

**ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF ACCOUNTING AND FINANCE**

**FACTORS AFFECTING TAX COMPLIANCE
BEHAVIOR OF BUSINESS TAXPAYERS IN ADDIS
KETEMA SUBCITY, ADDIS ABABA, ETHIOPIA**

By

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SGS/0285/2007B



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January, 2018

Addis Ababa, Ethiopia

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**A THESIS SUBMITTED TO SCHOOL OF GRADUATE
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**A Thesis Submitted To School of Graduate Studies of St.Mary’s
University in Partial Fulfillment of the Requirements For the Degree
of Master of Science in Accounting and Finance**

BY: ASHENAFI MEBRATU

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LIST OF ABBREVIATIONS

| | |
|------|---|
| EC | Ethiopian Calendar |
| ERCA | Ethiopia Revenue and Custom Authority |
| FIRA | Federal Inland Revenue Authority |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| IRS | Internal Revenue Services |
| NEF | New Economic Foundation |
| PIN | Personal Identification Number |
| OECD | Organization for Economic Cooperation and Development |
| SAS | Self-Assessment System |

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ABSTRACT

Tax non compliance has been a serious challenge for the administration and performance of tax revenue for many developing nations. The issue of complying with the existing tax system has predominantly been dealt with in several developing countries. The situation is also the same for Ethiopia. This study has been conducted to evaluate the status of tax compliance and factors affecting the compliance behavior of business tax payers in Addis Ketema Sub city. The study has applied a mixed methods approach to investigate the problem of tax compliance. Samples for this study were selected using a stratified random sampling technique through purposive targeting of business tax payers in Addis Ketema Sub city. Data collection was made through interviews, informal discussions and a semi structured questionnaire. Qualitative analysis of data was through narrations while quantitative techniques were applied using frequencies, percentages, tabular presentations, graphs and other descriptive techniques. For the analysis of factors affecting tax compliance behavior of the respondents, a binary logit model was applied. Result of the analysis shows that 89.8% of the respondents were found not to comply with the existing tax system while the remaining 10.2% of them were complying. Among the factors affecting the tax compliance behavior of respondents in the sub city, knowledge of taxation, probability of detection for non compliance and complexity of the tax system were found to have a significant effect on tax compliance behavior. As a conclusion of the study, knowledge of taxation does not necessarily lead to compliance but may sometimes lead to non compliance due to the nature and interest of the tax payer in relation to utilizing the knowledge. At the end of the study, it was recommended that the government should introduce modern technologies that could help in the identification of non compliance thereby simplifying the current tax system in the sub city.

Key words: Tax compliance, Tax System.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Tax compliance is defined as the degree by which tax payers comply with the tax law (Simon and Clinton, 2004). It has been a serious challenge to the performance and administration of tax revenue for many developing countries (Tadesse and Goitom, 2014). The same is also true for Ethiopia. Tax payers' compliance behavior is affected by a number of factors. Those factors, which affect Tax Compliance behavior, differ from one country to another and also from one individual to another (Kirchler, 2007). This study was aimed at identifying factors that affect Tax payers' compliance towards taxation. The current study is conducted with a particular reference to Addis Ketema sub city. In explaining factors affecting tax payers' compliance towards taxation, two classes of theories were broadly developed, i.e. economic and psychology- based theories (Shehata& Trivedi, 2005). Some other scholars such as Brook also grouped such factors as: economic, social and psychological. According to Kitchler (2007), and Loo (2006), the determinants of tax compliance behavior have been classified into 4 groups. These factors are economic, social, Institutional and Individual/personal/. The current study focuses on some of these categories of the latter.

All over the world, governments strive to achieve development goals that are set out in either their annual fiscal budget or in their medium term plans. These goals require huge capital outlay to be met from taxation and other revenue sources (IMF, 2011). Certainly, taxes are generally seen as the most convenient means through which cost of governments is met albeit from the standpoint of government. Rakner (2002) stressed the importance of revenue as the life blood of the state and that taxation is the primary mechanism of revenue generation. Author of the current study emphasized that taxation considers the most economically efficient way of transferring resources from the private to the public sector.

In Ethiopia, due to the absence of clear understanding on the factors that affect Tax Compliance

towards taxation the tax revenue collection performance has been relatively poor (Wollela,2012). Some of the factors affecting tax compliance behavior of tax payers include: knowledge and complexity of the taxing system (Natrah, 2013) probability of getting audited, perception of government spending; perception of equity and fairness; penalty; financial constraint; changes in government policies; referral group and the role of tax authority.

For instance, according to IMF report of the year 2014/15 indicates that the tax GDP ratio of Ethiopia remains minimal even when compared to Sub-Saharan African countries the tax revenue to GDP ratio is also projected to fall from 13.2percent in 2014to 12.12 percent in the 2014/15 despite government's steady revenue mobilization efforts. This, according to the author might have resulted from a widespread tax non-compliances and negative attitudes toward taxation.

According to Murphy (2004), factors that affect Tax Compliance towards taxation are important for the success of the tax system because unless these factors are pointed out clearly and addressed properly, it difficult to create voluntary Tax Compliance towards taxation. Therefore, more systematic and coherent information on taxpayer attitudes are required for both policy makers and revenue administrations.

The growing concern of tax administrations throughout the world is on how to simplify the tax assessment system to encourage voluntary compliance, and improving taxpayer's attitude towards taxation. Thus, the recent trend in developing countries sees a shift from the official assessment system to a SAS (Self Assessment System). Thus, setting up of a simple and broad based tax system is crucial to the development of a better tax administration. According to Studies conducted by (Sarker, 2003) identified that the main impediments as the lack of tax education among the taxpayers followed by poor public relation activities and inadequate penalty provisions for errant taxpayers.

1.2. Statement of the Problem

In the poverty reduction endeavor of the nation investing in the existing infrastructure in the wide range of improvement so as to scale up the living conditions of the citizens is imperative. This and

other responsibility is put on the shoulder of the government. To fulfill these responsibilities the main sources of resources for the expenditure is the tax revenue that is collected from society (Rakner, 2002). For this reason, the government of the Ethiopia has given more attention to the tax and customs sector and implemented a number of reforms measures to improve the tax and customs policy (ERCA, 2010). However, these reforms couldn't bring the required result due to tax non-compliance behavior of tax payer's negative attitude towards taxation.

The domestic tax bases in most African countries are undermined by widespread tax avoidance and evasion. Although taxpayers' non compliance is a continual and growing global problem and studies suggest that developing countries many of them in sub-Saharan Africa are the hardest hit. For instance, in Ethiopia non compliance in the tax administration system can be exhibited in different economic indicators. These include persistence low tax to GDP ratio (World Bank 2010). Therefore, dealing with the problem of non compliance required an understanding of the factors underlying taxpayers' decision about whether to pay or evade taxes. Better understanding of taxpayer behavior can be expected to place revenue bodies in a stronger position to design and implement effective compliance strategies, which contribute to the sustainability of taxation system.

In Ethiopia, the issue of tax compliance behavior is need a serious attention not only by the authority but also by the societies and have to be significantly investigated. Studies conducted by Tilahun Aemiro et.al(2014) revealed that perception on government spending, equity and fairness of tax system, penalties, personal financial constraints, change on current government policies and reference groups as factors that affects the tax compliance behavior. Notwithstanding, this study has also ignored knowledge of tax and complexity of tax system as determining factors in affecting the tax compliance behavior of business profit tax payers. In addition to this, Suresh Vadde (2014) investigated only a certain factors as determinants of taxpayers voluntary compliance by neglected some factors (i.e. detection and penalties) which contribute its part in affecting the tax compliance behavior of business profit taxpayers.

Merkato is found in the northern side of western Addis Ababa. It lays on several square kilometers of area in Addia Ketema sub-city, one of the ten sub-cities Addis Abeba is segmented

into (<http://www.livinginaddis.com>). Addis ketema sub city is one of the ten sub city which is found on Addis Ababa city administration. As far as the sub city is concerned it huge market place than others sub cities it will be expected there are a number of business income tax payers found in the sub city.

According to the information obtained from the Revenue Authority annual report, about 55% of the business income taxpayers were committed to fulfill their tax obligations through legal enforcement mechanisms (ERCA 2014). The rest were not found to comply with the tax system. In addition the government has lost huge amount of money due to non compliance behavior of the tax payers' in the study area. Results of previous investigations on this issue show that no study had been conducted in the sub-city on the factors affecting tax payers' compliance towards taxation. Hence, the current study is conducted to fill this literature gap thereby informing the responsible government bodies in the study area about measures to be taken for tackling the problem.

1.3. Objectives of the Study

General Objective

The general objective of this study is to investigate the status of tax compliance behavior of tax payers in Addis Ketema Sub City.

Specific Objectives

The specific objectives of the research are:

- To indicate the level of Tax Compliance towards taxation in the sub city
- To identify factors significantly affecting taxpayers compliance behavior towards taxation in the sub city

1.4. Research Question

Based on the stated problems above, the study seeks answers to the following research questions:

- What is the level of Tax Compliance towards taxation in the Addis Ketema sub city?
- What are the factors that influence Tax Compliance towards taxation in the Addis Ketema sub city?

1.5. Scope and Limitation of the Study

The study mainly focused on factors that affect Tax Compliance towards taxation in Addis Ketema sub city. For undertaking this study, the researcher was only confined to an examination of tax compliance for those under schedule “C” or business tax payers. This is due to the fact that the researcher has observed a non-compliances behavior among tax payers in this category. Hence, the current study is only confined to this category and the succeeding outputs may not apply for other categories of business owned tax payers in the sub city or similar category tax payers in other sub cities. The study is crucial for those who want to work on and re innovate the current tax system in the study area. It would also be a good reference for those who would like to pursue further investigations on the topic for self or academic purpose.

1.6. Significance of the Study

Attitudes of taxpayers play a significant role in taxpayer’s compliance behavior. Therefore, it is important to understand the factors that influence Tax Compliance toward taxation which affects the compliances level. Generally, the output of this study has the following significances:- It can assist tax administration to identify areas where taxpayers experience challenges and in identifying areas that need attitudinal change.

The findings of this study may also contribute to enhancing the tax revenue of the selected study area and the government at large through creating positive attitudes of taxpayers towards taxation. The result of this study can be used as reference for further researchers who are interested to study this area. Generally, this study is important from a fiscal policy perspective as well as from an academic perspective Ethiopia government and it also helps to design good tax policy.

1.7. Definition of Key Terms

Attitude/Behavior: a disposition to respond favorably or unfavorably (like or dislike) to an object, person, institution or event (Ajzen, 1991).

The authority: is the ERCA.

Taxpayers: is any natural or legal person who resides in Addis Ababa and gets taxable income from the business undertaking of the category “A”,”B” and “C” taxpayers in Addis Ketema

sub city, whose annual income or sales is above 1,000,000, b/n 1,000,000 and 500,000 for category “A” and ”B” respectively and below 500,000 for category “C”.

Voluntary Tax Compliances: is an assumption that the taxpayers practicing corporate social responsibility or timely filing and reporting of the required tax information the correct self assessment of tax owned and timely payment of those taxes without enforcement action (Andreoni et al.,1998)

Tax Compliance: Tax compliance is the willingness of tax payers to pay their taxes. Tax compliance in the context of this study also refers to the filing of tax returns as and when they fall due as per relevant legislation (Kirchler, 2008).

Noncompliance: non compliance can be described as the failure to meet tax obligations, whether such failure is intentional or unintentional (Kirchler, 2008).

Tax Administration: is the process of designing, managing the activity of tax, collecting and implementing the tax law (Misrak, 2012).

Tax Assessment: is the process of determining tax liability based on the income obtained or based on information declared by taxpayer and information obtained from different sources (Misrak, 2012).

1.8. Organization of the Study

The study is organized into five chapters. The first chapter gives an introductory to the study topic followed by citing the observed problems, objectives, scope and significance of the study. The second chapter discusses a review relevant literature in the study area. The third chapter deals with the methodology employed in the study. The fourth chapter underlines key findings obtained from the study. Finally on chapter five, conclusions and recommendations are driven based on the research findings.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

This Chapter deals with a desk top review on the history of taxation, tax compliance behavior and factors affecting it. In this part, context based status of taxation and tax compliance behavior of tax payers have been reviewed.

2.1 Theoretical Approaches to Tax Compliance

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise. The exact meaning of tax compliance has been defined in various ways. For example, Andreoni et.al (1998) claimed that tax compliance should be defined as taxpayers` willingness to obey tax laws in order to obtain the economy equilibrium of a country.

A wider definition of tax compliance. Defined in 1978 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self assessment and voluntary compliance. tax compliance should be defined as taxpayers` ability and willingness to comply with tax laws which are determined by ethic. Legal environment and other situational factors at a particular time and place. Ethics, legal environment and other situational factors at a particular time and place. Furthermore, tax compliance has also been segregated into tow perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns. Compliance in pure administrative terms therefore includes registering informing tax authorities of status as a taxpayer. Submitting a tax return every (if required) and following the required payment time frames.

In contrast. The wider perspective of tax compliance requires a degree of honesty. Adequate tax knowledge and capability to use this knowledge. timeliness. accuracy. and adequate records in order to complete the tax returns and associated tax documentation.

This perspective further reveals. Although it is inevitable that tax authorities will seek to ‘influence’ the areas taxpayers have influence over determining to reduce the risks of non- compliant behavior

they face otherwise e.g. through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education. Some authors have viewed tax compliance from a different perspective. For example, Allingham and Sandman (1972) described tax compliance as an issue of ‘reporting an actual income’ and also claimed that tax compliance behavior was influenced by a situation whereby taxpayers have to make a decision under uncertainty Clotfelter (1983) i.e. either taxpayers would enjoy tax savings due to under-reporting income or have to pay tax on the undeclared amount at a penalty rate which is higher than they would have paid had the income been fully declared at correct time. McBarnet (2001) suggested tax compliance should be perceived in three. Ways. Namely;

- a) Committed compliance- taxpayers’ willingness to pay taxes without complaint;
- b) Capitulative compliance- reluctantly giving in and paying taxes and
- c) Creative compliance- engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the bracket of tax laws.

Some literatures characterize and explain tax compliance as the output of interrelation among variables including perception of equity. Efficiency and incidence (public finance views). Tax enforcement aspects like penalties and the probability of detection also relate to tax compliance while other labor market behavior factors-including an individual’s wages and tax bracket also contribute to tax compliance (kirchler 2007)

In contrast with tax compliance, tax non-compliance is defined as taxpayer’s failure to remit a proper amount of tax. Perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure. Non-compliance also perceived as the failure of a taxpayer to report (correctly) the actual income, Claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time kirchler (2007). Furthermore, has been defined as failure to comply with tax laws and/or report incorrect amount of tax beyond the stipulated time frame.

Types of Tax Compliers

Kelman’s (1965) work, which was adapted to tax compliance by Vogel (1974), illustrates how people can comply for different reasons. Compliance, identification and internalization are

Kerman's tripartite typology. "Compliers" pay their taxes because people are required to do so and fear the consequences if they do not. "Identifiers" are influenced by social norms and the beliefs and behaviors of people close or of importance to them, "Internalisers" have a consistency between their beliefs and their behavior. Benno Torgler (2003) in his dissertation (Tax morale) developed different kinds of taxpayers. For the purpose of this paper some of them are depicted below:-

Social Tax Payers

"Social Taxpayers" are influenced by social norms, feel guilty when they under-report and escape detection and feel ashamed when they under-report and get caught. Furthermore, they are very sensitive to people's belief, especially of those close to them. They react emotionally and very strongly to perceived changes next to them. They can be seen as conditional cooperators. If they perceive that others pay taxes they tend to pay them too. On the other hand, a reduction of others' contribution reduces their willingness to contribute. Satisfaction and behavior are linked not only to the objective outcome levels. But also to outcomes received in relation to those which were judged to be fair.

Furthermore, a perceived inequity between one's own exchange and the exchanges others get creates a sense of distress. Disadvantage in such situation causes anger, advantage; feelings of guilt. Anger reduces the moral costs of evasion.

Intrinsic tax payers

Another type of taxpayer is the "Intrinsic Taxpayer" The motivation of the "Intrinsic Taxpayers" includes among others, the feeling of obligating, which motivates a person without being forced. "Intrinsic Taxpayers" are sensitive to institutional factors, as e.g. the behavior of governments or tax administrations .positive action by the state are intended to increase taxpayers' positive attitudes and commitment to the tax system, tax-payment, and thus compliant behavior.

The way people are treated by the authorities affects their evaluations of authorities and their willingness to co-operate. They have a certain intrinsic motivation to pay taxes. However, if the intrinsic motivation is not recognized, intrinsic taxpayers get the feeling that they can as well be opportunistic. When monitoring and penalties for noncompliance increase. Individuals notice that extrinsic motivation has increased, which on the other hand crowds out intrinsic motivation to

comply with taxes (see, e.g., Frey 1997) their willingness to co-operate does not depend on the amount other contribute to the public good. Thus they are not conditional regarding the others` contribution, but they depend on the institutional conditions under which they must pay their taxes.

Honest Taxpayer

A third type of taxpayers is called “Honest Taxpayer” These taxpayer do not even search for A third type of taxpayers is called “Honest Taxpayer”. These taxpayer do not even search for ways to cheat at taxes. Their behavior does not respond to changes in the tax policy parameters, as taxes, fine rates, or audit frequency. Their behavior not subject to a marginal but rather an absolute evaluation (Frey 1997)

Tax Evaders

At the other extreme, there are the “Tax Evaders” Relative price changes due to higher punishment or higher audit probability are considered. In general they have low tax morale. It can be argued that for these taxpayers the standard economic rational choice theory comes into play. They compare expected value of evading taxes with the value of being honest.

Factors Determining Tax Compliance Behavior

Fischer et al. (1992) stated there are four basic factors that determine tax compliance behavior in his expanded model (Fischer Model). i.e.; (i) demographic (e.g. – age, gender and education) (ii) noncompliance opportunity (e.g. income level, income source and occupation), (iii) attitudes and perceptions (e.g. fairness of the tax system and peer influence) and (iv) tax system/structure (e.g. complexly of the tax system, probability of detection and penalties and tax rates).

Demographic Factors

The relationship between demographic variables and tax compliance has long been of interest (Tittle, 1980) three major personal characteristics for which there is evidence of a relationship are age. gender. And education (Jackson and Milliron. 1986) The Fischer model suggests that demographic variables indirectly affect taxpayer compliance by their impacts on noncompliance opportunities and attitudes and perception. There is a positive link between age and taxpayer compliance is reported education (Jackson and Milliron. 1986) Generally link they pointed out young taxpayers are more willing to take risks and are less sensitive to sanctions as well as age is a

factor for intentional evaders, with younger taxpayers less complaint. In addition noncompliance is significantly less common and of lower magnitude among householders in which either the head or the heads spouse is over age of 65.

Early research (Tittle, 1980) testing the tax compliance level of males versus females reports that females are more likely to tax compliance. Traditionally “females denned with conforming roles, moral restraints, and more conservative life pattern ” (Jackson and Molliron. 1986). All these attributes may promote higher tax compliance. Education . as a demographic variable relates to the taxpayers ability to comprehend and comply or not comply with the tax laws (Groenland and Veldhoven. 1983). Two aspects of education distinguished; “the general degree of fiscal knowledge and the degree of knowledge inving ” Evasion opportunities” (Jackson and milliron 1986) they find that those with more fiscal knowledge had more positive tax ethics scores than those with lower fiscal knowledge.

Non-compliance opportunity

In the fisher model. Noncompliance opportunity can affect taxpayer compliance directly through income level. Income source. And occupation. Almost all the theoretical model indicates that as income rises. Tax evasions should increase over most ranges (Andreoni ET al.1998). In other way, the lower income group tends to have a lower proportion of tax compliance by under-reporting income and by over-claiming expenses than their counterparts in the higher income group. Tax payments vary in terms of the opportunities available to them to overstating expenses and understating incomes. Greater tax noncompliance opportunity is generally resulted from self-employer and income sources not subject to withholding taxes. Sutherland (1949) point out that tax evasion considered as a white-collar crime. Committed by an individual of respectability and high social in the course of performing his

Employment. In addition, almost all sole proprietors those who engaged in sales from fixed locations (car dealerships, stores, restaurant etc) understated tax by the greatest percentage.

Attitudes and perceptions

The Fischer model suggests tow major considerations for altering taxpayer’s attitude and perceptions to tax compliance are the fairness of the tax system and peer influence. Richardson

(2006) it is widely by tax administration and the taxpayers that growing dissatisfaction with the fairness of tax system it is widely believed by tax administration and the taxpayers that growing dissatisfaction. As tax system is the major causes for increasing tax noncompliance. As well as Gasmask and Scott (1982) indicate that respondents with peers who practice tax noncompliance are more likely to commit as well.

Tax payers' attitude towards taxation is linked with the economic and psychological theory. There are two broad schools of thought regarding taxpayer compliance towards taxation. The first is studies based around the theory of economics that explain the change in taxpayer compliance. The second is studies based on theories of psychology and sociology that explain the varying levels of taxpayer compliance. Hence, the Forum on Tax Administration (2004) "identified some of the basic theories of tax compliance" which include, among others: Economic, Psychological and Sociological Theories

Economic Theories: Economists approaching the question of why people fail to comply with the law began by constructing a theory based upon the assumption about human behavior that underlies all economics; namely that individuals generally act rationally in evaluating the cost and benefit of any chosen activity. Consequently, in modeling the choice confronting individuals who are deciding whether to engage in tax evasion or not, their basic model assumes that people would commit evasion when the expected utility of their criminal act exceeds its expected disutility (Kirchler, 2007).

Psychological Theories: Many analysts have suggested that the economic model of human behavior reflects a too simplistic view of human beings and, in the real world of everyday life, is without any predictive value. Like economists, psychologists also tend to explain human behavior in terms of variables that relate to individuals. However, they tend to model human behavior in much more complex terms than economists. Unlike economists, they would not think of modeling tax payers, in this context, as perfectly amoral, risk averse utility maximizers. Instead, they might be interested, as key independent variables, in tax evasion decision in factors such as: the individuals are moral beings with ideas and values of their own and that commands and their own impulses filter through and are affected by this moral screen (Kirchler, 2007)

Sociological Theories: Sociologists tend to see the cause of variation in human behavior in the structure of the social system. Thus they explain people's actions by examining the forces that impinge on the position that they occupy within the system. Among other things, this means that they extend the basic economic model of crime control by making the point that law is not the only source of punishment and rewards. Tax payers live and work in society. They have families, friends and co-workers who are sources of reward or punishment. These social forces shape behavior just as effectively as the reward and punishments administered by the state. Given their basic assumptions about human behavior, sociologists are also likely to look to attitudes towards government views relating to the enforcement of tax laws, views about the fairness of the tax system, contact with the tax department and demographic characteristics as independent variables (Slemrod, 2007). Beron (2002) is of the view that Social scientists from almost every discipline have turned their attention to tax evasion as social phenomena. What have we learned from their efforts? In a perfect world, by now we would have a theory about why people comply with the tax laws from which an interested tax administration department could deduce a comprehensive compliance strategy. However, compliance with the tax law typically means: True reporting of the tax base, timely filing of the tax return, and Timely payment of the amount due (Slemrod, 2007).

Tax System/structure

It is widely acknowledged that the extent of tax compliance in many developing countries has been decreasing, The underdeveloped tax system/structure is one of the major causes for this phenomenon. In the Fischer Model the effectiveness of tax system affected by complexity of increasingly complex, has come to recognize as a possible reason for tax noncompliance (Jackson and Milliron, 1986) In the context of tax compliance decision, complexity should include two dimension, excessive detail in the tax rules and numerous computations required. In addition, if there is a higher audit probabilities and severe penalties encourage tax rates; which reveal that the probability of underreporting and the level of underreporting are positively related to the marginal tax rates.

2.2 Empirical Studies of Taxpayer's Compliance

Increasing of the government revenue will have an important role in bringing macroeconomic balance and reducing the excessive dependences on external assistances and domestic and foreign loans. For this reasons, the primary objectives of most tax administrations, including Revenue, are to ensure compliance with tax laws and improve customer service satisfaction for taxpayers.

However, tax system in many developing countries is character by tax structure policy management, low compliance level, inefficient and ineffective tax administration. Government that rely broad taxation forced to take in account the demand of their tax payers at the same time the way in which a government levies essentially affect the citizens identification with the state and is government agencies potentially increasing trust and compliances of its citizens (Smith,2003). Torgler (2006) point out that encouraging high level of tax compliance in developing and transition economies is a challenge for policy makers.

In wider definition, tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time. According to the income tax proclamation No 286/2002, the compliance requirements of tax payers include keeping up to date books of accounts, determining the taxable income according to the stipulated rules and regulations, accurate determination of tax liability, filing of returns on income by prescribed date, paying of tax due by prescribed date, payments of fines and penalties for overdue taxes and allowing of audit by the tax collectors if deemed necessary.

Wubshet Aborat, (2011) stated there is a substantial tax gap between the tax that is amount planned to tax collect from economic activity person and the tax that is actually collected one main reason for the tax gap is non compliance by taxpayers and potential taxpayers with tax legislation in Ethiopia.

According to Lemessa (2007), when compliance is not achieved on a voluntary basis, revenue

authorities must identify and address the risk associated with non-compliance by developing strategies targeted at those risks. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on tax administration and compliance.

Knowing taxpayers attitude towards taxation is the major factors that determines the success of tax system and effectiveness and efficiency of tax administration. Moreover, no tax system can function effectively without the positives attitude about tax and co-operation of the great majority of taxpayers, so factors which affects taxpayers' attitude towards taxation are important(Kirchler, 2007).Attitudes towards taxation have turned out to be important predictors of tax evasion and tax compliance behavior.

According to Lemessa (2007), there is substantial tax gap between the tax that is planned collect from economically active individuals and the tax that is actually being collected. One of the main reasons for this tax gap is non-compliance of taxpayers and potential taxpayers, with the tax legislation because they have negative the attitudes and perceptions toward taxation.

2.3 History of Tax Compliance in Ethiopia

History of Ethiopia taxation though it was very difficult to get reliable documentary evidences as to when exactly taxation was introduced it is believed that history of Ethiopia taxation come together with the establishment of the government. Taxation was a source of government revenue from early Aksum kingdom in Ethiopia around, 500AD. Earlier dates people used to contribute from their cattle and agriculture products to the governors of the state. The kind of the tradition tax system for several centuries smoothly until it was replaced by mode in the tax system in the mid of 20thcenture.evidence indicate that in the third quarter of the 19th century also taxes were paid in kind and in money. The first reforms carried out by emperor Menilek II towards the end of the nineteenth century resulted in the establishment of a fixed tithe rather than the undefined and essentially arbitrary, system of agriculture taxes described above. The second reform which dated back to the early twentieths century resulted largely from the increasing prevalence of agricultural and other taxation. Following this, more recent reforms were the fruit of Ethiopia emergences as

modern state .they involved all mechanism of the modern tax collection, tax schedule, paper work and the development of the trained and regularly paid civil service (Misrak, 2011).

Yohannes & Sisay (2009), stated that on Tax Law despite, the series of reforms and increase in revenue, the overall budget deficit with and without grant has been increasing. For example, the overall budget deficit without grants as percent of GDP has increased from -5.2% in 1996/97 to -14.5% in 2002/03. This shows that performance of revenue collection in Ethiopia has been low compared to the rest of Sub-Saharan African countries which is over 23% of the GDP.

This was due to low compliance level in the country (Yohannes, and Sisay, 2009). The problem of tax non-compliance is as old as taxes themselves. It is generally accepted that tax non-compliance and tax evasion exists in every country. Tax evasion and tax non-compliance is a serious problem (Jackson, B.R. and Milliron, V.C., 1986).Tax non-compliance by individual sole-proprietors is an expensive and pervasive problem (Kasipillai,J.,2002). Issues related to tax compliance are described hereunder:

2.4 Factors Affecting Tax Compliance

Tax compliance or non compliance do not come about from anywhere but do have some reasons. These reasons are the factors affecting tax compliance behavior. There are many factors affecting the tax compliance or non compliance behavior of tax payers. Some of them are thoroughly covered while others are not. From Literature, the current study has reviewed 8 factors which can potentially affect such behaviors. These are: Attitude of Tax Payers towards taxation, tax knowledge, tax complexity, financial constraints, changes in government policies towards taxation, probabilities of detection for non compliance, penalties for non compliance,

Attitude of taxpayers towards taxation is one of the prime factors that determine compliance behavior. According to Ajzen's (1991) theory of Planned Behavior, attitude relates to one's own personal views about a behavior. Attitude may also be defined as positive or negative views of an attitude object i.e. a person, behavior or event. In relation to taxation, taxpayers' attitudes may be defined as positive or negative views of tax compliance behavior. The outcome of positive views is tax compliance and negative view is tax non compliance (Braithwaite, 2001).

Attitudes represent a positive or negative evaluation that an individual holds for an object and it is assumed that attitudes encourage individuals to act according to their willing. Thus, a taxpayer with positive attitude toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes to tax evasion. Sometimes, attitudes towards tax evasion are found to be quite positive (Kirchler et al., 2008). OECD (2010) argues that an improved understanding of taxpayer attitude towards taxation can help tax administrations to develop voluntary tax compliance.

2.5 Knowledge Gaps in the Area

In the literature review it has so far been highlighted that the relevant theories related to taxpayers attitude towards taxation, includes economic, social and psychological theories that form the background of this study. Based on the discussion, the extensions to each theory (factors) were considered appropriate to explain that taxpayer's attitude towards taxation. One of these factors was deemed to be attitude. When taxpayers have positive towards taxation, the likelihood to have a voluntary compliance would be high, and vice versa.

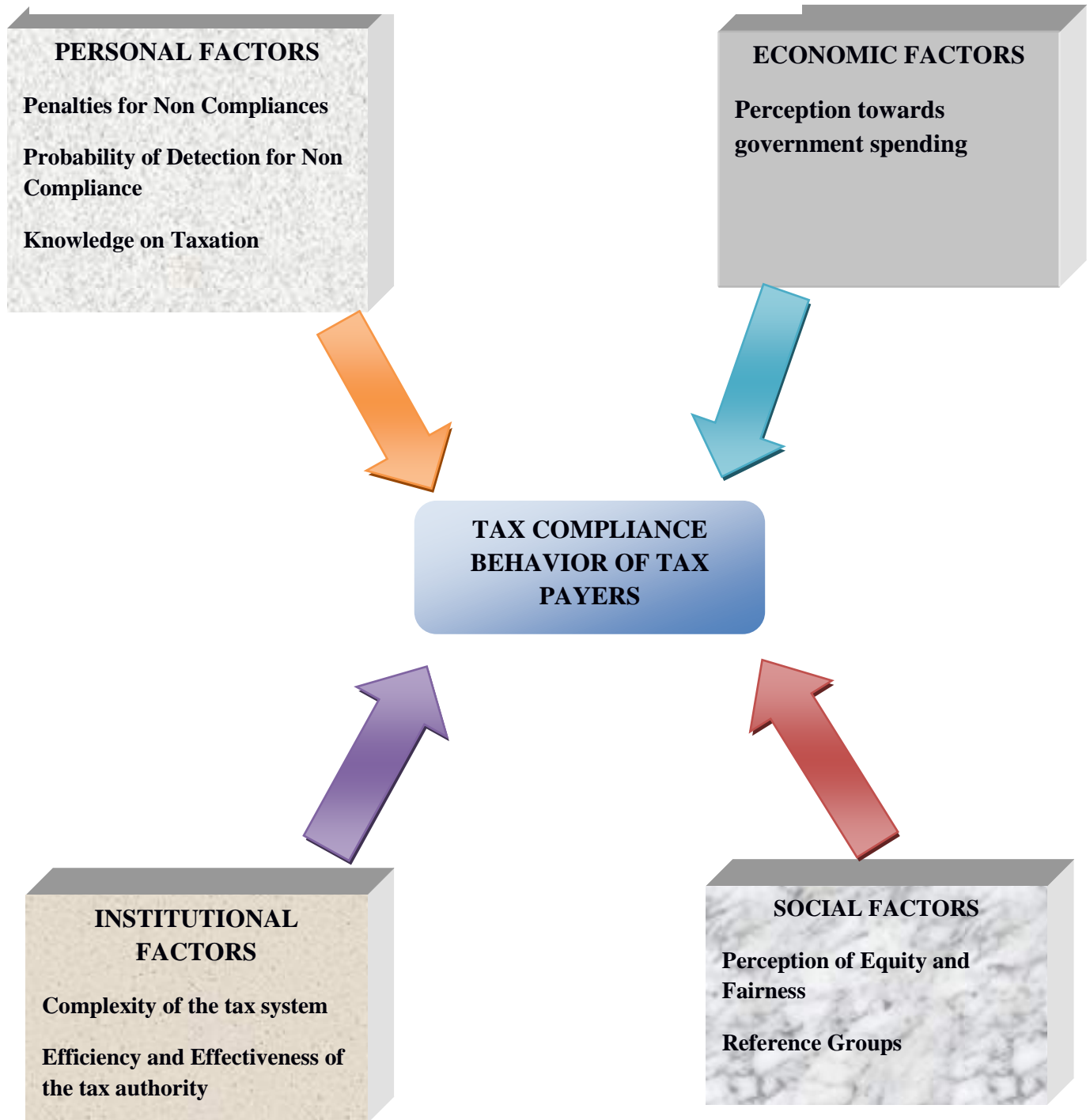
The above-mentioned empirical findings of previous studies indicate that taxpayers from different countries have different levels of taxpayer's attitude towards business income tax system. For instance, a study conducted in US and Tanzania by IRS Oversight Board (2011) and Fjeldstad (2004) respectively, revealed that there were significant differences level attitude towards business income tax system, particularly in terms of general fairness, unfair competition between informal economy, knowledge about tax system and reference group.

Based on this finding, it appears that the American taxpayers positive attitude towards taxation. This may be attributed to the fact that America is a developed country and they have identified and understood the factors that affects taxpayer's attitudes toward taxation. On the other hand, in developing countries like Tanzania and South Africa the level taxpayer's attitude towards taxation is negative. This may be attributed developing they have not clearly identified and understood the factors that affects tax compliance toward taxation.

More specifically, in the case of Ethiopia especially in Addis Ketema Sub City Small Tax Payers

Branch Office to the knowledge of the researcher, there is no single study on the factors that affects taxpayer's attitudes toward taxation. This encourages the researcher to factors that affect Tax Compliance towards taxation in the Addis Ketema Sub City.

Figure 2-1 Conceptual Framework of Variable Relationships



Source: developed by self-design

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Background of the Study Area

Addis Ketema Sub city is one of the 10 sub cities found in Addis Ababa city Administration, the capital of Ethiopia. The sub city is known in Amharic name meaning “new city”. The sub city is found in north eastern part of the capital. It borders with Gulelle sub city in the North, Arada in the east, Lideta in the south and Kolfe Keranio in the West. Merkato is the biggest marketplace of the sub-city in Addis Ababa. The sub city has a diagonal length of 0.09 kilometers (Wikipedia, 2017). Basically this section deals with the research methodology including both qualitative and quantitative approach; others research including sampling techniques, Data collection the procedure for analyzing the data that will be collected.

3.2 Research Design

The current study combines a mixed methods design for data collection. Both quantitative and qualitative data are collected for the study. With this means, the researcher, will able to obtain the advantage of both quantitative and qualitative approach and overcome their limitation. The study incorporated a questionnaire based survey to elicit information on the tendency and frequency of non compliance cases while narrative case studies to provide qualitative information supported evidence to back up the findings. Hence, both the first and second objectives of the research can be met by using both methods coherently.

The purpose of using a mixed methods research design is to gather data that could not be obtained by adopting a single method. According to Creswoll (2009), by means employing these combined approaches the researcher will able to obtain the advantaged of both qualitative and quantitative research approaches and overcome their limitation in justifying the results. As one of the methods of a mixed methods approach, the researcher planned to use the questionnaire based survey to generate quantitative information on the tendency and frequency of task compliance behavior together with the factors affecting it. The qualitative method that applies a sort of case studies and informal interviewing of participants (tax payers of Addis

Ketema Sub city) to justify for the results obtained through the questionnaire based survey.

3.3 Sampling Technique and Sample Size

In the study, both purposive and random sampling strategies were applied. So as to generate additional data and complement on the responses of sample respondents, key informants who have knowledge of taxation were communicated. This was to verify as to why tax payers from the various business categories comply or do not comply with the existing tax system in the sub city. The key informants include: Civil servants working in tax offices and others who have the knowledge of the current tax system.

Among all other sub cities in the Addis Ababa city Administration, Addis Ketema was selected for this study due to its highest market place in the city administration and presence of large numbers of business ventures in various categories (ERCA, 2014). Hence, the sub-city was purposively selected in that regard. The targeted business ventures were stratified into 3 levels of tax payers as Level A being the highest category followed by level B, the medium level and C being the least category of tax payers. From each category of tax payers, the number of clients for have complied or not complied with the existing tax systems were taken from the tax authority of the sub city. Business clients who have complied are defined as those who have not made any complaints for the tax imposed during the last years' time while those who have not are termed as those who have made any complaints with the given time. Starting from this information, a random selection of samples was made. Hence, a stratified random sampling technique will be employed.

To determine the sample size for the study, the researcher employed a formula by Bartlett, Kotrlik, Higgins, 2001 and Fowler, 2002, which is defined as follows:

$$n = z^2 pq / d^2 \dots\dots\dots \text{if } N \text{ is greater than or equal to } 10,000$$

$$f_n = (n/1 + n/N) \dots\dots\dots \text{if } N \text{ is less than } 10,000$$

Where, N=Target Population p=Estimated characteristics of the target population.

n=Desired Sample Size q=1-p

z=Standard normal variance in the required confidence level (z-cross)

d=Level of statically significant (margin of error)

The proportion of the target population (0.5) (50%) were taken in this study, since there was no previous research study conducted on the factors affecting taxpayers attitude towards taxation in Addis Ketema Sub City Revenue Authority. Based on the above formula the margin of error (d-value ranges from 0.01 to 0.1) and from this range by taking time and budget into consideration the researcher used 0.08 margin error.

Therefore, the Z-value statically is 1.75 (92%) and the desired accuracy at 0.08 levels and then the sample size was determined as follows;

$$n = \frac{z^2 pq}{d^2} \text{ therefore, } n = \frac{(1.75)^2 (0.5) (0.5)}{(0.08)^2} = 120$$

Table 3:1 Stratified Random Sampling for Taxpayers

| Taxpayer's under category | Number of taxpayers (Ni) | Sample size $n_i = n (N_i/N)$ |
|---------------------------|--------------------------|-------------------------------|
| A | 2711 | 20 |
| B | 3229 | 23 |
| C | 10605 | 77 |
| Total | 16545 | 120 |

Source: Field Survey, 2014

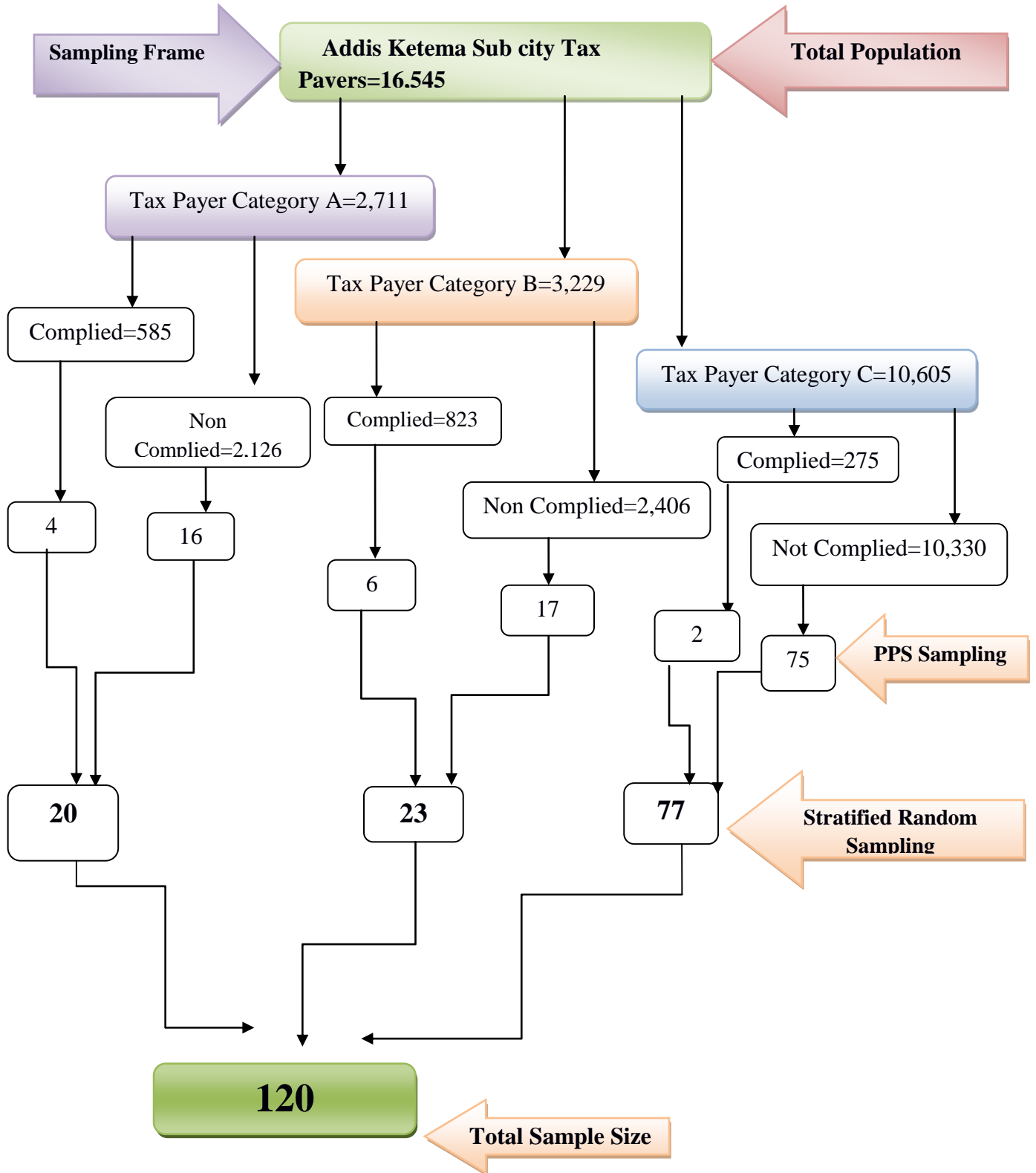
Where, N_i = the target population of each strata

As shown above, the total sample size of our target population is 120.

In addition to the tax payers we have purposively selected 18 employees from tax authority of the sub city. These are termed as “key informants” or those who have the knowledge of the existing tax system to generate qualitative data for backing up results from the quantitative analysis or responses generated from the taxpayers.

On the other hand, samples were selected from the taxpayers in the sub city under different category of business tax payers: A, B and C using a stratified random sampling technique. The diagram below illustrates the procedures followed for sample selection and size determination of tax payers:

Figure 3-1 Sampling Strategy



3.4 Data Type and Methods of Data Collection

In this study, the researcher used both primary and secondary data. The primary data were obtained from selected taxpayers in Addis Ketema Sub City and manager and employees of Addis Ketema Sub City Revenue Authority. The advantage of using primary data is that, they are more reliable since they come from the original sources and are collected especially for the purpose of the study. Secondary data was generated from a desk review of published and unpublished sources on the topic. Some of these include documents of the Addis Ketema Sub City tax administration and unpublished reports from the same office and published papers in the area. The researcher has adopted survey questionnaire and an informal interview, using a structured checklist, as a method of collecting data.

3.4.1 Questionnaire

This study was carried out using a semi-structured questionnaire distributed for the selected respondents (taxpayer's) in Addis Ketema Sub City for a self-administered assessment system. The questionnaire was divided into two main sections: On the first section, background information of the respondents was presented and survey proper. The background information entails socio-demographic characteristics of respondents such as age, sex, and level of education. The second section explored questionnaire was administrated using both open and close ended items. The close ended ones were designed to enable the researcher exact information assumed to as a "taboo for non disclosure" while the open ended ones were meant for information on opinions, attitudes and beliefs of the respondents towards taxation on issues where openness is customary.

3.4.2. Interview Schedule

The interview will be used for manger and employees of Addis Ketema sub city revenue authority to secure depth and detailed qualitative information. This in fact increased the quality of information generated from the study results. Participants of the current study were

asked general questions, and the researcher explored their responses to identify and define tax officers' perceptions, opinions and feelings about the problem of tax non compliance. It allows the researchers some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry that developed as the study progresses.

3.5 Method of Data Analysis

Both the qualitative and quantitative data were analyzed using appropriate methods. The analysis of quantitative data was done using SPSS software. In the process, descriptive statistics such as range and frequency were shown in tabular and graphical presentations. Finally, among the econometric models, a binary logistic regression was applied as the dependent variable, tax compliance, is of two categories: compliance and non compliance (Gujarati, 2004). Qualitative analysis was done through interpretation, narration of case reports and contextual elaboration of what tax compliance behavior.

Attitude towards tax compliance is one among the multitude of factors used in this study. Since it is selected as an independent variable, its values had to be measured. In this case, attitude scaling procedure was followed. Meanwhile an attitude scaling technique known as summated ratings or Likert technique was applied to measure attitude of sample respondents towards taxation. It is a widely applied technique in behavioral research and for developing an attitude scale (Likert, 1932). The process of developing an attitude scaled involved the following steps: First, large numbers of attitude statements were obtained from literature sources in similar areas of Ethiopia. Locally held attitudes were also collected. These items were tested for validity and reliability before developing statements for final administration.

After passing the tests of validity and reliability some of them thought to measure the prevalent attitude of tax payers were selected for final construction of a scale. The attitude scale was then constructed having 5 response categories ranging from strongly agree to strongly disagree. Response category for a positive item was coded with a range from 5 to 1 from strongly agrees to disagree and the negative item 1 to 5 from strongly agree to disagree respectively. Item analysis was the procedure used to select attitude statements for further manipulation. After

assigning scores to each statement, a total attitude score was computed for each subject by adding the score obtained for each individual and each statement.

3.6 Model Specification

In the current study, model selection was designed based on nature of the dependent variable. The dependent variable belongs to a dichotomous response model and hence has a dummy nature with no intrinsic order. Hence, a binary logistic regression model was applied.

Since the probit counterpart of the model involves solving multiple integration of a continuous dependent variable; the computation is quite difficult and is rarely used. The contextual typologies of tax compliance were derived from the literature as either complying or not complying with the existing tax system. The outcome variable, tax compliance, is still a dummy type of response model where the value 1 is assigned to those who have complied with the existing tax system and 0 for those who have not. Hence, a given independent variable Y_i assumes a value of 1 if that particular business firm complies with the existing tax system and 0 if otherwise.

The probability of complying or not complying with the existing tax system is depicted by the formula:

$$P_i = E(Y=1/X_i) = \beta_0 + \beta_1 X_i$$

We can rewrite this model as:

$$\log \frac{(P_i)}{(1 - P_i)} = \beta_1 + \beta_2 X_i$$

The Odds of probabilities for one outcome variable (complying or not complying for the existing tax system) is given by the formula:-

$$P_i / (1 - P_i) = \exp(\beta_0 + \beta_1 X_i)$$

Y as a binary outcome variable is explained by the formula:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + \dots + b_px_p + e_i$$

Where: - Y=Dependent variable, in this case, tax compliance behavior or its category
 X= Independent variable/s
 a = Y intercept
 b = Slope of the line and;
 e_i = the error term/random term

It is defined as the probability that the ith individual will lie in choosing pth alternative of the dependent variable where there are a maximum number of K alternatives. With regard to the odds ratio (exp B), it is a factor that changes the logs of odds ratio by a certain amount when the ith individual predictor changes by 1 unit. Furthermore; based on the assumptions made by Liao (1984), the logistic regression function of a tax payer for choosing option j (complying or not complying) is given by:

$$P(Y = j) = \frac{e^{B_j X_i}}{\sum e^{B_k X_i}} = \frac{(exp B_j X_i)}{(exp B_k X_i)}$$

$$P_i = \frac{1}{1+e^{-z_i}}$$

Where: P_i is the probability of being involved in any one form of tax compliance behavior either 0 or 1. Z_i is the function of independent variables. Alternatively, it can be explained as:

$$Z_i = B_0 + B_1X_1 \dots \dots \dots + B_kX_k$$

The B_i is given by: B₁, B₂, B₃ ...B_k which are the estimators or the logistic regression coefficients obtained by a maximum likelihood method (MLM). The logistic regression model defines linearity in the relationship between the explanatory and dependent variables with the logs of odds ratio given as:

$$\ln \left(\frac{P_i}{1-P_i} \right) = \log_e \frac{P_1}{1-P_1} = Z_i \quad \text{Where, } e \text{ is a constant value equal to } 2.718.$$

The odds ratio here is defined as the probability ratio that a given tax payer would engage in one of the alternatives, for instance the probability of complying with the existing tax system to the probability that they would not. This is given by:

$$\text{Odds Ratio}(OR) = \frac{P_i}{1-P_i} = \frac{1+e^{z_i}}{1+e^{-z_i}} = e^{z_i}$$

Here P_i is the probability of complying with the existing tax system and $1-P_i$ is the probability of not doing so. The probability that y would take a value of 1 as a closed form equation i.e. complying with the existing tax system is given by:

$$P(Y = 1) = \pi = \frac{\exp(\alpha + \sum(B_k X_k))}{1 + \exp(\alpha + \sum(B_k X_k))}$$

Hence, different factors affecting tax compliance behavior are analyzed using a binary logit model. Before selecting the ultimate factors affecting tax compliance behavior, they are tested for the presence of multi colinearity amongst themselves and screened. In the mean time, some factors, having been found collinear were dropped out from the regression analysis. In other words, variables freed from multi colinearity problems were selected as determinants and entered into the model.

For this purpose, contingency coefficient (CC) value was computed for discrete explanatory variables. Since we have no continuous predictors, it was not necessary to apply the variance inflation factor (VIF). As a rule of thumb, the value of the contingency coefficient should not be greater than 0.75 and that of the VIF should not be more than 10. According to Healy (1984), the contingency coefficient is a chi-square based measure of association. The value of the contingency coefficient usually ranges from 0 to 1. A value of 0 implies the presence of no association among the entered explanatory variables and a value close to 1 represents a high degree of association.

According to the same source, value of the contingency coefficient is computed using the contingency valuation method which is shown by the formula:-

$$CC = \sqrt{\frac{\chi^2}{n + \chi^2}}$$

Where, CC= Contingency Coefficient n=Sample Size and χ^2 = Chi Square Value

The variance inflation factor which is used to compute an association within continuous independent variables is computed as follows:

$$VIF(X_i) = \frac{1}{1-R^2}$$

Where, R_i^2 is the squared multiple correlation coefficient between X_i and other independent variables. To see how much the collected data fits into the desired model, there are various goodness of fit tests such as: The likelihood ratio criterion test (LRCT) or deviance analysis, Hosmer Lemeshow and Wald tests. For this case, model fitting information is provided using the Hosmer Lemeshow goodness of fit test due to its common application in behavioral research and the fact that number of continuous independent variables being less than the number of discrete variables. The maximum likelihood method was applied to determine the coefficient of explanatory variables

3.7. Definition of Variables, Working Hypothesis and Units of Measurement

3.7.1. Dependent variable

Tax Compliance behavior is defined as the tendency of a business tax payer for aligning him/herself with the existing tax system of a country (Ndola, 2006; as cited in Girma, 2009). Hence, it is operationally defined to meet the objectives of this study as those who have made any complaints to the office of the tax authority for the past 1 year are termed as “non-complying” while the remaining having made no complains on the imposed income tax for the past year as “complying” to the current tax system. Hence, the dependent variable, (tax compliance), is purely given a dummy nature with groups as:

Y_0 = If the tax payer did not comply with the current tax system

Y_1 = If the tax payer complies with the current tax system

3.7.2. Independent variables

They are all the possible factors used to estimate the relationships with tax payers' compliance behavior. The variables have been chosen based on personal experience and review of literature.

There are 8 independent variables included in this study. These variables were grouped under 4 broad categories namely: Personal, Economic, Social and Institutional factors. The variables are briefly discussed with their hypothesized effects on the dependent variable:

3.7.2.1. Personal Factors:-

Penalties for Non-compliances

A theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties have an impact on taxpayer's attitude towards taxation leading to a non compliance behavior. The more complex models like principal agent theory suggest that penalties are difficult to portray in compliant models as the results are determined endogenously by taking non-compliances (Andreoni *et.al.*, 1998). Marrelli and Martina (1988) found that penalty rates have a negative association with tax taxpayer's attitudes towards taxation and hence their tax compliance behavior.

On the contrary, the theoretical work conducted by Allingham and Sandmo (1972), taxpayers' attitudes towards taxation is positives when the penalties are increased i.e. taxpayers will be more likely to comply if noncompliance may result in higher penalty rates. Similarly, the results of Virmani (1989) have indicated that penalty rates had a positive association with taxpayer's attitudes towards taxation, meaning that higher penalty rates did indeed encourage negative attitudes towards taxation.

In summary, since previous studies have shown the fact that penalty rates impact upon taxpayer's attitudes towards taxation leading to either compliance or a non compliance behavior. This variable is dummy in a sense that a value 0 is given for the presence of penalties for non compliance and 1 for otherwise. In the current study, penalties for non compliance towards taxation are presumed to have positive effect on tax compliance behavior.

Probability of Detection for Non-compliance

Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance. Individuals normally would like to non-comply with tax law if there no probability of being caught by doing so (Alm, 1991). On the other hand, the probability of complying with the existing tax system or law is likely to increase if the probability of detection

for non compliance is quite high.

Probability of detection plays a significant role taxpayers attitudes as taxpayers will declare everything if they perceive that they will be one of the audited in that particular year (Riahi-Belkaoui, 2004; Richardson, 2008). Raising the probability of detection will increase tax compliance one of the effective detective measures used by tax authorities (Alm, 1991).

However, the study by Beron *et al.* (1990) reveals that the probability of detection exerts only a modest positive effect on taxpayer's attitudes towards taxation. Butler (1993) also found that probability of detection can change compliance behavior from a negative attitude to a positive attitude towards taxation. Witte and Woodbury (1985) find a significant positive relationship between the risk of probability of detection and taxpayers' attitudes towards taxation and hence their compliance behavior. Allingham and Sandmo (1972) claimed that taxpayers will always declare their income correctly if the probability of detection is high. According to a study conducted by Bisrat (2010), by increasing detection, it is possible to increase the government revenue as well as reduce the problem of noncompliance. In summary, previous studies have evidenced that a high probability of detection plays an important role in creating a positive attitude towards taxation which in turn increases voluntary compliance. This variable is dummy in a sense that a value of 0 is assigned where there is no probability of detection for non compliance and 1 for otherwise. In the current study, the probability of detection for non compliance is presumed to have a positive effect on tax payers' compliance behavior.

3.7.2.2. Economic Factors

Perception towards Government Spending

The fiscal exchange theory suggests that the presence of government expenditures may motivate tax compliance when it provides goods and services that citizens expected from the government in an efficient and accessible manner (Cowell and Gordon, 1988). James & Alley (2000), stated that perception towards government spending is when taxpayers link the tax they pay for the ability of the government to fund expenditure on public goods and services. If there is a perception that the government spends tax revenues wisely on public goods and services, this

should motivate tax compliance and develops positive public attitudes towards taxation. However, if taxes are not associated with spending on public goods and services such as schools, health facility and others infrastructures is less, then the taxpayer is likely not to be willing to comply with tax law (Barone and Mocetti, 2009). Similarly, Almet *et al.* (1993) note that compliance increases when public goods and services are available.

Another contradictory finding by Feld & Frey (2007), indicated that taxpayers indeed are willing to pay taxes even though they were not given the exact value of public goods, as compared to the taxes they have paid, if they perceived the political process as fair and lawful. For example, if taxes paid and public services provided by government are regarded as fair, taxpayers may be tending to comply with tax laws is increasing and this has an important positive effect on taxpayers attitude (Murphy, 2004). If the government fails to provide basic public goods and a service to citizens provides them insufficient, attitude towards taxation may tend to be negative and the rate of non-compliances will be increased (Torgler, 2006).

Taxpayer's perception is also influenced substantially by the trust in government (Torgler, 2003b) and this trust can only be gained if the government can assure that taxpayers' expectations are satisfied. Lack of transparency and accountability in the use of public funds creates negative public attitudes both with respect to the tax system as well as the government and this, in turn, increases the willingness to evade taxes (Kirchler *et al.*, 2007).

The variable here is considered dummy as having a value 0 for a negative perception towards government spending (Perception that the government is unwise in spending the money collected through taxation wisely on relevant public goods and services) and 1 for otherwise. In this study perception towards government spending is hypothesized to have a positive association with tax payers' compliance behavior.

Perceptions of Equity or Fairness

One of the main principles of the tax system design is achieving equity or fairness. This can be perceived in two dimensions: horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (taxes paid increase in the amount of

the tax base). The driving principle behind vertical equity is the notion that those who earn more income should pay more taxes than those earning less income. According to Wenzel (2002), the three areas of fairness from the taxpayers' point of view are: 1) distributive justice (viewed as the exchange of resources, i.e. benefit and cost); 2) procedural justice (viewed as the process of resource distribution) and 3) retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs).

The fairness tax system is determined based on the taxpayers' opinion (Alm *et al*, 1993). Richardson (2006) stated that it is widely believed by tax administrators and the taxpayers that growing dissatisfaction with the fairness of the tax system is the major causes that create negative taxpayers' attitudes towards taxation and increasing tax non-compliance. Tax fairness consists of the equity of the trade - the benefits received for the tax dollars given and the equity of the taxpayer's burden in reference to that of other individuals (Jackson and Milliron, 1986).

The perceived inequity is of central importance and it has been argued that a taxpayer may withdraw from the exchange relationship by evading taxes in order to offset or reduce the disparity (Bisrat, 2010). Thus, the unfairness of the tax system may therefore have two dimensions. These are taxpayers' perceptions overpaying taxes in relation to the value of public goods and the services provided by government or in relation to what relatives pay. Wubshet (2010), find that taxpayers do not pay their taxes on time due to negligence and the prevalence of an unfair tax system has an influence on the inclination towards tax non-compliances. This variable is dummy. Hence, a value 0 is assigned to those who believe that the current tax system is unfair and 1 to those who perceive that it is fair. It is hypothesized that fairness is directly linked with tax payers' compliance behavior.

Reference Groups

According to the social influence theory, an attitude towards the tax system is influenced by the behavior and social norms of an individual's reference group. Snively (1990), stated that it is reasonable to assume that a human attitude in the area of taxation is influenced by the behavior of an individual's reference group such as relatives, neighbors and friends. Therefore, if a taxpayer knows many people in groups important to him/her who not complies with tax law,

reduces his/ her positive attitudes towards taxation and increases the tendency of non-compliances. On the other hand, social relationships may also affect taxpayers' attitudes towards taxation and help deter individuals from engaging in tax non-compliance for fear of the social penalty imposed for non-compliance once discovered and revealed publicly. Kirchler (2007) suggested that social factors should be viewed in a broader sense, which includes the psychology of the taxpayers which affects taxpayer's attitude towards taxation.

According to Allingham and Sandmo (1972) for tax evasion discipline, decisions either to comply or not to comply with tax law sometimes are influenced by neighbors or friends. One of the most consistent findings about taxpayer attitudes is that those who have positive attitudes towards taxation believe that their peers and friends comply with tax law, whereas those who have negative attitudes believe that others cheat (Andreoni *et al.*, 1998). In general, the influence of referent groups is seemingly important in making a decision, particularly involving monetary aspects and the obedience to laws.

3.7.2.3. Institutional Factors

Complexity of the tax system

Like probability of detection, penalties and tax rates the complexity of tax systems affects taxpayer's attitudes towards tax system and thereby their compliance behavior. The more tax laws become complex the higher non-compliance levels and the more simple, understandable and clear tax rules the higher will be the tax compliance (Kirchler, 2008). In the Fischer model, the effectiveness of tax system depends on the complexity of the tax system, the probability of detection, penalties and tax rates.

As the tax law becomes increasingly complex, the cost of compliances also increases and this is one possible reason for tax non compliance (Jackson and Milliron, 1986). Therefore, the cost of compliance to taxation plays a key role in determining taxpayer's willingness to pay taxes. According to Adams (1921), the success of income tax rests primarily upon the honesty of the taxpayers. He further states that one of the factors that contribute to dishonesty in taxpayers is the complexity of the tax system.

For too many people, tax is a complex subject and complexity has been shown to contribute for

non-compliance. Assistance directed at lowering unintentional non-compliance should reduce non-compliances and perhaps boost the legitimacy and perceived fairness of the tax administration. Simpler tax systems encourage greater compliance and lower cost compliance through the use of less tax agents and less complexity, reduce the scope for tax avoidance and evasion (Alm *et al.*, 1993). According to Teklu (2011), the complexity and difficulty of tax administration cause taxpayers to incur costs that lead to develop negative attitudes towards taxation. Complexity of the tax system is a dummy variable where 0 is assigned for complex tax system (as per the respondents' perception) and 1 for otherwise. For this study, it is hypothesized that tax system complexity is inversely associated with the tax payers' compliance behavior.

Efficiency and Effectiveness of the Tax Authority

OECD (2010) states procedural and retributive fairness is more relevant to tax administrations while distributive fairness depends on policy-makers. If taxpayers do not trust the tax authority to collect tax fairly, it creates a negative attitude towards taxation which in turn increases non-compliance (Murphy, 2004). Tax authority has an important role in reducing revenue losses by creating positive attitudes towards taxation and increasing voluntary compliance. For instance, a perception of fairness and trust in tax administration are important tools for a tax administration in attempting to reduce non-compliances.

A recent study conducted by Richardson (2008) suggested that tax authority has significant positive influences on taxpayer's attitudes toward tax. According to Reeson and Dunstall (2009), norms and the motivation to pay taxes are influenced by fairness – both in how a person is treated by the administration individually and perceptions of fairness of the taxation system. (Kirchler, 2007) stated that a “service and client” approach by the tax authority is more likely to encourage trust than a “cops and robbers” approach based on sanction and this in turn showed that how tax authorities behave towards their clients does matter.

According to Murphy (2004), tax non-compliances will increase if taxpayers do not trust the tax administration to collect tax fairly. A perception of fairness and trust are important for a tax administration in attempting to reduce tax non-compliances and increasing positive taxpayer's attitude towards taxation. Studies by Wenzel (2002) and Kirchler (2007) on the influence of

perceptions on distributive fairness and its effects to taxpayer's attitudes have also shown that, people who perceive their tax burden to be higher than others tend to be less compliant with tax laws.

The more fairly taxpayers are treated by the tax authority, the less likely they non-comply taxpayers with the tax law (NEF, 2005).Bisrat (2010) stated that dissatisfaction with the tax authorities is one way that motivates taxpayers to non-comply with tax laws. This placing the tax administration as the main party that needs to be continuously efficient in administering the tax in order to increase compliances. If the tax authority is not transparent on how taxpayers' money utilized and fair in determining tax liability, taxpayer develop negative attitude towards taxation to present at the tax authority and met their obligations. Thus, it is one of the central questions in dealing with taxpayer's attitude and ultimately taxpayers' compliance behavior (Wubshet, 2011).

Finally, Bisrat (2011) suggested the tax authority is the most courteous, efficient and flexible; in order to increase taxpayers' compliance, the authority is expected to treat them well This is because such a treatment helps to develop a favorable attitude towards the authority and consequently leads to a voluntary tax compliance. The variable here is dummy where a value 0 is assigned for an in efficient and in effective tax authority and 1 for otherwise. It is hereby hypothesized that effectiveness and efficiency of the tax authority is positively associated with tax compliance behavior.

Knowledge towards taxation

Knowledge is one of the factors that determine taxpayer's attitude towards taxation, ability to understand taxation laws, and their willingness to comply with. Any taxpayer might be willing to comply in full, but others are unable to do so because they are not aware of or do not understand their full obligations. Also, they may not know how to meet them. Eriksen and Fallan (1996), found that tax knowledge has a close relationship with the taxpayer's ability to understand the tax laws, regulations and their ability to comply with. In line with above views, Lewis (1982) also suggests that tax knowledge positively correlates with attitude towards taxation. Therefore, the taxpayer's attitude can be improved by a better understanding of tax laws and this will in turn

increase their compliance. However, the knowledge and attitude of the taxpayer is more important since the effectiveness of tax education is explained by the willingness of taxpayers to follow the program and honesty of the taxpayers themselves.

According to Zelalem (2011), countries like Ethiopia where most of business community lack knowledge and lack of awareness cannot simply overlooked rather it can be assumed as a major determinant of taxpayer's attitude towards taxation. He also argued that if there is insufficient knowledge about tax regulations and why they pay taxpayers develop a negative attitude towards taxation that leads tax non-compliance. Similarly, a study conducted by Wubshet (2011), has shown that most taxpayers do not know why they pay taxes. Finally, Zelalem (2011) conclude that taxpayer's attitude can be improved by enhancing their tax knowledge and one of the mechanisms to enhance knowledge is providing tax education to the targeted group. Therefore, improving taxpayer's knowledge about tax rules and regulations is important to have a voluntary compliance.

Eriksen & Fallan, 1996 stated that the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially with respect to the laws and regulations of taxation. They made an attempt to determine the relationship between levels of tax knowledge and attitudes toward taxation. The authors further stated that tax knowledge has a positive correlation with taxpayer's attitudes towards taxation. Their finding was also confirmed by Harris (1989) and Lewis (1982), where low level of knowledge about tax correlates with negatives attitude toward taxation.

Previous studies have so far evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation lending to a positive attitude towards taxation (Singh, 2003).

In this study attitude of tax payers' towards taxation is dropped out from the analysis as it correlated with the knowledge variable and was confirmed by most of the literature on the topic. The variable knowledge here is dummy, where a value 0 is assigned to those who do not have the knowledge and 1 for those who have it. In this case, knowledge of taxation is expected to have a positive association with tax compliance.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

The central focus of this study is to address factors that affect Tax Compliance behavior of tax payers in Addis Ketema Sub City. In this section, the researcher tried to sum up findings of the study by identifying and analyzing the major factors which affect tax payers' compliance with the tax system. Accordingly, majority of the tax payers (89.9%) were found not to comply with the existing tax system. Opinions remarked by taxpayers and tax officials were collected through interview and open ended questions. Finally, based on major findings of the study the author forwarded some ideas as a conclusion and recommended on what has to be done to improve tax compliance behavior.

4.1 Data Collection and Response Rate

To generate quantitative and somewhat qualitative data a questionnaire was administered to 120 taxpayers from different business categories in the sub city. For the sake of triangulation, 18 more questionnaires were distributed to tax officials. Result of the field survey, assessed with this method, has indicated that from 120 questionnaires distributed to business income taxpayers in Addis Ketema Sub City 112 of them were responded for. This represents a 93 percent response rate. From 18 questionnaires distributed to tax officials in the sub city, all of them had a full response rate. In addition to the questionnaire, an interview was also held with officials from the office of the tax authority which has also included managers.

Table 4:1 Respondents Response Rate

| S.N | Categories | Number questionnaire distributed | Response rate in numbers | Response rate in percentage |
|-----|---------------------------|----------------------------------|--------------------------|-----------------------------|
| 1 | Business income taxpayers | 120 | 112 | 93 |
| 2 | Tax officials | 18 | 18 | 100 |
| | Total | 138 | 130 | 96 |

Sources: Field Survey, 2017

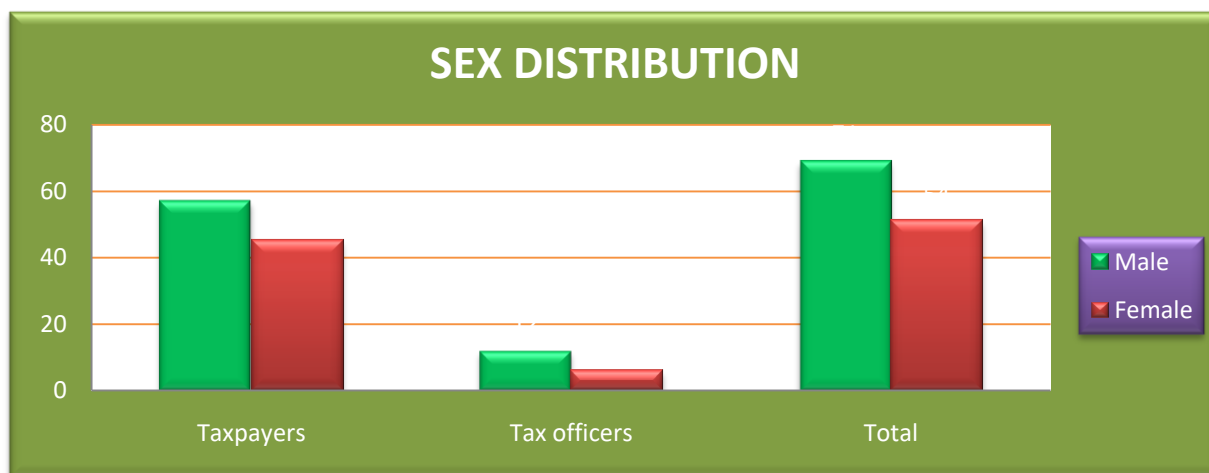
4.2 Profile of the Respondents

This section describes respondents' demographic background including age, sex, and educational background.

4.2.1 Sex of Taxpayers and employees from the Office of the Tax Authority

Like in other countries, Ethiopia also has both females and males are operating in the business activity and working in the government offices at different position as employees of the authority. However, the percentage of their involvement in such working environment is not equal. As it is clearly indicated in Figure 4.1 below, 56.25% of the taxpayer respondents are males and the remaining 43.75% were females. Similarly, 66.67% of the tax officials surveyed were males and the rest 33.33% being females. This shows that the numbers of male respondents were higher than female in both cases. The graph below illustrates this

Figure 4-1 Sex of the surveyed respondents



Sources: Field Survey, 2017

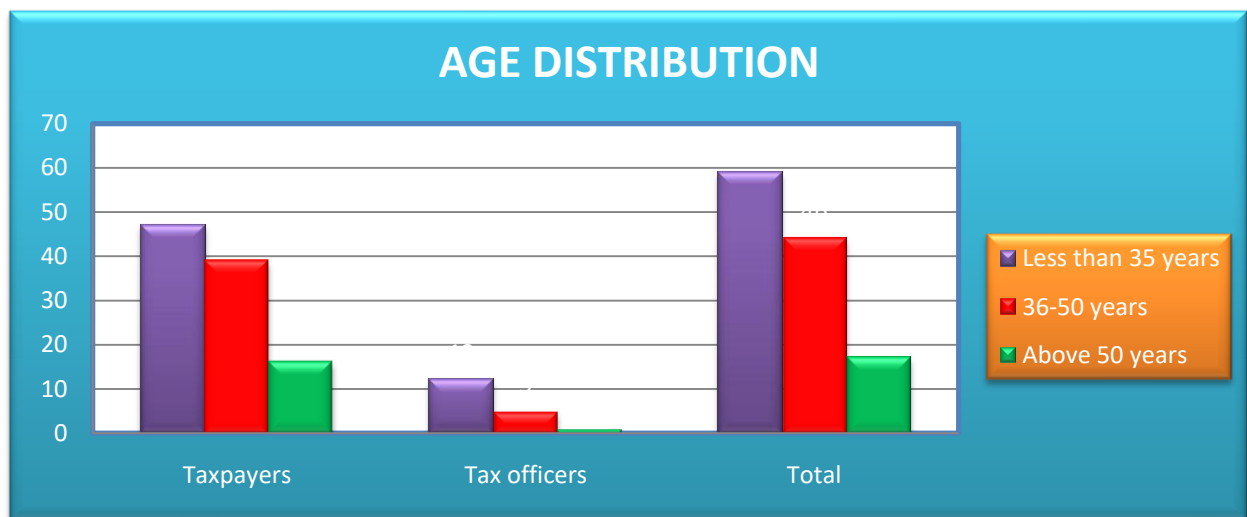
4.2.2 Age of Taxpayers and Employees from the Office of Tax Authority

Different individuals with different age category that can join similar work environment. Concerning this idea, the age of taxpayers and tax officials are not much far from this truth in which different age category individuals that can involve in similar working environments. The researcher was divided age of respondents (both taxpayers and tax officials) into three age

categories as: below 35years, 36-50years and above 50 years.

As it is clearly shown in figure 4.2 that 61.61% of the taxpayer respondents' fall below 35years, 25.89% of the respondents' age is between 36-50years and the remaining 12.5 percent respondents were above 50 years. Similarly, according to tax official respondents' responses, 66.67% of the respondents fall below 35 years old, 27.78% of the respondents is between 36-50years and the rest 5.55% of the respondents were above 50 years. This shows the majority of respondents (both taxpayers and tax officials) are below ages of 35 years in which they are active work force and have many responsibilities in the future.

Figure 4-2 Age of Taxpayer and Employees from the office of Tax Authority

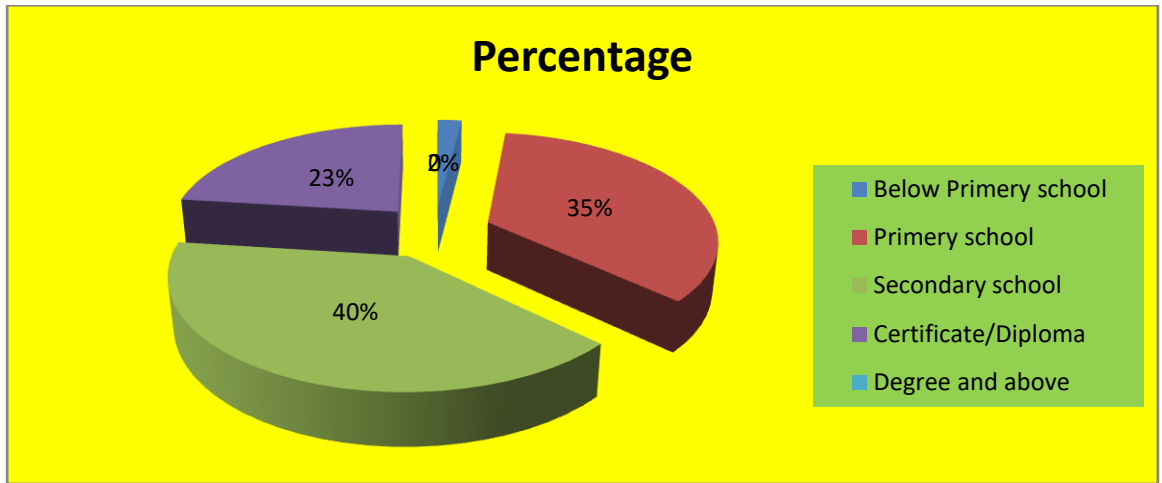


Sources: Field Survey, 2017

4.2.3 Educational Background of Taxpayer Respondents

As it is indicated in Figure 4.3, 2% of the respondents were below primary school, 35% of them were primary school, 40% of them were secondary school, 23% of them have college certificate or diploma and no respondents have first degree and above (See, figure 4.3 below).

Figure 4-3 Taxpayer Respondents Educational Background

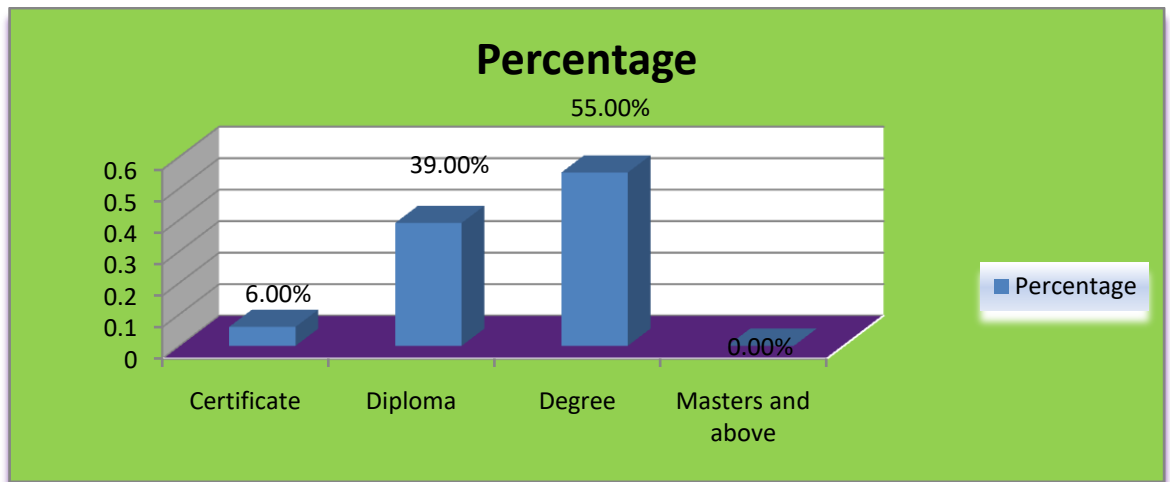


Sources: Field Survey, 2017

4.2.4 Educational Background of employees from the office of Tax Authority

Regarding the educational qualification of employees from the office of the tax authority, about 6% of them have certificates, below 39% have college diploma and 55% of them were first degree holders with no respondents having a qualification of second degree and above.

Figure 4-4: Tax Employee Respondents Educational Background



Sources: Field Survey, 2017

This figure indicates that the levels of education of majority respondents are degree holders.

4.3. Taxpayers' Attitude towards Taxation

The theory of planned behavior incorporates attitudes as one of the determinants of behavior and these attitudes represent the positive and negative evaluations that an individual has for an object. This attitude affects intentions and which in turn affect behavior (Kirchler, 2007). According to Ajzen (1991), in relation to taxation and taxpayers' attitudes, it may be defined as positive or negative views towards tax compliance or compliance and non compliance in the case of the current study. The outcome of positive views towards taxation is tax compliance and a negative view is tax non compliance. The reasons why tax payers actually pay tax varies but the plausible reasons why the study targets comply with this system has been surveyed with some of these reasons adopted from literature and personal experience. The table below shows a summary of the descriptive survey results for these reasons.

Table 4:2 Reasons Why Taxpayers Pay Taxes

| Reasons | Frequency | Percentage |
|---------------------------------------|-----------|------------|
| To avoid penalty | 19 | 18 |
| It is an obligation to the government | 49 | 46 |
| In anticipation of public services | 28 | 26 |
| There is no opportunity to non-comply | 16 | 10 |
| Total | 112 | 100 |

Sources: Field Survey, 2017

As shown in table 4.2 above, taxpayers were asked why they pay tax. Accordingly, 46% of the them had replied that it is an obligation to the government while 26% said they pay taxes in an anticipation of public services from the government. However, the remaining 18% and 10% of the respondents said that they pay taxes to avoid penalty and they have no opportunity to non-comply respectively. This indicated that majority of the respondents had a better understanding of why they pay income tax

The response taxpayers who said that they pay taxes to avoid penalty and they have no opportunity to non-comply respectively indicates that they have the intention not to pay if these conditions not present and which in turn low level of compliances or negative attitude towards taxation.

This result is in line with finding that obtained by Virmani (1989), where taxpayer respondents who said that they pay their taxes to avoid penalty and they have no opportunity to non-comply respectively indicates that low level of voluntary compliances or negative attitude towards taxation. Similarly, other questions were inquired the taxpayer respondents on how they may estimate the size of business income taxpayers who are not willing to comply with tax law. The result is summarized as shown below:

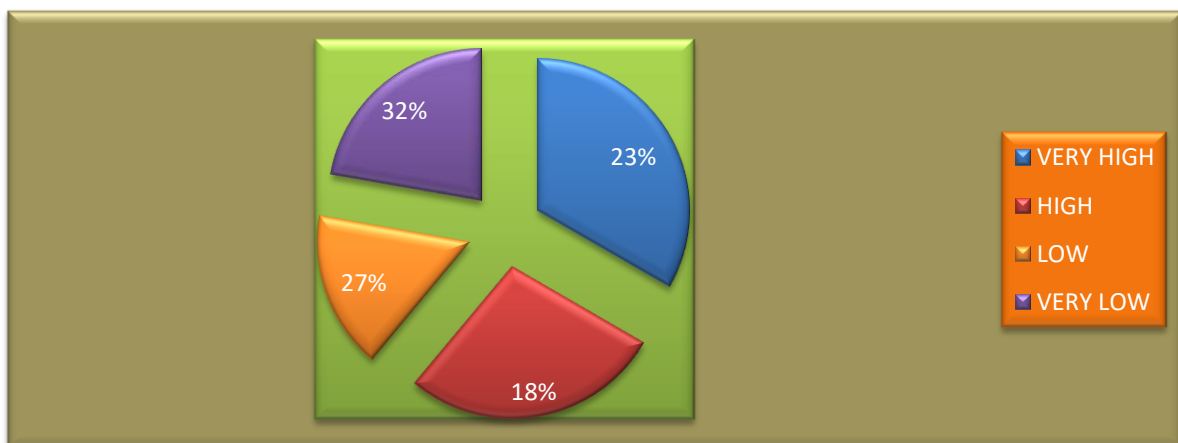
Table 4:3 Estimation of the Size of Taxpayers, not Willing to Comply with Tax Law

| How do you guess the size of taxpayers who are not willing to comply with the tax law? | Frequency | Percentage |
|--|-----------|------------|
| Many | 72 | 64 |
| Few | 36 | 32 |
| Not at all | 4 | 4 |

Sources: Field Survey, 2017

As it is clearly shown in table 4.3 above, majority of the taxpayers (64%) estimated that many taxpayers are not willing to comply with the tax law and 32% of the respondents said that few taxpayers have a willingness to comply with the tax law. The rest, 4% replied that all are willing to comply with tax system. The same question was provided for tax officials in such a way as to how they express the number of voluntary compliances in their sub-city. Meanwhile, respondents replied as shown in figure 4.5 below:

Figure 4-5 Response of Tax Experts Estimation of the Number of Voluntary Compliances



Sources: Field Survey, 2017

As it is clearly shown in figure 4.5, 23 percent, 18 percent, 27 percent and 32 percent of employees from the tax authority estimated that the number of taxpayers voluntarily complying with the tax system would be very high, high, low and very low respectively. The responses of the tax employee respondents were similar to that of business income taxpayers. From the responses, it is clear that there are large numbers of individuals who do not comply with their tax obligation on voluntarily basis and this in turn shows that a large number of taxpayers have negative attitude towards taxation in the Sub-city.

This result has been supplemented by Ajzen (1991), who stated that a taxpayer with positive attitudes toward tax is more voluntary to comply with the tax law where as a taxpayer with negative attitudes less voluntary to comply. Parallel to this question, another question was forwarded to tax official respondents to know “how they evaluate taxpayer’s attitude towards taxation in the sub-city.”

According to the response of the tax employee respondents with respect to the above issue, 11.11% of the respondents said that taxpayers attitude towards tax system is excellent, 11.11% of the respondents said that it is good, 27.78% of the respondents said that it is fair and the rest 50% of them said that it is poor.

As it is clearly shown in figure 4.6 below, a similar question was forwards to the taxpayer respondents to know the responses of the respondents with respect public attitude towards taxation in the city and accordingly 10% of the taxpayer respondents said that the public attitudes towards taxation is excellent, 14% of them said it is good, 24% of the respondents said that it is fair and rest 52% of them are of the opinion that it is poor. This shows that both taxpayer’s attitude and public attitude towards taxation in Sub-city is very low or negative.

According to the outcomes of interviews with tax officials, it was observed that taxpayers’ attitude towards taxation in the sub-city is negative because many taxpayers do not like to pay taxes, negative attitudes towards taxation, and low level voluntary compliances in the city. Finally, they said that only few taxpayers have positive attitude towards taxation, but most of them have negative attitudes. Generally, these responses indicated that the level taxpayers attitude towards taxation is still under question mark or very low.

Figure 4-6: Evaluation of Taxpayer's Attitude towards Taxation in the Sub city



Sources: Field Survey, 2017

In order to indicate the level of the taxpayer's attitude towards business income tax system in a better way, taxpayer respondents were also presented with tax related statements and for each statement they were requested to indicate whether they strongly agree, agree, no opinion, disagree or strongly disagree. The tax related statements for which respondents were asked indicated their attitude as follows:

Table 4:4 Evaluation of Taxpayer's Attitude towards Some aspects of taxation

| Statements and questions | | Strongly disagreed | Disagreed | Neutral | Agreed | Strongly agreed |
|--|------------|--------------------|-----------|------------|--------|-----------------|
| | | | | | | |
| The tax laws should be respected. | Frequency | 9 | 26 | 16 | 30 | 31 |
| | Percentage | 8 | 23 | 14 | 27 | 28 |
| Taxpayers would non-comply if they got the opportunity | Frequency | 13 | 34 | 12 | 20 | 33 |
| | Percentage | 12 | 30 | 11 | 18 | 29 |
| Do you feel guilty if you are cheating tax and you remain unnoticed? | Frequency | | | Percentage | | |
| Yes | 51 | | | 46 | | |
| No | 61 | | | 54 | | |

Sources: Field Survey, 2017

In line with this result, majority of the taxpayers (55%) strongly agreed and agreed that the tax law should be respected. Whereas, the remaining 31% of them strongly disagreed and disagreed with this statement and 14% of the respondents were neutral on the issue. As it is clearly shown in table 4 .4 above, the taxpayers were also asked whether business income taxpayers, non-comply with the tax law whenever they get the opportunities and accordingly that 42% of them replied that they would strongly disagree and disagree they comply with tax law even if they get the opportunity to do so. The remaining 47% of the respondents agreed that they would not comply with tax law whenever they get the opportunity and 11% of them were neutral on this case. This shows that the majority of these respondents did not comply with their tax law if they get the opportunity to do so. Similarly, Fjeldstad (2004), found that people generally paid their taxes, high majority of respondents stated that given a chance, they will non-comply with tax law.

From the same table it is visible that, 55% of the taxpayer respondents were strongly agreed and agreed that with the statements “determination of business income tax is biased or unfair”. The remaining 32% of them were strongly disagreed and disagreed with this statement and 13% of the respondents were neutral on this view. This indicates that the majority the taxpayer respondents have negative attitudes on the determination of business income tax liability. Finally, another question was forwarded to taxpayer respondents to know whether they were feeling guilty if they fail to pay the tax liability provided that they remain unnoticed and accordingly 46% of the respondents said that they feel guilty. While, the rest 54% of them said that they didn't feel guilt. This indicated that the majority of taxpayers didn't feel guilt if they cheat the tax and which in turn shows that most of taxpayers have negative attitude towards taxation.

4.4. Some Attitude Statements as factors affecting Taxpayers compliance towards Taxation

Psychology-based theories reveal that taxpayers' attitude towards taxation may be affected by taxpayer's perceptions of the complexity tax system, efficiency of Revenue Authority, reference groups, motivation such as rewards (Torgler, 2006); and punishment such as penalties (Allingham & Sandmo, 1972); the cost of compliance, equity of the tax systems (Trivedi & Shehata, 2005); attitude towards government spending and probability of detection by tax authorities (Murphy, 2004).

Table 4:5 Response of Taxpayers on Factors Affecting their tax compliance behavior

| Statements | | Strongly disagreed | Disagreed | Neutral | Agreed | Strongly agreed |
|---|------------|--------------------|-----------|---------|--------|-----------------|
| Knowledge of Taxation | | | | | | |
| I don't know why I have to pay | Frequency | 33 | 46 | 10 | 19 | 4 |
| | Percentage | 29 | 41 | 9 | 17 | 4 |
| Complexity of the tax system | | | | | | |
| Income tax proclamation, regulation and directive are easy to understand | Frequency | 27 | 35 | 10 | 22 | 18 |
| | Percentage | 24 | 31 | 9 | 20 | 16 |
| Tax law easy and simple to understand | Frequency | 25 | 47 | 12 | 19 | 9 |
| | Percentage | 22 | 42 | 11 | 17 | 8 |
| Reference Group | | | | | | |
| I believe that people with higher income pay more income taxes than lower income | Frequency | 23 | 45 | 17 | 16 | 13 |
| | Percentage | 21 | 38 | 15 | 14 | 12 |
| I believe that honestly compliance of my relative has a positive effect on my attitude towards tax system | Frequency | 9 | 11 | 5 | 43 | 44 |
| | Percentage | 8 | 10 | 5 | 38 | 39 |
| Public Perception on Government Spending | | | | | | |
| The government spends a reasonable amount on economic and social welfare | Frequency | 20 | 40 | 10 | 29 | 13 |
| | Percentage | 18 | 36 | 9 | 26 | 11 |
| The government doesn't provide enough information about how it utilizes the taxpayer's money. | Frequency | 9 | 13 | 24 | 38 | 28 |
| | Percentage | 8 | 12 | 21 | 34 | 25 |

Sources: Field Survey, 2017

4.4.1. Knowledge about Taxation

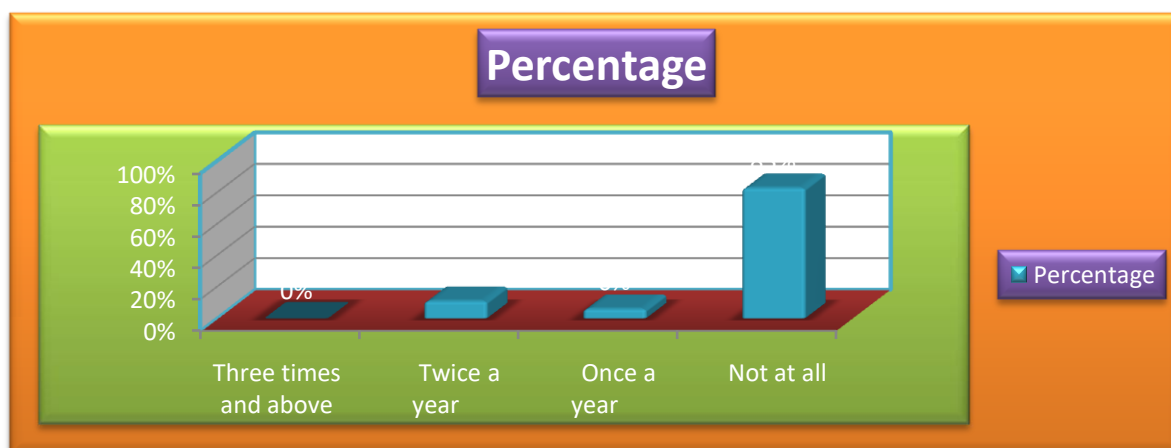
According to Mohani (2003), tax knowledge is necessary to increase taxpayer's awareness, especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. On the

other hand, Eriksen & Fallan (1996) stated that attitude towards tax compliance can be improved through the enhancement of taxation knowledge. Similarly, Palil (2012) states that knowledge about tax laws plays important role in determining taxpayer's attitudes towards taxation. The author further suggested that continuing education programs and effective monitoring mechanisms must be taken into account by tax authorities to ascertain the positive taxpayer's attitude towards taxation have a good and reasonable knowledge or understanding of tax matters. Furthermore, Porcano (1988) suggested that taxpayer education is the necessary to change taxpayer's attitudes towards tax from negative to positive attitudes.

As it is shown in table 4.5 above, 70% of the taxpayers strongly disagreed and disagreed that they didn't know why they pay taxes. The remaining 21% of the respondents strongly agreed and agreed that they didn't know why they pay taxes 9% of them were neutral on this view. These results were consistent with previous findings where the majority of the taxpayer respondents (46%) were replied that they pay taxes because it is an obligation to the government. This indicates that the majority of taxpayers have better understanding as to why people pay taxes. However, significant of percentage of taxpayer respondents (21%) didn't know why they pay tax and the rest 9% of the respondents were neutral on issue.

From the same table it is visible that, the majority of taxpayer respondents (55%) were strongly disagreed and disagreed with the statement "income tax proclamation, regulation and directive are easy to understand". The remaining 36% of the respondents were strongly agreed and agreed with statement "income tax proclamation, regulation and directive is easy to understand" and the remaining 9% of them neutral on this view. This indicated that even though the majority of taxpayers know why they pay taxes, but they do not have a clear understanding on income tax proclamation, regulation and directives. This result in line with a study conducted by Zelalem (2010) where the majority of taxpayers know why they have to pay taxes, but they do not have the general understanding about taxation especially regarding the laws and regulations of taxation. Similarly, Oberholzer (2008) stated that taxpayer becoming aware of their responsibilities doesn't mean that taxpayers always comply with tax laws and have positive attitudes towards taxation. This is because there may be non compliant taxpayers due to lack of enough knowledge on the general understanding tax the laws and regulations.

Figure 4-7 Programs of Education/ Training Sessions Delivered in a Year



Sources: Field Survey, 2017

To know whether the tax authority delivered tax education to taxpayers for enhancing the knowledge of taxpayers, tax employees were asked how often tax authority gave tax education to tax payers per a year and the survey result showed that 83% of the respondents said that tax authority were not given any tax education. The rest, 11% and 6% of the tax official respondents were replied that, tax authority had given twice and once in a year respectively. This shows that a tax authority is weak in giving tax education to taxpayers or in creating awareness for taxpayers about tax.

Additionally, according to the outcomes of interviews with tax an official reveals that lack clear knowledge about tax is a main factor that affects taxpayers towards taxation in the Sub-city. This result has been supplemented by Wubshet (2011), who states that the tax education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the tax laws and regulations. The authors further suggested that in order to reduce the obligatory registrants and promote voluntary tax compliance, the tax authority should engage in continuous awareness, creating programs to educate the public aiming to wake the business community on various tax issues. Thus, as Eriksen & Fallan (1996) states, tax knowledge as one of the factors that affects taxpayer's attitude towards taxation and their willingness to comply. Therefore, it is possible to conclude that tax knowledge has positively influenced on taxpayer's attitude towards taxation.

4.4.2. Complexity of the Tax System

It was pointed by Adams (1921) that the success of business income tax depends primarily upon the taxpayer's attitude towards taxation. The author further states that one of the factors that contributed to negative attitudes towards taxation is the complexity of the tax system, as it may lead to non-compliance behaviors.

The principles of simplicity stated that the tax system should be simple, easy and understandable to common individuals. Which means the tax system should be sufficiently simple both in context and terminology for the taxpayers of average intelligence to understand at least its main principles and the tax system should not be complicated or difficult to administer. Otherwise, the taxpayers cannot estimate his/her liability and it will because the taxpayers cannot estimate his/her liability and it will cause irregularity in payment and it leads to tax non-compliance. Contrary to this principle, as indicated in table 4.5, above, the majority of the taxpayer respondents (65%) were strongly agreed and agreed with the statement "Tax is tax law, not easy to understand and simple complete tax returns" while 25 % of the respondents were strongly disagreed and disagreed with the statement. A lower percentage of the respondents' (11%) were neutral regarding the understandability and simplicity of tax policies and procedures.

Based on this result, it may be deduced that the complexity of tax structures appears to have a negative influence on taxpayer's attitudes towards taxation or on willingness to pay their tax liability. This result has been supported by a study conducted by Oberholzer (2008) in South Africa where the majority of the respondents agreed that the complexity of tax law has negative effects on their attitudes towards taxation because of this complexity they were unable to calculate their liability and increases compliance costs.

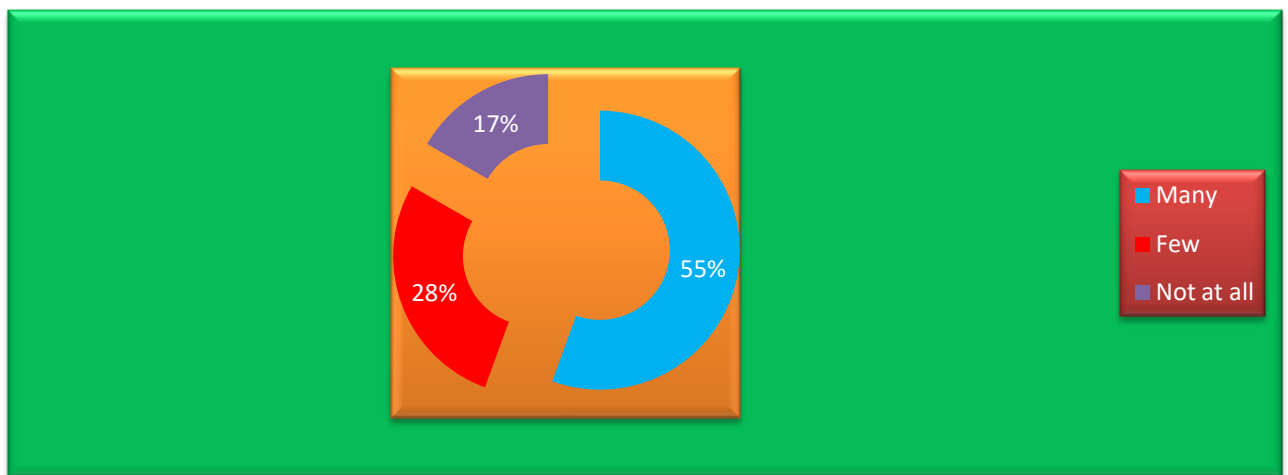
4.4.3. Reference Group

Compliance behavior and attitudes of taxpayers can be affected by the actions of the reference groups, such as peers and neighbors. This means that if people within the reference group do not comply with tax law, the specific taxpayers will comply may become reduced (Fjeldstad, 2004). Similarly, Snavely (1990) stated that taxpayers' attitudes towards the tax system are affected by the behavior of an individual's reference group such as neighbors, and friends. One of the most

consistent findings in survey research in Western countries about taxpayer attitudes towards taxation stated that those who report tax honestly believe that their peers and friends comply with the tax system, whereas those who report non-comply with tax law believe that others not comply (Fjeldstad, 2004).

IRS Oversight Board (2011) found that the majority of the taxpayer respondents felt that the possibility of third parties reporting their income to the IRS (Internal Revenue Service) influenced their decisions to report or pay their taxes honestly. Similar to this finding, as shown in table 4.5 above, it appears that the majority of the taxpayer respondents (77%) was strongly agreed and agreed that their neighbors reporting and paying their taxes honestly has positive effects on their decision to report and pay their taxes honestly. Whereas, remaining 18% of the respondents were strongly disagreed and disagreed with the statement and 5% of the respondents were neutral on the issue. This shows that the honestly comply with the tax law of the reference group have a positive influences on taxpayers attitude towards taxation. Furthermore, tax employees were requested to how estimate the size non-registered business activity or informal economy in the sub-city. The following figure portrays the responses that respondents said many/ few/ not at all.

Figure 4-8 Number of Illegal Traders in the sub-city



Sources: *Field Survey, 2017*

As it is indicated in figure 4.8, 55% of the respondents were replied as many non registered trades, 28% of the respondent said that few number of non-registered or informal economy and the remaining 17% of the respondent said that no illegal traders in the sub-city. This shows that there are many informal economies in the market that are not registered as legal trades in the sub-

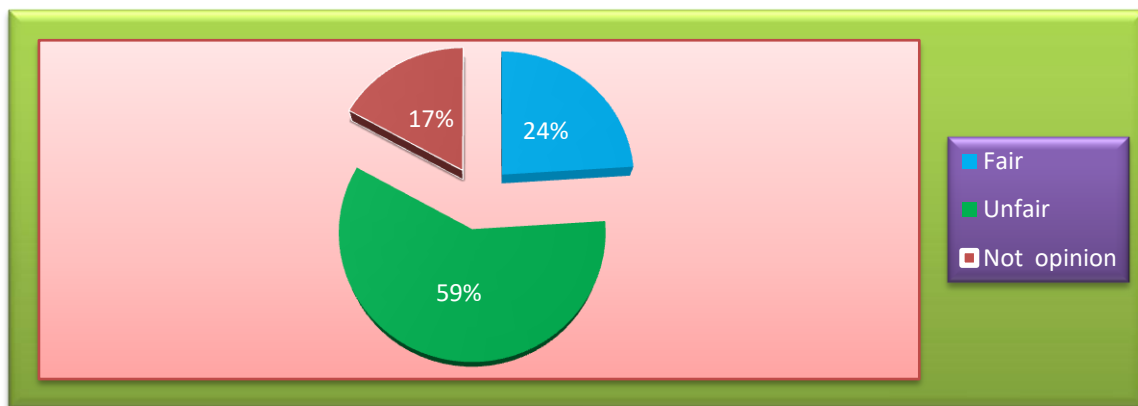
city.

In lines with above results the majority taxpayer respondents were written in question which asked through open ended the reasons why people do not willing to comply with tax is due to the absence of uniform registration business activity or widespread of the informal economy in Sub-city or fear of competition from these business activity and lack of fairness in determination in business income tax. This indicated that the failure to register those informal economy or business activity is another reason for non-compliances. This is because the few business activities that are living up to civic responsibility become discouraged when they discover that defaulters go unpunished. Torgler (2003), supplements the respondents responses by stating that when the size of the shadow economy increases, non-compliances also increased.

4.4.4. Fairness of Tax System

If the tax system does not seem to be fair in the eyes of the taxpayer and they feel that they are unfairly taxed, the government stands a greater chance of missing or loses revenue (Torgler, 2006). The perceived fairness of the business income tax is determined by the similarity of the tax burden among similar taxpayers, the perceived fairness of the penalty for non-compliance and government spending of the tax money. With respect to the perception of the fairness of business income tax systems, respondents (both taxpayers and tax official) were asked different questions.

Figure 4-9: Response of Taxpayers on Fairness of Business Income Tax



Sources: Field Survey, 2017

Business income taxpayer respondents were requested to indicate their view on the fairness of the tax they pay with respect government spending of the collected tax revenues on social welfare. In this regard, the survey outcomes revealed that about 24 percent, 59 percent and 17 percent of the

taxpayers respondents said that it is fair, unfair and no opinion respectively.

From table 4.6, it is clearly visible that, the majorities of taxpayer respondents (60%) were strongly disagreed and disagree that people with higher income pay more taxes than people have lower income. While the rest 25% of the respondents were strongly agreed and agreed with statement and 15% of them neutral on this view. This indicated that, vertical fairness was not accurately maintained in the business tax income system because higher income earners were not sufficiently taxed in the Sub-city.

This result contrary to vertical equity principles which stated that the tax system should distribute the burden of tax fairly across people with higher income should pay more income taxes than the one with less income (Kirchler, 2006). Ideally, vertical fairness maintained when people with higher income earners taxed at higher rates than those with lower income earners. This issue also considered by the Ethiopian income tax system where the progressive tax rates currently as follows (FIRA, 2010).

Table 4:6 Response of Taxpayer’s on Perception towards Fairness Business Tax System

| Statements of fairness of the tax system | | Strongly disagreed | Disagreed | Neutral | Agreed | Strongly agreed |
|--|------------|--------------------|-----------|---------|------------|-----------------|
| | | | | | | |
| It is unfair to pay tax | Frequency | 30 | 31 | 12 | 28 | 11 |
| | Percentage | 27 | 28 | 11 | 24 | 10 |
| Determination of business income tax burden is biased | Frequency | 13 | 22 | 15 | 34 | 28 |
| | Percentage | 12 | 20 | 13 | 30 | 25 |
| | | | | | Yes | No |
| Are those of similar incomes taxed similarly? | | | | | 30% | 70% |
| Do you think that the tax you are paying is fair and based on your ability to pay? | | | | | 36% | 64% |

Sources: Field Survey, 2017

From table 4.6, it could be clearly visible that majority of the respondents (55%) strongly disagreed and disagreed that for the statements “it is unfair to pay taxes”. Whereas, the remaining 34% of the respondents were strongly agreed and agreed with this statement and 11%

of the respondents were neutral on this view. From this it is possible to conclude that, even though the majority of taxpayers have positive attitude for the payment of tax, but there still is a significant percentage of taxpayer respondents (34%) have negative attitudes relating to the payment of tax.

As it is clearly shown in table 4. 6, taxpayer respondents were also asked whether those who have earn similar incomes taxed similarly and accordingly majority of the respondents (70%) said that taxpayers those who have earned similar income not taxed similarly in Sub-city. The remaining 30% of the taxpayer respondents said that those who have earned similar income taxed similarly. This implies that a horizontal equity principle was not accurately maintained in the business income tax system. This result was contrary to horizontal equity principles which stated that people in equal position or equal of income should pay the same amount of tax to the government.

As it is depicted in table 4.6, taxpayer respondents were asked whether business income tax they is fair and based on their ability to pay and accordingly the majority of taxpayer respondents (64%) said that the tax they pay is not fair and it is beyond their ability to pay while 36% of the taxpayer respondents said that the tax they paid is fair and based on their ability to pay. This implies that business income is not fair or based the ability to pay of the taxpayers. This finding contrary to the ability to pay principles which argues that the amount of tax contributed by the taxpayers to the government's treasury should be based on their ability to pay usually as measure by income and wealth (i.e. the taxpayers pay tax based on their capacity to pay).

Table 4:7 Response of Respondents on the Influences of Reference Group on Others Taxpayer’s Attitude

| Questions | Yes | No |
|--|-----|-----|
| Does non-compliance of others taxpayers has an effect on your own compliance behavior?: For Taxpayers | 89% | 11% |
| Do you think non- registered business activity has a negative effect on your attitude towards the business tax system? : For Taxpayers | 82% | 18% |
| Do you believe that non-compliance of reference group has an effect on others taxpayers attitude towards taxation?: For tax employees | 72% | 28% |

Sources: Field Survey, 2017

As shown in table 4.7 above, 82% of the taxpayer respondents were responded that non-registered trades have a negative impact on their attitude towards paying taxes or on their compliances behaviors while the remaining 18 percent of them said no have any impact. This result shows that non registered business activities have a negative impact on their attitude towards paying taxes or on their compliances behaviors. Similarly to this result, Torgler (2006) stated that the informal sectors have close links with taxpayer’s attitudes towards taxation. The authors further concluded that as the size of informal economy increases the negative attitudes towards taxation from the part of taxpayers is also increasing.

As it is clearly shown in table 4.7, taxpayer respondents were asked views regarding non-compliance of other taxpayers has an influences on their compliance behavior or on their attitude towards taxation and the accordingly the majority of taxpayers respondents (89%) said that the non- compliance of other taxpayers have a negative impact on their attitude towards taxation. The same question was also provided to the tax employees. Similar to taxpayer respondents response, the majority of tax official respondents (72%) also believed that non-compliances of reference group have an effect on others taxpayers attitude towards taxation. Additionally, according to the outcomes of interviews with tax an official reveals that non-compliances reference group as another factor that affects taxpayers towards taxation in the Sub-city. This indicates that non-

compliances of other taxpayers have a negative influence on other taxpayer's attitude. This result has been supported by Allingham and Sandmo (1972), who stated that the influence of peers or friends significantly affects taxpayer's attitude towards taxation although the extent of influence was not clearly stated.

4.4.5 Perception towards Government Spending

Sarker (2003), stated that if the government is wisely spending the national revenue, for example on basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is not spending too much on something considered a benefit to them, then taxpayers attempt to non-comply with law. With regards to perceptions of government spending, those who have negative attitudes towards taxation often argued that the government wastes tax revenue and spends unwisely; in turn such arguments can reduce voluntary compliance in the long run (Braithwaite *et. al.*, 2009).

As it is clearly indicated in table 4.5 above, the majority of the taxpayer respondents (54%) were strongly disagreed and disagreed with the statement "The government spends reasonable amount money on economic and social welfare". While, the remaining 47% of the respondents were strongly agreed and agreed with the statement and 9% of them were neutral on this view. This also shows that a government spends reasonable amount money on economic and social welfare.

Contrary to this result, the survey conducted by Fjeldstad (2004) in Tanzania shows that a high majority of the respondents were agreed that one of the major problems that hamper tax collection is that taxes that are collected are not spent on public services. From the same table 4.5, regarding to provide information on the utilization of taxpayers' money by the government 59% of the taxpayer respondents were strongly agreed and agreed with the statement "Government does not provide enough information about how they utilize taxpayer's money". Whereas, the rest 20% of the respondents were strongly disagreed and disagreed with the statement and 21% of them were neutral on this view. This result indicated that even though the majority of taxpayer respondents did not feel it is unfair to pay taxes, but they lack confidences on how taxpayers' money was utilized. This result has been confirmed by Torgler (2006), who states that a positive performance of the government in providing enough information on how the government utilizes taxpayer's money will most likely affects taxpayer's attitude towards the tax system.

4.4.6 Penalty for Non-compliances

This means if any person is liable to pay any tax imposed by the income law is in default in accordance with the provisions of the law, it shall be lawful for the Authority to collect such tax by seizing any property belonging to such person and sell the seized goods at public auction or in any other manner approved by the Authority.

Table 4:8 Response of Respondents the Influences of Penalty on Taxpayer's Attitude Taxation

| Questions | Yes | No |
|---|-----|-----|
| If no penalty or legal enforcement, is there a possibility that you may not pay a tax?: For Taxpayers | 51% | 49% |
| Do you believe that penalty affects taxpayers attitude towards tax compliances?: For tax employees | 52% | 48% |

Sources: Field Survey, 2017

As it is depicted in table 4. 8, the taxpayer respondents were asked whether they pay tax if there is no penalty or legal enforcement and accordingly 51% of the respondents replied that there is a possibility of the paying tax even though there are no legal enforcements. This response is consistent with the subsequent response of why taxpayers paying taxes and the majority of them responded it is the obligation towards the government or state. In this regards if this is the assumption by the taxpayers as to why they pays taxes, so it is normal to say taxes are paid whether legal enforcements is present or not. But, this should not have to lead the conclusion that legal back up is unnecessary or worthless. The remaining 49 % of the respondents said that there is a possibility of not paying tax if a penalty or legal enforcement is not in place. This shows that even though majority taxpayers paying their tax obligation, whether legal enforcement present or not, there is a significant percentage of the respondents (49%) were not voluntary compliance with tax law.

As it is demonstrated in table 4.8, the same question was provided to the tax employees. The responses of the tax official respondents were similar to that of business income taxpayer respondents. Tax employees were asked whether the penalties are appropriate for reducing tax non- compliances, and accordingly 52% of the respondents were agreed penalty as appropriates

tool to deter non-compliances and only 48% of the respondents were disagreed with statements. This implies that legal enforcement more or less affects taxpayer's attitude towards taxation. This result supported study conducted by Virmani (1989), which indicated that the penalty had a medium impact on tax taxpayer's attitudes towards taxation.

4.4.7 Probability of Detection for Non-compliance

The probability of detection is significant factors that may lead to non-compliances (Cummings *et al.*, 2006). Few people will non-comply with tax law if the probability of detection is more likely (Fjeldstad, 2004).

Table 4:9 Responses of Respondents on the Influence of Probability of Detection on Taxpayer's Attitude

| Questions | Yes | No |
|--|-----|-----|
| Would the probability of being detected affect your decision non-compliances?: For Tax Payers | 41% | 59% |
| Would you believe the probability of being audited affect taxpayer's decidedly non-compliances?: For Tax employees | 55% | 45% |

Sources: Field Survey, 2017

As it is clearly demonstrated in table 4.9, the taxpayer respondents were asked whether probability being detected affects their decision of non-compliances and accordingly 41% of the respondent's replied that probability being detect affects their decision of non-compliances. While, the remaining 59% of the respondents said that probability being detected not affects their decision of non-compliances.

Similarly, tax employee respondents were also asked whether probability being audit affects the taxpayer's decision of non-compliances. From the same table it is visible that, 55% of the respondents said that probability being audit affects the taxpayer's decision of non-compliances. Whereas, the remaining 45% of the tax employee respondents were said that probability being audit not affect taxpayers of decision of non-compliances. This shows probability being detected or audit little influence on the taxpayer decision of non-compliances. This result has been confirmed by Gcabo and Robinson (2007), who stated that the probability of being detected is not

identified as a significant factor that affects taxpayer’s attitudes towards taxation.

4.4.8 Effectiveness and Efficiencies of Tax Authority

According to Murphy (2004) citizens’ willingness to pay taxes voluntarily or positive attitudes towards taxation rests on the tax authority capacity to provide services to taxpayers and its demonstrated readiness to secure the compliance of the otherwise non-compliant. The respondents evaluated the tax authority with respect to certain parameters. The following table shows their response to the efficiency of in percentages. Evaluating the performance of tax authorities from the perspective of business income taxpayers is important in analyzing their effectiveness. Therefore, respondents were also asked to evaluate them on different bases. The following table analyzes the response of respondents:

Table 4:10 Evaluation of the Effectiveness Tax Authority by Taxpayers’ Respondents

| Statements | Excellent | Good | Fair | Poor |
|--|-----------|------|------|------|
| Service delivery to public | 10% | 25% | 37% | 32% |
| Awareness creation on tax | 4% | 6% | 23% | 67% |
| Tax law enforcement for non-compliance | 12% | 25% | 37% | 26% |
| Motivating (rewarding) taxpayers | 0% | 3% | 4% | 93% |

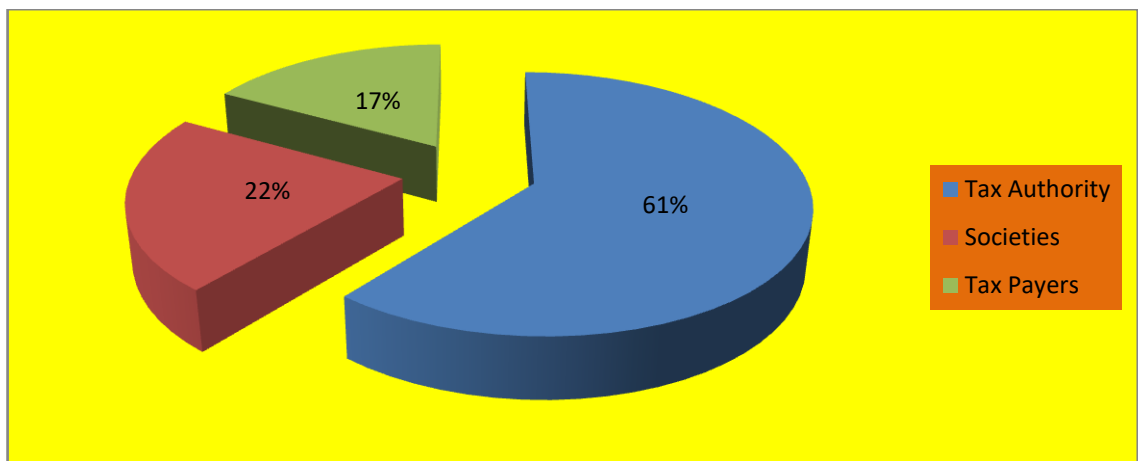
Sources: Field Survey, 2017

As it is clearly shown in table 4.10, majority of the taxpayers were ranked the parameters from excellent to poor except creation of awareness. With respect to tax penalty for providing non-compliance, especially for not registered business, (12%) of the taxpayer respondents replied that it is excellent, 25% of the respondents replied that it is good, 37% of them replied that it is fair and 26% replied that it is poor respectively. This shows that the majority of the respondents replied that the tax law enforcement capacity of the tax authority was fair and poor. Therefore, this implies that tax authority is very weak in taking control measure on non-compliances that

why the majority of the respondents said that many informal economies in the sub-city that are not controlled and included in the tax net and it also shows that the Addis Ketema Sub City revenue authority weakness in enforcement, identification and registration of these business activities.

Concerning the creation of awareness of the tax authority, 4% of the respondents were replied that it is excellent, 6% of the respondents replied that it is good, 23% of the respondents replied that it is fair and remaining 67% of the respondents said that it is poor. Therefore, this shows that more half of the business income taxpayer respondents agreed that the tax authority is ineffectively in create awareness to the business income tax payers about the tax. Concerning the service delivery to taxpayers, 8% of the respondents replied that it is excellent, 25% replied that it is good, 37% replied that it is fair and 32% said that it is poor. This show that majority of the respondents said that service provision is fair and poor. Hence, the tax authority’s capacity of delivering service to the public is not yet sufficient enough.

Figure 4-10 Response of Tax Employees on who has to be held Responsible for Tax Non-compliances



Sources: Field Survey, 2017

As depicted in figure 4.10, majority of the tax employees (61%) were replied that the Addis Ketema tax authority must be held responsible for poor tax compliances. Whereas, the remaining 22% and 17% of the tax employee respondents said that City Societies/communities and taxpayers respectively are held responsible for tax non-compliances.

By expending on the question the respondents asked in open ended question why choose the given alternative and accordingly those who choose tax authority said that the authority didn't give tax education, no consultation with taxpayers on tax issues, lack of uniform registration of similar businesses within the same area and equal businesses activities, no motivation such as reward given to taxpayers based on their compliances levels are the main reasons that increases non-compliances in the sub cit.

Similarly, those choose city Societies/communities said that they didn't take any measure on those informal economies to make the formal or legal traders and do not have the habit of taking cash receipt for any transactions in the Sub-city. This demonstrates that the tax authority is very weak in monitoring taxpayer's attitude and promoting voluntary compliances. This finding is supported by Richardson (2006) who pointed out that an ineffectiveness and inefficiency of tax administration have negative effects on taxpayer's attitude towards taxation and on the willingness of the tax payers to comply with tax law.

4.5. Possible Measures to Be Undertaken to Promote Positive Attitude towards Taxation

Apart from the discussions so far, the study respondents were given the opportunity to fill the open ended question on the overall public attitude towards taxation. Accordingly, the responses of the respondents were similar to what was discussed at the close ended. The opinion of the respondents were as follow lack of clear understanding about tax, many informal economy or not registered business activity which tax authority doesn't take them into consideration, lack of fairness in the business income tax system specifically both vertical and horizontal fairness, tax authority doesn't conduct awareness creation and consultation sessions with taxpayers.

Table 4:11 Responses on measures to be taken by the government to promote positive attitudes towards taxation

| Measures to be taken | Taxpayers | | Tax employees | |
|--|-----------|----------|---------------|----------|
| | Agree | Disagree | Agree | Disagree |
| Educating the taxpayers and conducting awareness creation | 94% | 6% | 92% | 8% |
| Strengthening legal enforcement and penalties | 41% | 59% | 48% | 52% |
| Motivating taxpayers (rewarding) based on their compliance performances | 85% | 15% | 76% | 24% |
| Reducing tax rates and making tax collection and estimation, fair and transparent | 82% | 18% | 73% | 27% |
| Providing necessary information to taxpayers about the provision of services and utilization of tax revenues | 87% | 13% | 88% | 12% |
| Improving policy and Administration issues | 86% | 14% | 74% | 26% |

Sources: Field Survey, 2017

With regard to the measures taken by the government to promote positive taxpayers attitude towards taxation, the study respondents were given the opportunity to suggest on the issue. In this aspect, 41% of the taxpayer respondents were agreed that strengthening legal enforcement and penalties promote positive attitude towards taxation. The rest, 59% of the taxpayer respondents were disagreed with the statement. In the case of other measures like improving policy and administration issues, educating the taxpayers and conducting awareness creation, to provide necessary information to taxpayers the provision of services and utilization of tax revenues. In addition, reducing tax rates and making the collection procedures simple and transparent, motivating taxpayers (rewarding) based on their compliance performances percent, 82%-94% of the taxpayer respondents were agreed that the government has to take measures that could ensure positive attitudes towards taxation. The same question also provide to tax officials. Similar to taxpayers, 48% of the tax employees respondents agreed with strengthening legal enforcement and penalties to develop positive attitudes towards taxation and the rest 52% of the

respondents disagreed with the this idea. In the case remaining measures, 73%-92% of the tax employee respondents were agreed that the government has to take measures that could ensure positive attitudes towards taxation.

4.6. Definition of Variables used in Binary Logistic Regression Model

Table 4:12 Definition of Variables used in a binary logistic regression model

| Dependent Variable:-Tax Compliance Behavior | |
|---|---|
| Variable Code | Definition of Variables |
| Y0=COMP | Complied with the existing tax system |
| Y1=NONCOMP | Not Complied with the existing tax system |
| Independent Variables | |
| PFNC | Penalties for non compliance |
| PDFNC | Probability of detection for non compliance |
| KOT | Knowledge of taxation |
| PTGS | Perception towards government spending |
| PEF | Perception of equity and fairness |
| REFG | Reference Groups |
| COMPTS | Complexity of the tax system |
| EETA | Efficiency and Effectiveness of the tax authority |

4.7. Checking for the Problems of Multi-collinearity

In this sub chapter, the presence of multi-co linearity among the 8 explanatory variables was checked. Out of the 8 variables entered in the model, all were dummy independent variables. As mentioned in the previous section while discussing appropriate models, there are two ways of

checking for multi colinearity issues:-VIF (variance inflation factor) for continuous explanatory variables and CC (Contingency Coefficient) for dummy variables. The contingency coefficient (CC) is calculated using the same formula as indicated in the model definition. Hence, if the contingency coefficient for the dummy variables is greater than or equal to 0.75 then the variables will be dropped out from analysis and will not be included in the model. The second way is by using the VIF value, which can be computed using the formula as indicated in the definition of models. Once the VIF values, are found then tolerances, (R^2) values could be computed. The larger the value of VIF, the more problematic or co linear the variable X_i is. To avoid serious problems of multi colinearity it is quite essential to omit variables with VIF values of 10 or more from the logit model (Gujarati, 2004).

Using the testing methods of multicollinearity for our explanatory variables, the CC was run for all the 8 independent variables added to the model. Meanwhile, 3 of them were found to have a contingency coefficient value of more than 0.75 and hence were dropped out from the analysis. Finally a binary logistic regression model was run entering the remaining 5 explanatory variables: These were: Knowledge on taxation, equity and fairness regarding issues of taxation, probability of detection for non compliance, penalties for non compliances and complexity of the tax system.

4.8. Application and Model Fitting Information

The model used for this study, binary logit, was applied for the 112 tax payers who have responded for the distributed questionnaire. The remaining 8 were dropped out due to a non response case. The employees of sub city's administration tax authority represent a different category of respondents used for triangulation of information on tax related issues. Hence, these groups of individuals were also excluded from our main sampling frame and the model was not applied for these categories. For the analysis of factors affecting tax compliance behavior of respondents (tax payers), the Hosmer Lemeshow test of model fitting was applied as it is the most commonly used one. The test was used to evaluate the status of model fitting where it can best be used to explain the data outputs. The test was run for the 5 independent variables to be included in the model as listed above. Using this method, the model was found to be best fitting with the current data collected for the study. This was asserted by the Hosmer Lemeshow

goodness of fit test and the model summary as shown in the table below:

Table 4:13 Table of model summery

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|------|---------------------|----------------------|---------------------|
| 1 | 15.922 ^a | .657 | .935 |

a. Estimation terminated at iteration number 8 because parameter estimates changed by less than .001.

As a part of the pseudo R squared value the Nagelkerke R squared value shown above indicates the fact that 93.5% of the variability in the dependent variable which in this case is tax compliance, is explained by the 5 independent variables listed above. It is the summation of these independent variables entered in the model that helps us to explain the status of tax compliance behavior among the taxpaying business community in the study area. The remaining 6.5% of the variation in the status of tax compliance is due to other factors not included in the model and the error term (unexplained variables).

Table 4:14 Table of Hosmer Lemeshow Goodness of Fit Test

| Step | Chi-square | df | Sig. |
|------|------------|----|------|
| 1 | 1.353 | 3 | .717 |

The above table 4.14 for Hosmer Lemeshow goodness of fit test indicates the presence of non significant difference of 0.717 showing that the model is well fitting to the existing data collected for the study. The first table of the model summary shows the predictive capacity of the model as a tax complier or non complier based on data generated from the survey In all cases, the difference between the predicted and observed values of tax compliance and non compliance is very narrow indicating the high predictive capacity of the model. This is illustrated as part of the Hosmer Lemeshow goodness of fit test and is shown as in the table below:

Table 4:15 Table of Contingency Table for Hosmer Lemeshow Test

| | | Status of Business tax compliance = Complied | | Status of Business tax compliance = Not complied | | Total |
|--------|---|--|----------|--|----------|-------|
| | | Observed | Expected | Observed | Expected | |
| Step 1 | 1 | 15 | 14.981 | 0 | .019 | 15 |
| | 2 | 14 | 14.597 | 1 | .403 | 15 |
| | 3 | 4 | 3.241 | 8 | 8.759 | 12 |
| | 4 | 0 | .019 | 2 | 1.981 | 2 |
| | 5 | 0 | .161 | 68 | 67.839 | 68 |

4.9. Econometric Model Results on Predictors of Tax Compliance Behavior

For the analysis of factors affecting tax compliance behavior, a binary logistic regression model was applied. Tax compliance behavior as previously defined is a categorical dependent variable explained either through compliance or non compliance with the tax law or system. Tax compliance behavior as a function of these two categories is determined by factors influencing each of these categories. The analysis, as indicated above, was run using the above listed variables. The following table shows econometric model results on factors influencing the two categories of tax compliance behavior.

Table 4:16 Econometric model results on predictors of tax compliance behavior

| Predictors | B | SE | EXP(B) | DF | Wald | P -Value |
|------------|--------|-------|--------|----|-------|----------|
| KOT | -4.739 | 1.626 | 0.009 | 1 | 8.492 | 0.004*** |
| PDFNC | 4.414 | 2.211 | .148 | 1 | 3.986 | 0.046** |
| COMPTS | -3.447 | 1.919 | 31.416 | 1 | 3.227 | 0.072* |
| PEF | 2.240 | 2.590 | 2.489 | 1 | 0.748 | .387(NS) |
| PFNC | 1.088 | 1.298 | 3.306 | 1 | 0.702 | .402(NS) |

Source: Own Survey, 2010

* Significant at 10% level

** Significant at 5% level

*** Significant at 1% level

NS: Not Significant

| | |
|--------------------|--------|
| -2log likelihood | 23.858 |
| Pearson chi-square | 35.766 |
| df | 18 |
| Sig | .008 |

As shown in the table above, among the 5 predictors of tax compliance behavior in the sub city, 3 were found to be significant. Among these, knowledge of taxation, probability of detection for not complying and complexity of the tax system were found to be significant in explaining the reasons for non compliance behavior. The remaining two: perception of government expenditure and penalties for non compliance were not significant in explaining the tax compliance of business tax payers in the sub-city.

Knowledge on taxation was found to be highly significant (at 1% level). It is found to have a negative and significant effect because it was those who actually know the taxation system that do not comply. This was because they know the rules and regulations clearly and find their own way outs so as not to pay taxes or have the knowledge of taxation that would put them forward to have complaints over the existing tax system and as a result end up with non compliance. The above table shows that, those who have the knowledge of existing tax system are at least by 0.9% more likely not to comply than those who don't. Though this appears to be a small number, it could have a potential effect on external onlookers and novel business starters. In the absence of all other variables affecting tax compliance behavior, respondents who have the knowledge of taxation would be by 4.5 times more likely not to comply.

This result was confirmed by qualitative information generated from cases found from sample respondents. As the respondent said *“lack of knowledge on taxation is not the major problem in this area. People know how the tax system works but they still don't comply, this may be because they are ordered to pay more than what they actually generate or profit in a given time. We as business tax payers also don't have the habit of saving money for the futures' “to be payed tax” and may not be able to pay when instantly asked about. People usually find way out to hide their income through various ways and means as they know more and more about the tax system. They mostly find ways of not being detected for non compliance as they know more of how the*

system works”. This finding regarding compliance behavior of tax payers in Addis Ketema sub city is in contrary to the previously conducted research results of several authors and assumptions made prior to conducting this research.

The probability of being detected for non compliance is positive and significant in explaining tax compliance behavior in the study area. Meanwhile, respondents who had more probability of being detected for non compliance had the tendency of complying than when they had not. The study results displayed in the above table have shown that those with a probability of being detected are by 14.8% more likely to comply than those who haven't. In the absence of other determinants there is around 4.4 times more likelihood of non compliance if there is no opportunity of being found out. The tendency of complying persisted with more probability of being detected because, the punishment associated with non compliance, if found, is high. This extends from financial fines to imprisonment. Therefore, those who had no probability of concealing tax reports from the auditors are those respondents who do not know how the tax system actually works and tend to comply for not having any other alternatives. This variable is significant at 5% level of significance. Hence, the study result is in line with the finding of Nguyen, 2013 and hypothetical assumptions made prior to this study.

Complexity of the tax system has a positive and significant effect in explaining the tax compliance behavior of respondents in the study area. Meanwhile, complexity of the tax systems was found to lead business tax payers of the study areas not to comply. Results of the study indicated that complexity of the tax system has high probability of leading tax payers towards non compliance. Accordingly, for a complex tax system, there is over 31 times more probability for non compliance than for a simplified tax system. But, in the absence of other variables affecting tax compliance, the variable is found to be affecting tax compliance by more than 3 times. The variable is significant at 10% level of significance. The findings obtained so far were backed up by additional qualitative information generated from the respondents. The result is in conformity with the findings of Jackson and Milliron, 1986 and assumptions made prior to conducting this study.

The remaining two variables included in the model: perception of government spending and

penalties for non compliance were found to be non significant in explaining tax compliance behavior. This was because of the extreme variability in public understanding of where exactly the government spends the money collected from tax and difference among the respondents in exposure for information, political affinity and personal observation on what is actually been done with respect to infrastructural development in their area or elsewhere in the country. Perception of penalties for non compliance also varies in the same way and mostly tends to be personal and does not usually have the power to differentiate between those who complied and did not comply with the tax system. What matters is all the mechanism of concealing the non compliance state from tax auditors. This understanding was also confirmed by individual tax payers interviewed during the study.

5. CONCLUSION AND RECOMMENDATION

5.1 Summary of the Major Findings

Based on the preceding analysis the paper finally drawn the following summary of findings:

In relation to the level of taxpayer's attitude towards taxation the following result was obtained. The level of taxpayers attitude towards taxation are negative because it is evident that, according to survey result reveals that the size of taxpayers who are non-comply with tax law is many, there is low level of voluntary compliance, there are large number of business income taxpayers non-comply with tax law if they get the opportunities of non-compliances or a significant number of taxpayers pay tax to avoid penalty.

Additionally, majority of taxpayer respondents said that they didn't feel guilt if they cheat the tax. Generally, this shows that only few people who have a positive attitude towards taxation, but a majority of taxpayer have a negative attitude towards taxation in Addis Ketema Sub City.

With regard to factors that affects taxpayer's compliance towards taxation the following result were obtained:-

Knowledge about tax is a corner stone as far as taxpayer's attitude and voluntary compliances is concerned. In light of this fact the survey result shows that the majority of taxpayers know why they have to pay taxes, but they have not detail understand about taxation specifically on income tax proclamation, regulation and directives. On the other hand, in this study lack skill how to calculate their tax liability was cited as main reason for tax non-compliance and the respondents strongly agreed and commented that great effort has to be employed in this area.

The other factor that affects taxpayer's compliance towards taxation was the perceived fairness of the business income tax system. In connection to this, the study found that horizontal equity, vertical fairness are not accurately maintained in the business income tax system and business income tax determination is not based the ability to pay of the taxpayers.

Taxpayers compliance towards the tax system can be affected by the behavior of an individual's reference group such as neighbors, and friends. In connection to this, the survey result showed

that reference group affects taxpayer's compliance towards a tax system positively as well as negatively. For instance, non-compliances of reference groups appear to have a negative influence on other taxpayer's compliance taxation while honestly comply with tax law of the reference group have a positive effect on taxpayers attitude towards taxation.

The amount of tax revenue collected is directly dependent on the efficiency and effectiveness of the tax authority. In light of this fact the survey result showed that the in the Addis Ketema Sub City revenue authority is not efficient and effective in various aspects such as in educating and creating awareness about tax for public and taxpayers, enforcing the tax law, especially for non-registered business activity or non-compliance, consultation with taxpayers on tax related issues, fairness in tax determination, and rewarding taxpayers based on their compliances performance. Therefore, it is possible to conclude that efficiency and effectiveness tax authority is another factor that affects taxpayer's attitude towards taxation.

Other factors such as perception towards government spending, penalty and probability of being detection has an impact on taxpayers' compliance towards taxation. Hence, it is advisable to capitalize on these factors to encourage positive attitudes towards taxation and to promote voluntary compliance.

Finding based on the study has asserted the fact that majority of the respondents in the sub city 89.9% did not comply with the existing tax system while the remaining 10.1% did. In relation to the level of taxpayer's attitude towards taxation the following results are obtained. Regarding factors that affect taxpayer's compliance: Knowledge of taxation, the probability of being detected for non compliance and complexity of the tax system were found to have a significant effect on tax compliance behavior in the study area. Knowledge on taxation has surprisingly shown a highly significant and negative effect on the tax payers' compliance behavior. This also holds true for complexity of the tax system. The Probability of being detected for non compliance has a positive contribution for people who would like to comply.

5.2 Conclusion

The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Tax compliance is influenced by the behaviors of taxpayers, which are shaped by their attitudes, and these attitudes are influenced by various factors. Understanding factors that affect taxpayer tax compliance towards tax is therefore important in encouraging higher levels of tax compliance and minimization of tax non-compliance. The level of taxpayers attitude towards taxation are negative because it is evident that, the size of taxpayers who are not willing to pay taxes is many, there are large number of business income taxpayers have negative attitude towards taxation. Majority of taxpayer respondents said that they didn't feel guilt if they cheat tax. With regard factors that affects taxpayer's attitude towards taxation the following result were obtained:

Tax Knowledge, perceived fairness of tax system, probability of detected for non compliance, complexity of tax system, penalty for non compliance are the main factors that affect taxpayer tax compliance towards taxation. Other factors such as perception towards government spending, reference group efficiency and effectiveness of tax authority has also found to be little impact on taxpayers' tax compliance towards taxation.

Knowledge of taxation plays a key role in affecting the compliance behavior of business tax payers in Addis Ketema sub city. Yet, it does not necessarily guarantee tax compliance behavior of the learners (which in this case is the tax payers) unless it can positively influence their behavior and did not show any means where they would enact against the tax law. But it is believed in many literatures including this study that it would influence the tax payers in some way. The probability of being found out for non complying (PDFNC) in most cases of Ethiopian tax payers depends on the knowledge of tax payers about taxation because those who have more information about taxation learn how to conceal and enact against the tax law. The probability of being found out in turn affects their compliance behavior positively. Complex tax systems in almost all cases tend to repel tax payers from complying. The business process they have to pass through in order to comply makes the tax system poorly fitting with the business community.

5.3 Recommendation

The most effective tool to creating a voluntary tax compliance is to improve tax knowledge of the taxpayers (improve the skill of taxpayers on how they calculate their tax liability) and changing taxpayer's attitude through sustainable tax education programs. Awareness creation should go beyond simply giving tax education to taxpayers it should extend to having consultative sessions. Therefore, in order to reduce the obligatory registrants and to ascertain positive taxpayer's attitude towards taxation, the tax authority should engage in continuous awareness creation programs and to educate the public or taxpayers about tax issues. The most obvious requirement for fairness or equity is to treat equal people in equal circumstances in an equal way. Maintaining tax equity and fairness is not achieved only through horizontal fairness, but also in others cases of fairness issues such as vertical fairness and personal fairness. Therefore, the question of fairness or equity is not only dealing with current taxpayers but also concerned with people outside the tax system because ensuring fairness means encouraging and protecting honest and loyal of the society by ensuring fair competition among business community specially on registration, tax assessment, collection, and by taking into account the ability to pay principle. The authority should also involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity. Illegal business activity creates serious of problem non-compliance and deter voluntary compliances. To identify and register the revenue offices in particular and the government in general should coordinate with concerned bodies to develop a mechanism that control and bring the informal economy to the tax net. Additionally, tax authority should develop persuasive communications between the tax authorities and taxpayers to identify these informal economies. Therefore, the authority need to in place for proper identification and registration of non-register business activity. The tax authority should provide information to taxpayers on how public money spent or utilized and rewarding taxpayers based on their compliance performances. The government should make the tax law and procedures simple, understandable and easy to develop transparence in the tax administration, increase revenue and reduce opportunity and incentive for tax non-compliance.

Hence for better business performance and fitting of the tax system with the business community it is advisable to investigate ways of identifying business entities who do not comply with the existing tax system systematically. This can be done with the use of modern technologies which can isolate those who comply from those who don't. In delivering detailed knowledge about taxation to the business community it is also recommended to find ways of curbing misuse of that knowledge. Hence, knowledge delivery should be given in a way that could influence their perception of complying with the tax law positively. It is also recommended to improve the complexity of the tax system in the study area by using modern technologies which can simplify procedures for compliance. In general, to develop voluntary tax compliance towards taxation, the government should provide tax education through mass media and make consultation or discussion on tax issue with the taxpayers and people, take in to account the ability to pay principles while designing tax policy. If all these put in to place it is possible to divert negative attitude towards taxation to positive thereby enhance tax compliances and finally end up with voluntary compliances and maximizing government revenue as well.

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7. APPENDIXES

Annex -1 -Survey Questionnaire for Tax Payers English version

ST.MARY'S UNIVERSITY
Department of Accounting and Finance
Survey Questionnaire for Tax Payers

Sir/ Madam,

This study is conducted in partial fulfillment of the requirements for the MBA Degree. I am carrying out a study on “**Factors that affect Tax Compliance behavior towards taxation: The case of Addis Ketema Sub City small taxpayers**”. The purpose of this questionnaire is to obtain your perceptions and views regarding to the level of taxpayer’s behavior towards taxation and the reasons for tax compliance in Addis Ketema revenue authority. I would like to emphasis that your response are extremely valuable for the successful completion and I would immensely appreciate your response for all questions genuinely. I hereby assure you that all information obtained through this questionnaire shall be used for only academic purposes and will be handled and stored with the highest order of confidentiality.

I thank you very much in advance for your cooperation and for sacrificing your invaluable time. For further information, please contact **Ashenafi** by the following address:-

Tel.:-+251911877680

E-mail:ashermebre@gmail.com

General directions to Respondents

- Please do not write your name anywhere on the questionnaire.
- Mark (√) for appropriate answer for the questions in a given box.
- For questions that demands for your opinion, please try to honestly describe in the given space; if the space is not enough you can use the back space of the papers.

Any additional suggestion is appreciated.

Part One: Respondent Profile

1). Sex

Male Female

2). Age

Less than 35years 36-50 years

Above 50yaers

3).Level of education

Below primary school

Primary school

Secondary school

Certificate/diploma

BA/BSc degree and above

Part Two: - The level of Tax Compliance towards business income tax system .Put (√) response at the appropriate place that you perceive right. And write your additional answers and or suggestion on the blank space provided.

1) Why do you pay taxes liability?

To avoid penalties

In anticipation of public services

There is no opportunity to evade

It is an obligation to government

Others, please specify _____

2).How do you guess the size of taxpayers who are not willing to pay their taxes liability?

Many Few No at all

3). what do you think about the public attitude towards business income tax system?

Excellent Good Fair Poor

4). Do you feel guilty if you are evading tax and you remain unnoticed?

Yes No

5). Please indicate where you agree/disagree with the following sentence

| Statements | 1 Strongly disagree | 2 Disagree | 3 Neutral | 4 Agree | 5 Strongly Agree |
|---|---------------------------|---------------|--------------|------------|------------------------|
| Attitude Statements | | | | | |
| It is unfair to pay tax | | | | | |
| Determination of business income tax burden is biased | | | | | |
| Taxpayers non-comply if they get the opportunity | | | | | |
| The tax laws should be respected | | | | | |

Part Three: - Taxpayers attitude towards taxation: The case of Addis Ketema Sub City. Put (√) response at the appropriate place that you perceive right. And write your additional answers and or suggestion on the blank space provided.

6). Do you think that the tax you paying is fair and based on your ability to pay?

Yes No

7).Please indicate your view on fairness of the tax you pay with respect government spending of collected money on economic and social welfare

Fair Unfair No opinion

8). Does non-compliance of others taxpayers have an effect on your own compliance behavior?

Yes No

9). Are those of who have similar incomes taxed similarly?

Yes No

10).Would the probability of being detected affects your decision non-compliances?

Yes No

11). If no penalty or legal enforcement, is there possibility that you may not pay a tax?

Yes No

12).Do you think non- registered business activity have negative effect on your attitude towards business tax system?

Yes No

13).Please indicate where you agree/disagree with the following sentence

| Statements | 1 Strongly disagree | 2 Disagree | 3 Neutral | 4 Agree | 5 Strongly Agree |
|--|------------------------------------|-----------------------|----------------------|--------------------|---------------------------------|
| Tax knowledge | | | | | |
| I don't know why I have to pay | | | | | |
| Perception of equity or fairness | | | | | |
| I believe that people with higher with income pay more income taxes than lower income | | | | | |
| Perception toward government | | | | | |
| The Addis Ketema Sub City government spends a reasonable amount on economic and social welfare | | | | | |
| The Addis Ketema Sub city government doesn't provide enough information about how it utilizes the taxpayer's money. | | | | | |
| Complexity of business tax system | | | | | |
| Tax law easy and simple to understand | | | | | |
| The term used in the proclamations are difficult to understand | | | | | |

| Reference group | | | | | |
|--|--|--|--|--|--|
| I believe that honestly compliance of my relative have a positive effect on my attitude towards tax system | | | | | |

14). How do you evaluate the strength of the tax authority with respect to the following parameters?

| Statements | Excellent | Good | Fair | poor |
|-----------------------------------|------------------|-------------|-------------|-------------|
| Service delivery to public | | | | |
| Awareness creation on tax | | | | |
| Tax Law enforcement | | | | |
| Penalty for non-compliance | | | | |
| Fairness related to tax treatment | | | | |

15). Which of the following measures should the government undertake in order to promote Voluntary Tax Compliance?

| Measures | Agree | Disagree |
|--|--------------|-----------------|
| Educating the taxpayers and conducting awareness creation | | |
| Strengthening legal enforcement and penalties | | |
| Motivating taxpayers (rewarding) based on their compliance performances | | |
| Reducing tax rates and making tax collection and estimation fair and transparent | | |
| Providing necessary information to taxpayers about the provision of services and utilization of tax revenues | | |

If there is other measure specify _____

16). Give your opinion on the overall attitude of the public towards business income tax system and how create positive attitude towards taxation. _____

Thank you for your cooperation!

Annex -2 -Survey Questionnaire for Tax Payers Amharic version

ቅድስት ማርያም ዩኒቨርሲቲ

ድህረ ምረቃ ፕሮግራም አካውንቲንግና ፋይናንስ ት/ክፍል

የገቢ ግብርን በአግባቡ እንዳይከፍሉ የሚያደርጉ ሁናቱዎች (Taxpayers compliance behavior) ጥናት መጠይቅ

የተከበሩ የጥናቱ ተሳታፊ

የዚህ ጥናት ርዕስ “Factors that affect taxpayers compliance behavior towards taxation: the case of Addis Ketema sub city” ነው። አጥኝው አሸናፊ መብራቱ ስሆን በአሁን ጊዜ በቅድስተ ማርያም ዩኒቨርሲቲ በአካውንቲንግና ፋይናንስ ት/ክፍል የማስተርስ ተማሪ ነኝ። የጥናቱ ዋና አላማ በአዲስ አበባ ከተማ አዲስ ከተማ ክፍለ ከተማ ውስጥ የሚገኙ ግብር ከፋዮች (Business profit taxpayers) አጠቃላይ በግብር አከፋፈል ስርዓቱን ላይ ያላቸው አመለካከት (attitude) እና ከግብር አከፋፈል ጋር በተያያዘ ባህሪያቸው ላይ ተጽዕኖ (Factors affecting) ሊያመጡባቸው የሚችሉት ምንድን ናቸው ነው። እርሶ ወይም የእርሶ ድርጅት በዚህ ጥያቄ ላይ እንዲሳተፉ ተመርጠዋል። በዚህ ጥያቄ ለመሳተፍ ሙሉ በሙሉ በፍቃዳችሁ ሊይ የተመሰረተ ነው። የጥያቄውን መልስ በተመለከተ የተሳታፊው ማንነት ሳይገለጥ ጥብቅ በሆነ ሚስጥርነት ይጠበቃል። ከላይ እንደተጠቀሰው ጥናቱ የሚካሄደው ለትምህርት ማሟያ ፅሁፍ ለመጻፍ ነው። የእያንዳንዱ ተሳታፊ መልሶች በአጥኚው ፅሁፍ ወይም በማናቸውም ስራ ላይ ተገልጦ አይቀመጥም። ተሳታፊዎች የጥናቱን ግኝት ጠቅላላ መግለጫ አጥኚው ጥናቱን ከጨረሰ በኋላ ቢጠይቁ ሊያገኙ ይችላሉ።

ለተጨማሪ መረጃ በሚከተለው አድራሻ ማግኘት ይችላሉ።

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ኢሜል; ashermebre@gmail.com

በመጠይቁ ማንኛውም ቦታ ላይ ስምዎን አይግለፁ

ክፍል 1 የመላሾች ግለ ታሪክ

1). ጾታ

ወንድ

ሴት

2) እድሜ

ከ 35 ዓመት በታች

ከ 36-50 ዓመት

ከ 50 ዓመት በላይ

3).የትምህርት ደረጃዎ

የመጀመሪያ ደረጃ ያላጠናቀቀ

የመጀመሪያ ደረጃ ያጠናቀቀ

ሁለተኛ ደረጃ ያጠናቀቀ

ሰርተፊኬት/ዲፕሎማ

የመጀመሪያ ዲግሪና ከዛ በላይ

ክፍል ሁለት:- ግብር ከፋዩ በግብር አከፋፈል ላይ እና በግብር ስርዓቱ ላይ ያለው ምልከታ

1. የገቢ ግብር የምትከፍሉት ለምንድን ነው?

- 1 ከቅጣትን ለመዳን
- 2 በህዝባዊ ስራ ላይ ለመሳተፍ
- 3 ላለመክፈል ምንም አማራጭ ስለሌለን
- 4 ግዴታዬ ስለሆነ
- 5 ሌሎች ምክንያቶች ካሉ እባክዎ ይግለጹልን.....

2 ፍቃደኛ ያልሆኑትን ግብር ከፋዮችን ብዛት የሚገምቱት እንዴት ነው?

- ብዙ ናቸው
- ጥቂት ናቸው
- ምንም የሉም

3. ሰው በታክስ አከፋፈል ስርዓቱ ላይ ያለውን አመለካከት እንዴት ይገልጹታል?

- እጅግ በጣም ጥሩ ነው
- በጣም ጥሩ ነው
- ጥሩ
- ምንም አይልም
- ደካማ ነው

4. ግብር ባለመክፈል/ መክፈል እንደሚገባዎ ባለማሳወቅ/ የጥፋተኝነት ስሜት ይሰማዎታል?

- ይሰማኛል አይሰማኝም

5. እባክዎን በሚከተሉት ሃሳቦች መስማማት/አለመስማማትዎን ይግለጹ

| | 1 በጣም አልስማማም | 2 አልስማማም | 3 ገለልተኛ | 4 እስማማለሁ | 5 በጣም እስማማለሁ |
|---|--------------------|-------------|------------|-------------|--------------------|
| ሃሳቦች | | | | | |
| የግብር አከፋፈሉ ፍትሃዊ አይደለም | | | | | |
| የግብር አጣጣሉ አወዛጋቢ ነው | | | | | |
| ግብር ከፋዮች ግብርን አለመክፈል የሚያስችላቸው ዕድል ካለ ይጠቀማሉ | | | | | |
| የግብር ህጉ መክበር አለበት | | | | | |

ክፍል 3 : - ግብር ከፋዩ በግብር አከፋፈል ላይ ያለው ቅሬታና በባህሪው ላይ ተፅዕኖ ሊያሳድሩበት የሚችሉ ሁኔታዎች፡፡ተጨማሪ ሃሳብ ከለዎት በተሰጠው ክፍት ቦታ ላይ ያስፍሩ

6. የሚከፍሉት ግብር ፍትሃዊና የመክፈል አቅምዎን ያገናኘው ነው ብለው ያስባሉ?

- አዎን አይደለም

7. መንግስት የሰበሰበውን ግብር ፍትሃዊ በሆነ መልኩና በአግባቡ ለህብረተሰቡ የሚጠቅሙ መዋዕለ ንዋዮች ላይ የማዋል ሂደቱን እንዴት ይገልጹታል?

ፍትሃዊ ነው ፍትሃዊ አይደለም ምንም ሃሳብ የለኝም

8. ግብርን የማይክፍሉ/የማያሳውቁ/ ግብር ከፋዮች በእርስዎ ግብር መክፈል ላይ የሚያመጣው ተጽዕኖ አለ ይላሉ?

አዎን የለም

9. ተመሳሳይ የገቢ መጠን ያላቸው ተመሳሳይ የሆነ ግብር ይጣልባቸዋል?

ይጣልባቸዋል አይጣልባቸውም

10. ግብር የማይክፍሉትን ከሚክፍሉ ለማጣራት የሚደረገው ሂደት አናሳ መሆን እርስዎም እንዳይክፍሉ ያደርጎታል?

አዎን አያደርገኝም

11. ግብርን ላለመክፈል አስገዳጅ ህግና ቅጣት ባይኖር እርስዎም የማይክፍሉበት አግባብ ይኖራል?

አዎን አይኖርም

12. ያልተመዘገቡ የንግድ እንቅስቃሴዎች እርስዎ በግብር ስርዓት ላይ ያለዎትን አመለካከት ሊያዛባ ይችላል?

አዎን አይችልም

13. እባክዎን በሚከተሉት ሃሳቦች መስማማት/አለመስማማትዎን ይግለጹ

| ሃሳቦች | 1 በጣም አልስማማም | 2 አልስማማም | 3 ገለልተኛ | 4 እስማማለሁ | 5 በጣም እስማማለሁ |
|-------------------------------------|--------------------|-------------|------------|-------------|--------------------|
| ስለግብር ያሉት ግንዛቤ | | | | | |
| ግብርን ለምን እንደምክፍል አላውቅም | | | | | |
| ፍትሃዊ አከፋፈል ስለመኖሩ | | | | | |
| ከፍተኛ ገቢ ያላቸው ከፍተኛ ግብር መክፈል አለባቸው | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| | | | | | |
| መንግስት እያደረገ ስላለው ነገር | | | | | |
| የክ/ከተማው አስተዳደር የግብር ገቢውን በተገቢው ነገር ላይ ያውለዋል | | | | | |
| የክ/ከተማው አስተዳደር የተሰበሰበው ግብር ምን ላይ እንደዋለ ለግብር ከፋዮች መረጃ አያቀርብም | | | | | |
| ስለ ግብር ስርዓቱ ውስብስብነት | | | | | |
| የግብር ህጉ ግልጽና ለመረዳት ቀላል ነው | | | | | |
| በግር አዋጁ ውስጥ የተቀመጡትን ቃላት መረዳት አቸጋሪ ነው | | | | | |
| ንግዱ ላይ ስለሉ ሌሎች ግለሰቦች | | | | | |
| ግብርን በስርዓቱ የሚያሳውቅ ነጋዴ እኔ በግብር ስርዓት ላይ ያለኝን ግንዛቤ እንዳሻሽለል ይረዳኛል | | | | | |

14. በሚከተሉት መለኪያዎች የግብር ባለስልጣኑን ጥንካሬ እንዴት ይመዝኑታል?

| መለኪያዎች | እጅግ በጣም ጥሩ | ጥሩ ነው | ሚዛናዊ ነው | ደካማ ነው |
|----------------------------|------------|-------|---------|--------|
| ለህብረተሰቡ የሚሰጠው አገልግሎት | | | | |
| ስለግብር ግንዛቤ የመፍጠር ሁኔታ | | | | |
| የግብር ህጉን የማስተግበር አቅም | | | | |
| ግብርን በማይከፍሉ ላይ የሚጥለው ቅጣት | | | | |
| በግብር ላይ ያለው ፍትሃዊነትና ሚዛናዊነት | | | | |

15. ፈቃደኛ የሆኑ ግብር ከፋዮች እንዲኖሩ መንግስት ምን እርምጃ መውሰድ አለበት ይላሉ?

| እርምጃዎች | እስማማለሁ | አልስማማም |
|--|--------|--------|
| ግብር ከፋዩን ማስተማርና ግንዛቤውን ማሳደግ | | |
| የግብር ህጉንና ቅጣትን ማጠናከር | | |
| ግብርን በአግባቡ የሚከፍሉትን ማበረታታትና መሸለም | | |
| የግብር መጠንን በመቀነስ ግልጽና ፍትሃዊ የሆነ ግብርን መስብሰብ | | |
| የተሰበሰበው ግብር ምን ላይ እንደዋለ ተገቢውን መረጃ መስጠት | | |

ሌሎች መወሰድ አለባቸው የሚሉዎቸው እርምጃዎች ካሉ _____

16). ባጠቃላይ ስለግብር አሰባሰብ ህብረተሰቡ ጥሩ አመለካካት እንዲኖረው ምን ቢደረግ መልካም ነው ብለው ያስባሉ? _____

ስለ ትብብርዎ አመሰግናለሁ!

Annex -3 - Survey Questionnaire for Employees of Tax Offices

St.Mary's University

Department of Accounting and Finance

Survey Questionnaire for Employees of Tax Offices

Sir/ Madam,

This study is conducted in partial fulfillment of the requirements for the MBA Degree. I am carrying out a study on “**Factors that affect Taxpayers’ Compliance behavior towards taxation: The case of Addis Ketema Sub City Small Taxpayers**”. The purpose of this questionnaire is to obtain your perceptions and views regarding to the level of taxpayer’s behavior towards taxation and the reasons for tax compliance in Addis Ketema revenue authority. I would like to emphasis that your response are extremely valuable for the successful completion and I would immensely appreciate your response for all questions genuinely. I hereby assure you that all information obtained through this questionnaire shall be used for only academic purposes and will be handled and stored with the highest order of confidentiality.

I thank you very much in advance for your cooperation and for sacrificing your invaluable time. For further information, please contact **Ashenafi** by the following address:-

Tel.:-+251911877680

E-mail:ashermebre@gmail.com

General directions to Respondents

Please do not write your name anywhere on the questionnaire.

Mark (√) for appropriate answer for the questions in a given box.

For questions that demands for your opinion, please try to honestly describe in the given space; if the space is not enough you can use the back space of the papers.

Any additional suggestion is appreciated.

Part One: Respondent Profile

1). Sex

Male Female

2). Age

Less than 35years 36-50 years
Above 50years

3). Level of education

Certificate and below Degree
Diploma Masters and above

Part Two: Factors that affect Taxpayers’ attitude towards taxation: The case of Addis Ketema Sub City Small Taxpayers Office. Put (√) response at the appropriate place that you perceive right. And that write your additional answers or suggestion on the blank space provided.

1). How do you evaluate taxpayers attitude towards tax system?

Excellent Good Fair Poor

2).Who is to be blamed for non-compliances (check all that applies)?

Tax authority
Community/Societies
Taxpayers

Why _____

3). How do you express the number of voluntary compliances business income taxpayers in your sub city?

Very high High Moderate Low Very low

4).How often your offices gave tax education to taxpayers in a year?

Three times and above per year

Twice a year

Once a year

Not at all

5). Do you believes that non-compliance of references group have an effect on others taxpayers attitude towards taxation?

Strongly Agree Agree Neutral Disagree Strongly Disagree

6).Would you believe the probability of being audit affect taxpayer's decision non-compliances?

Strongly Agree Agree Neutral Disagree Strongly Disagree

7). Do you agreed your offices is effective in motivating taxpayers based on their compliances performances?

Strongly Agree Agree Neutral Disagree Strongly Disagree

8). How do you guess the size of informal economy (not registered business activities) in the Sub City?

Very high High Moderate Low Very low

9). Which of the following measures should the government undertake in order to promote positive attitude towards taxation? (Please tick one on a 5 point scale for each statement.)

| Measures | 1 Strongly disagree | 2 Disagree | 3 Neutral | 4 Agree | 5 Strongly Agree |
|--|------------------------------------|-----------------------|----------------------|--------------------|---------------------------------|
| Educating the taxpayers and conducting awareness creation | | | | | |
| Strengthening legal enforcement and penalties | | | | | |
| Motivating taxpayers (rewarding) based on their compliance performances | | | | | |
| Reducing tax rates and making tax collection and estimation fair and transparent | | | | | |
| Providing necessary information to taxpayers about the provision of services and utilization of tax revenues | | | | | |

If there is other measure specify _____

10). Give your opinion on the overall attitude of the public towards business income tax system and how create positive attitude towards taxation.

Thank you for your cooperation!

Annex -4 - Interview Question to Top Tax Officials

Interview Question to Top Tax Officials

- 1).What do you say in your opinion about taxpayer's Compliance towards taxation in Addis Ketema Sub City?
- 2).What are the factors that affect Tax Compliance towards taxation?
- 3).What is your perception about the loyalty and honest of taxpayers towards compliance?
- 4).What should be done by government to improve the existing compliance behavior of taxpayers?
- 5).What is your recommendation in order to promote positive attitude towards among taxpayers?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Assistant Professor (PhD) Abebaw Kassie . All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

Signature& Date

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor

Signature & Date