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Unraveling The Dynamics Of Electronic Fiscal Device Adoption: Insights From Hawassa City's Vat Registered Traders

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ABSTRACT

This study aimed to assess the influencing factors affecting the utilization of Electronic Fiscal Devices (EFDs) among Value Added Tax (VAT) registered traders in Hawassa city. Employing an explanatory research design with a mixed research approach, both primary and secondary data sources were utilized. Through stratified random sampling, a representative sample of respondents from various business types was selected. Questionnaire data was analyzed using SPSS software version 26, employing descriptive statistics such as frequency, percentage, mean, and standard deviation. Additionally, inferential statistics including correlation and multiple linear regression analysis were applied to identify key factors impacting the use of EFDs among VAT registered traders. Qualitative analysis of interview data was employed to triangulate the quantitative findings. The study's outcomes indicated that inadequate training for VAT registered taxpayers, high costs of EFDs, lax tax law enforcement, and taxpayers' perceptions were significant factors influencing EFD utilization. Consequently, the study recommends that revenue authorities provide pertinent technical training, federal revenue offices subsidize EFD purchasing and maintenance costs, and governmental efforts ensure the inclusion of all eligible taxpayers in EFD usage.

Keywords: EFD cost, EFD utilization, Perception of tax payers, Tax law, Training

1. 1. INTRODUCTION:

The Electronic Fiscal Device (EFD) system benefits taxpayers and tax authorities. Taxpayers benefit from structured company operations under the EFD system. First, comply with laws, then retain and share accurate business information with tax authorities. This method greatly reduces compliance and tax risks. This system has several benefits; however, many taxpayers have not fully utilised it (Ikasu, 2014). The government's VAT collection costs are reduced and corporate profits are increased by EFDs. EFDs also improve government efficiency and provide businesses with accurate tax information, enabling electronic tax filing (Yalemtesfa, 2011).

Electronic Fiscal Devices (EFDs) are superior to manual paper receipts, yet some traders criticise their use, while others hesitatingly adopt them. This unwillingness to use EFDs for tax-related transactions costs the government income and hinders sales data and profit

monitoring. This is shown by low tax collection (Engida & Baisa, 2014). The use of EFDs in Ethiopia is complicated by taxpayer reluctance. Hawassa shares this EFD adoption resistance Hawassa city revenue authority office (HCRAO) survey found that 77.5% of VAT-registered traders did not use EFD devices (HCRAO, 2022).

Within the Ethiopian context, a limited number of researchers, including Belay and Viswanadham (2016) and Engida and Baisa (2014), have examined taxpayers' adherence to the tax system. Furthermore, investigations by other scholars, such as Jalata (2014) and Mascagni (2016), have delved into matters pertaining to Value-Added Tax methodologies and taxation strategies. Nevertheless, the realm of factors impacting the adoption and utilization of Electronic Fiscal Devices remains relatively unexplored in empirical terms. Consequently, there exists a research gap in comprehending these determinants. As a response to this gap, the present study was prompted to investigate and discern the factors influencing the incorporation of Electronic Fiscal Devices among VAT Registered Traders operating within the confines of Hawassa City.

2. 2. REVIEW OF RELATED LITERATURE:

2.1 2.1. Concepts of Tax:

Taxation, as defined by Bhatia (2003), involves obligatory contributions imposed on individuals or businesses by governments, without an expectation of direct reciprocation. Governments require financial resources to fulfill their public roles, which often involves reallocating resources from private to public sectors through taxation, as highlighted by James (2014). Auld & Miller (1984) further emphasize taxes as a tool to stabilize economies by diminishing private demand to free up resources for public use. Governments primarily levy taxes to generate funds for public expenses and resource allocation, amid the inherent limitation of societal resources, leading to a trade-off between government spending and private consumption.

2.2 2.2. Electronic Taxation:

VAT-registered traders encounter several challenges when utilizing conventional/manual approaches for processing their VAT returns. These obstacles encompass prolonged time consumption for return processing, elevated tax preparation expenses, workforce expenditures to handle returns and enhance revenue accuracy via precise data input, outlays for stationery encompassing receipt books, writing supplies, files, and tax return filing systems. Additional costs arise from processing tax refunds, auditing sales records, insuring Electronic Fiscal Devices (EFDs), allocating space for retaining historical data records, and the time and financial implications associated with pursuing refunds and dealing with legal matters (Mboma, 2012).

Although there have been remarkable advancements in information technology, incorporating automated data collection, the administrative load for both tax authorities and taxpayers remains substantial when dealing with extensive invoice matching, as noted by Martin et al. (2010). The 2010 IMF report disclosed prevalent data entry mistakes in developing nations, including errors in taxpayer identification numbers, addresses, and taxpayer names. These inaccuracies lead to administrative expenses without corresponding revenue gains.

Automation offers various advantages, as highlighted by Martin et al. (2010), such as mitigating fraud, enabling remote access to information, enhancing statistical data collection, and ensuring consistent enforcement of tax laws. The implementation of automated systems in tax collection results in decreased interaction between tax officers and traders, leading to

reduced opportunities for corruption. Additionally, this approach facilitates rapid processing, storage, retrieval, and sharing of information—an efficiency that is difficult to achieve through manual methods.

According to Chatama (2013), the utilization of automation contributes to the timely availability of precise and pertinent information. This availability is crucial for effective planning, programming, implementation, monitoring, and evaluation, all of which are integral components of development.

2.2. 2.2.1. Electronic Fiscal Devices

The concept of "Electronic Fiscal Device" encompasses a diverse range of technological tools utilized by revenue administrations to monitor commercial transactions. These devices encompass a wide spectrum, from electronic intelligent seals used by customs to oversee container traffic, to systems that facilitate tax control by automatically tracking the production and distribution of excisable goods (Anna, 2008). As per Andreoni (2006), EFDs represent machinery employed within businesses to achieve effective management control, particularly in the realms of sales analysis and stock management. An essential aspect of these devices is the inclusion of a fiscal memory—a secure memory module typically authorized by a relevant government body (Agyman, 2012). In this context, the term "EFDs" pertains to devices commonly employed by tax authorities to oversee transactions between businesses and consumers, creating tax obligations for consumption taxes, typically sales tax or value-added tax (VAT).

Electronic Tax Registers (ETRs) are practical tools in the retail setting, functioning as standalone devices that print receipts and aid shop owners in organizing their businesses, generating reports, and performing essential tasks without the complexity of PC-based solutions. These ETRs are modified cash registers equipped with security features to ensure the integrity of fiscal memory—a non-erasable, read-only memory. The hardware meets specified standards, making it difficult to tamper with data, even in cases of power outages or malicious attempts.

Fiscal POS Printers (FPs) are beneficial for larger retail establishments that employ standalone or networked PC-based systems. Commonly found in supermarkets and multi-till setups, FPs encompass all the capabilities of ETRs and offer specialized firmware to ensure that each receipt is permanently stored in the fiscal memory. Integration with existing POS software is a challenge as these printers not only serve as output devices but also record taxable data.

Fiscal Electronic Signature Devices (FESDs) represent the latest advancement, addressing the challenges of FPs while maintaining supreme efficiency, reliability, and security. Operating as a peripheral to accounting PCs, FESDs electronically stamp every invoice printed by the accounting system. This method enhances auditability and authenticates electronic copies of these documents. The electronic signature encompasses every detail on a document, ensuring its authenticity and accuracy.

2.2. The fiscal Electronic Signature serves to validate any PC-generated financial documents, covering not just VAT prices, but every detail on the document. This mechanism applies to a wide range of computer-based, printed tax documents issued to third parties, including business-to-business and business-to-consumer transactions. In Ethiopia, only two types of electronic fiscal devices are currently available—Electronic cash registers and Fiscal printers—both of which were investigated in this study involving VAT-registered taxpayers.

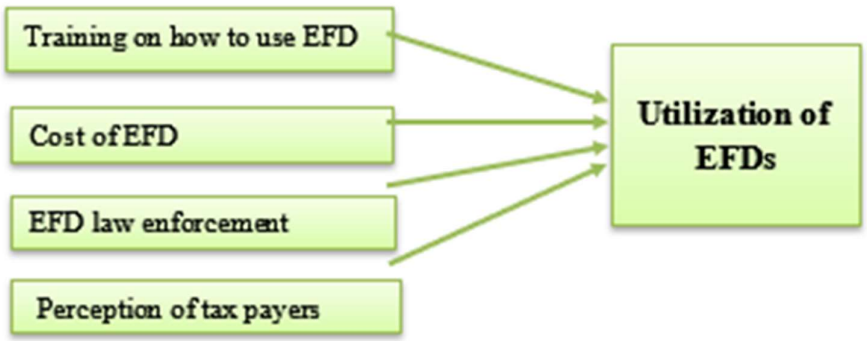
2.2. Electronic Fiscal Devises in Ethiopia:

In an effort to enhance government revenue and reduce tax evasion, Ethiopia has undertaken improvements in its tax collection methods. This modernization is being facilitated by the integration of current information and communication technologies. The Ethiopia Revenue and Customs Authority (ERCA) has embraced an automated system utilizing Electronic Fiscal Devices (EFDs) for customer data management. The adoption of EFDs is steadily growing across the country. The introduction of Electronics Tax Register machines began in Addis Ababa in February 2008, and their usage has significantly expanded over the past five years. By January 2013, a total of 53,241 taxpayers had acquired 59,876 EFDs. These devices enable taxpayers to efficiently process customer transactions and maintain accurate records. Additionally, ERCA gains access to data on total sales, enabling the authority to impose taxes based on accurate information (ERCA, 2013).

2.3 2.3. Conceptual Framework of the Study:

Based on the literature review provided, the researcher has identified key variables aligned with the study objectives. The conceptual framework comprises five variables: training, cost of EFD implementation, law enforcement related to EFD, taxpayers' perception, all of which are considered independent variables. These independent variables are hypothesized to influence the dependent variable, which is the utilization of Electronic Fiscal Devices (EFDs). In this framework, the researcher assumes that factors such as training, costs, law enforcement, and taxpayers' perception collectively impact the extent to which EFDs are utilized.

Figure 2.1: Conceptual frame work



Source: Adapted from Peter (2015)

3. 3. RESEARCH METHODOLOGY:

The research utilized an explanatory research design, which is ideal for identifying factors associated with exploring decisions or predicting the dependent variable's best predictors (O'Leary, 2004). This approach combines both descriptive and inferential analysis to achieve its objectives.

In addition, a mixed-method (quantitative and qualitative) approach was employed. Quantitative research involves numeric measurement, while qualitative research produces narrative descriptions of phenomena (Scott, 2009). Throughout the study, quantitative methods were used for numerical data computation and interpretation, while qualitative methods were used to explain insights gained from qualitative data.

Data for the study were gathered from primary and secondary sources. Primary data was collected from VAT-registered taxpayers and tax officers at Hawassa City Revenue Authority Head Office, chosen due to their direct involvement and expertise in EFD processes. Additionally, both published and unpublished studies, journal articles, and reports were reviewed.

The sample design encompassed determining an appropriate sample size representative of the population and selecting a sampling technique. Given the large population of VAT-registered traders, a sample was chosen over a census (Dattalo, 2008). The sample size was determined based on information from the Hawassa City Revenue Authority Head Office, which reported 1083 VAT registered traders in the city. The sample size calculation employed Yamane's (1967) formula for its determination. This approach was chosen to achieve a balanced representation of the population.

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

$$n = \frac{1083}{1 + 1083(0.05)^2}$$

$$n \approx 3292$$

Where: n= Sample size

N=Total household

e=Sampling Error (Level of Precision)

Once the sample size was established, a stratified random sampling technique was employed to select respondents. VAT registered traders were divided into four categories based on their business types: Manufacturing, Construction, Trade, and Service. Proportional representation was ensured by selecting an appropriate number of traders from each stratum using a systematic random sampling approach.

Data collection was carried out through a questionnaire, which was divided into two sections. The first part of the questionnaire focused on capturing respondents' demographic characteristics. The second part of the questionnaire was designed to address the research variables, namely the utilization of Electronic Tax Register, training, cost of Electronic Fiscal Devices, tax laws, and perception towards taxation. A five-point Likert scale methodology was adopted, ranging from "strongly agree" (5 points) to "strongly disagree" (1 point).

Following data collection, a rigorous process was followed to clean, code, enter, edit, and analyze the collected data using the SPSS software version 26. Descriptive statistical methods, including frequency, percentage, mean, and standard deviation, were employed to analyze the data and provide a comprehensive overview. To delve deeper into the relationships and factors affecting the utilization of the Electronic Tax Register, inferential statistical techniques such as

correlation analysis and multiple linear regression analysis were utilized. These methods enabled the identification and assessment of various factors impacting the utilization of the Electronic Tax Register, providing valuable insights into the research questions.

4.

5. 4. INTERPRETATION OF THE RESULT:

5.1 4.1. Background Characteristics of Respondents:

Examining the background characteristics of the participants holds significance in grasping their profiles encompassed within the study. Consequently, attributes such as the respondents' gender, age, educational attainment, business category, and Electronic Fiscal Device (EFD) utilization are scrutinized and outlined in both Table 4.1 and Table 4.2.

Table 1: Demographic profile of the survey respondents:

Variables	Categories	Frequency	Percent
Sex	Male	178	61.0
	Female	114	39.0
	Total	292	100
Age	18-20	179	61.3
	21-30	49	16.8
	31-40	64	21.9
	Total	292	100
Educational level	Certificate and below	22	7.5
	Diploma	33	11.3
	Degree	207	70.9
	Masters	30	10.3
	Total	292	100

Source: Survey data, 2023

The data presented in the table reveals the distribution of respondents across various demographic categories. In terms of sex, male participants constitute 61.0%, while females make up 39.0% of the total sample. When considering age, those aged 18-20 represent the largest group at 61.3%, followed by respondents aged 21-30 at 16.8%, and those aged 31-40 at 21.9%. In relation to educational levels, the majority hold a degree qualification, accounting for 70.9%, followed by Master's degree holders at 10.3%, Diploma holders at 11.3%, and those with Certificate and below qualifications at 7.5% of the total sample.

Table 2: Business Category and Electronic Fiscal Device Adoption:

Variables	Categories	Frequency	Percent
Business category	Service giving	69	23.6
	Trade	146	50.0
	Construction	50	17.1
	Manufacturing enterprise	27	9.2
	Total	292	100
Duration in the business	0-2 years	69	23.6
	3-5 years	173	59.2
	Above 5 years	50	17.1
	Total	292	100
Type of Electronic Fiscal Device used	Electronic Cash Register (ECR)	214	73.3
	Electronic Fiscal Printer (EFP)	78	26.7
	Total	292	100

Duration in using Electronic Fiscal Device	0-2 Years	32	11.0
	3-5 Years	178	61.0
	Above 5 Years	82	28.1
	Total	292	100

Source: Survey data, 2023

The provided table offers an insight into several key variables related to the participants. In terms of business category, the distribution shows that 23.6% are engaged in the service sector, 50.0% in trade, 17.1% in construction, and 9.2% in manufacturing enterprises. Regarding the duration of their businesses, 23.6% have been operational for 0-2 years, while 59.2% have a business history of 3-5 years, and 17.1% have been in business for more than 5 years. When considering the type of Electronic Fiscal Device used, 73.3% utilize Electronic Cash Registers (ECR), while 26.7% employ Electronic Fiscal Printers (EFP). Finally, the duration of using Electronic Fiscal Devices indicates that 11.0% have used them for 0-2 years, 61.0% for 3-5 years, and 28.1% for more than 5 years.

5.2 4.2. Descriptive Analysis:

Table 3: Descriptive Summary of Study Variables:

Variables	Mean	Standard Deviation
Training	2.77	0.494
Cost of EFD	3.47	0.599
EFD law enforcement	2.84	0.549
Perception of tax payers	3.04	0.561
Utilization of Electronic Fiscal Device	3.46	0.368

Source: (Survey data, 2023)

The presented table provides insight into the central tendency and variability of the variables under consideration. In terms of "Training," the mean score is 2.77, with a standard deviation of 0.494, indicating that respondents generally rated training moderately positively and responses were relatively consistent. For "Cost of EFD," the mean is 3.47, with a standard deviation of 0.599, indicating a higher mean perception of cost, and responses showing a moderate degree of variability. In relation to "EFD law enforcement," the mean is 2.84, with a standard deviation of 0.549, suggesting a moderate mean score regarding enforcement, with responses exhibiting a relatively consistent range. For "Perception of tax payers," the mean is 3.04, with a standard deviation of 0.561, indicating a moderate positive perception and responses with moderate variability. Finally, for "Utilization of Electronic Fiscal Device," the mean is 3.46, with a standard deviation of 0.368, showcasing a relatively higher mean score for utilization, and responses showing a lower degree of variability.

The findings shows that respondents view training efficacy moderately to negatively. Electronic Fiscal Devices are affordable, yet some respondents find them onerous. Neutral enforcement of EFD laws allows reinforcement. The good appraisal of EFD use shows recognition of its benefits, and respondents agree that tax payer viewpoints matter. These studies suggest improving training, cost management, law enforcement, and attitudes to promote Electronic Fiscal Device usage and effectiveness.

5.3 4.3. Inferential Analysis:

5.3. 4.3.1. Correlation analysis:

Table 4: Correlation analysis result:

Variables		Training	Cost of EFD	EFD law	Perception	DV
Training	r	1	.478**	.439**	.407**	.613**
	Sig.		.000	.000	.000	.000
Cost of EFD	r	.478**	1	.589**	.547**	.650**
	Sig.	.000		.000	.000	.000
EFD law enforcement	r	.439**	.589**	1	.446**	.527**
	Sig.	.000	.000		.000	.000
Tax payer's perception	r	.407**	.547**	.446**	1	.510**
	Sig.	.000	.000	.000		.000
Utilization of EFD (DV)	r	.613**	.650**	.527**	.510**	1
	Sig.	.000	.000	.000	.000	

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

Source: Model output, 2023

Training positively correlates with all other variables: cost of Electronic Fiscal Device (EFD), EFD law enforcement, perception of tax payers, and EFD utilization (dependent variable), with correlation coefficients ranging from 0.407 to 0.613 and p-values below 0.001. EFD cost has substantial positive connections with training, EFD law enforcement, tax payer impression, and EFD utilization, with correlation coefficients ranging from 0.478 to 0.650 and p-values below 0.001. EFD law enforcement also had favorable associations with training, cost, tax payer perception, and EFD use, with correlation coefficients ranging from 0.439 to 0.527 with p-values below 0.001. Tax payer impression has strong positive connections with training, cost, law enforcement, and EFD use, with correlation coefficients ranging from 0.407 to 0.510 and p-values < 0.001. The use of EFD (dependent variable) is positively correlated with training, cost, law enforcement, and tax payer perception, with correlation coefficients ranging from 0.510 to 0.613 and p-values below 0.001.

5.3. 4.3.2. Regression analysis:

Table 5: Results of Regression Analysis Model Summary:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.750	.562	.556	.24530

Source: Model output, 2023

The multiple linear regression analysis model summaries, as shown in Table 5, reveals an R-value of 0.750, indicating a strong relationship between the independent and dependent variables. The adjusted R2 value, which stands at 0.556, highlights that 55.6% of the variance in the utilization of Electronic Fiscal Devices (EFD) can be attributed to the combined effects of Perception of tax payers, Training, Cost of EFDs, and EFD law.

Table 6: Results of ANOVA Output

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.191	4	5.548	92.196	.000
	Residual	17.270	287	.060		
	Total	39.461	291			

Source: Model output, 2023

The analysis of variance (ANOVA) table provides insights into the statistical significance of the multiple regression model itself. Although the coefficient of determination (R^2) does not assess statistical significance – as it quantifies the explained variance in Y based on predictor Xs – the F-ratio assumes this role by determining whether the observed R2 could plausibly result from random occurrences. Based on the ANOVA output, the statistical significance of the model is determined when considering the inclusion of Perception of Taxpayers, Training, Cost of EFDs, and EFD Law ($F = 92.196$, $p < 0.01$). This signifies that the probability of the observed R^2 arising solely due to chance is low. Consequently, the entirety of the equation demonstrates statistical significance.

Table 4.7: Results of Multiple Linear Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.534	.103		14.955	.000
	Training	.256	.034	.344	7.438	.000
	Cost of EFDs	.214	.033	.348	6.447	.000
	EFD law	.076	.034	.113	2.259	.025
	Perception of tax payers	.085	.032	.130	2.697	.007

Note: B= Regression coefficient (Estimate), Std.Error = Standard Error, Dependent variable = Utilization of EFD

Source: Model output, 2023

The perception of taxpayers is positively associated with the dependent variable, with a beta coefficient of 0.085 and a statistically significant p-value of 0.007. This significant result underscores the importance of training in influencing the utilization of Electronic Fiscal Devices (EFDs). The coefficient value of 0.256 indicates that for every one-unit increase in training, there is a corresponding 0.256 unit increase in the utilization of EFDs. This result aligns with the findings of prior research conducted by Mohammed and Gela (2014) and Kira (2016), which also emphasize the pivotal role of training in ensuring proper and effective utilization of EFDs. The implication here is that providing comprehensive and effective training to VAT registered taxpayers can equip them with the necessary skills and knowledge to utilize EFDs optimally. This, in turn, can lead to improved accuracy in transactions and adherence to tax regulations.

The unstandardized coefficient (B) for the cost of EFDs is -0.220, with a p-value of 0.000. This significant negative coefficient indicates that higher costs associated with purchasing, maintaining, and undergoing technical check-ups for EFDs are associated with reduced utilization. The coefficient value of -0.220 suggests that a one-unit increase in the cost of EFDs leads to a corresponding decrease of 0.220 units in EFD utilization. This finding corroborates the insights presented by Kapera (2017) and Mohammed and Gela (2014), which highlight the deterrent effect of elevated costs on the willingness of taxpayers to embrace EFDs. The financial burden posed by these costs can discourage businesses from adopting EFDs, affecting revenue authorities' efforts to enhance tax compliance through electronic systems.

The unstandardized coefficient (B) for EFD law is 0.076, with a p-value of 0.025. This result indicates a significant positive effect of adherence to EFD-related laws on the utilization of these devices. The coefficient value of 0.076 implies that a one-unit increase in compliance with EFD-related laws results in a 0.076 unit increase in EFD utilization. This finding resonates

with the observations made by Kira (2016), which suggest that enforcing tax laws related to EFDs can positively impact their adoption and usage. By complying with such laws, businesses and taxpayers are likely to see the value and benefits of utilizing EFDs, contributing to increased transparency and accurate record-keeping.

The unstandardized coefficient (B) for the perception of taxpayers is 0.085, with a p-value of 0.007. This result signifies a significant positive relationship between positive perceptions of taxpayers and the utilization of EFDs. The coefficient value of 0.085 suggests that a one-unit increase in positive perception leads to a 0.085 unit increase in EFD utilization. This finding echoes the insights shared by Mativo, Muturi, and Nyang'au (2015), which emphasize that favorable perceptions regarding EFDs, such as reduced tax filing costs and increased efficiency, can motivate taxpayers to embrace and utilize these devices. Conversely, negative perceptions, as discussed by Lumumba (2010), can hinder the adoption of EFDs due to concerns about errors and inefficiencies in the system.

5. CONCLUSION AND RECOMMENDATIONS:

Insufficient provision of effective training to VAT registered taxpayers has a detrimental impact on the proper utilization of Electronic Fiscal Devices. Despite the availability of guidance documents, user manuals, and post-sale services including device checkup programs by suppliers, taxpayers often lack the necessary skills to utilize the devices optimally due to inadequate training. It is imperative to enhance training initiatives for Electronic Fiscal Device usage to ensure that VAT registered taxpayers can effectively employ these devices. Recommendation: The responsible authorities should prioritize comprehensive training programs to equip taxpayers with the requisite skills for proficiently utilizing Electronic Fiscal Devices.

The elevated cost associated with Electronic Fiscal Devices emerges as a determining factor influencing VAT registered taxpayers' decision to adopt these devices. The substantial purchase expenses and maintenance costs present an additional financial burden to businesses. To promote broader adoption, the government should address the affordability of Electronic Fiscal Devices, considering that taxation is fundamentally aimed at bolstering government revenue. Recommendation: Policymakers should explore strategies to mitigate the financial strain by potentially subsidizing device costs or implementing tax incentives to encourage adoption.

Weak enforcement of tax laws contributes to a reluctant approach towards Electronic Fiscal Device utilization. Inadequate monitoring and enforcement of EFD-related regulations lead to non-compliance among some businesses. It is crucial for tax administrators to rigorously enforce tax laws and implement regular checkup mechanisms to ensure that Electronic Fiscal Devices are being used in accordance with regulations. Recommendation: Tax authorities should enhance their efforts in enforcing tax laws, conducting regular audits, and imposing penalties for non-compliance to encourage widespread adoption of Electronic Fiscal Devices.

The perception held by taxpayers significantly influences the extent to which they embrace Electronic Fiscal Devices. While these devices offer various benefits such as expediting return preparation, enhancing information archiving, and promoting efficiency, negative aspects like the complexity of correcting errors can deter their utilization. To address this, procedures for error correction should be streamlined to alleviate potential frustrations. Recommendation: Efforts should be directed towards enhancing the overall perception of taxpayers by simplifying the process of error correction and highlighting the long-term advantages of

Electronic Fiscal Device adoption.

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