



**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**FACTORS INFLUENCING EMPLOYMENT INCOME TAX  
COMPLIANCE AMONG WOREDA 12 PRIVATE BUSINESS  
ORGANIZATIONS: THE CASE OF BOLE SUB CITY,ADDIS ABABA,  
ETHIOPIA**

**ASHENAFI TADESSE**

**JANUARY/2023**

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**BY**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS OF  
DEVELOPMENT ECONOMICS.**

**JANUARY/2023**

**ADDIS ABABA, ETHIOPIA**

**ST. MARY’S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
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**APPROVED BY BOARD OF EXAMINERS**

As members of the board of examining of the final MA thesis open defense, we certify that we have read and evaluated the Thesis prepared by Ashenafi Tadesse under the title “**Factors Influencing Employment Income Tax Compliance Among Woreda 12 Private Business Organizations: The case of Bole Sub City, Addis Ababa, Ethiopia**” we recommend that this thesis be accepted as satisfying the thesis requirement for the Degree of Master of Science in Development Economics

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## DECLARATION

I hereby declare that this thesis entitled “**Factors Influencing Employment Income Tax Compliance Among Woreda 12 Private Business Organizations: The case of Bole Sub City, Addis Ababa, Ethiopia**” submitted to the St. Mary’s University in partial fulfillment of the requirements for the degree of Masters of Art in Development Economics is my original work and it has never been presented in any university. All sources and materials used for this thesis have been duly acknowledged.

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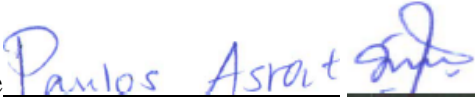
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## CERTIFICATE

This is to certify that Ashenafi Tadesse has carried out this research work on the topic entitled “**Factors Influencing Employment Income Tax Compliance Among Woreda 12 Private Business Organizations: The case of Bole Sub City, Addis Ababa, Ethiopia**” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Art in Development Economics

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Date: 13<sup>th</sup> January, 2013

## **ACKNOWLEDGEMENTS**

First and foremost, Glory and Greeting to Lord Jesus Christ for His support doing this work. Secondly, I would like to express my genuine deep gratitude and appreciation to my advisor Paulos Asrat (PhD) for his constructive suggestions, guidance and unreserved support in the course of undertaking this study. Thirdly, my gratitude also goes to for all the staff of Addis Ababa city administration Bole sub city and Woreda 12 revenue 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 family for their thoughtful understanding and endless support. Lastly but not least, I would like to acknowledge the tremendous support I received from my colleagues in my work place for their encouragement and timely advice at a very critical stage in my research.

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## **ABBREVIATIONS AND ACRONYMS**

|        |  |
|--------|--|
| BoF    | Bureau of Finance  |
| BoR    | Bureau of Revenue  |
| EIT    | Employment Income Tax                                    |
| BPR    | Business Process Re-engineering                          |
| EPRDF  | Ethiopia People Republic Democratic Front                |
| ERCA   | Ethiopian Revenue and custom authority                   |
| FDRE   | Federal Democratic Republic of Ethiopia                  |
| GDP    | Gross Domestic Product                                   |
| MoR    | Ministry of Revenue                                      |
| MTPBO  | Micro Tax Payers Branch Office                           |
| SIGTAS | Standard Integrated Government Tax administration system |
| SSA    | Sub-Saharan Africa                                       |
| TIN    | Taxpayer identifying number                              |
| VAT    | Value- Added Tax   |

## **ABSTRACT**

*Income tax evasion is a significant problem faced by most of the countries around the world including Ethiopia. The phenomenon interferes with economic efficiency, socially desirable income distribution, long term economic growth, and price stability. Therefore, a reform strategy to increase tax compliance with a concerted, long term, coordinated, and comprehensive plan is required. It is also vital that tax administrators ensure that every compliance policy instrument at their disposal is use as effectively as possible. The title of this study was factors influencing employment income tax compliance among woreda 12 private business organizations in bole sub city. The main objective of the study was to assess the major factors for employment income tax payment among private business organizations. Regarding the method of the study was The total target population from private business organizations (manufacturing and service) in the whole woreda for the purpose of this study were about 14,211. Given this information the minimum sample size of employees for reliable results is found to be 154 based on standard formula obtained from literature. The researcher distributed 154 questionnaires and all filled and returned. The study was utilized frequency descriptive statistical tools and binary logistic regressions to analyze the data collected. The result obtained revealed that false information about monthly income, unfair tax rate, penalty for tax delay, group influence, dishonest tax collectors, inconvenient time, complicated tax procedure and. negligence, As a conclusion of the study, lack of knowledge/awareness about rules and regulations, lack of ability to pay were the major responsible factors affecting tax compliance, lack of adequate and skilled man power in the woreda, absence of suitable and transparent system affects tax payment practices in the woreda. However, gender, age and perception towards the role of government have no significant impact on tax fulfillment behavior. Based on the result recommended as Taxpayers" education and training are very essential in promoting compliance, Improving the efficiency of tax administration, shall be given due attention by policy makers andThe tax authority also requires to arrange regular high quality training system for taxpayers .*

*Key: tax compliance, tax payers' behavior, employment income tax*

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the study

Economic growth comes from the accumulation of capital (both human and physical) and from Innovation which lead to technical progress. Some public expenditure can enhance productivity, such as the provision of infrastructure, public education, and health care. Taxation provides the means to finance this expenditure indirectly can contribute to increase the growth rate Myles, (2007). The existence of collective consumption of goods and services necessities putting some of our incoming into government hands Jira. et al,(2005).

Public goods are Normally supplied by public agencies due to their nature of non-rivalry and non-excludability. The nature of consumption of public good is such that consumption by one does not reduce consumption for others. Besides, consumption of Public good by an agent does not exclude other from doing same. Such nature of public goods therefore makes them impossible for private suppliers to avail them at market prices like other commodities. Government intervention in the supply of public good is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (Hoynes, 2012).

Many governments in Sub-Saharan Africa (SSA) have been great problems in collecting tax revenue for public purposes. Low per capita income, an agriculture-dominated economy, a poorly designed tax system, and a weak tax and customs administration all contribute to the difficulty of obtaining tax revenues in these countries. Furthermore, low tax revenue collection as a percentage of GDP in these countries is primarily due to institutional quality, with some taxes being more affected than others. Although efforts have been made in these countries to increase fiscal revenue by building an efficient tax system, the economic structure, institutional capacity, and political setup, poor economic development remain the most difficult issues. Moreover, in these countries, tax revenue as a percentage of GDP is declining, and countries are becoming increasingly reliant on foreign capital inflows as a source of government revenue (Kitessa & Jewaria, 2018).

Since the recent past, Ethiopia's tax revenue has shown a promising trend, but it's share to GDP ratio has remained low, indicating that policymakers should prioritize increasing tax revenue. The discrepancy between both local revenue and government spending has widened in recent years. For

instance, in Ethiopia, the tax revenue to GDP ratio was 8.08%, 7.6%, and 7.5% in the years 2016, 2017, and 2018, respectively. Ethiopia's tax-to-to-GDP ratio is low when compared to the average tax revenue of African countries. This implies that the Ethiopian government faced difficulties in collecting tax revenue at the required level (Harris & Seid, 2019).

Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax system are comprehensible and transparent for tax payer especially for less literate business operators. Tax system usually not elaborated after paper consolation with the busses community. The business owners complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. Since the business owners do not have simplified access to and clarification of the tax laws, they lack awareness on tax rules and regulations and this has an impact on the practicability of the regulations(OLATUNBOSUN, 2021).

Taxes are defined as unrequited, mandatory contributions by the citizens to the government. The taxes are unrequited means that the benefits are rarely commensurate with the amount paid in taxes. The goal of taxes is to provide social welfare through funding governmental services, property protection, defense costs, and economic infrastructure. The revenue generated from the tax is of vibrant significance for the sustainability of development in both advanced and emerging nations. Since society and a long-term growth process require education, health, infrastructure, and other social activities. Tax revenues are an extensive portion of the government budget to finance these public goods and services. Developing countries, on the other hand, have had a multitude of challenges in producing tax revenue for their budgets. To enhance their budgets and boost economic growth, emerging nations must progressively mobilize their internal wealth that can be largely achieved by tax revenue generation. Nevertheless, the economic disproportion between governmental income and spending remains difficult for the majority of the emerging nations for the last period. The cause is accredited to the quick development of government spending and small revenue collection. Different factors affect the tax revenue collection process. Institutional variables (corruption and governance), structural variables (per capita income, trade openness, inflation, and the share of agriculture in GDP), and policy variables (tax rate and tariff rate) all influence tax revenue collection. Most of the time, it is seen that structural weaknesses and inefficient institutions with excessive corruption became the reason for the low tax-to-gross domestic product (GDP) ratio in developing countries. Tax revenue in these countries rose from 9.2 percent of GDP in 2010 to 15

percent in 2015, before falling to 10.2 percent in 2018. This is due to a lack of revenue collection capability, which includes extensive tax exemptions, corruption, and a deficiency in tax and customs administration capacity (Desta et al., 2022).

In Ethiopia, in spite of the limited studies that have been conducted on the factors affecting the tax revenue in Ethiopia, there is inconsistency in their findings. Added to this, the variables previously used to analyze the impacts of tax revenue to GDP ratio are almost similar (Desta et al., 2022).

In Ethiopia, Ethiopian Revenue and Customs Authority (ERCA) is the authority dealing with taxes at federal level and there are different tax administrators at each sub city, which Bole sub city is the one. Taxes levied by central and regional government consist of direct and indirect taxes. Direct taxes are taxes including employment income taxes, business income tax, and taxes on royalties and chance winnings while indirect taxes are mainly composed of value added tax (VAT), excise taxes, and custom duties. Hence, proper assessment and collection of tax is one of the factors that enable the government to achieve its goals and programs. Besides, it reduces the country's dependability on the foreign loan and donations.

According to income tax proclamation number 286/2002, tax on income are categorized in to four schedules. they are named as schedule "A" tax on income from employment, schedule 'B' tax on income from rental of building ,schedule "C" business income tax and schedule "D" other income. According to income tax regulation number 78/2002, schedule "C", business income taxpayers are categorized in to category "A" "B" and "C". Category "A" taxpayers are corporate enterprises which have annual turnover of birr 500,000.00 or more, category "B" are those which have annual turnover between birr 100,000.00 and 500,000.00, category "C" taxpayers are those which have annual turnover of less than birr100,000.00. Category "A" and "B" tax payers, have to maintain adequate books of accounts and their income tax liability are determined based on their income statement account produced. Since category "C" taxpayers are not required by law to declare their income or keep books of account, and considered as hard to tax groups and there income tax liability are determined by LUMP SUM method, which is called standard assessment. The standard assessment is presumptive taxation a scheme by which a fixed lumpsum tax is levied on individuals or business on the bases of: The type, size and location of business activity or services and Tax exempted amount depending on the activity (FDRE HPR, 286/2002).



The Profile of Study Area: Bole sub city Revenue Office is located in addis Ababa city, Bole sub city. The sub city shares border with different sub cities (like: - Yekka, Lemmi-kura, Akaki, Nifas-silk and Kirkos sub cities). Bole sub city revenue and custom authority branch is one of the federal revenue and custom authority branch by which it has 11 woreda micro tax payers office that collects tax from category C business income tax payers. Among them woreda 12 revenue office is the one and has around 14,211 tax payers with annual income of less than 100,000 birr.(category C tax payers). In this woreda business income tax was not collected as expected. It is with low compliance with hard task of ensuring efficient and effective tax administration. Based on this general fact, the researcher motivated to study the Factors Influencing Employment Income Tax collection practices in Ethiopia with particular attention to Addis Ababa, Bole Sub City Woreda 12 private Sector Business organizations.

## **1.2 Statement of the problem**

In many under developed countries like Ethiopia, the low revenue yield of taxation can only be attributed to the fact that the tax provision are not properly enforced, either on account of the inability of the administration to cope with them, or on account of straight forward corruption. The government made several times periodic revision of the existing tax rules and regulation. Still Ethiopia's tax revenue against its Gross Domestic product remained lower as empirical evidence shows. Such low level of tax revenue is certainly the outcome of the prevailing poor tax revenue mobilization mechanisms be it in policy or administration (Fantahun, 2005).

The existing system of presumptive income taxation of Ethiopia had several disadvantages like: The amount of taxes does not depend on actual outcomes of individual entrepreneurs' performance. As a result, there may be disincentives to earn income in the sense that the presumptive income taxation is an entry barrier. It may deter people from starting a business when they think that the tax is so high that they had little chance to make a profit at all. For the same reason it may have forced people out of business who make too little profit. And the presumption based on the standard assessment method treated equally all individual entrepreneurs within a given category, regardless of their actual income. As a result, it can be regressive by imposing equal tax on individual entrepreneurs in the same category with different income. This leads to violation of the principle of tax equity (Aloysuis.B, 2009). Similarly (Lemessa, 2007) found that Category 'C' is the most problematic category of taxpayers and it is considered as hard to tax group. He stated the reasons for the problem that, category "C" tax payers pay taxes on the income estimated by the income tax

authority rather than declaring their income by themselves. Their daily income is estimated by assessment committee and the taxpayers have little room to address their view so that frequent friction is observed in this area.

The expected amount of revenue cannot be enhanced due to different reasons. Among the reasons tax operation of the system may not be smooth, tax evasion and lack of awareness creation for the taxpayers are common in the developing world, and citizens are not committed to paying the expected amount of tax for their countries (Heim, 2010). Similarly Yohannes and Zerihun (2013) stated that many developing countries have weaknesses in their tax administration that make it difficult to levy effective taxes. Especially those in the category “C”, have been facing various problems related to the taxation system (tax administration). Income tax evasion is a significant problem faced by most of the countries around the world. The phenomenon interferes with economic efficiency, socially desirable income distribution, long term economic growth, and price stability. Therefore, a reform strategy to increase tax compliance with a concerted, long term, coordinated, and comprehensive plan is required. It is also vital that tax administrators ensure that every compliance policy instrument at their disposal is use as effectively as possible (Agbi, 2014). Moreover, the empirical evidence suggests that little research has been done in Ethiopia on the factors that influence willingness to pay employment income tax payment among privates’ sectors and inconsistency in their findings(Gunte, 2017). In today’s world, this remains very much the same as persons now pay taxes to their governments. As the world has evolved, tax compliance has taken a back seat with tax avoidance and tax evasion being at the forefront of the taxpayer’s main objective. the countries and international organizations have been making an effort to fight undesirable phenomena related to taxation, the tax evasion, or tax fraud (Saxunova & Szarkova, 2018).

Several factors may lead taxpayers to engage in tax evasion. Among the factors, tax knowledge, tax morale, tax system, tax fairness, compliance cost, attitudes toward the behavior, subjective norms, perceived behavioral control, and moral obligation are major factors (Rantelangi & Majid, 2018). Other factors have also a significant effect on taxpayers to engage in tax evasion practice such as capital intensity, leverage, fiscal loss, compensation, profitability, contextual tax awareness interest rate, inflation, average tax rate, gender, and ethical tax awareness on tax evasion (Putra et al., 2018).

The researcher suspects the following problems;- among private organizations income tax collections there is lack of transparency on employment income tax collection, lack of employee's commitment, lack of communication with different government organs and Lack of awareness on employment income tax collection. Therefore, identifying the problems on tax assessment and collection at the tax office and taking corrective measures need attention since they have adverse effects on the overall revenue of the government and tax payers.

### **1.3 Objective of the Study**

#### **1.3.1 General Objective**

The general objective of this study is to assess the major factors for employment income tax payment among Bole sub city, woreda 12 private sector business organizations.

#### **1.3.2. Specific Objective**

- 1 To describe woreda 12 private sector employees and employer's perception about rules and regulation of employment income tax collection;
2. To assess the prevailing problems that the woreda 12 micro tax payers branch office faced in relation to the private sector employee's income tax collection; and,
3. To identify factors that affect employment income tax collection from woreda 12 private sector workers in Bole sub city of Addis Ababa.

### **1.4 Research question**

- I. How was the perception of woreda 12 private sector workers and employers understanding about rules and regulation of employment income tax collection?
- II. What were the main problems that the woreda 12 micro tax payers branch office faced in relation to the private sector employee's income tax collection?
- III. What were the major factors that affect the collection of employment income tax from woreda 12 private sector employees in Bole sub city of Addis Ababa?

### **1.5 Significance of the study**

The result of the study will benefit the tax collecting authority, the private sector employers and can serve as preliminary information to initiate further study. Significance to the tax collector- the result of this study can help the tax collecting authority to increase its revenue via addressing the identified gaps and challenges. Significance to the private sector- the result of the study will enable the private sector to revitalize its responsibilities of employment collection and further strengthen its

relationship with the tax authority. In addition to the above, the results of this study will initiate more rigorous study in this area.

## **1.6 Scope and Limitation of the study**

### **1.6.1 Scope of the study**

The study was delimited Addis Ababa city administration Bole sub-city woreda 12 selected business sector who are engaged in grocery service, education, healthy, retailer and construction sectors. It was carried out by surveying a sample of randomly selected business organization in the city administration. It is, therefore, imperative to take representative business sectors for the generation of primary data on different variables.

### **1.6.2 Limitation of the study**

Any research, irrespective of its purpose, generally encounters various difficulties. This study was not an exception. First, sample of business sectors were limited, because the number of representative business sector to be surveyed were shortlisted according to their size and reputation. Secondly, the study was only focused long-term programs that were related to tax for economic development. Third, although the study intended to use cluster classification of the city for the survey, to achieve diversity among business organizations, it was not possible to cover all parts of the city. Fourth, unwillingness to fill the multiple-choice questionnaires among the representatives of business organizations and their employees. Finally, more importantly, the available statistical data on this topic is limited and may not always be accurate. Even though these were some of the limitations encountered in this study, the results can be help to develop appropriate employment income tax payment strategies in the study area and for other regions, which have similar socio-economical characteristics.

## **1.7 Organization of the study**

This paper contains five chapters, the first chapter is introduction part which consists of background of the study, statement of the problem, objective of the study, research question, significance of the study, scope and limitation of the study Chapter two deals with literature review, review of theoretical literature, review of empirical literature, conceptual and analytical framework and Chapter three is Research methodology under this description of the study area, research design, types and sources of data, methods of data collection, sampling design, data analysis techniques and the fourth Chapter is result and discussion and The last Chapter deals with summary, conclusion and recommendation of the study.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

In this section literatures with respect to the aim of the study thoroughly expounded. The chapter begins by giving a theoretical review of the key theories and related literature which were used to study Factors Influencing Employment Income Tax and then empirical studies of different scholars were presented and finally it presented a summary of the literature reviewed.

#### **2.1 Review of theoretical literature**

##### **2.1.1 Public revenue and expenditure**

Public finance is the study of the income and the expenditure of governments. Governments spend money for development and welfare activities. The expenditure on education, health, infrastructure, urbanization etc. is increasing from time to time. To meet these expenses governments, mobilize income from various sources. Public Revenue is the amount of money received by the government from different sources. Public Revenue is necessary for any government whether it is big or small in size. The people rely on government to protect their individual freedom through maintaining social justice, supplying public services and providing a system of laws that permits the economy to function. The economic growth & development function of a state or a public sector is that the public expenditure should be sent on the future gestation projects which means the construction of infrastructure like motive power, road and in the production of goods and services that bring future development and profit to increase the welfare of the society (The World Bank, 2004)

The term public income has to senses: wide and narrow. In its wider sense it includes all the incomes or receipts which a public authority may secure during any period of time. In its narrow sense however, it includes only those sources of income of the authority which are ordinarily known as revenue sources. Recites such as from public borrowing or public debt and from the sale of public assets are mainly exiled from public revenue (Public Revenue: Meaning, Tax Revenue, Non-Tax Revenue with Classification of Public Revenue, n.d.).

Government spends money to run public institution and for social welfare. For this purpose, government mobilizes income from different source. Public finance resource is a sin qua non for any form government to perform government functions. The source of public finance is divided differently by different scholars depending on their philosophical thought of the role of the

government of economy. Adam Smith, the father of economic since divided the source of public Finance in to merely revenue from people and revenue from state property. This simple and narrow classification of public revenue does not see applicable in the context of our contemporary modern world where the role of the government is increasing in its scope and complexity public revenue classified into tax and non-tax revenue. Do vision of government revenue seems sound in our current world, it doesn't cover all the revenues of government in broad sense which include receipts from borrowing and other resources. Main element which included in the concept of public receipts but excluded from that of public revenue from that of public revenue are receipts from public borrowing and from the sale of public assets (O'Brien, 2019).

### **2.1.1.1 Tax revenue**

The most important source of government revenue is from taxes. A fund raised through the various taxes is referred to as tax revenue. The essence of a tax as distinguished from other charges by the government is absence of a direct Quid pro quo between the tax payer and the public authority. Tax is a compulsory payment made by the citizens to meet the expenses incurred by the government. Taxpayer need to get direct benefit from paying tax. It imposes a personal obligation on the taxpayer. Tax payer received from the taxpayer may not be incurred for their benefit alone. The main characteristics feature of a tax are; a tax is a compulsory payment to be paid by citizens who are liable to pay it. Hence, refusal to pay a tax is a punishable offence; there is no direct quid pro quo between the tax payer and the public authority. In order words, the tax payer cannot claim equal benefits against the taxes paid. However, as Seligman points out, the state has to do something for the community as a whole for what the taxpayers have contributed in the form of tax. But this reciprocal obligation on the part of the government is not towards individual as such but towards the individual as part of a greater whole; A tax is levied to meet public spending incurred by the government in the general interests of the nation. It is payment for an indirect service to be made by the government to the community as a whole; and A tax is payable regularly and periodically as determined by taxing authority. The primary purpose of taxation is to mobilize the revenue required to finance public goods and services. Since taxes have a pervasive influence on economic decision of individuals and businesses, and on social equity, the tax system should achieve the appropriate level of revenue as efficiently and fairly as possible. Thus, a well-designed tax system should be effective in raising revenue, efficient in its effects on economic decisions of households and businesses, and equitable in its impact on different groups in society (Oladipo et al., 2021).

Taxes can be levied either on income or expenditure (consumption), or on a combination of the two. One of the major elements of the Ethiopian tax reform has been the introduction of value-Added Tax (VAT), which is a consumption tax. Currently, many countries are moving from income-based tax to greater use of consumption-based tax, and others are adopting the hybrid tax system, depending on the level of their economic development (Clifford, 2010).

A nation's tax system is often a reflection of its communal values or the values of those in power. A nation must make choices regarding the distribution of the tax burden who will pay taxes and how much they will pay and how the taxes collected will be spent. In democratic nations where the public elect those responsible for establishing the tax system, these choices may reflect the type of community which the public wishes to create. In countries where the public does not have significant influence over the system of taxation, that system may be more of a reflection of the values of those in power. Many countries, both developed and developing, have been working to adjust their tax systems in order to reduce tax impacts and costs, especially for small and medium businesses (Amin and John, 2010).

The main purpose of the tax system is to generate enough revenue to enable the government to finance its activities. It also has other goals: the government uses it to pursue certain strategic economic, social, cultural and other objectives such as supporting economic development, encouraging retirement savings, protecting low-income households or assisting families financially which can be categorized as redistributive justice. The ability to pay taxes can be accurately measured with net income. It may be considered as an appropriate basis for the allocation of tax burden between different sections of the society. To determine the appropriate tax system, various factors are too considered. The three widely known are: Proportional Tax system; Progressive Tax system; and Regressive Tax system (Gebrie, 2006:32).

### **2.1.1.2 Types and characteristics of tax systems**

#### **Proportional tax system**

The proportional income tax (flat tax) is a system applies the same tax rate to every taxpayer regardless of income bracket. If the income of one person is increase or decrease the tax rate of the flat tax is not changing. This means that average tax rate (ATR) is equal of marginal tax rate (MTR). On one hand the average tax rate is the total tax paid divided by taxable income. On the other hand, the marginal tax rates show the amount of tax paid on the next earned unit income.

Therefore, the average tax rates show the general share of income paid in taxes. Typically, a flat tax applies the same tax rate to all taxpayers with no deductions or exemptions allowed (pure flat tax). Nevertheless, in some country applied flat tax systems with different deductions (negative flat tax). In the economic theory the proportional taxes are proposed as alternatives to progressive income tax (Tanchev, 2022).

(Start, 2013) proves that the flat tax includes quite a few versions that may differ significantly between them. There is the “pure flat tax”, which is applied across the economy with no allowances or credits. When deductions are allowed for what we actually have is a “marginal flat tax”, which in effect is a progressive tax with a single rate. Negative income tax is an advanced version of the marginal flat tax, whereas deductions exceeding income entitle the taxpayer to a refund equal to their difference times the tax rate. A capped flat tax would apply up to a threshold after which income would go untaxed or would be taxed at a lower than the basic rate. This, in fact, is a regressive tax. According to him the many variants of these basic versions show that flat tax is a lively theme of research, policy analysis and dispute. At present, three of these four types of tax are applied in different countries around the world.

The main idea of a negative income tax is related with theoretical conception of (Preiss, 2015). He predicted that a flat rate tax of 23.5 percent is more effective than progressive income tax. Preiss confirm that the flat rate tax might raise more revenue than the progressive tax system such eliminating distractions that hinder tax collection and economic growth. The main conclusion in the theory argue that the negative income tax with higher marginal tax rate is more effective than the lower marginal tax rate.

At the present moment, there are 26 countries in the world that impose a proportional tax on income. The economic literature states that any tax reform must be accompanied by an impact assessment. It is associated with the identification, anticipation and evaluation of possible results, positive and negative, from the implementation of certain policies, regulations and other initiatives by the government (Tanchev, 2022).



### **Advantage and disadvantage of proportional income tax**

Certain conclusions can be drawn of the advantages and disadvantages of a proportional tax. Although it is believed that a proportional tax ensures a higher business activity, the one thing it cannot cope with is the enhancement of inequality. This advantage is recognized by the supporters of the proportional tax, too. Another substantial disadvantage of it concerns the unit cost of income. At a proportional tax the number of the taxable persons increases owing to the expanded taxation mass. Thus, the expenditure of tax administration increases and the cost-effectiveness of revenue decreases. The groups earning smaller income would probably evade taxes, too. A proportional tax threatens their social existence and becomes a major motive for hiding income.

Another disadvantage can be related to the easy possibility of increasing or decreasing the tax rate depending on the business cycle phase. If a tax does not work properly throughout a business cycle (does not increase revenue during inflation and does not decrease it during deflation), it is considered ineffective. It does not secure a smooth passing through the phases of the cycle and brings to worsening of recession. Frequent changes of tax rates aimed at collecting revenue result in distrust for the government, disequilibrium of economy and increase of foreign debt.

It should be noted that a proportional tax generates convincing arguments of economic development, on the one hand, but on the other hand, many of them are rejected as unfounded. Advantages and disadvantages of personal income tax are related with economic growth. Economic growth measures the percentage increase of the real gross domestic product (RGDP). It shows how a nation's wealth is changing. Taxes are considered to change the growth to the direction of decrease (Chirwa & Odhiambo, 2018).

In general, Proportional tax system has different advantages, it is simple in nature, uniformly applicable, Proportional taxation leaves the relative economic status of taxpayers unchanged, and it will avoid mistakes and drawbacks of progressive tax system.

Conversely, inequitable distribution, inadequate resources, and inelastic in nature. Which means inequitable distribution is a system of proportional taxation would not lead to an equitable and just direction of the burden of taxation. This is because it falls more heavily on the small incomes than the high-income groups; inadequate resources, the system of proportional taxation means that the tax rates for the rich and poor are the same; Hence; the government cannot obtain appropriate tax from the richer sections of the society as much as they can give, proportional tax system is inelastic in nature means the government cannot raise the rate whenever it wants to raise the revenue.

Proportional tax system suffers from the defects of inequitable distribution of the tax burden, lack of elasticity and inadequacy for the increasing needs of the modern government. Hence, it is not practically accepted.

### **progressive tax system**

In the progressive taxation, the tax rates are increased with the increase in the income. In the progressive taxation, the people with income lower than the basic needs level (i.e., the poverty line) are not taxed. This basic need level is determined by the tax authorities and the public welfare planning authorities. The tax levels start after the basic needs level. The initial tax rates are normally low (typically varies between 5% and 10% depending on the country) (Mohanty, 2022).

After that a second tax threshold is determined at a higher income level. This tax rate is more than the first tax rate. Similarly, a third tax threshold is determined at a higher income level. This tax rate is more than the second tax rate. This process may be repeated for a few more levels. Finally, the highest tax level is fixed an upper income level. This is applicable for the high worth individuals how make large salaries and incomes from businesses and other sources. Progressive taxation is considered as a positive taxation method because it fixes higher tax liabilities for the high-income categories and lower rates of taxes for the low-income categories (Greggi, 2017). It does not tax the lowest income groups. So, the high taxes collected from the rich can be used for the welfare of the poor. This is the popular taxation method across the world (Stewart, 2018).

### **Merits and demerits of progressive taxations**

A progressive tax shifts more of the burden of taxation onto wealthier taxpayers. The more progressive the tax measures, the more the wealthy assume their fair share of the burden of taxation. On the other hand, the progressive tax is a rational alternative to a flat percentage tax, which places a disproportionate burden on taxpayers with low incomes. While the dollar amount owed by a low-income worker may be smaller under a flat percentage tax system, the negative effect of the tax on the family's spending power is greater. The progressive tax counters this issue by allocating the tax burden according to the individual's income. A progressive tax is a means to counterbalance a rise in economic inequality (Jacobs, 2021).

On the other hand, for some, a progressive tax acts as a disincentive for getting a job that pays a higher wage. For instance, some retirees may choose jobs that pay a lower wage to ensure their tax rates don't change. This disincentive has been studied by some economists. Income Redistribution Punishes the Rich in effect, a progressive tax redistributes money from the rich to the poor in that

the taxes fund the subsidies that benefit the poor. Some economists say a better approach is to use the tax revenue to fund projects, such as public works and education, that might lead to better jobs for the poor. Disincentive to Low-Income Workers taxing high-income citizens and redistributing their wealth to low-wage earners may eliminate the incentive for lower-skilled workers to acquire the skills needed to enter the labor market or obtain a job that pays a higher wage. According to some economists, it eliminates the need to work hard, learn new skills or look for new ways to earn a higher income (Lopez-Daneri, 2016).

### **2.1.2 Evolution of the tax reforms in Ethiopia**

Every Government need revenue to lead the economic, infrastructure, medical, transport, education, telecom, electricity, staff, research, to concession, subsidies, free facility for the unable sector community in the country. To generate the income Government has a constitution as a law to charge a tax for different sectors of people which brought into different categories of the people. No Tax, No Income; No Income, No Revenue; No Revenue, No Government. Government is a public body which is common to the all of the people in the country. Every country has two types of taxes. They are direct taxes and indirect taxes. Direct tax is that tax where burden in borne by the same person on which it is levied. The ultimate burden of taxation for each and every one of the people on whom the tax is levied. It is based on the ability of the person one who generate the income through his salary, house property, business, capital gains, and other sources. Different country has a different name where they can classify according to the requirement and style of the people behavior to earn income. Indirect Taxes: An indirect tax is that tax which is initially paid by one individual, but the burden of which is passed over to some other individually who ultimately bear it. The sales tax, Value Added Tax, Customs Duty taxes are the best examples of the indirect taxes. Whether the direct or indirect tax, the tax must be charged on the basis of the effort of the people income. Some people earn money with their hard work. Some people earn money easily. The easily earned income must be taxed more than the hard-earned money (Rajendran, 2016).

Tax laws change with political regimes so, the history of taxation in Ethiopia is related to the establishment of governmental system many historical documents evidenced that the government of Ethiopia stated to levy tax in the 15<sup>th</sup> century during the emperor of Zerayakob era. The Transitional Government of Ethiopia issued Proclamation No. 7/1992, providing for the establishment of Regional Governments. Article 1 (constitution) establishment of the FDRE; According to this legislation and the Constitution, the FDRE shall comprise of the federal government and state

members (articles 46 and 50(1)); The federal government and the states are legislated to have their respective legislative, executive and judicial powers (Article 50(2)); Regional Governments are accorded legislative, executive and judicial powers in respect of all matters within their geographical areas; Exceptions include: defense, foreign affairs, economic policy, conferring of citizenship, declaration of state of emergency, printing of currency, establishment and administration of major development activities.

Powers and duties of federal and regional governments: i. Federal government: Article 51(10)- it shall levy taxes and collect duties on revenue sources reserved to the Federal government; it shall draw up, approve and administer the federal government's budget; ii. Regional states: Article 52 (2(e) to levy and collect taxes and duties on revenue sources reserved to the states and to draw up and administer the state budget; Both regional and federal governments have the right to levy taxes and spend it in financing their own activities; Regional Governments are given tax and expenditure assignments; Public finance activities of the Ethiopian government both the federal and the regional governments are responsible in raising revenue and spending; The Transitional Government of Ethiopia issued Proclamation No. 33/1992 that defined the sharing of revenue between the Central and Regional governments; These provisions later incorporated in the constitution.

### **2.1.3 Objectives of revenue sharing**

Ethiopia is a federal country where there are federal and regional governments; The financial system (tax system in particular) is constituted taking the mode of governance into account; Taxes at federal and regional governments' levels; Taxes account for a significant portion of domestic government revenue;

Enabling the central government and the national/ regional governments efficiently carry out their respective duties and responsibilities; Assist national/ regional governments develop their regions on their own initiatives; Narrow the existing gap in the development and economic growth between regions. Encourage activities that have common interest to regions. Principles used in the revenue sharing (Proc. 33/92) The important principles are, Ownership of the source of revenue; The national or regional character of the sources of revenue; Convenience of levying and collection of the tax or duty; Population, distribution of wealth, and standard of development of each region; and other factors that are basis for integrated and balanced economy.

Revenue is categorized as central, regional and joint. Revenue belonging to the federal government (Article 96- federal power of taxation); Revenues belonging to regional governments (Article 97- state power of taxation); Revenues jointly owned by both (Article 98- concurrent power of taxation); Article 99 –undesignated powers of taxation; Proc33/1992 states that Central Government Revenues and revenues jointly owned by the Central and Regional Governments to be collected by the Central Government revenue collection organs; Federal revenue organs – ERCA along with its branch offices; Regional governments’ revenues are collected by regional governments’ revenue organs.

### **Income and Value-Added Taxation in Ethiopia**

It has been in constant revision; The government undertook a significant reform on its income tax system in the year 2002 and issued income tax proclamation No. 286/2002 and Regulations No. 78/2002; Article 2(11) defines Taxable income: Article 6 states the sources of income subject to tax under proclamation 286/2002; The tax system is scheduler system. Four schedules of Income “A” income from employment, “B” income from rental of buildings, “C” income from business, and “D” other income including income from royalty, income paid for services rendered outside of Ethiopia, income from games of chance, dividends, income from casual rental of property, interest income, specified non-business capital gains.

People need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for tax payers especially for less literate business operators. In case of Ethiopian income tax proclamation, No286/2002 Article 51 and 65 “An employer either on individual basis or instructional Shall withhold tax from every payment of an employee, must declare and pay the monthly income tax to the nearest revenue collecting agency branches with in thirty days of the end of each calendar month”(IncomeTaxProclamation286/2002, 2010).

### **Employment income tax**

Who pays this tax? Article 2(12) an employee (definition). Article 12(1)- Employment income includes any payments or gains in cash or in kind received from employment by an individual; Benefits in kind are also considered to be employment income; See Article 12(2) regarding benefits; Check if fringe benefits are being taxed; if so how? If not why? exemption from employment income tax - Articles 12(Proc 286/2002) and 3 (Reg 78/2002); Employment income is taxed at rates

ranging from 10 to 35%. Employment income tax is withheld by employers and is a final tax; Hence employees earning income exclusively from employment are not required to declare income (Art. 65(3)); Category “A” shall include the following persons and bodies (Art 18(1)). Any company incorporated under the laws of Ethiopia or in a foreign country; Any other business having an annual turnover of Birr 500,000 or more; Category “B” unless already classified in category “A” any business having an annual turnover of over birr 100,000 (Art 18(2)); Category “C” unless already classified in categories “A” and “B” whose annual turnover is estimated by the Tax Authority as being up to Birr 100,000 (Art 18(3)).

### **Withholding tax on payments and imports;**

According to Articles 53/286/2002 and 24/78/2002 organizations having legal personality, government agencies, private nonprofit institutions, and non-governmental organizations (NGOs) are required to withhold 2 per cent of income tax on payments for the provision of the following goods and services

Supply of goods involving more than Birr 10,000 in any one transaction or one supply contract

Rendering of the following services involving more than Birr 500 in one transaction or one service contract,

consultancy services; designs, written materials, lectures and dissemination of information etc.

If a person subject to withholding tax fails to provide the TIN to the withholding agent, Article 91 (2)/286/2002 requires the withholding agent to withhold 30 per cent of the payment.

### **Value added tax**

Value Added Tax mentioned in proclamation 285/2002 and VAT regulations 79/2002. Taxes are inevitable but no one likes paying taxes. However, raising money to pay for a community’s government and services has been a feature of organized human existence for thousands of years. The challenge is (as it has always been) how best to structure the tax system so it is considered fair by community members, does not interfere with productivity, and provides sufficient resources for the services that the public demands. In any welfare state, it is the prime responsibility of the Government to fulfill the increasing developmental needs of the country and its people by way of public expenditure. The Government's primary sources of revenue are direct and indirect taxes and VAT (Value Added Tax) is one of the indirect taxes used by many countries around the world.

VAT is an indirect tax levied in terms of the VAT Act. VAT must be included in the selling price of every taxable supply of goods or services made by a vendor in the course or furtherance of that vendor's enterprise. A vendor is a person who is registered, or required to be registered for VAT. VAT is a destination-based tax, which means that only the consumption of goods and services in specified country is taxed. VAT is paid on the supply of goods or services in that specified country as well as on the importation of goods into that country. The scope of this review is to compare and contrast VAT application in Ethiopia based on proclamation No 285/2002 and proclamation No 609/2008 (amended VAT) with that of South Africa.

### **Excise Tax**

Like any other businesses small businesses engaged in the production or importation of luxurious and basic goods which are demand inelastic or hazardous goods are obliged to pay excise tax (The preamble of the Excise Tax Proclamation). The excise tax is applied only to the production and importation of goods listed in the Schedule attached to the excise tax proclamation and its subsequent amendments (Excise Tax Proclamation No. 307/2002. Excise Tax Proclamation, 2002, Federal Negarit Gazeta, Proc. No. 307, 9th Year, No. 20, Art 3&4 [Here in after Excise Tax Proc. No.307/2002]. In addition, the base of computation of the excise tax is cost of production for locally produced goods and the CIF for imported goods. The obligation to pay the excise tax lies with the producer for locally produced goods and with the importer for imported goods. When small businesses are engaged in the production of goods, which are specified under the attached Schedule, they are obliged to pay excise tax pursuant to the rate specified in the schedule. The time of payment of excise tax is at the time of clearance for imported goods and not later than 30 days from the date of production for goods produced locally. Excise tax is assessed based on the books and records maintained by the businesses but in our case the small businesses do not have the obligation to keep accounting records and for this reason the excise tax liability of small businesses is asessed based on the daily income assessment made for the purpose of business income tax. Once the annual Journal of Public Administration, Finance and Law Issue 17/2020 345 taxable income of the small business is determined from the daily income assessed in accordance with Directive No. 123/2009, the excise tax will be calculated based on the annual taxable income of the small business. Similar approach will be applied for a handcraft small business, which is engaged in the production of traditional clothes. The other issue that arises in relation to excise tax is time pf payment. Though the excise proclamation obliges the businesses which keeps accounting records to

pay the excise tax not later than 30 days from the date of production, the payment time for small business shouldn't be different. As we have tried to explain in the above, the small businesses pay their TOT on a yearly basis based on the annual taxable income, similarly small businesses should pay their excise tax obligation based on a yearly basis(Woldekidan, 2020).

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

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

## **2.2 Conceptual and analytical framework**

### **2.2.1 General conceptual framework**

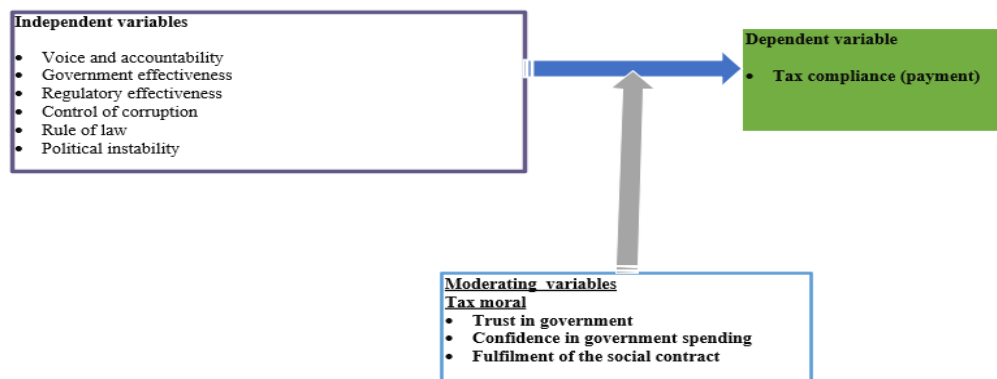
The connection between tax revenue and economic variables (Agriculture and Service GDP, industry GDP, inflation, and exchange rate), institutional factors (Corruption and political stability), social factors (urbanization and literacy rate) and, tax system (Tax reformation) are all the critical factors to achieve development objectives (Desta et al., 2022). Tax Evasion is a violation of the Taxation Act, by submitting an understatement of income on one side or reporting an overstatement of the deductions. A more severe form of tax evasion is if the taxpayer does not report his income at all. The cause of taxpayers to tax evasion is usually caused by the perception that taxes are a burden that would reduce one's economic ability. The taxpayer must set aside some of his income to pay taxes. Whereas if there is no tax liability, the money paid for taxes can be used to add to the



fulfillment of other needs. It is natural that the people doubt the government in this matter (Rantelangi & Majid, 2018).

Many studies conducted found that the higher level of knowledge, fairness, and tax morale make the lower level of tax evasion. Moreover, tax evasion affected by the attitude of tax morale is present in every taxpayer and tax system had an effect on tax evasion ethics. Similar studies conducted also arguing that a well- functioning tax system would reduce tax evasion, but not for tax justice. It has been found that fairness variable has a strong influence on the tax evasion ethics. Based on study conducted by different scholars, tax justice has a negative effect on tax evasion and compliance costs have a positive effect on tax evasion (Rantelangi & Majid, 2018).

**Figure 1. Conceptual frame work**



**Source:** Developed (constructed) by the researcher from different literature(Alshira’h et al., 2020; Sebele-Mpofu, 2020)

## 2.2.2. Analytical framework

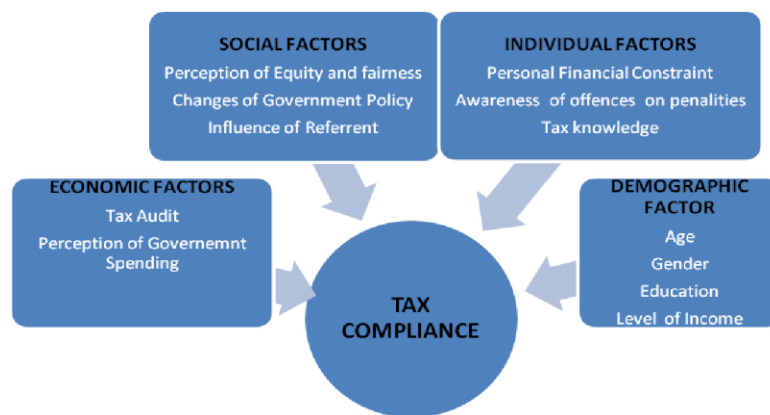
### 2.2.2.1 Analytical frame work for identifying factors that affect employment income tax collection

There is a substantial tax gap between the tax that is planned to collect from economic activity of a person and the tax that is actually collected .one main reason for the tax gap is noncompliance by taxpayers and potential taxpayers with tax legislation in Ethiopia. When compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risk associated with non-compliance by developing strategies targeted at those risks. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on tax administration and compliance (Thackray et al., 2014).

Knowing taxpayers' attitude towards taxation is the major factors that determines the success of tax system and effectiveness and efficiency of tax administration. Moreover, no tax system can function effectively without the positives attitude about tax and co-operation of the great majority of taxpayers, so factors which affects taxpayers' attitude towards taxation are important. Attitudes towards taxation have turned out to be important predictors of tax evasion and tax compliance behavior. According to Lemessa (2007), there is substantial tax gap between the tax that is planned collect from economically active individuals and the tax that is actually being collected. One of the main reasons for this tax gap is non-compliance of taxpayers and potential taxpayers, with the tax legislation because they have negative attitudes and perceptions toward taxation.

In Ethiopia, the issue of tax compliance behavior is needing a serious attention not only by the authority but also by the societies and have to be significantly investigated. Studies conducted revealed that perception on government spending, equity and fairness of tax system, penalties, personal financial constraints, change on current government policies and reference groups as factors that affects the tax compliance behavior. Notwithstanding, this study has also ignored knowledge of tax and complexity of tax system as determining factors in affecting the tax compliance behavior of business profit tax payers. In addition to this, only a certain factor as determinants of taxpayer's voluntary compliance by neglected some factors (i.e., detection and penalties) which contribute its part in affecting the tax compliance behavior of business profit taxpayers (Rantelangi & Majid, 2018).

**Figure 2. factors that affect employment income tax collection**



### **2.2.2.2 Analytical framework for employees and employer's perception about rules and regulation of employment income tax collection.**

Perception is the capability of the brain in translating the stimulus which enters the human sense devices. From the definition above, it can be concluded that the perception of tax payers on tax sanctions is a process of interpretation by the tax payers where they try to interpret some information gained from various sources about tax sanctions. Tax sanctions are divided into two parts: administrative sanctions and criminal sanctions in the form of confinement or imprisonment (Paramaduhita & Mustikasari, 2018).

#### **Perception of tax payers on law enforcement**

According to (Paramaduhita & Mustikasari, 2018) the principal issue of law enforcement lies in the factors that may affect the perception of TaxPayer. These factors are as follows: (1) the legal factor itself, in this case restricted to the law only; (2) law enforcement factors, namely the parties that make up and apply the law; (3) factors of facilities that support law enforcement; (4) community factor, i.e., the environment in which the law is applicable or applied; and (5) cultural factors, such as the result of work, creation and a sense based on human initiative in the social life.

Law enforcement in Ethiopia is still very weak and apprehensive, with many people abusing state money, which mostly comes from taxes. It is this kind of news that becomes the consumption of the society and creates a bad perception of law enforcement in Ethiopia so the effect is that tax payers will be reluctant to pay taxes, which should be their obligation (Tadesse, 2022). Tax payers perception of fair tax treatment According to (Paramaduhita & Mustikasari, 2018), fair tax treatment on the tax payers will encourage tax payers compliance because it creates healthy competition in the business world. In contrast, discriminatory treatment results in poor compliance of tax payers.

### **2.2.2.3 Analytical framework for the major prevailing problems on the private sector employee's income tax collection**

Another important variable that affects tax collection from micro, small and medium-sized businesses is whether or not the tax system is participatory. Allowing the participation of taxpayers in presumptive tax systems and making them stakeholders in the process from initiation through to implementation could improve taxpayers' tax compliance behavior and thereby increase the amount of tax collected. In this regard, in Ethiopia, failure to take taxpayers' opinions into account when drafting and implementing the tax system resulted in tax non-compliance and hence negatively

affected the tax collection process. (Adimasu, 2017) study of taxpayers' awareness of tax rules and attitudes toward the government and the impact of participatory tax on tax compliance on southern African nations and Ethiopian nationals confirmed the above findings, showing that engaging taxpayers in the tax assessment and collection process helps tax authorities to increase tax compliance. However, in most developing countries, the tax authority initiates, drafts, and implements tax regimes alone, without enough discussion and consultation with the stakeholders (taxpayers) which, in turn, results in tax non-compliance.

Taxpayers' knowledge about the existing tax rules and regulations is of paramount importance when it comes to efficient tax collection. As a result, many countries in the world place great emphasis on, and invest large amounts of money into, the education of taxpayers, with the intention of collecting more taxes. Tax literature supports the idea that there is a positive relationship between taxpayers' knowledge of tax rules and regulations and tax collection efficiency. This assertion is evidenced by various empirical studies (Abate, 2019; Yesegat & Fjeldstad, 2016) which show that when taxpayers' knowledge and understanding of tax rules increases, the tax revenue collected from those taxpayers also increases, and vice versa. On the other hand, the effect of taxpayers' attitudes toward the government on tax morale in Ethiopia found that when taxpayers have positive attitudes toward the government, both their tax morale and tax compliance levels are enhanced. Similarly, empirical study's findings revealed that the majority of respondents felt that the tax money they contributed to the government was not being utilized to improve public services and infrastructure as they had expected. As a result, they had developed a view that they would refuse to pay their taxes unless the government improved the infrastructural facilities of the country. When we come to the case of Ethiopia, the tax money collected from taxpayers has been invested primarily in political activities rather than building basic infrastructural facilities, with the intention of increasing the lifespan of the existing ruling regime. Generally, it can be inferred from the above findings that positive attitude of taxpayers toward the government is an indispensable ingredient for efficient tax collection.

### **2.3 Review of empirical literature**

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

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

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

Study done by (Ayyele, 2015) on determinants of tax revenue from time series of [1992-2013] declared that the trend of tax collection in Ethiopia is inconsistent, changing upward and downward due to different individual taxpayers, institutional, demographic, social and economic related factors that influencing compliance attitude of taxpayers with taxation.

(Ahmad et al., 2016) empirically highlighted the socio-economic determinants of tax revenue from 1975 to 2012 using time series data analysis in Pakistan through employing the Auto-regressive Distributed lag (ARDL). Their findings show that a small tax base, economic activity, tax compliance, informal economy, and the government regime all have an impact on tax collection. Among socio-economic determinants, per capita GDP and tax compliance are positive and statistically significant drivers of tax revenue. On the other hand, the informal sector and a restricted tax base are negative and substantial determinants of tax revenue.

(Ayenew, 2016) investigated the determinants of tax revenue in Ethiopia using the Johansen maximum likelihood co- integration approach. The findings revealed that real GDP, per capita income, foreign aid, and the share of GDP devoted to industrial value added all had a long-term impact on tax collection. On the other side, inflation had a significant negative impact. Only real GDP per capita income, the industrial value-added share of GDP, and the rate of inflation are statistically relevant in determining tax revenue as a proportion of GDP in the short run. The concerned bodies must consider an increase in per capita income growth, structural reforms, the introduction of new tax bases, and efficient use of foreign aid input to improve tax administration and revenue growth. This study reported the determinants affecting tax revenue in Ethiopia, including previously unexplored factors such as institutional quality factors (corruption and political

stability) and tax reformation. Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth through making different tax reforms for improving revenue generation, enhancing the efficiency of tax administration and improving equity in the tax system.

The study led by (Kitessa & Jewaria, 2018) used a panel data co-integration approach to empirically analyze the major determinants of tax revenue in East African countries using a dataset from 1992 to 2015. Their findings reveal that per capita GDP, foreign aid, trade openness, and the share of agriculture, industry, and services in the economy of East African countries all affect taxable income in the long run. Urbanization, the official exchange rate, and the rate of inflation, on the other hand, had a negative impact on the region's tax income -to-GDP ratio.

(Boukbech et al., 2018) analyzed factors influencing tax revenues in lower-middle-income countries. The findings reveal that tax revenues are significantly and positively connected with per capita GDP, agricultural GDP, inflation, and government spending. The impact of the population growth rate is negative but not significant. Using a panel model method, other study examined the correlation between tax revenues and literacy levels in 123 countries from 1996 to 2010. Their study finds that a poor literacy level is linked to lower tax revenues. Tax payments and approval of taxation levels are strongly influenced by literacy, resulting in a substantial informational gap amongst taxpayers. It is critical to be able to read and write to comprehend tax rules, processes, and burdens (Desta et al., 2022).

According to (Woldekidan, 2020) Rarely small business employ employees in running their business and in that time the small businesses as any other business owners have the obligation to withhold employment income tax. Not only that but also self-employment tax is one obligation of the small businesses to declare such self-employment income tax with their respective tax obligation; with the business or rental tax of their business.

(Desta et al., 2022) analyzed the effects of institutional variables (corruption and governance), structural variables (per capita income, trade openness, inflation, and agriculture's share of GDP), and policy variables (tax rate and tariff rate) on total tax revenues in their study. Corruption and governance are two major drivers of tax collection in Africa, according to their regression studies.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Description of the study area

According to (Shiferraw, 2022) Addis Ababa, the political capital and the most important commercial and cultural center of Ethiopia, is geographically located at the heart of the nation, 9°2'N latitude and 38°45'E longitude. Its average altitude is 2,400 meter above sea level, with the highest elevations at Entoto Hill to the north reaching 3,200 meters. This makes Addis Ababa one of the high-altitude capital cities of the world. The city occupies a total of 540 sq. km land area surrounded by mountainous landscape. Although there is no large river passing within or close to Addis Ababa, the city's small rivers and streams played an important role in structuring its form.

Addis Ababa has sub-tropical highland climate with a constant moderate temperature of roughly 23°C average high and 11°C average low throughout the year. The main rainy season, Kiremt, is from June to early October, and between early March and mid-April, there is short period of rainfall called Belg. The average annual rainfall is about 1,200 mm, out of which close to 80% falls during the main rainy season (Patz, 2005).

Addis Ababa is one of the two self-governing chartered cities in Ethiopia with the status of a special autonomous region within the national federal government system. Its Council is accountable both to the city voters and the federal government. The city is divided into 11 sub-cities called kifleketemas and 120 woredas, which are the lowest administrative units.

Addis Ababa is one of the fastest growing cities in Africa and a primate city in Ethiopia with an estimated population of around four million, which is roughly 25% of the total urban population of the country and more than ten times the population size of Adama, the second largest urban center (Kebede et al., 2021). As the diplomatic center of Africa, Addis Ababa hosts a number of international organizations, such as the headquarters of African Union (AU) and the United Nations Economic Commission for Africa (UNECA). Due to its location and status several people come to the city in search of employment opportunities and services. Its annual growth rate ranges between two to four percent, out of which roughly forty percent is attributed to rural-urban migration. Life expectancy at birth is 65.7 years and infant mortality rate is 50.3 per 1000 live births (CSA, 2013).

Bole sub city, woreda 12 is one among 120 woreda which are found in Addis Ababa city Administration. The Addis Ababa city development association divide the area into urban and semi urban areas. The community had got better transport services of taxis, mid buses and minibuses. So that this woreda is the newly developing area.

According to bole branch planning and achievement follow-up department report tax revenue collected for the years 2015,2016 and 2017 shown a variation between Planned tax revenue collected and actual tax revenue collected .As a result Planned tax revenue in 2015 was birr 1,369,554,570.49 while the actual tax revenue collected was birr 893,889,495.16 which indicated birr 475,665,075.33 variation between actual and planned revenue .likewise ,the sub city was planned to collect birr in 1,647,807,672.05 but the actual revenue collected was birr 1,447,089,133.74 in 2017 which shows birr 200,718,538.31 variation between planned and actual achievements (Report, 2022).

Moreover,(Anteneh, 2017) reported in Bole sub city there were 50,579 tax payers out of which 6,384 tax payers were category “A”, 5,979tax payers were category “B” and 38,216 tax payers were category “C”. In such away Bole sub city revenue agency collected 752,194,092.46birr in 2010, 1,298,531,407.08 birr in 2011, 897,310,734.53 birr in 2012, 1,061,862,688.94 birr in 2013 and 1,208,295,332.35 in 2014. There are different problems that deviates tax from year to year. So, the need to undertake this research is emanating from the curiosity to investigate source of employment income tax evasion in Bole sub city of Addis Ababa city Administration.

### **3.2 Research design**

Research design is a blue print of scientific study. It include research methodologies, tools and techniques to conduct the research. it help to identify and address the problem that may rise during the process of research and analysis The current study combined a mixed methods design for data collection. Both quantitative and qualitative data were collected for the study. The study incorporated a questionnaire-based survey to elicit information on the tendency and frequency of non-compliance cases while narrative case studies to provide qualitative information supported evidence to back up the findings. Hence, both the first and second objectives of the research can be met by using both methods coherently.

The purpose of using a mixed methods research design was to gather data that could not be obtained by adopting a single method. According to (Dawadi et al., 2021), by means of employing these



combined approaches the researcher were able to obtain the advantaged of both qualitative and quantitative research approaches and overcome their limitation in justifying the results. As one of the methods of a mixed methods approach, the researcher was utilized the questionnaire-based survey to generate quantitative information on the tendency and frequency of employment income tax collection among private organizations together with the factors affecting it. The qualitative method that applies a sort of case studies and informal interviewing of participants (tax payers).

### **3.3 Types and sources of data**

The study employed a mixed approach and hence the types of data to be collected were both qualitative and quantitative in nature. The data source included focus group discussions, key informant interview and questionnaire-based survey on socio-economic characteristics of the respondents, sources of income, the nature of tax collection practices, employment tax collection practices in the woreda.

### **3.4 Methods of Data Collection**

The qualitative data largely depends on information obtained through key informant interview, focus group discussion and document review. The quantitative data were generated through conducting surveys and gathering information from secondary sources. Employees survey instruments (structured questionnaire and semi-structured questionnaire) were designed for implementation in the study sites.

#### **3.4.1 Qualitative data collection**

**Key informant interviews:** Key informant interview was particularly used to generate in-depth information related to tax collection practices, trends of employment income tax collection, factors influencing employment income tax collection, opportunities and mechanisms to fully engage all private organization employees to pay income taxes system. Four key informants were interviewed based on their experience from woreda and sub city revenue and finance offices.

**Focus group discussion:** Checklists and interview guides were developed and people with different working level and working experience will be included in the discussion. Participants were selected based on their experience, education, leadership role, knowledge of the area and major changes in relation to tax system, and information about employment income tax. In this phase two groups

containing six members were recruited from different background purposefully based on experience and exposure from woreda and sub city level.

**Document review:** review of relevant documents including reports, tax rules, regulations and proclamations were undertaken in order to assess tax related issues, challenges and opportunities.

### **3.4.2 Quantitative data collection**

**Secondary data:** Secondary data sources include both published and unpublished sources about the study area, private business organizations and employment tax collection practices which was obtained from records of the woreda Administration Office.

**Survey:** Regarding the structured and semi structured questionnaires, this solicited information was on socio-economic characteristics of the sample employees, the nature of tax collection practices, employment tax collection practices in the woreda, determinants of employment tax collection and other related issues.

## **3.5 Sampling design**

### **3.5.1 Sampling for quantitative data set:**

For the quantitative data set, a statistically proven approach and a rule of thumb was applied to determine the minimum sample size to be drawn considering the distribution and size of the population of the target area. The Bole sub city woreda 12 was purposely selected for the present study as it has many small-scale private organizations with a large number of employees. Once the woreda was selected, a multi-stage sampling approach was employed to select sample employees. Accordingly, the business activities in the woreda were categorized into three geographical areas based on their access to main roads and infrastructure as central, transitional and sub urban. In the next stage, the woreda can classified based on the nature of the business activities as manufacturing and service giving. Manufacturing and service giving organizations in the woreda were selected following proportional sampling procedure from each geographical area. Lists of private business organizations from woreda trade office was used as the sampling frame in order to randomly select sample respondents. To get the representative sample size this paper was used a formula developed by Yamane (1967: 886). By using the formula below the researcher obtain the following sample size to conduct the study. It has a 95% confidence level and 8% precision. As illustrated below;

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

Where “n” = Where, n =sample size, N= population size, e = Marginal error/ the level of precision 8 percent, and x = calculated sample size . Therefore, it is easy to determine the sample size by replacing the letters to the relevant number.

$$n = \frac{N}{1 + N(e)^2} = \frac{14,211}{1 + 14,211(0.08)^2} = 154$$

**n=154 respondents**

**Table 1. Sources and sample size**

| <b>Category</b> | <b>Target population</b> | <b>Sample size</b> |
|-----------------|--------------------------|--------------------|
| Manufacturing   | 5,234                    | 57                 |
| Service         | 8,977                    | 97                 |
| Total           | 14,211                   | 154                |

Source: survey result

The total number of private business sector employees (manufacturing and service) in the whole Bole sub city woreda 12 were about 14,211. Given this information and using the above formula, the minimum sample size of employees for reliable results is found to be 154.

### **3.6 Data analysis techniques**

Various qualitative and quantitative data analysis techniques were employed for the different data sets. In order to analyze the data, econometric analysis was applied to examine the determinant factors of employment tax payer’s compliance related to tax collection practices. To examine the determinant factors of tax compliance level, SPSS version 26 will be applied for statistical computation of the data. In this case the study was used binary logit regression model . This regression model was suitable because the dependent variable was measured using a binary variable, that is, paying employment income tax (Yes) or not having paid (No) that is to say, (1 or 0). The study also employed correlation analysis to determine the major tax collection problems in the study area and the existence of significant relationships between them. Descriptive and comparative analysis were done to understand profile of the business, respondents and the

prevailing problems on the private sector employee's income tax collection in the study area using descriptive statistics. Then the information will be compiled and summarized in tabular and graphical format to capture commonality and divergence of the responses across the different tax collection practices and factors affecting employment tax collection practices.

### 3.6.1 Specific data analysis techniques

#### a. Analysis of factors that affect employment income tax collection in the study area

The variables for this investigation were selected based on literature reviewed on factor affecting practice of tax collection system of the study area. In this paper one dependent and several independent variables were discussed as follows.

The dependent variable of the study was employment income tax payment practices. It is a nominal variable and categorized into: (0) yes (1) No. Tax compliance level was measured by the overall average score of different items: filing tax returns on time, reporting salary of the employees, and making employment income tax payments on time. Here, the independent variables are factors encouraging and discouraging factors to pay employment income tax with specific reference to knowledge about employment income tax, objectives of tax collection, tax rates, dishonest tax payers and collectors, willingness, ability to pay, Complicated tax procedure, awareness and negligence. This overall score of taxpayers (which were individually measured from 1= strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5= strongly agree) (ACCA, 2016).

By following (Abate, 2019) the functional form of Ordered logit model is specified as follows:

$$p(y_i=1/x_i) = x_i^3 \beta + \mu$$

Where p represents the probability odds,  $y_i$  is a binary variable representing 1 if the person pays employment income tax and 0 otherwise,  $x_i$  represents the vector of determinants that determine the likelihood of being tax compliant. Overall, the following binary logit regression model was used

$$\frac{pr(y_i = 0)}{pr(y_i = 1)} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \epsilon$$

Where:

y – dependent variable defined by y 1= if tax compliant and y 0= otherwise i

Where Y – Tax Compliance; X1 – Tax Education; X2 – Legal Enforcement Measures; X3 – Tax Audits; X4 – Tax Compliance Costs;  $\epsilon$  – Is the error term and  $\beta$  – Predictor variables coefficients.

### **b. Analysis about private sector employees and employer's perception about rules and regulation of employment income tax collection in the study area**

Some studies defined tax knowledge as the level of awareness or consciousness of taxpayers about tax legislation, including the process of taxation and other tax-related information. It is a situation where taxpayers fully understand why they have to pay taxes and comply with the law (Amin et al., 2022). Study conducted by (Bornman & Ramutumbu, 2019) proved that although the taxpayers have high tax morale to comply with the tax law, limited tax knowledge might set them back from complying. Similarly, other study supported this view, who opines that tax compliance can be improved by increased tax knowledge. Therefore, tax knowledge plays a significant role in this study.

Here, correlation analysis will be conducted to determine the existence of significant relationships between variables in related to perception and knowledge of private sectors employee towards rules and regulation of tax and employment income tax in the study area in view of generating information on the factors that shape perception and awareness of the private sector employees.

### **c. Investigate prevailing problems on the private sector employee's income tax collection in the study**

It has been observed that the major problems associated with business income tax collection procedures include; challenges associated with tax payers' attitude towards tax system, lack of good tax administration, and implementation problems; tax collectors' unethical practice during tax collection; availability of unregistered traders or illegal traders; tax evasion and avoidance. Furthermore, within the challenges associated with business income tax collection procedures, variables such as inability to easily understand tax laws, the process of assessment and declaration of the amount of tax to be paid by tax payers, and procedure of appeal and selection of review committee determine the tax payers' compliance and non-compliance behavior or have negative impact on business income tax collection process (Tumoro, 2020). Descriptive analysis will be conducted to generate information's on various issues related to difficulties to collect employment income tax from private business sectors and to state the intensity of each factor.

### **3.6.2 Definition of variables for logistic regression**

Age, sex, marital status, education, years of employment, income, reason to pay employment income tax, rate applied monthly income, awareness, administrative penalty, bias, culture of paying tax in a society, corruption, trust on tax assessment, group influence, getting comparable social services, non-compliance of other taxpayers and false information are selected for regression analysis based on literature reviewed.

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. (Deb & Chakraborty, 2017) postulate negative association between tax compliance attitude and age; older people are less compliant. In contrast, (A. Tilahun & Yidersal, 2014) 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 (Manchilot, 2018) also found that older people are more compliant than young people. Concerning the gender of tax payers' study done by (Hasseldine & Hite, 2003) found that female taxpayers were more compliant than males. In difference, (Tsigereda, 2020) 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 (Orkaido Deyganto, 2018) also suggested that education level is directly linked to a likelihood of compliance attitude. Educated taxpayers are more compliant than uneducated taxpayers.

According (Doran, 2009) overall the economic deterrence model proposes that increasing punishment by expanding criminal sanctions decreases non-compliance and this principle supports sentencing theory and the courts' right to consider the maximum penalty for an offence in order to achieve general deterrence. However, this model in its purist form falls short and has been criticized for failing to consider the analysis of attitudes, perceptions and moral judgements on tax behavior. Consequently, while economic deterrence models are relevant in shaping compliance behavior other 'behavioral' factors have also been found to influence compliance decisions.

From a tax administration viewpoint, other researchers have concluded that compliance could also be influenced, by aware taxpayers of their social responsibility to pay and thus their intension would be to comply. (Paper, 2021) suggests as a behavioral problem, tax compliance depends on the cooperation of the public. Another study by (James & Alley, 2002) also found that there are greater

gains in assisting compliant taxpayers to meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. Assisting taxpayers by improving the flow and quality of information or educating them (e.g. TV campaigns) into becoming more responsible citizens has the potential to yield greater revenue rather than if it were spent on enforcement activities. A study by Kornheiser (2007) also supports the notion that awareness creation efforts aimed at all segments of the population can improve taxpayer knowledge which in turn influences voluntary compliance.

(e Hassan et al., 2021) found that the perception of a fair tax system significantly affects tax compliance behavior. He argued that tax compliance is the result of the overall fairness in the society, stated that the taxpayer compliance behavior is significantly influenced by the fairness of tax structure. (*Perceptions of Fairness\_Fieldbook.pdf*, n.d.) defines procedural fairness, which focuses on the perception whether fair procedures and services are executed by the authority; and retributive fairness, which refers to the perception of taxpayers on suitable punishment on tax crime.

(Chander & Wilde, 1992) reported the desired objectives of tax policy can be achieved only when it is properly administered. In most developing countries, tax administration is tax policy. Failure to properly administer the tax, therefore, defeats its very purpose and threatens equity. Involved procedures cause deficiencies in tax operations, reduce overall tax collection, and cause corruption in tax administration. When corruption becomes a way of life, it has far-reaching implications. It undercuts efficiency and equity, as well as the macroeconomic and institutional functions of government. It reduces revenue to government, endangering fiscal sustainability, and adversely affects investment and growth. The presence of corrupt officials encourages other officials to engage in corruption, because the probability of being detected or losing one's reputation declines. Likewise, the presence of corrupt taxpayers encourages other taxpayers to cheat.

Based on recent definitions, the culture of taxation is a relationship between taxpayers and tax collectors in a tax system. This brings about a certain question: what is the unit of analysis for the culture of taxation? It involves two principal players in the tax system, both taxpayers and tax collectors. The existent enforcement and the relationship between taxpayers and tax authorities gives rise to the culture of taxation in each country (Chuenjit, 2014).

Peer influence is defined as pressure from friends, relatives, business colleagues, and partnerships that also has an impact on a person's decision-making (Al-Rahamneh & Bidin, 2022). In this

study’s context, the term ‘peer’ is widely used to refer to a taxpayer’s peers, family, relatives, co-workers, and other acquaintances. It is also characterized as the effect of important people on the tax behavior decisions of tax payers, contributing to the formulation of their perspectives of whether to comply or evade paying tax . (Al-Rahamneh & Bidin, 2022), as social psychologists, provided an intellectual explanation, that when peers and close referents are evading a commitment, people close to them are more likely to act in the same manner. Furthermore, individuals may consider acting illegally once they see such violations being committed by a peer. Peer groups have a significant influence on a person’s opinions, attitudes, and behavior (Choukas-Bradley et al., 2015). If taxpayers are affected by their peers in a profound manner, their decisions, personal beliefs, and attitudes would be affected as well.

**Table 2. Definition of variables in logistic regression model**

| Dependent variable: Employment tax payment |  |
|--|--|
| Variable Code                              | Definition of Variables Complied   |
| Y0=TP                                      | Tax payment  |
| Y1=NP                                      | Not paying tax   |
| Independent variables                      |  |
| age  | age of res   |
| sex  | sex of res   |
| Mar S.                                     | Marital status   |
| Edu.                                       | Education level completed.   |
| Y. Emp                                     | Years of employment  |
| MI   | monthly income   |
| RTEIT                                      | Reason to pay employment income tax  |
| TAF  | Tax rate applied monthly income is fair  |
| Info.                                      | Information  |
| Aw.  | Awareness  |
| AP   | administrative penalty   |
| TACB                                       | The tax assessors’ committee is biased   |
| CTPHLTPH                                   | As the culture of paying tax in a society is high, the level of tax collection practice is also high                         |
| CPTAC                                      | Corruption is one problem in tax assessment and collection   |
| TTACP                                      | Tax payers have trust on tax assessment and collection procedures  |
| MPETTEH                                    | As tax payers knows many people in group important to them are evading taxes, their commitment to evading tax will be higher |
| CSSGTP                                     | People are getting comparable social services from the government for the tax they pay                                       |
| NCNICTP                                    | The non-compliance of other taxpayers has a negative impact on compliant tax payers’ behavior in tax collection practice     |
| TPGFI                                      | Tax payers give false information about their monthly income.  |



**Table 3. The relationship between dependent and independent variables**

| Independent variable | Effect on the dependent variable |
|----------------------|----------------------------------|
| Edu.                 | Positive                         |
| RTEIT                | Positive                         |
| TAF                  | Positive                         |
| Info.                | Positive                         |
| Aw.                  | Positive                         |
| CTPHLTPH             | Positive                         |
| CPTAC                | Negative                         |
| TTACP                | Positive                         |
| MPETTEH              | Negative                         |
| NCNICTP              | Negative                         |
| TPGFI                | Negative                         |

## CHAPTER FOUR

### 4 RESULT AND DISCUSSIONS

#### 4.1 Introduction

##### 4.1.1 Socio-demographic characteristics of respondents

One hundred fifty-four (154) questionnaires were organized and distributed to taxpayers, of which all (154) one hundred fifty-four questionnaires were filled completely and returned back. This has made the return rate 100% and later the collected data were cleaned, checked for errors and completeness. As it has been stated above this study employed descriptive statistics, correlational analysis and binary logistic regression for data analysis. Besides, an in-depth interview was also conducted with tax officers and taxpayers' representatives in the study area to strengthen the findings of the study and to forward conscious recommendations.

According to Table 4. among the respondents the majority 96 (62.3%) were aged between 20-29, followed by respondents between age 30-39 (33.1%) and the remaining 7 (4.5 %) aged between 40-49. On the other hand, out of the sample private organizations employees in the study area 50.6 percent of the respondents were single while 44.8 percent were married , 3.2 and 1.3 percent were separated, and widowed respectively. the majority 41.6 percent had a working experience of 4 years and above in the sector followed by 33.1 percent 1-4 years of experience ,16.2 percent had less than one years of experience and 9.1 percent of the employees had working experience of more than 8 years in the business sector.

**Table 4. Demographic characteristics of the respondents**

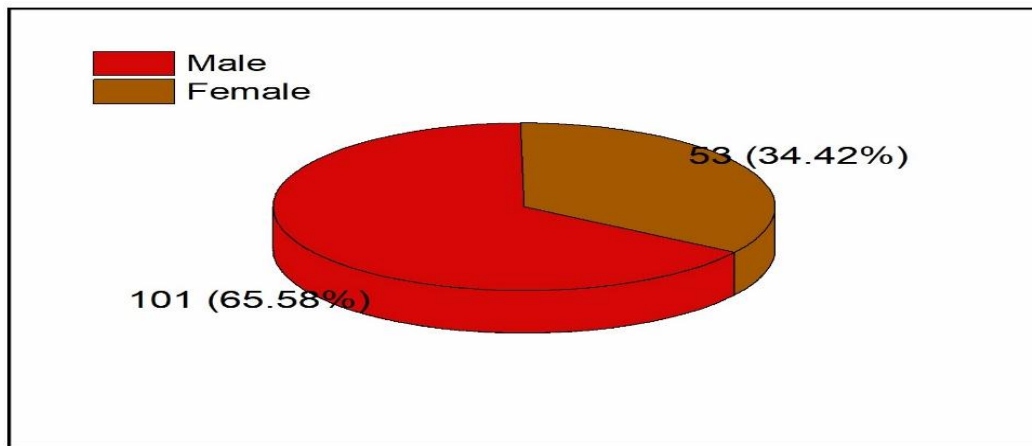
| age                       | 20-29    |         | 30-39      |         | 40-49       |         | Total         |         |       |     |
|---------------------------|----------|---------|------------|---------|-------------|---------|---------------|---------|-------|-----|
|                           | Freq     | Percent | Freq       | Percent | Freq        | Percent | Freq          | Percent |       |     |
| Response                  | 96       | 62.3    | 51         | 33.1    | 7           | 4.5     | 154           | 100     |       |     |
| <b>Marital status</b>     | single   |         | married    |         | separated   |         | widowed       |         | Total |     |
| Response                  | 78       | 50.6    | 69         | 44.8    | 5           | 3.2     | 2             | 1.3     | 154   | 100 |
| <b>working experience</b> | < 1 year |         | 1-4 years  |         | 4- years    |         | above 8 years |         | Total |     |
| Response                  | 25       | 16.2    | 51         | 33.1    | 64          | 41.6    | 14            | 9.1     | 154   | 100 |
| <b>monthly income</b>     | <5000    |         | 5000-10000 |         | 10000-20000 |         | >20000        |         | Total |     |
| Response                  | 20       | 13      | 41         | 26.6    | 61          | 39.6    | 32            | 20.8    | 154   | 100 |

Sources: survey result

Moreover, 39.6 percent of the respondents were able to generate ten to twenty thousand birr of monthly income, 26.6 percent can get five-to-ten-thousand-birr monthly income, 20.8 percent make more than twenty thousand birr and 13 percent get less than five thousand birr.

According to Figure 3 indicated depicted below we can easily understand that there were more male respondents (65.58%) than female respondents (34.42%) in the study area. Several factors that have influenced tax compliance as discussed by various researchers. These factors include age, gender, education and income among others. (Richardson, 2006) suggested that gender has no significant impact on compliance across a study of 45 countries.

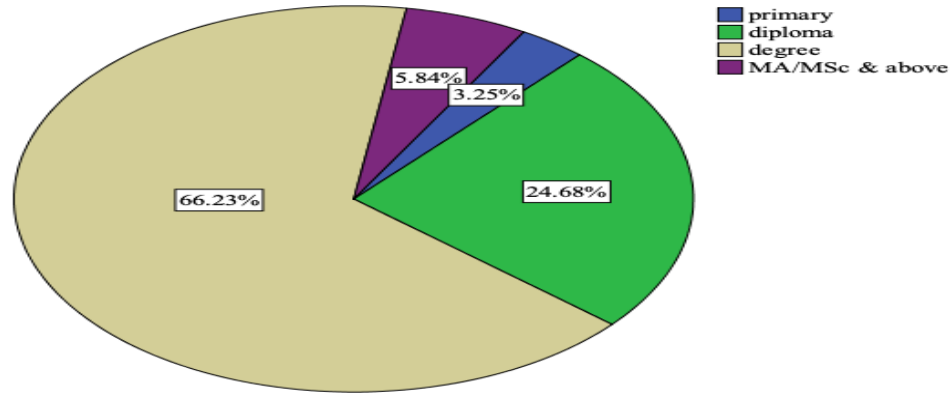
**Figure 3. gender of the respondents**



Source: survey result

According to Figure 4 The obtained results indicated below shown the majority 66.2 percent of the respondents were degree holders, 24.7 diploma graduates ,5.8 and 3.2 were masters and primary schools graduates respectively Fig.4. (Chan, Troutman en O’Bryan, 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. In contrast, the most recent study by (Palil, 2010) revealed that there is a negative association between education and compliance.

**Figure 4. Educational status of the respondents**



**4.1.2 Responses related to tax collection system and factors influencing its practices**

It is expected that people’s tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income. Taxpayers are required to report their employees and collect employment income tax at a specified time every month and report to the government. The purpose of this study aimed to comprehend employment income tax payment practices and identify the limiting factors related to the issue. Table 3. And Table 5. below shows the summary of the results.

**Table 5. Tax payers' responses about the willingness to pay employment income tax**

| Item   | Response                           | Frequency  | Percent    |
|--|------------------------------------|------------|------------|
| Have you paid your employment income taxes?                                | 1.Yes                              | 26         | 16.9       |
|  | 2.No                               | 128        | 83.1       |
| Are you voluntarily pay your employment income tax?                        | 1.Yes                              | 65         | 42.2       |
|  | 2.No                               | 89         | 57.8       |
| How is the income tax rate for private organizations employees determined? | 1.Same as government organizations | 86         | 55.8       |
|  | 2.Same as individuals              | 41         | 26.6       |
|  | 3.Separate tax rate                | 17         | 11         |
|  | 4.Others                           | 10         | 6.5        |
| <b>Total</b>   |                                    | <b>154</b> | <b>100</b> |

Source: survey result

the above Table 5. it can be observed that the majority (83.1%) of private sectors employees did not pay employment income tax based on rules and regulations. Among the respondents who pay employment income tax only 42.2 % replied voluntarily pay their income tax whilst 57.8 % reacted reluctantly pay employment income tax. On the other hand, the employees asked to answer how the tax rate determined among private business organization most of them 55.8 % replied it is similar with the government, 26.6 % replied the same as other individuals ,11 % believe different tax rate and 6.5 % have no idea about the subject.

**Table 6. Tax payers’ response about the purpose to pay tax and extent of tax evasion**

| Item   | Response                                     | Frequency  | Percent    |
|--|--|------------|------------|
| Why do you pay employment income taxes?                                  | 1.To avoid penalties                         | 61         | 39.6       |
|  | 2.In the anticipation of public services     | 13         | 8.4        |
|  | 3.There is no opportunity to avoid taxes     | 23         | 14.9       |
|  | 4.It is an obligation towards the government | 29         | 18.8       |
|  | 5.I don’t know                               | 28         | 18.2       |
| Extent of employment income tax evasion and tax avoidance in Addis Ababa | 1.Very low                                   | 10         | 6.5        |
|  | 2.Low  | 10         | 6.5        |
|  | 3.Medium                                     | 15         | 9.7        |
|  | 4.High                                       | 62         | 40.3       |
|  | 5.Very high                                  | 57         | 37         |
| What are the major problems in tax collection system?                    | 1.Not spent on public services               | 8          | 5.2        |
|  | 2.Tax rates are too high                     | 19         | 12.3       |
|  | 3.There are dishonest tax collectors         | 31         | 20.1       |
|  | 4. Not convenient time                       | 29         | 18.8       |
|  | 5.Unwilling to pay taxes                     | 15         | 9.7        |
|  | 6.Lack of ability to pay                     | 10         | 6.5        |
|  | 7.Complicated tax procedure                  | 17         | 11         |
|  | 8.Lack of awareness                          | 12         | 7.8        |
|  | 9.Negligence                                 | 13         | 8.4        |
| <b>Total</b>   |  | <b>154</b> | <b>100</b> |

Source: survey result

The respondents were asked to state the reason to pay employment income tax most (39.6%) replied to avoid penalties, followed by (18.8%) an obligation towards the government, (18.2%) don't know why they need to pay tax, (14.9%) thinks there is no opportunity to avoid taxes and the rest (8.4%) replied in anticipation of public services. The better understanding of taxpayer behavior and their problem can be expected to place revenue bodies in a stronger position to design and implement effective compliance strategies, which contributes to the sustainability of taxation systems (IMF, OECD, 2011). Moreover (*June, 2017 smu addis ababa, 2017*), suggested that understanding how citizens perceive and experience taxation may provide an essential diagnostic of the political realities for tax reform. Consequently, taxpayers' behavior towards tax system has evoked great attention among many Revenue Authorities in the world especially in developed countries. However, it is debatable on what has been done towards the study of taxpayers' view towards tax system in developing countries (Omweri, et al; 2010). (McKerchar & Evans, 2009) also explained that taxpayer non-compliance is a continual and growing global problem that is not readily addressed. Respondent also requested to rate their view about the extent of employment income tax evasion and tax avoidance in Addis Ababa, most 40.3 % and 37 % responded high and very high rate of tax evasion respectively contrarily, only 6.5 % replied low and very low level of tax evasion similarly. According to (Kassa, 2021) Tax evasion practices are more worsen in developing countries than when we compare against the developed countries. Tax evasion is like a pandemic for the countries because they are unable to control it. Therefore, governments were negatively affected by tax evasion to improve the life standard of its citizens and to allocate a budget for public expenditure, and it became a disease for the country's economy and estimated to cost 20% of income tax revenue. Similarly (Ayele et al., 2019) conducted a research on "An Assessment of Tax Evasion and Tax Avoidance in Lagos" and the study revealed that the tax administration in developing countries are very inefficient and ineffective, and that there is no adequate information on the taxpayers in the state hence, some people can hide from their tax liabilities. It was also discovered that there is a significant relationship between tax evasion and tax avoidance and the revenue of Government and the tax rate. (Sandra et al., 2016) assessed Tax Evasion and Avoidance in Mobilizing Tax Revenue by using descriptive way of research. The result shows that the government is losing a significant amount of revenue due to tax evasion and avoidance. Only from taxpayers who are audited and assessed there are a huge amount of money that had not been collected yet. The existence of other unaudited taxpayers and informal sectors, which have not been

audited yet, makes the government a loser in generating more revenue. In addition to the revenue losses, the existence of tax evaders and avoiders in trade markets are also making the legal taxpayers a loser and creating a negative impact on legal taxpayers to change their behavior from compliance to noncompliance. Finally, in this context the respondents were requested to rate the major problems which affect the employment income tax collection practices in the study area. Consequently, 20.1%, 18.8%, 12.3%, 11%, 9.7%, 8.4%, 7.8%, 6.5%, 5.2% of respondents replied the presence of dishonest tax collectors, the time of tax payment is not convenient, high tax rates, complicated tax procedure, taxpayers are not willing to pay taxes, negligence, lack of awareness, lack of ability to pay and tax revenues are not spent on public services were the major responsible factors respectively.

#### **4.1.3 Factors influencing employment income tax payers**

Findings on Table 7. revealed the major factors hindering to collect employment income tax, the majority 72.7 % disagree the tax rate applied on the monthly employment income is fair. However, overwhelming majority 87% disagree tax payers should evade tax if tax rate is too high. Similarly, respondents surveyed whether the amount of administrative penalty for delay of tax payment is proportional, most of them (83.1 %) believe penalty for tax delay is not proportional only 5.8 % agree the consequence for tax delay is proportional. Furthermore, 87.1 of the respondents disagree the tax assessors committee is unbiased in determining income tax liability. (Kassa, 2021) to minimize the participation of taxpayers engaged in tax evasion, tax fairness plays a significant role. This result is similar to the finding of Majid et al., (2017) and contradicts with the finding of Rantelangi and Majid (2018) and Alkhatib et al. (2019). On the other hand, 90.3 % of the respondent's answered corruption is one of the problems in tax assessment and collection. According to (Chander & Wilde, 1992) Corruption drastically reduces tax revenues, forcing governments to find other avenues for financing government expenditure, including borrowing. Future fiscal flexibility is reduced, because servicing of debt has to be given priority over other expenditures. This creates a vicious circle endangering fiscal sustainability. Corruption is particularly alarming because it breeds further corruption "corruption may corrupt,". Collusion between corrupt taxpayers and corrupt tax officials puts honest taxpayers at a disadvantage, encouraging them to evade taxes. Corrupt colleagues and friends weaken the will of honest officers and reduce the probability of being detected or losing one's reputation. As the number of corrupt tax collectors increases, the guilt feeling of indulging in wrongdoing decreases. On top of this the result

indicated 87 % contradict the idea that people are getting comparable social services from the government for the tax they pay.

**Table 7. Factors discouraging employment income tax payment**

| Question  | St. disagree |         | Disagree |         | Neutral |         | Agree |         | St. agree |         | Total |         |
|---|--------------|---------|----------|---------|---------|---------|-------|---------|-----------|---------|-------|---------|
|   | Freq         | Percent | Freq.    | Percent | Freq.   | Percent | Freq  | Percent | Freq      | Percent | Freq  | Percent |
| Tax rate applied monthly income is fair   | 82           | 53.20%  | 30       | 19.50%  | 18      | 11.70%  | 17    | 11%     | 7         | 4.50%   | 154   | 100%    |
| Tax payers should evade tax if tax rate is too high?  | 27           | 17.60%  | 107      | 69.50%  | 10      | 6.50%   | 7     | 4.50%   | 3         | 1.90%   | 154   | 100%    |
| Awareness is created to convince private employees pay the tax according to rules and regulation. | 86           | 55.80%  | 36       | 23.40%  | 19      | 12.30%  | 8     | 5.20%   | 5         | 3.20%   | 154   | 100%    |
| The amount of administrative penalty for delay of payment is proportional                         | 79           | 51.30%  | 49       | 31.80%  | 17      | 11%     | 6     | 3.90%   | 3         | 1.90%   | 154   | 100%    |
| Individuals with similar amounts of income pay a similar amount of tax                            | 11           | 7.10%   | 12       | 7.80%   | 20      | 13%     | 64    | 41.60%  | 47        | 30.50%  | 154   | 100%    |
| The tax assessors' committee is unbiased in determining your income tax liability?                | 58           | 37.70%  | 76       | 49.40%  | 12      | 7.80%   | 5     | 3.20%   | 3         | 1.90%   | 154   | 100%    |
| Corruption is one problem in tax assessment and collection.                                       | 3            | 1.90%   | 2        | 1.30%   | 10      | 6.50%   | 68    | 44.20%  | 71        | 46.10%  | 154   | 100%    |
| People are getting comparable social services from the government for the tax they pay?           | 27           | 17.50%  | 107      | 69.50%  | 10      | 6.50%   | 7     | 4.50%   | 3         | 1.90%   | 154   | 100%    |

Source: survey result

Likewise, respondents requested to respond whether they believe individuals with similar amounts of income pay a similar amount of tax most of them 72.1 % agreed individuals with similar employment income pay the same amount of tax for the government.



Table 8. below indicated Most of the sample respondents 57.1 % consider as the culture of paying tax in a society is high, the level of tax collection practice will be also high. Correspondingly, the majority 77.3 % of them believe as tax payers know many people in the group important to them are evading taxes, their commitment to evade tax will be higher and the non-compliance of other taxpayers has a negative impact on compliant tax payers" behavior in tax collection practice. Contrarily, (Alleyne & Harris, 2017) reported that subjective norms have not been significantly influenced definitely by the taxpayers engaged in tax evasion, which means taxpayers were not influenced by others to participate in tax evasion activities. In addition, employees asked whether they believe tax payers give false information about their monthly income. Accordingly, the majority 29.9 % agree, 26.6 % strongly agree that tax payers give false information about their monthly income while the remaining 20.8% ,13 % disagree and strongly disagree respectively and the other 9.7 % were take a neutral position about the issue.

**Table 8.Factors influencing tax payment practices**

| Question  | St. disagree |         | Disagree |          | Neutral  |          | Agree   |          | St. agree |          | Total  |         |
|---|--------------|---------|----------|----------|----------|----------|---------|----------|-----------|----------|--------|---------|
|   | Fre qu       | Percent | Fr eq u. | Perce nt | Fr eq u. | Perce nt | Fr eq u | Perce nt | Fre qu    | Perce nt | Fre qu | Percent |
| As the culture of paying tax in a society is high, the level of tax collection practice is also high?                         | 24           | 15.60%  | 21       | 13.60 %  | 21       | 13.60 %  | 65      | 42.20 %  | 23        | 14.90 %  | 154    | 100%    |
| Tax payers have trust on tax assessment and collection procedures.  | 66           | 42.90%  | 79       | 51.30 %  | 3        | 1.90 %   | 2       | 1.30%    | 4         | 2.60 %   | 154    | 100%    |
| As tax payers knows many people in group important to them are evading taxes, their commitment to evading tax will be higher? | 10           | 6.50%   | 10       | 6.50%    | 15       | 9.70 %   | 62      | 40.30 %  | 57        | 37%      | 154    | 100%    |
| The non-compliance of other taxpayers has a negative impact on compliant tax payers" behavior in tax collection practice?     | 4            | 2.60%   | 15       | 9.70%    | 16       | 10.40 %  | 64      | 41.60 %  | 55        | 35.70 %  | 154    | 100%    |
| Tax payers give false information about their monthly income.   | 20           | 13%     | 32       | 20.80 %  | 15       | 9.70 %   | 46      | 29.90 %  | 41        | 26.6 0%  | 154    | 100%    |

### 4.1.3 Perception and understanding about rules and regulation of employment tax

Table 9. below showed most of the respondents 55.8 % disagree tax payers comply with tax rules and regulation, and only 37.7% agree tax payers comply with tax rules and regulation. (Tehulu, 2016) reported tax knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country.

**Table 9. Knowledge about rules and regulations**

| Question  | Strongly disagree |            | Disagree  |            | Neutral   |            | Agree     |            | Strongly agree |            | Total     |            |
|---|-------------------|------------|-----------|------------|-----------|------------|-----------|------------|----------------|------------|-----------|------------|
|   | Frequency         | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency | Percentage | Frequency      | Percentage | Frequency | Percentage |
| your organizations employees have sufficient knowledge/awareness to pay income tax.                                 | 29                | 18.80%     | 57        | 37%        | 10        | 6.50%      | 45        | 29.22%     | 13             | 8.44%      | 154       | 100%       |
| Employees of woreda 12 micro tax payers branch office have sufficient knowledge about tax assessment and collection | 26                | 16.80%     | 60        | 39%        | 12        | 7.80%      | 42        | 27.27%     | 14             | 9.10%      | 154       | 100%       |
| Income tax rules and regulation are suitable to collect income tax from taxpayers.                                  | 45                | 29.20%     | 58        | 37.70%     | 17        | 11%        | 22        | 14.3%      | 12             | 7.80%      | 154       | 100%       |
| Tax payers comply with tax rules and regulation.  | 29                | 18.80%     | 57        | 37%        | 10        | 6.50%      | 44        | 28.60%     | 14             | 9.10%      | 154       | 100%       |
| What is your level of knowledge on tax laws, rules and regulation?  | Very low          |            | Low       |            | Medium    |            | High      |            | Very high      |            |           |            |
|   | 54                | 35.1%      | 65        | 42.20%     | 9         | 5.80%      | 17        | 11%        | 9              | 5.80%      | 154       | 100%       |

Sources: survey result

Moreover, 55.8 % disagree both private organization employees and Employees of woreda 12 micro tax payers branch office have sufficient knowledge/awareness to pay income tax and about assessment and collection. Similarly, the majority 77.3 % have low level of knowledge about tax laws, rules and regulation and 66.9% replied income tax rules and regulation are not suitable to collect income tax from taxpayers Table 9.

**Table 10. Willingness to pay and perceptions towards rules and regulation**

| question  | Yes          |             | No       |             | Total    |             |       |       |           |        |       |       |
|---|--------------|-------------|----------|-------------|----------|-------------|-------|-------|-----------|--------|-------|-------|
|   | Fr<br>eq     | Perc<br>ent | Fre<br>q | Perc<br>ent | Fre<br>q | Perce<br>nt |       |       |           |        |       |       |
| Do you have the willingness to pay your income tax according to the rules and regulation?           | 65           | 42.2 %      | 89       | 57.8 %      | 154      | 100%        |       |       |           |        |       |       |
| If there is no penalty or legal enforcement there is a possibility that tax payers may not pay Tax. | St. disagree |             | Disagree |             | Neutral  |             | Agree |       | St. agree |        | Total |       |
|   | 10           | 6.50 %      | 10       | 6.50%       | 15       | 9.70%       | 62    | 40.3% | 57        | 37%    | 154   | 100 % |
| The tax laws and rules should be respected?   | 10           | 6.50 %      | 10       | 6.50%       | 15       | 9.70%       | 62    | 40.3% | 57        | 37%    | 154   | 100 % |
| There is gap in tax assessment and collection rule and regulation                                   | 20           | 13%         | 32       | 20.80 %     | 15       | 9.70%       | 46    | 29.9% | 41        | 26.6 % | 154   | 100 % |
| The existing Ambiguous rule and regulation is problem for tax assessment and estimation             | 13           | 8.40 %      | 23       | 14.90 %     | 20       | 13%         | 52    | 33.8% | 46        | 29.9 % | 154   | 100 % |
| What do you think about the public attitude towards taxation, including yourself?                   | Very poor    |             | poor     |             | Neutral  |             | Good  |       | Very good |        | Total |       |
|   | 52           | 33.80 %     | 61       | 39.60 %     | 11       | 7.10%       | 16    | 10.4% | 14        | 9.1 %  | 154   | 100 % |

Source: survey result

On the above Table 10. employees were asked to reply their attitude and perception towards rule and regulations. Among the respondents 57.8 % of the employees are not willing to pay their income tax according to the rules and regulation. In addition ,77.3 % believe if there were no penalty or legal enforcement there is a possibility that tax payers may not pay Tax. Likewise,

overwhelming majority 73.4 % judge public attitude towards taxation including themselves are poor and 77.3% suggest the tax laws and rules should be respected. Besides ,56.5 % agree there is gap in tax assessment and collection rule and regulation and the existing ambiguous rule and regulation is problem for tax assessment and estimation.

#### 4.1.4 Problems related to employment income tax collection

In the following section respondents asked to react about the major problems related to employment income tax collection giving particular attention to woreda micro tax payers branch office.

**Table 11. Major difficulties challenged the branch office**

| Item   | St.disagre    |             | Disagree  |             | Neutral       |             | Agree     |             | Str.agree |             | Total    |             |
|--|---------------|-------------|-----------|-------------|---------------|-------------|-----------|-------------|-----------|-------------|----------|-------------|
|  | Fr<br>eq<br>u | Per<br>cent | Fre<br>qu | Per<br>cent | Fr<br>eq<br>u | Per<br>cent | Fre<br>qu | Per<br>cent | Fre<br>qu | Per<br>cent | Fre<br>q | Per<br>cent |
| Lack of skilled man power in the woreda 12 micro tax payers branch office is a problem for tax assessment and estimation   | 15            | 9.7         | 43        | 27.9        | 14            | 9.1         | 63        | 40.9        | 19        | 12.3        | 154      | 100         |
| There is good and interesting system in the woreda 12 micro tax payers branch office   | 57            | 37          | 62        | 40.3        | 15            | 9.7         | 10        | 6.5         | 10        | 6.5         | 154      | 100         |
| There is adequate and qualified manpower in the office for the tax assessment and collection   | 34            | 22.1        | 59        | 38.3        | 19            | 12.3        | 29        | 18.8        | 13        | 8.4         | 154      | 100         |
| Employees of woreda 12 micro tax payers branch office take relevant training and development programs on tax assessment and collection procedures, rules and regulations | 32            | 20.8        | 61        | 39.6        | 19            | 12.3        | 29        | 18.8        | 13        | 8.4         | 154      | 100         |
| The woreda 12 micro tax payers branch office is providing awareness for income tax payers to be voluntarily paying their tax liabilities                                 | 27            | 17.5        | 60        | 39          | 19            | 12.3        | 35        | 22.7        | 13        | 8.4         | 154      | 100         |
| There is good service delivery in the woreda 12 micro tax payers branch office.  | 28            | 18.2        | 58        | 37.7        | 19            | 12.3        | 36        | 23.4        | 13        | 8.4         | 154      | 100         |
| Employees of woreda 12 micro tax payers branch office know employment tax assessment and collection rules and regulations  | 22            | 14.3        | 54        | 35.1        | 19            | 12.3        | 46        | 29.9        | 13        | 8.4         | 154      | 100         |

Source: survey result

Table 11. indicated above revealed, 53.3 % replied lack of skilled man power in the woreda 12 micro tax payers branch office is a problem for tax assessment and estimation as a result. Likewise, most 60.4 % disagree employees of woreda 12 micro tax payers branch office take relevant training and development programs on tax assessment and collection procedures, rules and regulations. Most of the respondents 77.3% replied there is no there is good and interesting system, Most of the respondents 55.9% no good service delivery and the majority 49.4% employees have no sufficient knowledge about employment tax assessment and collection rules and regulations in the woreda.

**Table 12. Response about branch office employee’s readiness to collect tax**

| Does the tax administration in your woreda provide education/training programs to educate income tax payers? | yes  |         | No   |         | Total |         |
|--|------|---------|------|---------|-------|---------|
|  | Freq | Percent | Freq | Percent | Freq  | Percent |
|  | 56   | 36.4%   | 98   | 63.6%   | 154   | 100%    |

| The law gives wider discretion for the woreda 12 micro tax payers branch office employers and employees abuse their power | Stron. disagree |        | Disagree |        | Neutral |        | Agree |        | Stro. agree |       | Total |      |
|---|-----------------|--------|----------|--------|---------|--------|-------|--------|-------------|-------|-------|------|
|   | 34              | 22.10% | 59       | 38.30% | 19      | 12.30% | 29    | 18.80% | 13          | 8.40% | 154   | 100% |

|   |    |        |    |        |    |        |    |        |    |       |     |      |
|---|----|--------|----|--------|----|--------|----|--------|----|-------|-----|------|
| Some employees are negligent when they assess private sector employee’s income  | 10 | 6.50%  | 10 | 6.50%  | 15 | 9.70%  | 62 | 40.30% | 57 | 37%   | 154 | 100% |
| Method of private sector employment income tax assessment is simple guess or subjective   | 10 | 6.50%  | 10 | 6.50%  | 15 | 9.70%  | 62 | 40.30% | 57 | 37%   | 154 | 100% |
| The woreda offices collect the income tax according to the plan   | 22 | 14.30% | 54 | 35.10% | 19 | 12.30% | 46 | 29.90% | 13 | 8.40% | 154 | 100% |
| Employees of woreda 12 micro tax payers branch office are transparent for tax payers and for managers as to tax assessment and collection | 19 | 12.30% | 52 | 33.80% | 19 | 12.30% | 51 | 33.10% | 13 | 8.40% | 154 | 100% |

Source: survey result

Results from table 12. Shown most of the respondents 63.6 % agree tax administration in the woreda provide no education/training programs to educate income tax payers. 77.3 replied Some employees in the branch office were negligent when they assess private sector employee's income and method of private business organizations employment income tax assessment is simple guess or subjective. More over most of them 46.1 % disagree employees of woreda 12 micro tax payers branch office is transparent for tax payers and for managers as to tax assessment and collection.

#### **4.2 Factors affecting collection of employment income tax from woreda 12 private sector employees**

##### **Econometric Model Results on Predictors of Tax paying behavior**

For the analysis of factors affecting tax employment income tax, a binary logistic regression model was applied. Tax payment as previously defined is a categorical dependent variable explained either through payment or nonpayment with the tax law or system. Tax paying behavior as a function of these two categories is determined by factors influencing each of these categories. The analysis, as indicated above, was run using the above listed variables. The following table 3. shows econometric model results on factors influencing the two categories of tax paying behavior.

According the results shown on Table 13. the following variables namely respondent's education level, age, sex marital status, working experience in the sector, getting comparable social services from the government, biased tax assessors committee, knowing the reason to pay employment income tax, providing enough information about employment income tax payment system, awareness created about rules and regulation, the amount of administrative penalty for delay of payment, culture of paying tax in a society , Corruption , Tax payers trust , peer pressure, the non-compliance of other taxpayers and false information about their monthly income are tested in regression analysis. (Debebe Tesfaye, 2018; A. Tilahun & Yidersal, 2014) 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, gender and probability of being audited have no significant impact on tax compliance behavior. Finally, the findings show that older people will comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favorable.

In this study education level, reason to pay employment income tax, the fairness of tax rate applied monthly income, information, awareness, culture of paying tax in a society, corruption, tax payers

trust on tax assessment and collection procedures, group influence, and tax payers' false information have significantly affected tax paying behavior in the study area. Other factors including, sex, marital status, years of employment, administrative penalty, biasness, getting comparable social services from the government fare not important variables in explaining tax paying behavior in this study.

**Educational status:** Greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. 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 (Utama, 2017). According to the binary logistic regression the chance that a person with higher education to pay employment income tax is 1.209 times or 55 percent higher than with less educated persons with 95% C.I of .692 to 2.113. Previous literature hypothesize that education level is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non-compliance opportunities, but they potentially better understand the tax system and higher level of moral development promote a more favorable taxpayer attitude and greater compliance (Tadesse G. and Goitom. A, 2014).

**Table 13.Binary logistic regression result**

|                     |          | Variables in the Equation |       |       |    |      |        |                    |
|---------------------|----------|---------------------------|-------|-------|----|------|--------|--------------------|
|                     |          | B                         | S.E.  | Wald  | df | Sig. | Exp(B) | 95% C.I.for EXP(B) |
|                     |          |                           |       |       |    |      |        | Lower Upper        |
| Step 1 <sup>a</sup> | age      | -.318                     | .461  | .475  | 1  | .649 | .728   | .295 1.796         |
|                     | sex      | .253                      | .501  | .255  | 1  | .614 | 1.288  | .482 3.438         |
|                     | Mar S.   | .157                      | .393  | .160  | 1  | .689 | 1.170  | .542 2.526         |
|                     | Edu.     | .190                      | .319  | .356  | 1  | .551 | 1.209  | .648 2.259         |
|                     | Y. Emp   | -.038                     | .353  | .011  | 1  | .915 | .963   | .482 1.924         |
|                     | MI       | -.361                     | .353  | 1.041 | 1  | .308 | .697   | .349 1.394         |
|                     | RTEIT    | .115                      | .154  | .563  | 1  | .453 | 1.122  | .830 1.517         |
|                     | TAF      | .006                      | .203  | .001  | 1  | .937 | 1.006  | .676 1.499         |
|                     | Info.    | -.125                     | .307  | .167  | 1  | .683 | .882   | .484 1.609         |
|                     | Aw.      | .153                      | .210  | .533  | 1  | .465 | 1.166  | .772 1.759         |
|                     | AP       | -.182                     | .267  | .465  | 1  | .495 | .834   | .494 1.406         |
|                     | TACB     | -.107                     | .274  | .152  | 1  | .697 | .899   | .525 1.538         |
|                     | CTPHLTPH | .136                      | .190  | .515  | 1  | .473 | 1.146  | .790 1.663         |
|                     | CPTAC    | .738                      | .406  | 3.316 | 1  | .069 | 2.093  | .945 4.633         |
|                     | TTACP    | .203                      | .308  | .434  | 1  | .510 | 1.225  | .670 2.241         |
|                     | MPETTEH  | .504                      | .264  | 3.647 | 1  | .036 | 1.655  | .987 2.776         |
|                     | CSSGTP   | .136                      | .306  | .197  | 1  | .657 | 1.145  | .629 2.084         |
|                     | NCNICTP  | .078                      | .234  | .111  | 1  | .739 | 1.081  | .683 1.710         |
|                     | TPGFI    | -.260                     | .194  | 1.795 | 1  | .180 | .771   | .527 1.128         |
|                     | Constant | -7.373                    | 3.653 | 4.073 | 1  | .044 | .001   |                    |

Source: survey result



**Tax rate applied monthly income is fair:** (Kirchler et al., 2010) Two counteracting effects are reported on literature a high tax rate reduces effective income and, therefore, makes tax evasion more profitable. On the other hand, by reducing effective income absolute risk aversion increases. Consequently, evasion should be reduced. In this study, employees who think the tax rate applied on monthly income is fair 1.006 times or 51 percent more likely to pay income tax than who understands conversely with 95% C. I of .676 to 1.499. According to (Umoffong et al., 2020) a fair and equitable tax system will encourage voluntary compliance. Perception of fairness is not a single-dimension factor. Instead, it is mostly affected by tax compliance simplicity and tax morale, followed by perception about Government spending. So, the government should allocate resources to improve the triplet which consequently influences the perception of fairness. Fairness operates through the channel of morality, reciprocity and perception about the government's actions and services (e Hassan et al., 2021).

**Awareness:** the study indicated tax payers who have awareness about rules and regulation 1.166 times more likely to pay employment income tax than employees with less awareness with 95% C.I of .772 to 1.759. The influence of knowledge on compliance behaviors has been assessed in various researches. Attitude towards tax compliance can be improved through the enhancement of tax knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Bernard et al., 2018). Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Engida & Baisa, 2014). Taxpayers' awareness about the tax law was expected to have positive impact on tax compliance.

**Information:** Moreover, persons with sufficient information about employment income tax are .882 times or 48 percent less likely to escape employment income tax payment with 95% C.I of .484 to 1.609.

**Reason to pay employment income tax:** persons who know the reason to pay employment income tax are 1.122 times more likely to pay their tax in relation to who have no reason to pay with 95% C.I of .857 to 1.469.

**Administrative penalty:** The amount of administrative penalty for delay of payment is proportional: Penalties and fines also appear to play a significant role in the success of good tax system. Some studies showed that compliance increased significantly with higher penalties. The

study conducted by (M. Tilahun, 2019) revealed that penalties are factors that significantly affect tax compliance behavior. In contrast, other study conducted by (Tadesse G. and Goitom. A, 2014) revealed that penalties have no effect on tax compliance. Most other studies reported fines are connected to trust and power, fines that are too low could be perceived as an indicator that the authorities are weak and unable to control the tax evaders, undermining trust among honest taxpayers. Penalty was supposed to have positive influence on tax compliance. Findings of this study indicated persons who think the administrative penalty is not proportional .834 times less likely to pay employment income tax in relation to persons who think it is proportion with 95% C. I of .494 to 1.406.

**Culture of paying tax in the society:**(Bijiga, 2020) revealed in the country where is no deep culture and habit of paying taxes the degree of tax evasion is high and consequently low revenue generation. In such country intentional or unintentional tax evasion is considered acceptable and commonly practiced among taxpayers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Those taxpayers understand their obligations, may not know how to meet them or may be unable to do so for other reasons. The study shown, as the culture of paying tax in a society is high, the probability to collect higher taxes is 1.146 times higher than with less tax culture with 95 % C.I of .790 to 1.66.

**Corruption:** There is wide agreement among researchers that corruption has a significant negative impact on tax revenues. Studies in developing countries indicate that often more than half of the taxes that should be collected cannot be traced by government treasuries due to corruption and tax evasion. While some corruption researchers have proposed that corruption can be an efficiency-enhancing force in tax revenue collection by motivating tax officers to work harder and disincentivizing tax evasion, other experts have pointed out that presence of corruption reduces tax revenues in the long run (Bijiga, 2020).In this study, persons who think corruption is a problem to collect taxes 2.093 times or 68 percent more likely to avoid employment income tax than persons who think corruption is not a problem with 95% C.I of 0.945 to 4.633.

**Tax payers trust:** Tax payers have trust on tax assessment and collection procedures: tax payers who have trust on tax assessment and collection are 1.225 more likely to pay tax than with no trust with 95% C. I of .670 to 2. 241. Recent research has increasingly stressed the importance of building trust to strengthen tax morale and encourage tax compliance (Chang, Supriyadi, and Torgler 2018).

Tax morale reflects individual ethics and values, social norms, and the extent of trust in tax system and more broadly, fiscal systems. Some of these factors, such as ethics, values, and social norms, vary across individuals and are relatively unrelated to and unconditional on government performance. Trust, on the other hand, is more conditional and depends on the extent to which taxpayers believe they are treated fairly, tax systems are equitable, they receive services in return, and governments are broadly accountable. Improvements in trust can thus improve tax morale and contribute to enhanced tax compliance, offering the most immediate target for prospective reformer (Trust et al., n.d.)

**Group effect:** As tax payers knows many people in group important to them are evading taxes, their commitment to evading tax 1.655 times more likely to avoid taxes with 95% C.I of .987 to 2.776.

(Al-Rahamneh & Bidin, 2022) pointed out that taxpayers' expectations with regard to the rejection or acceptance of tax evasion, are influenced by their peers. However, from a taxation perspective, peer influence is regarded as a main factor affecting the tax behavior of taxpayers. Peers have an influence on their colleagues' relevant tax behavior. Hence, when a taxpayer perceives that other taxpayers are also evading tax, he or she is more likely to not file a tax return. This is in line with the social influence theory. According to (Bijiga, 2020), the social influence theory postulates that surrounding environmental factors affect the behavior of people, either deliberately or non-deliberately. This study also finds out the if the information provided by tax payers is false the probability of tax compliance is .771times less likely with 95% C.I of .5271to 1.128.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

The main focus of the study was to assess the major factors influencing employment income tax payment among private business organizations in bole sub city woreda 12. The study was conducted based on the data collected from private business organizations employees which includes manufacturing and service) in the whole Bole sub city woreda 12. Given this information the minimum sample size of employees for reliable results is found to be 154 based on standard formula obtained from literature. The researcher distributed 154 questionnaires and all returned with feedback. Data analysis was done by using frequency descriptive statistical tools and binary logistic regressions analysis. Moreover, the researcher was conducted the semi structured questionnaire for the Key Informant Interview guide for tax officials.

Among the respondents the majority 96 (62.3%) were aged between 20-29 which indicates most of the business organizations have young employees. overwhelming majority 101(65.6%) of the sample respondents were male and the majority were single (not married). The study also indicated the majority 41.6 percent have a working experience of 4 years and above in the sector. Moreover, most 39.6 percent of the respondents were able to generate ten to twenty thousand birrs of monthly income. The obtained results indicated below shown the majority 66.2 percent of the respondents were degree holders.

The study indicated that the majority (83.1%) of private sectors employees did not pay employment income tax based on rules and regulations. According to most of the respondents the reason to pay employment income tax is to avoid penalties. The majority agree that tax payers give false information about their monthly income and they had not been presented the required file returns to the tax authority.

Findings also revealed the major factors hindering to collect employment income tax, the majority agreed tax rate on the monthly employment income is not fair. However, great majority 87% disagree tax payers should evade tax if tax rate is too high. Similarly, penalty for tax delay is not proportional and tax assessors committee is biased in determining income tax liability.

Moreover, as tax payers know many people in the group important to them are evading taxes, their commitment to evade tax will be higher and the non-compliance of other taxpayers has a negative impact on compliant tax payers' behavior in tax collection practice. corruption is one of the problems in tax assessment and collection. On top of this the result indicated 87 % contradict the idea that people are getting comparable social services from the government for the tax they pay.

Finally, in this context the respondents were requested to rate the major problems which affect the employment income tax collection practices in the study area. respondents replied the presence of dishonest tax collectors, the time of tax payment is not convenient, high tax rates, complicated tax procedure, taxpayers are not willing to pay taxes, negligence, lack of awareness, lack of ability to pay and tax revenues are not spent on public services were the major responsible factors respectively.

The study made regression analysis on variables namely respondents education level, knowing the reason to pay employment income tax , providing enough information about employment income tax payment system , awareness created about rules and regulation , the amount of administrative penalty for delay of payment culture of paying tax in a society , corruption , tax payers trust , peer pressure, the non-compliance of other taxpayers and false information about their monthly income significantly affect tax paying behavior in Ethiopia. Other factors including, age, sex marital status, working experience in the sector, getting comparable social services from the government and biased tax assessors committee are not important variables in explaining tax paying behavior.

## **5.2 Conclusion**

Tax collection practice is one of the most significant issues in raising revenue to the level required to enhance economic growth. A good tax system is expected to be rational, fair, unbiased and even non-discriminatory in nature and practice. More generally, tax payment needs to be assessed, collected and recorded more efficiently.

Regarding the practices of employment income tax collection practices among private sector business organization Bole sub city woreda 12 tax payers branch, among various tax collection practice problems this study revealed that taxpayers related and tax administration related problems were the major one. The problems that hinder tax collection practice were; lack of tax payers record keeping, tax payers understating their annual income, insufficient information of tax payers about tax assessment procedure applicable rules and regulations, miss understanding of tax payers on the estimation of tax amount/tax rate, negative attitude towards taxation were among the taxpayers related tax collection problems.

Based up interpretation of tested output result of the model, the researcher concludes that tax payers' compliance related to tax collection practice were based up on explanatory variables including age, education level, attitude of tax payer, tax rate, tax laws and rules, administrative efficiency, and penalty have a positive effect on tax compliance level.

Problems relate to tax administrations also include lack of qualified and trained manpower, low level of information among tax payers lack of awareness creation to the tax payers and insufficient public relation which led to low tax generation potential. More over the study identified, lack of capacity building and training, Accountability system is not backed up with reward and punishment as well while corruption rampantly hit employee. In addition, performance appraisal and evaluation of the employee is not supported by the actual efficiency and performance of workers.

The findings of this study indicated that overall practices to achieve ultimate goals of employment income tax collection from private business was found at low level.

### **5.3 Recommendations**

Based on the findings of this study the following recommendations were forwarded as an alternative to improve the development of the economy in general and the tax system in particular.

- Taxpayers' education and training are very essential in promoting compliance. Taxpayers must receive clear and concise information on what is taxable, how to calculate their tax liabilities and procedures for calculating and paying taxes and why, where and when they pay taxes.
- Improving the efficiency of tax administration, shall be given due attention by policy 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 rights and responsibilities. This helps to create awareness among the taxpayers and encourage voluntary tax compliances and avoid the fearing of penalty.
- A good and fair tax system has positive impact on tax payer's attitude towards to avoid tax evasion. Therefore, the government expected to improve the tax system that assures faire, justice, honest among taxpayers and trust between tax payers and collectors.
- Tax laws must be simple, clear to understand and certainly, it has an essential effect to remove any confusing ambiguities that give room for different interpretation.
- Awareness raising on personal compliance and educating about the benefit and importance of voluntary compliance to the entire tax payers will help to minimize the undesirable attitudes of relatives, families and friends. This will in turn, help to improve tax compliance.

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# APPENDIX

## Appendix I

SAINT MARY'S UNIVERSITY

Department of Economics

### Questionnaire

Dear Respondents,

The main purpose of this questionnaire is to collect necessary information about “The Assessment of Employment Income Tax payment practices In Private Business Sector (The Case study of Addis Ababa City Administration Bole Sub- City Woreda 12)”. Your genuine and clear response will contribute a lot for the success and validity of the study. Hence; you are kindly requested to provide brief and correct information for the questions. The study will be conducted for the partial fulfilment of Masters` of Science Degree in development Economics and the responses provided by you will be kept confidential and used merely for academic purpose.

Thank you in advance for your voluntary cooperation and participation.

Ashenafi Tadesse

Email:

Phone number: +251 91 193 4982

**Instruction : It is not required to write your name put a tick mark (✓) on the space provided.**

### Part I - General Information

1. Age

20-29 years  30-39 years  40-49 years  50 and above

2. Sex

Male  Female

3. Marital status of the respondents?

Single  Married  3. Separated  Widowed

4. Education level completed.

Primary school  Secondary school  Certificate  Diploma   
Degree  6.MA/MSc and above

5. how long have you been working in this Sector?

< 1 year  1-4 years  4-8 years  Above 8 years

6. what is yours monthly income \_\_\_\_\_

< 5000-birr  5000-10,000-birr  10,000-20,000 birr  >20,000 birr

## **Part II. Questions related the major factors that affect employment income tax collection**

1. Have you ever paid your employment income taxes?

a. Yes b. No

2. Why do you pay employment income taxes?

- a. To avoid penalties
- b. In the anticipation of public services
- c. There is no opportunity to avoid taxes
- d. It is an obligation towards the government
- e. Don't know

3. Tax rate applied monthly income is fair

- a. Strongly disagree
- b. Disagree
- c. Neutral
- d. Agree
- e. Strongly agree

4. Enough information is given about employment income tax payment system

- a. Strongly disagree
- b. Disagree
- c. Neutral
- d. Agree
- e. Strongly agree

5. Awareness is created to convince private employees pay the tax according to rules and regulation.
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
6. The amount of administrative penalty for delay of payment is proportional
  - a. Strongly disagree
  - b. Disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree
7. Individuals with similar amounts of income pay a similar amount of tax
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
8. The tax assessors' committee is unbiased in determining your income tax liability?
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
9. As the culture of paying tax in a society is high, the level of tax collection practice is also high?
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree



10. Corruption is one problem in tax assessment and collection.
  - a. Strongly disagree
  - b. Disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree
11. Tax payers have trust on tax assessment and collection procedures.
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
12. As tax payers know many people in group important to them are evading taxes, their commitment to evading tax will be higher?
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
13. People are getting comparable social services from the government for the tax they pay?
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
14. The non-compliance of other taxpayers has a negative impact on compliant tax payers' behavior in tax collection practice?
  - a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree

15. Tax payers should evade tax if tax rate is too high?
- Strongly disagree
  - Disagree
  - Neutral
  - Agree
  - Strongly agree
16. Tax payers give false information about their monthly income.
- Strongly disagree
  - Disagree
  - Neither disagrees nor agrees
  - Agree
  - Strongly agree
17. Are You voluntarily pay your employment income tax?
- Yes b. No
18. To what extent employment income tax evasion and tax avoidance are challenging problem for tax collection practice in Addis Ababa?
- Very low
  - Low
  - Medium
  - High
  - Very high
19. How is the income tax rate for private organizations employees determined?
- Same as government organizations
  - Same as individuals
  - Separate tax rate
  - Others, please specify\_\_\_\_\_

### **Part III. Perception and understanding about rules and regulation of employment income**

20. Tax payers comply with tax rules and regulation.
- |                      |                 |
|----------------------|-----------------|
| a. Strongly disagree | d. Agree        |
| b. Disagree          | e. Strong Agree |
| c. Neutral           |                 |

21. your organizations employees have sufficient knowledge/awareness to pay income tax.
- Strongly disagree
  - Disagree
  - Neutral
  - Agree
  - Strongly agree
22. Employees of woreda 12 micro tax payers branch office have sufficient knowledge about tax assessment and collection.
- Strongly disagree
  - Disagree
  - Neutral
  - Agree
  - Strongly agree
23. Do you have the willingness to pay your income tax according to the rules and regulation?
- Yes
  - No
24. If there is no penalty or legal enforcement there is a possibility that tax payers may not pay Tax.
- Strongly disagree
  - Disagree
  - Neutral
  - Agree
  - Strongly agree
25. What do you think about the public attitude towards taxation, including yourself?
- Very poor
  - Poor
  - Natural
  - Good
  - Very good
26. The tax laws and rules should be respected?
- Strongly disagree
  - Disagree

- c. Neutral
  - d. Agree
  - e. Strongly agree
27. What is your level of knowledge on tax laws, rules and regulation?
- a. Very poor
  - b. Poor
  - c. neutral
  - d. Good
  - e. Very good
28. Income tax rules and regulation are suitable to collect income tax from taxpayers.
- a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
29. There is gap in tax assessment and collection rule and regulation.
- a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
30. The existing Ambiguous rule and regulation is problem for tax assessment and estimation.
- a. Strongly disagree
  - b. Disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree

**Part IV. What are the main problems the woreda 12 micro tax payers branch office on the private sector employee's income tax collection?**

31. What are the major problems in tax collection system?
- a. Tax revenues are not spent on public services
  - b. Tax rates are too high
  - c. There are dishonest tax collectors
  - d. The time of tax payment is not convenient
  - e. Taxpayers are not willing to pay taxes
  - f. Lack of ability to pay
  - g. Complicated tax procedure
  - h. Lack of awareness
  - i. Negligence
32. Does the tax administration in your woreda provide education/training programs to educate income tax payers?
- a. Yes
  - b. No
33. Lack of skilled man power in the woreda 12 micro tax payers branch office is a problem for tax assessment and estimation.
- a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree
34. There is good and interesting system in the woreda 12 micro tax payers branch office.
- a. Strongly disagree
  - b. Disagree
  - c. Neutral
  - d. Agree
  - e. Strongly agree

35. The law gives wider discretion for the woreda 12 micro tax payers branch office employees and employees abuse their power.
- Strongly disagree
  - Disagree
  - Neither disagrees nor agrees
  - Agree
  - Strongly agree
36. Some employees are negligent when they assess private sector employee's income.
- Strongly disagree
  - Disagree
  - Neither disagrees nor agrees
  - Agree
  - Strongly agree
37. Method of private sector employment income tax assessment is simple guess or subjective.
- Strongly disagree
  - Disagree
  - Neither disagrees nor agrees
  - Agree
  - Strongly agree
38. There is adequate and qualified manpower in the office for the tax assessment and collection.
- Strongly disagree
  - Disagree
  - Neither disagrees nor agrees
  - Agree
  - Strongly agree
39. Employees of woreda 12 micro tax payers branch office take relevant training and development programs on tax assessment and collection procedures, rules and regulations.
- Strongly disagree
  - Disagree

- c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly disagree
40. The woreda 12 micro tax payers branch office is providing awareness for income tax payers to be voluntarily paying their tax liabilities.
- a. Strongly disagree
  - b. Disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree
41. There is good service delivery in the woreda 12 micro tax payers branch office.
- a. Strongly disagree
  - b. Disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree
42. Employees of woreda 12 micro tax payers branch office know employment tax assessment and collection rules and regulations.
- a. Strongly disagree
  - b. Disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree
43. The woreda offices collect the income tax according to the plan.
- a. Strongly disagrees
  - b. disagree
  - c. Neither disagrees nor agrees
  - d. Agree
  - e. Strongly agree

44. Employees of woreda 12 micro tax payers branch office are transparent for tax payers and for managers as to tax assessment and collection.

- a. Strongly disagree
- b. Disagree
- c. Neither disagrees nor agrees
- d. Agree
- e. Strongly agree

**Thank you for your cooperation!!**



## **Appendix II**

### **Interview**

#### **Interview and focus group discussion questions for manager and vice manager of revenue office**

1. Do you think that employment tax payment collection rules and regulation have some gap? If yes what are those gaps?
2. Are private sector employees pay their taxes in compliance with tax assessment procedure? what are reasons for noncompliance?
3. Do you think that employees of revenue office who are participated in employment tax assessment and collection have the required skill and experience?
4. What are the major challenges encountered to collect private sector employee's income tax collection?

**Thank you for your cooperation!**