

SAINT MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES



Factors that influence Business income taxpayers Compliance
(A case Study In Large taxpayer Branch office)

A Research project Submitted in partial fulfillment of the requirements for
the Award of the Degree of masters of Business Administration in
Accounting and Finance.

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ID NO MBAAF3/0388/2006

Jan, 2016

Addis Ababa

DECLARATION

I, **Atsbeha Teklu Bairu**, hereby declare that the thesis entitled “**Factors that influence Business income tax payers compliance**” submitted for the award of the Degree of Masters of business administration in Accounting and finance is my original work and it has not been presented for the award of any other degree, diploma, fellowship or other similar titles in any other university or institution.

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This is to certify that the thesis work entitled “**Factors that influence Business income tax payers compliance** ” is the work of **Atsbeha Teklu Bairu** who carried out the research under our guidance. Certified further that, to the best of our Knowledge the work reported herein doesn’t form part of any other thesis, project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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We, the undersigned, members of the Board of Examiners of the final open defense by Atsbeha Tekulu have read and her thesis **entitled “Factors that influence Business income tax payers compliance ”**, and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree of Masters of Science in Accounting and Finance.

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Abstract

This paper attempts to assess the factors that influence business income tax payers compliance, in Ethiopian revenue and customs authority large tax payers branch office. Based on this objective data was collected using structured interview and questionnaire. Data were collected from 123 respondents of tax payers and structured interview were done to selected tax officials. The collected data was summarized and presented in tabular form using proportions and percentages. The study findings showed that probability of being audited, providing quality service, tax knowledge, perception of fairness and equity, fines and penalties and organizational strength are basic considerations by taxpayers in their compliance-non-compliance decision.

Keywords: *Tax authority, Tax audit, Taxpayer service, Tax knowledge, Fairness, Equity, Fines, Organizational Strength, Tax compliance, and Business Profit tax payers.*

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ABBREVIATIONS AND ACKRONMYS

ERCA-Ethiopian revenue and customs authority

LTO-Large tax payers organization

OECD- Organization for economic cooperation and development

FDRE-Federal democratic republic of Ethiopia

USAID-United States Agency International Development

IRS- Internal revenue service

ROI-Return on investment

CHAPTER ONE

INTRODUCTIN

1.1. Background of the study

The definition of tax compliance in its simplest form is usually viewed in terms of the degree to which taxpayers comply with the tax law (James & Alley, 2004). Tax compliance is a multi-faceted measure. According to Alm (1991)) cited in peter (2013), defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, court judgments and regulations. The Organization for Economic Cooperation and Development (2001) recommended that Compliance is divided into two categories, considering the definition of tax compliance. These categories are administrative compliance and technical compliance. Theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance (Brown and Mazur, 2003). Views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another.

The goal of tax administration is to develop voluntary tax compliance (Silvani, 1992) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and “compliance gap”. However, tax compliance, according to Cobham, (2005), cited in Desta, (2010) is a problem for many countries as measured by tax to GDP ratio although it has been improving for many countries. Tax Compliance in complete administrative terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (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 (Mohd et al., 2011).

Based on the available literature, the most important environmental factors that currently have crucial influence on the performance of revenue administrators in developing countries are globalization, limited administrative capacity, and large informal sectors.

Tax policy and administrative reforms generally have one or several of the following objectives: creating an enabling environment for private sector development, Increasing revenue collection or compliance (Peter, 2013). According to Kirchler, (2007) cited in Desta,(2010) economists stress the relevance of external variables such as tax rate, income and probability of audits and severity of fines, psychological research shows that internal variables are of similar importance: taxpayers' knowledge of tax law, their attitudes towards the government and taxation, culture, personal norms, perceived social norms and fairness, as well as motivational tendencies to comply are determinant factors shaping tax behavior.

Revenue authorities have a central role in ensuring that taxpayers and other parties understand their obligations under the revenue laws. For their part, taxpayers and others have an important role to play in meeting their obligations as, in many situations, it is only they who are in a position to know that they may have an obligation under the law. While the exact obligations placed on a taxpayer are going to vary from one taxation role to another and from one jurisdiction to the next, four broad categories of obligation are likely to exist for almost all taxpayers, irrespective of jurisdiction (Agbadi, 2011).

According to the Constitution of Federal Democratic Republic of Ethiopia, revenue sources are assigned between Federal government and Regional states. Regional states can endorse their income tax proclamation and regulations based on the constitution in conformity with the federal income tax proclamation. Ethiopian income tax regulation 78/2002 tax payers categorized in to three; Category "A", any company incorporated under the laws of Ethiopia or in a foreign country any other business having an annual turnover of Birr 500,000 (five hundred thousand Birr)or more; persons and bodies: Category "B" , unless already classified in category "A", any business having an annual turnover of over birr 100,000 (one hundred thousand Birr); Category C, unless already classified in Categories "A" and "B" whose annual turnover is estimate by the Tax Authority as being up to Birr 100,000 (one hundred thousand Birr); and set a law to declare and pay their tax as scheduled.(income tax regulation,78/2002).

As stated by Lemmesa (2007) cited in Beza(2014) Most of the reform efforts basically aiming institutional capacity building and putting enforcing legal frameworks in place

while only insignificant effort, if any was deployed to make the public aware of the benefits of paying tax voluntarily to the nation. The taxpayers education program that is being carried on very occasionally, stresses more about teaching the contents of the tax laws and penalties rather than promoting citizens' sense of responsibility toward taxation and devising ways to reward compliant behavior.

As Hasseldine and Li(1999) stated which is cited in Getacher and Goitom (2014), tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion. So, the role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important.

1.2. Back ground of the study area

Taxation in Ethiopia had been applied long years ago. According to Misrak.T (2008) taxation was source of government revenue from early Axum kingdom in Ethiopia around 500 AD. The kind of traditional system continued for several centuries smoothly until it was replaced by the modern tax system in the mid of 20th century.

The first major change in the Ethiopian tax system was initiated in the post Second World War period between 1942 and 1944, the years 1947 to 1952 covering its second stage. These changes were generally discretionary, including amendments to property taxes (land and cattle). Broad based taxes on goods and services were also introduced in the mid 1950s. Latter in the decade and in the early 1960s, changes were also made in the rate and structure of taxes, especially on income. In the post revolution period (1974-1991), particularly during 1976-1979, significant major changes on the rate and structure of all types of taxes were made. These involved widening the land tax base, introducing capital and surplus transfers from nationalized firms, as well as certain minor arrangements on other taxes (Ibid).

In Ethiopia, the year 1991 marked the end of the previous policy regime of hard control that had lasted for nearly two decades. This was the year when the seventeen year old

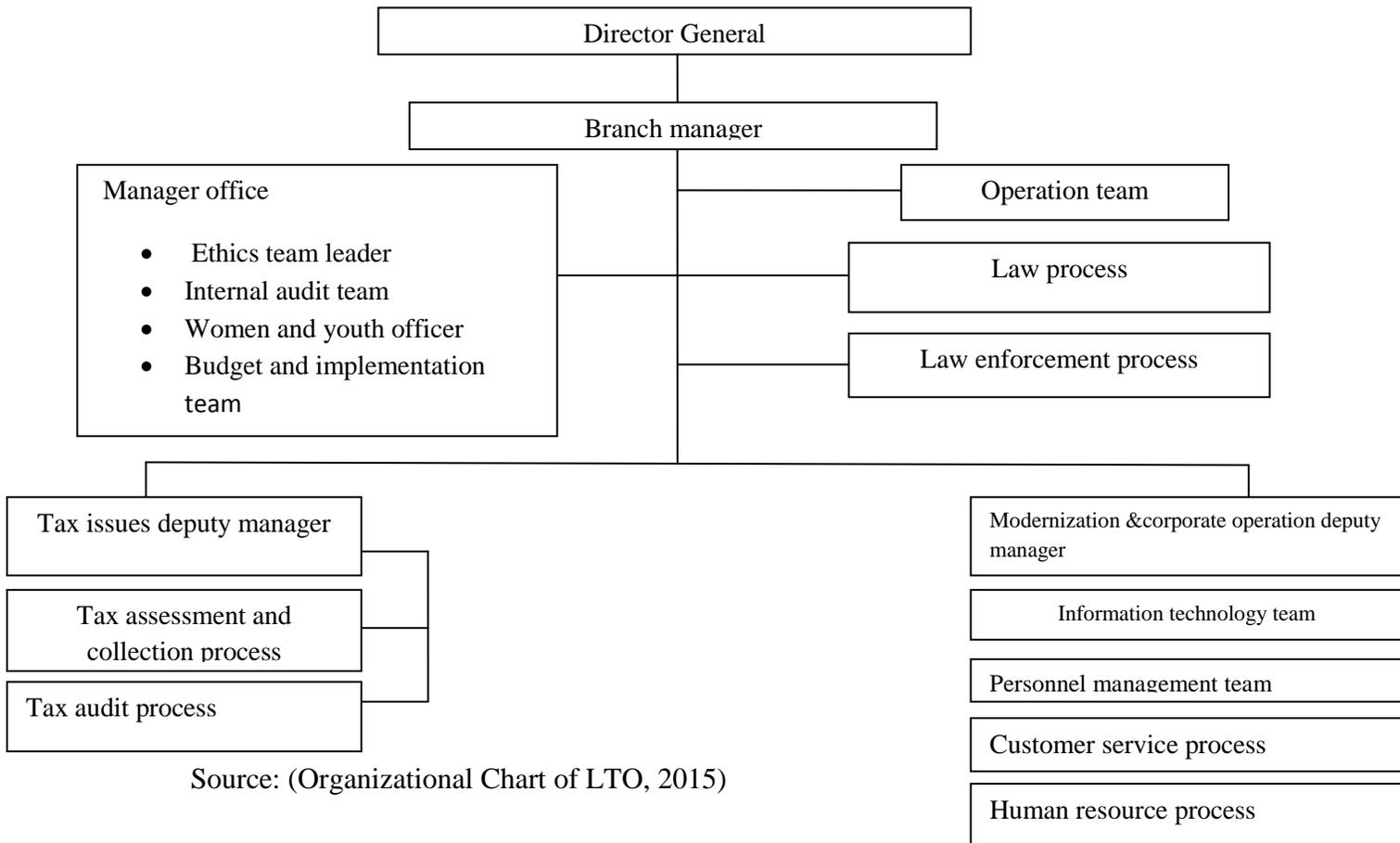
socialist regime was toppled by the coalition of rebel forces and the current government that is,(EPRDF) was formed. Starting from the year 1992, the EPRDF government has initiated a wide range of reforms that can be termed as liberalization. Reform of the tax system was among the range of liberalization policies that also extended, among others, to the exchange rate, interest rates, trade, domestic production and distribution (Vadde, 2014). From the literature we can understand that; taxation in Ethiopia had been practiced for a long year ago even the structure and tax system is different. When we come to the current government, before the Ethiopian revenue and customs authority had established, most of the investors engaged in export and import commercial activities have been the Federal Government tax payers, however that those government services in relation to tax and export and import trade are being rendered by a number of institutions problem: regarding with the manner of service rendering, keeping and utilization of information and promotion of law and order are being resulted; whereas , in addition to their similar activities the Ministry of Revenue, the Ethiopian Customs Authority and the Federal Inland Revenue Authority have been following similar resource utilization and organizational arrangement, thus the merging of the three institutions will provide for the establishment of modern tax and customs administration system, expeditious and effective resource utilization and manner of service rendering.(Ethiopian revenue and customs authority establishment proclamation.No.587/2008).

ERCA was established by merging the former ministry of revenue, federal Inland Revenue authority and the Ethiopian customs authority in 2008 by proclamation No. 587/2008. The main mission of the authority is to establish modern tax and custom administration dedicated to meet the requirement of the business community, encouraging voluntarily compliance combating smuggling, tax evasion and there by contributing to development of the countries.

ERCA has categorized tax payers in different segments based on the amount of annual turnover as: large, medium and small and micro tax payers. Based on this, Large Tax Payers Office is among the branches. The study will be conduct at branch level Ethiopian revenue and customs authority large tax payer's branch office.

The large taxpayers branch office is located in Addis Ababa in Kirkos sub city in the place commonly known as ‘Beklobet’ Debrezeit Road. The bar of tax payers segmentation is different from time to time. The authority categorize large tax payers by annual sales turn over . Companies engaged in the mining, petroleum exploration, banking and insurance sectors are included in the large taxpayer’s category regardless of their annual sales turnover. First grade contractors are also included in this category, which only includes private limited and share companies and not individual businessmen. This branch administer 1,197 (one thousand two hundred fourteen) total tax payer since June 30,2015.(data source ; customer service large tax payer branch office and news paper).

Figure1.1 ORGANIZATIONAL STRUCTURE OF LARGE TAX PAYER BRANCH OFFICE

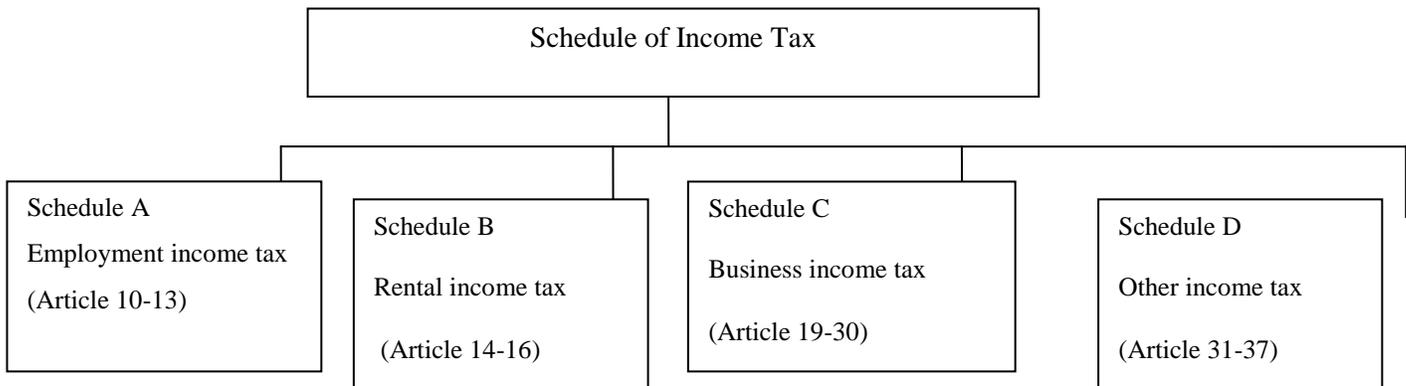


Source: (Organizational Chart of LTO, 2015)

1.2.1. Ethiopian Tax System

According to Misrak (2008) Tax system is a system in which a tax liability is computed. In the world two types of tax system i.e. Global and scheduler are used. Global tax system is a system in which tax liability is computed on aggregate (the sum) of all incomes and losses derived by tax payer from different source in the world. Whereas scheduler tax system is a system tax liability is computed on separate schedules. Ethiopian income tax system is scheduler tax system. According to income tax proclamation 286/2002 income are aggregated in to four different schedules for calculating tax liabilities;

Figure 1.2 Schedule of income tax according to income tax proclamation 286/2002



Source: (FDRE proclamation, 286/2002)

Business Profit Tax is the tax imposed on the taxable business income /net profit realized from entrepreneurial activity. Taxable business income is determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards. Corporate businesses are required to pay 30% flat rate of business income tax. For Unincorporated or individual businesses the business income tax ranges from 10% - 35%.Unincorporated or individual businesses are taxed in accordance with the following table below:

Table -1.: Computation of tax on business profit Taxpayers

Taxable income (net profit per year)	Tax rate in (%)	Deduction in Birr
0-1,800	Exempted	-
1,801-7,800	10%	180
7,801-16,800	15%	570
16,801-28,200	20%	1,410
28,201-42,600	25%	2,520
42,601-60,000	30%	4,950
Over 60,000	35%	7,950

Source: FDRE proclamation number 286, 2002

1.3 Statement of the Problem

Taxation in developing countries has many problems like; poor administration failing to collect sufficient tax revenue and un integrated tax structures are some of the problems (Vadde and Gunderpu, 2012). As stated by Desta (2010), knowing the factors that influence compliance is important because without the cooperation of the great majority of tax payers, a tax system cannot function effectively. For decades, tax researchers have investigated why some people pay taxes and others do not. They were able to identify some factors that inhabit tax compliance. Tax compliance was influenced by probability of being audited, financial constraints, and changes on current government policy but not affected by perception of equity and fairness, penalties, roles of tax authority and tax knowledge (Getacher and Goitom, 2014). But, Desta (2010) noted that factors such as equity or fairness, organizational strength of tax authority, awareness level of tax payers, social factors, cultural factors and tax payers' attitude towards the government were found to be the determinant factors affecting taxpayers' voluntary compliance. The inconsistency of patterns of results suggests that economic and psychological determinants operate differently under different circumstances.

The study by wubshet A(2011, p113) cited in Beza (2014) conducted in Addis Ababa city indicated that there is no administrative consistency in respect to the provision of business profit tax system. According to this study, it was found that the tax Authority is not effectively activated the tax system, not effectively utilized reasonable amount of revenue and it spends much of the tax revenue for unnecessary welfare assistance. Studies indicated that tax payers Behavior, education, tax payer service and related determinants towards tax system has evoked great attention among many Revenue Authorities in the world especially in developed countries. However, it is debatable on what has been done in developing countries. Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth.

Similarly, the Ethiopian tax system conservatively focuses and stressed its strategies on legal enforcement as remedy to ensure its proper functioning. For example, the income tax Proclamation number 286/2002 and the amended proclamation number.608/2008 has increased the amount of penalties and strengthened the means of enforcement. However, the current tax system in general states nothing about how to create and increase the awareness of the taxpayers. Tax payers lack Knowledge about taxation and the details of the tax laws and procedures. Therefore, the dangers of non-compliance remain a key issue in the Ethiopian tax system in general and in the large taxpayers office specifically.

So far, research works addressed about the compliance levels with respect to indirect and direct taxes at a glance. But, various tax types have different nature and characteristics. Business profit tax is one of the direct taxes which can be easily exposed to evasion and the non compliance levels with regard to this tax type is high since taxpayers hide their expenses using the loopholes of the proclamation. Higher tax officials in large tax office have declared these gaps in meetings repeatedly. The experience of the researcher also suits this gap.

According to the researcher's experience in the tax authority for four years, large taxpayers office is the branch where very significant amount of the domestic tax revenue is collected. Among the total tax revenue collected by this branch, indirect taxes are the dominant ones being direct taxes and most of the taxpayers declare loses with regard to business profit tax .Besides this the audit coverage is very minimal and thus compliance is very essential. Thus, it is very essential that the problems with regard to the compliance issues with regard to business profit tax in the large taxpayers office should be addressed. It is, therefore, to find out the major factors that affect the compliance level of business profit tax in large taxpayers office that this research is being conducted.

1.4 Basic Research Questions

In order to fill the gaps identified in the problem statement, the research is being conducted having the following research questions.

1. What is the influence of organizational strength and tax knowledge for business taxpayers compliance?
2. Does the probability of being audited has an influence on business income taxpayers compliance?
3. What is the influence of fines and penalties, perception of fairness and equity of the tax system on the compliance levels of business income taxpayers?

1.5. Objectives of the Study

The main objective of this study is to asses factors that influence Business income tax payers in large tax payers' office. And to assess it in detail, the researcher identified the following specific objectives.

- To assess the influence of taxpayer service for business income tax payer compliance.
- To assess the influence of tax audit issues for business income tax payer compliance.
- To assess the influence of organizational strength of tax authority for business income tax payer compliance.
- To assess the influence of tax knowledge for business income tax payer compliance.
- To assess the influence of fines and penalties for business income tax payer compliance
- To assess the influence of perception of fairness and equity for business income tax payer compliance.

1.6. Significance of the Study

The study is useful for the tax authority to increase revenue collection by identifying the gaps that are challenging taxpayer's voluntary compliance. Finally, it is again very essential in generating interest for further research and there will be a footstep for others

so that they will conduct similar studies in some other branch offices and in other regions as well.

1.7. Limitation of the Study

Business income compliance is influenced by various factors. Because of financial resource and time limitation, however, the study is mainly limited to the assessment only some factors that influence business income tax payers' compliance. Other limitation of the study there may not be sufficient secondary data in the tax authority that help to successfully fulfill the study.

1.8. Scope of the Study

So as to critically examine the objectives of the study in some details, the paper is focused on the factors that influence business income tax payers compliance by only focusing on the large tax payers' branch office of ERCA. Therefore, the research is limited itself towards assessing the factors that influence compliance levels of business income tax payers of the large tax payers' branch office of ERCA. The research doesn't cover the factors that affect the compliance levels of other tax types.

1.9. Organization of the Research Report

The research has five chapters. Chapter one deals with the introduction by focusing back grounds of the study, back ground of the study area, statement of the problem, basic research questions, and objectives of the study, significance, scope and limitation of the study. Chapter two includes literature review. In this chapter related literature is reviewed. The third chapter which is methodology of the study presents the how part of the study. Discussion and analysis part of the study is covered in chapter four. Chapter five which is the end of the chapter summarizes the findings, conclusion and recommendation.

CHAPTER -TWO

LITERATURE REVIEW

2.1. Definition of compliance

Tax compliance is defined as taxpayers' willingness and ability to comply with tax laws, declare the correct income, claim the correct deductions and pay all taxes on time. (Beza muche, taken from based on IRS, ATO and IRB (2009); Alm (1991); Jackson and Milliron (1986) and Kirchler (2007), as cited in Mohad & Ahmed, 2011)). Tax compliance has been defined in various ways by various authors. As stated by Kirchler (2007) compliance might be voluntary or enforced compliance. Voluntary compliance is made possible by the trust and cooperation between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations.

However, in the presence of distrust and lack of cooperation between authority and taxpayer, which creates tax hostile climate, authorities can enforce compliance through the threat and application of audit and fine. According to McBarnett (2003), cited in (Mohad, R. et al., 2011) compliance may take three forms, which include committed compliance, capitulative compliance and creative compliance. Committed compliance is the willingness to discharge tax obligations by taxpayer without complaining. While capitulative compliance is the reluctant in discharging of tax obligations by taxpayer and creative compliance (tax avoidance) refers to any act by taxpayer aimed at reducing taxes by redefining income and deductible expenditure within the confine of the law. As stated by Marti (2010) cited Felix N (2015) tax compliance is a complex term to define. Simply put, tax compliance refers to fulfilling all tax obligations as specified by the law freely, willingly and completely. He also believes that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness.

2.2. Factors that Influence Compliance level

Kirchler, (2007) provides a thorough description of the determinants of tax compliance, dividing them into three categories. He states there are social psychological determinants comprising attitudes, different types of norms, fairness perceptions, as well as motivational features relating to tax compliance, political determinants such as complexity of law and tax system, or fiscal policy, and economic determinants like the rational decision-making process and the effect of audits, fines, tax rates, income on tax behavior. Tadesse G and Goitom A (2014) also in their empirical studies in Mekelle city they examined nine factors like; probability of being audited; perception of government spending; perception of equity and fairness; penalty, financial constraint; changes to current government policies; referral group; the role of the tax authority; and tax knowledge.

According to Jackson & Milliron (1986) cited in Desta (2010) they examined determinants or factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. For the research elaboration Tax payer service, Tax audit, Tax knowledge, perception of fairness/equity fines and penalties and strength of the organization were discussed under.

2.2.1. Tax Audit

According to Kricher (2008) cited in Badara (2012), tax audit is defined as the checking or examining of an individual or organizations' tax return and assessments by any concerned tax authorities so as to achieve the compliance with the proper tax laws, regulations, and directives of a country. In addition, he also defines it further that tax audit is a process whereby tax authorities give the confirmation to their stated tax returns whether these reports are prepared based on the consent of the tax laws or not.

In a similar fashion, OECD (2006) also defines tax audit as an examination of tax payer if the books of accounts are correctly reported and whether these reports correctly reflect the liability of the tax payer. Further, tax audit is a primary activity of the tax authorities under the self assessment system in enhancing and encouraging voluntary compliance with the tax laws and regulations.

2.2.1.1. Purposes of Tax Audit

According to James (1993) cited in Badara (2012), the main objective for tax audit is establishing an effective tax administration so that this administration can legally deal with frequently changing economy and to present ways of resolving tax deputies between tax payer and the tax authority. In addition, this scholar has added that minimizing the extent of tax avoidance and tax evasion, enhancing the compliance of tax payers with the tax laws and regulations, and checking whether the amount of tax revenue that should be collected from tax payers is justifiable or not are among the other purposes of tax audit. In some other explanation this author has again discussed that the overall purpose of tax audit is to assure whether proper maintenance of books of accounts are recorded or not which basically reflects that the books of accounts of a tax payer should represent the correct and true income and expenses of the tax payer.

Studies suggest that in self assessment systems, tax audits can play an indispensable role and their essential role is to increase voluntary compliance. Frequencies and meticulousness of audits could encourage taxpayers to be more prudent in completing their tax returns, reporting all income and claiming the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

2.2.2. Tax Payer Service

Service quality provided to tax payers in tax department becomes our concern because it is related to society as service users (Nunung, 2015) The National Taxpayer Advocate believes quality taxpayer service is a fundamental taxpayer right, and Congress should fund taxpayer services at a level that enables the internal revenue service's to provide the quality service taxpayers need to comply with their tax obligations. In an attempt to justify taxpayer service investments in the context of its return on investment (ROI), in recent years researches have studied whether taxpayer service, among other factors, impacts taxpayer compliance behavior. The study results show taxpayer attitudes about the IRS, and in particular IRS services, are among the most important factors influencing the compliance behavior of taxpayers with individual business income.

Taxpayers have come to expect the same level of service from public organizations as they receive from the best private sector organizations. Taxpayers are increasingly becoming more comfortable using new technology and are looking for easier, more efficient, and time effective ways to obtain information and interact with government agencies. To effectively meet taxpayer demands, administration staff must embrace the concept of viewing the taxpayer (customer) as the most important person to the organization.

One of the external factors on tax compliance is the approach patterns of tax administration towards taxpayer. According to Mutlu & Taşçı (2013) cited in Helhel,(2014) found that customer oriented tax administration fosters voluntary tax compliance of citizens. While agricultural income tax payers have been found to be affected by the customer oriented approach of tax administration at the highest level in terms of voluntary compliance, the commercial income tax payers have been affected to a lesser extent.

An important trend in tax administration policies in recent years is the recognition that the traditional "enforcement" paradigm of tax administration, in which taxpayers are

viewed and treated as potential criminals and the emphasis is exclusively on repression of illegal behavior through frequent audits and stiff penalties, is incomplete. A revised “service” paradigm recognizes the role of enforcement, but also emphasizes the role of the tax administration as a facilitator and a provider of services to taxpayer-citizens (Alm and Martinez-Vazquez, 2003).

Taxpayer service plays a critical role in maximizing voluntary compliance by providing taxpayers with the information and assistance they need to enable them to meet their tax obligations. Taxpayer services curb compliance costs by providing programs that enable taxpayers to fulfill their obligations more easily, thereby minimizing the need for the tax administration to expend more costly resources to enforce compliance. With effective public information, forms, and services, and by convincing non-compliant taxpayers that they can comply with relative ease, taxpayer services can also encourage and help accomplish greater voluntary compliance.

The USAID report (2013) categorized the tax payer service strategy into three broad themes: These are ; **Tax simplification:** Most tax administrations agree that simplified policies and procedures greatly facilitate voluntary compliance. Without institutional simplification enabling taxpayers to fulfill their responsibilities more effectively, even the most comprehensive services offered to taxpayers will not be effective; **Taxpayer assistance:** Taxpayer assistance means providing taxpayers with information to prepare tax returns and to resolve issues of filing, as well as questions and adjustments that may arise after the tax returns have been submitted to the tax administration. These areas of assistance have also been referred to as the pre-filing, filing, and post-filing stages of assistance; and **Facilitation of tax collection and enforcement:** The ultimate goal of the tax administration is to collect the proper amount of taxes due to the government. Therefore, providing the mechanism to facilitate the payment of taxes – especially for business taxpayers who are required to regularly remit multiple tax payments for different taxes – is an essential enabling tool to encourage voluntary compliance. Call center operations supported by modern telephone technology are becoming an increasingly significant element in service delivery.

According to Tjiptono (2007) cited in (Nurhayti..et..al,2015) the series of integrated service to improve the quality of service are as follows:

Simple Public service Quality public service occurs if its implementation does not give any difficulties, its procedure is simple, the requirement is easy to fulfill, simple, and does not give any chance for self-benefit.

Open Public Service- Officers provide honest information, both rules and norms, do not threat customers badly, do not feel they are very important and needed which can lead them to expect returns from the customers, service standard must be announced e.g. show the announcement at the main door of the office.

Seamless Public Service-To be seamless, facilities that can support generating speedy output are necessary.

Public service that can provide accurate service to customers-The word accurate in this context means accurate direction, target, time, answer, and accurate in fulfilling a promise. For example; Tax service office in asking tax payers fulfill their obligation at the right time (when tax payers have money to pay).

Complete public service-Complete means all customers' needs are able to be fulfilled. To guarantee the service quality, human resource and utilities are needed.

Reasonable public service-Reasonable public service means that there is no luxurious service. The service is reasonable and natural so that it will not make customers uncomfortable.

2.2.3. Tax Knowledge

As stated Lewis, (1978) cited in Hofman et.al (2008) people not only have difficulties to understand tax law, they also show poor knowledge about tax rates and basic concepts of taxation. Studies on knowledge and evaluation have addressed people's understanding and acceptance of tax phenomena as well as relevant associations towards taxation held by different groups of taxpayers. While from the perspective of the community, tax

avoidance, tax evasion, and tax flight all have similar negative consequences, people evaluate these phenomena differently.

Palil (2012), states that in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers' compliance behavior. Therefore a step ahead, for example continuous education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. On the contrary, awareness and attitude of the taxpayer himself is more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers.

Knowledge of tax is the process of changing the attitudes and code of conduct of taxpayers or group of taxpayers in an effort to inform human beings through the efforts of teaching and training. Increasing knowledge of tax regulation/ law among tax payers through formal and non-formal education will have a positive impact on taxpayer awareness to pay taxes. Knowledge of tax regulations in the new tax system is through a self-assessment system. In this system, taxpayers are trusted to calculate, estimate, and determine the payable amount of income tax and report it to the Tax service Office or extension service office and tax consultant office, or can also be delivered through the post office, tax corner, mobile tax office and certain places for annual notification letters (drop box) after the tax year ends(Nurhayati,et..al,2015). The Taxpayers Advocate Service is an independent organisation within the IRS and was introduced to assist taxpayers who are experiencing economic hardship, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should (IRS, 2009).

(Misu, 2011)divide the tax information into two components: one is the tax statistics, and the second is the tax return information for each taxpayer. There are so many types of information in tax statistics. One of the most important statistics for the purpose of increasing the level of tax compliance is the exact amounts of tax evasion .The other information is given by the tax return information for each taxpayer. There are some exceptional countries, like Finland and Norway, which release the tax return information

for each taxpayer to the public. However, in most developed economies, the tax return information for each taxpayer is strictly prohibited to release to the public for the protection of private information. The statistics about tax evasion has been released to the public for most developed countries. This information disclosure might be not only for taxpayers' rights to know, but also for inducing more tax compliance. Furthermore, some private information for the richest group of individuals and corporations has been released to the public under the legal basis. Tax education can constitute any informal or formal programme organised by the tax authority or independent agencies by which to facilitate taxpayers in completing tax returns correctly and also to cultivate awareness of their responsibilities in respect of the tax system. Various programmes in the US, including the Public Information Programme, were introduced to educate school children, small business owners and other self-employed individuals. Through workshops or in-depth tax courses, instructors provided training on filing tax returns, starting a business, recordkeeping, preparing business and personal tax returns, self-employment tax issues, and employment taxes (IRS, 2009).

The Taxpayers Advocate Service is an independent organization within the IRS and was introduced to assist taxpayers who are experiencing economic hardship, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should (IRS, 2009).

Knowledge about taxation, the benefits of taxation and the dangers of non-compliance remain a key impediment to tax compliance in many countries (Among.et.al, 2013).

James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations.

As stated in (Eric,et...al,2015), in local government, revenue collection can be improved through sensitization of tax payers as means of shaping their attitudes and ensure compliance of tax payers. Local revenue collection has to comply with certain general principles of raising revenue and how these principles should be fair, convenient and certain. The collection and administration of revenue must be economical to the collectors and administrators.

Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et. al. 2000). Chan *et. al.* also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.

From the literatures we can understand that taxation knowledge is necessary to increase public 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 .More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. This exposure could be given through seminars, dialogue sessions, or collaboration with the Ministry of Education to introduce the subject of Taxation at secondary schools.

2.2.4. Perception of Fairness and Equity

Perceived fairness of the tax system is an important factor that is likely to affect individuals' tax compliance decisions. Equity theory helps explain how individuals make fairness judgments. Equity theory suggests that individuals continuously evaluate their inputs and the outputs they receive (Walster et al. 1978). If individuals perceive that outputs do not properly align with inputs, they experience distress. The distress could be related to either an underpayment inequity or an overpayment inequity. Underpayment

inequity occurs when an individual believes that his inputs are greater than the outputs he receives. This theory is often used in organizational research to examine the influence compensation has on employees' behavior. In an organization this occurs when an individual believes he is not paid enough for the work he does. Perceptions of distributive fairness have been shown to affect tax compliance (Wenzel, 2003 and Kirchler, 2007). People who experience their tax burden to be higher than others tend to be less compliant with tax laws. Likewise, the more people believe that the government takes good care of their paid taxes and spends it carefully, the more compliant they tend to be. Equity theory, organizational justice research, and social exchange theory all agree that perceptions of fairness can have a significant influence on individuals' decisions (Deconinck 2010; Masterson et al. 2000). For instance, in an organization an employee's perceptions of fairness can have a significant influence on behaviors, such as organizational citizenship behaviors (Masterson et al. 2000).

Equity or fairness can be perceived via horizontal and vertical equity. Horizontal equity states people with the same income or wealth brackets should pay the same amount of taxes while vertical equity says, taxes paid increase with the amount of the tax base. The driving principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not. As Spicer and Becker,(1980) cited in Agbad ,(2011) if a specific group perceives that their tax liability is higher than other groups, then tax evasion might occur among the group members .An individual tax payer also can affect by other groups. Example if he feels that his tax burden is higher than other people within the same income group, his tax compliance probably decreases more widely at group levels; taxpayers want a fair treatment of their group relative to other income groups. In other way if the tax payer perceives the tax system is equitable and faire the level of his compliance will increase and became compliant.

Fairness and trust are perceived by many researchers to be important drivers for compliance. As cited in report of OECD (2011) Valerie Braithwaite points out the importance of mutual trust and cooperation between the taxpayers and their tax authority in order to achieve voluntary compliance (Braithwaite, 2008). Kirchler and Hoelzl (2006) argue that fair treatment of taxpayers and trustworthiness of tax authorities will enhance

voluntary compliance, Murphy (2004) shows in a study of accused tax avoiders that there is a correlation between fair and correct treatment of the taxpayer and trust in the revenue body. Trust is in turn correlated to the willingness to comply. If regulators are seen to be acting fairly, people will trust the motives of that authority, and will defer to their decisions voluntarily. Fairness and trust are thus interlinked and the one cannot exist without the other.

According to D.Jimenez(2013)Studies suggest that procedural fairness influences the acceptance of decisions made by the tax authority and builds trust in the tax authority among private taxpayers (Braithwaite, 2003; Murphy, 2004). Procedural fairness is important for tax authorities, since by enacting fair procedures authorities support their legitimacy and trust (Tyler, 1997; 2006). Kirchler, Niemirowski and Wearing (2006) found that perceived supportiveness of advice by tax officers was associated with self-reported compliance and studies by Pommerehne and Frey (1992) and Torgler (2005) show that —if taxpayers have a say in political decisions with regard to financial issues tax morale is stronger, as cited in (OECD,2011). According to James (2000), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. Similarly, Due and Friedlaender (1981), as cited in(Solomon,2014),also argue that what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society.

According to Brooks (2001) cited in Solomon, (2014), states that fairness has always been widely regarded as the most important criteria in judging a tax system. The problem of unfairness is that a tax system allows taxes to be shifted from dishonest to honest taxpayers. The fairness of a tax system may also be perceived in different ways by the taxpayers and tax authorities. What is fair in the eye of the tax authorities may not have the same image in the mind of the taxpayers.

“The implementation of the tax systems based on either progressive tax structure or flat tax rate structure however, most of the individual taxes are progressive tax structures. i.e., that is vertical in terms of providing equity does not meet. According to Valerie Braithwaite (2008) the important message from this research is that authorities develop trust and build their legitimacy, not through giving people the outcomes they want, which is often impossible, but rather through observing their right to a fair hearing and respectful treatment.” Studies show that the perception of procedural fairness is linked both to the acceptance of a specific decision and to the inclination to comply with laws and rules more generally (Tyler 2001)”.

2.2.5. Fines and Penalties

As stated Gruber and Saez (2002) cited in (Micheal et al., 2015) it is a fact that if many persons are given the chance they may not pay taxes unless there is a motivation to do so. Tax experts have a perception that the best way is to increase tax incentives while others believe the best way is to increase tax penalties. Stopping non compliance requires applying penalties effectively. The most appropriate strategy is to combine various measures so as to maximize their effects on tax compliance as it were, in order to move the country from a low level of tax compliance to a higher level.

According to (Kirchler et al., 2008) cited in Misu,(2011)In an antagonistic climate, fines can be a part of the game of “cops and robbers”; in a synergistic climate, they can be perceived as an adequate retribution for behavior that harms the community. Fines are therefore connected to trust and power. Fines that are too low could be perceived as indicator that the authorities are weak and unable to control the wrongdoers, undermining trust among honest taxpayers. Fines that are inappropriate because a taxpayer involuntarily made a mistake resulting from ambiguous tax laws, or fines that are exorbitantly high, would undermine the perception of retributive justice and induce tax evaders to try even harder to regain their “losses” incurred by those fines. The most extreme penalties will have no effect, if it is common knowledge that audits virtually do not occur. The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent

effect on tax payers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes (Kirchler et al., 2007).

As stated by Hyun (2005) the structure of penalty system may be different in the countries: can be various types of penalty rate by the different tax subjects or different structure of penalty rates by the types of taxpayer. So, penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, value added tax etc. Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no bookkeeping of invoices, receipts etc. Or, the penalty rates are differently applied to the types of taxpayers, depending upon their evaded behaviors. If some taxpayers had the intentional evasions, the penalty rate is much higher than that of unintentional evasions.

The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid their taxes. In most countries, fines are relative to the evaded tax. However, depending on the income of the accused such a system might yield too low fines to have deterrent effects. An alternative would be to adjust the fine to the income of taxpayers (Kirchler et al., 2007). A possible explanation for this is that very few taxpayers will be likely to be involved with tax audits, and so penalties and fines take on a critical behaviour-influencing role in helping to improve tax compliance. Fines and penalty rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler et al 2007).

Various arguments arise regarding the impact of fines and penalties on tax compliance to explain this lack of a clear impact relationship. For example, fines that are too low could be perceived as an indicator that the authorities are weak and unable to control non-

compliant taxpayers, thereby undermining trust among honest taxpayers and leading to a lack of encouragement to comply with tax law . Furthermore, fines that are inappropriate because a taxpayer has made a mistake resulting from vague or overly complex tax laws would weaken the perception of retributive justice and encourage tax evaders to try harder to regain their losses incurred by those fines.

2.2.6. Strength of the organization

For many aspects of tax compliance, there is a debate in literature as to how the effective operation of the tax system by the tax authorities influences taxpayers' compliance behavior. The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. According to Hasseldine and Li (1999) cited in Tadesse E.(2014) illustrated tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion. Besides, the study of Richardson (2008) also suggested that the role of a government has a significant positive impact on determining attitudes toward tax. On the other hand the ways in which revenue authorities interact with taxpayers and their own employees have an impact on public perception of the tax system and the degree of voluntary compliance. Taxpayers who are aware of their rights and expect, and in fact receive, a fair and efficient treatment are more willing to comply. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and "user friendly" administrative systems and procedures. Voluntary compliance is enhanced when it is easier for taxpayer to do so.

According to OECD, (2011) The perception of fairness depends thus to a great extent on how the citizens perceive the authority's actions. A taxpayer may perceive an authority as just and fair even if it has made a decision that goes against him, if the authority acted in a good manner. This leads in turn to fewer complaints about the authority's decisions. What is important is not, therefore, whether the outcome is positive or negative, but

whether it is fair (Wenzel, 2004). If an authority treats an individual courteously, it shows respect for the individual and helps increase the perception of fairness (Murphy, 2003).

Rational and efficient procedures, higher personnel standards, better management, improvement in relation with the public and in the daily contacts between tax official and taxpayer, can operate to increase the public respect for the tax administration. Moreover, once the tax administration has been placed on a sound basis, it is in a position to assert that compliance must be forthcoming. Such an assertion would hardly be tolerated or even taken seriously, as long as tax officials were themselves inefficient and corrupt. But if the administration has brought stability and honesty to its own operations, the self-respect thus achieved can form the foundation for its demand of respect and compliance from the tax payer.

2.7. Conceptual Frame Work

A conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas.

As indicated in the literature, it is tried to show that factors that influence business income tax payers like; tax audit, tax payer service, tax knowledge, perception of fairness and equity, fines and penalties and organizational strength. From the literatures it can be understand that, tax audit is the examining of an individual or organizations tax return by tax authority to achieve compliance with the proper tax laws. Providing quality service to taxpayers needs also increase to comply with their tax obligations. In addition knowledge about tax laws plays a major role in determining taxpayer compliance behavior. With regard to perception of fairness and equity, people who experience their tax burden to be higher than others tend to be less compliant with tax law. Concerning fines and penalties faire rate of penalties could improve compliance level. Further as discussed in the review of literature section above the role of a tax authority in minimizing the tax gap and increasing voluntary compliance is very important. Thus organizational strength has an influence in taxpayers' compliance level.

The purpose of this study is therefore to assess factors that influence business income taxpayers' compliance. So based on the different literatures, the following conceptual frame work has been developed to guide this particular paper.

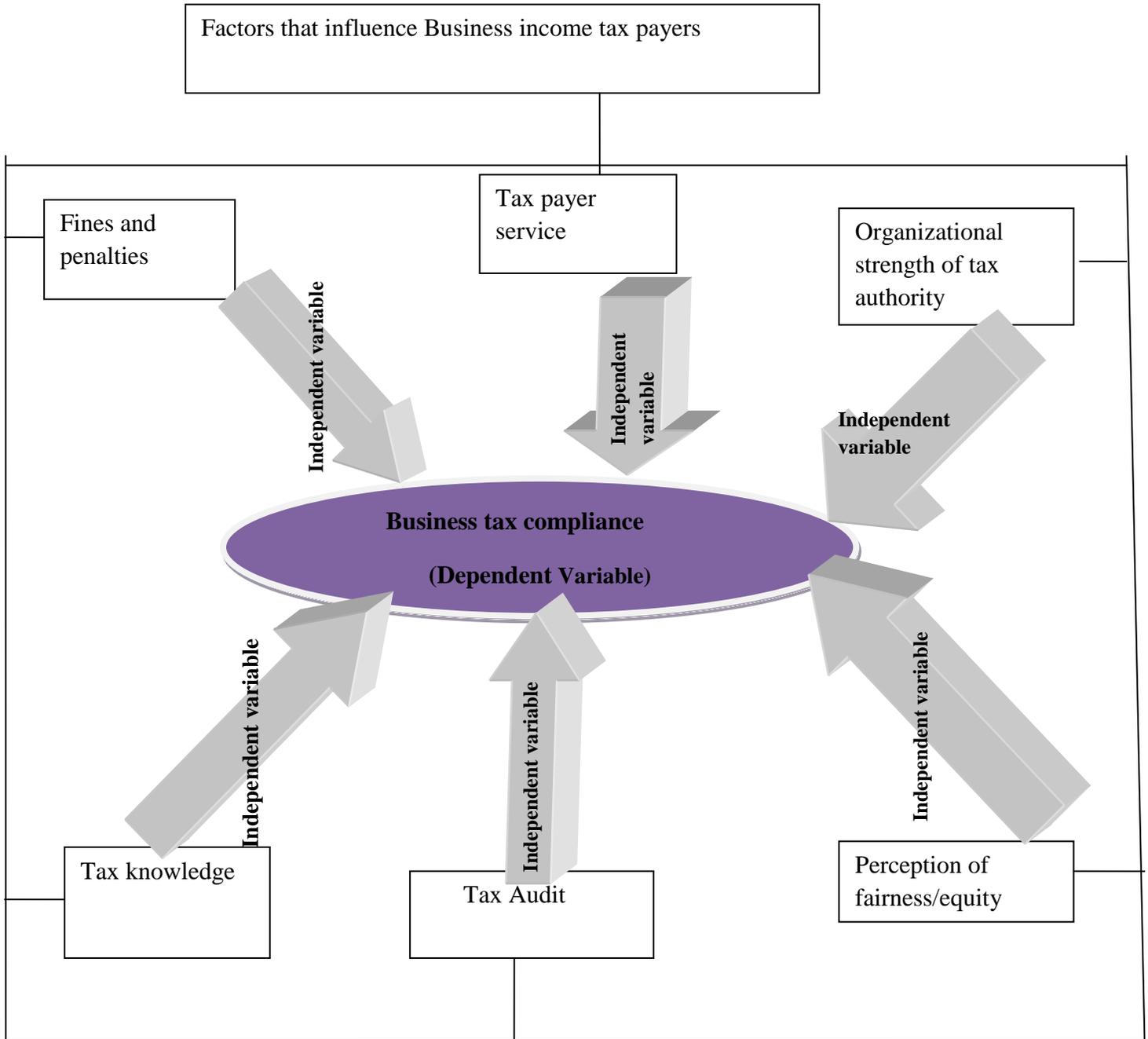


Figure. 1.3: Source: Researcher own construction based on literature review

CHAPTER -THREE

RESEARCH DESIGN AND METHODOLOGY

This section deals about how the research is conducted. Here, the design of the research, the sample design, the instruments of data collection, tools of data presentation and analysis are presented in this section.

3.1. Research Design

As it is clearly indicated in the objective part, the main objective of the paper is assessing the factors that influence business income tax payers in the large tax payers' branch office of ERCA. Here, the researcher does not seek to explore a new insight or not to explain the relationship of variables understudy. But, the main assignment here is discussing about the factors that influence business income tax payers. Regarding such type of inquiry, the best design is descriptive research. Therefore, due to the above mentioned reasons, the researcher employed the descriptive research design.

3.2. Sample Design

3.2.1. Population

The study is assessing the factors that influence business income tax payers of the mentioned branch office. Here, to deal with such assessment, an appropriate population is determined. Accordingly, the researcher has identified that the total population size is the total number of tax payers of the branch. In addition, the numbers of staffs working in this branch are among those from which data was collected through interview. With regard to the total population, there were 1,197 tax payers up to June 2015. But this study only focuses only on the target population focusing on the private owned tax payers that their head office is in Addis Ababa. So, from the total population there are 215 governmental for profit organizations, 119 tax payers out of Addis Ababa. Therefore, these are excluded from the total population. So, the target population is 863 tax payers.

3.2.2. Sampling Frame

It is known from Yamane (1967) that sample frame is regarded as a source of the complete list of the population from which sample can be selected. Therefore, for this study, the sample frame can be taken as the list of the tax payers of the branch. The numbers of employees of the branch are also considered as a sampling frame since samples were selected for interview.

3.2.3. Determination of Sample Size

To design the sample, setting the size of the population and the target population for the research purpose is essential. Accordingly, it is clearly indicated in the above sections that the target population is the number of tax payers in the branch and those employees of the branch. But, the question here is how many of these are enough to justify or respond so that the research questions are adequately answered. It is known that samples should be representative so that the conclusion to be reached can be free of any hasty generalizations and biased nesses. On the other hand the sample to be taken has to be manageable so that the output cannot be distorted. Therefore, an appropriate formula has to be taken to minimize the risk of the above two. Accordingly, Yamane (1967) has introduced a formula in which sample can be determined from a finite population. In addition, researchers have selected the degree of precision and level of confidence that would be preferred. And as a result the researcher would like to be confident about 95% and that tolerated sampling error should be only 8%. The formula the researcher have selected and obtained from Yamane (1967) for sample determination is presented below. Here, it must be clear that though the target population for this study is two different groups-tax authority staff and tax payers-, the sample size for the survey questionnaire is determined from tax payers only not from the tax office staff and this is because of the fact that the issue of compliance is better related to tax payers. However, tax authority staffs are also included not in the survey but to share their opinion through interview in the factors that influence business tax payer compliance.

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

$n = \text{sample}$

$N = \text{population size}$

$e = \text{An error}$

$$\text{Then the sample} = \frac{863}{1+863(0.08)^2} = 132$$

N. B. Here the error is assumed to be 8 percent

The researcher used a sampling size determination formula developed by (Yamane , 1967).

Therefore, the researcher has taken 132 samples of companies from the branch and ten tax office higher staffs were also included via interviewing. After so many efforts due to irresponsiveness of selected sample population, 9 questioners were not collected so the data were entertained from 123 samples. .

3.2.4. Sampling Techniques and Procedures

After the size of the sample is determined through the formula, the next task is how to select the appropriate sample which is the issue of sampling procedure. Accordingly, the researcher used both probability and non probability methods of sampling. Among the probability sampling methods, the researcher employed the simple random sampling using random lottery method. The non probability sampling methods were again employed in the case of selecting tax authority for an interview purpose only. Here, it is logical and practically impossible to collect data from significant number of staffs through interview. Rather, the best way is to concentrate on those who are very potential in providing explanatory responses to the questions. Therefore, the purpose of the researcher in getting the accurate data is the initiative factor in selecting the interviewee. It is therefore the judgmental or purposive method of sampling that was employed in the

study. Accordingly, the researcher interviewed a total of ten tax staffs from different departments.

3.2.5. Data Collection Techniques

With regard to primary data gathering methods, the researcher employed both interview and questionnaire surveys. With regard to interview technique, researcher used personal interview as it is help full for the researcher to communicate and handle the data and to control or manage the responses to be obtained from respondents. Here, structured personal interviews were used. At the same time questionnaire survey were used very intensively as it is clear that significant data may be obtained through surveys. Here, both close and open ended structured questionnaire were employed. This is because the disadvantage of one technique can be compensated by the advantage of the other technique and thus relevant and representative data can be furnished. The other most important point here is that it should be clear that data in general is collected from both the tax office staffs and the tax payers who file their tax returns in the branch. The researcher collected such data through survey questionnaires from the tax payers and through intensive interview from tax office staffs.

3.2.6. Data and Data Sources

For the purpose of this particular study, both primary and secondary types of data are used.

3.2.6.1. Primary Data

Because the variables in this study are more qualitative, primary data type are more relevant. These data were collected using survey questionnaires and interviews. The justification for using tools of collecting primary data at the same time is to collect relevant information since a limitation in one of these techniques can be compensated by the advantage of the other.

3.2.6.1. Secondary Data

As important as the primary data, the researcher also collected essential data from secondary sources. It is clear that the study is about factors that influence business income tax payers' compliance. Therefore, it will a must to review the tax audit manuals, , proclamations, regulations, directives, circulars, reports and other similar documents. Data that were obtain through review of such documents help to address the research objectives of the study.

3.2.7. Data Presentation and Analysis

After the necessary data is collected from the primary and secondary sources, then these data are grouped, coded and tabulated. Data are presented using tables, various chart types and graphs. All these data presenting techniques are implemented based on the nature of the data. The researcher employed descriptive method of data analysis using SPSS version 20 together with excel spreadsheets. This SPSS technique is used mainly for analyzing the inserted data and for processing appropriate diagrams so that the researcher can easily and accurately analyze the data. Here, percentages, ratios and averages are used as tools for the analysis of the data.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. BACKGROUND OF RESPONDENTS

This section describes respondents' demographic and their tax background including age, gender, educational levels, their experiences in the business operation and training at tax courses.

Table 1: sex of the respondents

Sex	Frequency	Percent
Female	38	30.9
Male	85	69.1
Total	123	100.0

Source: Author's field survey, 2015

The table 1 depicted above shows that 69.1% of the respondents are male whereas 30.9% of them are female respondents. Therefore, from the table it is understood that most of the business is dominated by the number of males.

Table 2: Age of the respondents

Age category	Frequency	Percent	Cumulative Percent
Less than 30	20	16.3	16.3
30 to 39	28	22.8	39.0
40 to 49	23	18.7	57.7
50 to 59	48	39.0	96.7
60 years and above	4	3.3	100.0
Total	123	100.0	

Source: Author's field survey, 2015

Table 2 above shows that the age brackets of respondents in which 16.3% of the respondents are less than 30 years of age, 22.8% are between 30-39 years, 18.7% are in the 40-49 age brackets. Respondents between 50-59 years accounts to 39% and those above 60 years of age are 3.3%. This result shows that most of the respondents are above 50 years of age.

Table 3: Educational status

Level of Education	Frequency	Percent
Secondary school	13	10.6
Certificate	9	7.3
Diploma	42	34.1
Degree	54	43.9
Masters degree and above	5	4.1
Total	123	100.0

Source: Author's field survey, 2015

According to the table 3 shown above, 10.6% of the respondents are secondary school graduates, 7.3% the of respondents are Certificate holders,34.1% respondents are diploma holders,43.9% and 4.1% respondents represent first degree and masters degree respectively. So, from the table one can understand that most of the respondents are educated. And, it can be inferred that the respondents have the potential to deliver the answers with full capacity.

Table 4: Type of Business:

Type of business	Frequency	Percent
Import and export	41	33.3
Manufacturing	12	9.8
Wholesaler and retailer	12	9.8
Construction	11	8.9
Service providers	15	12.2
Real estate developer	6	4.9
Financial institution	6	4.9
Other	<u>20</u>	<u>16.3</u>
Total	123	100.0

Source: Author's field survey, 2015

The above table 4 shows that 33.3% of the sample of population are engaged in import and export business implying that most of the business is dominated by import and export sectors. Manufacturing and wholesaler and retailer sectors each of them, however, account to 9.8% of the sample represents. Similarly, 8.9% of the sample is businesses in the construction sector and, 12.2% of them represents to the service providers being 4.9%

of the sample are real estate developers. The remaining 4.9% and 16.3% of the total sample are in the sector of financial institutions and others respectively.

Therefore, from the above information, less can be taken that most of the business in the country specially those of large taxpayers are in the sector of import and export businesses where as those in the productive sectors are very minimal.

Table 5: Experiences of taxpayers in the business

Question	Response	Frequency	Percent
For how many years you are in this business?	below four years	3	2.4
	from 4 up to 7	30	24.4
	from 8 to 12	73	59.3
	above 12 years	17	13.8
	Total	123	100.0

Source: Author's field survey, 2015

Table 5 shows that 2.4% of the respondents have been in operation below four years, 24.4% of them have experiences between four and seven years, 59.3% have been in operation between eight and twelve years and the remaining 13.8% have been in operation for above twelve years. The result shows that majority of the business (70.8%) have been in operation for above eight years which implies that most of the tax payers in the large taxpayers office have relatively better experiences of the business..

Table 6: Questions Related to training

Questions	Response	Frequency	Percentage
Have you got training about the taxation?	Yes	51	41.5
	No	72	58.5
If your answer to the above question is No, why did not you got the training?	I had not got the chance	45	65.2
	I don't want to take training	5	7.2
	I expect it may not attractive training	19	27.5
If your answer is to the above question is yes, how often you take training on taxation?	1-3 times	37	68.5
	4-7 times	15	27.8
	7 and above	2	3.7

Source: Author's field survey, 2015

The results in Table 6 indicated that 41.5% of the respondents got training that prepared by Ethiopian revenue and customs authority and above half of the respondents (58.5%) did not got training. As to the reason why they did not take training with tax matters, the researcher has asked respondents and accordingly 65.2% of them have responded that they had not got the chance implying that the opportunity of getting training from the tax office is very low. However, 7.2% of the responds have got the opportunity of getting training but they don't want to take training and the remaining 27.5% responds that they expect it may not be attractive training in which this also indicates that most of the training is not need based ones.

Therefore, the result shows the majority of the respondents who did not got training indicated that they had not got the chance for training and the remaining respondents indicated that by their perception like the training may not be attractive and they have not interest to take training by different reasons.

With regard to the frequency of trainings given to taxpayers, respondents have been asked as to how often was the training given. As a result, out of those who attended training, 68.5% of them had attended between one and three times, 27.8% of the respondents got training between four and seven times and the remaining 3.7% had attend training above seven times. But the information collected from the employees of the revenue office through structured interview indicated that not availing themselves when they are requested to attend training sessions about taxation was the major reason for not getting training about taxation.

4.2. Factors that influencing business income tax compliance

This section deals with the factors that potentially have the effect on the compliance levels of business income tax payers. Accordingly, data is collected by focusing on the list of factors of compliance. Thus, the data is analyzed and interpreted as follows.

4.2.1. Tax Audit

A question of whether tax payers are audited by tax authority was asked to the tax payers to assess the influence of tax audit on compliance. Table 7 below represents the respondents who had experienced being audited by the tax authority. A total of only 37.4% of the respondents had never been audited while 16.3% of the respondents have been audited one times, and 22.0% of them have been audited two times whereas 15.4% and 9% have been audited three times and four and above times respectively.

From the discussion above, it can be said that significant part of the total taxpayers included in the sample have not been audited and it is true that if taxpayers are not audited frequently, their compliance level of the taxpayers is likely to decrease.

Table 7: Questions related to tax audit

Questions	Response	Frequency	Percent
How often does your company has been audited by the tax authority	had not been audited	46	37.4
	one times audited	20	16.3
	two times	27	22.0
	three times	19	15.4
	four times	4	3.3
	five times	7	5.7

Source: Author's field survey, 2015

Furthermore, Respondents have also been asked, by open ended questions, as to how was the audit result that conducted by the tax authority. As a result, 93.9% of the respondents replied that the audit result was not fair and it is not in accordance with the income tax laws. Some of the problems that are specified by the respondents include: lack of skilled tax auditors, auditors are harsh, dishonest and fault finders, auditors do not accept business expenses. Due to these reasons the audit result was unfair and not followed the business income tax law.

Table 7.1: Questions related to Probability of tax audit

Statements	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Tax payers may evade tax if the probability of being audit is low	19	15.6	66	54.1	27	22.1	10	8.2	0	0

Source: Author's field survey, 2015

The study found out that tax payers may evade tax if the probability of being audit is low 8.2% disagreed ,22.1 neither agree nor disagree(neutral),54.1% agreed and 15.6% replied strongly agree .The majority of the respondents (69.7%) agreed that if the probability of audit is low tax payers may evade taxes.

Tax audits have been found to have a positive impact on tax. These findings suggest that in self assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions where necessary to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

4.2.2. Tax payer service

Table 8 below deals with the parameters related to tax payers service. As a result, questions about these parameters were forwarded to taxpayers. Accordingly, majority of the respondents have disagreed (53.7%) and strongly disagreed (17.9%) to the statement that says tax authority officials are supportive and 17.1% of them remains indifferent to this statement. However, very few of the respondents support the statement in which they have agreed (7.3%) and strongly agreed (4.1%) over it. The findings, therefore, indicated that the staffs of the tax authority are not supportive.

Similarly, the respondents are also asked if the tax authority provides information to the tax payers and in which 57.7% and 10.6% of them disagree and strongly disagree respectively. However, 21.1% of the respondents remain neutral and 6.5% and 4.1% of them have agreed and strongly agreed respectively. From this, it can be inferred that majority of the respondents claim that the tax authority doesn't provide relevant information with regard to various tax laws and tax matters to taxpayers.

Further, respondents have also been asked about whether the knowledge of the staffs of the authority is adequate for effective service and accordingly, 25.2% of them strongly disagreed, 55.3% disagreed, 6.5% neutral, 10.6% agreed and 2.4% of representatives

respond strongly agreed. The result indicated that majority of the respondents agreed that the knowledge of the officials working in the tax authority is not adequate for providing quality service while there is a few number of respondents agreed.

Data that collected by structured interview from higher officials of the tax authority indicated that they believe the number of tax payers with the number of the staff is not balanced. The officials also discussed that consulting tax laws to tax payers is not allowed by the employee’s code of conduct so they fear to tell the true information to tax payers. Due to this reason tax payers couldn’t got quality service within the time they need. If tax payers do not have information, good service by skilled staffs, they could not be capable to declare their income accurately which then compromise the compliance level. So, the study found that tax payer service has an influence for compliance.

Table 8: Questions Related to Tax payer service

Statements	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
The tax authority officials are supportive and respond promptly to tax payers	5	4.1	9	7	21	17	66	53.7	22	18
E.R.C.A provides information and advice to tax payers who are in need	5	4.1	8	7	26	21	71	57.7	13	11
The knowledge of staff working in the tax office is adequate for effective service	3	2.4	13	11	8	6.5	68	55.3	31	25

Source: Author’s field survey, 2015

4.2.3. Tax knowledge

To assess the influence of tax payer's tax knowledge on compliance, research questions were posed respondents. The table 9 depicted below shows that 94.3% of respondents represent that taxpayers know why they pay taxes and 5.7% of them replied that they do not know why they pay taxes. Further, from the open ended question that summarized for those who know why they pay taxes, majority of the respondents specified their reasons to facilitate the infrastructure, to cover government spending and generally for country development and growth. Few of the respondents have also responded that they pay taxes because it is their obligation. Therefore, the research findings indicate that most of the tax payers know why they pay taxes, but still few numbers of tax payers do not know why they pay taxes.

Table 9: Questions Related to tax knowledge

Questions	Response	Frequency	Percent
Do you know why you pay tax?	Yes	116	94.3
	No	7	5.7

Source: Author's field survey, 2015

According to table 9.1 below, respondents have been asked about whether they know taxes are collected for countries development and thus 3.3% of them have disagreed, 10.6% remains neutral, 42.3% and 43.9% agreed and strongly agreed respectively. Therefore, from the table what we can understand that most of the respondents have agreed that the tax payers pay taxes believing that it is important for the country's economic development.

With regard to knowledge of taxpayers about how to keep records and documents, 2.4% of the respondents replied that they don't know how to keep records (strongly agree .008% and disagree 2.4%), 50.4% and 36.6% agreed and disagreed respectively which means they know how to keep records and documents. The result shows majority of the respondents know they pay taxes for country development and thus it possible to conclude that they have not a problem to understand why they pay taxes and how to keep records.

Table 9.1: Questions Related to tax knowledge

Statements	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
I know taxes are collected for country's development	54	43.9	52	42.3	13	10.6	4	3.3	0	0
I know how to keep records and documents	45	36.6	62	50.4	12	9.8	3	2.4	1	.008

Source: Author's field survey, 2015

Table 9.2 below deals with the evaluation of some factors related with tax knowledge. With regard to the statement that says knowledge, understanding of the laws and guiding payments of business income tax, 2.4% and 30.1% of the total respondents have rated it as very poor and poor respectively. Similarly, 42.3% and 10.6% of the respondents have rated the statement as good and excellent respectively. Therefore, what it can be said is that relatively higher number of taxpayers have good and very good understanding and knowledge on laws and the guiding payments of business income tax.

With regard to the knowledge of taxpayers on the procedures for appeal, 4.1% and 48% of the respondents have rated the statement as very poor and poor while 31.7% and 11.4% of them evaluated it as good and very good respectively. Thus, with regard to this statement, it can be concluded that more half of the respondents do not have the

knowledge of the procedure for tax appeals, but this is without denying the fact that there are also respondents which have that knowledge.

In that similar table, it is shown that 13.8% of the respondents evaluated their book keeping strength as very poor and poor aggregated. The majority of the respondents which accounts to 78% (44.7%+33.3%) have evaluated the statement as good and excellent respectively. This result shows that majority of the respondents have knowledge of payment of business tax law, how to calculate tax and to keep records however still many of the respondents have poor knowledge on this issues. Above half of the respondents replied that they rate poor on the knowledge of procedures for appeal.

Table 9.2 Evaluation of the tax payer knowledge

Statements	Very good		Good		Neutral		Poor		Very Poor	
	Frequency	%								
How is your knowledge understanding the laws guiding payments of business income tax	13	10.6	52	42.3	18	14.6	37	30.1	3	2.4
How is your knowledge on Procedures for appeal	14	11.4	39	31.7	6	4.9	59	48.0	5	4.1
How is your knowledge on Calculation of tax	32	26.0	59	48.0	8	6.5	23	18.7	1	.008
How do you evaluate your company's book keeping strength	41	33.3	55	44.7	9	7.3	17	13.8	1	.008

Source: Author's field survey, 2015

4.2.4. Perception of Fairness and Equity

Table 10: Questions Related to fairness and equity

Statements	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
The un willingness to fulfill someone else's tax obligations affects me	37	30.1	58	47.2	18	14.6	10	8.1	0	0
The current Business income tax law is appropriate and suitable with the economic condition	3	2.4	13	10.6	23	18.7	75	61.0	9	7.3
The tax appeal (review) committee is unbiased in determining business income tax liabilities	2	1.6	11	8.9	27	22.0	43	35.0	40	32.5

Source: Author's field survey, 2015

The results in Table 10 above indicate that majority of the tax payers who responded that 47.2% of them agreed and 30.1% strongly agreed, while 8.1% disagreed for the statement that states the un willingness to fulfill someone else's tax obligations affects one's self. Thus, it can be implied that in the large taxpayers' office the unwillingness of some taxpayers to fulfill their tax obligations have an effect on the others to discharge their obligations.

With regard to the appropriateness and suitability of the current Business income tax law with the economic condition, majority of the respondents means that 7.3% and 61% are strongly disagreed and disagreed respectively while 10.6% and 2.4% of them agreed and strongly agreed with this statement respectively. Similarly, Data is collected by structured

interview which indicated that tax officials believed tax payers are not paying on their ability to pay concerning to the tax law they and it is understood that they fully agreed it is not updated with the economic condition of the country. However, still there are few interviewees agreed that tax payers pay tax on their ability to pay.

Concerning to the statement which says tax appeal (review) committee is unbiased in determining business income tax liabilities, 32.5% and 35% of the respondents strongly disagreed and disagreed respectively, where as the remaining 10.5% of the respondents agreed with this statements. From this, it can be inferred that majority of the respondents questioned the fair decision of the tax appeal committee’s decision justifying that the committee simply supports the auditor.

4.2.5. Fines and Penalties

Table 11: Questions Related to Fines and penalties

Statements	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
I comply with business income tax law by fear of fines and penalties	29	23.6	37	30.1	39	31.7	13	10.6	5	4.1
The penalty rates are very high and I can’t afford to pay the penalty	51	41.5	37	30.1	29	23.6	3	2.4	3	2.4
Compliance level can be achieved by increasing tax incentives than by increasing tax penalties	55	44.7	31	25.2	12	9.8	16	13.0	9	7.3

Source: Author’s field survey, 2015

Table 11 above shows that 4.1% strongly disagreed, 10.6% disagreed, 31.7% remains neutral, 30.1% agreed and the remaining 23.6% of the respondents replied strongly

agreed concerning to the statement which says taxpayers comply with tax laws by fear of fines and penalties.

With regard to high penalty rates, the findings indicated that the majority of the respondents (71.6%) agreed that the penalty rates are high and they cannot afford it, while few respondents (4.8%) are strongly disagreed and disagreed with this statement. The respondents are also asked the issue if Compliance level can be achieved by increasing tax incentives than by increasing tax penalties and thus 7.3% of them strongly disagree, 13.0% disagreed, 9.8% neutral, 25.2% agreed and 44.7% are strongly agreed. The result implies the best way to increase compliance by increasing penalties rather than conservatively increasing penalties.

4.2.6. Strength of the organization

The results in Table 12 below indicated that majority of the tax payers who responded, 68.3% disagreed and 8.9% strongly disagreed, while 8.9% agreed to the statement that says the relationship between staff working in the tax office and tax payers are positive. Furthermore, tax officials have also been interviewed and accordingly most of them replied that they believe as most of the tax payers are tax evaders and they perceived tax payers are almost non compliant to tax laws. From this it can be easily understood that the authority has not trust on the compliance level of tax payers.

With regard to the statement that says tax office is unable to adapt to technological developments, majority of the respondents which accounts to 13.0% and 44.7% replied as strongly agreed and agreed respectively while 13.8% and 3.3% of them have disagreed and strongly disagreed with this statement respectively.

Concerning to the statement which says the requirements of tax payers are not taken in to account in determining tax policies, 7.3% and 11.4% of the respondents have strongly disagreed and disagreed respectively, where as majority of them which accounts to 35.8% and 33.3% of them have agreed and strongly agreed with this statements respectively.

Therefore, from the finding it can be understood that the majority of the tax payers (69.1%) are claiming that as they are the very critical stakeholders, tax authority or policy maker have not discussed with them before the tax policies are issued.

With regard to the presence of dishonest tax collectors in the tax office, most of the respondents, which accounts to 53.7% and 29.3% have agreed and strongly agreed respectively that there are dishonest tax collectors. However, only 2.4% and 7.3% of the respondents have strongly disagreed and disagreed respectively with the statement. Therefore, it can be understood that taxpayers claimed that tax collectors in the tax authority are dishonest and are not ethical.

Finally, concerning the tax determination and collection procedure, majority of the respondents, which accounts to 33.3% and 48.8% of the respondents have strongly disagreed and disagreed as the procedure is clear and simple. This means that the tax procedure of the authority is very complex and difficult to understand. But, only a few of them, which include 8.1% and 3.3% have also agreed and strongly agreed respectively for this statement.

Table 12: Questions Related to strength of the authority

Statements	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
The relationship between staff working in the tax office and tax payers are positive	2	1.6	9	7.3	17	13.8	84	68.3	11	8.9
The tax office is unable to adapt to technological developments	16	13.0	55	44.7	31	25.2	17	13.8	4	3.3
The requirements of tax payers are not taken in to account in determining tax policies	41	33.3	44	35.8	15	12.2	14	11.4	9	7.3
There are dishonest tax collectors	36	29.3	66	53.7	9	7.3	9	7.3	3	2.4
The tax determination and collection procedure is clear and simple	4	3.3	10	8.1	8	6.5	60	48.8	41	33.3

Source: Author's field survey, 2015

As presented in table 12.1 below, various variables concerning with efficiency and effectiveness of the tax authority. Here, about four statements have been raised to respondents for evaluation.

The first statement is about the strength of the tax authority with respect to Service delivery, respondents have evaluated it as Very good and good respectively for about

0.008% and 10.6% of the total respondents. However, 69.1% and 7.3% of the respondents replied to the statement as poor and very poor respectively while 12.2% of them remained indifferent. From this, what one can understand is that most of the taxpayers claimed that the strength of the tax authority in delivering service is poor. Hence, the tax authority's capacity of delivering service to the tax payers is very weak.

With respect to tax law enforcement, 8.9% replied very good, 10.6% replied good, 9.8% replied neutral and 66.7% and 4.1% replied poor and very poor respectively. This shows that majority of the respondents replied as the tax law enforcement capacity of the tax authority is poor. However, there are respondents who replied as it is good. Therefore, this indicates that the tax authority has very poor performance in the tax law enforcements. Respondents were also asked concerning the tax collection efficiency of the tax authority and replied that 4.9% very good, 10.6% good, 19.5% neutral, 51.2% poor and 13.8% very poor. Majority of the respondents ranked collection efficiency of the tax authority is poor so from the result it can be easily understood that it is not efficient in tax collection.

Concerning the creation of awareness of the tax authority, even a single respondent didn't reply that it is very good (0%). However, 10.6% replied good, 19.5% neutral, 51.2% rated it poor and the remaining 13.8% rated it as very poor. Therefore, this shows that majority of the respondents agreed that the tax authority is not doing to the maximum of its capacity in order to create awareness to the business income tax payers about the tax payment. Tax payers did not get training on the income tax laws and regulations. Consequently, they are resulting in less compliance with the tax laws.

Table 12.1: Evaluation of the tax authority

Statements	Very good		Good		Neutral		Poor		Very poor	
	Frequency	%								
How do you evaluate the strength of the tax authority with respect to Service delivery	1	.008	13	10.6	15	12.2	85	69.1	9	7.3
How do you evaluate the strength of the tax authority with respect to Law enforcement	11	8.9	13	10.6	12	9.8	82	66.7	5	4.1
How do you evaluate the strength of the tax authority with respect to Awareness creation	0	0	13	10.6	15	12.2	84	68.3	11	8.9
How do you evaluate the strength of the tax authority with respect to Tax collection efficiency	6	4.9	13	10.6	24	19.5	63	51.2	17	13.8

Source: Author's field survey, 2015

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1. SUMMARY OF FINDINGS

Findings on gender indicated that there are more male than females. It was also affirmed that majority of the respondents were between the age bracket of 50-59 years . It was also brought to light that majority of respondents were fairly educated, those with an undergraduate degree contributing the highest percentage followed by those with a diploma the result shows that most of the respondents are educated. The findings information revealed that majority of the businesses have been operating above eight years.

Findings information indicated that above half of the respondents had not been got training due to they had not got a chance to attend training, even though few number of respondents replied that they do not want training they anticipate that may not be attractive training. However the tax revenue officials replied that tax payers not availing themselves when they are requested to attend training sessions about taxation was the major reason for not getting training.

The study results on tax audit affirmed that above half of the tax payers have been audited however still many of (37.4%) tax payers never been audited. Summary of open ended questions indicated that majority of the respondents discussed the audit had been conducted on their company not fair and it is not in accordance the business income tax law, the tax office auditors were unskilled, harsh and dishonest. However there were respondents discussed that it was satisfactory audit result . The information also revealed that if the probability of being audit is law tax payers may evade.

Findings concerning to tax payer service affirmed that the majority of the respondents (71.6%) have agreed the tax authority staffs are not supportive while the few respondents (11.4%) says tax authority officials are supportive. it can be inferred that majority (68.3%) of the respondents claim that the tax authority doesn't provide relevant information with regard to various tax laws and tax matters to taxpayers. Further the

result indicated that majority(80.5%) of the respondents agreed that the knowledge of the officials working in the tax authority is not adequate for providing quality service while there is a few number of respondents agreed. Data that collected by structured interview from higher officials of the tax authority indicated that they believe the number of tax payers with the number of the staff is not balanced. The officials also discussed that consulting tax laws to tax payers is not allowed by the employee's code of conduct so they fear to tell the true information to tax payers. Due to this reason tax payers couldn't got quality service within the time they need. If tax payers do not have information, good service by skilled staffs, they could not be capable to declare their income accurately which then compromise the compliance level. So, the study found that tax payer service has an influence for compliance.

The study results on tax knowledge affirmed that most of the tax payers (94.3%) know why they pay taxes, but still few numbers of tax payers do not know why they pay taxes. Further results affirmed that majority of the respondents have knowledge of payment of business tax law, how to calculate tax and how to keep records. However still many of the respondents have poor knowledge on these issues. Above half of the respondents evaluate their knowledge on procedures for appeal is poor.

Findings concerning to perception of fairness and equity affirmed that in the large tax taxpayers' office, aggregate of the respondents(77.3%) says the unwillingness of some taxpayers to fulfill their tax obligations have an effect on the others to discharge their obligations, the remaining 8.1% disagreed with this statements . With regard to the appropriateness and suitability of the current Business income tax law with the economic condition, majority of the respondents means that 68.3% are disagreed, while 13% of them agreed with this statement Similarly, the data collected by structured interview which indicated that tax officials believed tax payers are not paying on their ability to pay concerning to the tax law they and it is understood that they fully agreed it is not updated with the economic condition of the country. However, still there are few interviewees agreed that tax payers pay tax on their ability to pay.

Concerning to the tax appeal (review) committee it can be inferred that majority (67.5%) of the respondents questioned the fair decision of the tax appeal committee's justifying that the committee simply supports the auditors.

The study results on fines and penalties affirmed that majority of the respondents agreed they comply by fear of fines and penalties while there are many respondents they disagreed with this statement. With regard to high penalty rates finding indicated that the majority of the respondents (71.6%) agreed the penalty rates are high and they cannot afford it, while the few respondents (4.8%) are disagree with this statement. The majority of the respondents are also agreed Compliance level can be achieved by increasing tax incentives than by increasing tax penalties. However 22.8% disagreed.

Findings concerning to strength of the organization revealed that majority of the (77.2%) disagreed with regard to the relationship between staff working in the tax office and tax payers are positive ,while 8.9% agreed. Furthermore, tax officials have also been interviewed and accordingly most of them replied that they believe as most of the tax payers are tax evaders and they perceived tax payers are almost non compliant to tax laws. From this it can be easily understood that the authority has not trust on the compliance level of tax payers. With regard to the statement that says tax office is unable to adapt to technological developments, above half of the respondents agreed while, 17.1% disagreed and the remaining 25.2% have neutral with this statement. from the finding it can understood the majority of the tax payers (69.1%) are claiming that as they are the very critical stakeholders, tax authority or policy maker have not discuss with them before the tax policies are issued. Further the study information affirmed that, 83% of the respondents claimed that tax collectors in the tax authority are dishonest and are not ethical. Finally, Concerning the tax determination and collection procedure, majority of the respondents which accounts to 82.1% of the respondents have disagreed as the procedure is clear and simple. This means that the tax procedure of the authority is very complex and difficult to understand. But, only few of them which include 11.4% have also agreed for this statement.

From the data analysis it can understand is that most of the taxpayers (76.4%) claimed that the strength of the tax authority in delivering service is poor. Hence, the tax authority's capacity of delivering service to the tax payers is very weak. With respect to tax law enforcement, majority (70.8%) of the respondents replied as the tax law enforcement capacity of the tax authority is poor. However, there are respondents who replied as it is good. Therefore, this indicates that the tax authority has very poor performance in the tax law enforcements. Majority of the respondents ranked collection efficiency of the tax authority is poor so from the result it can be easily understood that it is not efficient in tax collection. Concerning the creation of awareness of the tax authority, even a single respondent didn't reply that it is very good (0%). However, 10.6% replied good, 19.5% neutral, 51.2% rated it poor and the remaining 13.8% rated it as very poor. Therefore, this shows that majority of the respondents agreed that the tax authority is not doing to the maximum of its capacity in order to create awareness to the business income tax payers about the tax payment. Tax payers did not got training on the income tax laws and regulations. Consequently, they are resulting in less compliance with the tax laws.

5.2. CONCLUSION

Based on the results obtained from the analysis and interpretation part of the study, the following conclusions are drawn:

From this study it is possible to conclude that above half of the respondents had not been got training due to they had not got a chance to attend training.

Based on the findings above it can be concluded that probability of being audit increase tax payer compliance. However many tax payers (37.4%) never been audited. Due to shortage of skilled audit staffs and dishonest tax collectors the audit result was unfair and not in accordance with the business tax law.

Findings concerning to tax payer service affirmed that tax authority staffs are not supportive, not providing information for tax payers who are in need and the knowledge of the officials working in the tax authority is not adequate for providing quality service. Due to this reason tax payers couldn't got quality service within the time they need.

Based on the findings above it can be conclude that when it comes to tax knowledge, majority of tax payers know why they pay taxes, how to calculate tax, how to keep records. However still many of the respondents have poor knowledge on these issues. Above half of the respondents evaluate their knowledge on procedures for appeal is poor.

Perception of fairness and equity is influenced by the variables that, the unwillingness to fulfill someone else tax obligations affects one's self, the current income tax is not appropriate and suitable with the economic conditions and similarly the tax or review committee is unjustifiable. This variables influence the tax payers' compliance level became low.

Findings revealed that compliance level can be achieved by increasing tax incentives than by increasing tax penalties. However fines and penalties also play a vital role in improving tax compliance. Specifically, for a tax system tax payers declare by self assessment system, fines and penalties, with fair rates can help likely to improve tax compliance level.

Based on the findings above, It is possible to conclude that the organization strength level is low due to; the relationship between staff working in the tax office and tax payers are not positive, the tax officials generally perceived that most of the tax payers are tax evaders and they have not trust on tax payers compliance ,the organization not enough with modern technology advancement, the requirements of tax payers are not taken in to account in determining tax policies and the procedure is not clear and simple. This factors became influenced the tax payer compliance with the tax law. Further the study revealed that the performance of the organization is poor. Among the reasons while there is a little effort ,the organization have been not working effectively to provide quality service, create awareness on tax laws , effective tax collection and strengthen tax law enforcement capacity.

5.3. Recommendations

Tax audits have been found to have a positive impact on tax. These findings suggest that in self assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions where necessary to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions. So the large tax payers branch office should have to address the audit by equal distribution and have to take immediate correction for the un ethical tax collectors in order to increase tax compliant number of tax payers.

Findings show that the service quality of the organization is relatively poor. To solve this problem, the tax authority should implement simple service, its implementation does not give any difficulties, its procedure is simple, the requirement is easy to fulfill, and does not give any chance for self-benefit, officers provide honest information, both rules and norms, do not threaten customers badly, do not feel they are very important and needed which can lead them to expect returns from the customers, service standard must be announced e.g. show the announcement at the main door of the office. In addition as customers have an obligation to pay taxes parallel they have a right to get accurate direction and get information at the right time.

In order to increase tax knowledge and awareness, training is important. Giving training to the tax authority employees and the tax payers helps to create common and better understanding on the major points like, the legal aspects of taxation, how to organize their financial report, how to provide tax claims, how to provide appeal procedures and how can they work hand in hand for their common goal. And this training needs not to be a onetime activity, rather a continuous process.

In order to make the tax administration system become fair, vertical as well as horizontal equity should be maintained. To do this different factors such as: market place, inflation, capital and others should be considered while determining tax liability.

The study finds strongly support for the argument that fines and penalties impacts highly on tax compliance, thus there should be moderate levels of fines and taxes to employ. This way, tax payers will be encouraged to comply since they will keep accurate records for taxation purposes in order to avoid fines and penalties. Besides the organization should work on tax incentives rather than only focus on penalties.

According to Richardson (2008) a government has a significant positive impact on determining attitudes toward tax. Voluntary compliance is promoted not only by an awareness of rights and expectations of a fair and efficient treatment but also by clear, simple and “user friendly” administrative systems and procedures. Voluntary compliance is enhanced when it is easier for taxpayer to do so. On the other hand the ways in which revenue authorities interact with taxpayers and their own employees have an impact on public perception of the tax system and the degree of voluntary compliance. Taxpayers who are aware of their rights and expect, and in fact receive, a fair and efficient treatment are more willing to comply. Therefore the large tax payer branch office should have to work effectively to providing quality service, create awareness, strengthen law enforcement and collect taxes efficiently.

5.4. Further Research Recommendations

In future, researchers can broaden this study to cover the whole country tax payers by increasing the factors that influence business income tax payers. Further the study can also put into consideration which factor is highly influenced compliance level.

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ANNEX

Annex 1: Structured Interview

1. Do you believe that the number of employees working in the organization is sufficient for the effective service?
2. Do you believe the service rendered by your organization is fast and clear?
3. Do you agree the attitude of the staff towards the tax payers is affect compliance?
4. Would you agree for compliance the best way is to increase tax incentives rather than tax penalties?
5. Would you agree every tax payers pays on ability to pay?
6. As you are staff of the authority what is the tax payers' compliant level lookalikes.
7. The branch tax authority office timely discloses information to tax payers.

Annex 2: RESEARCH QUESTIONNAIRE

SAINT MARRY UNIVERSITY MBA IN ACCOUNTING AND FINANCE RESEARCH QUESTIONNAIRE

The aim of this questionnaire is to assess information needed for the research report to be Produced under the title **“Factors that influence business income tax payers compliance: The case of Ethiopian revenue and customs authority large tax payer branch office, Addis Ababa, Ethiopia.”** The information you provide is believed to have a great value for the success of this research. The information you provide is to be used for academic purpose and will be strictly kept confidential. Atsbeha Teklu is doing the research under the guidance of Saint marry University. In case you want to contact him, Atsbeha Teklu can be reached at 0924869929 mobile number.

Kindly requesting you to give genuine response to all the questions hereunder, I am grateful to your cooperation.

Thank you for your cooperation!!!

General Instructions:

- I. Please provide your responses by marking a tick (√) in the relevant boxes.
- II. To the questions with alternatives that do not match to your response, please write your appropriate response on the space provided
- III. Do not write your name on the questionnaire.
- IV. Questionnaire to be filled by Managers or owner of the company

Section - I. Background information of respondents

Please circle the letter that appropriately represents your response in each of the following questions.

Age: (In year)

- A. Less than 30
- B. 30 to 39
- C. 40 to 49
- D. 50 to 59
- E. 60 years or above

- Gender:**
- A. Male
 - B. Female

Educational status:

- A. Illiterate
- B. Secondary school
- C. Certificate
- D. Diploma
- E. Degree
- F. Masters degree and above
- G. If other specify-----

Type of Business:

- A. Import and export
- B. Manufacturing
- C. Wholesaler and retailers
- E. Service providers
- F. Real estate developer
- G. Financial institution

D. Construction

H. Other

For how many years you are in this business? _____

Section –II Questions related to different Determinant factors

1. Have you got training about the taxation?

A. Yes B. No

2. If your answer for question no.1 is No, why did not you got the training?

A. I had not got the chance

B. I don't want to take training

C. I have enough knowledge about the tax law

D. I expect it may not attractive training

E. If other specify-----

3. If your answer for question no.1 is yes how often you take training on taxation?

A.1-3 times

B. 4-7 times

C. 7 and above

4. Do you know why you pay tax?

A. Yes B. No

C. if your answer is yes please specify the reason-----

5. How often does your company has been audited by the tax authority?-----
times

6. If your company had been audited what is your opinion about the audit result
conducted?

-

Section III: Please provide your responses by marking a tick (√) in one of the alternatives mentioned by saying strongly agree Agree, Neutral, Disagree and strongly disagree to the statements.

	Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Tax payers may evade tax if the probability of being audit is low					
2	The tax authority officials are supportive and respond promptly to tax payers					
3	E.R.C.A provides information and advice to tax payers who are in need					
4	I know taxes are collected for country's development					
5	I know how to keep records and documents					
6	The un willingness to fulfill someone else's tax obligations affects me					
7	The current Business income tax law is appropriate and suitable with the economic condition					
8	The tax appeal (review) committee is unbiased in determining business income tax liabilities					
9	I comply with business income tax law by fear of fines and penalties					
10	The penalty rates are very high and I can't afford to pay the penalty					
11	Compliance level can be achieved by increasing tax incentives than by increasing tax penalties					
12	I evade taxes but never Penalized					

Statements		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
13	The knowledge of staff working in the tax office is adequate for effective service					
14	The relationship between staff working in the tax office and tax payers are positive					
15	The tax office is unable to adapt to technological developments					
16	The requirements of tax payers are not taken in to account in determining tax policies					
17	There are dishonest tax collectors					
18	The tax determination and collection procedure is clear and simple					

Please rate your level of evaluation to the following questions by putting a tick mark(√)

statements	Very good	Good	Neutral	Poor	Very poor
19 How do you evaluate the strength of the tax authority with respect to Service delivery					
20 How do you evaluate the strength of the tax authority with respect to Law enforcement					
21 How do you evaluate the strength of the tax authority with respect to Awareness creation					
22 How do you evaluate the strength of the tax authority with respect to Tax collection efficiency					
23 How is your knowledge understanding the laws guiding payments of business income tax					
24 How is your knowledge on Procedures for appeal					
25 How is your knowledge on Calculation of tax					
26 How do you evaluate your company's book keeping strength					

Annex 3: BUDGET SCHEDULE

No.	description	units	quantity	Unit cost		Total cost		Remark
1	Stationery(ForA4 computer paper)	3(PK)	2	120	00	240	00	
2	For printing	1page	1,038	1.5	00	1,557	00	
3	For binding	1 set	4	20	00	80	00	
4	Expense for data distribution and collection	days	13 days	225	00	6,000	00	premium
5	Transportation expense					2,500	00	
	Total					10,377	00	