computation is taken then, whether the business generates profit or loss they should pay the amount imposed on them. The businesses by the representative committee are inaccurate such estimation which is not in balance with the real capital of the business hinder their development and expansion.

### The willingness of small business shops and hotels to pay tax

For ever government tax has great importance to facilitate social services to develop the country and for other purpose. Due to this reason business owners should pay taxes levied on them voluntary.

### Table 3.4. Number of small business shops and hotels owners willingly to pay taxes

<table>
<thead>
<tr>
<th>Responses</th>
<th>Number of respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>38</td>
<td>100%</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: own survey of 2012

As indicated in table 3.4 above all 100 percent of the respondents responded that they are paying taxes from their income No one opposes the importance of income tax so that they pay it willingly unless the tax imposed on them is above capacity.

### The impact of taxation on the small business shops and hotels

Depending on the direct information obtained from the respondents, the impact of taxation on small business shops and hotels of the area can be seen on different side and angles. The responses of the owners of the business are represented below.
Table 3.5. Do you think the taxation has impact on small business shops and hotels?

<table>
<thead>
<tr>
<th>Response</th>
<th>Number of respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>38</td>
<td>100%</td>
</tr>
<tr>
<td>NO</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: own survey of 2012

From the above table all 100 percent of the respondents answered that the current random imposition of taxation on the income of small business shops and hotels has great impact on their operations. The tax that determined by the representative on the daily revenue of the owners is not fair and this will hinder the development and expansion of small business shops and hotels by discouraging the owners ability to invest other place. No one of the respondents said that taxation has not impact on their operation.

Punishment of the owners of small business shops and hotels by tax authority

The tax authority imposes punishment on the business when they failed to pay tax within a given period of time. As the information obtained from the offices of the town, the business will be penalized for the late payment of taxes in the from additional cash payment or even to the extent closing the business.

Article 88 of the income tax proclamation provides for a penalty of 5 percent of the amount unpaid. The detailed about the punishment of the business which is obtained from the respondents is presented in the table below.

Chart 3.2. Punishment by the tax authority

Source: own survey of 2012
As indicated in chart 3.2 from the total surveyed small business shops and hotels 79 percent of them have not been punished by the tax authority even if their income shows increment or decrement they are keeping in paying tax on time.

On the other hand 21 percent of the businesses have punished by tax authority. Although income tax imposed on them is unfair and not matched to their income the small business shops and hotels are forced to pay tax timely. When they delayed to pay in the given period of time, they are liable to pay 5 percent of unpaid income tax plus the amount determined if the penalty is in the form of additional cash.

Other problems of the small business shops and hotels other than taxation

In addition to taxation, there are many problems that hinder the development and expansion of small business shops and hotels. These problems are almost the problem of all small businesses and the society at large.

According to the business owner’s responses and general observation the major problems of the participants are; market condition, financial problem, poor quality of managerial and entrepreneurial skills of the owners of the business, poor infrastructural facility and others like governmental impact and remoteness from the capital city.

The detail responses about these problems are presented in the chart below.

Chart 3.3. Other problems other than taxation hinder the development and expansion of small

Business shops and hotels in the area.

Source: own survey of 2012
The availability of infrastructural facilities is the major and crucial factors for operations and developments of business for example business need power to operate machines and transport facilities to transport their goods to the market or raw materials to their business locations. From the respondents point of view of the Aksum town business owners 74 percent believe in the existence of the problem of poor infrastructural facility. As we know finance is the life blood of any business organization. That is without finance business cannot undertake their operational activities. The results shown in the above chart indicates that 58 percent of the respondents have shortage of capital for operation of their business, and from the total respondents 42 percent have enough capital for their activities. Form this the researcher can simply understand that most of the small business shops and hotels of the area have financial problems to successfully carry out their operational activities and have no potential to absorb fund from the outside mainly because of their failure to meet the requirement of the financial institution.

The problems that are related with managerial, Governmental impact, market condition, and remoteness of the area from the capital city have their own contribution for the weak performance of the small shops and hotels as it is shown the above chart.

**Capital Amount of Small Business Shops and Hotels Owners**

Commonly capital is a mandatory amount from the factors that affect the performance of small business to undertake activities of the business.

The details about the capital of small business shops and hotels in the study area of the surveyed sample classified and presented in the table below.

<table>
<thead>
<tr>
<th>Number</th>
<th>Capital in Birr</th>
<th>No of respondents</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Below 10,000</td>
<td>3</td>
<td>8%</td>
</tr>
<tr>
<td>2</td>
<td>10,000-100,000</td>
<td>8</td>
<td>21%</td>
</tr>
<tr>
<td>3</td>
<td>100,000-200,000</td>
<td>17</td>
<td>45%</td>
</tr>
<tr>
<td>4</td>
<td>Above 200,000</td>
<td>10</td>
<td>26%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: own survey of 2012*

As shown from the above table 45 percent of the respondents have capital of Birr 100,000-200,000 and also 26 percent of the respondents have a capital amount of above Birr 200,000 of total sample surveyed. Whereas 21 percent and 8 percent of the respondents have capital of Birr between 10,000-100,000 and below Birr 10,000 respectively.
The amount of capital that the owners invested to run their business is one base for imposing tax by the tax authority. That is as the capital of the business increases the tax imposed on the business will also increase and if it is low they set according.

**Detail about income tax**

This section deals with number of respondents who pay income tax and those who do not pay. The detailed information about the business that pay income tax and those not pay is given in the table below.

<table>
<thead>
<tr>
<th>Response</th>
<th>Number respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>yes</td>
<td>34</td>
<td>89%</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: own survey of 2012*

From the above table we can see that most of the business pay income tax which is about 89 percent of the total respondents and the rest 11 percent do not pay income tax, because they are newly established and the business whose yearly income is below 1,800 Birr and hence totally the tax authority permitted them not to pay income tax for some period of time. They will enjoy tax holding two years after their establishments.

4. **Conclusions and Recommendations**

**Conclusions**

According to the study which is titled as impact of taxation on small business shops and hotels the following points are summarized:

- Basically the socio demographics are identified and evaluated to know and assess which age group and sex category dominantly engaged and participated in the operation of small business shops and hotels related to this activities capital amount and education level of the small business shops and hotels owners are analyzed and discussed.
- The study identified that most of the business runners are males this indicates that the operation of males is more responsible and participated in business activities than females.
- The study also clarified that the group of 31-40 years is dominantly engaged in the operation of small business shops and hotels highly productivity which is about 42 percent and the group of below 20 years is less participated in the operation of small business shops and hotels in the study area.
- Based on their educational level from the total population of the sample size almost all of them are literate and the remaining very small portions of the population are illiterate. Basically education is a key for the development of country’s ‘economy. As owners of the business become educated; they tend to utilize resource properly and also manage their activities effectively also they know how tax is determined and imposed on them as well as the importance of income tax for the country.
The study also pointed out the initial capital of small business shops and hotels of the town. It indicated that the majority of small business shops and hotels capital at the time of starting their operations are in range of 100,000-200,000 Br which covers 45 percent of the amount of the businesses.

The absence of deep investigation and actual consideration to arrive at exact amount of taxes imposed on the business is discouraging the operation of the business and finally they stop their operation.

The researcher also has pointed out other problems that are obstacles to the expansion and development of small business shops and hotels other than taxation. These are managerial problem, market condition, and poor infrastructural facilities are the major and others such as financial problem and government impact are also problems other than taxation which accounts for the obstacle to expansion.

**Recommendations**

Based on the findings of the study made on the identification of the impact of taxation on small business shops and hotels in Aksum town the researcher forward some recommendations to solve the identified problems of the study area.

As shown in the study the major problem that the businesses have is random estimation of income tax which is not related to the real activity of the business. The amount of income tax that the businesses are forced to pay is over and above their capacity according to the respondents idea.

In order to solve the problems and create systematic, simple and easy income tax system for small business shops and hotels the researcher suggests and recommended the following recommendations as a solution:

- Firstly the owners of small business should have to have clear information about income tax by giving different types of training. The trainings could be on how income tax imposed on, tax rate administrative procedures, implementation of policies and so on.
- The tax which each small business owners bear to pay ought to be certain and not random. The time of disbursement, the behavior of payment, and rather amount to be paid ought all to be clear and simple to the tax payer.
- The tax authority should have to consider and deeply investigate the real performance and actual profitability of small business while it levies the tax on them rather than random estimation. Due to seasonality of small business the income tax authority should have to estimate income taxes by considering the changes occurred.
- The authority should incorporate the existing situation of the businesses when estimating tax under conditions of losses. They should impose income tax according to the current situation of the business activity.
- The authority should communicate through media or different announcements with tax payer to declare about the system of income tax.
- Finally in order to solve other problems of small businesses other than taxation, the governmental and non-governmental organization should give attention specifically to this area in order to make smooth relation between them.
Further researches must be made in other parts of the country in order to clearly identify the real problems of small business and hotels because these types of businesses are the back bone of the economy.

Bibliography