



ST MARY UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
MBA IN ACCOUNTING & FINANCE

DETERMINANTS OF TAX COMPLIANCE BEHAVIOR OF TAXPAYERS IN THE CASE  
OF CATEGORY 'A' TAXPAYERS IN SELECTED SUB CITY IN ADDIS ABABA CITY  
ADMINISTRATION REVENUE OFFICE

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF St. MARY'S UNIVERSITY IN PARTIAL  
FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION (MBA) IN ACCOUNTING AND FINANCE

BY

BEKURE YIMAM

UNDER THE GUIDANCE OF  
SIMON TAREKE (A. PROFESSOR).

July, 2021

ADDIS ABABA

DETERMINANTS OF TAX COMPLIANCE BEHAVIOR OF TAXPAYERS IN THE CASE  
OF CATEGORY 'A' TAXPAYERS IN SELECTED SUB CITY IN ADDIS ABABA CITY  
ADMINISTRATION REVENUE OFFICE

BY

BEKURE YIMAM

ID No MBAAF/0220/2006A

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF St. MARY'S UNIVERSITY IN PARTIAL  
FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION (MBA) IN ACCOUNTING AND FINANCE

July, 2021

ADDIS ABABA

## **DECLARATION**

I, Bekure Yimam, declare that, this paper prepared for the partial fulfillment of the requirements for (MBA) in Accounting and Finance entitled “Determinants of Tax Compliance Behavior of Taxpayers in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office” is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

Bekure Yimam

Signature \_\_\_\_\_

Date \_\_\_\_\_

**Approved by of Examiners**

_____	_____
<b>Dean, Graduate Studies</b>	<b>Name and Signature</b>
_____	_____
<b>Advisor</b>	<b>Name and Signature</b>
_____	_____
<b>External Examiner</b>	<b>Name and Signature</b>
_____	_____
<b>Internal Advisor</b>	<b>Name and Signature</b>

## CERTIFICATE

This is to certify that Ato Bekure Yimam has carried out this research work on the topic entitled “Determinants of Tax Compliance Behavior of Taxpayers in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MBA in Accounting and Finance.

Simon Tareke (A. Professor).

Signature\_\_\_\_\_

Date\_\_\_\_\_

## AKNOWLEDGEMENTS

First and foremost Glory and Greeting to Lord Jesus Christ for His support doing this research work. Secondly, I would like to express my genuine deep gratitude and appreciation to my advisor Simon Tareke (A. Professor) PHD Candidate for his constructive suggestions, guidance and unreserved support in the course of undertaking this study.

Thirdly, my gratitude also is goes to for all the staff of Addis Ababa City Revenue Office: Specially Addis Ababa City No 2 Middle Revenue Office, Nifas Silk Sub City Revenue Branch Office and Ministry of Revenue Eastern Addis Ababa Small Scale Taxpayer Branch office for their endless cooperation in providing the necessary information and materials which were very important for the accomplishment of this research project. Furthermore, I also owe special recognition to my wife, Melite Godfay and my daughter Noami, Ermias Godfay, Makda Godfay, Mohammed Ali and Fedlu Darsebo for them thoughtful understanding and endless support.

Lastly but not least, I would like to acknowledge the tremendous support I received from my colleagues, Endayen Tigabu and Abraham Ourgecha for their encouragement and timely advice at a very critical stage in my research.

<b>Contents</b>	<b>page</b>
Acknowledgment.....	vi
Table of Content and List of Figure .....	vii
List of Table .....	ix
List of Figures.....	x
Acronyms and Abbreviations .....	xi
Abstract.....	xii

## **Chapter One**

1. Introduction .....	2
1.1. Background of Study .....	2
1.2. Statement of the Problem .....	4
1.3. Research Questions .....	7
1.4. Objective of the Study .....	7
1.4.1. General Objective .....	7
1.4.2. Specific Objective .....	7
1.5. Hypothesis .....	7
1.6. Significant of the Study .....	8
1.7. Scope of the Study .....	9
1.8. Limitation of the Study .....	10
1.9. Organization of the Paper .....	10

## **Chapter Two**

2. Literature Review .....	11
2.1. Theoretical Literature Review.....	11
2.1.1. Overview of Taxation .....	11
2.1.2. Role of Tax Audit Program .....	14
2.1.3. Government Audit Revenue .....	16
2.2. Tax Compliance .....	26
2.2.1. Determinates of Tax Compliance Behavior .....	18
2.2.2. Ethic toward tax Compliance .....	26
2.3. Empirical Study .....	26
2.4. Summary and Literature Gap .....	34
2.5. Conceptual Frame Work .....	36

## **Chapter Three**

3. Research Design and Methodology .....	38
--	----

3.1. Research Approach .....	38
3.2. Research Design .....	37
3.3. Sampling Study and Population .....	38
3.4. Source Tools and Instrument of Data Collection .....	40
3.5. Data Collection .....	41
3.6. Method of Data Analysis .....	41
3.7. Description Study of Variables .....	42
3.7.1. Variables Measurement.....	42
3.7.2. Model Specification .....	43
3.8. Ethical Consideration .....	44

**Chapter Four**

4. Data Analysis and Interpretation .....	45
4.1. Introduction .....	45
4.2. Demographic and Socio- economic status .....	45
4.3. Determinants of Tax compliance .....	49
4.4. Analysis of Measurement .....	59
4.5. Discussion Findings .....	65

**Chapter Five**

5. Findings, Conclusion and Recommendation .....	69
Reference.....	75
Annex 1 Questionaries’ in English .....	79
Annex 2 Semi Structure Interview for Tax Auditors.....	85
Annex 3 Questionnaires in Amharic .....	86
Annex 4 SPSS version 24 statistical analysis .....	93



## LIST OF TABLES

<b>Tables</b>	<b>Page</b>
Table 4.1 Age group of Respondents .....	48
Table 4.2 Educational background of Respondents.....	49
Table 4.3 Response on Complexity of Tax System .....	52
Table 4.4 Response on Probability of Detection .....	53
Table 4.5 Response on Tax Rate .....	54
Table 4.6 Response on Penalty .....	55
Table 4.7 Response on perceived on the role of government .....	56
Table 4.8 Response on Attitude on Tax evasion .....	57
Table 4.9 Response on Peer Influence group .....	58
Table 4.10 Response on Gender and Age .....	59
Table 4. 11 Response on Tax knowledge and Education.....	59
Table 4.12 Response on tax Compliance .....	60
Table 4.13 Cronbach's Alpha for Determinant Factors and Tax compliance.....	61
Table 4.14 Correlations statistics .....	63
Table 4.20 Model Summary .....	65
Table 4.21 ANOVA Model .....	66
Table 4.22 Coefficients .....	66

## **LIST OF FIGURE**

Figure 2.1 Conceptual Framework.....	37
Figure 4.1 Response on Gender.....	48
Figure 4.2 Response on Position.....	50
Figure 4.3 Response on Business Sector.....	51

## ACRONYMS & ABBREVIATIONS

<b>AAA</b>	American Accounting Association
<b>AABE</b>	Accounting & Auditing Board of Ethiopia
<b>AACGRA</b>	Addis Ababa City Government Revenue Authority
<b>ERCA</b>	Ethiopia Revenue and Customs Authority
<b>GDP</b>	Gross Domestic product
<b>GTP</b>	Growth and Transformation Plan
<b>ICTD</b>	International Centre for Tax and Development
<b>IFAC</b>	International Federation of Accountants Ethics Committee
<b>IMF</b>	International Monetary Fund
<b>MOR</b>	Ministry of Revenue
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>OLS</b>	Ordinary Least Square
<b>PAYE</b>	Pay As You Earned
<b>SME</b>	Small and Medium Enterprise
<b>SMU</b>	St. Mary's University
<b>SPSS</b>	Statistical Package for Social Science
<b>TRA</b>	Theory of Planned Action
<b>TPB</b>	Theory of Planned Behavior
<b>VAT</b>	Value Added Tax

## **ABSTRACT**

*The general objective of this study is to assess “Determinants of Tax Compliance Behavior in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office” This research had a total target population of 7941 taxpayers’ and among this total population 5941 active taxpayers in the year 2013/2021 at Addis Ababa No 2 Middle Level Taxpayers Revenue Branch office and the remaining 2000 also active Category “A” taxpayers at Nifas Silk Lafto Sub City Revenue Branch Office in the year 2013/2021. The researcher distributed 381 out of its 20 questionnaires was rejected 361 was returned with feedback. Data analysis was done by SPSS window version 25 and MS Excel 2010 using frequency descriptive statistical tools and Spearman correlation and liner regressions analysis were used in analyzing the data collection. Moreover, the researcher was conducted the semi structured questionnaire for the Key Informant Interview guide for tax auditors officials. The result reveled that complexity of tax system, probability of detection, tax rates, penalty, tax evasion, peer influence group and tax knowledge are factor that significantly affect determinates tax compliance behavior. However, gender& age and perception of the role of government have no significant impact on tax compliance behavior.*

**Key words:** Tax Compliance behavior, Taxpayers

## CHAPTER ONE

### 1. Introduction

#### 1.1 Background of the Study

In pre-modern times, taxation was viewed as a direct exchange of bargain in which the taxing authorities on one hand, and the tax payer on the other hand, each expected to receive equal benefit in relation to what it gave out. Taxes were looked upon as the wages paid to government for its services, the chief among them being security. In modern government a tax is a financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity by governmental organization in order to fund various public expenditure. These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue (Charles, 2015).

Today, all over the world taxation reveals large cross-country differences, especially between developed and developing countries. Most research data shows that developed countries actually collect much higher tax revenue than developing countries despite comparable statutory taxation rates, even after controlling for underlying differences in economic activity (ICTS, 2016). In other hand, taxation in developing countries is a basic challenging topic and has attracted increasing attention to the researchers. Many problems observed like poor tax administration, failing to collect sufficient tax revenues. In many developing countries, it is observed that there is low capacity of tax administration to monitor compliance among taxpayers and the potential amount of tax revenue has not been collected in an efficient and equitable manner (Kircher, 2008). Of course, Ethiopia has made steps to become one of Africa's fastest growing economies and continues to record impressive economic growth. The country has seen double digit annual

growth averaging 10.8% from 2003/2004 to 2012/2013 (compared to the regional average of 5.3 %). The Government of Ethiopia has completed the implementation of the first phase of its Growth & Transformation Plan to the second generation of its growth and transformation plan (GTP II) (AABE, 2015).

Currently, the country has ten years strategic plan which leads to sustain and further improve the economic growth of the country (prosperity) to realize its goal of making Ethiopia a middle income with its relative share of the GDP in the year 2030. Ethiopian Ministry of Revenue is established with proclamation No 256/1994 issued on Oct 10, 2002 on article 4, 5 16 and 26. In accordance with the proclamation the aims, powers and duties bestowed on the form revenue board on proclamation No 5/1987 are fully transferred to the Ministry of Revenue. The Ministry of Revenues is also given the responsibility of conducting the Revenue sector and the Ministry leads supervise three affiliated Revenue sectors .namely Federal Inland Revenue, Customs Authority and National Lottery. This new structure is aimed at improving service delivering, facilitating trade, enforcing the tax and customs laws and thereby enhancing mobilization of Government revenue in sustainable manner.

The MOR study has also indicated that there was corruption within the administrations and that smuggling and tax evasion were serious problems. These problems have depressed the attempt of the foregoing administrations to be successful in achieving their objectives. Therefore, it is very important to study the detriments tax compliance behavior of the country in order to increase government revenue and assure economic stability. Where the contribution of revenue to the overall economic development is believed to be very much significant, more local studies on the assessment of taxpayer's voluntary compliance with tax law is required so as to provide the new

angle for the policy-makers and the implementers in the area with relevant information that can help them in designing the appropriate tax system. This research study is examining “Determinants of Tax Compliance Behavior of Taxpayers in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office”.

## **1.2 Statement of the Problem**

Tax is the major revenue source for most developing countries and collecting taxes and fees is a fundamental way for countries to generate public revenues that make it possible to a way for governments’ to create fiscal space such as finance investments in human capital, infrastructure, and the provision of services for citizens and businesses.

According to Julia (2018), taxes are fees levied on individuals or corporations and enforced by a government entity whether local, regional or national in order to finance government activities. In economics, taxes fall on whoever pays the burden of the tax, whether this is the entity being taxed, like a business or the end consumers of the businesses goods a compulsory levy that a government imposes on its citizens to enable it to obtain the required revenue to finance its activities.

Especially, in developing countries regarding to tax collection many researchers indicated that there is low capacity of tax administration to monitor compliance among taxpayers and the potential amount of tax revenue has not been collected in an efficient and equitable manner. Moreover, according to the International Monetary Fund /IMF/ report the domestic tax bases in most African countries are undermined by widespread tax avoidance and evasion (IMF 2011).

Many research works agreed that collecting tax revenue and tax administration is a serious problem due to corruption, smuggling and tax evasion and avoidance in many of Sub-Saharan Africa Countries (Cobham 2005; Fuest and Riedel 2009). Therefore, to overcome these challenges governments, tax policy makers, economic strategist and researcher should design and implement modern tax administration systems which enable to prevent and protect the above and the coming problems. Due to this fact taxation in developing countries is a challenging topic and has attracted increasing attention to the researchers.

One of the government taxes controlling system is a tax audit which is a bridge instrument between taxpayers with the tax authority. According to McKerchar et.al (2019) it is the fundamental goal of any revenue authority to collect taxes and duties payable according to the law. However, when it comes to the obligations imposed on them by law, taxpayers are not always compliant. So, the governments challenge to achieve both short and long term goals in the economy.

In order to meet tax compliance requirement, the level of tax audit and tax compliance improved for effective and efficient tax administration. In addition to the above, the existence of efficient and effective tax audit structure within a tax authority could guarantee optimum tax collection and increased societal awareness towards the existing tax laws.

In Ethiopia, there are few studies done regarding to the determinants tax compliance behavior but not exhaustively done and still open for the new researchers. For instance related literature review done in Ethiopia some of them are as follows; Lemessa (2007) with a topic 'A Research Project on Determinants of Taxpayers' Voluntary Compliance With Taxation; The Case Study Of Dire Dawa City, by using descriptive method of research finds out that, tax fairness and



equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government are the main determinant of voluntary compliance in the city. Bisrat (2010) with the title 'an examination of the link between tax administration and value added tax compliance in Ethiopia' by using mixed method found that audit probabilities, the perceived fairness of VAT, and satisfactions with the service of the tax authority are the major determinants of tax compliance with VAT. And the research done by Zelalem (2011) on 'The Influence of Tax Education on Tax Compliance Attitude', by using quantitative research approach concludes that the level of tax compliance is influenced by tax education. The research done by Amina (2013) on 'Determinants of Tax Compliance: The case of Jimma Town by using Pearson correlation matrix and Logistic regression model was used to identify the main factors that determine tax compliance and her result show that shows that tax rate, probability of detection, penalty rate, reference group and tax knowledge are the determinants of tax compliance. And also the research done by Tilahun (2016) on 'Determinants of Tax Compliance Behavior in Ethiopian: The Case of Bahir Dar City Taxpayers by using one-way ANOVA, two samples and one sample T- test, this study examined the determinants of tax compliance behavior in Ethiopia particularly in Bahir Dar city administration and his result revealed that perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behavior.

However to the researchers' knowledge effectively no study has been done to assess the determinants of tax compliance in Ethiopia particularly in Addis Ababa city Administration, Based on above gaps in the studies together with the problems stated in order to attain major

objective of the study, the following research questions would be addressed: “Determinants of Tax Compliance Behavior of Taxpayers in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue

### 1.3 Research questions

The main research questions of this study as follows;

- ✓ What is the relationship between of economic factory and compliance of taxpayers’ behavior?
- ✓ What are the main determinants factors of tax compliance behavior?
- ✓ Which determinants factors are affects tax compliance of Addis Ababa City Administration taxpayers?

### 1.4 Objectives of the Study

#### 1.4.1 General Objectives

The main objective of the study is to investigate determinants of tax compliance behavior of taxpayers in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office.” Specifically the relationship between economic factor and tax compliance of taxpayers’ behavior,

#### 1.4.2 Specific objectives

- ✓ To examine the relationship between economic factors and compliance of taxpayers behavior
- ✓ To determine the complexity of the tax system such as penalty and probability of detection on tax compliance.
- ✓ To investigate compliance level of Category “A” taxpayers in Addis Ababa

- ✓ To identify the relationship between the perceived role of government and tax compliance
- ✓ To determine referral peer group attitude and perception on tax compliance
- ✓ To identify the determination of demographic variables such as age, gender, and education on tax compliance of taxpayers in the study area.
- ✓ To determine the effect of tax knowledge and education on tax compliance

## **1.5 Research Hypothesis**

In order to achieve the research objective this research focused on the following 10 hypothesis;

H<sub>01</sub>: The complexity of the tax system significantly and having positive related with tax compliance

H<sub>02</sub>: High probability of detection encourages tax compliance

H<sub>03</sub>: The perception on tax rate is negatively related with tax compliance attitude

H<sub>04</sub>: Penalty rate is positively correlated with tax compliance attitude of taxpayers

H<sub>05</sub>: Perception of the role of government has positively correlated with tax compliance

H<sub>06</sub>: Tax evasion are insignificantly and positively correlated with tax compliance

H<sub>07</sub>: The influence of the peer groups (that is friends and families) are positively but insignificantly correlated with compliance attitude of taxpayers

H<sub>08</sub>: Female taxpayers have positive attitude on tax compliance than male

H<sub>09</sub>: State that there is no significant effect tax knowledge and education on tax compliance.

## **1.6. Significance of the Study**

This research work can give feedback to tax payers and the tax authority regarding the significance, application and impact of tax audit on tax compliance. .The study also contributes in evaluating the prevailing tax audit on tax compliance in making some adjustments on the existing tax auditors.

This research paper is intended to provide enormous benefit to tax administration for the MOR and specifically Addis Ababa City Administration of Revenue Branch Bureau. It also helps for the tax administration and tax auditors the area should be need to be improvement. Finally, this research paper is open for those who are interested to make further study on the related issues.

## **1.7. Scope of the Study**

This research work examine the determinants factor of tax compliance behavior specifically on social factor the peer influence or referral group, individual factor tax knowledge, demographic factor gender and age, institutional factor complexity of tax system, probability of detection tax compliance behavior and on economic determinants factors tax rate, penalty and perception on government on tax compliance behavior. The study focus on Addis Ababa Administration Revenue Office but it is limited on those purposely in the case of Category “A” taxpayers and on the selected Sub City namely Addis Ababa City No 2 Middle Level Taxpayers Branch Office and Nifas Silk Lafto Sub City. However, since the general guidelines, application procedures and practice are the same throughout the country; it is supposed that this study can fairly reveal the determinants factors of tax compliance behavior in the revenue of the country.

## **1.8. limitation of the Study**

Due to COVID 19 impact to assess primary data from different personnel physically might be one limitation. And also, regardless of the researcher's efforts to gather the necessary information as objective as possible, the analysis of this study has been based on the opinion of respondents. This may in turn limit the ability to make broader generalization from the study has been endured.

Finally, due to time and budget to study the impact of tax audit on tax compliance in the Ethiopia level it was difficult so that this research has been focus on Addis Ababa City Administration Revenue Bureau in the case of category "A" in the selected Sub City Branch Revenue offices

## **1.9. Organization of the Paper**

The project work was categorized into five main chapters. Chapter one focused on the introduction, background to the study, problem statement, objectives, significant of the study, Scope of the study, limitation of the study. Chapter Two is literature review. It provides evidence regarding the effect of tax audit on improving tax compliance. The Third Chapter deals with research methodology including population, sampling techniques, methods of data collection and the research instruments employed. Chapter Four is with detailed analysis of data collected and presentation of information with the aid of quantitative and qualitative statistical models. Finally the Fifth Chapter covers conclusion, discussion (findings) and recommendation.

## **CHAPTER TWO**

### **LITERATURES REVIEW**

#### **2. Chapter Review**

This chapter contains five sections: theoretical literature which covers the overview of taxation, the second section contains tax compliance and determinants of tax compliance behavior; the third section contains: (the empirical study of the research); the fourth section contains: (summary and researchable gap) based on the theoretical and empirical studies of research work done; and the last part of the literature review was the conceptual framework of the study which helps as an instrument to investigate determinants of tax compliance behavior of taxpayers in the case of category “A” in Selected Sub City Addis Ababa City Administration Revenue Bureau.

#### **2.1 Theoretical Literature**

##### **2.1.1 Overview of Taxation**

A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer (an individual or other legal entity) by governmental organization in order to fund various public expenditures (Charles, 2015). These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue. According to Julia (2018), taxes are fees levied on individuals or corporations and enforced by a government entity whether local, regional or national in order to finance government activities. In economics, taxes fall on whoever pays the burden of the tax, whether this is the entity being taxed, like a business or the

end consumers of the businesses goods a compulsory levy that a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other researchers Lymer and Oats (2009) tax is defined as a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the taxpayer receives nothing specific in return. According to Ramaswami, (2005), taxation has the following basic characteristics such as compulsory contribution, direct benefit is not expected, liable to pay, paid for common interest, levied only by government, element of sacrifice, regular and periodical payment, no discrimination among taxpayers and taxes can be levied on different taxable items to enhance revenue.

Though, taxation is an essential instrument for the development of an besides this the government has to consider some other principles which are cited in different literatures as canons of taxation which includes the following principles (Ramaswami, 2005) as cited in Amina (2013).

**I. Canon of Equality:** taxpayers should contribute to support their government in proportion to their ability. Tax burden should be more on the rich than on the poor. Which can be determined based on income, wealth or consumption

**II. Canon of Certainty:** the time, amount and method of payment have to be clear and certain so that the taxpayer can adjust his income and expenditures accordingly. This results in removing uncertainties and help to ensure smooth functioning of the tax system.

**III. Canon of Convenience:** when taxes are levied and collected they should be in such a way suitable to the taxpayer. So that taxpayers will be comfortable with the tax system.

**IV. Canon of Economy:** this canon reveals that out of the taxes collected the minimum possible amount should be spent on tax collection and the possible maximum amount collected should enter to the government treasury. This canon comprises that Taxation should be inexpensive in collection, and hinder as little as possible the growth of wealth.

**V. Canon of Productivity:** as cited by Ramaswami, (2005), c.P. Bastable added to the canons of taxation the concept of productivity as, taxation should ensure adequate revenue to the Government and it should encourage productive activity by encouraging the people to work, save and invest.

**VI. Canon of Elasticity:** this principle also is advocated by Bastable which recommend the tax system to be as much flexible as possible to increase as well as to decrease the amount of taxes levied.

**VII. Canon of Diversity:** this canon recommends taxes not to be levied on narrow basis the whole society should contribute to the tax revenue. To achieve this government should widen its tax base and decentralize the burden among the large society 8. **Canon of Simplicity:** the tax system should be easily understandable for ordinary lay man; how to calculate their tax liability and other necessary information should be put in a clear manner which does not need an expert's help.

**VIII. Canon of Expediency:** while tax is levied we have to take in to consideration different favorable and unfavorable conditions from different angle.

**IX. Canon of Co-ordination:** taxes may be imposed by different organs of government during this time there should be a proper co-ordination between different taxes imposed by various authorities.



**X. Canon of Neutrality:** the tax system should not have any adverse effect in the economy i.e. it shouldn't result in any deflationary or inflationary effects.

From the time when, the payment of tax is an obligatory duty of every citizen, it is expected that citizens will voluntarily comply with such obligation but in reality some citizens are trying to escape from this liability (Alabede, et.al, 2011). Today, just as in the past, taxation is an important issue, and it can be expected to remain important in the future (Torgler, 2007). Most people feel that tax is a burden and should be avoided. Tax noncompliance is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries. Thus, tax compliance is a growing international concern for tax authorities and public policy makers as tax evasion seriously threatens the capacity of governments to raise public revenue.

### **2.1.2 Roles of the Taxpayer Audit Program**

The tax audit program of a revenue body performs a number of important roles that effectively carried out and can make a significant contribution to improved administration of the tax system. These roles are described briefly hereunder as cited (Eugene, 2011).

#### **I. Promote Voluntary Compliance**

The primary role of the audit program is to promote voluntary compliance by taxpayers with the tax laws. It seeks to achieve this by reminding taxpayers of the risks of noncompliance and by engendering confidence in the broader community that serious abuses of the tax law will be detected and appropriately penalized.

## **II. Detect Non-compliance**

The individual taxpayer level detect noncompliance by concentrating on major areas of risk (e.g. unreported cash income) and those individual taxpayers most likely to be evading their responsibilities, audits may bring to light significant understatements of tax liabilities, and additional tax revenue collections.

## **III. Gather Information**

On the 'health' of the tax system including patterns of taxpayers' compliance behavior those results of normal audit activity may provide information on the general well-being of the tax system. Here the audits will be conducted on a random basis which can assist the overall revenue administration by gathering critical information required to form judgments on overall levels of tax compliance, that over time can be used to identify trends in overall organizational effectiveness and to gather more precise information that can be used to inform decision-making on future compliance improvement strategies, to refine automated risk-based case selection processes, and even support changes to tax legislation.

## **IV. Gather Intelligence**

Audits may bring to light information on evasion and avoidance schemes involving large numbers of taxpayers that can be used to increase major counter-abuse projects.

## **V. Educate Taxpayer**

Audits can assist clarify the application of the law for individual taxpayers and to identify improvements required to recordkeeping and thus may contribute to improved compliance by taxpayers in the future.

## **VI. Identify Areas of the Law that Require Clarification**

Audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus require further efforts by the revenue body to clarify the laws' requirements and/or to better educate taxpayers on what they must do to comply into the future.

### **2.1.3 Government Audit Revenue**

Government revenues are sourced from various tax and non-tax receipts. The country papers bring out the dimensions of these two sources which in turn influence the areas of audit priority. These are tax and non-tax revenues. Government revenues are largely dependent on taxes legislated through various tax statutes. However, the spread of the two sources such as tax and non-tax revenues varies from country to country as cited (Mesfin, 2008).

The scope of audit activities varies across countries, in part as a result of the system of assessment in place. There are two generally accepted systems of tax assessment applied worldwide (administrative assessment and self-assessment) in around half of OECD countries, administrative assessment is employed to varying degrees in the administration of personal income tax and corporate profits/income tax. All countries administer VAT under self-assessment principles.

According to the Ethiopian Federal Inland Revenue Authority's tax assessment and audit manual (2006), an assessment is basically an initial review by tax official of the tax declarations and information provided by tax payer and a verification of the mathematical and technical accuracy of the declared tax liability shortly after the submission of the declaration. The initial review also includes the application of various risk criteria to determine possible tax underpayments and the

subsequent selection for tax audit. On the other hand, an audit is the conduct by audit staff for appropriate verification of selected tax payers declared tax liabilities. This can include a review of tax payer's systems, books of account and other related information. It may also include cross checks of tax payer's records with those of tax payer's suppliers or with other source of information such as the Custom Authorities or other Government Departments and Agencies.

## **2.2 Tax Compliance**

Tax compliance has been defined in various ways by various authors. For example, Kirchler (2007) stated that 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.

Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). Franzoni (2000) and Chattopadhyay and DasGupta (2002) stated that compliance with tax laws involves true reporting of the tax base; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount due as tax. Any behavior by the taxpayer contrary to the above constitutes noncompliance. According to McBarnett (2003), compliance may take three forms, which include committed compliance, capitulates compliance and creative compliance. Committed compliance is the willingness to discharge tax obligations by taxpayer without

complaining. While capitulate 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. However, according to Arogundade (2005) and Sandmo (2005) there is conceptual distinction between tax evasion and tax avoidance. The distinction between these two concepts hinges on the legality of taxpayer's actions. Sandomo (2005) distinguishes the two concepts from legal perspective. According to him tax evasion is carried out in violation of the law, therefore is illegal while tax avoidance is carried out within the legal framework of the tax law in order to reduce one's tax liability, therefore tax avoidance is legal.

Tax noncompliance is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally (James & Alley, 2004, Loo 2006; Mohani, 2001; Kesselman, 1994 and Allingham and Sandmo,1972) and Kirchler, (2007) broadly classified noncompliance as failing to file a tax return; underreporting of taxable income; overstating tax claims such as deductions and exemptions and failing to make timely payment of tax liability. Therefore, for the purpose of this study, tax non-compliance is defined as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions and exemptions and/or paying the incorrect amount of tax beyond the stipulated time frame.

### **2.2.1 Determining Tax Compliance Behavior**

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard, and Feinstein (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term

to describe taxpayers' willingness to pay their taxes. Compliance in pure 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 (Ming Ling, Normala and Meera, 2005).

Various studies in developing countries resolve different determinants of tax compliance, such as economic, social, psychological and cultural factors are influencing tax. Other works of literature like (Andreoni, Erard & Feinstein, 1998; Chau & Leung, 2009; Fuest & Riedel 2009) suggest the need for more studies on tax compliance in developing economies as cited (Abdulsemed, 2019)

Torgler and Schneider (2005) assumed that taxpayers are rational economic evaders who likely would assess the costs and/or benefits of evasion. On one hand, they would attempt to minimize their tax liability, for example, by intentionally under reporting their income and would enjoy tax savings if the tax authorities did not detect them. On the other hand, they would be willing to pay more, including a penalty, if they were caught.

Jackson and Milliron (1986) listed several factors that have influenced tax compliance as discussed by various researchers. These factors include age, gender, education and income among others. Chan et al (2000) 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. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2001). In contrast, the most recent study by Richardson (2008), cited in Mohd, (2010) revealed that there is a negative association between education and

compliance. Regarding gender Hasseldine and Hite (2003) found that female taxpayers were more compliant than males. Mohamad Ali et. al. (2007) and Palil (2010) also reported that females were more compliant in their study

In contrast, Richardson (2006) suggested that gender has no significant impact on compliance across a study of 45 countries. In a country where income redistribution is not satisfying the higher income group tends to evade more (Mohani, 2001) because the high income earner might feel betrayed and unfairly treated. Loo (2006) found that high income earners in Malaysia are prone to evading tax while Torgler (2007) reported that lower income earners in Western Germany were less compliant. Palil (2010) also found a significant positive relationship between income level and tax compliance. Demographic factors like age have been researched by many researchers and findings are not consistent. For example Tittle (1980), Warneryd and Walerud (1982) and Wahlund (1992) posit negative association-older people are less compliant. In contrast, Palil (2010), Clotfelter (1983), Dubin et al (1987), Mohani (2001), Chung and Trivedi(2003) and Beron et al (1992) argued that age was positively related with compliance. However, there have been a significant number of studies which found no relationship between age and compliance (Spicer and Lundstedt, 1976; Spicer and Becker, 1980 and Porcano, 1988). Previous studies also revealed that probability of being audited; perception on government spending; perception on equity and fairness of the tax system; penalties; financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are also important factors in assessing tax compliance behavior (Palil,2010; Troutman,1993; and Chan et al, 2000).

According to Nicoleta (2011) Factors that affecting tax compliance of taxpayers can be divided to two major categories such as (1) Economic factors such as income level, fines, tax rate, audit

probabilities, tax benefits, tax audit, penalties, and (2) Non- Economic factors such as attitudes towards tax, personal norms, and perceived fairness of tax. Besides, studies done by (Kichler, 2007), (Loo, 2006), (pail, 2010) factors that affecting tax compliance attitude of taxpayers can be divided to five major categories such as (demographic factors like age, gender and education) (individual tax knowledge, personal financial constraints and awareness of offense and penalty), (social variables includes perception on equity and fairness of tax system institutional, change in government policy and referent group) and finally (economic factors consists of tax rate income level, tax audit and perception on government spending).

### **Demographic factors**

Demographic factors like age, gender and education have long been researched by different authors. With regarding the impact of age on tax compliance attitude findings are difference along the different studies. Chung and Trivedi (2003) and argued that age was positively related with tax compliance attitude of tax payers. However, there have been a significant number of studies which found no relationship between age and compliance (Porcaro, 1988; Mohani, 2001) also found that older people are more compliant than young people. Concerning the gender of tax payers' study done by Hasseldine and Hite (2003), Tittle (1980) found that female taxpayers were more compliant than males. In difference, Richardson (2006), Amina and Saniy (2015), Niway and, Wondwossen (2016) suggested that gender has no significant impact on compliance attitude of taxpayers. Foregoing literature supports the direct, positive relationship between educational level and taxpayer compliance attitude (Jackson and Miliron 1986) (Chan, Troutman, and O'Bryan, 2000), Niway and, Wondwossen (2016) also suggested that education level is directly linked to a likelihood of compliance attitude. Educated taxpayers are more compliant than uneducated taxpayers.



## **Individual factors**

Decisions regarding either to evade or not to evade taxes are heavily reliant on taxpayer's personal judgment (Mohani 2001). Personal circumstantial factors like tax knowledge, personal financial constraints and awareness of penalties and offences are therefore likely to have a significant impact on taxpayers' compliance attitude. The influence of tax knowledge on compliance behavior has been described in various researches. Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to comply (Singh and Bhupalan, 2001), Ermias (2014) Mesfin (2016) Redae and Sekhon (2016) concluded that tax knowledge have significant impact on tax compliance attitude of the tax payers. With regarding to Awareness of offense and penalties a theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance behavior. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non-compliant taxpayers, they might reduce their tendency to evade tax

## **Social factors**

Besides to demographic and individual factors affecting tax compliance attitude of citizen, social life of taxpayers has its own impact on compliance attitude. To this end, Lemessa (2005) stated that the issue of noncompliance is not only a question of state-society relationships but also a question of relationship between citizens or groups of citizens within local communities. There is an existing social bond between the society and this bond influences the members of the society in complying with the tax. These factors are perceptions of equity and fairness, changes to

current government policy and referent groups. Perceptions of equity or fairness: one of the main principles of the taxation system design is equity or fairness, which can be perceived through three dimensional views horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes), vertical equity (taxes paid increase with the amount of the tax base or taxable income) and Exchange Equity (expectation the same share of public service from government for paying tax) (Richardson, 2006). The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Jackson and Milliron, 1986; Richardson, 2008). With regarding to changes to current government policies as one factor that affect tax compliance attitude of taxpayers, studies have disclosed that the government decisions and changes to policies in accordance with the economic and political situation have a significant impact on compliance. For example, a positive move made by political situation has a significant impact on compliance attitude. For instance, a positive move made by the government such as an increase in tax rebate (Hasseldine and Hite, 2003) is likely to increase taxpayers' compliance. A referent group has its own impact on compliance attitude of taxpayers. Ajzen and Fishbein (1980) (in their Theory of Reasoned action (TRA) and Theory of planned Behavior (TPB) hypothesized that referent groups play a significant role in determining people's intentions and behavior regarding tax compliance. Decisions either to evade or not to evade tax sometimes are influenced by family members or friends (Allingham and Sandmo (1972). Therefore, the influence of referent groups is seemingly important in making a decision, particularly involving monetary aspects and the obedience to laws.

### **Institutional factors**

The evidence suggests that institutional factors role of the tax authority, simplicity of tax system and probability of detection also play vital role in their compliance decisions Palil, (2010). The

role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. Hasseldine and Li (1999) exemplified that 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 decrease 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. Concerning the simplicity of the tax system Amina and Sinay (2015); Silvani and Baer (1997) discuss the importance of the tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law. In addition, Silvani and Baer (1997) again added that simplifying the tax return will encourage tax payers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs as the main feature of SAS. Probability of detection by audit also plays a significant role in reporting behavior of tax payers. Taxpayers will declare the whole thing if they perceive that they will be one of the taxpayer to be audited in a particular year (Riahi-Belkaoui, 2004; Richardson, 2008). On other hand, Slemrod et.al (2000), (Slemrod, Blumenthal and Christian (1998) investigated the relationship between the probability of being audited and the taxpayers' attitudes recommended that as the probability of detection increased, taxpayers are encouraged to comply with tax laws and accurately report their income.

### **Economic factors**

The effect of tax rate on tax compliance is mixed. According to (White and Woodbury (1985) raising marginal tax rates will be likely to encourage taxpayers to evade tax more. Park and Hyu (2003) in their empirical study also find that the increase in tax rate strengthens the incentive to report less income to compensate the reduced income. Another study in 1980 by Tanzi used an econometric model to explain the relationship between marginal tax rates and noncompliance by

using aggregate data in the United States, demonstrated that tax rates were negatively correlated with tax compliance according to his data. Opposite to the view there are some researchers who found out there is positive relationship between tax compliance and tax rate. In a country where income redistribution is not satisfactory, the higher income group tends to evade more Mohani, (2001). According to Palil (2010), tax audit could be an important stimulant to increase tax compliance. This indicates that tax audit influence tax compliance. Audits rates and the diligence of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability (Palil et al. 2011). Tax audit increases tax compliance because of deterrent effect of audit on the noncompliance of taxpayers. Some studies by (Jackson and Aoue (1989); Shanmugam (2003); Dubin, (2004) claimed that tax audits have a positive impact on tax evasions. Citizens will be sensitive to what the government spends their money on. If the government is wisely spending the national revenue, for example, for basic facilities like education, health and safety and public transportation tax payers feel positive and comply but, if it is spending too much on something considered unnecessary or unbeneficial to them or general public, then taxpayers will feel betrayed and attempt to evade.

Generally, taxation is one method of transferring resources from the private to public sector and also, the role of taxes as an instrument that stabilizes the economy, and reduces private demand so that resources can be released for public sector for use, governments levy taxes for multiple of purposes, but mainly to raise funds in order to cover public expenditures.

### **2.2.2 Ethics towards tax compliance**

Studies on tax psychology, which predicts Ajzen (1988) first introduced people's behavior using the Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB), and (Ajzen,1991).These theories attempt to predict people's behavior based on their intentions. It is assumed that ethics encourage individuals to act according to them and a taxpayer with a negative attitude towards tax evasion tends to be less compliant (Kirchler et. al., 2008). Moreover, the ethics towards tax compliance can be summarized that tax compliance has been a vital subject of research in an extensive number of developing as well as developed countries. Since every country has, its own particular way to deal with tax compliance levels and each has distinctive tax laws and regulations, the components influencing tax compliance behavior seem to differ among countries. Based on IFAC /The International Federation of Accountants (IFAC) Ethics Committee, in the 'Code of Ethics for Professional Accountants'/ professional code of ethics has defined for accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services'. Therefore, an auditor must be competent first in accounting, inevitably in auditing, as well as thereafter in taxation.

### **2.3 Empirical Studies**

This section of the research covers the findings of different researchers about the determinants on tax compliance behavior. Empirical evidence on determinants of tax Compliance range to around the Globe to Addis Ababa City Administration. A number of empirical studies examined on tax

administration and tax audits in both developed and developing countries. The following section below presents briefly empirical studies done by different researchers;

### **Complexity of Tax System**

Most of the time taxpayers not only find it difficult to file their own tax returns correctly but also perceive tax law complexity and ambiguity as causes of tax noncompliance (Erich, et.al 2006). Grant (2006) by taking data from 45 countries and applying Ordinary Least Square (OLS) regression analysis concluded that complexity is the most important determinant of tax evasion. Torgler and Schaffner (2007) argue that complexity may result in unintentional non-compliance if taxpayers have problems filing the tax form. Moreover, complexity can reduce the moral costs of noncompliance. Reza, et.al (2011) concludes that excess of tax laws and their continuous adjustments and volatility in performance and performance of laws make tax system more complex which make tax collection more difficult. Trust in Public Officials Torgler and Schaffner (2007) found that there is a significant positive correlation between trust in officials and tax compliance.. As to Torgler (2011), a more legitimate and responsive state appears to be an essential precondition in generating compliance. As one can see from the findings of different scholars the effect of complexity of tax system on compliance remains unclear. It surely deserves further investigation.

### **Tax Rate**

Regarding tax rate different scholars found different results. Some of them found a positive relationship between tax rate and tax compliance others found that negative relationship. Both findings have empirical support. To mention some of the findings: Kirchler, Hoelzl, and Wahl

(2008) claimed that the impact of the tax rate depends on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers. When trust is high, the same level of tax rate would be taken as contribution to the community. Yitzhaki (1974) theoretically proved that tax compliance increases with tax rate. As cited by Krichler et.al. (2007), Feinstein (1991) by taking data from American taxpayers, concludes that compliance is higher when there is higher tax rate. Allingham and Sandmo (1972) and Park and Hyun (2003), on the other hand found inverse relationship between tax rate and tax compliance. Tax compliance decreases with higher tax rate. As one can see from the findings of different scholars the effect of tax rates on compliance remains unclear. It surely deserves further investigation.

### **Probability of Detection**

Most empirical studies found that the amount of income concealed is influenced by the probability of detection positively. The following researchers found a finding in line with this conclusion. Bismark (2011) by taking data from three hundred and fifty-five (355) small and medium size enterprises taxpayers, in Accra Metropolis found that 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 line with this Allingham and Sandmo (1972) conclude that when the probability of detection increases the amount of income to be declared will increase. And Werner & Hannelore (1996) finds similar conclusion that means compliance increases with the probability of detection.

## **Penalty**

According to Palil and Mustapha (2011), a theoretical economic model introduced has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. Concerning the effect of penalty scholars differ in their findings. For instance: Werner and Hannelore (1996) conclude that penalty will negatively affect underreporting of income. Similarly, Kirchler et.al (2007) by reviewing different scholars' findings regarding the effect of penalty on tax compliance concludes that, 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. On the contrary, Park and Hyun (2003) also concludes that Higher penalty rate along with higher audit rate is associated with higher compliance rate. The most effective policy tool to induce higher compliance is to levy heavy penalty on unreported income. In summary, the findings reveal that there is no clear out demarcation between penalty and level of compliance this needs further investigation.

## **Attitude perception of Government Spending**

Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. For example the research done by Adimassu & Jerene (2016) who stated that tax compliance is positively significantly affected with the perception of tax payers towards government spending. This also agrees with the result of Modugu (2014), Desta (2010),



Aemiro et al. (2014) and Palil & Mustapha (2011) who stated that whenever the taxpayers perceive that government spends tax money wisely for the development of a country, their level of their tax compliance will be enhanced. But, the study of Tadesse & Goitom (2014), conducted in Mekele city, shows as it has insignificant influence for the improvement of tax compliance level of tax payers. Therefore, government need carefully, very wisely and sensitively to spend it's expenditures in order to increase voluntary compliance. This maximizes heavy taxpayers trust on the government. Still the findings reveal that there is no clear out demarcation between attitude perception of government spending and level of tax compliance so, this needs further investigation.

### **Peer Influence**

Chung and Trivedi (2003) conclude that while friendly persuasion may positively women's tax ethics it may not have a similar influence on men's tax ethics. Influence Viswanath, et.al (2003) concludes by the type of information they receive about the reporting behavior of peers have a significant effect on taxpayers' compliance with tax. Torgler (2011) concludes that citizens' perception on how compliant other citizens has a strong impact on their willingness to comply.

### **Gender and Age**

One of the determinants of interest in the Fischer model is the indirect influence of demographic variables on compliance behavior (Chau and Leung, 2009), through their impact on non-compliance opportunities and attitude and perception (Fischer et al., 1992). Specifically, age and gender have a strong relationship with compliance behavior (Hofmann et al., 2017; Jackson and Milliron, 1986). Similarly, Ahmad et al. (2011) revealed that Zakah payers' age and gender have a significant effect on their compliance behavior. Many researchers observe that gender affects

tax compliance. In particular, women are more tax compliant than men (Hofmann, 2017; Kastlunger et al., 2010). Previous studies have analyzed how overconfidence affects tax compliance (Chyz et al.,2019; Hsieh et al.,2018; Kubrick and Lockhart, 2017) and the impact of gender on tax compliance (Hofmann et al.,2017; Kastlunger et al., 2010; Walsh, 2012) separately. Research on tax behavior suggests that women are more likely to cooperate with honest reporting and to evade to a lesser extent than men (Hasseldine 2002). Tax compliance experiments also find that men are less likely to file honest reports and more likely to evade (Kastlunger et al. 2010)

### **Tax Knowledge and Education**

The basic goal of most education programs is directed towards behavioral change. Being the case behavioral analytical theories of change and learning theories can best explain how education can change the behavior of an individual (Svetna and Taumo, 2007). Change theory is to predict behavior change, which assumes that when the problem relating to behavior exists; there should be modifiable factors that contribute to the problem. Some of the modifying factors are knowledge, attitudes, intentions, interpersonal support, organizational and environmental conditions. The theory assumes that education is fundamental, in bringing about change in the modifiable factors, and the tax payer education is expected to change this behavior.

Education changes the behavior of an individual by affecting the way he or she makes decisions (Denis and Mehila, 2002). It has the significant positive impact on the behavior change of individual (Campbell, 2008).There is a positive relationship between taxpayer education and voluntary tax compliance (Kassipillai, 2003). Taxpayer education will provide the necessary tax

knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. This was confirmed in a study carried out among the undergraduate students in the University of Malaysia. Using the questionnaires administered to the students, at the beginning of the semester, to test the compliance attitudes, before studying taxation subjects, and their responses were all recorded. At the end of the semester, another set of questionnaires, were administered to test the compliance attitudes, after acquiring the tax knowledge. The statistical findings confirmed the prevalence of the significant positive relationship between the level of taxpayer education and the level of the voluntary tax compliance. However there is need to conduct similar study currently, because the above study was conducted more than 5 years ago, using environment different from Tanzania's, and the sample selected for the study was university students, who were not really in business operations. Lin and Carrol (2000), conducted a study to determine how enhanced tax knowledge and tax attitudes, affects the compliance behavior among the taxpayers in New Zealand. Analyzing the compliance behavior of the taxpayers after acquiring the tax knowledge did not have significant relationship with tax compliance behavior. There is need to carry out similar study in Tanzanian environment, because the findings of the study were carried out in an environment most likely different from the Tanzanian in the year in 2000. Rasshid and Noor (2004) conducted a study to evaluate the influence of tax knowledge on the tax compliance behavior among the taxpayers in Malaysia.

The objective of the study was to investigate the effect of the presence of tax knowledge and understanding, on the level of tax compliance behavior. Analyzing the data collected using questionnaires, to compare the compliance behavior of taxpayers with significant level of tax knowledge with those without tax knowledge. Statistical findings, confirmed that those with tax

knowledge, had higher level of compliance than those without. The results indicated a significant relationship between the level of tax knowledge and the level of tax compliance. Nevertheless there is need to carry out similar study presently, because the environment, in which the study was carried out, is different, and the study only compared the behavior of those taxpayers with significant level of tax knowledge to those without tax knowledge. The study to be conducted need to establish and incorporate the relationship between the levels of tax compliance Normala (2007), conducted a study to examine the influence of tax education, as a proactive approach to enhance the voluntary tax compliance, among the taxpayers

Chan, Troutman, and O'Bryan (2000) also postulate that education level 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 higher level of moral development promote a more favorable taxpayer attitude and greater compliance. And also voluntary tax Compliance there is a positive relationship between taxpayer education and voluntary tax compliance (Kassipillai, 2003). Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. Also, the research done on tax knowledge and awareness their finding of Adimassu & Jerene (2016), Oladipupo & Obazee (2016), Desta (2010), Pambudi, et al. (2015), Mehari, et al. (2017), and Palil & Mustapha (2011) who identified that high tax knowledge would increase voluntary tax compliance. However, this result is in paradox with the result of Manchilot (2018) who claimed that awareness level of tax payers have negative and insignificant effect with tax compliance level of tax payers. The study of Tadesse & Goitom (2014) conducted in Mekele city also revealed that this variable is insignificant for the improvement of tax compliance level of tax payers. In summary, the

findings reveal that there is no clear out demarcation between tax knowledge and level of compliance this needs further investigation

## **2.4 Summary and Literature Gap**

A determinant of tax compliance is an issue for both developing and developed countries. In developed countries like Australia (Erich, et.al2006), Europe (Torgler, 2011), Korea (Chang and Jin, 2003), Bulgaria (Georgi, 2008), Iran (Reza, et.al2011), Malaysia (Mohd, 2010) and Germany (Torgler, 2007) and also in developing countries a little works done in Africa like Kenya (Lumumba, et.al2010), Nigeria (James, et.al2011) and Ghana (Stephen, 2011).

Ethiopia's case, the works done by (Abdulsemed, 2019) was to examine perception of tax payers on VAT compliance with tax policies of the government and non-compliance of taxpayers with the tax laws was a key to further motivating and assisting the compliers and designing appropriate strategies to deal with non-compliers so that they can gradually develop the desired behavior of tax compliance. Abdulsemed (2019) indicated in his result that structure of the tax system, attitude & perception of government spending and ethics toward tax compliance affect taxpayers' compliance behavior to solve the problems of the noncompliance behavior of the taxpayers educating taxpayers, adopting a continuous and consistent audit program, and information about benefits of paying tax, have been a key to motivating factors and given as a recommendation. Lemessa (2007) with a topic 'A Research Project on Determinants of Taxpayers' Voluntary Compliance With Taxation; The Case Study Of Dire Dawa City, by using descriptive method of research finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social

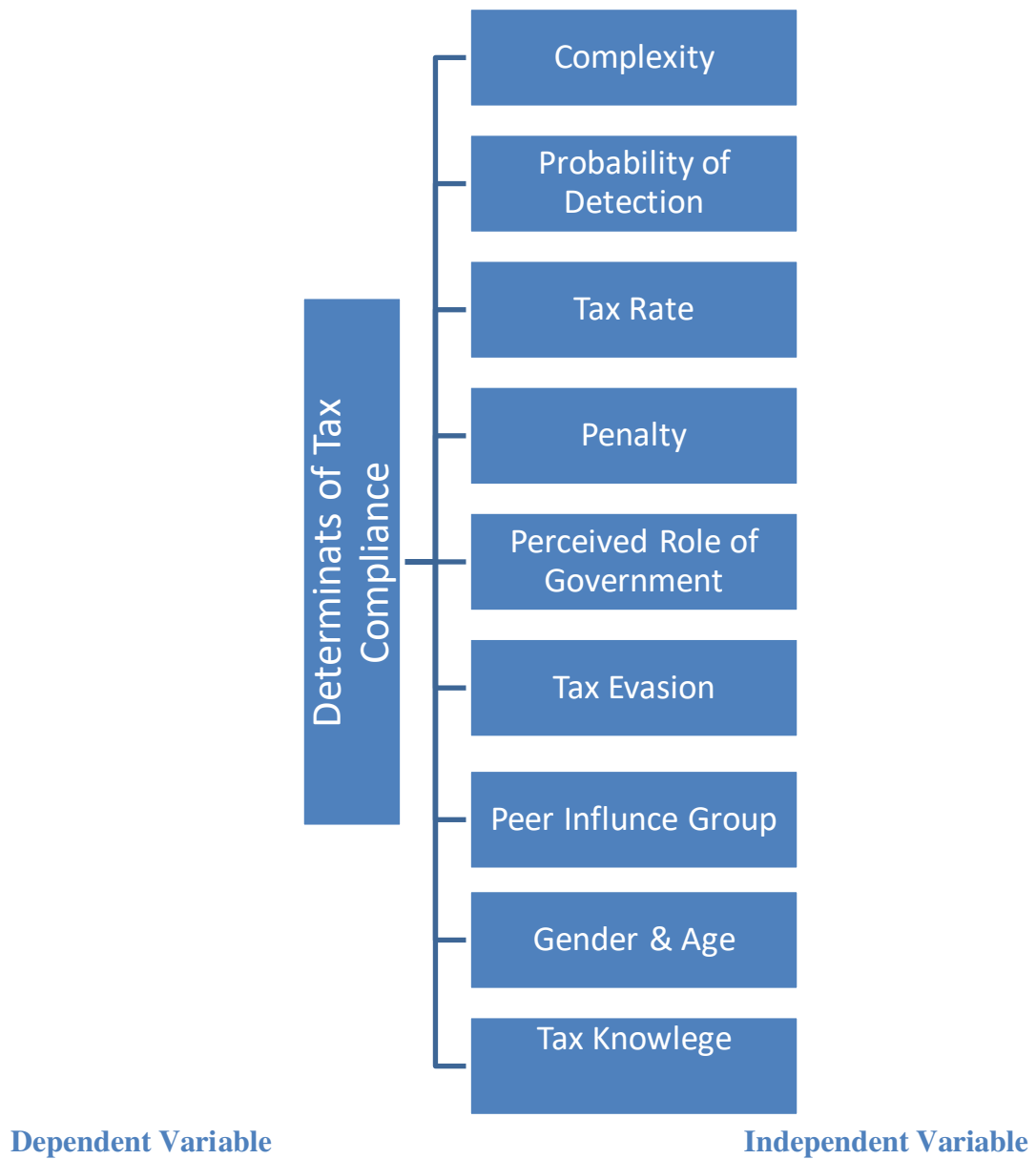
services by the government are the main determinant of voluntary compliance in the city. Bisrat (2010) with the title 'an examination of the link between tax administration and value added tax compliance in Ethiopia' by using mixed method found that audit probabilities, the perceived fairness of VAT, and satisfactions with the service of the tax authority are the major determinants of tax compliance with VAT. And the research done by Zelalem (2011) on 'The Influence of Tax Education on Tax Compliance Attitude', by using quantitative research approach concludes that the level of tax compliance is influenced by tax education. The research done by Amina (2013) on 'Determinants of Tax Compliance: The case of Jimma Town by using Pearson correlation matrix and Logistic regression model was used to identify the main factors that determine tax compliance and her result show that shows that tax rate, probability of detection, penalty rate, reference group and tax knowledge are the determinants of tax compliance. And also the research done by Tilahun (2014) on 'Determinants of Tax Compliance Behavior in Ethiopian: The Case of Bahir Dar City Taxpayers by using one-way ANOVA, Two Samples and One Sample T- Test, this study examined the determinants of tax compliance behavior in Ethiopia particularly in Bahir Dar city administration and his result revealed that perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behavior. Based on above gaps in the studies together with the problems stated in on chapter one, and in order to attain major objective of the study, the following research questions will be addressed: "Determinants of Tax Compliance Behavior in the Case of Category 'A' Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office Selected Category "A" Taxpayers in Selected Sub City Addis Ababa City Administration Revenue Offices."

## **2.5 The Conceptual Framework of the Study**

The major objective of this panel study is to investigate “Determinants of Tax Compliance Behavior in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office”. The study concerned to assess the determinants factor of tax compliance behavior that taxpayers consider in their law applications for in selected Addis Ababa Revenue Offices. Specifically, the study explore whether the tax compliance is influenced by tax rate, probability of detection, penalty, referral group, and tax knowledge of Addis Ababa City Administration Revenue Office in large for the country. The framework is usually used to explain the relationship between the independent variables and the dependent variables of the study.

**Major Components of determinants of tax compliance selected are the following:** complexity of tax system, probability of detection, tax rate, penalty, perceived on the role of government, attitude of tax evasion, peer influence group, gender and age, and tax knowledge and education.

In this study, basically the practices of tax audit are considered as the major variable under investigation. It begins investigating how the Determinants of Tax Compliance Behavior in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office.



Source: Modify by extensive reviewing by Researcher (2021)

Figure 2.1 Conceptual Model



## **CHAPTER THREE**

### **RESEARCH DESIGN & METHODOLOGY**

The objective of this study is to examine the detriments of factors of tax compliance behavior of taxpayers to this end a mixed research approach was used. There are three approaches available for researchers to design their research methodology namely quantitative, qualitative and mixed methods research approaches (Creswell, 2003).

#### **3.1 Research Design**

The research design a mixed research which was incorporated both quantitative and a qualitative research method was conducted to understand. Mixed methods were conducted especially useful in it reflects participants' point of view and it helps to triangulate a data. The obvious of association was examined by using the collected quantitative or quantifiable data. Therefore, this feature was relevant to this study. Because, the data in this study has not been collected in stages but carried out in a single time period and finally there was a relative large sample size in the study.

#### **3.2 Research approach**

In order to identify “Determinants of Tax Compliance Behavior in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office”, the researcher was adopt mixed methods approach; there were different tools available to the researcher to collect the require data including questionnaires, interview, and document analysis.

For this study, the researcher applied quantitative and qualitative a mixed research method approach was employed,

### **3.3 Sampling study and Population**

The study population includes at large Addis Ababa City Administration Revenue Office specifically, Nifas Silk Lafto Sub City Category “A” taxpayers and Addis Ababa No 2 Middle Level Taxpayers branch offices which contain the five sub cities under its namely AKak Kalit Sub City, Bole Sub City, Kolfe Keranio Sub City, Kirkos and Nifas Silk Sub City category “A” taxpayers were the target population. This study was constituted several types of taxpayer which fall in category “A” by considering a cross sectional data for evaluation according to the nature of their business. These include, import, export, wholesale trade, constructions, service, and manufacturing companies with three form of tax: business profit tax, value-add tax, and withholding tax. Moreover, these categories taxpayers are also considered to be higher taxpayers having an annual turnover of more than one million ETB for category “A” according to revised income tax regulation No.979/2016. This research had a total target population of 7941 taxpayers’ and among this total population 5941 active taxpayers in the year 2021 at Addis Ababa No 2 Middle Level Taxpayers Revenue Branch office and the remaining near to 2000 Category “A” taxpayers at Nifas Silk Lafto Sub City Revenue Branch Office. (Source: Addis Ababa No 2 Middle Level Taxpayers Record Office and Nifas Silk Lafto Sub City Revenue Branch Record Office). The sample size that has been taken from the population was adequately enough with the alpha degree of 0.05 which shows the extent of hazard the study has been taken.

The following formulation was used to decide the sample size

$$n_0 = \frac{t^2 * p * q}{d^2}$$

$$n_0 = \frac{1.96^2 * .1 * .1}{(.05)^2} = 384$$

Where,

t = value for selected alpha level of 0.025 in each tail = 1.96

d = acceptable margin of error for proportion being estimated = 0.05

(P)(q) = estimate of variance = 0.25 (Taking p 0.5 gives the maximum sample size)

$$n = \frac{1.962 * 0.5 * 0.5}{0.05^2} = 384$$

However, the sample size was exceeding 5% of the population (9441 \* 0.05 = 397) and it was applied “Cochran’s (1977) correction formula to calculate the final sample size”, Kotrlík, & Higgins, (2001).

$$n_1 = \frac{n}{1 + n/N}$$

$$n_1 = \frac{397}{1 + 397/7,941} = 378$$

Where,

N = Total population size for category “A” = 7,941

n = required return sample size according to Cochran's formula= 378

n1 = required return sample size because sample > 5% of population

This sample size determination was also true by using sample size calculator which was indicated by Qualtrics.com.

Initially, the study has been assumed the response rate of 80% so that, a maximum drawn sample size was 456 which was calculated as follows:  $n_2 = 378/0.8 = 472$

Where anticipated return rate = 80%.

Where  $n_2$  = sample size adjusted based on the estimated response rate.

Where minimum sample size (corrected) = 378

The sampling approach applied by the study was proportional with the stratified sampling which allowed the sample size dedication to be more representative followed by means of random sampling from every stratum (Category “A” taxpayers).

Initially, the target sample size was set to address 378 category “A” and “B” taxpayers in the sub city. By considering 80% return rate, a total of 472 questionnaires were distributed to randomly selected category “A” taxpayers and 381 questionnaires were returned which is 80.7% (381/472) of the total distributed questionnaires. 20 incomplete questionnaires were rejected from the collected 381 questionnaires, and 361 were used for analysis. The usable rate of questionnaires was 95.5% (361/378) which is good enough to represent the population.

### **3.4 Sources and Tools/Instruments of Data Collection**

A structured questionnaire was administered to the population group. Due to the fact that knowledge and perception of tax officers is related to group dynamics, interaction, group values and norms as well as internal and external factors that positively or negatively affect their performance on tax compliance. In addition, secondary data from journals, website and literatures as well as official reports of MOR will be use during analysis. Moreover, it allowed

depth to be achieved by providing the opportunity on the part of the interviewer to probe and expand interviewee's responses. This atmosphere enabled the researcher to clarify points and raise fresh questions so as to gain a deeper understanding (Patton, 2002).

### **3.5 Data Collection**

Data collection procedure includes structured questionnaire for quantitative data collection method was conducted. A pre-test was conducted on 10 randomly selected taxpayers on Category "A" taxpayers was conducted and returned to be sure that the questionnaire is clear and understandable.

Those respondents of the study population are notified by division heads and the questionnaire was submitted by respective personnel or by the researcher as appropriate. In both cases, the researcher provides technical supervision during the data collection. Furthermore, the researcher was conducted the semi structured questionnaire for the Key Informant Interview guide.

### **3.6 Methods of Data Analysis**

Data analysis was done by SPSS window version 25 and MS Excel. Dependent Variable which in this case was tax compliance was analyzed against independent variables such as, complexity of tax system, probability of detection, tax rate, penalty, perceived on the role of government, attitude of tax evasion, peer influence of tax evasion, gender and age, and tax knowledge and education. Quantitative data findings were triangulated with the qualitative data findings and secondary data findings. Questionnaires were gathered from respondents and Spearman

Correlation and Multiple regressions analysis were also conducted. Finally, the results from SPSS Software were expressed using various descriptive statistical techniques like frequencies, percentages, means, standard deviation, presented using tables.

### **3.7 Description of Study Variables & Model Specification**

Kirchler (2007) Tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. Compliance in pure 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 (Ming Ling, Normala and Meera, 2005).

This research study has dependent Variable: tax compliance and independent variable complexity of tax system, probability of detection, tax rates, penalty, perceived on the role of government, attitude of tax evasion, peer influence of group, gender and age, and tax knowledge & education as independent variables.

#### **3.7.1 Variable Measurement**

In this study tax compliance was measured using three hypothetical questions. It is based on Palil (2010) and Troutman (1993) with some modification to suit our country's context. The use of 28 hypothetical questions can increase reliability of results and minimizes respondents' dishonesty when answering the questionnaire (Troutman, 1993). The respondents were asked to rate each hypothetical question whether as a taxpayer they would undertake the same action if

they faced the same situation using ‘Strongly Agree’, ‘Agree’, ‘Neutral’, ‘Disagree’, and ‘Strongly Disagree’ using a Likert Scale of 1 to 5 respectively. The study used judgment to classified the range of scores obtained on the five-point Likert scale as follows: a variable with a mean score of greater than 3.0 to 5.00 have taken as agree/ strongly agree on the five-point Likert scale, a score of 3.0 as neutral on the five point Likert scale and a score of less than 3.0 as strongly disagree/disagree on the Likert scale. Secondary data was used to obtain tax authority reports and published / unpublished sources like relevant legislation enacted about the subject and tax journals which help the study to determine the relationship between taxpayers and tax compliance behavior. The items that made up the scale include 1) Complexity, 2) Probability of detection, 3) Tax rate 4) Penalty; 5) Perceived role of government 6) Tax evasion, 7) Peer group and 8) Gender and age and 9) Tax knowledge also the researcher was measure using descriptive statistics such mean, Standard deviation, etc.

### **3.7.2 Model Specifications**

Analysis was done using Spearman correlation and multiple linear regression models. According to Coakes and Steed (2007), multiple liner regressions were an extension of bivariate correlation. They stated that the result of regression was an equation that represents the best prediction of a dependent variable from several independent variables. Regression analysis was used when independent variables were correlated with one another and with the dependent variable.

The regression model used to test was shown below:  $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \epsilon$

Where; Y = Tax compliance

A = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_6, \beta_7, \beta_8,$  and  $\beta_9$  = Coefficient indicating rate of change of tax compliances tax rate, probability of detection, penalty, referral group and gender.

X1 = Complexity

X2 = Probability of detection

X3 = Tax Rates

X4 = Penalty

X5= Perceived Role of Government

X6= Tax evasion

X7= Peer Influence group

X8= Gender and Age

X9= Tax Knowledge and Education

$\epsilon$  = Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS) version 25. All tests were two-tailed. Significant levels was been measured at 95% Confidence level with significant differences record at  $p < 0.05$

### **3.8 Ethical Consideration**

The researcher was collected a formal letter from SMU to be handover to the Nifas Silk Lafto Sub city Branch Revenue Office and Addis Ababa City Administration of Revenue Office and Addis Ababa City No 2. Middle Level Revenue Branch Office and letter of To Whom It May concern for randomly selected Category “A” taxpayers.. After the acceptance of the office, list



and address was taken from the revenue branch office of record section. The researcher hired data collector and orientation was given how to distribute and collect of a self-administered questionnaire, the introduction of the questionnaire states the objective and purpose of the research. Respondents were be ensured that the information they provide will be kept confidential; for such reason, name or any specific issue which can expose the identity of the respondent were not be recorded. There were also statements indicating that the respondent was engaged on voluntary bases where to the respondent have the right not to answer any of the questions which they don't want to answer.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATION**

#### **4.1 Introductions**

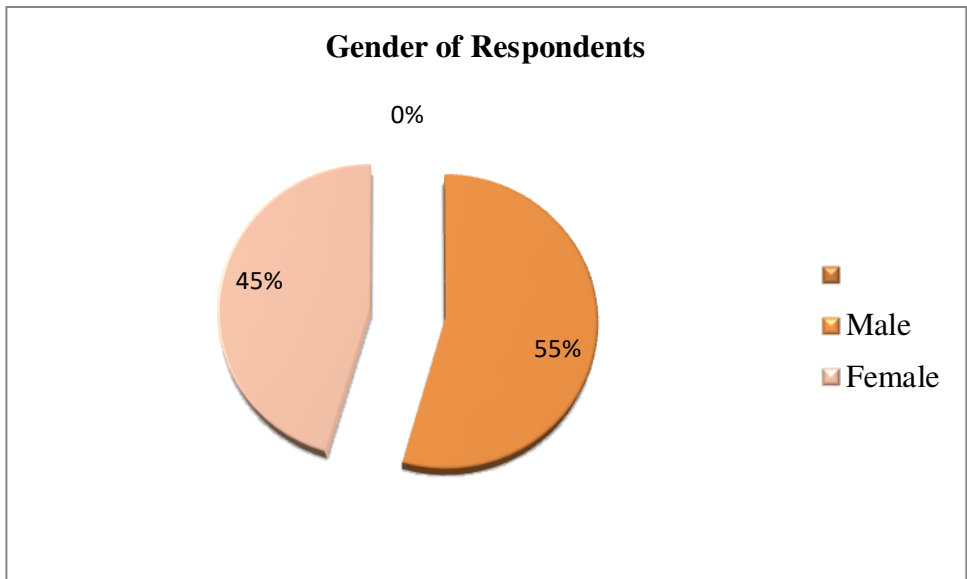
This chapter was devoted to the presentation and analysis of data collected for the study. The analysis was based on the data collected from the survey of study according to the response given by the respondents and it has five sections. The first section contains introduction, the second section contains demographics and socio economics analysis of respondents. The thrid section contains the determinants of tax compliance the analysis and interpretation was done using Likert Scale mean and standard deviation compliance as dependent variable and complexity of tax system, probability of detection, tax rate, and penalty, perceived on the role of government, attitude of tax evasion, peer influence group, gender and age and tax knowledge and education as independent variables. The fourth section contains analysis measurement using regression, ANOVA model and Spearman correlation, etc. Finally, the last sections was also done discussion on hypothetical findings.

#### **4.2 Demographic and Socio-economic Status**

##### **4.2.1 Demographic Information**

Demographic information shows the characteristics of the elements in the sample size: As such the researcher sought to establish the general information of the respondents which forms the basis under the interpretations was made.

**Figure 4.1 Gender of the Respondent**



Note: Source SPSS output from survey data, 2021

Demographic factor Figure 4.1 analyzed the gender of the respondents. This information was necessary to enable the researcher to obtain information on whether the respondents were either male or female. Accordingly, 55% of the respondents were male whereas 45% of them were female.

**Age group of Respondents**

**Table 4.1 Age group of Respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 30	170	47.1	47.1	47.1
	30 to 40	167	46.3	46.3	93.4
	41 to 50	24	6.6	6.6	100.0
	Total	361	100.0	100.0	

Note: Source SPSS output from survey data, 2021

Demographic table 4.1 shows the age groups of respondents, 170 (47.1%) of the respondents were below 30 years of age, whereas 167(46.3%) of them were between 31-40 years of age the remaining whereas 24 (6.0%) respondents were between 41-50 and above years. This result illustrates that most of the respondents in selected sub cities were generally young less than 30 years old and followed adult between (31 - 40) years old

#### 4.2.2 Socio-economic Status

Educational levels, current position and business sector in general are the most important variables that could be determine tax compliance in Addis Ababa selected sub cities of category “A” taxpayers.

#### Educational Background

**Table 4.2 Educational Background of Respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than grade 12	56	15.5	15.5	15.5
	Completed Grade 12	50	13.9	13.9	29.4
	TVET	60	16.6	16.6	46.0
	BA or BSc	176	48.8	48.8	94.7
	MA or MSc and Above	19	5.3	5.3	100.0
	<b>Total</b>	<b>361</b>	<b>100.0</b>	<b>100.0</b>	

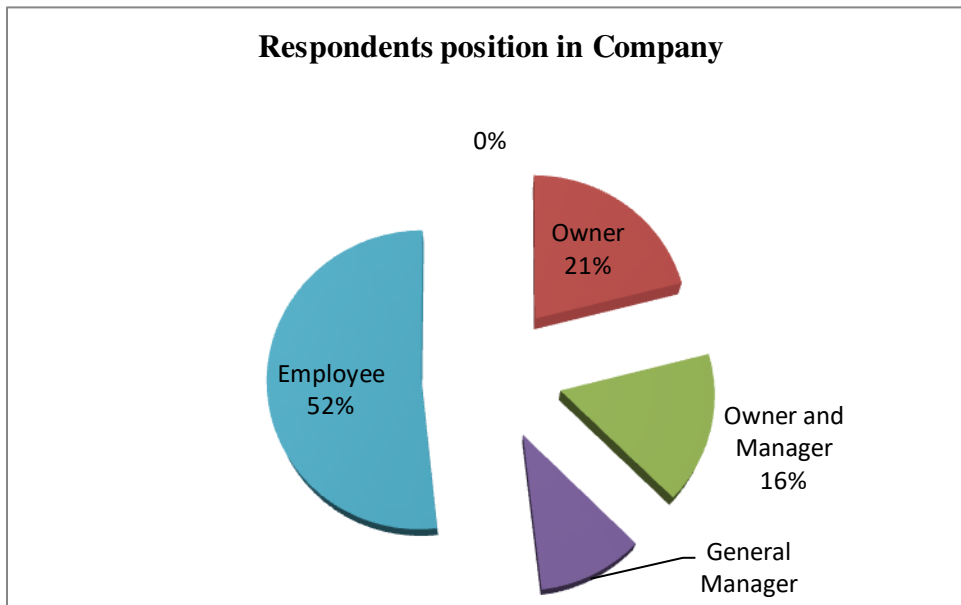
Note: Source SPSS output from survey data, 2021

Generally, the respondent’s socio-economic status is presented in Table 4.2 With regard to educational background of study, 176(48.8%) majority of the respondents were BA/BSc

followed by 60 (16.6%) were TVT, 56 (15.5%) were less than grade 12, 50(13.9%) were completed grade 12 and the remaining 19 (5.3%) responded were MA or MSc and above.

## Position

**Figure 4. 2 Respondents position in company**



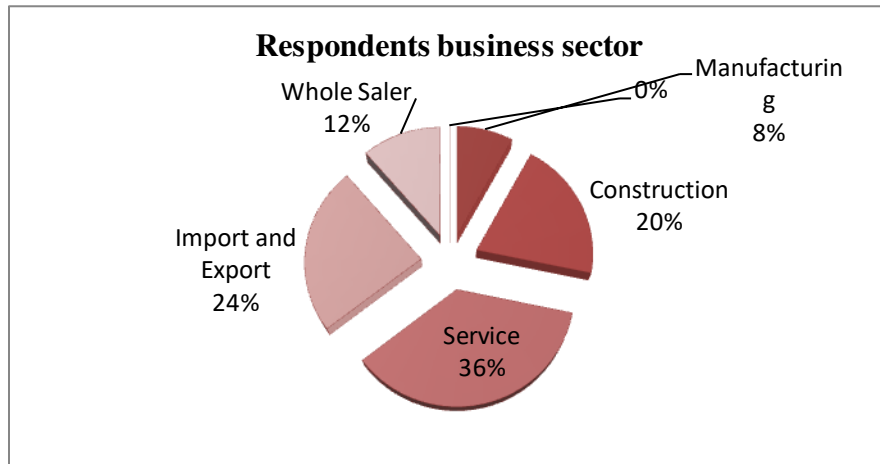
Note: Source SPSS output from survey data, 2021

Figure 4.2 shows have 76 (21.0%) respondent were owners, 59 (16%) respondents were owner and manager, 39 (11%) were general manger, 187(52 %) of the respondents were employees and the highest.

## Business Sector

Figure 4.3 below shows that 8% the respondents were engaged in manufacturing, 20% the respondents were engaged on construction, 36% the respondents were engaged on services and it is the highest score, 24% of respondents were import and export and 12% the remaining respondents were wholesalers.

**Figure 4.3 Respondents Business Sector**



Note: Source SPSS output from survey data, 2021

### **4.3 Determinates of Tax Compliance**

The aim of this research was to assess the determinants of tax compliance under section 4.3 the data was analyzed using Likert Scale and descriptive statistics frequency for the variables such as complexity of tax system, probability of detection, tax rate, penalty, perceived on the role of government, attitude of tax evasion, peer influence group, gender and age, and tax knowledge and education. The respondents were asked to rate each hypothetical question whether as a taxpayer they would undertake the same action if they faced the same situation using ‘Strongly Agree’, ‘Agree’, ‘Moderately Agree’, Disagree’, and “Strongly Disagree’ using a Likert Scale. The study used judgment to classify the range of scores obtained on the five-point Likert scale as follows: a variable with a mean score of greater than 3.0 to 5.00 have taken as agree/ strongly agree on the five-point Likert scale, a score of 3.0 as moderately agree on the five point Likert scale and a score of less than 3.0 as strongly disagree/disagree on the Likert scale.

### 4.3.1 Complexity of Tax System

**Table 4.3 Response on complexity of tax system**

Possible measure	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
Tax system is very complicated and affects the tax compliance level of taxpayers	361	26.60	22.40	18.60	21.60	10.80	100	2.68	1.355
Due to the complexity of the tax system and rules, support of tax consultant is necessary	361	-	8.30	15.00	39.10	37.70	100	4.06	0.926
If tax rules and regulations are easy to understand and apply tax compliance will be improve	361	-	-	8.30	39.10	52.60	100	4.44	0.644
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.3 complexity of tax system reveal that “Tax system is very complicated and affects the tax compliance level of taxpayers” regarded as the lowest score value (Mean = 2.68), then “Due to the complexity of the tax system and rules, support of tax consultant is necessary” the respondent score value (Mean = 4.06), “If tax rules and regulations are easy to understand and apply tax compliance will be improve” is the highest return (Mean = 4.44)

### 4.3.2 Probability of Detection

**Table 4.4 Response on the Probability of Detection**

Possible measure	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
Taxpayer might not to be evaded tax if the probability of detection tax high	361	8.00	16.10	31.30	25.80	18.80	100	3.31	1.183
Taxpayers who have never been audited or investigated before are more risk taker	361	19.70	5.80	18.30	34.90	21.30	100	3.32	1.396
The tax office has no sufficient resources and capacity to audit or surveillance every taxpayers	361	8.00	-	27.10	34.50	30.40	100	3.79	1.122
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.4 response on the probability of detection revealed that “Taxpayer might not to be evaded tax if the probability of detection tax high” regarded as the lowest score value (Mean = 3.31), then “Taxpayers who have never been audited or investigated before are more risk taker” the respondent good score value (Mean = 3.32), “The tax office has no sufficient resources and capacity to audit or surveillance every taxpayers” is the highest return (Mean = 3.79).



### 4.3.3 Tax Rates

Table 4.5 Response on Tax Rates

Possible measures	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
The current profit tax rate is very high and it should need to reduced	361	5.80	19.20	36.80	21.90	16.30	100	3.24	1.115
The tax rate for higher company larger than individual trader	361	11.90	10.30	21.90	30.70	25.20	100	3.47	1.295
The tax rate for higher company larger than individual trader	361	2.50	2.20	8.30	38.80	48.20	100	4.28	0.896
The tax rate should decrease as annual income increases so that large taxpayers will pay at lower rate as their income increases	361	5.20	32.40	25.80	23.00	13.60	100	3.07	1.143
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.5 response on the tax rates revealed that “The current profit tax rate is very high and it should need to reduced” regarded as the lower score value (Mean = 3.24), then “The tax rate for higher company larger than individual trader” the respondent good score value (Mean = 3.47), “The tax rate for higher company larger than individual trader” is the highest return (Mean = 4.28) and “The tax rate should decrease as annual income increases so that large taxpayers will pay at lower rate as their income increases ”regarded as the lowest score value (Mean = 3.07).

#### 4.3.4 Penalty

**Table 4.6 Response on Penalty**

	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
High penalty on noncompliance increase tax compliance	361	34.30	24.20	23.00	10.50	8.00	100	2.34	1.268
I comply with tax requirements because of fear of penalty	361	29.10	19.70	24.10	14.10	13.00	100	2.62	1.373
Taxpayer penalized in previous periods will comply in future	361	9.10	13.90	30.20	30.50	16.30	100	3.31	1.171
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.6 response on the penalty revealed that “High penalty on noncompliance increase tax compliance” regarded as the lowest score value (Mean = 2.34), then “I comply with tax requirements because of fear of penalty” the respondent score value (Mean = 2.62), “Taxpayer penalized in previous periods will comply in future” is the highest return (Mean = 3.31).

### 4.3.5 Perceived the role of Government

**Table 4.7 Response on perceived the role of Government**

	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
If the government spend too much tax revenue on unnecessary welfare it encourages tax noncompliance	361	11.90		16.10	41.80	30.20	100	3.78	1.222
If people are getting comparable public services from the government it enhance taxpayers compliance	361	13.60	13.00	42.40	28.30	2.70	100	2.94	1.032
If taxpayers perceptions of tax fairness increases, the level of tax noncompliance will be also decrease.	361	2.80		5.80	27.70	63.70	100	4.5	0.837
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.7 response on the perceived of the role or government revealed that “If the government spend too much tax revenue on unnecessary welfare it encourages non tax compliance” regarded as the lowest score value (Mean = 3.78), then “If people are getting comparable public services from the government it enhance taxpayers compliance” the respondent good score value (Mean = 2.94), “If taxpayers perceptions of tax fairness increases, the level of non-tax compliance will be also decrease” is the highest return (Mean = 4.50).

#### 4.3.6 Tax evasion

**Table 4.8 Response on tax evasion**

	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
A good political system has positive impact on tax payer's attitude towards to avoid tax evasion	361	15.20	13.60	46.20	11.10	13.90	100	2.95	1.188
Tax behavior towards the general level of tax evasion is dependent on the desirability of the government program	361	17.50	11.40	16.00	32.70	22.40	100	3.31	1.394
Paying tax is my own responsibility	361	21.90	18.80	25.50	28.30	5.50	100	3.77	1.072
Taxpayers is paying tax fearing the tax penalty	361	5.50	6.40	19.10	43.50	25.50	100	2.77	1.232
If tax law should be respected it discourages the attitude of tax evasion.	361	17.50	11.40	16.00	32.70	22.40	100	3.12	1.137
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.8 above response on the tax evasion revealed that “A good political system has positive impact on tax payer’s attitude towards to avoid tax evasion” regarded as the lower score value (Mean = 2.95), then “Tax behavior towards the general level of tax evasion is dependent on the desirability of the government program” the respondent score value (Mean = 3.31), then “Paying tax is my own responsibility” is the highest return (Mean = 3.77),”. Taxpayers is paying tax fearing the tax penalty” the lowest score (Mean=2.77), and “If tax law should be respected it discourages the attitude of tax evasion” (Mean=3.12).

### 4.3.7 Peer Influence Group

**Table 4.9 Response on peer influence group**

	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
The noncompliance of other tax payers has a negative impact on compliant of taxpayers behavior	361	8.3	18.8	19.4	32.2	21.3	100	3.39	1.243
My relatives and friends action that affect my decision to reduce tax liability	361	15.5	18.6	30.7	24.4	10.8	100	2.96	1.219
If one taxpayer is penalized due to tax evasions that may affect other not evade tax.	361	40.4	29.9	21.4	5.8	2.5	100	2.00	1.038
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.9 response on peer group revealed that “The noncompliance of other tax payers has a negative impact on compliant of taxpayers behavior” regarded as the highest score value (Mean = 3.39), then “My relatives and friends action that affect my decision to reduce tax liability” the respondent score value (Mean = 2.96), and “If one taxpayer is penalized due to tax evasions that may affect other not evade tax” is the lowest return (Mean = 2.00).

### 4.3.8 Gender and Age

**Table 4.10 Response on Gender and Age**

Possible measure	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
Females are more compliant than males	361	4.40	5.50	3.20	50.10	36.80	100	4.09	1.01
Young taxpayers (traders) are more risk takers and do not comply with the tax rules and requirements	361	18.80	10.00	8.30	34.10	28.80	100	3.44	1.47
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.10 response on peer group revealed that “Females are more compliant than males” regarded as the highest score value (Mean = 4.00), and “Young taxpayers (traders) are more risk takers and do not comply with the tax rules and requirements” the respondent score value (Mean = 3.44),

### 4.3.9 Tax knowledge and education

**Table 4.11 Response on tax knowledge and education**

	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
Sufficient tax education and trainings are given on the purposes of tax its regulations	361	40.20	28.50	18.60	8.00	4.70	100	2.09	1.15
Taxpayers with little tax knowledge don't comply tax requirements	361	2.20	0.60	5.80	50.40	41.00	100	4.27	0.79
I have sufficient tax knowledge that helps to fulfill my tax obligations.	361	19.10	10.50	3.00	36.80	30.50	100	3.49	1.49
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.11 response on tax knowledge and education revealed that “Sufficient tax education and trainings are given on the purposes of tax its regulations” regarded as the lowest score value (Mean = 2.08), then “Taxpayers with little tax knowledge don’t comply tax requirements” the respondent the highest score value (Mean = 4.27), and” I have sufficient tax knowledge that helps to fulfill my tax obligations” the respondent score value (Mean = 3.49).

### 4.3.9 Tax Compliance

**Table 4.12 Response on tax compliance**

	N	Percentage (%)					Total	Mean	Std. Deviation
		Strongly Disagree	Disagree	Moderately Agree	Agree	Strongly Agree			
Tax noncompliance has negative impact on a country's growth and development	361	2.20	2.80	5.80	41.60	47.60	100	4.30	0.87
Government service to the public may reduce due to low tax compliance	361		2.80		32.20	64.00	100	4.58	0.64
Tax noncompliance distorts resources allocation to the society.	361		11.90	9.40	33.20	45.40	100	4.12	1.01
Valid N (listwise)	361								

Note: Source SPSS output from survey data, 2021

Findings on table 4.12 response on tax knowledge and education revealed that “Tax noncompliance has negative impact on a country’s growth and development” regarded as the lowest score value (Mean = 4.30), then “Government service to the public may reduce due to low tax compliance” the respondent the highest score value (Mean = 4.58), and” Tax noncompliance distorts resources allocation to the society” the respondent score value (Mean = 4.12).

## 4.4 Analysis of Measures

### 4.4.1 Reliability Statistics Test

The Cronbach's coefficient alpha was tested. Table 4.13 reports the alpha scores for all the variables. As proposed by Nunnally (1967 & 1978), The Cronbach's alpha coefficient was within the acceptable level of reliability of 0.70 for scale acceptability Cronbach's Alpha for determinant factors and tax compliance.

**Table 4.13 Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.721	0.725	30

Note: Source SPSS output from survey data, 2021

### 4.4.2 Correlation Statistics

Statistic Correlation statistics is a method of assessing the relationship between variables/factors. To be precise, it measures the extent of association between the ordering of two random variables. Thus, the study analyzed the relationships that are inherent among the independent and dependent variables as well as among the independent variables/factors. The results regarding this were summarized and presented in Table 4.14



**Table 4.14 Correlations**

			TAXCO MP	COMP LEXIT Y	PROB_ DETE C	TAX_ RAT E	PEN ALT Y	PER_ ROL E_GO V	TAX_ EVA S	PEER - GRO UP	GEN DER- AGE	TAX- KNO W
Spearman's rho	TAXCO M	Co rrel ati on Co effi cie nt	1.000	0.068	.212**	.201**	.403**	.407**	.195**	.213**	.416**	-0.072
		Sig . (2- tail ed)		0.198	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.173
		N	361	361	361	361	361	361	361	361	361	361
	COMPLE XITY	Co rrel ati on Co effi cie nt	0.068	1.000	.214**	.177**	0.099	0.101	.312**	-0.088	0.022	.158**
Sig . (2- tail ed)		0.198		0.000	0.001	0.059	0.056	0.000	0.095	0.676	0.003	
N		361	361	361	361	361	361	361	361	361	361	
	PROB_D ETEC	Co rrel ati on Co effi cie nt	.212**	.214**	1.000	.257**	-0.102	.204**	.236**	- .171**	-.108*	-0.069
Sig . (2- tail ed)		0.000	0.000		0.000	0.052	0.000	0.000	0.001	0.040	0.190	
N		361	361	361	361	361	361	361	361	361	361	
	TAX_RA TE	Co rrel ati on Co effi cie nt	.201**	.177**	.257**	1.000	- .165**	.425**	-0.014	0.068	0.002	.128*
Sig . (2- tail ed)		0.000	0.001	0.000		0.002	0.000	0.791	0.198	0.976	0.015	
N		361	361	361	361	361	361	361	361	361	361	
	PENALT Y	Co rrel	-.403**	0.099	-0.102	- .165**	1.000	- .355**	.245**	-0.019	0.009	0.057

	ati on Co effi cie nt Sig . (2- tail ed) N	0.000	0.059	0.052	0.002		0.000	0.000	0.718	0.857	0.278
PER_RO LE_GOV	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	.407**	0.101	.204**	.425**	-. .355**	1.000	.232**	.289**	.179**	-0.072
	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	0.000	0.056	0.000	0.000	0.000		0.000	0.000	0.001	0.171
TAX_EV AS	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	.195**	.312**	.236**	-0.014	.245**	.232**	1.000	.121*	.217**	-. .173**
	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	0.000	0.000	0.000	0.791	0.000	0.000		0.021	0.000	0.001
PEER- GROUP	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	.213**	-0.088	-.171**	0.068	-0.019	.289**	.121*	1.000	.454**	.296**
	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	0.000	0.095	0.001	0.198	0.718	0.000	0.021		0.000	0.000
GENDER -AGE	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	.416**	0.022	-.108*	0.002	0.009	.179**	.217**	.454**	1.000	0.000
	Co rrel ati on Co effi cie nt Sig . (2- tail ed) N	0.000	0.676	0.040	0.976	0.857	0.001	0.000	0.000		0.995

	(2-tailed)										
	N	361	361	361	361	361	361	361	361	361	361
TAX- KNOW	Co rrel ati on Co effi cie nt	-0.072	.158**	-0.069	.128*	0.057	-0.072	- .173**	.296**	0.000	1.000
	Sig	0.173	0.003	0.190	0.015	0.278	0.171	0.001	0.000	0.995	
	(2-tailed)										
	N	361	361	361	361	361	361	361	361	361	361

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

\* . Correlation is significant at the 0.05 level (2-tailed).

Note: Source SPSS output from survey data, 2021

Spearman correlations results in Table 4.14 showed that gender and age was the highest component positively and significantly correlated to tax compliance ( $r=0.416$ ,  $p<0.05$ ). Thus tax gender and age had 41.6% positive relationship with tax compliance. Perceived role of government was positively and significantly correlated with tax compliance ( $r=0.407$ ,  $p<0.05$ ). Thus perceived role of government had 40.7% positively relation with tax compliance. Penalty was negatively and significantly correlated to tax compliance ( $r= -0.403$ ,  $p<0.05$  Thus penalty had -40.3% negatively relationship with tax compliance). Peer group was negatively and significantly correlated to tax compliance ( $r=0.343$ ,  $p<0.05$ ). Thus peer group had 34.3% negatively relationship with tax compliance. The tax rate was component ( $r = 0.212$ ,  $p<0.05$ ). Thus tax rate had 21.2% to be positively related with tax compliance. The tax knowledge and education was the lower component ( $r = 0.072$ ,  $p<0.05$ ). Thus tax knowledge and education had 6.8% to be positively related with tax compliance. And, the last, complexity of tax system was lowest component ( $r = 0.068$ ,  $p<0.05$ ). Thus tax rate had 6.8% to be positively related with tax compliance.

### 4.4.3 Results of Regression Analysis

A linear regression model was used to predict on one hand the dependent variable of tax compliance in the study and on the other hand, the prediction was carried out basing on the effect of the four independent variables factors: complexity of tax system, probability of detection, tax rate, penalty, perceived on the role of government, attitude of tax evasion, peer influence of tax evasion, gender and age, and tax knowledge and education. In addition to the above, the  $\beta$  coefficients for each independent variable caused from the model was subjected to a t-test to analysis each of the hypotheses under study.

**Table 4.15 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Change	F Change	df1	df2	Sig. F Change
2	.959 <sup>b</sup>	0.921	0.912	0.258	0.534	84.054	26	325	0.000

a. Predictors: (Constant), GENDER\_AGE, PER\_ROLE\_GOV, TAXKNOW, PROB\_DETEC, PENALTY, TAX\_RATES, TAXCOMP, TAX\_EVAS.

Note: Source SPSS output from survey data, 2021

The ANOVA and the regression model as presented in tables 4.15 the result shows that the R-square with a value of 0.921 implies that about 92.1.% of the changes in tax compliance could only be explained by repressors namely; complexity of tax system (COMPLEXITY), probability of detection (PROB\_DETEC), tax rate (TAX\_RATE), penalty (PENALTY), perceived on the role of government (PER\_ROLE\_GOV), attitude of tax evasion (TAX\_EVAS), peer influence of tax evasion (PEER\_GROUP), and tax knowledge and education (TAX\_KNOW) could be explained by other factors not included in the model

**Table 4.16 ANOVA<sup>a</sup> Model**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	105.124	8	13.140	27.506	.000 <sup>b</sup>
Residual	168.161	352	0.478		
Total	273.285	360			

a. Dependent Variable: TAXCOMP

b. Predictors: (Constant), COMPLEXITY, PROB\_DETEC, TAX\_RATE, PENALTY, PER\_ROLE\_GOV, TAX\_EVAS, PEER\_GROUP, TAX\_KNOW Source: SPSS Output from survey data, 2021

The ANOVA model in table 4.16 showed that the regression model was also adequate. The effect size of the regression model was shown to be over 27 that contributed by the residual mean sum of squares. The F-ratio was 27.506 This represented the effect size of the regression model and was significant with a p-value of 0.000.

#### 4.4.4 Coefficients Model

**Table 4.17 Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.632	0.400		6.585	0.000
Complexity	-0.266	0.033	-0.426	-8.055	0.000
Prob_detec	-0.182	0.050	-0.270	-3.641	0.000
Tax_rate	-0.111	0.032	-0.175	-3.439	0.001
Penalty	0.404	0.055	0.567	7.373	0.000
Percieved_role_gov	0.016	0.035	0.026	0.466	0.642
Tax_evas	0.143	0.036	0.200	3.952	0.000
Peer_group	-0.157	0.030	-0.264	-5.223	0.000
Gender_Age	-0.016	0.051	-0.015	-0.325	0.746
Tax_know	0.466	0.063	0.344	7.354	0.000

a. Dependent Variable: Tax compliance

Source: SPSS Output from survey data, 2021

The regression results in table 4.16 show that each of the predicted parameters in relation to the independent factors were significant;  $\beta_1 = -0.426$  (p-value = 0.000 which is less than  $\alpha = 0.05$ ) which indicates that we reject the null hypothesis stated that there is negative and insignificant relationship between complexity of tax system and tax compliance. This implies that for each unit increase in complexity of tax system, there is up to -0.46 unit decrease in tax compliance.

The regression results in table 4.16 show that each of the predicted parameters in relation to the independent factors were significant;  $\beta_1 = -0.270$  (p-value = 0.000 which is less than  $\alpha = 0.05$ ) which indicates that we reject the null hypothesis stated that there is negative and no significant relationship between probability of detection and tax compliance. This implies that for each unit increase in tax rates, there is up to -0.270 unit decrease in tax compliance.

The regression results in table 4.16 also shows that  $\beta_2 = -0.175$  (p-value = 0.001 which is less than  $\alpha = 0.05$ ) which indicates that we reject the null hypothesis stating that there is negative and no significant relationship between tax rates and tax compliance. This implies that for each unit increase in tax rates, there is up to -0.175 unit decrease in tax compliance.

The regression table 4.16 also shows that  $\beta_2 = 0.567$  (p-value = 0.001 which is less than  $\alpha = 0.05$ ) which indicates that we reject the null hypothesis stated that there is no significant relationship between penalty and tax compliance. This implies that for each unit increase in penalty, there is up to 0.567 unit increase in tax compliance.

The regression results in table 4.16 also shows that  $\beta_4 = 0.200$  (p-value = 0.000 which is less than  $\alpha = 0.05$ ) which indicates that we reject the null hypothesis stating that there is no significant relationship between tax evasion and tax compliance. This implies that for each unit increase in tax evasion, there is up to 0.200 unit increase in tax compliance.

The regression table 4.16 table also shows that  $\beta_3 = -0.264$  (p-value = 0.0000 which is less than  $\alpha = 0.05$ ) Which indicates that we reject the null hypothesis stating that there is no significant relationship between peer influence group and tax compliance This implies that for each unit increase in peer influence group there is up to 0.264 unit increase in tax compliance.

The regression results in table 4.16 show that each of the predicted parameters in relation to the independent factors were significant;  $\beta_1 = -0.015$  (p-value = 0.741 which is greater than  $\alpha = 0.05$ ) which indicated that there is negatively insufficient evidence gender & age and tax compliance. We accept the null hypothesis which stated stating that there is significant relationship between gender & age and tax compliance.

The table 4.16 also shows that  $\beta_4 = 0.344$  (p-value = 0.008 which is less than  $\alpha = 0.05$ ) which indicates that we reject the null hypothesis stating that there is no significant relationship between tax knowledge and tax compliance. This implies that for each unit increase in tax knowledge, there is up to 0.344 unit increase in tax compliance.

#### **4.5 Discussion of the Findings**

In order to achieve the research objective the research focused on the following stated hypothesis.

**H01: The complexity of the tax system significantly and having positive related with tax compliance:** Research findings are not in agreement with the hypothesis since complexity of the tax system has coefficient estimate ( $\beta_1 = -0.426$  p-value = 0.000) which implies that we reject the null hypothesis that stated is negative and insignificant relationship between complexity of tax system and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated that the

complexity of the tax system significantly determines tax compliance since p-value less than its standard error (0.05). The less plausible is the null hypothesis. Other research works also indicated that for instance Torgler and Schaffner (2007) argue that complexity may result in unintentional non-compliance if taxpayers have problems filing the tax form. Moreover, complexity can reduce the moral costs of noncompliance. Reza, et.al (2011) concludes that excess of tax laws and their continuous adjustments and volatility in performance and performance of laws make tax system more complex which make tax collection more difficult. From interview result revealed that didn't have such complex tax system. In opposite expression, tax system should be simplicity tax system because the simplicity of the tax system according to Amina 2013 and Sinay (2015); Silvani and Baer (1997) discuss the importance of the tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law.

**H02: High probability of detection encourages tax compliance:** Research findings are not in agreement with the hypothesis since the probability of detection has coefficient estimate ( $\beta_1 = -0.270$  p-value = 0.001) which implies that we reject the null hypothesis that stated is negative and insignificant relationship between probability of detection and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated that probability of detection significantly determines tax compliance since p-value less than its standard error (0.05). The less plausible is the null hypothesis. Most empirical studies found that the amount of income concealed is influenced by the probability of detection positively. The following researchers found a finding in line with this conclusion. Bismark (2011) Probability of detection by audit also plays a significant role in reporting behavior of tax payers. Taxpayers will declare the whole thing if they perceive that they will be one of the taxpayer to be audited in a particular year (Riahi-



Belkaoui, 2004; Richardson, 2008). On other hand, Slemrod et.al (2000), (Slemrod, Blumenthal and Christian (1998) investigated the relationship between the probability of being audited and the taxpayers' attitudes recommended that as the probability of detection increased, taxpayers are encouraged to comply with tax laws and accurately report their income

**H03: The perception on tax rate is negatively related with tax compliance attitude:**

Research findings are not in agreement with the hypothesis since the perception on tax rate has coefficient estimate ( $\beta_1 = -0.171$  p-value = 0.001) which implies that we reject the null hypothesis that stated is negative and insignificant relationship between tax rates and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated that tax rates significantly determines tax compliance since p-value less than it standard error (0.05). The less plausible is the null hypothesis. This hypothesis is also agree with research done by Park and Hyu (2003) the increase in tax rate strengthens the incentive to report less income to compensate the reduced income. Another study in 1980 by Tanzi used an econometric model to explain the relationship between marginal tax rates and noncompliance by using aggregate data in the United States, demonstrated that tax rates were negatively correlated with tax compliance according to his data.

**H04: Penalty rate is positively correlated with tax compliance attitude of taxpayers:**

Research findings are not in agreement with the hypothesis since penalty rate has coefficient estimate ( $\beta_1 = 0.567$  p-value = 0.001) which implies that we reject the null hypothesis that stated is positive but insignificant relationship between penalty and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated that penalty significantly determines tax compliance since p-value less than it standard error (0.05). The less plausible is the null hypothesis. Park and Hyun (2003) also concludes that Higher penalty rate along with higher

audit rate is associated with higher compliance rate. The most effective policy tool to induce higher compliance is to levy heavy penalty on unreported income.

**H05: Perception of the role of government has positively correlated with tax compliance:**

Research findings are not in agreement with the hypothesis since perception of the role of government has coefficient estimate ( $\beta_1 = 0.026$  p-value = 0.642) which implies that we accept the null hypothesis that stated there is positive but insignificant relationship between perception of the role of government and tax compliance. Thus p-value indicated that perception of the role of government is insignificantly determines tax compliance since p-value greater than its standard error (0.05). The higher is p-value the more plausible is null hypothesis. For example the research done by Adimassu & Jerene (2016) who stated that tax compliance is positively significantly affected with the perception of tax payers towards government spending. This also agrees with the result of Modugu (2014), Desta (2010), Aemiro et al. (2014) and Palil & Mustapha (2011) who stated that whenever the taxpayers perceive that government spends tax money wisely for the development of a country, their level of their tax compliance will be enhanced. But, the study of Tadesse & Goitom (2014), conducted in Mekele city, shows as it has insignificant influence for the improvement of tax compliance level of tax payers. Therefore, government need carefully, very wisely and sensitively to spend it's expenditures in order to increase voluntary compliance.

**H06: Tax evasion are insignificantly and positively correlated with tax compliance:**

Research findings are not in agreement with the hypothesis since tax evasion has coefficient estimate ( $\beta_1 = 0.200$  p-value = 0.000) which implies that we reject the null hypothesis that stated is positive but insignificant relationship between tax evasion and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated that tax evasion significantly determines tax

compliance since p-value less than its standard error (0.05). The less plausible is the null hypothesis. The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. Hasseldine and Li (1999) exemplified that 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 decrease tax evasion.

**H07: The influence of the peer groups (that is friends and families) are positively but insignificantly correlated with compliance attitude of taxpayers:** Research findings are not in agreement with the hypothesis since influence of the peer group has coefficient estimate ( $\beta_1 = -0.264$  p-value = 0.000) which implies that we reject the null hypothesis that stated is positive but insignificant relationship between peer influence group and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated that peer influence group significantly determines tax compliance since p-value less than its standard error (0.05). The less plausible is the null hypothesis. According to Torgler (2011) concludes that citizens' perception on how compliant other citizens has a strong impact on their willingness to comply.

**H08: Women taxpayers have positive attitude on tax compliance than male:** Research findings are not in agreement with the hypothesis since gender and age has coefficient estimate ( $\beta_1 = -0.157$  p-value = 0.746) which implies that we accept the null hypothesis that stated there is negative and insignificant relationship between gender & age and tax compliance. Thus p-value indicated that gender & age is insignificantly determines tax compliance since p-value greater than its standard error (0.05). The higher is p-value the more plausible is null hypothesis. Other research work done also agreed that there have been a significant number of studies which found no relationship between age and compliance (Porcaro, 1988; Mohani, 2001) also found that older people are more compliant than young people. Concerning the gender of tax payers' study done

by Hasseldine and Hite (2003), Tittle (1980) found that female taxpayers were more compliant than males. In difference, Richardson (2006), Amina and Saniy (2015), Niway and, Wondwossen (2016) suggested that gender has no significant impact on compliance attitude of taxpayers.

**H09: State that there is no significant effect tax knowledge and education on tax compliance.** Research findings are not in agreement with the hypothesis since tax knowledge has coefficient estimate ( $\beta_1 = 0.344$  p-value = 0.000) which implies that we reject the null hypothesis that stated is positive but insignificant relationship between tax knowledge & education and tax compliance. Thus p-value (plausibility of the null hypothesis) indicated tax knowledge and education significantly determines tax compliance since p-value less than it standard error (0.05). The less plausible is the null hypothesis. The responded also commented quality training should be given to taxpayers by the authority. Moreover, the research done by other researcher also agreed. For example, Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. Also, the research done on tax knowledge and awareness their finding of Adimassu & Jerene (2016), Oladipupo & Obazee (2016), Desta (2010), Pambudi, et al. (2015), Mehari, et al. (2017), and Palil & Mustapha (2011) who identified that high tax knowledge would increase voluntary tax compliance.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS**

#### **AND RECCOMENDATIONS**

##### **5.1 Summary of Findings**

The general objective of this study is to assess “Determinants of Tax Compliance Behavior of Taxpayers” in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office. This research had a total target population of 7941 taxpayers’ and among this total population 5941 active taxpayers in the year 2013/2021 at Addis Ababa No 2 Middle Level Taxpayers Revenue Branch office and the remaining 2000 also active Category “A” taxpayers at Nifas Silk Lafto Sub City Revenue Branch Office in the year 2013/2021. The researcher distributed 381 out of its 20 questionnaires was rejected 361 was returned with feedback. Data analysis was done by SPSS window version 25 and MS Excel 2010 using frequency descriptive statistical tools and Spearman correlation and liner regressions analysis were used in analyzing the data collection. Moreover, the researcher was conducted the semi structured questionnaire for the Key Informant Interview guide for tax auditors officials.

The study also made interpretation on the hypothesis that complexity of tax system, probability of detection, tax rate, penalty, perceived on the role of government, attitude of tax evasion, peer influence of tax evasion, gender and age, and tax knowledge and education has no significant effect on tax compliance level.

Findings on gender revealed that there are more male than females among the respondents indicating that more men than female are taxpayers. It was also affirmed that majority of the

respondents age less than 30 years old and followed between 31 to 40 years old this indicated that most of them were young and adult. The majority of respondent's educational level was BA/BSc. The majority of respondents work position was employees and also the finding show that most respondents engaged on Services business sector.

The research was examined the detriments of tax compliance behavior in Addis Ababa City Revenue Office Category "A" taxpayers particularly in selected Addis Ababa No 2 Middle Level a case of Category "A" taxpayers and Nifas Silk Lafto Sub City Revenue Branch office a case of Category "A" taxpayers. The result reveled that complexity of tax system, probability of detection, tax rates, penalty, tax evasion, peer influence group and tax knowledge are factor that significantly affect determinates tax compliance behavior. However, gender, age and perception of the role of government have no significant impact on tax compliance behavior.

## **5.2 Conclusions**

These study findings provide to assess "Determinants of Tax Compliance Behavior of Taxpayers" in the Case of Category 'A' Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office. From the study findings there is sufficient evidence to conclude complexity of tax system, probability of detection, tax rates, penalty, tax evasion, peer influence group and tax knowledge are factor that significantly affect determinates tax compliance behavior. However, gender, age and perception of the role of government have no significant impact on tax compliance behavior.

Flowed by, the complexity of the tax system, probability of detection, tax rates and peer influence group that stated are negatively and insignificant relationship between and tax

compliance as well as significantly determines tax compliance behavior since p-value less than its standard error (0.05). Meaning the study findings there is sufficient evidence to conclude that the complexity of the tax system, probability of detection, tax rates and peer influence group are negatively associated with higher levels of tax compliance

Penalty and tax knowledge and education that stated are positively and insignificant relationship between and tax compliance as well as significantly determines tax compliance behavior since p-value less than its standard error (0.05). Meaning the study findings there is sufficient evidence to conclude that penalty and tax knowledge & education are positively associated with higher levels of tax compliance

Perception of the role of government that stated there is positively but insignificant relationship between perception of the role of government and tax compliance as well as is insignificantly determines tax compliance since p-value greater than its standard error (0.05). Meaning the study findings there is sufficient evidence to conclude that perception of the role of government is positively associated with higher levels of tax compliance.

Finally, the study concluded, gender and age that stated there is negatively but insignificant relationship between perception of the role of government and tax compliance as well as is insignificantly determines tax compliance since p-value greater than its standard error (0.05). Meaning the study findings there is sufficient evidence to conclude that gender and age is negatively associated with higher levels of tax compliance.

### 5.3 Recommendations

The objective of conducting an audit to improve the level of tax compliance, the tax administration office should need to improve tax administration structure, have effective and sufficient powers that enable it to enforce compliance effectively, to enable honestly to verifying the authenticity and validity of submitted taxpayers book, proofing the truth and fairness of operating results presented by income statement or financial positioning presented by taxpayers is accordance with tax laws and GAAP and Checking the papers distinction between capital and revenue of transaction. Therefore, the following recommendation helps to tax authority, taxpayers and tax police makers;

The tax authority also requires to arrange regular high quality training system for taxpayers, how to calculate tax, for whom to pay, when to pay and taxpayers righties and responsibilities. This helps to create awareness among the taxpayers and encourage voluntary tax compliances and avoid the fearing of penalty

A good political system has positive impact on tax payer's attitude towards to avoid tax evasion therefore, government expected to improve the political system that assures faire, justice, honest among taxpayers and trusty between tax collectors.. It helps taxpayer to proudly to say "I am a tax taxpayer citizen".

Category "A" taxpayers used bookkeeping but there is a challenge on income tax rates. This means that authorities need to establish simple and understandable tax laws. As the result, tax laws must be simple, clear to understand and certainly, it has an essential effect to remove any confusing loopholes that give room for different interpretation.



In compliance with tax laws, the influence of reference groups meaning relatives, friends and family members are important. Therefore, awareness raising on personal compliance and educating about the benefit and importance of voluntary compliance to the entire citizen will help to minimize the undesirable attitudes of relatives, families and friends. This will in turn, help to improve tax compliance.

To inspire compliance it is important to create awareness on tax knowledge and education: educating and giving awareness for taxpayers will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes that tax authority administers the law and regulation fairly. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently. Functions such as tax assessment, collection, awareness creation, providing information, and enforcement has to be performed effectively and efficiently, so that it will be perceived as strong and powerful by the taxpayers.

In addition to this, efficient service delivery to taxpayers is a key factor against which the strength of the authority in well-organized structure, with enough ethical, responsible and honest respectful manpower, with enough material and budget

Taxpayers tend to evade to the extent they feel by two reasons one, if the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel deceived and attempt to evade. Therefore, government needs to spend carefully, very wisely and sensitively to spend its expenditures in

order to increase tax compliance. This maximizes heavy taxpayers trust on the government. The second reason is that the authority is weak and unable to enforce the law. This directly motivates non compliers to continue evading. Hence, to create an efficient tax administration, the tax authority needs to strengthen itself by educating and training its employees, by computerizing its operations and by devoting additional resources.

Finally, future research should be done, on determinants of on tax compliance behavior in the case of Large Taxpayers, Category “B”, and “C”, and etc.

## REFERENCES

AABE, (2015), Accounting And Audit Board of Ethiopia: Five yeas Strategic Plan 2015/16 – 2020/2021, Addis Ababa Ethiopia.

Abdul-Jabbar H (2009). Income tax non-compliance of small and medium enterprises in Malaysia: Determinants and tax compliance costs (Doctoral dissertation, Curtin University).

Abdulsemed Shafi (2019), determinants of tax compliance: Case study at Addis Ababa on value added tax registered individual tax payers in Addis Ketema Sub city, Faculty of Business and Economics, Addis Ababa University.

Agnar Sandmo, 2005, The theory of Tax evasion a retrospective view, National Tax Journal, Vol LVIII, No 4. Alabede.et.al (2011)

Agumas Alamirew, 2016 Impact Of Tax Audit On Improving Taxpayers Compliance: Empirical Evidence From, Ethiopian Revenue Authority at Federal Level Department Of Accounting & Finance, College Of Business And Economics, Bahir Dar University, Ethiopia. Ajzen I (2002), Perceived behaviour control, Locus of control, and the Theory of Planned behavior, Journal of applied social psychology, 32: 1-20.

Alabede, J. , Ariffin, Z. & Idris, K. (2011). Determinants of Tax Compliance Behaviour: A Proposed Model by Nigeria. In Abdulsalam Mas‘ud, Almustapha Alhaji Aliyu and El-Maude Jibreel Gambo(ed) Tax Rate and Tax Compliance In Africa.

Alm, J., and Torgler, B. (2006). Culture differences and tax morale in the United States and in Europe. Journal of Economic Psychology, 27(2), 224-43.

American Accounting Association (2008), vol 22, issue 1.

Amina, A. (2013) Determinants of tax compliance: the case of Jimma town. Jimma University 79. Jimma: Jimma University.

Andreoni, J, Erard, B., and Feinstein, J. (1998). Tax compliance. Journal of Economic Literature, 36, 818-60.

Birchall, J. and Fontana, M. (2015) *The Gender Dimensions of Expenditure and Revenue Policy and Systems*, BRIDGE, Brighton: Institute of Development Studies

- Bisrat, A. (2010). An examination of the link between Tax Administration and Value Added Tax Compliance in Ethiopia. Addis Ababa University, Public Administration. Addis Ababa: Addis Ababa University.
- Bryman, A., & Bell, E. (2003). *Business Research Methods*. Oxford: Oxford University Press.
- Chan, C.W., Troutman, C.T., and O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from United States and Hong Kong. *Journal of International Accounting, Auditing and Taxation*, 9(2), 83 -103.
- Desta K., 2010. "Assessment of taxpayers" voluntary compliance with taxation: a case of Mekelle city, Tigray, Ethiopia"" MBA, Thesis, MU.
- Dubin, J.A. (2004). Criminal investigation enforcement activities and taxpayer noncompliance. Paper presented at 2004 IRS Research Conference, Washington, June, 1-45.
- Ebrill (2010). *The Modern VAT*, IMF, Washington DC.
- Eugene nii borte, (2011), Improving revenue collection through tax audit practice: a case of Ghana revenue authority, Kwame Nukuruma University, Ghana, pp 23-39.
- Evans, C., Carlon, S., & Massey, D. (2005). Record keeping practices and tax compliance of SMEs. *eJournal of Tax Research*, 3(2) ,288-334.
- Frey, B.S (2003), Deterrence and Tax Morale in the European Union, *European Review* 1(3), 385-406.
- (Farida Abdul and David Wang'ombe, 2018) Tax costs and tax compliance behaviour in Kenya, *Journal of Accounting and Taxation*, Strathmore School of Management and Commerce, Kenya.
- Gebeyehu, M. (2008). Tax Audit Practice and Its Significance in Increasing Revenue in Ethiopia: The Case of Addis Ababa City Administration, Faculty of Business and Economics, Addis Ababa University.
- Getaneh, M. (2011). Tax audit practice in Ethiopia: the Case of the federal Government. Ethiopia- Addis Ababa University: School of Graduate Studies.
- Hofmann, E., Voracek, M., Bock, C., Kirchler, E., Tax compliance across sociodemographic categories: Meta-analyses of survey studies in 111 countries, *Journal of Economic Psychology* (2017), <http://dx.doi.org/10.1016/j.joep.2017.06.005>
- IMF 2011. Revenue mobilization in developing countries. *Policy Paper prepared by the Fiscal Affairs Department (8 March)*. Washington D.C.: International Monetary Fund.
- John Obi Anyaduba Ph D. Impact of Tax Audit on Tax Compliance in Nigeria Kennedy Prince

Kangave, J. (2004), Improving Tax Administration: A Case Study of The Uganda Revenue Authority. LL.M. Thesis. Kingston: Queen's University, Faculty of Law.

Kasipillai, J Norhani, A. and Noor Afza, A. (2003), 'The influence of education on tax avoidance and evasion', Journal of tax research, Vol. 1 No. 2 March, 2013

Kastlunger, B, Dressler, SG, Kirchler, E. (2010) Sex differences in tax compliance: Differentiating between demographic sex, gender-role orientation, and prenatal masculinization (2D:4D). Journal of Economic Psychology 31(4): 542–552.

Kircher, E. E. (2008). “Enforced versus Voluntary Tax Compliance: The Slippery Framework”. Journal of Economic Psychology.

Kirchler, E., Hoelzl, E., and Wahl, I. (2008). Enforced versus voluntary compliance: The “slippery slope” framework. Journal of Economic Psychology, 29, 210-55.

Loo, E.C. (2006). The influence of the introduction on self-assessment on compliance behaviour of individual taxpayers in Malaysia. PhD Thesis, University of Sydney.

Lymer, A, and Oats L. (2009). *Taxation: Policy and Practice* (16th ed.) Birmin Fiscal Publications.

Merima Ali, Odd-Helge Fjeldstad, Ingrid Hoem Sjursen, Chr. Michelsen, Factors affecting tax compliant attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa Insitute Bergen, Norway

McKerchar, M. & C. Evans (2009) Sustaining growth in developing economies through improved taxpayer compliance: Challenges for policy makers and revenue authorities. *eJournal of Tax Research*, 7, 171-201 Modugu , International Journal of Business and Social Science Vol. 5, No. 9; August 2014 ,

McKerchar, M., Meyer, K. and S. Karlinsky, (2006), Making Progress in Tax Simplification: A Comparison of the United States, Australia, New Zealand and the United Kingdom' McKerchar, M. and M. Walpole (Undated), Further Global Challenges in Tax Administration Fiscal Publications, Birmingham, UK, pp. 367- 383

Mugume, C. (2006), Managing Taxation in Uganda. Kampala: MPK Graphics.

Prasetyo Devsta et. El (2020) Overconfidence, Gender And Tax Compliance: The Indonesian Evidence, MONTENEGRIN JOURNAL OF ECONOMICS 16(4):135-144 DOI: 10.14254/1800-5845/2020.16-4.1

OECD (2004a). Compliance Risk Management: Audit Case Selection Method, Information Notes, October 2004, Tax Administration Compliance Sub-group, available at, <http://www.oecd.org/dataoecd/44/33818568.pdf>.

OECD (2006a). Strengthening Tax Audit Capabilities: General Principles and Approaches, Information note, October 2006, Tax Administration Compliance Sub-group, available at <http://www.oecd.org/dataoecd/46/18/37589900.pdf>

Okonkwo, A.I. (2014) Critical Evaluation of Tax Audit and Investigation Processes in Enhancing Tax Compliance. Being a Paper Presented at the CITN MPTP in Uyo on October 8-9

Ola, C.S. (2001). Income Tax Law and Practice in Nigeria, Ibadan: Heinemann Educational Books (Nigeria) Plc.

Palil, R. (2010). Tax knowledge and tax compliance determinants in self-assessment system in Malaysia, University of Birmingham

Palil, M. R. & Mustapha, A. F. (2011) Tax audit and tax compliance in Asia: A case study of Malaysia. *European Journal of Social Sciences – Volume 24, Number 1, 7-32*

Singh, V. (2003). Malaysian Tax Administration. 6th ed. Kuala Lumpur: Longman.in

Tilahun Aemiro (ed), Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers.. *Journal of Economics and Sustainable Development* Vol.5, No.15

Yesegat, W A. (2008). Value added Tax Administration in Ethiopia: A Reflection problems, e *Journal tax Research* (2008), 6(2), 145-168

## Annex 1 Questionnaire's in English



ST MARY UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
MBA IN ACCOUNTING & FINANCE

Dear Respondent,

This questionnaire is designed to conduct a research on the topic “**Determinants of Tax Compliance Behavior in the Case of Category ‘A’ taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office**”. The study is conducted for the partial fulfillment of the requirements of MBA Degree in Accounting and finance at St Mary University.

The purpose of this study is to identify and understand the determinant factors of tax compliance behavior in the case of category “A” taxpayers that drives tax payers not to comply with the tax requirements and to suggest possible solutions to policy makers for future use. To this effect, your honest response to the questions provided would be greatly appreciated. All answers you provide here will remain confidential and will be used for the purpose of the research only. No information that identifies either you or your company will be published in any form. Please don't mention your name anywhere in the questionnaire also. You are kindly requested to provide your answer for every question.

Tel. (mobile): +251 973053737; E-mail: [bekureyimam2@gmail.com](mailto:bekureyimam2@gmail.com)

Thank you in advance for your participation.

**I. DEMOGRAPHICS & SOCIO ECONOMIC STATUS OF THE RESPONDENTS**

Please, make a tick (✓) mark:

**1. Gender of the respondent**

Female

Male

**2. Age group of respondents**

Less than 30 years old

31 – 40 years old

41 – 50 years old

Above 50 years old

**3. Education background of respondents**

Primary School

High School

TVET

BA/BSc

MA/MSc and above

**4. Your position in the company**

Owner

Owner Manager

Manager

Employee

**5. What is your business sector**

Construction

Manufacturing

Service

Import and Export

Whole Sales

Others (Please specify) \_\_\_\_\_



**Part II: Question related to tax compliance factors**

**Instruction:** Please make a tick (✓) mark you thought appropriate and your opinion for the open ended questions.

*This question is applicable only for Selected Sub City Category 'A' Taxpayers Auditors. Only use for Academic purpose!!!*

**2.1 Opinion of respondents on complexity of tax system**

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
Tax system is very complicated and affects the tax compliance level of taxpayers					
Due to the complexity of the tax system and rules, support of tax consultant is necessary					
If tax rules and regulations are easy to understand and apply tax compliance will be improve					

**2.2 Opinion of respondents on probability of detection**

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
Taxpayer might not to be evaded tax if the probability of detection tax high					
Taxpayers who have never been audited or investigated before are more risk taker					
The tax office has no sufficient resources and capacity to audit or surveillance every taxpayers					

**2.3 Opinion of respondents on tax rate**

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
The current profit tax rate is very high and it should nee to reduced					
The tax rate for higher company larger than individual trader					
The tax rate should be the same for every businesses regardless of their legal formation					
The tax rate should decrease as annual income increases so that large taxpayers will pay at lower rate as their income increases					

#### 2.4 Opinion of respondents on penalty

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
High penalty on noncompliance increase tax compliance					
I comply with tax requirements because of fear of penalty					
Taxpayer penalized in previous periods will comply in future					

#### 2.5 Opinion of respondents on perceived on the role of government

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
If the government spend too much tax revenue on unnecessary welfare it encourages tax noncompliance					
If people are getting comparable public services from the government it enhance taxpayers compliance					
If taxpayers perceptions of tax fairness increases, the level of tax noncompliance will be also decrease.					

#### 2.6 Opinion of respondents on attitude of tax evasion

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
A good political system has positive impact on tax payer's attitude towards to avoid tax evasion					
Tax behavior towards the general level of tax evasion is dependent on the desirability of the government program					
Paying tax is my own responsibility					
Taxpayers is paying tax fearing the tax penalty					
If tax law should be respected it discourages the attitude of tax evasion.					

## 2.7 Opinion of respondents on peer influence group

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
The noncompliance of other tax payers has a negative impact on compliant of taxpayers behavior					
My relatives and friends action that affect my decision to reduce tax liability					
If one taxpayer is penalized due to tax evasions that may affect other not evade tax.					

## 2.8 Opinion of respondents on gender and age

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
Females are more compliant than males					
Young taxpayers (traders) are more risk takers and do not comply with the tax rules and requirements					

## 2.9 Opinion of respondents on tax knowledge and education

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
Sufficient tax education and trainings are given on the purposes of tax its regulations					
Taxpayers with little tax knowledge don't comply tax requirements					
I have sufficient tax knowledge that helps to fulfill my tax obligations.					

### 2.10 Opinion of respondents on tax compliance

Possible measures	Strongly Disagree (1)	Disagree (2)	Moderately Agree (3)	Agree (4)	Strongly Agree (5)
Tax noncompliance has negative impact on a country's growth and development					
Government service to the public may reduce due to low tax compliance					
Tax noncompliance distorts resources allocation to the society.					

### Part III Your comments and Recommendation

Please state possible solutions that can improve taxpayer's tax compliance behavior and bring positive attitude towards tax compliance.

---

---

---

---

## **Annex II TAX OFFICIAL'S INTERVIEW INSTRUMENT**

1. Could you tell me the level of taxpayer's tax awareness and compliance behavior for Ethiopian tax system? If they are not aware, what MOR plans to do regarding awareness creation and compliance improvement?
2. Do you believe that MOR has currently collecting the potential amount of tax revenue? If yes, how is it achieved? If not, could you tell me the reason behind, and on what audit cases should MOR concentrate in its audit work?
3. Do you believe that Category 'A' Taxpayers are tax audit more difficult regarding to tax compliance to other? If Yes or No what is the reason behind? If the answer is no, then which category more difficult to be audit?

Annex 2 Questionnaire's in Amharic



የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

የሰነድ ስርዓት ለማረጋገጥ

## įõM 1. >ÕnLÃ S[Í

Ÿ²=| u>K Kk[u<f ØÁo-< SMc-" uT>ðMÑ<f dØ" "eØ "✓" UMįf ÁÉ`Ñ<

### 1. ĩ}

- "É
- c?f

### 2. °ÉT@

- Ÿ30 u}<
- 41-50
- 30-40
- Ÿ50 uLÃ

### 3. %fUI`f Å[Í-f

- Ÿ12— įõM u}<
- Ç=Ó]
- 12Ñ— įõM ÁÖ"kk
- Te}`e
- +y+
- Êi,-f

### 4. É`ĩ~ -eØ ÁK-f GLò'f

- vKu?f
- c^ >eŸ=Áĩ
- vKu?f" e^ >eŸ=Áĩ
- c^}—

### 5. %)cT\uf %e^ ²`ö

- >U^<
- >eSÜ" LŸ=
- ¢"ef^ji"
- Í=UL "ÓÉ
- >ÑKMÓKAf cÜ
- K?L ŸJ' u=ÑMì<M"

iõM 2. %ɣɣɣɣe IÓ - ʔɣɣɣ=Ÿu` ˆˆˆAU - ʔɣɣɣˆŸu` %T>ÁÁŃŃ< UɣˆÁ, < %T>SKŸf- ʔvɣ-” Ÿɣɣ< ucˆÖjy K}kSÖ=f ØÁo-< %T>eTS<uf” SMe (ʔcTTKˆˆ<& >MeTTU) uT>M Ÿ}cÖ< >T^à< >”Æ” w% uSU[Ø % “√” UMɣf ÁÉˆŃ<

2.1. %ʔc- >c}ÁÁf %ɣɣɣe eˆf ˆˆˆeweu’u}SKŸ}

.l	%ɣɣɣe eˆf ˆˆˆeweu’f	uõèU >MeTTU (1)	>MeTTU (2)	uSÖ’< - ʔeTTKG< (3)	ʔeTTKG< (4)	u×U ʔeTTKG< (5)
6	%ɣɣɣe eˆf ˆˆˆewew uSJ’< %IÓ }Ń»’f” Ák”dM					
7	%ɣɣɣe IÓ< ˆˆˆewew uSJ”+’< %ɣɣɣe >T”] vKVÁ ÁeðMÒM					
8	%ɣɣɣe IÓ< ÓMê ʔ “ KS[Çf kLM ŸJ’< %IÓ }Ń»’f ÁÚU^M					

2.2. %ʔc- >c}ÁÁf IÓ %TÁŸw\ Ów` ŸóÁ< %SÁ’ ʔÉM u}SKŸ}

.l	IÓ %TÁŸw\ Ów` ŸóÁ< %SÁ’ ʔÉM	uõèU >MeTTU (1)	>MeTTU (2)	uSÖ’< - ʔeTTKG< (3)	ʔeTTKG< (4)	u×U ʔeTTKG< (5)
9	Ów` >KS;ðM %Sɣ”p ʔÉM Ÿö)— ŸJ’ Ów` ŸóÁ< ufjM ʔ”ÉŸöK< Áu[ɣɣM					
10	*Ç=f }Á`Ô %TÁˆˆ<p É”f Ów\” >d”f KTd”p ÁÁõ^M					
11	%Ów` cwdu=ˆˆˆ S/u?f ʔÁ”Ç”Æ” Ów` ŸóÁ *Ç=f %TÉ[Ó >kS< >e)— ˆˆˆ<					

2.3. %ʔc- >c}ÁÁf %ɣɣɣe U×@ u}SKŸ}

.l	%ɣɣɣe U×@	uõèU >MeTTU (1)	>MeTTU (2)	uSÖ’< - ʔeTTKG< (3)	ʔeTTKG< (4)	u×U ʔeTTKG< (5)



12	>G<" ÁK"< %Ów` Ux'@ (}S") Ýõ}— eKJ' IÓ ð "ÇÃÿu` ÁÁ`ÒM					
13	Ýõ}— Ów` ÝóÄ< ÝK?KA* %uKÖ %¸¸je Ux'@ Ý" >Kv+<					
14	%Ów` Ux'@ õ¸@ "MJ' %IÓ }Ñ»f" ÁkBYM					
15	%ÿ<v"Á-< Ñu= ð%ÚS[ c=H@É %¸¸je Ux'@ uð Ý" k'c SH@É >Kuf					

2.4. %ð`c- >c}ÁÄf IÓ %vKTju` %T>\*M pxf u}SKÿ}

.l	IÓ %vKTju` %T>*M pxf	uðèU >MeTTU (1)	>MeTTU (2)	uSÖ'< - ðeTTKG< (3)	ðeTTKG< (4)	u×U ðeTTKG< (5)
16	%pxf SÖ" Ýõ}— ÝJ' %IÓ }Ñ»f ÄÚU^M					
17	%Ów` ÓÈ¸Ä" u>Óvu< %U"x"< Mk× ð<LKG< uT>M õ^%oo'"<					
18	kÁU c=M *Ç=f }Á`Ô pxf %¸}×Kuf É`ÿf K"Áò~ IÑ<" ð"Éf Tju` ð"ÇKuf KT`p Ä[Ç^M					

2.5. %ð`c- >c}ÁÄf ÝS"Óef %}Ñ-< T>^< u}SKÿ}

.l	ÝS"Óef %}Ñ-< T>^<	uðèU >MeTTU (1)	>MeTTU (2)	uSÖ'< - ðeTTKG< (3)	ðeTTKG< (4)	u×U ðeTTKG< (5)
19	S"Óef ÝÓw` Ýóç %cucu"<" Ów` >LeðLÑ> KJ'< KJ'< ¸"ö< ÉÒõ u=ÁÄ`Ó %Ów` e""<" Áu[¸¸M					
20	Íx< KT>ÝõK<f Ów` }Ñu="<" >ÑMÓKAf u=ÁÑ-< %Ów` e""<" ÁÖóM					
21	uÓw` Ýóç >SK"Ýf %Ów` õfH@f %}e}"ÝK ÝJ' %Ów` Sc"" Á[Í ð%k'c ÄH@ÇM					

2.6. %ð`c- >c}ÁÄf %Ów` e"" ^vK u}SKÿ}

.l	%Ów` e"" ^vK?	uðèU >MeTTU (1)	>MeTTU (2)	uSÖ'< - ðeTTKG< (3)	ðeTTKG< (4)	u×U ðeTTKG< (5)
22	Ø\ %þK+" e>f "K uÓw` e"" ^vK? LÄ Ów[ ÝóÄ< >"<¸¸@ }î ÄðØ`v^M					

23	u>ÖnLÃ %Ów` e^^ ÁÍ LÃ %Ów` ÝóÃ v ]"< uS"Óef ýaÓ^U >eðLÑ>f LÃ %}Sc ] "'<					
24	Ów` S;ðM %ã'@ ÷Lòf "'<					
25	ግብር ከፋዮች ቅጣትን በመፍራት ነው ግብር የማይሰውሩት					
26	የግብርን ህግ ማክበር የግብርስወራን ዝንባሌን አያበረታታም					

**2.7. %እ`c- >c}ÁÂf የአቻ ተጽዕኖ በግብር ሰውራ ላይ በተመለከተ**

}.l	የአቻ ተጽዕኖ በግብር ሰውራ ላይ	uðèU >MeTTU (1)	>MeTTU (2)	uSÖ'< - እeTTKG< (3)	እeTTKG< (4)	u×U እeTTKG< (5)
27	የግብር ህጎች በሌሎች ግብር ከፋዮች አለመከበር በእውነተኛ ግብር ከፋዮ ላይ አሉታዊ ተጽእኖ ይፈጥራል					
28	የዘመድ የጋደኞች ተጽእኖዎች የኔን የግብር ግዴታዬን ለመቀነስ ያደረግሁትን ውሳኔ ይK`×M					
29	%>"Æ Ów` ÝóÃ pxf K?L—"'< Ów` ÝóÃ LÃ }êእ. ÁS×M					

**2.8. %እ`c- >c}ÁÂf èታ እ" እÉT@ u}SKÿ}**

}.l	èታ እ" እÉT@	uðèU >MeTTU (1)	>MeTTU (2)	uSÖ'< - እeTTKG< (3)	እeTTKG< (4)	u×U እeTTKG< (5)
30	c?,"< Ý"Ê< %}hK %Ów` IÔ<" Áÿw^K<					
31	u`xfj %ÉT@ ;MM %T>Ñ-< Ów` ÝóÃ< ('ÒÈ-<) %Ów` IÑ<" LKT;u` ÃÃð^K<					

2.9. %ǵǵc- >c}ÁǺf Ów` IÓ ǵǵ<kf Á[ u}SKǵ}

.l	%Ów` IÓ ǵǵ<kf Á[	uǵèU >MeTTU (1)	>MeTTU (2)	uSǾ< · ǵeTTKG< (3)	ǵeTTKG< (4)	u×U ǵeTTKG< (5)
32	%Ów` ÖkT@ǵ" %Ów` IÔ< LǺ uum G<'@ǵ fUI`f" %Ó"u? TeÚuÝ eMǾ" }c...M					
33	eK Ów` U"ǵ" ÖkT@ǵ um Ó"u? %K?K" < Ów` ÝóǺ Ów\` u>Óvu< >ǺÝǾMU					
34	u}cT^G<uf %e^ 2`Ǿ ÁK<f" %Ów` ÓËǵ-< eKT`p Ów` u>Óvu< ǵ"ÉÝǾM ÁÓ²—M					

2.10. %ǵǵc- >c}ÁǺf %ǵǵe IÓ eKTju` u}SKǵ}

.l	%ǵǵe IÓ eKTju`	uǵèU >MeTTU (1)	>MeTTU (2)	uSǾ< · ǵeTTKG< (3)	ǵeTTKG< (4)	u×U ǵeTTKG< (5)
35	%Ów` IÔ<" >KTju` u>"É Ñ` %>=ǵ·T> · ǵÉÑf LǺ >K<ǵ@ }è°· ǺǾǾ^M					
36	Ów` ufjjiM "M}ÝǾK ÝS"Óef					

	¿T>Ñ"'"<" >ÑMÓKAf ã"Ç=k"e ÁÁ`ÒM					
37	¼,¼;je IÔ<" ÁKTju` ¼²?Ô<" ¼Gwf jõõM Á³vM					

jõM 3. }ÚT] >e}Á¼f" ¼Sõ}H@ Hdw

38. Ów` ÝóÄ< KIÓ }Ñ» ã"Ç=J'< ÁÓ³M wK" < ¼T>Ácu<f" ¼SõfH@ >p×Ý-< u=ÑMèM"&

---



---



---



---



---

Kfwwa u×U >ScÓ"KG<!!

**Annex 3 SPSS version 25 Data analysis summary report**

			Correlations									
TAXCOMP			COMP LEXIT Y	PROB_ DETE C	TAX_ RAT E	PEN ALT Y	PER_ ROL E_GO V	TA X_ EV AS	PEE R- GR OUP	GEN DER- AGE	TAX- KNOW	
Spearman's rho	TAXCOM	Correlation Coefficient	1.000	0.068	.212**	.201**	-.403**	.407**	.195**	.213**	.416**	-0.072
		Sig. (2-tailed)		0.198	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.173
		N	361	361	361	361	361	361	361	361	361	361

COMPLEXITY	Correlation Coefficient	0.068	1.000	.214**	.177**	0.099	0.101	.312**	-0.088	0.022	.158**
	Sig. (2-tailed)	0.198		0.000	0.001	0.059	0.056	0.000	0.095	0.676	0.003
	N	361	361	361	361	361	361	361	361	361	361
PROB_DETEC	Correlation Coefficient	.212**	.214**	1.000	.257**	-0.102	.204**	.236**	-0.171**	-.108*	-0.069
	Sig. (2-tailed)	0.000	0.000		0.000	0.052	0.000	0.000	0.001	0.040	0.190
	N	361	361	361	361	361	361	361	361	361	361
TAX_RATE	Correlation Coefficient	.201**	.177**	.257**	1.000	-0.165**	.425**	-0.014	0.068	0.002	.128*
	Sig. (2-tailed)	0.000	0.001	0.000		0.002	0.000	0.791	0.098	0.976	0.015
	N	361	361	361	361	361	361	361	361	361	361
PENALTY	Correlation Coefficient	-.403**	0.099	-0.102	-.165**	1.000	-0.355**	.245**	-0.019	0.009	0.057
	Sig. (2-tailed)	0.000	0.059	0.052	0.002		0.000	0.000	0.718	0.857	0.278
	N	361	361	361	361	361	361	361	361	361	361
PER_ROLE_GOV	Correlation Coefficient	.407**	0.101	.204**	.425**	-0.355**	1.000	.232**	.289**	.179**	-0.072
	Sig. (2-tailed)	0.000	0.056	0.000	0.000	0.000		0.000	0.000	0.001	0.171
	N	361	361	361	361	361	361	361	361	361	361
TAX_EVAS	Correlation Coefficient	.195**	.312**	.236**	-0.014	.245**	.232**	1.000	.121*	.217**	-.173**
	Sig. (2-tailed)	0.000	0.000	0.000	0.791	0.000	0.000		0.021	0.000	0.001
	N	361	361	361	361	361	361	361	361	361	361
PEER-GROUP	Correlation Coefficient	.213**	-0.088	-0.171**	0.068	-0.019	.289**	.121*	1.000	.454**	.296**
	Sig. (2-tailed)	0.000	0.095	0.001	0.198	0.078	0.000	0.021		0.000	0.000
	N	361	361	361	361	361	361	361	361	361	361
GENDER-AGE	Correlation Coefficient	.416**	0.022	-0.108*	0.002	0.009	.179**	.217**	.454**	1.000	0.000

	Sig. (2-tailed)	0.000	0.676	0.040	0.976	0.857	0.001	0.000	0.000	0.995
	N	361	361	361	361	361	361	361	361	361
TAX-KNOW	Correlation	-0.072	.158**	-0.069	.128*	0.057	-0.173**	.296**	0.000	1.000
	Sig. (2-tailed)	0.173	0.003	0.190	0.015	0.278	0.171	0.001	0.000	0.995
	N	361	361	361	361	361	361	361	361	361

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

\* . Correlation is significant at the 0.05 level (2-tailed).

### Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.632	0.400		6.585	0.000

If tax rules and regulations are easy to understand and apply tax compliance will be improve	0.466	0.063	0.344	7.354	0.000
Taxpayers who have never been audited or investigated before are more risk taker	-0.266	0.033	-0.426	-8.055	0.000
The tax rate for higher company larger than individual trader	-0.182	0.050	-0.270	-3.641	0.000
I comply with tax requirements because of fear of penalty	-0.111	0.032	-0.175	-3.439	0.001
If the government spend too much tax revenue on unnecessary welfare it encourages tax evasion	0.404	0.055	0.567	7.373	0.000
Tax behavior towards the general level of tax evasion is dependent on the desirability of the government program	0.016	0.035	0.026	0.466	0.642
My relatives and friends action that affect my decision to reduce tax liability	0.143	0.036	0.200	3.952	0.000
Young taxpayers (traders) are more risk takers and do not comply with the tax rules and requirements	-0.157	0.030	-0.264	-5.223	0.000
Taxpayers with little tax knowledge don't comply tax requirements	-0.016	0.051	-0.015	-0.325	0.746

---

a. Dependent Variable: Tax noncompliance has negative impact on a country's growth and development

### Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The categories of Respondents business sector occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
2	The categories of Tax system is very complicated and affects the tax compliance level of taxpayers occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
3	The categories of Due to the complexity of the tax system and rules, support of tax consultant is necessary occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
4	The categories of If tax rules and regulations are easy to understand and apply tax compliance will be improve occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
5	The categories of Educational Background of Respondents occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
6	The categories defined by Gender of Respondents = Male and Female occur with probabilities 0.5 and 0.5.	One-Sample Binomial Test	.000	Reject the null hypothesis.
7	The categories of Females are more compliant than males occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
8	The categories of Young taxpayers (traders) are more risk takers and do not comply with the tax rules and requirements occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
9	The categories of The noncompliance of other tax payers has a negative impact on compliant of taxpayers behavior occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
10	The categories of My relatives and friends action that affect my decision to reduce tax liability occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
11	The categories of If one taxpayer is penalized due to tax evasions that may affect other not evade tax occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
12	The categories of High penalty on noncompliance increase tax compliance occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
13	The categories of I comply with tax requirements because of fear of penalty occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
14	The categories of Taxpayer penalized in previous periods will comply in future occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
15	The categories of If the government spend too much tax revenue on unnecessary welfare it encourages tax evasion occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
16	The categories of If people are getting comparable public services from the government it enhance taxpayers compliance occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
17	The categories of If taxpayers perceptions of tax fairness increases the level of tax evasion will be also decrease. occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
18	The categories of Respondents position in Company occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
19	The categories of Taxpayer might not to be evaded tax if the probability of detection tax high occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
20	The categories of Taxpayers who have never been audited or investigated before are more risk taker occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
21	The categories of The tax office has no sufficient resources and capacity to audit or surveillance every taxpayers occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
22	The categories of Tax noncompliance has negative impact on a country's growth and development occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
23	The categories of Government service to the public may reduce due to low tax compliance occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
24	The categories of Tax noncompliance distorts resources allocation to the society. occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
25	The categories of A good political system has positive impact on tax payer's attitude towards to avoid tax evasion occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
26	The categories of Tax behavior towards the general level of tax evasion is dependent on the desirability of the government program occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
27	The categories of Paying tax is my own responsibility occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
28	The categories of Taxpayers is paying tax fearing the tax penalty occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
29	The categories of If tax law should be respected it discourages the attitude of tax evasion. occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
30	The categories of Sufficient tax education and trainings are given on the purpose of tax its regulations occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
31	The categories of Taxpayers with little tax knowledge don't comply tax requirements occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
32	The categories of I have sufficient tax knowledge that helps to fulfill my tax obligations. occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.