



**DETERMINANTS OF TAX COMPLIANCE BEHAVIORS OF TAX
PAYERS EVIDENCE FROM CATEGORY 'A' TAXPAYERS IN GURAGE
ZONE**

MASTERS OF SCIENCE IN ACCOUNTING AND FINANCE

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**DETERMINANTS OF TAX COMPLIANCE BEHAVIORS OF TAX
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ZONE**

**A THESIS SUBMITTED TO THE
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**IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE
DEGREE OF
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DECLARATION

I hereby declare that this thesis M.Sc. dissertation is my original work and has not been presented for degree in any other university, and all sources of material used for this thesis/ dissertation have been duly acknowledged.

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This is to certify that the thesis entitles “**Determinants of Tax Compliance Behaviors of Tax Payers Evidence from Category ‘A’ Taxpayers in Gurage Zone**”, submitted in Partial Fulfillment of the Requirements for the Degree of Masters of Science in Accounting and Finance, the Graduate program of the Department of Accounting and Finance, and has been carried out by **Firehiwot Awoke Getahun** ID No, under our supervision. Therefore, we recommend that the student has fulfilled the requirements and hence hereby can submit thesis to the department.

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ABBREVIATIONS AND ACRONYMS

ATP:	Attitude of tax payers
BTP:	Behaviors of Tax Payer
CTC:	Cost of tax Compliance
ERCA:	Ethiopia Revenue and Customs Authority
IRS:	Internal Revenue Service
LDC:	Low Developed Country
SNNPR:	South Nations Nationalities and Peoples Region
SPSS:	Statistical Package for Social Science
TC:	Tax compliance
TPK:	Tax payers' knowledge
TR:	Tax Rate
TS:	Tax system
USD:	United States Dollar

ABSTRACT

This study sought to identify the determinant of tax compliance in Ethiopia, specifically focusing Behaviors of Taxpayers Evidence from category 'A' taxpayers in Gurage Zone. The researcher outlined a detailed literature review and identified the variables for this research to be tax rate, tax knowledge, tax compliance cost; attitude of category 'A' taxpayers in Gurage Zone. The research employed descriptive research design. A sample size of were used from a population of Behaviors of Taxpayers Evidence from category 'A' taxpayers in Gurage Zone. Data was collected using questionnaires and structured interview. The collected data was analyzed using Statistical Package for Social Scientist software (SPSS V.20) and the findings of the research presented using tables, various chart types and graphs. The Pearson correlation coefficient analyses results showed that the existence of positive and significant relationship between attitudes towards tax related issues; knowledge of taxand tax compliance behaviour of category 'A' taxpayers, whereas tax rate; tax compliance cost; and tax system complexity have negative and significant correlation with tax compliance behaviour. On the other hand, the regression analyses result revealed all the five determinants of tax compliance behaviour such as attitude, cost of tax compliance, knowledge of tax, tax rate and taxsystem complexity have significant effect on tax compliance behavioursof category 'A' taxpayers. Among these determinants, attitude towards tax related issues and knowledge of tax have significant and positive effect on tax compliance behaviour, whereas, cost of tax compliance, tax rate and tax system complexity have significant and negative effect on tax compliance behaviour. In general, 78.9% of the variance in the tax compliance behaviour of category 'A' taxpayers was explained by the five independent determinant factors in combination. Therefore, from this result it can be inferred that except attitude and knowledge of tax, Tax rate, tax system and compliance cost predominantly and negatively affected tax compliance behaviours and it can lead to the non-

compliance behaviours of most of category 'A' taxpayers in the study area. Therefore, the study recommended that the taxation system in Ethiopia is in great need of improvement and the current tax law should be amended to incorporate provisions that grant special tax incentives in order to improve tax compliance behaviors of most of category 'A' taxpayers in Gurage Zone.

Key Word: *Category 'A' Taxpayers, Gurage Zone, Determinant, Tax Compliance, Tax rate*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Taxes and tax system are essential in nation building. They are required for state capacity building for meaningful economic development. The fundamental goal of any revenue authority is to collect taxes and duties payable according to the law. Tax compliance is the ability and willingness of taxpayers to comply with tax laws, declare the correct incomes in each year and pay the right amount of taxes on time. Kirchler (2007) define Tax compliance as the taxpayers' willingness to obey tax laws in order to attain economic development and goal. From a wider perspective, tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation.

Tax revenue is powerful resource in the world to finance the public expenditures of developed, developing and underdeveloped countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends on the willingness of the taxpayers to comply with tax laws of a country (Fjeldstad et al., 2012). Moreover, in developing countries many problems like poor administration, failing to collect sufficient tax revenues, tax structures where tax horizontal and vertical equity considerations are not integrated, lack of government and economic stability (Tesfaye, 2015). 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. To this effect, Study done by Belay (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.

On the other hand, a key component of any tax system is the manner in which it is administered. No tax is better than its administration, so tax administration matters a lot. An essential objective of tax administration has to ensure the maximum possible compliance by taxpayers of all types

with their tax obligations. Unfortunately, in many developing countries, tax administration is usually weak and characterized by extensive evasion, corruption and coercion. In many cases, overall tax compliance levels are low and large proportion of the informal sector of the economy escapes the tax net entirely (James & Nobes, 2004).

Tax compliance is a major problem for many tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects. Taxpayers are inherently disposed to reducing their tax liability either through tax evasion or tax avoidance. This may give rise to incorrect filling of their tax returns and loss of revenue to the government. An unduly complex regulatory system and tax regime enforcement makes tax compliance unduly burdensome and often has a distortion effect on the development of Behaviors of Taxpayer as they are tempted to change in to forms that offer a Large tax burden at all and as such results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, and waste of time for taxpayers (Alm, at al., (2007).

On the other hand, tax, peace and justice are the three-corner stone for the development of any country and existence of any government. Governments in developing countries face great challenges in mobilizing tax revenues, which result in a gap between what they could collect and what they actually collect. Thus, they hardly cover their expenditure using tax revenue as they receive a very low amount of revenue from taxation. Because the domestic tax bases in most African countries including Ethiopia are undermined by widespread tax avoidance and evasion which are the main significant contributors to tax gaps (IMF, 2011; ITD, 2010).

The compliance costs of behaviors of Taxpayer (BTP) are higher than the larger businesses. This leads to limited capacity of developing countries to raise revenues for development purposes. A lot of factors affect the low level of tax compliance in developing countries, such as attitudes, penalty, education, knowledge (awareness), lack of availability of tax information, Tax system (no declaration of tax by BTP to ERCA but Estimation of tax system by ERCA), tax rate, compliance cost and the ineffectiveness of tax administration (proclamation 202/2009).

Despite several administrative and legal reforms taken, gaps in tax audits and other enforcement measures contributes for low level of compliance by tax payers (Alabede, et al, 2011). As a result the amount of tax collected has remained quite low due to low level of tax compliance. As

per the World Bank data, tax covers only 19% of the GDP of countries in Sub-Saharan Africa (excluding high income) in 2017. Similarly, though the level is relatively low, there are also gaps in being tax compliant i.e., paying tax duty timely and accurately among small business in most LDCs including Ethiopia. According to Wadesango et al (2018), low level of education of taxpayers, frequent revision or introduction of tax legislations as well as their complexity, speculations of corruption on tax authority, the lack of transparency on public sector funds raises a negative attitude towards tax, lack of tax incentive grant are major factors contributing for low tax compliance among small enterprises.

Cognizant to the above viewpoints, it is an open fact that to fulfill its obligation and managing its responsibility the government needs finance. This finance would be primarily obtained through imposing tax on individuals or entities. However, the amount of tax collected in LDCs is low due to lack of efficient and fair tax system as well as obstacles prevailing for voluntary tax compliance. In Ethiopia due to many factors, the level of non-compliance among business remains high. Empirical studies on the tax compliance in Ethiopia. To the best of the researcher's knowledge Tehulu & Dinberu (2014); Tesafa et al. (2015); Ahmed & Kedir (2015) have made an effort to identify the most important determinate of tax compliance. However, no empirical studies evidences are available in addressing the topic under consideration in Gurage Zone. Therefore, in this study effort was made to assess determinant of tax compliance behaviors of taxpayer's evidence from category 'A' taxpayers in Gurage Zone.

1.2. Statement of the Problem

The main source of revenue for public expenditure in Ethiopia is taxation. Tax plays an important role in the growth of any economy so tax evasion is harmful to the economy. Tax evasion hampers government revenue collection thus inefficiency in Government spending because it diminishes the capacity of the state to mobilize domestic revenues, resources that are needed for investments and also construction of infrastructure like roads, power, Education, water and other public infrastructures have favorable results on many facilities, business enterprises, industries and the general public. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (ERCA, 2012).

Even though tax revenue is the powerful instrument in the hands of the government for transferring purchasing power from individuals to government to finance the public expenditure, most citizens become unwilling to pay their tax obligation in the correct amount, time and place due to presence of negative attitude. Then they take a variety of actions to reduce their tax liability (Amina & Saniya, 2015). Tax negative compliance attitude is individuals' failure to comply with their tax commitment. Hence, Loo (2006) broadly categorized negative compliance as failing to file a tax return; underreporting of taxable income; overstating tax claims such as deductions and exemptions and failing to make timely payment of tax liability. In contrary, positive tax compliance attitude is the willingness of taxpayers to comply with tax laws. To this effect, Das Gupta and Chattopadhyay (2002) stated that compliance attitude with tax laws involves true reporting of the taxable income; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount owing as tax obligation.

Tax compliance has currently a topical policy issue, especially in developing countries, as governments are seeking ways to improve efficiency in tax revenue collection to finance their budgets. Categories 'A' tax payers are the majority business taxpayers in most developing countries and as such their compliance levels directly impact on government tax revenue collections. Since each country has its own approach to manage tax compliance levels and each has different tax laws and regulations, the determinate tax compliance behavior appears to vary among countries (Palil, 2011). To address this problem, the government introduced a number of rules, systems and methods aiming tax collection as a major source of public revenue. However, this all efforts couldn't still bring the required result due to a number of reasons (ERCA, Customer Charter, 2013). According to Akalu (2013), tax non-compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals. Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers. Besides, according to Desta (2010) stated that any strategy to increase tax compliance should begin with a theory of why people cheat on their taxes. Understanding the factors that determine the compliance behavior of taxpayers is not only important for one particular area but also for Ethiopia as a whole in order to designing appropriate strategies to deal with and develop the desired behavior of compliance.

Non-compliance may take the lion share on the poor revenue performance (ERCA, 2013). A number of taxpayers are important source of revenue for Ethiopian government fail to fulfill income tax requirements and a number of them face prosecution for failing to pay taxes on time (ERCA, 2013).

Even if the government advocates compliance, the tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning (Proclamation, 286/2002). This clearly shows that using traditional policies such as audits and fines may not work always and forever. Hence, there is a clear need for more empirical research on the tax compliance, since a better understanding of these factors can yield strategies that improve compliance. However, empirical studies have not been carried out adequately especially on Behaviors of Taxpayers Evidence from category 'A' Tax payers in Gurage zone. Thus, the focus of this study was to identify determinants of taxpayer's compliance behavior with the taxpayers' evidence from category 'A' taxpayers in Gurage zone.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of the study was to identify the determinants of tax compliance behaviors of taxpayer's evidence from category 'A' taxpayers in Gurage Zone.

1.3.2. Specific Objectives

The specific objectives of this study were:

1. To determine how category 'A' taxpayer's attitude towards tax affect tax compliance behaviour in Gurage Zone.
2. To investigate the extent to which the cost of tax compliance determines tax compliance behaviour of category 'A' tax payers in Gurage Zone.
3. To assess how tax knowledge of category 'A' tax payers determines tax compliance behaviour in Gurage Zone.
4. To assess the effect of tax rate on tax compliance behaviour of category 'A' tax payers in Gurage Zone.

5. To assess how the tax system complexity determines the tax compliance behaviour of category 'A' taxpayers in Gurage Zone.

1.4. Research Hypotheses

On the basis of the above objectives and empirical review literatures, the researcher sought to meet the objectives by setting and testing determinants of tax compliance of category 'A' tax payers which were either proved or disproved based on inferential statistics (Dhakal, 2018). Therefore, in order to achieve the objective of the study, the following directional null and alternative hypotheses were stated and tested using the 5% level of precision, customary level used when working on significant effect relation (Brooks, 2008; Cramer & Hiwott, 2004; Dhakal, 2018).

H₀₁: Tax payer's attitude towards tax has no significant and positive effect on tax compliance behaviours of category 'A' tax payers in Gurage Zone.

H_{a1}: Tax payer's attitude towards tax has a significant and positive effect on tax compliance behaviours of category 'A' tax payers in Gurage Zone.

H₀₂: Cost of tax compliance has no significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H_{a2}: Cost of tax compliance has a significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H₀₃: Tax payer's knowledge about tax has no significant and positive effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H_{a3}: Tax payer's knowledge about tax has a significant and positive effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H₀₄: Tax rate has no significant and negative effect on tax compliance behaviors of category 'A' tax payer in Gurage Zone.

H_{a4}: Tax rate has a significant and negative effect on tax compliance behaviors of category 'A' tax payer in Gurage Zone.

H₀₅: Tax system complexity has no significant and negative effect on tax compliance behaviours of category ‘A’ tax payer in Gurage Zone.

H_{a5}: Tax system complexity has a significant and negative effect on tax compliance behaviours of category ‘A’ tax payer in Gurage Zone.

1.5. Significance of the Study

Study about taxation has significance because taxation is believed to be central to economic, social and political development. According to several authors a strong tax system can play three important roles in national development: revenue generation (Keen, 2012), lessen inequality (Cobham, 2005) and promote good governance (Odd-Helge & Rakner, 2009). Research on understanding factors explaining category ‘A’ taxpayers’ compliance has appropriate and timely. Many developing countries are now re-focusing on taxation to reduce over-dependency on aid or one source of revenue for development.

This study focuses on investigating the determinants of tax compliance of category ‘A’ tax payers. It’s anticipated that the results of this study will provide concepts and grounds on which to develop a framework. The knowledge accruing from this study could benefit the Government of Ethiopia and its revenue collection body Ethiopia Revenue and Customs authority in its effort to design suitable tax policies for category ‘A’ taxpayers. This study has provided concepts which to develop a framework to explore tax compliance behavior among category ‘A’ tax payers. The research will be useful to the business community and organization’s management teams for purposes of knowing the tax compliance environmental factors and how the conditions can be improved or dealt with.

Finally, the research will be of interest to scholars and researchers who may require developing and/or advancing their knowledge in the field of tax compliance and administration. Researchers will find the findings of this study important as it will act a reservoir of knowledge for further research.

1.6. Scope of the Study

This study is aimed at investigating the determinant factors of tax compliance behavior in Ethiopian context. The study focused on category 'A' taxpayers which are selected from the study area.

There are many determinant factors of tax compliance behaviors. Accordingly, this study is sought after identification of determining factors of tax compliance behaviors of category 'A' taxpayers in Ethiopia in general, in Gurage Zone in Particular. This category 'A' taxpayers selected because about more percent of the country's tax revenue originates from them because the number of category 'A' taxpayers in a country has more when we compare with other types of business. Therefore, the study is limited to category 'A' taxpayers in Gurage Zone, Ethiopia. Determinants of Tax Compliance Behaviors of Taxpayers' Evidence from category 'A' taxpayers in Gurage Zone, namely, tax compliance costs, attitude of tax payers, knowledge of tax payers, Tax system, and tax rate were analyzed.

1.7. Limitations of the Study

The following were the major limitations encountered by the researcher while conducting the study. In the first place, the major limitation was that, the focus of this study was on category 'A' taxpayers but category 'B' and Category 'C' tax payers may have different opinion and perception from the taxpayers under consideration. Due to time and resource limitation, the study couldn't cover the other taxpayers in the context of Gurage Zone. As a result, the findings and/or outcomes reported in this thesis might not fully represent or reflect the situation of category 'B' and Category 'C' tax payers. Due to large number of tax payers the study was not in a position to cover all individual tax payers. Therefore, the researcher was obligated to take sample in order to draw inferences. Taking samples by its nature have its own limitation. Lack of sufficient prior studies in the study area was also the other problem. Therefore, the researcher tried to solve this problem by using local literatures and other country journals and their findings as supporting documents.

On the other hand, the study considered only five determinant factor variables such as tax payer attitude, cost of tax compliance, tax payer knowledge, tax rate and tax assessment system that were taken as major determinant factors in influencing tax compliance behaviors of category 'A' taxpayers in Gurage Zone, however, the study would be more inclusive if it added additional

variables, for instance, other determinant factors such as organizational efficiency of the tax office, demographic factors (level of education), tax service quality and other variables.

Besides, the study was limited to the mixed design – descriptive and explanatory because of the nature of the research objectives that needed describing the existing phenomena of tax compliance behaviors of category ‘A’ taxpayers in Gurage Zone and its associated determinant factors on the bases of the existing phenomena the effect relationship was analyzed employing explanatory research design. In general, even though, the researcher has encountered the above limitations, these limitations did not have significant impediment on the outcome of the study.

1.8. Organization of the Paper

This thesis is divided into five main chapters. Chapter one deals with the background of the study. Chapter two describes concepts, definition, review of the theoretical and empirical literatures, and conceptual framework of the study. Chapter three is about research design, research approach, target population, methods of data collection and instruments, sampling techniques and sample size determination, method of data analysis, measures of dependent and independent variables, validity and reliability of the instrument and ethical considerations. Chapter four provides findings, interpretation and discussions of descriptive, correlation and regression analyses corresponding to the objectives and hypotheses of the study. Finally, chapter five constitutes summary of major findings, conclusions, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter outlined various schools of thoughts revolving around tax compliance and evasion and identified the various theories put across by various scholars in relation to tax compliance. For the research questions identified in Chapter One, the researcher highlighted the findings of different authors, on the determinate of tax compliance among category 'A' tax payers.

2.2. Theoretical Literature

2.2.1. Definition of Taxation

Tax has defined (Bhatia, 2003) as a compulsory contribution by an economic unit to a government without expectation of direct and equivalent return from the government for the contribution made. Similarly, Parameswaran (2005) define tax as a compulsory imposed by an organization or Government on its member citizens, for the sole purpose of providing common goods and services for the benefit of all members. Generally, governments levy taxes for multiple of purposes, but mainly to raise funds in order to cover public expenditures and on the other hand to properly allocate resources. A tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any direct corresponding return of services or goods by the government. Government needs financial resources to act as a government and play a role that is expected from it by the public (Bhatia, 1976; James, 2000). So what the government gives it must first take away. The economic resources available to society are limited, and so an increase in government expenditure normally means a reduction in private spending. In this regard James (2000) states that taxation is one method of transferring resources from the private to the public sector. The role of taxes as an instrument stabilizes the economy, and reduces private demand when resources are released for public sector use. Taxes are not payments for some special privilege granted or services rendered and are, therefore, distinguishable from various other charges imposed for particular purposes under particular powers or functions of government

(Murphy and Higgins, 2001). Taxes are fundamental to the existence of governments, for the tax revenues help to finance the bulk of services that governments provide including education, welfare, public safety, infrastructure and other basic public services. Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers (Bird & Casanegra, 1992). Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. Since each country has its own approach to managing tax compliance levels and each has different tax laws and regulations, the factors impacting tax compliance behavior appear to vary among countries (Palil, 2010).

2.2.2. Definition of Tax Compliance

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

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

2.2.3. Determinants of Tax Compliance

According to Kirchler, (2007) provides a thorough description of the determinants of tax compliance, dividing them into three categories. He states there are social psychological determinants comprising attitudes, different types of norms, fairness perceptions, as well as motivational features relating to tax compliance, political determinants such as complexity of law and tax system, or fiscal policy, and economic determinants like the rational decision-making process and the effect of audits, fines, tax rates, income on tax behavior.

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

2.2.3.1. Tax Knowledge

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

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

more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers.

Knowledge of tax has the process of changing the attitudes and code of conduct of taxpayers or group of taxpayers in an effort to inform human beings through the efforts of teaching and training. Increasing knowledge of tax regulation/ law among tax payers through formal and non-formal education will have a positive impact on taxpayer awareness to pay taxes based on knowledge of tax regulations in the new tax system through a self-assessment of taxpayer system. In this system, taxpayers are trusted to calculate and determine the payable amount of income tax and report it to the Tax service Office or extension service office and tax consultant office, or can also be delivered through the post office, tax corner, mobile tax office and certain places for annual notification letters (drop box) after the tax year ends (Nurlis.2015). The Taxpayers Advocate Service is an independent organization within the IRS and was introduced to assist taxpayers who are experiencing economic hardship, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should (IRS, 2009). (Misu, 2011) divide the tax information into two components: one is the tax statistics, and the second is the tax return information for each taxpayer. There are so many types of information in tax statistics. One of the most important statistics for the purpose of increasing the level of tax compliance is the exact amounts of tax evasion. The other information is given by the tax return information for each taxpayer. There are some exceptional countries, like Finland and Norway, which release the tax return information for each taxpayer to the public. However, in most developed economies, the tax return information for each taxpayer is strictly prohibited to release to the public for the protection of private information. The statistics about tax evasion has been released to the public for most developed countries. This information disclosure might be not only for taxpayers' rights to know, but also for inducing more tax compliance.

The Taxpayers Advocate Service has an independent organization within the IRS and was introduced to assist taxpayers who are experiencing economic hardship, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should (IRS, 2009). Knowledge about taxation, the benefits of taxation and the dangers of non-compliance remain a key impediment to tax compliance in many countries (Among.et.al, 2013). James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations.

As stated in Ericatal (2015) in local government, revenue collection can be improved through sensitization of tax payers as means of shaping their attitudes and ensure compliance of tax payers. Local revenue collection has to comply with certain general principles of raising revenue and how these principles should be fair, convenient and certain. The collection and administration of revenue must be economical to the collectors and administrators. Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan at al., 2000). Chan at al. also suggested that those with higher education level are more likely to have a higher level of moral development and higher-level attitudes toward compliance and thus will tend to comply more.

From the literatures we can understand that taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. This exposure could be given through seminars, dialogue sessions, or collaboration with the Ministry of Education to introduce the subject of Taxation at secondary schools.

2.2.3.2. Fairness and Equity

Perceived fairness of the tax system is an important factor that is likely to affect individuals' tax compliance decisions. Equity theory helps explain how individuals make fairness judgments. Equity theory suggests that individuals continuously evaluate their inputs and the outputs they receive (Walster et al., 1978). If individuals perceive that outputs do not properly align with inputs, they experience distress. The distress could be related to either an underpayment inequity or an overpayment inequity. Underpayment receives. This theory is often used in organizational research to examine the influence compensation has on employees' behavior. In an organization this occurs when an individual believes he is not paid enough for the work he does. Perceptions of distributive fairness have been shown to affect tax compliance (Wenzel, 2003 and Kirchler, 2007). People who experience their tax burden to be higher than others tend to be less compliant with tax laws. Likewise, the more people believe that the government takes good care of their paid taxes and spends it carefully; the more compliant they tend to be. Equity theory, organizational justice research, and social exchange theory all agree that perceptions of fairness can have a significant influence on individuals' decisions (Deconinck, 2010). For instance, in an organization an employee's perceptions of fairness can have a significant influence on behaviors, such as organizational citizenship behaviors (Masterson et al. 2000).

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

Fairness and trust are perceived by many researchers to be important drivers for compliance. As cited in report of OECD (2011) Valerie Braithwaite points out the importance of mutual trust and cooperation between the taxpayers and their tax authority in order to achieve voluntary compliance (Braithwaite, 2008). Kirchler and Hoelzl (2006) argue that fair treatment of taxpayers and trustworthiness of tax authorities will enhance voluntary compliance, Murphy (2004) shows in a study of accused tax avoiders that there is a correlation between fair and correct treatment of the taxpayer and trust in the revenue body. Trust is in turn correlated to the willingness to comply. If regulators are seen to be acting fairly, people will trust the motives of that authority, and will defer to their decisions voluntarily. Fairness and trust are thus interlinked and the one cannot exist without the other.

According to Jimenez (2013) suggestion that procedural fairness influences the acceptance of decisions made by the tax authority and builds trust in the tax authority among private taxpayers (Braithwaite, 2003; Murphy, 2004). Procedural fairness is important for tax authorities, since by enacting fair procedures, authorities support their legitimacy and trust (Tyler, 1997; 2006). Kirchler, Niemirowski and Wearing (2006) found that perceived supportiveness of advice by tax officers was associated with self-reported compliance and studies by Pommerehne and Frey (1992) and Torgler (2005) show that if taxpayers have a say in political decisions with regard to financial issues tax morale is stronger, as cited in (OECD,2011). According to James (2000), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way.

The problem here is in deciding who is equal to whom. Similarly, Due and Friedlander (1981), as cited in (Solomon, 2014), also argue that what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society.

According to Brooks (2001) cited in Solomon, (2014), states that fairness has always been widely regarded as the most important criteria in judging a tax system. The problem of unfairness is that a tax system allows taxes to be shifted from dishonest to honest taxpayers. The fairness of a tax system may also be perceived in different ways by the taxpayers and tax

authorities. What is fair in the eye of the tax authorities may not have the same image in the mind of the tax payers.

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

2.2.3.3 Fines and Penalties

As stated, Gruber and Saez (2002) cited in (Micheal et al., 1996) it is a fact that if many persons are given the chance they may not pay taxes unless there is a motivation to do so. Tax experts have a perception that the best way is to increase tax incentives while others believe the best way is to increase tax penalties. Stopping noncompliance requires applying penalties effectively. The most appropriate strategy is to combine various measures so as to maximize their effects on tax compliance as it were, in order to move the country from a low level of tax compliance to a higher level.

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

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

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

The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid their taxes. In most countries, fines are relative to the evaded tax. However, depending on the income of the accused such a system might yield too low fines to have deterrent effects. An alternative would be to adjust the fine to the income of taxpayers (Kirchler et al. (2007)). A possible explanation for this is that very few taxpayers will be likely to be involved with tax audits, and so penalties and fines take on a critical behavior-influencing role in helping to improve tax compliance.

Fines and penalty rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler et al. (2007)). Various arguments arise regarding the impact of fines and penalties on tax compliance to explain this lack of a clear impact relationship. For example, fines that are too low could be perceived as an indicator that the authorities are weak and unable to control non-compliant taxpayers, thereby undermining trust among honest taxpayers and leading to a lack of encouragement to comply with tax law. Furthermore, fines that are inappropriate because a taxpayer has made a mistake resulting from vague or overly complex tax laws would weaken the perception of retributive justice and encourage tax evaders to try harder to regain their losses incurred by those fines.

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

According to OECD (2011) the perception of fairness depends thus to a great extent on how the citizens perceive the authority actions. A taxpayer may perceive an authority as just and fair even if it has made a decision that goes against him, if the authority acted in a good manner. This leads in turn to fewer complaints about the authority decisions. What is important is not, therefore, whether the outcome is positive or negative, but whether it is fair (Wenzel, 2004). If an authority treats an individual courteously, it shows respect for the individual and helps increase the perception of fairness (Murphy (2003). Rational and efficient procedures, higher personnel standards, better management, improvement in relation with the public and in the daily contacts between tax official and taxpayer, can operate to increase the public respect for the tax administration. Moreover, once the tax administration has been placed on a sound basis, it is in a position to assert that compliance must be forthcoming. Such an assertion would hardly be tolerated or even taken seriously, as long as tax officials were themselves inefficient and corrupt. But if the administration has brought stability and honesty to its own operations, the self-respect thus achieved can form the foundation for its demand of respect and compliance from the tax payer.

2.2.3.4. Tax payers' Attitude

Taxpayers' willingness to pay taxes differs widely across the world. It cannot be viewed as simply depending on the tax burden. Rather, empirical research indicates that taxpayers throughout the world pay more taxes than can be explained by even the highest feasible levels of auditing, penalties and risk aversion (Alm et al., 2007). These high levels of tax compliance result from the tax morale of society that fosters self-enforcement of tax compliance. Tax morale, attitude and behavior is, however, not easy to establish. Especially countries without a deep-rooted 'culture' and habit of paying taxes find it difficult to establish tax morale. This willingness to pay" of the taxpayer is influenced by the following factors: In general, citizens expect some kind of service or benefit in return for the taxes paid. If the government fails to provide basic public goods and services or provides them insufficiently, citizens may not be willing to pay taxes and tax evasion and avoidance will be the consequence (Brautigam et al. (2008). Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Chipeta, (2002). However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes. In fact, the structure of the overall tax system has an impact as well.

If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant effect on the disposition to evade and avoid taxes.

2.2.3.5. Tax Compliance Costs

There are many definitions of tax compliance costs and most of them are similar. Tax compliance costs can be defined as all the costs borne by businesses and individuals for complying with tax regulation, excluding the costs of the taxes themselves. As tax system implementation is largely concerned with information processing, the bulk of costs of tax compliance are caused by information obligations, for instance, record keeping, filing in tax returns with data etc (OECD, 2004) The term 'corporate tax compliance costs' refers to the value of resources expended by corporate taxpayers in complying with tax regulations. (Tran-Nam B

and Glover J, 2002) Some of the theoretical literature has suggested tax compliance costs as a possible determinant of tax compliance behavior (Slemrod, 1985). Slemrod(2001) defined tax compliance costs as costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. These costs would disappear if the tax was abolished. He segregated compliance costs of corporate taxpayers into main components, specifically: (1) internal costs; (2) external costs and (3) psychological costs.

The internal costs component comprises of time costs of employing internal staff such as tax manager, accountant, account clerks and programmers to handle the company's tax affairs. Incidental tax compliance costs are other expenses incurred in the completion of tax activities such as the costs of postage, travelling and stationeries. The external costs component includes payments made to tax professionals from outside a company and any incidental costs incurred in relation to the tax work. These payments include the financial costs of professional fees paid to tax agents, accountants, legal advisers and any other external consultants in relation to the corporate income tax (CIT).

Tax practitioners provide services and information and might be “guardians against unequivocal breaches of legal code and, on the other hand, exploiters of legally ambiguous features of tax code to the advantage of taxpayers” (Beck, 1994). There are many reasons why taxpayers choose to use a tax agent. These reasons range from taxpayer wanting to file an accurate return, not having the knowledge to complete a complex return, wanting to minimize the tax they are required to pay, or simply not having enough time to complete their own return.

Whatever the reason, taxpayer demand for tax agents increased substantially over the past few decades. The tax agents do have the knowledge and expertise to exploit the gray areas of tax laws, a number of studies have examined whether professionally prepared returns are more non-compliant in nature than self-prepared returns. For example, (Erard, 1993) found that paid tax preparer exhibited greater non-compliance. Thus, the potential loss of tax revenue due to non-compliant reporting poses a serious problem for the tax authorities. The question of who instigates this non-compliant reporting, whether the tax agent or taxpayer, is therefore, an important one. To this end, (Klepper, 1991) suggest that tax agents can be both exploiters and

enforcers of the law. When a tax agent is faced with an ambiguous situation, they tend to be exploiters of the law, in that they encourage tax avoidance.

2.2.3.6. Tax Rate

Kircher (2007) claimed that “reducing tax rates is not the only policy that has the potential to discourage tax evasion but the tax rate is an important factor in determining tax compliance behavior although the exact impact is still unclear and debatable (Clotfelter (1983) and (Slemrod J. (1998), also found that the marginal tax rate has a significant effect on underreporting. In a previous attempt by (Allingham (1972) to find a relationship between actual income, tax rates, penalty and investigation and tax evasion using the statistical modeling, they concluded that taxpayers may choose either to fully report income or report less, regardless of tax rates. Tax rates appeared to be insignificant in determining tax evasion.

In contrast with (Allingham (1972), various studies found that raising marginal tax rates will be likely to encourage taxpayers to evade tax more (Torgler(2007) while lowering tax rates does not necessarily increase tax compliance (Kircher(2007). This uncertainty and conflicting issue for example reducing tax rate to increase compliance has attracted the attention of tax researchers aiming to come up with more certain and concrete evidence of the impact of tax rates on evasion. Laboratory experiments with varying tax rates frequently found that tax rate increases leading to higher tax evasion (Alm J. G., 1992).

Other economic models of rational compliance decisions however, perceived that tax rates have a mixed impact on tax compliance or predict that increasing tax rates will increase compliance behavior (Kirchler (2008). Since the impact of tax rates was debatable (positive, negative or no impact on evasion), (Kirchler (2008) and (McKerchar (2009) suggested that the degree of trust between taxpayers and the government has a major role in ascertaining the impact of tax rates on compliance. When trust is low, a high tax rate could be perceived as an unfair treatment of taxpayers and when trust is high, the same level of tax rate could be interpreted as contribution to the community, which in turn again profits each individual.

2.2.3.7. Tax System

One of the essential things affecting governments' ability in tax collection is the existence of proper tax laws and their correct performance. Having tax laws which are consistent and stable in enactment and performance will make the tax system to be less complex and can encourage tax compliance (Rezaatal (2011) E. (2014). Cited by Amina Ahmed and SaniyaKedir (2015), According to Richardson (2006) simplicity is the most important determinant of tax compliance in his study. Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd. and Ahmad, 2011). It is importance to have a simple tax return and system. Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as simple as possible. The tax authority may assume its tax return is simple and easy to complete but it may not be from the taxpayers' point of view. Therefore, it is good practice, before the final version is delivered to taxpayers, to ensure that 'pilot' tests have taken place first so that the tax return is really as simple and easy as it can be. (Silvani, 1992)

2.3. Categories of Taxpayers in Ethiopia

According to the Constitution of Federal Democratic Republic of Ethiopia, revenue sources are assigned between Federal government and regional states. Regional states can endorse their income tax proclamation and regulations based on the constitution in conformity with the federal income tax proclamation. According to the federal income tax proclamation no.286/2002 taxpayers are categorized into three categories, namely category "A", "B", and "C" based on their volume of sales and form of business. Subsequently, the Tax Authority will determine whether the taxpayer shall continue in the same category or should be shifted from one category to the other.

Category "A" includes any company incorporated under the tax law of Ethiopia having annual turnover of Birr 500,000 and more. Those who are categorized under "A" have to maintain all records and accounts which will enable them to submit a balance sheet and profit and loss

account disclosing the gross profit, general and administrative expenses, depreciation, and provisions and reserves together with supporting vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2). Category ‘B’ includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. This category of taxpayers must submit profit and loss statement at the end of the year.

The law requires all entries in the records and accounts to be supported by appropriate vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2). Category ‘C’ unless already classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less.

On the other hand, standard assessment is used to determine the income tax liability of Category ‘C’ taxpayers. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. This category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the 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.

2.4. Empirical Studies Review

Many researchers have studied on issues related to the determinants of tax compliance behaviors of taxpayers in different categories locally and abroad. In this study some of the empirical studies are presented.

Bekure (2021) assessed “Determinants of Tax Compliance Behavior in the Case of Category ‘A’ Taxpayers in Selected Sub City in Addis Ababa City Administration Revenue Office” This research had a total target population of 7941 taxpayers’ and among this total population 5941 active taxpayers in the year 2013/2021 at Addis Ababa No 2 Middle Level Taxpayers Revenue Branch office and the remaining 2000 also active Category “A” taxpayers at Nifas Silk Lafto Sub City Revenue Branch Office in the year 2013/2021. Data analysis was done by SPSS window version 25 and MS Excel 2010 using frequency descriptive statistical tools and Spearman correlation and liner regressions analysis were used in analyzing the data collection. Moreover, the researcher was conducted the semi structured questionnaire for the Key Informant

Interview guide for tax auditors' officials. The result revealed that complexity of tax system, probability of detection, tax rates, penalty, tax evasion, peer influence group and tax knowledge are factor that significantly affect determinates tax compliance behavior. However, gender& age and perception of the role of government have no significant impact on tax compliance behavior.

Kassu (2021) assessed key factors determining tax compliance behavior of small tax payers at the federal level by focusing on the Ministry of Revenue West Addis Ababa Small tax payer's branch office. The study employed both descriptive and explanatory research designs were used. The study was employed both purposive and convenience sampling techniques to collect data from the tax payers. From unit 613 taxpayers that are identified as high-risk tax payers were taken as a population and 237 respondents were selected by using sample size determination formula. To analyze the data both descriptive and inferential statistics were employed to analyze and interpret the data. From the descriptive analysis result most of the determining factors (Tax administration and tax fairness, knowledge of the tax law, penalty and strength and service delivery of the authority) were poorly implemented. The regression analysis should that tax compliance behavior has significant as well as positive relationship with perception of Tax administration, tax fairness, knowledge of the tax law, strength and service delivery of the authority, however penalty has insignificant and positive relationship with tax compliance.

Ademe and Simret (2020) analyzed the empirical relationship between tax compliance behaviour and its determinants in South Gonder Zone of the Amhara region. The study is conducted by using primary data collected from category "A" and "B" tax payers. The primary data is collected using structured questionnaire from 11 districts in the zone. The response obtained from 295 respondents (87.3% response rate) is used for the analysis. Both descriptive and econometrics approach is applied to analyze the data. In order to determine the empirical relationship between tax compliance behavior and its determinant, binary logit model is estimated. The study found that audit rate, attitude of tax payers, perception on equity of the tax system and benefit from the government as well as education are found to have statistically significant positive impact on the tax compliance behavior of category" A" and "B" tax payers in South Gondar Zone. On the contrary, tax rate, audit probability, social norm, compliance cost and sex are identified as statistically significant negative determinants of tax compliance behavior in the study area. But, Penalty rate, Perception of government Spending, training to

enhance tax knowledge and age of the respondent are found to have statistically insignificant effects on compliance behavior of category “A” and “B” tax payers in South Gondar Zone.

Abdulmannan et al. (2020) identified factors that affect compliance of individual income taxpayers in Bangladesh. The target population of the study is individual income taxpayers of the fifteen zones of Dhaka. The sample size is determined to 385 self-assessments assess and 376 general procedure return submitted income taxpayers to which the questionnaire was distributed during the period of 1st December 2019 to 15th February, 2020. The results of the ordered logistic regression model reveal that the fairness, tax penalty and relationship with regard to taxpayer’s perception of government spending have positive and significant relationships with compliance. It also examines the effects of compliance decisions of referrals on others compliance decisions. The findings show a negative but insignificant relationship between them which implies that individual income taxpayer’s make their compliance decisions independent of others' decisions. Finally, the study having evaluated the effect of cost of complying with the tax law on tax compliance and concluded that there is a negative relationship between them implying that higher cost of compliance will lead to lower levels of compliance. Therefore, this paper suggests that maintaining tax fairness, optimum levels of penalty, spending the tax revenue on public development projects, keeping tax rates to the minimum as much as possible and keeping compliance costs to the minimum can enhance the compliance of taxpayers.

Abdulsemmed (2019) conducted his study to examine perception of tax payers on VAT compliance with tax policies of the government and non- compliance of taxpayers with the tax laws is a key to further motivating and assisting the compliers and designing appropriate strategies to deal with non-compliers so that they can gradually develop the desired behavior of tax compliance. To achieve this objective, the quantitative data methods were employed. The design of the study was both descriptive and explanatory type. From 6922 small and medium level VAT registered individual tax payers and pay their tax in Addis Ketema sub city; 378 tax payers were taken for the study. Stratified sampling technique was employed to select a representative sample from the two classes of taxpayers. Data were gathered by the use of close ended self- administered structured questionnaires. Descriptive and inferential method used for data analysis statistically treated using statistical package for social science (SPSS). Tables, graphs and charts were used to present results of the analysis. The results indicate that structure

of the tax system, attitude and perception of government spending and ethics toward tax compliance affect taxpayers' compliance behavior.

Deyganto (2018) aimed at identifying the determinants of tax compliance attitude with taxation, case of category 'A' taxpayers in Gedeo Zone. The author used mixed research approach. The target population of the study was category "A" tax payers of Gedeo Zone, SNNPRS, and Ethiopia. A sample of 291 Category "A" tax payers were randomly taken from the total of 1069 Category "A" tax payers in Zone. Both primary and secondary data were collected. Binary logistic regression model and Pearson correlation matrix were employed to analysis the data through Stata software application version (12.0) and SPSS version (23.0) to interpret the results of this study. Then, the result of this study showed that out of ten explanatory variables incorporated in the model, eight variables such as gender, age, lack of tax knowledge, simplicity of tax system, perception on fairness and equity, awareness on penalty, probability of being audit, and perception on tax rate were found to be determinants of tax compliance attitude with taxation in the zone. Whereas, education level and tax authority efficiency have no impact on tax compliance attitude.

Geletaw (2015) conducted on determinants of taxpayers' tax compliance behavior. Six tax compliance determinants were examined: tax knowledge; feeling of fairness; the influence of peer groups; income level of taxpayers; detection and punishments and perception on government spending. The study adopted a mixed method research approach to test the proposed hypotheses and to answer research questions. The data has been collected from 225 business profit taxpayers of those 200 were through distributing of self-administered questionnaires and the remaining 25 through in-depth interviews. The results of this combined research methodology suggest that Addis Ababa City business profit taxpayers tax compliance behavior have been highly and significantly affected by tax knowledge; feeling of fairness; the influence of peer groups; income level of taxpayers and detection and punishments variables while confidence in government spending doesn't have as such significant impact on tax compliance behavior of businesses. The analysis focuses on tax compliance and its determinants and is therefore subject to an underlying assumption of tax payers' understanding of tax and other potentially relevant information. The results of this study also provide specific insights and allow policy makers to gain a better understanding of the key variables that are significantly associated with tax compliance and enable them to implement suitable strategies to minimize potentially

damaging factors, and should also allow them to improve their government's tax revenue collections.

The study made by Tilahun and Yadersal (2014) on “determinants of tax compliance behavior in Ethiopia: the case of Bahir Dar City taxpayers can be summarized as follows: The study used quantitative methods research approach to study the determinants of tax compliance. The study also employed survey methods of data collection using questionnaires. The data collected from 201 usable questionnaires was analyzed using T-test and one-way. The results revealed that perception of government spending, perception of equity and fairness of the tax system, penalties, personal financial constraint, changes on current government policies and referral group (friends, relatives, etc.). However, gender and probability of being audited have no significant impact on tax compliance behavior. The findings also showed 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.

Another study made on ‘Factors that influence rental taxpayers’ compliance with the tax system’ an empirical study of Mekelle City, Ethiopia, (Suresh & Sriniva, 2012) identified tax compliance issues as follows: The researchers used structured questionnaires to collect data from a respondent of 140. And the responses were analyzed using SPSS software to summarize the findings of the study. Accordingly, the major problems of rental tax compliance in Mekelle City, Ethiopia were found to be intentional tax avoidance (presence of dishonest taxpayers), that means some rental taxpayers intentionally understate their taxable income, and also there are some who entirely do not report their taxable income to the concerned body. Consequently, this result is affecting the attitudes and tax compliance of genuine taxpayers towards the tax system. In addition to this, lack of knowledge of the tax system, especially how the taxable income is calculated and low awareness creation by the Revenue and Tax Authority by Mekelle City to taxpayers were found to be the major factors for tax compliance issues.

Finally, the study on “assessing the gaps and problems that exist between the business community and Tax Authorities of Dire Dawa Administration (Yohannes & Zerihun, 2013) found various factors related to taxation system. The study was conducted to assess the challenges the business community of Dire Dawa City, in relation to taxation. Data were collected from various sources such as taxpayers’ survey and focus group discussions. A total of

183 taxpayers, key informants from Tax and Revenue Authority and Federal Customs and Inland Revenue Authority have participated in the study. Descriptive statistics such as mean, standard deviation, percentages, frequency, charts and frequency, etc. were used to summarize the study findings and present the results. The findings of the study revealed that most of the taxpayers, especially those in the category “A” have been facing various problems such as they are paying beyond their ability to pay and that they have no trust in the employees of the Tax Authority and the overall tax assessment of collection procedures. They pointed out the following major problems creating the existing gap between the taxpayers and the Dire Dawa Tax Administration. Thus, they recommended that the Tax Authority should revise its working system and promote transparency, so that trust of taxpayers on the tax system will develop.

2.5. Summary of Literature and Research Gap

In Ethiopia small and medium enterprises has crucial role in providing employment opportunities but also contributing to the socio-economic development of the country as catalysts for the transition to an industrial society. They viewed as seedbeds for the development of medium and large enterprises. However, currently they face various challenges that unable to play their expected role in the economy. Despite their growth, their contribution to the economy is not at the expected level due to the challenges they encounter. One of their key challenges is related to tax and tax administration. The current tax laws and practices on small business taxation have many drawbacks and influencing the degree of their tax compliance.

Studies were conducted both in Ethiopia and other countries with the objective of identifying key factors influencing tax compliance behaviour of category ‘A’ and category ‘B’ taxpayers and also individual tax payers. As it can be understood from the review studies conducted in various cities of Ethiopia, tax knowledge and awareness, probability of being audited, financial constraints, feeling of fairness; the influence of peer groups; income level of taxpayers; detection and punishments and perceptions on government spending, fine and penalty, tax reward and incentives, simplicity of tax system, attitude toward tax, tax compliance cost, efficiency and effectiveness of the authority, social and cultural are factors mentioned to influencing tax compliance behaviour for small and medium enterprises and for category “A” tax payers in

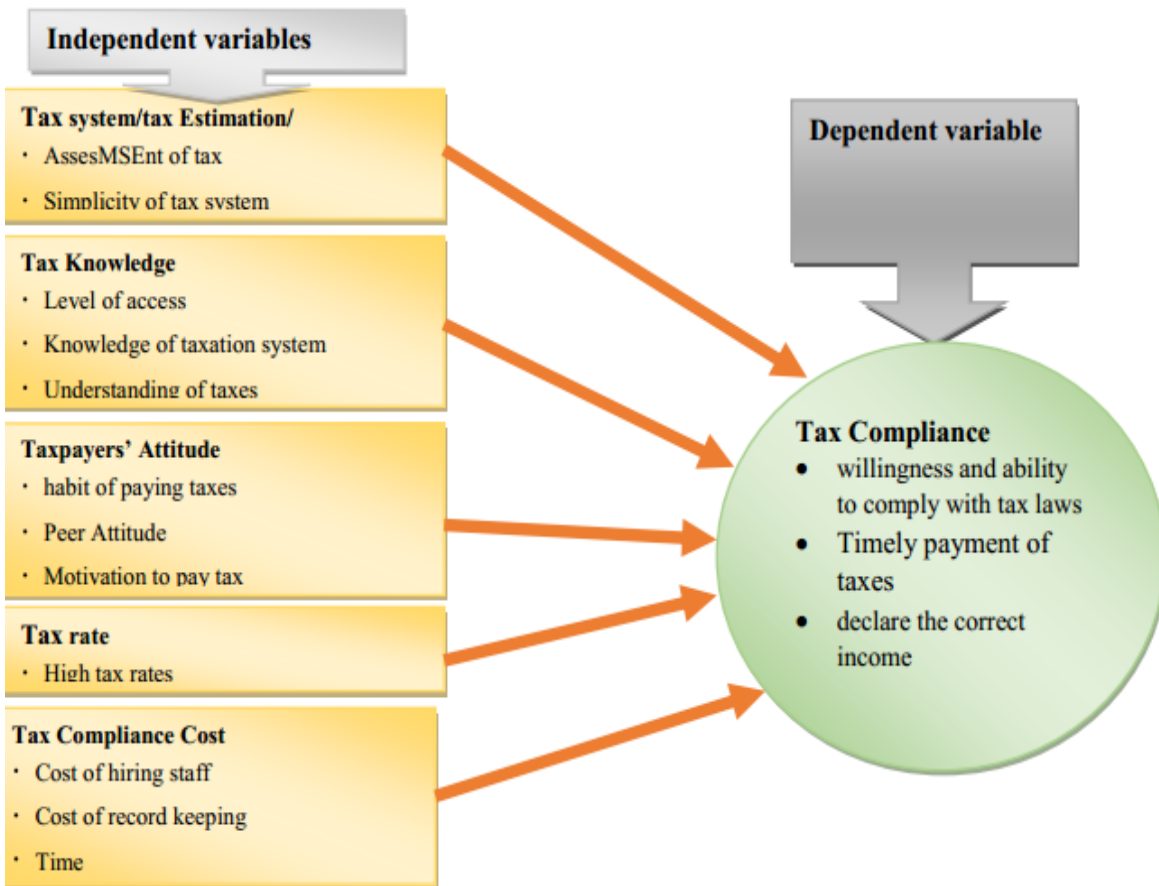
Ethiopia. On the other hand, most of the reviewed studies focusing on tax compliance in Ethiopia are mostly focused on category “A” taxpayers of regional tax payers.

Thus, this study is needed for three reasons. Firstly, In Ethiopia there were few researches made on tax compliance in general, there is no study on such issues specifically on tax compliance of evidence from category ‘A’ taxpayers, particularly in Gurage zone. Secondly, it will pave the way forward for the government, policy makers, and researchers to understand the different determinant of tax compliance of category ‘A’ taxpayer. Finally, this study advances the knowledge of how behavior of tax system. This encourages the researcher to assess and identify the determinants of tax compliance of category ‘A’ taxpayers in the study area.

2.6. Conceptual Framework of the Study

This study assumes that the determinants under discussion on tax compliance among category ‘A’ tax payer in Ethiopia. The relationship between the dependent and the independent variables is illustrated in the conceptual framework presented.

Figure 2.1: Conceptual Framework of the Study



Source: Author construct from literature review

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter presents description of the study area, research design, research approach, target population of the study, sample size and sampling techniques, sources of data, research instruments and procedures of data collection and methods of data analysis.

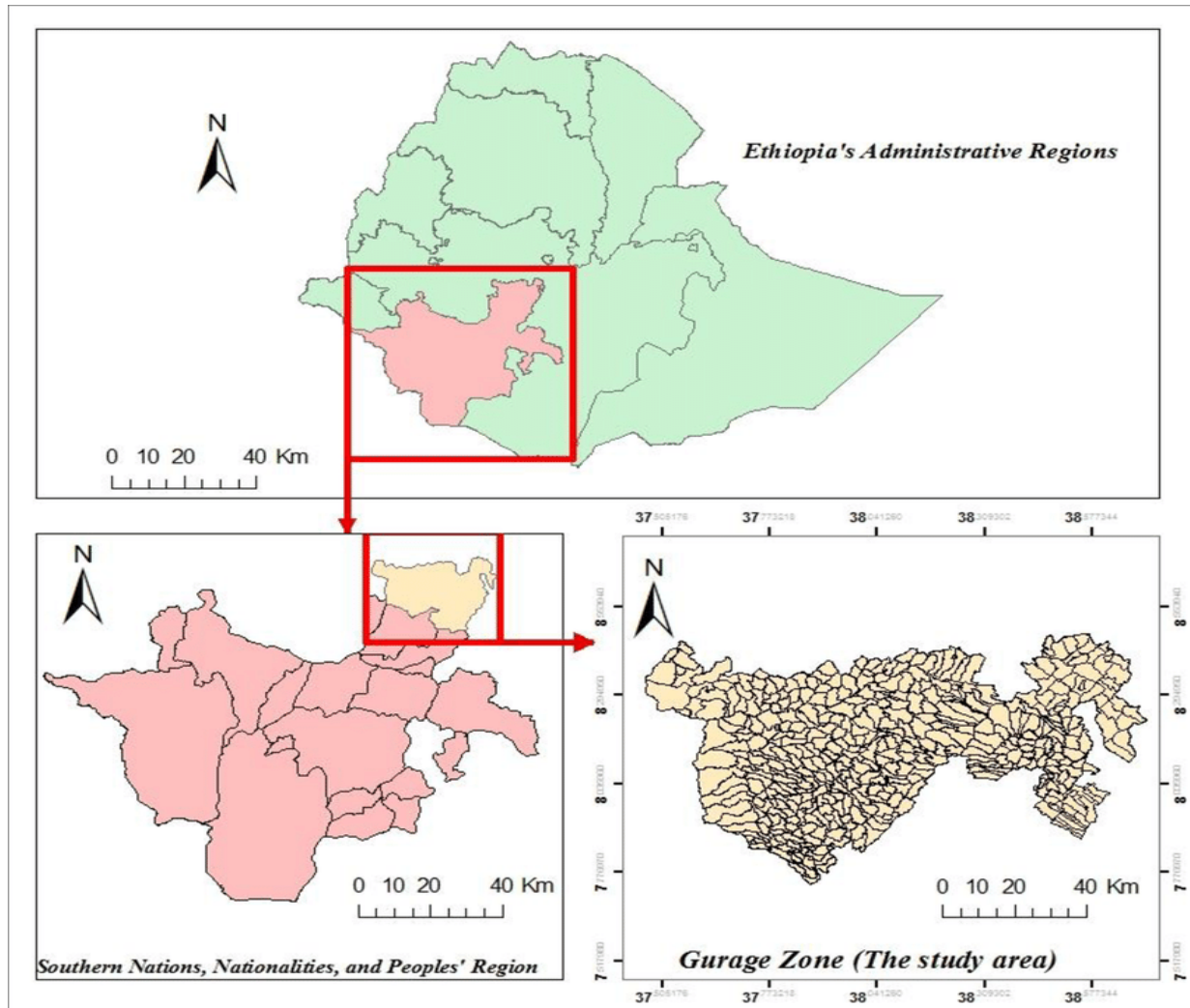
3.2. Description of the Study Area

Gurage Zone is found in the Southern Nations, Nationalities, and Peoples' Region of Ethiopia. Gurage zone was located south west of the capital Addis Ababa about 174.9 km distance and it is also located 210.7km away from Hawassa (the capital of SNNPR) which was from the capitals of the zone. Geographically, Gurage Zone was located at 8.1824 °N, 38.063 °E. This zone was named for the Gurage people, whose homeland lies in this zone and bordered on the southwest by Hadiya and Yem special woreda, on the west, north and east by the Oromia Region, and on the southeast by Silt'e Zone. Wolkite is the administrative center of the Zone.

Based on the 2007 census conducted by the Central Statistical Agency of Ethiopia (CSA), Gurage has a total population of 1,280,483. The six largest ethnic groups reported in Gurage Zone were the Gurage people (82%), the Mareko or Libido (4.28%), the Amhara (3.36%), the Kebena (3.34%), the Silt'e people (2.71%), and the Oromo (1.69%); all other ethnic groups made up 2.62% of the population. Gurage languages were spoken as a first language by 80.54% of the population, 5.28% spoke Amharic, 4.09% spoke Libido, 3.2% spoke Kebena, 2.98% spoke Silt'e, and 1.06% spoke Oromo; the remaining 2.85% spoke all other primary languages reported. The majority of the inhabitants were reported as Muslim, with 51.02% of the population reporting that belief, while 41.91% practiced Ethiopian Orthodox Christianity, 5.79% were Protestants, and 1.12% Catholic.

Currently this zone has 16 woredas and 7 town administrations namely: Abeshge, Cheha, Endegagne, Enemore, EnorEnar, Ezha, Gyeta, Gummer, Kebena, Kokir Gedebano, Mareko, East

Meskan, Meskan, MuherNaAklil, North Sodo, South Sodo, Butajira town, Wolkite town, Emdeber town, Gunchrea town, Arekite town, Agena town, and Buea town.



Source: From Wikipedia, the free encyclopedia

Figure 3.2: Map of Gurage Zone

3.3. Research Design

In this study descriptive and explanatory research design was employed. This is because it is believed that descriptive research design helps to examine the what, where, and when of a phenomenon. Moreover, as Creswell (2006) stated that descriptive research gives a better and deeper understanding of a phenomenon, which helps as a fact-finding method with adequate and accurate interpretation of the findings. Furthermore, it also helps to gather data at a particular point in time with the intention of

describing the nature of existing condition or identifying standards against which existing conditions can be compared or determined the relationship that exists between specific events.

As to explanatory design, it captures the causal relationship between variables (Saunders et al., 2009). In explanatory study a situation or problem leads to the explanation of the relationship between variables, i.e., it seeks answers to why and how types of questions by identifying causal factors and outcomes of the target phenomenon (Bhattacharjee, 2012). More specifically, it enabled the researcher to describe what type of relationship that will be existed among different variables related to the topic under investigation. For instance, to examine the extent to which two variables co – vary, i.e, where changes in one independent variable is reflected in changes on the dependent variable (Creswell, 2012). It is also convenient to gather data from a relatively large sample of respondents at one point in time. Moreover, it helps to investigate the current situation of taxpayers of category “A” in the study area and more importantly, it is useful to identify the determinants of tax compliance behaviors of taxpayer’s evidence from category ‘A’ taxpayers in Gurage Zone using the correlation statistical test including the strength and the direction of the relationship between them so as to provide more information about the extent on which factors are affected the tax compliance behaviour of category “A” taxpayers. Finally, it helped to make interpretations and draws conclusions from the statistical test results.

Therefore, based on the above scenario the researcher attempted to assess determinant factors affecting tax compliance behaviour of category “A” taxpayers in Gurage Zone.

3.4. Research Approach

There are two basic approaches in research; qualitative and quantitative orientation. However, the literature suggests a growing interest in a mixed approach (triangulation) following on from the argument that 'one is used to strengthen the other. Often, combining qualitative and quantitative methods, also known as the triangulation of methods, can capture a more holistic, complete and contextual view of a phenomenon (lick, 1979).

In order to identify “Determinants of Tax Compliance Behavior in the Case of Category ‘A’ Taxpayers in Gurage Zone, the researcher adopted mixed methods approach; there were different tools available to the researcher to collect the require data including questionnaires, interview, and document analysis. For this study, the researcher applied quantitative and qualitative approach.

3.5. Target Population

The target population of the study was 1,582 registered category ‘A’ taxpayers found in the 16 woredas and 7 administrative towns of Gurage Zone and described in Table 3.1 below.

Table 3.1: Total Number of tax payer all woreda and town level.

No	Woreda and town	Number of tax payers
1	Abeshge	31
2	Kebena	5
3	Endegagn	16
4	Sodo	13
5	Cheha	18
6	Guncherie	66
7	EnorEnar	15
8	Ezha	36
9	Gyeta	7
10	MuherNaAklil	7
11	Gummer	11
12	Mareko	38
13	Meskan	8
14	Emdibir town	47
15	Buei town	79
16	Guberie town	8
17	Enemore	6
18	Buei administration	409
19	Wolkite town	696
20	East Meskan	30
21	Sodo town	34
22	Zone Makele	2
TOTAL		1,582

All are category ‘A’ taxpayers in Gurage zone revenue and customs authority (2013/11/01)

3.6. Sampling Techniques and Sample Size Determination

3.6.1. Sampling Techniques

In this study, purposive, proportionate stratified; simple random and availability sampling techniques were employed. As aforementioned, in Gurage Zone, there are sixteen woredas and seven administrative towns. Therefore, purposive sampling technique was used to select the four administrative towns, namely, Emdibir, Wolkite town, Buei and Gunchere administrative towns and three woredas: Ezha, Buei and Mareko. The researcher used this technique based on their number of category ‘A’ taxpayers and to manage the data properly and efficiently. Moreover, the researcher believed that due to their number of category ‘A’ taxpayers, they can serve as a sampling frame to select the required sample size.

Table 3.2: Sampling frame: Category ‘A’ taxpayers in Gurage Zone Revenue and Customs Authority

No	Woreda and town	Number of tax payer
1	Gunchere	66
2	Ezha	36
3	Mareko	38
4	Emdibir town	47
5	Buei town	79
6	Buei town admni	409
7	Wolkite town	696
TOTAL		1371

All are category ‘A’ taxpayers in Gurage zone revenue and customs authority (2013/11/01)

The second type of the sampling technique was proportionate stratified sampling. This was done in order to set the number of participants from the selected administrative towns and woredas’ category ‘A’ taxpayers using proportional allocation rule. In this method first the sampling frame was separated into mutually exclusive homogeneous segments – strata (administrative towns and woredas), and then a simple random sampling technique was used to select participant from each segment – stratum. The samples selected from the various strata were combined into a single sample. In this study, the basis for stratification was that the woredas and administrative towns in Gurage Zone. Accordingly, each of the four administrative towns and the three woredas was treated as one stratum and proportionate stratified sampling technique was used to draw sample from each administrative towns and woredas. In proportionate stratified sampling, the number of elements

allocated to the various strata was proportional to the representation of the strata in the sampling frame. The size of the sample category ‘A’ taxpayers drawn from each town or woreda was proportional to the relative size of that town or woreda in the sampling frame.

The third type of the sampling technique was simple random sampling. This technique was implemented to select each participant from the selected administrative towns and woredas category ‘A’ taxpayers accordingly. This was because; simple random sampling method enables a researcher to generate meaningful insights that can help to gain a deeper understanding of the research phenomena by selecting randomly without bias (Creswell, 2012).

Finally, the study used availability sampling technique to select tax authorities from the indicated administrative towns and woredas.

3.6.2. Sample Size Determination

In order to determine the sample size, the study used sampling frame from which the sample size was determine and described in Table 3.2. The study used sampling frame because of the concentration of category ‘A’ taxpayers in the chosen woredas and administrative towns. From the selected woredas and administrative towns, sampling frame, 1371 category ‘A’ taxpayers were identified, which served as a target population by using purposive sampling method. Because high taxpayer person in woreda town. The sample size of the study was determined using Yamane (1967:886) formula as described below. The sample size for the survey questionnaire was determined from taxpayers and this was because of the fact that, the issue of compliance was related to taxpayers. However, tax authority staffs are also included not in the survey but to share their opinions through interview in the factors that influence business tax payer compliance.

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

n=Sample
 N= Sampling frame size
 e= error = 0.05 (level of precision)

Then the sample size (n) = $1371/1+1371(0.05^2) = \underline{\underline{309}}$

Therefore, the researcher has taken 309 samples of category ‘A’ tax payers.

Proportional allocation was used in order to set the sizes of samples from the selected different woredas and towns in the sampling frame. That is, if P_i represents the proportion of population

included in stratum i , and n represents the total sample size, the number of elements selected from stratum i is n_i . Therefore, a sample of size $n = 309$ to be drawn from a sampling frame of size $N = 1371$ which is divided into seven strata of size Emdibir town=47, Buei town administration = 409, Wolkite town=696 Ezha woreda=36, Gunchire = 66, Buei town=79 and Mareko = 38 category 'A' tax payer. The overall sample size distributions are summarized and presented in Table 3.3 below.

Table 3.3: Proportional allocation of the sample sizes of the selected woredas and towns

No.	Name of selected woreda and town	Population size (p)	Proportion to the size of the strata ($P_i = p/N$)	Proportional allocation of the sample sizes ($n_i = n \cdot p_i$)
1	Emdibir town	47	47/1371	309(47/1371)=10
2	Buei town Ademi	409	409/1371	309(409/1371)=92
3	Wolkite town	696	696/1371	309(696/1371) =157
4	Ezha	36	36/1371	309(36/1371) =8
5	Gunchire	66	66/1371	309(66/1371) =15
6	Buei town	79	79/1371	309(79/1371) =18
7	Mareko	38	38/1371	309(38/1371) = 9
	Total	1371		309

Source: from survey data, 2022

3.7. Methods of Data Collection and Instruments

3.7.1. Sources of Data

The sources of information for the study were both primary and secondary sources. For the purpose of this study, questionnaires and structured interview were used as the primary sources of data collection. The secondary source of information included data from files, books, pamphlets, office manuals, circulars and policy papers to provide additional information where appropriate for the secondary data collection.

Table 3.4: Summary of the study variables and Measurements

Type	Description	Variables	Measure
------	-------------	-----------	---------

	of variable		
Dependent Variable	TC	Tax Compliance	Question part II 1-5
Independent Variables	TPA	Tax payers' Attitude	Question part III 1-5
	CTC	Cost of tax compliance	Question part IV 1-5
	TPK	Taxpayers Knowledge	Question part V 1-5
	TR	Tax Rate	Question part VI 1-5
	TSC	Tax System Complexity	Question part VII 1-5

3.7.2. Data Collection Instruments

The primary data was collected through questionnaire and structured interview for the selected category 'A' taxpayers and tax authorities.

3.7.2.1. Questionnaire

Questionnaire was a popular method of data collection tool to obtain primary information from large sample within limited cost and time (Kothari, 2004). Therefore, questionnaire was prepared to gather primary data from the selected sample groups such as employees, managers or owners the enterprises in the zone. The questionnaire was composed of different sections: the first section was all about the socio - demographic characteristics of the respondents such as sex, age, educational background, types of sectors or business, etc. The second section was items related to tax compliance and has five items, the third section was items related to attitude of taxpayers towards tax and consisted of five items, the fourth section was items related to cost of tax compliance as a determinant for tax compliance of category 'A' taxpayers and has five items, the fifth section was about Business enterprises taxpayers' knowledge of tax rules which has five items, the sixth section was about items related to tax rate and consisted of five items, and the seventh section was about tax system and has five items. The items in all of the study variables were measured using a 1 – 5 point Likert scales such as 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. The items in each variable in the questionnaire were prepared based on the review literature and adapted from (Bekure, 2021; Desta, 2010). Moreover, the questions or the items were prepared as concise as possible and care was taken to the actual wording and phrasing of the questions/items. The reason for the appearance and layout

of the questionnaire was of great importance in any survey where the questionnaire was to be completed by the respondent (John et al., 2007). The questionnaire was prepared in English language, but in order to make smooth communication and to facilitate data collection, the questionnaire for those who were not in a position to understand the information stated in each part was translated into Amharic language. Finally, before distributing the questionnaire for the selected employees, managers or owners of the enterprises pilot test was carried out by selecting 30 employees randomly and who were not included in the actual data collection.

3.7.2.2. Interview

In this study, interview was conducted with seven tax authorities selected from the four administrative towns and three woredas who have a direct relation to the subject matter on determinants of tax compliance behaviors of category 'A' taxpayers in their respective administrative towns and woredas in Gurage Zone. This tool was chosen, because interviewing is essentially for mixed research approach (Creswell, 2006). It offers an opportunity to gather information upon respondents' attitudes, perceptions, opinions, and experiences systematically and simultaneously for a certain purposes. This approach helps the interviewer to have more opportunity to explore beyond the answer and so as to enter into discussion with the interviewee to get valid information for cross checking and supplementing quantitative data analysis results.

3.8. Method of Data Analysis

Data analysis was the further transformation of the unprocessed data to look for patterns and relationship between and/or among data groups by using descriptive analysis. The Statistical Package for Social Science (SPSS) version 20 used to analyze the data obtained from primary sources. Specifically, descriptive statistics such as mean, percentages, standard deviation, table and charts, the qualitative data obtained from interview analyzed using descriptive narrations and summarization. Moreover, Pearson correlation coefficients and multiple regression analyses were applied.

3.8.1. Descriptive Statistics

In this section the data collected through questionnaire was analyzed by using descriptive statistics to determine, describe and analyze the characteristics of respondents in terms of gender, age, academic qualification, business sectors, and work experience with frequency counts and

percentage were employed. Mean and standard deviation also implemented to analyze to what extent the factors affect tax compliance of category 'A' tax payers at different enterprises of Gurage Zone.

3.8.2. Qualitative Data Analysis

The information gathered from the interviewees through interviews were summarized by grouping respondent's idea and described in the interpretation of the quantitative data analysis. The content of the collected qualitative data was analyzed using inductive approach. Using this method, the researcher enabled to organize the data, break them into manageable units, and then supplemented them for quantitative data analysis.

3.8.3. Pearson Correlation Coefficient Analysis

A correlation is the association between two variables. It is the degree to which two variables share a common relationship. We make use of the linear product-moment correlation coefficient, also known as Pearson's correlation coefficient, to express the strength of the relationship. This coefficient is generally used when variables are quantitative in nature, that is, ratio or interval scale variables. According to Phyllis et al.(2007), inferences are very important in management research. This is so because conclusions are normally established on the bases of results. Such generalization is, therefore, be made for the population from the sample.

The statistic that expresses a correlation statistic as a linear relationship is the product– moment correlation coefficient. It is also called the bivariate correlation, or simply r , and it is indicated by an "r" for its notation. According to Duncan and Dennis (2004), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value 0 correlation represents no relationship. Different authors suggested different interpretations of the values of the correlation coefficients; however, the researcher used Senthilnathan(2019) and the results of correlation coefficient may be interpreted as follows: roughly categorized r values as, $-.20 \leq r < 0$ and $0 < r \leq .20$ as very weak and negligible correlation; $-.20 > r > -.35$ and $.20 < r < .35$ weak correlation, but to be considered; $-.35 \geq r > -.50$ and $.35 \leq r < .50$ fair or moderate; $-.50 \geq r > -.70$ and $.50 \leq r < .70$ strongly considerable high correlation and $-.70 \geq r > -1.00$ and $.70 \leq r < 1.00$ very strongly considerable correlation. In this study to ascertain whether a statistically significant relationship exists between each of the five

independent variables and the outcome variable existed or not, the Pearson Product Moment Correlation Coefficient was used.

3.8.4. Classical Linear Regression Analysis

3.8.4.1. Model Specification

Regression is a powerful analysis that can analyze multiple variables simultaneously to answer complex research questions. Regression analysis is like other inferential analysis its overall objective is to draw a random sample from a population and use it to estimate the properties of that population. On the other hand, in regression analysis, the coefficients in the regression equation are estimates of the actual population parameters. A researcher wants these coefficient estimates to be the best possible estimates.

According to William et al. (2010), model building involves specifying relationships between two or more variables through extending to the development of equations. To test the hypothesis of this study and to determine the relative importance of each independent variable in influencing the Tax Compliance of Gurage Zone Category “A” Tax Payers multiple linear regression analyses was undertaken. An OLS estimation model which best fits the analysis of determinants of tax compliance behaviors of taxpayer’s was employed. The general regression equation for all independent variables i.e., AT, CTC, TPK, TR and TSC were regressed to investigate their effect on Tax Compliance of Gurage Zone Category “A” Tax Payers, where Gurage Zone Category “A” Tax Payers Tax Compliance represented by TC and the other independent variables are represented by AT, CTC, TPK, TR and TS. The study used a regression model that is specified as follows:

$$TC = \beta_0 + \beta_1AT + \beta_2CTC + \beta_3TPK + \beta_4TR + \beta_5TSC + \epsilon$$

Where;

TC = Tax Compliance behaviour of category “A” taxpayers

AT = Attitude of category “A” Taxpayers towards tax

CTC = Compliance cost

TPK = Tax payers knowledge about tax

TR = Tax Rate of category “A” Taxpayers

TSC = Tax System complexity

B_i = Coefficients of the variables

ε = Error term

As mentioned in Brooks (2008), there are basic assumptions required to show that the estimation technique, OLS had several desirable properties. If these Classical Linear Regression Model (CLRM) assumptions hold, then the estimators determined by OLS will have several desirable properties and are known as Best Linear Unbiased Estimators (BLUE), having the smallest variance among all unbiased linear estimators. Therefore, for this study, diagnostic tests were performed to ensure whether the assumptions of the CLRM are BLUE or not in the model.

3.8.4.2. Assumptions for Classical Linear Regression Model

Like many statistical analyses, ordinary least squares (OLS) regression has underlying assumptions. When these classical assumptions for linear regression are true, ordinary least squares produces the best estimates. However, if some of these assumptions are not true, one might need to employ remedial measures or use other estimation methods to improve the results (Frost, 2022). Many of these assumptions describe properties of the error term. Residuals are the sample estimate of the error for each observation.

Residuals = Observed value – the fitted value

When checking OLS assumptions, assessing the residuals is crucial. Therefore, in order the classical linear regression model analysis is to be valid and make use of inferences for target population, it should pass the diagnostic test of the assumptions. The following are assumptions of classical linear regression model.

- 1. Sample and Sample Size Test:** There should be a random sampling of observations.

This assumption of OLS regression says that:

- The sample taken for the linear regression model must be drawn randomly from the population.
- The number of observations taken in the sample for making the linear regression model should be greater than the number of parameters.

2. Linearity: The regression model is linear in the coefficients and the error term.

The mean of the response variable is a linear combination of the parameters and the predictor variables. If the relationship between the response variable and the predictor variables is not linear, the results of the regression analysis are not the true relationship. If one fits a linear model to a data that is non-linearly related, the model will be incorrect and hence unreliable.

3. Homoscedasticity(constant variance): The error term has a constant variance (no heteroscedasticity)

Different response variable have the same variance in their errors, regardless of the values of the predictor variables.

4. Independence: Observations of the error term are uncorrelated with each other. This assumes that the errors of the response variable are uncorrelated with each other, which means different errors ϵ_i and ϵ_j , and hence different response y_i and y_j are independent.

5. Multicollinearity: multicollinearity refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. Perfect correlation occurs when two variables have a Pearson's correlation coefficient nearly or equal to +1 or -1 or at least 0.80. Perfect correlation suggests that two variables are different forms of the same variable. If these correlations are high enough, they can cause problems and it reduces the precision of the estimates in OLS linear regression.

6. Normality: The error term is normally distributed (optional) The random errors should follow a normal distribution with mean 0 and variance σ^2 , $\epsilon_i \sim (0, \sigma^2)$. If error terms are not normal, then the standard errors of OLS estimates won't be reliable, which means the confidence intervals would be too wide or narrow. Also, OLS estimators won't have the desirable **BLUE** property.

As stated in Dhakal(2018), these assumptions were tested before running the actual regression analysis. The test was done, because classical linear regression models with standard estimation

techniques make a number of assumptions about the predictor variables, the response variables and their relationship (Abraham & Ledolter, 2006). As stated in Pallant (2005) these assumptions were tested before running the actual studies interpretation of the diagnostic test results are presented in the next chapter.

3.9. Measures of the Dependent and Independent Variables

3.9.1. Dependent Variable

Tax Compliance

Tax Compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of his or her country, for example by declaring income, filing a return, and paying the tax due in a timely manner. This variable was measured by part II items (five Questions). The majority of these items deal with the tax compliance.

3.9.2. Independent Variables

It can be noted that the data for the five independent variables have collected from the category 'A' tax payers. Therefore, the independent variables represented the opinion of the tax payers regarding these concepts.

Tax payers' Attitude

The willingness to pay taxes or comply with the tax laws or to engage in the given behavior in general terms is informed by the overall attitude of the individual given certain cooperative factors (Pickens, 2005). Attitude represents the positive or negative evaluation that an individual holds of objects (Nicoletta, 2011). Taxpayers with positive attitude towards tax evasion will tend to be less compliant, whereas taxpayers with negative attitude towards tax evasion will be more compliant. Thus, the factors forming the basis of this study have been considered as antecedents of an individual's taxpaying attitude. This variable was measured by Part III items (five questions). The majority of these items deal with the tax payer's attitude to pay tax.

Compliance Cost

Compliance costs are the costs which taxpayers and others incur in meeting obligations imposed under tax legislation. Compliance costs typically increase as the regulation around an industry increase. Compliance costs can be incurred as a result of local, national, and international

regulations, and they generally increase as a company operates in more jurisdictions. Global companies that have operations in jurisdictions all over the world with varying regulatory regimes naturally face much higher compliance costs than a company operating solely in one location. Compliance costs are sometimes referred to as compliance overhead. This variable was measured by part IV items (five questions). The majority of these items deal with penalty of taxpayers for not to pay tax.

Knowledge of Tax Payers

The basic goal of most education programs is directed towards behavioral change. Being the case behavioral analytical theories of change and learning theories can best explain how education can change the behavior of an individual (Svetna & Taumo, 2007). Change theory is to predict behavior change, which assumes that when the problem relating to behavior exists; there should be modifiable factors that contribute to the problem. Some of the modifying factors are knowledge, attitudes, intentions, interpersonal support, organizational and environmental conditions. The theory assumes that education is fundamental, in bringing about change in the modifiable factors, and the tax payer education is expected to change this behavior. This variable was measured by part V items (five questions). The majority of these items deal with the tax payer's awareness about tax laws and rules.

Tax Rate

Regarding tax rate different scholars found different results. Some of them found a positive relationship between tax rate and tax compliance others found that negative relationship. Both findings have empirical support. To mention some of the findings: Kirchler, Hoelzl, and Wahl (2008) claimed that the impact of the tax rate depends on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers. When trust is high, the same level of tax rate would be taken as contribution to the community. Yitzhaki (1974) theoretically proved that tax compliance increases with tax rate. As one can see from the findings of different scholars the effect of tax rates on compliance remains unclear. It surely deserves further investigation. This variable was measured by part VI items (five Questions). The majority of these items deal with the tax rate.

Tax System Complexity

Most of the time taxpayers not only find it difficult to file their own tax returns correctly but also perceive tax law complexity and ambiguity as causes of tax noncompliance (Erich et.al, 2006). Grant (2006) by taking data from 45 countries and applying Ordinary Least Square (OLS) regression analysis concluded that complexity is the most important determinant of tax evasion. Torgler and Schaffner (2007) argue that complexity may result in unintentional non-compliance if taxpayers have problems filing the tax form. Moreover, complexity can reduce the moral costs of noncompliance. Reza et al. (2011) concluded that excess of tax laws and their continuous adjustments and volatility in performance and performance of laws make tax system more complex which make tax collection more difficult. This variable was measured by Part VII items (five questions). The majority of these items deal with the tax estimation by revenue and customs authority office.

The following table presents summary of the variables measurement, and their expected sign for the influence of the independent variables on the tax compliance of Gurage Zone Category “A” Tax Payers.

Table 3.5: Summary of the study variables and their scale of Measurements

Variable	Types of variables	Notation	Scale of Measurement	Expected sign
Dependent	Tax Compliance behaviour of taxpayers	TCBTPs	Continuous	
Independent	Tax payers’ Attitude	TPA	>>	Positive
	Cost of tax compliance	CTC	>>	Negative
	Taxpayers Knowledge	TPK	>>	Positive
	Tax Rate	TR	>>	Negative
	Tax System complexity	TSC	>>	Negative

Source: from review literature

3.10. Validity and Reliability of the Instruments

3.10.1. Validity

The validity refers to whether one can draw meaningful and useful inferences from scores on particular instruments (Creswell, 2014). Validity, on the other hand, was the degree to which the constructs were able to measure what it was supposed to measure (APA, 2014). Constructed validity test was conducted to assure the quality of the data. In order to ensure the validity of the instruments, the researcher has tried to depend on relevant types of literatures so as to adapt the

items of this specific survey. Most importantly the clarity of the instruments were checked and commented by the advisors. This was done before and after the pre-test (pilot test) was conducted.

3.10.2. Reliability

Reliability is the degree to which a test, experiment or any measuring procedure produce the same results in the repetitive judgments and can therefore be generalized. The tendency towards yielding similar results in repetitive judgments or measurements was its consistency. The items in the questionnaire were undergone reliability test for measuring the stability and consistency of the results. In order to measure (check) the internal consistency of the items in the questionnaire, the study used the Cronbach alpha (α) which measures how well items in a set are correlated to each other (Cronbach, 1951). The value of alpha varies from zero to 1 since it was a ratio of two variances. As a rule, an alpha value between 0.70 - 1.00 was considered an adequate measure of internal consistency (reliability). However, George and Mallery (2003) provided more detailed categories of reliability values such as $0.9 \leq \alpha < 1$ as “Excellent”; $0.8 \leq \alpha < 0.9$ as “Good”; $0.7 \leq \alpha < 0.8$ as “acceptable”; $0.6 \leq \alpha < 0.7$ as “questionable”; $0.5 \leq \alpha < 0.6$ as “poor” and < 0.5 as unacceptable. Since reliability was a test that whether scores to items on instruments were internally consistent or stable over time (Creswell, 2014), prior to data collection, the test was done to evaluate the questionnaire’ ability to measure the study variables consistently. The reliability test was done on the items in the five independent variables measured using a Likert scale. The study carried out the pre-test by selecting 30 employees of SMEs randomly, but these participants were used only for the pilot test and they did not involve in the actual data collection. The reliability test was done using SPSS. According to Hinton et al. (2004), if the reliability coefficient is greater or equal to 0.700 the instrument can be accepted as reliable, and so that the full scale survey was carried out. The results of the reliability test are presented in the next chapter in section 4.3.

3.11. Ethical Considerations

Ethical conduct states that it is the responsibility of the researcher to assess carefully the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimized (Bryman & Bell, 2007, p.128). To reach the respondents consent letter from Wolkite University was provided to the selected administrative towns and woredas

Revenue offices. The respondents were given privileges of not writing their name and no respondents were forced to fill the questionnaire unwillingly and without making the actual purpose of carrying out the research clear to him/her and also in responding items in the structured interview sessions. The purpose of the study was disclosed in the introductory part of the questionnaire as well as in the interview. Furthermore, misleading or deceptive statements tried to be avoided, in the questionnaire and in the interview. Ethical clearance was obtained from ethics review board of school of graduate studies, College of Business and Economics, Wolkite University.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1. Introduction

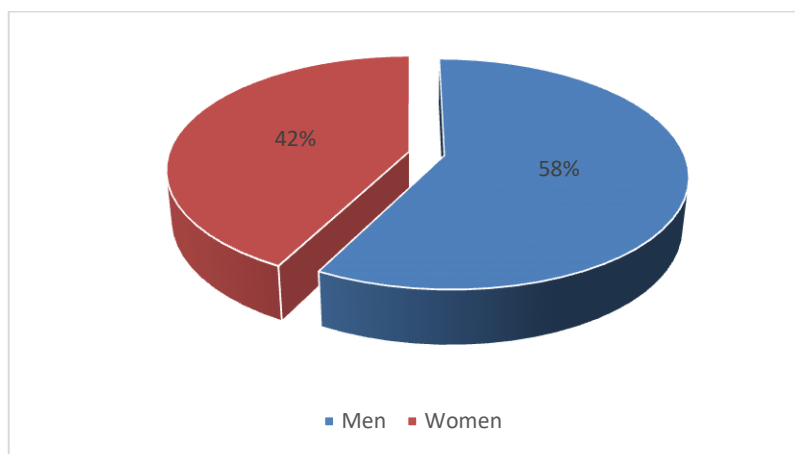
This chapter is devoted to the presentation and analysis of data collected for the study. The analysis was based on the data collected from the survey of the study according to the responses given by the respondents and it has eight sections. The first section contains introduction, the second section contains demographics and socio economics analysis of respondents. The third section is about the reliability test results. The fourth section contains the determinants of tax compliance analysis and interpretation were done using Likert scale mean and standard deviation of compliance as dependent variable and Tax payers' attitude, compliance cost, knowledge of tax payers, tax-rate and tax system as independent variables. The fifth section contains the results of the analyses on Pearson correlation coefficients. The sixth section is all about the diagnostic test results of the regression model. The seventh section deals about the results of the regression analysis. Finally, the last section presents discussions on the hypotheses test results.

4.2. Demographic and Socio-economic Characteristics

4.2.1. Demographic Information

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

Figure 4.3: Gender of the Respondent



Source: SPSS output from survey data, 2022

Demographic factor Figure 4.3 analyzed the gender of the respondents. This information was necessary to enable the researcher to obtain information on whether the respondents were either male or female. Accordingly, 58% of the respondents were male whereas 42% of them were female.

Age group of Respondents

Table 4.5: Age group of Respondents

No.	Age Group	Frequency	Percent
1.	19 - 24	6	2%
2.	25 - 29	11	4%
3.	30 - 34	21	7%
4.	35 – 39	28	9%
5.	40 - 44	92	31%
6.	45 and above	140	47%
	Total	298	100%

Source: SPSS output from survey data, 2022

Demographic Table 4.5 shows the age groups of respondents, 38 (13%) of the respondents were below 35 years of age, whereas 28(9%) of them were between 35-39 years of age the remaining whereas 232 (78%) respondents were above 40 years. This result illustrates that most of the respondents in selected Zone were generally older people who are 40 and above.

4.2.2. Socio-economic Status

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

Table 4.6: Educational Background of the Respondents

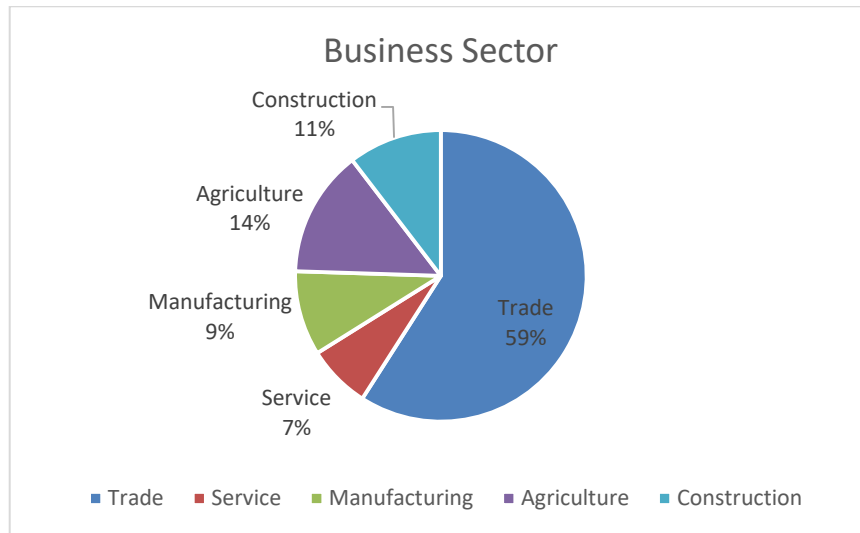
No.	Educational Background	Frequency	Percent
1.	Primary level	94	32%
2.	Secondary level	63	21%
3.	College Certificate	48	16%
4.	University Degree	80	27%
5.	MSc and above	13	4%
	Total	298	100%

Source: SPSS output from survey data, 2022

Generally, the respondent’s socio-economic status is presented in Table 4.6 with regard to educational background of study samples, 157(53%) majority of the respondents have primary and secondary educational level followed by 48 (16%) were College certificate holders, 80 (27%) have university degree and the remaining 13(4%) were are MSc./MA Degree holders and with above educational level.

Figure 4.4 below shows that 9% the respondents were engaged in manufacturing, 11% the respondents were engaged on construction, 7% the respondents were engaged on services and it is the lowest score, 59% of respondents were trade sectors which are the highest and 14% the remaining respondents were agricultural.

Figure 4.4: Respondents Business Sector



Source: SPSS output from survey data, 2022

The following table shows the number of years in which the selected companies are engaged in the business they are currently in. According to the table 69(23.2%) of the total respondents have an engagement year of 0-3 years, 99(33.2%) of the total respondents have an engagement year of 4-8 years which is longer than the rest, 81(27.2%) of the total respondents have an engagement year of 9-15 years and the remaining 49(16.4%) of the total respondents have an engagement year of more than 15 years.

Table 4.7: Respondents’ years of engagement in their Business

No.	Year of Engagement	Frequency	Percent
1.	0-3 year	69	23.2%
2.	4-8 year	99	33.2%
3.	9-15 year	81	27.2%
4.	Above 15 years	49	16.4%
	Total	298	100%

Source: SPSS output from survey data, 2022

4.3. Reliability Statistics Test Results

To ensure the reliability of the items in the questionnaire, the researcher has undertaken pre-test using Cronbach’s coefficient. A pilot test was conducted on 30 respondents, category ‘A’

taxpayers who were selected randomly from three woredas of Gurage Zone, to measure the reliability and consistency of the research instrument. Cronbach's alpha was used to measure the reliability and internal consistency and the result of the reliability test is shown in Table 4.6 below.

Table 4.8: Reliability Test Results of the Study Variables

Variables	Descriptions	Cronbach's Alpha	Number of Items
Independent	Attitude of taxpayers towards tax (AT)	.771	5
	Cost of tax compliance (CTC)	.793	5
	Tax payers knowledge of tax rule (TPK)	.788	5
	Tax rate	.750	5
	Tax system	.748	5
Dependent	Tax compliance behaviour of taxpayers (TC)	.775	5
The overall items reliability		.864	30

Source: SPSS output, 2022

The greater the degree of consistency and stability of an instrument was the greater its reliability (kamugue, 2014). As indicated in Table 4.8 above, the Cronbach's Alpha result of the pilot study shows that the reliability of the items in the six variables in the questionnaire which was employed to investigate determinants of tax compliance behaviours of category "A" taxpayers in Gurage Zone and filled by the chosen sampled category taxpayers for pilot study was at least 0.748. According to McMillan and Schumacher (2006), a good rule of thumb is that the reliability needs to be 0.7 or higher. This implies that the reliability of the instrument is within the acceptable standard.

4.4. Determinants of Tax Compliance

The aim of this research was to assess the determinants of tax compliance under section 4.3 the data was analyzed using Likert Scale and descriptive statistics frequency for the variables such as tax payers' attitude, compliance cost, knowledge of tax payers, tax-rate and tax system. The respondents were asked to rate each hypothetical question whether as a taxpayer they would undertake the same action if they faced the same situation using "Strongly Agree", "Agree", "Neutral", "Disagree", and "Strongly Disagree" using a Likert Scale. The study used judgment to classify the range of scores obtained on the five-point Likert scale as follows: a variable with a mean score of greater than 3.0 to 5.00 have taken as agree/ strongly agree on the five-point Likert scale, a score of 3.0 as moderately agree on the five-point Likert scale and a score of less than 3.0 as strongly disagree/disagree on the Likert scale.

4.4.1. Tax Payers Attitude towards Tax

Taxpayers' willingness to pay taxes differs widely across the world. These high levels of tax compliance result from the tax morale of society that fosters self-enforcement of tax compliance. Tax payers' attitude and behavior is, however, not easy to establish. Especially countries without a deep-rooted 'culture' and habit of paying taxes find it difficult to establish tax attitude. This willingness to pay of the taxpayer is influenced by the following factors: In general, citizens expect some kind of service or benefit in return for the taxes paid. Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Chipeta, 2002). However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes. In fact, the structure of the overall tax system has an impact as well.

If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant effect on the disposition to evade and avoid taxes.

Table 4.9: Responses on Tax payer's attitude

No	Items on taxpayers attitude towards taxation		SD A	DA	N	A	SA	M	SD
1.	I would feel guilty if excluded some of my income when completing my tax return	F	-	10	45	216	27	3.87	.601
		P	-	3.4	15.1	72.5	9.1		
2.	By paying right amount of income tax, I believe that I am contributing for the economic growth of the country.	F	4	75	19	190	10	3.43	.948
		P	1.3	25.2	6.4	63.8	3.4		
3.	Serious enforcement and penalty may apply by Ethiopia Revenue and Customs authority if I do not comply.	F	7	33	61	183	14	3.55	.840
		P	2.3	11.1	20.5	61.4	4.7		
4.	There is fair tax among similar businesses in the same proximity.	F	3	58	34	186	17	3.52	.903
		P	1.0	19.5	11.4	62.4	5.7		
5.	My friends and all similar traders pay their taxes faithfully.	F	-	7	57	214	20	3.83	.569
		P	-	2.3	19.1	74.8	6.7		
n = 298	Grand Mean	F	14	183	216	989	88	3.64	.352
		P	.9	12.3	14.5	66.4	5.9		

Source: SPSS output from survey data, 2022

The descriptive statistics results of the items of tax payers' attitudes are depicted in Table 4.9. In the first item the respondents were asked to rate on "I would feel guilty if I excluded some of my income when completing my tax return", accordingly more than three – fourth of the respondents 243 (81.6%) responded agree or strongly agree, while only 10 (3.4%) disagreed and 45(15.1%) were indifferent to the stated item. The mean score and standard deviation of the ratings are ($M = 3.87$; $SD = .601$) indicating high level attitude towards taxation. This result implies in most of the selected administrative towns and woredas category 'A' taxpayers are not in a position to exclude their income while they are completed their tax return.

As to the second item of Table 4.9, the respondents were asked to respond on the "By paying right amount of income tax, I believe that I am contributing for the economic growth of the country", similar to the first item, majority of the respondents 186 (62.4%) replied with agree or strongly agreed, whereas 25 (8.4%) and 87(29.2%) of the respondents disagreed and undecided to the stated item respectively. The mean score and standard deviation of the overall responses are ($M = 3.43$; $SD = .948$) indicating moderate level attitude towards paying right amount of income tax by the most of the selected category 'A' taxpayers. Therefore, this result implies that majority of category 'A' tax payers in the selected woredas and administrative towns did not sufficiently believe that paying right amount of income tax, has contribution for the economic growth of the country.

Regards to the third item which was designed to get responses from the respondents on "Serious enforcement and penalty may apply by Ethiopia Revenue and Customs authority if I do not comply", accordingly, two - third of the respondents 197 (66.1%) agreed or strongly agreed to the given statement, while 33 (11.1%) and 61 (20.5%) of the respondents disagreed and undecided. But in order to determine the extent of the attitude, the mean and standard deviation were calculated and resulted in ($M = 3.55$; $SD = .840$) with less than one standard deviation value indicating that majority of the respondents responded with similar scale indicating moderate attitude of the stated item. Therefore, from this result one can notice that majority of the category 'A' taxpayers in the selected administrative towns and woredas did not have sufficient awareness about the serious enforcement and penalty may apply by Ethiopia Revenue and Customs authority if they do not comply.

As to the fourth item shown in Table 4.9, like the other items the respondents were inquired to give their responses on "There is fair tax among similar businesses in the same proximity".

According to their responses, more than two – third of the respondents 203 (68.1%) replied with agree or strongly agree, whereas 58(19.5%) and 34 (11.4%) respondents were disagreed and neither disagreed nor agreed to the stated item. The mean and the standard deviation of the whole responses were ($M = 3.52$; $SD = .903$) indicated that moderate attitude towards fair tax of the stated item. Therefore, this numerical value implies that majority of category ‘A’ taxpayers in the selected administrative towns and woredas did not believe that fair tax among similar businesses in the same proximity. Therefore, from this result it can be inferred that in most of the selected administrative towns and woredas, category ‘A’ taxpayers carried out their business with the unfairness of tax among similar businesses in the same proximity.

Finally, as depicted in Table 4.9, the respondents were asked to rate their responses on “My friends and all similar traders pay their taxes faithfully”, accordingly more than three – fourth of the respondents 234 (81.5%) responded with agree or strongly agree, while only 7 (2.3%) and 57 (19.1%) responded with disagree and undecided respectively. The mean and the standard deviation of their responses were ($M = 3.83$; $SD = .569$) indicating high attitude towards faithfulness. From this result one can notice that majority of category ‘A’ taxpayers in the selected woredas and administrative towns are faithful in paying taxes relative to their friends.

In general, the overall items mean and standard deviation were ($M = 3.64$; $SD = .352$) indicating that most of category ‘A’ taxpayers have positive attitudes towards the stated items in majority of the selected administrative towns and woredas in Gurage Zone. Regards to the results obtained from the interview conducted with the seven tax authorities selected from the four administrative towns and three woredas who have a direct relation to the subject matter on determinants of tax compliance behaviors of category ‘A’ taxpayers in their respective administrative towns and woredas in Gurage Zone, majority of the interviewees responded that most of the category ‘A’ tax payers have positive attitude towards tax from their incomes, despite some reluctant taxpayers. In general, it is the Ethiopian Revenue Ministry direction that all taxpayers have to have positive attitude towards tax, since it is one of the sources of incomes that the government rely on and decisive for the development of the country.

4.4.2. Tax Compliance Cost

Table 4.10: Responses on Tax Compliance Cost

No	Items on tax compliance cost		SD A	DA	N	A	SA	M	SD		
1.	The penalty due to not paying tax is higher than my tax saving	F	-	64	14	187	33	3.63	.941		
		P	-	21.5	4.7	62.8	11.0				
2.	Cost of stationeries, computer, etc. is high	F	-	34	12	242	10	3.60	.923		
		P	-	24.8	12.1	57.7	5.4				
3.	Cost of cash register machine and its operation is high	F	-	40	45	192	21	3.65	.799		
		P	-	13.4	15.1	64.4	7.0				
4.	Cost of hiring staff such as accountant & sales man is high	F	-	31	66	149	52	3.74	.866		
		P	-	10.4	22.1	50.0	17.4				
5.	Most of the time I hire external services (tax consultant) to file tax returns and I pay additional costs	F	-	41	64	171	22	3.58	.817		
		P	-	13.8	21.5	57.4	7.4				
n = 298		Grand Mean		F	-	250	225	871	144	3.61	.736
				P	-	16.8	15.1	58.4	9.7		

Source: SPSS output from survey data, 2022

The descriptive statistics result shown in Table 4.10 on the item “The penalty due to not paying tax is higher than my tax saving” indicates more than two – third of the respondents 220(73.9%) agreed or strongly agreed, while 64(21.5%) disagreed to the stated item. But the mean and the standard deviation of their responses, that decides the overall level of agreement the responses of all respondents was approached, are (M = 3.63; SD = .941) showing to some extent high level status of their agreements in charging higher payment than what they were saved as the result of not paying their taxes. From this result one can notice that most of category ‘A’ taxpayers in the selected administrative towns and woredas did not pay their taxes properly.

Regarding the second item in Table 4.10, the respondents were asked to what extent did “Cost of stationeries, computer, etc. is high”, according to the results of the analysis more than three – fourth of the respondents 243 (86.6%) agreed or strongly agreed, whereas 34 (11.4%) and 12 (4.0%) of the respondents replied with disagree and neutral to the stated item respectively. The mean and standard deviation of their responses were (M = 3.76; SD = .923) indicating that high level status of their agreements for the stated item. This result implies that Cost of stationeries, computer, etc. was high for the majority of category ‘A’ taxpayers in the selected administrative towns and woredas.

As to the third item of Table 4.10, similar to the above two items responses, more than two – third of the respondents 213(71.4%) responded with agree or strongly agree to “Cost of cash register machine and its operation is high”, while 40 (13.4%) and 45 (15.1%) respondents replied with disagree and undecided respectively to the stated item. But the mean and the standard deviation of the whole responses were ($M = 3.65$; $SD = .799$) showing to some extent high level status of their agreements towards the expensiveness of register machine. Therefore, this result shows that nearly three – fourth of category ‘A’ tax payers in the selected administrative towns and woredas faced with the problem of cost related to cash registered machine.

Regards to the fourth item in the same table on “Cost of hiring staff such as accountant & sales man is high”, more than two – third of the participants 191(67.4%) responded with agree or strongly agree, while 31 (10.4%) and 66 (22.1%) of the respondents were disagreed and neutral to the stated statement. The mean and standard deviation are ($M = 3.74$; $SD = .866$) showing high level status of their agreements towards the indicated item. Therefore, this result implies that in the majority of the selected administrative towns and woredas category ‘A’ taxpayers have the problems of cost of hiring staff such as accountant and sales man.

Finally, for the fifth item depicted in Table 4.10, the participants were asked to respond on “Most of the time I hire external services (tax consultant) to file tax returns and I pay additional costs”, almost three – fourth of the respondents 223(74.8%) agreed or strongly agreed, while 41 (13.8%) and 34(11.4%) responded disagree and neutral to the stated item. The overall ratings mean and standard deviation were ($M = 3.68$; $SD = .817$) indicated high level status of their agreement towards the stated item. This result implies that category ‘A’ taxpayers in most of the selected administrative towns and woredas most of the time they hired external services (tax consultant) to file tax returns and paid additional costs.

In general, as to the overall outlook of the participants towards the different aspects of tax of compliance cost that can influence the tax compliance behaviour of category “A” taxpayers in the selected administrative towns and woredas of Gurage Zone, Table 4.10 shows grand mean 3.69 with standard deviation of .736 indicated that majority of the participants agreed to the indicated items to some extent at high level status. From this result it can be inferred that most of category ‘A’ taxpayers in the selected administrative towns and woredas did not pay their taxes properly, faced with the problem of cost of stationeries, computer, etc., cost related to cash registered machine, and have the problems of cost of hiring staff such as accountant and sales man. And also most of the time they hired external services (tax consultant) to file tax returns and paid additional costs.

4.4.3. Knowledge of Tax payers

Table 4.11: Responses on Knowledge of Taxpayers

No	Items on the knowledge of taxpayers		SD A	DA	N	A	SA	M	SD
1.	I know how to determine my taxable income	F	-	20	59	191	28	3.61	.736
		P	-	6.7	19.8	64.1	9.4		
2.	I clearly know deductible and non-deductible expenses to determine my taxable income	F	-	26	106	149	17	3.53	.735
		P	-	8.7	35.6	50.0	5.7		
3.	I know schedule “A” income tax rates	F	-	37	58	179	24	3.64	.802
		P	-	12.4	19.5	60.1	8.1		
4.	I am certain about the period and where to pay my tax liability.	F	-	35	52	183	28	3.68	.810
		P	-	11.7	17.4	61.4	9.4		
5.	I can easily get the necessary tax information & updates	F	-	28	79	168	23	3.62	.761
		P	-	9.4	26.5	56.4	7.7		
n = 298		F	-	146	354	870	120	3.61	.355
		P	-	9.8	23.7	58.4	8.1		

Source: SPSS output from survey data, 2022

As it can be seen in Table 4.11, the first item deals about “I know how to determine my taxable income”, accordingly nearly three - fourth of the respondents 219 (73.5%) responded with agree or strongly agree; while 20 (6.7%) and 59 (19.8%) responded disagree and neutral respectively to the stated item. The mean score of their responses was (M = 3.61; SD = .736) indicating that majority of the respondents were to some extent in high agreement status towards the stated item. From this analysis one can infer that most of the selected category “A” taxpayers knew how to determine their taxable income.

As to the second item depicted in Table 4.11, the researcher was intended to examine the extent of the knowledge of the respondents towards “I clearly know deductible and non-deductible expenses to determine my taxable income existence”. According to the information obtained from the respondents, more than half of the respondents 166 (55.7%) responded with agree or strongly agree, while 26 (8.7%) and 106(35.6%) were disagree and neutral to the stated item. However, the mean and standard deviation are (M = 3.53; SD = .735) indicating moderately agreed to the stated item. Therefore, from this result it can be noticed that nearly half of the respondents in the selected administrative towns and woredas category “A” taxpayers have no clear knowledge about deductible and non-deductible expenses to determine their taxable income existence.

Regarding the third item which is depicted in Table 4.11, it deals about “I know schedule “A” income tax rates”, more than three – third of the respondents 203 (68.2%) of responded agree or strongly agree, while 37 (12.4%) were disagreed, but 58 (19.5%) were indifferent to the stated item. The mean and standard deviation for the whole ratings are ($M = 3.64$; $SD = .802$) indicating that significant number of category “A” taxpayers were aware of the schedule “A” income tax rates. Therefore, from this result it can be inferred majority of category “A” tax payers do not have as such the problem of the knowledge about their income tax rates in the selected administrative towns and woredas of Gurage Zone.

As to the fourth item, which was intended to assess whether “I am certain about the period and where to pay my tax liability.” or not. So, according to the gathered information, more than two – third of the respondents 211(70.8%) responded agree or strongly agree, while 35 (11.7%) and 54 (17.4%) responded disagree and neutral to the stated item respectively. The mean and standard deviation of their responses are ($M = 3.68$; $SD = .810$) indicating majority of the respondents were in agreement to the stated item. Therefore, from this numerical values indicated that most of category “A” taxpayers has no problem about the period and where to pay their tax liabilities.

Item five, in the same table, deals about the assessment of whether “I can easily get the necessary tax information & updates” or not. According to the analysis result almost two – third of the respondents 191 (64.1%) responded agree or strongly agree, whereas 28 (9.4%) and 79 (26.5%) were neither agreed nor disagreed and responded disagree to the stated item. But the mean and standard deviation of their responses are ($M = 3.62$; $SD = .761$) indicating that in almost two – third of the selected administrative towns and woredas most of category “A” taxpayers have got all the necessary tax information and updates easily.

In general, the mean and standard deviation of the overall items of category “A” taxpayers was ($M = 3.61$; $SD = .355$) indicating that the overall category “A” taxpayers knowledge about tax in most of the selected administrative towns and woredas were to some extent at high level.

4.4.4. Tax Rates

Table 4.12: Response on tax rates

No	Items on tax rates		SD A	DA	N	A	SA	M	SD	
1.	The Ethiopian tax rates for category “A” tax payer are high.	F	-	20	59	191	28	3.76	.711	
		P	-	6.7	19.8	64.1	9.4			
2.	The Ethiopian revenue and customs authority tax rate and procedure increase the non-compliance of category “A” taxpayer.	F	-	84	19	184	11	3.41	.939	
		P	-	28.2	6.4	61.7	3.7			
3.	The existing tax rate determine tax compliance	F	-	12	38	230	18	3.85	.573	
		P	-	4.0	12.8	77.2	6.0			
4.	The tax rates are very high and I can’t afford to pay the amount.	F	-	31	29	216	22	3.77	.732	
		P	-	10.4	9.7	72.5	7.4			
5.	There a need to improve the Ethiopian tax rate.	F	-	11	39	234	14	3.84	.549	
		P	-	3.7	13.1	78.5	4.7			
n = 298		Grand Mean	F	-	158	184	1055	93	3.73	.341
			P	-	10.6	12.3	70.8	6.3		

Source: SPSS output from survey data, 2022

The descriptive statistics results of the items of tax rates are depicted in Table 4.12. In the first item the respondents were asked to rate on “The Ethiopian tax rates for category “A” tax payer are high.”, accordingly more than two – third of the respondents 219 (73.5%) responded agree or strongly agree, while 20 (6.7%) and 59 (19.8%) disagreed and indifferent to the stated item. The mean score and standard deviation of the ratings are (M = 3.76; SD = .711) indicating high level extent of the effect on the tax compliance behaviour of category “A” taxpayers. This result implies in most of the selected administrative towns and woredas majority of category “A” taxpayers believed that the Ethiopian tax rates for category “A” tax payer is high.

As to the second item of Table 4.12, the respondents were asked to respond on the “The Ethiopian revenue and customs authority tax rate and procedure increase the non-compliance of category “A” taxpayer.”, according to the analysis results almost two – third of the respondents 195 (65.4%) replied with agree or strongly agree, whereas 84 (28.2%) and 19(6.4%) of the respondents disagreed and neutral to the stated item. The mean score and standard deviation of the overall responses are (M = 3.41; SD = .939) indicating moderate level agreement. Therefore, this result implies that majority of category “A” taxpayers in the selected administrative towns and woredas believed that the Ethiopian revenue and customs authority tax rate and procedure increased the non-compliance of category “A” taxpayers.

Regards to the third item which was designed to get responses from the respondents on “The existing tax rate determine tax compliance”, accordingly, more than three – fourth of the respondents 230 (83.2%) agreed or strongly agreed to the given statement, while 12 (4.0%) and 38 (12.8%) of the participants responded disagreed and neutral respectively. But in order to determine the extent of the existence, the mean and standard deviation were calculated and resulted in ($M = 3.85$; $SD = .573$) with less than one standard deviation value indicating high level agreement towards the stated item. Therefore, from this result one can notice that majority of most category “A” tax payers believed that the existing tax rate determine tax compliance.

As to the fourth item shown in Table 4.12, like the other items the respondents were inquired to give their responses on “The tax rates are very high and I can’t afford to pay the amount.”. According to their responses, more than three - fourth of the respondents 238 (79.9%) replied with agree or strongly agree, whereas 31(10.4%) and 29 (9.7%) respondents were disagreed and neither disagreed nor agreed to the stated item respectively. The mean and the standard deviation of the whole responses were ($M = 3.77$; $SD = .732$) indicated high level agreement towards the stated item. Therefore, this numerical value implies that majority of category “A” taxpayers in the selected administrative towns and woredas believed that the tax rates are very high and they can’t afford to pay the amount.

Finally, as depicted in Table 4.12, the respondents were asked to rate their responses on “There is a need to improve the Ethiopian tax rate.”, accordingly more than three – fourth of the respondents 248 (79.9%) responded with agree or strongly agree, while 11 (3.7%) and 39 (13.1%) responded with disagree and neutral respectively. The mean and the standard deviation of their responses were ($M = 3.84$; $SD = .549$) indicating high level agreement of most respondents towards the stated item. From this result one can notice that majority of category “A” taxpayers wanted the improvement of the Ethiopian tax rate.

In general, the overall items mean and standard deviation were ($M = 3.73$; $SD = .341$) indicating that the stated items except the second item, the Ethiopian revenue and customs authority tax rate and procedure increase the non-compliance of category “A” taxpayer, have high extent level effects on tax compliance behaviour of category “A” taxpayers in the selected administrative towns and woredas of Gurage Zone.

4.4.5. Tax System

Table 4.13: Responses on Tax System

No	Items on tax system complexity		SD A	DA	N	A	SA	M	SD
1.	There are no clear strategies that can improve the tax compliance by category “A” taxpayer in Ethiopia.	F	-	26	58	201	13	3.67	.695
		P	-	8.7	19.5	67.4	4.4		
2.	The existing tax system is not promoting voluntary compliance that builds public confidence.	F	-	16	75	204	3	3.65	.597
		P	-	5.4	25.2	68.5	1.0		
3.	There is no need to improve the Ethiopian tax system of category “A” taxpayer.	F	-	28	40	199	31	3.78	.754
		P	-	9.4	13.4	66.8	10.4		
4.	Revenue and customs authority office of the branch, transparent estimation procedures are not made based on facts.	F	-	13	50	204	31	3.85	.652
		P	-	4.4	16.8	68.5	10.4		
5.	The existing tax system has negative impact on tax compliance.	F	-	-	94	191	13	3.72	.543
		P	-	-	31.5	64.1	4.4		
n = 298	Grand Mean	F	-	83	317	999	91	3.74	.336
		P	-	5.6	21.3	67.0	6.1		

Source: SPSS output from survey data, 2022

As depicted in Table 4.13, the respondents were asked to rate their extent of agreements on “There are no clear strategies that can improve the tax compliance by category “A” taxpayer in Ethiopia.” According to their responses analysis, more than two – third of the respondents 214 (71.8%) agreed or strongly agreed, while 26 (8.7%) and 58 (19.5%) disagreed and neutral with the stated item. However, the mean score of the whole ratings for the given statement was 3.67 with standard deviation .695 indicating to some extent high level agreement towards the stated item. From this result it can be inferred that to some extent believed the non – existence of clear strategies that can improve the tax compliance by category “A” taxpayer in Ethiopia.

As indicated in Table 4.13, the researcher was intended to examine the respondents view on “The existing tax system is not promoting voluntary compliance that builds public confidence.” of the total of the respondents, more than two – third 207(69.5%) agreed or strongly agreed with the statement, but only 16 (5.4%) disagreed and 75 (25.2%) neutral to the item. However, the mean score of the whole ratings was 3.65 with standard deviation of .597 indicating to some extent high level agreement towards the stated item. Therefore, from this result it can be said that most of category “A” taxpayers in the selected administrative towns and woredas felt believed that the existing tax system did not promote voluntary compliance.

As to the third item, more than three – fourth of the respondents 230 (77.2%) were agreed or strongly agreed to “There is a need to improve the Ethiopian tax system of category “A” taxpayer.” While 28 (9.4%) and 40 (13.4%) of the respondents responded with disagree and neutral. However, the overall outlook towards the item was treated considering the mean score and resulted with ($M = 3.78$; $SD = .754$) implying most of the respondents perceived the stated item highly. Therefore, from this result it can be said that, in the selected administrative towns and woredas most of category “A” taxpayers wanted the improvement of the Ethiopian tax system of category “A” taxpayer.

Regards to “Revenue and customs authority office of the branch, transparent estimation procedures are not made based on facts.”, more than three – fourth of the respondents 235 (78.9%) were agreed or strongly agreed to the statement stated but only 13 (4.4%) disagreed and 50 (16.8%) neutral to the stated statement. However, the respondents view towards the item was calculated in terms of mean score and resulted in 3.85 with standard deviation .652 showing that most of the respondents have high perception. From this result it can be said that most of category “A” taxpayers in the selected administrative towns and woredas believed that estimation procedures was not transparent and did not made based on facts in the Revenue and Customs Authority Office.

Finally, as it has been shown in Table 4.13, the respondents were asked to rate the extent of their agreement on “The existing tax system has negative impact on tax compliance.” among the total respondents, more than two – third of the respondents 204 (68.5%) were agreed or strongly agreed, but significant number of respondents 94 (31.5%) were neither agreed nor disagreed to the stated item, but the mean score value of the whole responses was 3.72 with standard deviation .543 implying that most of the respondents have high level agreement towards the stated item. This shows that most of category “A” taxpayers is not compliance with the existing tax system in the selected administrative towns and woredas.

In general, the overall responses about the existing tax system depicted at the bottom of Table 4.13 shows nearly three – fourth of the respondents 73.1% were agreed or strongly agreed, whereas 8.5% were disagreed and 21.3% were neutral towards the whole items. But the grand mean score was 3.74 with standard deviation of .336 showing that majority of the respondents confirmed that the existing tax system has problems in strategies that can improve the tax

compliance by category “A” taxpayer, in promoting voluntary tax compliance, and in transparency of estimation procedures.

4.4.6. Tax Compliance Behavior

Table 4.14: Responses on Tax Compliance Behaviors

No	Items on tax compliance behavior		SD A	DA	N	A	SA	M	SD
1.	Tax compliance improves the revenue of the government.	F	-	28	77	172	21	3.62	.752
		P	-	9.4	25.8	57.7	7.0		
2.	Government service to the public may reduce due to low tax compliance.	F	-	25	87	167	19	3.60	.732
		P	-	8.4	29.2	56.0	6.4		
3.	Tax compliance has a positive impact on a country’s growth and development.	F	-	25	62	197	14	3.67	.696
		P	-	8.4	20.8	66.1	4.7		
4.	Generally, tax evasion should be considered as a crime.	F	-	29	85	171	13	3.56	.728
		P	-	9.7	28.5	57.4	4.4		
5.	Tax compliance deserves resources allocation to the society.	F	-	22	91	165	20	3.61	.722
		P	-	7.4	30.5	55.4	6.7		
n = 298	Grand Mean	F	-	129	402	872	87	3.62	.401
		P	-	8.7	27.0	58.5	5.8		

Source: SPSS output from survey data, 2022

As indicated in Table 4.14, respondents were asked to rate on “Tax compliance improves the revenue of the government.” of the total of the respondents, more than three – fourth of the respondents 253(84.8%) agreed or strongly agreed with the statement, but 18(6.1%) disagreed and 27 (9.1%) undecided to the stated item. However, the mean score of the whole ratings is 3.86 with standard deviation of .752 showing high level agreement towards the item. Therefore, from this result it can be said that most of the category “A” taxpayers believed that Tax compliance improves the revenue of the government.

As to the second item on “Government service to the public may reduce due to low tax compliance” More than three – fourth of the respondents 228(76.5%) responded with agree or strongly agree, but 25 (8.4%) disagreed and 45 (15.1%) neutral to the stated statement. However, the overall view towards the item was treated considering the mean score and resulted with 3.74 and standard deviation .732 implying that most of the respondents perceived the stated item highly. Therefore, from this result it can be inferred that, in the selected administrative towns and woredas most of category “A” taxpayers believed that the government service to the public may reduce due to low tax compliance.

Regards to “Tax compliance has a positive impact on a country’s growth and development.”, more than three – fourth of the respondents 262 (87.9%) were agreed or strongly agreed to the statement stated, but 19 (6.4%) disagreed and 17 (5.7%) were neutral. On the other hand, the respondents view towards the item was calculated in terms of mean score and resulted in 3.93 with standard deviation .696 showing that most of the respondents have high level agreement. From this result it can be said that in the selected administrative towns and woredas most of the category “A” taxpayers believed that tax compliance has a positive impact on a country’s growth and development.

As it has been shown in Table 4.14, similar to the above items the respondents were asked to what extent they were agreed to the item “Generally, tax evasion should be considered as a crime.” among the total respondents more than three – fourth of the respondents 228 (76.5%) were agreed or strongly agreed that they felt that tax evasion should be considered as a crime. However, 20(6.7%) of the respondents disagreed and 50 (16.8%) were neutral to the stated item that shows they did not aware that tax evasion is a crime. On the other hand, the mean score value of their responses was 3.77 with standard deviation .728 implying that most of the respondents have high level agreement. This shows that most of the category “A” taxpayers does not have the problem of understanding of tax evasion as a crime in the selected administrative towns and woredas.

Finally, the respondents were asked to rate their responses on “Tax compliance deserves resources allocation to the society.” So according to the results of the analysis, more than three – fourth of the respondents 235 (78.8%) were agreed or strongly agreed, whereas 22 (7.4%) and 41 (13.8%) of the respondents responded with disagree and neutral to the stated item. However, considering the mean score of the whole responses was ($M = 3.78$; $SD = .722$) indicating high level agreement towards the stated item. Therefore, from this result it can be said that most of the participant category “A” taxpayers believed that tax compliance deserves resources allocation to the society.

In general, the overall responses about tax compliance behaviour depicted at the bottom of Table 4.14 shows more than three – fourth of the respondents 80.9 were agreed or strongly agreed, whereas only 7.0% were disagreed towards the whole items. Moreover, the grand mean score was 3.82 with standard deviation of .401 showing that majority of the respondents have high

perception towards items on tax compliance behaviour in the selected woredas and administrative towns.

4.5. Correlation Analysis

Table 4.15: Pearson Correlation Coefficient Results on the Study Variables

		Correlations					
		TC	AT	CTC	TPK	TR	TSC
TC	Pearson Correlation	1					
	Sig. (2-tailed)						
AT	Pearson Correlation	.766**	1				
	Sig. (2-tailed)	.000					
CTC	Pearson Correlation	-.741**	.640**	1			
	Sig. (2-tailed)	.000	.000				
TPK	Pearson Correlation	.703**	.603**	.610**	1		
	Sig. (2-tailed)	.000	.000	.000			
TR	Pearson Correlation	-.690**	.618**	-.560**	.556**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
TSC	Pearson Correlation	-.614**	.447**	.511**	-.461**	.347**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	298	298	298	298	298	298

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

Source: SPSS output, 2022

Pearson correlation coefficient analysis was conducted to assess the extent of the relationship between the five independent variables: attitude of taxpayers towards tax (AT), cost of tax compliance (CTC), taxpayers’ knowledge of tax rules (TPK), tax rate (TR), tax system complexity (TSC) and the tax compliance behaviour of taxpayers (TC). As indicated in Table 4.15, correlation coefficients of AT and TPK are positive and significant at **Correlation is significant at the 0.01 level (2-tailed), whereas, CTC, TR and TSC are negative and significant. According to Senthilnathan (2019), the Pearson correlation coefficient between the tax compliance behaviour of taxpayers (TC) and attitude of taxpayers towards tax (AT), taxpayers’ knowledge of tax rules (TPK) were $(r(AT) = .766^{**})$ and $(r(TPK) = .703^{**})$ respectively indicates positive and very strong correlation; whereas, cost of tax compliance (CTC), $(r(CTC) = -.741^{**})$ has very strong negative correlation; however, the Pearson correlation coefficients between tax rate (TR), tax system (TSC) and the tax compliance behaviour of category ‘A’ taxpayers (TC) were $(r(TR) = -.690^{**})$ and $(r(TS) = -.614^{**})$ indicating negative and strong correlation. Therefore, from these results it can be inferred that the above two independent

variables, AT and TPK are significantly and positively related with the tax compliance behaviour of taxpayers, but CTC, TR and TSC are significantly and negatively related with TC in most woredas of Gurage Zone. Regards to the position of the findings of this study, in case of attitude towards taxation it is supported by the findings of Desta (2010) who found out moderate correlation with tax compliance, but in contrast in case of knowledge of taxpayers that his study revealed weak correlation. In case of tax system complexity, it is supported by Deyganto (2018) who conducted his study in Gedeo Zone category 'A' taxpayers and found out moderate correlation, 0.518** (correlation between tax system simplicity), but in contrast on knowledge of taxpayers, because he found out significant, weak and negative correlation with correlation coefficient of -0.308^{**} . Furthermore, in case of knowledge of tax, it is supported by the findings of Kasu (2021) who found out significant and positive correlation with tax compliance.

4.6. The Diagnostic test of Classical Linear Regression Model (CLRM) Assumptions

Once regression model is constructed, it is important to confirm the goodness of fit of the model and the statistical significance of the estimated parameters. Since the aim of CLRM is to find the best set of independent variables which can explain the dependent variable on the conditions that the assumptions are provided. Therefore, the researcher carried out the diagnostic test to identify any violation in the underlining assumption of the classical linear regression model (CLRM). Hence, model assumptions such as sample and sample size test, linearity, homoscedasticity, independent and multicollinearity assumptions were checked with regression diagnostics.

The diagnostic test results of the six assumptions tests were conducted, presented and interpreted as follows.

Assumption #1 – Sample and Sample Size Test

As aforementioned in the previous chapter, the sample for the study was selected using proportionate stratified and simple random sampling techniques, this assumption was met.

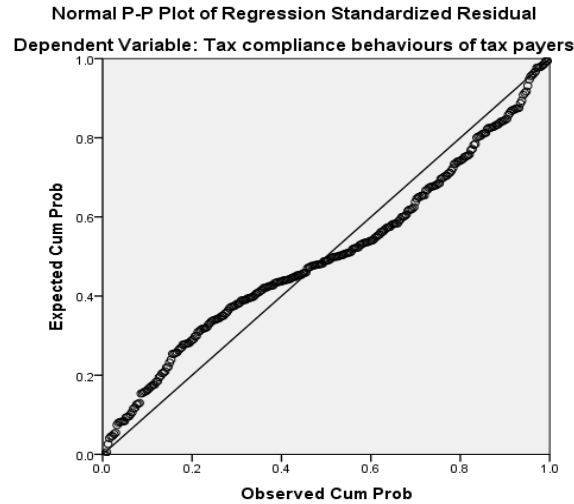
- The number of observations taken in the sample for making the linear regression model should be greater than the number of parameters to be estimated.

The sample must be representative of the population, i.e., the number of participants should be greater than the number of explanatory variables. The issue at stake here is generalizability. That is, with small samples one may obtain a result that does not generalize (cannot be repeated) with other samples. If results do not generalize to other samples, then they are of little scientific value. Different authors tend to give different guidelines concerning the number of cases required for multiple regression. Tabachnick and Fidell (cited in Pallant, 2005) give a formula for calculating sample size requirements, taking into account the number of independent variables that one wish to use: $n > 50 + 8m$ (where m = number of independent variables). Thus, the present study consists of 5 independent variables; $50+8(5) = 90$ which is less than the observed respondents (sample size). i.e. $50+ 8(5) = 90 < 298$. Based on the criteria, the sample size of the participants exceeds the minimum to run the classical linear regression model analysis. Hence, the assumption met. Thus, the present study consists of 5 independent variables; $50+8(5) = 90$ which is less than the observed respondents (sample size) which was 327. Based on the criteria, the sample size of the participants exceeds the minimum requirement to run the standard multiple linear regression analysis. Hence, the sample size assumption met.

Assumption #2 - Linearity test: The regression model is linear in the coefficients and the error term.

There should be a linear relationship between the dependent variable and the independent variables. In other words, the value of Y is proportional to the independent variable X. Since the goodness of the model depends on how well it predicts Y, the linearity of the response(Y) and Predictors(X), p – p plot graph could be implemented. As indicated in (Torres – Reyna, 2007), if the whole plots show 45° pattern, it indicates that the model seems to be doing a good job in predicting Y. As it can be seen in the graph given below, Figure 4.5, the plots form 45° pattern. Therefore, the linearity assumption was met.

Figure 4.5: Linearity test for the residuals

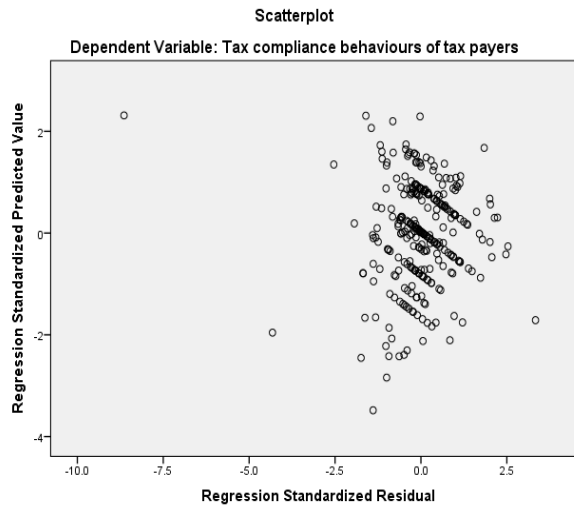


Source: SPSS output, 2022

Assumption # 3 -Homoscedasticity: The error term has a constant variance (no heteroscedasticity)

One of the basic assumptions of the classical linear regression model is homoscedasticity, so to test this assumption regression standardized residuals and regression standardized predicted value plots were used, because, they detect model lack of fitness and unequal variances. As indicated in (Brooks, 2008), any trends or patterns in the plots indicated lack of fitness and unequal variances which lead to a potential problem in the model. The scatter plot for tax compliance behaviour of taxpayers in Gurage Zone is given below in Figure 4.6

Figure 4.6: Scatter plot for homogeneity of variance for TC



Source: SPSS output, 2022

As it can be seen from the above scatter plot, Figure 4.6, the scatter plots do not form a certain pattern despite few plots dispersed out from the center. This dispersion shows to some extent the homogeneity of the variances. Meaning, nearly it satisfied the equal variance assumption.

Assumption #4 – Independence: This assumes that the errors of the response variable are uncorrelated with each other, which means different errors ϵ_i and ϵ_j , and hence different response y_i and y_j are independent.

In addition to homoscedasticity, it was also required that the errors are independent. Independence can generally be gauged a priori. If independence holds, then a scatter plot of residuals versus time (or order of observations) should show no pattern (Figure 4.6, above). If independence is violated, then the model should be reconsidered. A plot of fitted values versus residuals for a hypothetical dataset and model with no systematic pattern, suggesting that homoscedasticity is valid. No pattern, indicating that independence is reasonable.

Assumption #5 - Multicollinearity test

Multicollinearity is the problem of high correlation between or among two or more independent variables. Multicollinearity is a problem because the presence of multicollinearity can cause distortions in the standard error and may lead to problems with significance testing of individual coefficients, and estimates are sensitive to changes in the sample observations or the model specification. In addition, if there is Multicollinearity, we are more likely to conclude a variable

is not important. Therefore, the independent variables should not be very strongly correlated which is called non – multicollinearity assumption. Multicollinearity occurs when several independent variables correlate at high levels with one another, or when one independent variable is nearly the linear combinations of the other independent variables (Dhakal, 2018). If there is multicollinearity, we are more likely to conclude a variable is not important. However, multicollinearity is likely present to some degree in most economic models. Perfect multicollinearity would prohibit us from estimating the regression parameters (Hickey et al., 2019).

Table 4.16: Multicollinearity test of the Independent Variables

Variable	Collinearity Statistics	
	Tolerance	VIF
AT	.455	2.199
CTC	.462	2.167
TPK	.511	1.958
TR	.545	1.835
TSC	.693	1.443

Source: SPSS output, 2022

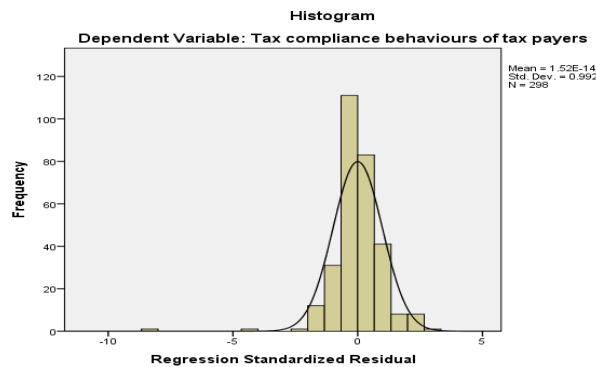
The items in each of the six independent variables in the model should not be highly correlated. To test this assumption the researcher used the more precise approach, assessing the tolerance and its reciprocal values (VIF, variance inflation factor) in the output results of the regression analysis for model fitness. The tolerance value is the indication of the percent of variance in the predictor that can't be accounted for by the other predictors, very small value indicated that a predictor is redundant. As (Shi, 2013; Hickey et al., 2019) showed that, if the VIF value of each predictor is less than 10, then it indicates the non – multicollinearity of the predictors if not it suggested a problem. When such situation, tolerance less than 0.10 and VIF greater than 10, is happened the regression model estimates of coefficients became unstable and the standard errors for the coefficients could get inflated. In other words the model loses its statistical validity. As it can be seen in the Table 4.16 given above, there was no multicollinearity amongst the independent variables in the model for the tax compliance behaviours of taxpayers. Therefore, the non – multicollinearity assumption was met.

Assumption #6 - Normality test: The error term is normally distributed (optional)

The random errors should follow a normal distribution with mean 0 and variance σ^2 , $\epsilon_i \sim (0, \sigma^2)$. If error terms are not normal, then the standard errors of OLS estimates won't be reliable, which means the confidence intervals would be too wide or narrow. Also, OLS estimators won't have the desirable **BLUE** property.

The final diagnostic test carried out in this study was the normality assumption test. Normality test is used to decide whether the residuals are normally distributed or not. According to Brooks (2008), if the histogram is bell shaped, then the residuals are normal distributed. The null hypothesis of the model specification is that the residuals are normally distributed. The normality tests for this study as shown in Figure 4.7 below, the histogram is bell shaped. Therefore, the residuals are normally distributed and concluded that there were no problem of normality in the model.

Figure 4.7: Normality Test for Residual



Source: SPSS output, 2022

Thus, as the regression assumptions test indicated in the above output results of the SPSS and discussion, all assumptions were met and hence the classical linear regression model for the tax compliance behavior of taxpayers in Gurage Zone with the independent variables qualified for model fitness test.

4.7. Results of Regression Analysis

A linear regression model was used to predict on one hand the dependent variable of tax compliance in the study and on the other hand, the prediction was carried out basing on the effect of the five independent variables factors: complexity of tax system, attitude of tax payers', tax

rate, compliance cost, tax knowledge and tax system. In addition to the above, the β coefficients for each independent variable caused from the model was subjected to a t-test to analysis each of the hypotheses under the study.

4.7.1. Model Fitness: Model Summary

The first table of interest is the model summary (Table 4.17). This table provides the R, R², and adjusted R² which can be used to determine how well a regression model fits the data:

Table 4.17: Model Summary

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.888 ^a	.789	.786	.10260	1.792
a. Predictors: (Constant), TSC, TR, TPK, CTC, AT					
b. Dependent Variable: Tax compliance behaviours of tax payers[TC]					

Source: SPSS output from survey data, 2022

As it can be seen in Table 4.17, the "R" column represents the value of R, the multiple correlation coefficients. R can be considered to be one of the measures of the quality of the prediction of the model on the dependent variable; in this case, tax compliance behaviours of category 'A' tax payers in Gurage Zone. A value of .888 in this output indicates a very good level of prediction. It also indicated that a very strong relationship between the dependent and independent variables. From this result it can be inferred that there is a strong relationship between the tax compliance behaviours of category 'A' tax payers and the five independent variables.

On the other hand, the "R Square" column represents the R² value - the coefficient of determination, which is the proportion of the variance in the dependent variable that can be explained by the independent variables. As it can be seen in Table 4.17 the value .789 that the five independent variables in combination explain 78.9% of the variability of the dependent variable, tax compliance behaviours of category 'A' tax payers in Gurage Zone, but the remaining percentage 21.1% of the variation was explained by determinants of tax compliance behaviours other than the predictors included in the model.

The Adjusted R square, the most useful measurement of the success of a model, which is better than the R square value. Because R square value tends to somewhat over – estimate the success of the model when applied to the real world, and also the Adjusted R square value takes in to account the number of variables in the model and the number of observations, participants – sampled employees and owners/managers of the enterprises in Gurage Zone, upon which the model was based on (Diem and Puente, 2012). Therefore, the adjusted R square values for tax compliance behaviours of category ‘A’ tax payers model was .786. So, it can be said that tax compliance behaviours of category ‘A’ tax payers model has accounted for 78.6% of the variance in explaining the tax compliance behaviours of category ‘A’ tax payers of the selected respondents in Gurage Zone.

4.7.2. Statistical Significance of the Model

Model utility test is a statistical test to check whether the regression model is fit for the data or not. i.e., it was intended to check whether both the five independent variables of tax compliance behaviours of category ‘A’ tax payers are statistically significant for tax compliance behaviours of category ‘A’ tax payers in Gurage Zone or not. To test the model fitness, F – ratio – test analysis of variance [ANOVA] for the overall model fitness test with 5 % level of significance were used. An analysis of variance table (ANOVA Table) is a summary of the explanation of the variation in the dependent variable.

Table 4.18: ANOVA^a : Model Utility

ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.504	5	2.301	218.559	.000 ^b
	Residual	3.074	292	.011		
	Total	14.578	297			
a. Dependent Variable: Tax compliance behaviours of tax payers[TC]						
b. Predictors: (Constant), TSC, TR, TPK, CTC, AT						

Source: SPSS Output from survey data, 2022

As it can be seen in Table 4.18, since $F(5, 292) = 218.559$, $p(.000) < 0.05$ (i.e., the regression model is a good fit of the data). From this result, it can be inferred that there is a useful linear relationship between tax compliance behaviours of category ‘A’ tax payers and at least one of the five independent variables in the model. Hence, it can be said that at least one of the coefficients $\beta_1, \beta_2, \beta_3, \beta_4$, and β_5 was significant for the model – tax compliance behaviours of category ‘A’ tax payers. Therefore, the independent variables and Y were linearly related and the model was fit the data. Hence, the regression model could predict the impact of the five predictor variables on the tax compliance behaviours of category ‘A’ tax payers in Gurage Zone.

4.7.3. Significance and effects of each independent variable on tax compliance behaviours of category ‘A’ tax payers Model

Table 4.19: Significance of each Independent Variable

Coefficient Table						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.016	.118		-.140	.889
	AT	.240	.033	.292	7.319	.000
	CTC	-.190	.035	.214	-5.418	.000
	TPK	.164	.035	.176	4.679	.000
	TR	-.202	.034	.217	-5.949	.000
	TSC	-.211	.031	.218	-6.746	.000

Source: SPSS Output from survey data, 2022

4.7.3.1. Regression Model Equation and its Interpretation

Regression Model Equation:

$$\hat{Y}(\text{TC}) = -0.016 + 0.240\text{AT} - 0.190\text{CTC} + 0.164\text{TPK} + 0.202\text{TR} - 0.211\text{TSC}$$

The regression results in Table 4.19 show that each of the predictor variables significant and their effect on the dependent variable - tax compliance behaviors’ of category ‘A’ tax payers. So, according to the regression analysis results, except CTC (tax compliance cost) and tax system

complexity (TSC), the other three determinants of tax compliance have significant and positive effect on tax compliance behaviors' of category 'A' tax payers, whereas compliance cost has significant and negative effect on tax compliance behaviors' of category 'A' tax payers.

On the other hand, in the coefficient table above, β_1 's, the unstandardized beta coefficients tell us about the direction of the effect relationships between the outcome variable, tax compliance behaviors' of category 'A' tax payers and the five independent variables. i.e., Unstandardized B coefficients show absolute change of the dependent variable tax compliance behaviours of category 'A' tax payers if the independent variable size changes by one unit. Since all the B coefficients, except for CTC and TSC, are positive, so are their relationships with the dependent variable. That is, as the average of each independent variable increases, the score of the tax compliance behaviours of category 'A' tax payers also increases. For example, if all the other variables are kept constant, a unit increase in attitude of category 'A' taxpayers towards tax led to .240 increase in the tax compliance behaviours of category 'A' tax payers. Similarly, a unit increase in the score of taxpayers' knowledge about tax will lead to a .164 increase in the tax compliance behaviours of category 'A' tax payers. However, a unit increase on the tax compliance cost will lead to .190 decreases on tax compliance behaviours of category 'A' tax payers, because the negative sign indicates reverse relationship between tax compliance cost and tax compliance behaviours of category 'A' tax payers.

4.7.3.2. Discussions on the Hypotheses test Results

As aforementioned in the earlier chapter, the basic research questions were hypothesized. Therefore, in this section, the stated hypotheses test results along with the discussions are presented.

H_{o1}: Tax payer's attitude towards tax has no significant and positive effect on tax compliance behaviours of category 'A' tax payers in Gurage Zone.

H_{a1}: Tax payer's attitude towards tax has a significant and positive effect on tax compliance behaviours of category 'A' tax payers in Gurage Zone.

As indicated in Table 4.19, the finding is not in agreement with the null hypothesis since Tax payer's attitude towards tax (AT) has positive unstandardized beta coefficient ($\beta_1 = 0.240$ with p-value = 0.000) which implies that the rejection of the null hypothesis and accept the directional alternative hypothesis that stated Tax payer's attitude towards tax has a significant and positive

effect on tax compliance behaviours of category 'A' tax payers in Gurage Zone. In this regard the finding of this study is in agreement with the finding of Ademe and Simret (2020) who conducted their study on Determinants of Tax Compliance Behavior in Ethiopia: Evidence from South Gondar Zone and found out that attitude towards tax positively influenced the tax compliance behaviours of category 'A' and 'B' taxpayers in South Gondar. The following researchers found a finding in line with the finding of this study. Bismark (2011) tax payers' attitude by audit also plays a significant role in reporting behavior of tax payers. Taxpayers will declare the whole thing if they perceive that they will be one of the taxpayers to be audited in a particular year (Riahi, 2004; Richardson, 2008). On the other hand, Slemrod et.al (2000), (Slemrod, Blumenthal and Christian (1998) investigated the relationship between the probability of being audited and the taxpayers' attitudes recommended that as the attitude of tax payers increased, taxpayers are encouraged to comply with tax laws and accurately report their income.

H₀₂: Cost of tax compliance has no significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H_{a2}: Cost of tax compliance has a significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

As indicated in Table 4.19, the finding is not in agreement with the null hypothesis since Cost of tax compliance (CTC) has negative unstandardized beta coefficient ($\beta_2 = -0.190$ with p-value = 0.000) which implies that the rejection of the null hypothesis and accept the directional alternative hypothesis that stated Cost of tax compliance has a significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone. Park and Hyun (2003) also conclude that higher cost of tax along with higher audit rate is associated with higher compliance rate. The most effective policy tool to induce higher compliance is to levy cost of tax on unreported income.

H₀₃: Tax payer's knowledge about tax has no significant and positive effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H_{a3}: Tax payer's knowledge about tax has a significant and positive effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

As indicated in Table 4.19, the finding is not in agreement with the null hypothesis since Tax payer's knowledge about tax (TPK) has positive unstandardized beta coefficient ($\beta_3 = 0.164$ with $p\text{-value} = 0.000$) which implies that the rejection of the null hypothesis and accept the directional alternative hypothesis that stated Tax payer's knowledge about tax has a significant and positive effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone. In this regard, the finding of this study is supported by prior researchers. For example, Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes. Also, the research done on tax knowledge and awareness their finding of Adimassu & Jerene (2016); Oladipupo & Obazee (2016); Desta (2010); Pambudi, et al. (2015); Mehari, et al. (2017); and Palil & Mustapha (2011) who identified that high tax knowledge would increase voluntary tax compliance. Moreover, it is also supported by the findings of Deyganto (2018) who conducted his study on Determinants of Tax Compliance Attitude with Taxation: Evidence from Category "A" Taxpayers in Gedeo Zone, SNNPRS, Ethiopia and found out lack of tax knowledge, simplicity of tax system, perception on fairness and equity, awareness on penalty, probability of being audit, and perception on tax rate were the determinants of tax compliance attitude with taxation in the zone, whereas, education level and tax authority efficiency have no impact on tax compliance attitude.

H₀₄: Tax rate has no significant and negative effect on tax compliance behaviors of category 'A' tax payer in Gurage Zone.

H_{a4}: Tax rate has a significant and negative effect on tax compliance behaviors of category 'A' tax payer in Gurage Zone.

As indicated in Table 4.19, the finding is not in agreement with the null hypothesis since Tax rate (TR) has positive unstandardized beta coefficient ($\beta_4 = - 0.202$ with $p\text{-value} = 0.000$) which implies that the rejection of the null hypothesis and accept the directional alternative hypothesis that stated Tax rate has a significant and negative effect on tax compliance behaviors of category 'A' tax payer in Gurage Zone. This hypothesis result is in line with the finding of the study done by Bekure (2021) on determinants of tax compliance behavior of taxpayers in the case of category 'a' taxpayers in selected sub city in Addis Ababa City Administration Revenue Office and found out tax rate has negatively affected tax compliance behaviour of category 'A' taxpayers. It is also in agreement with the research done by Park and Hyu (2003) the increase

in tax rate strengthens the incentive to report less income to compensate the reduced income. Another study in 1980 by Tanzi used an econometric model to explain the relationship between marginal tax rates and noncompliance by using aggregate data in the United States, demonstrated that tax rates were negatively correlated with tax compliance according to his data. The interview result also supports the findings obtained from survey instruments.

H₀₅: Tax system complexity has no significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

H_{a5}: Tax system complexity has a significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone.

As indicated in Table 4.19, the finding is not in agreement with the null hypothesis since Tax system complexity (TSC) has negative unstandardized beta coefficient ($\beta_5 = -0.211$ with p-value = 0.000) which implies that the rejection of the null hypothesis and accept the directional alternative hypothesis that stated Tax system complexity has a significant and negative effect on tax compliance behaviours of category 'A' tax payer in Gurage Zone. Other research works also indicated that for instance Torgler and Schaffner (2007) argued that tax system may result in unintentional non-compliance if taxpayers have problems filing the tax form. Moreover, tax system can reduce the moral costs of noncompliance. Reza, et.al (2011) concludes that excess of tax laws and their continuous adjustments and volatility in performance and performance of laws make tax system more complex which make tax collection more difficult. From interview result revealed that tax payers didn't have such complex tax system. In opposite expression, tax system should be simplicity tax system because the simplicity of the tax system according to Amina 2013 and Sinay (2015); Silvani and Baer (1997) discuss the importance of the tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law. Moreover, it is also supported by Bekure (2021) who conducted his study on determinants of tax compliance behavior of taxpayers in the case of category 'A' taxpayers in selected sub city in Addis Ababa city administration revenue office and the study revealed that complexity of tax system, probability of detection, tax rates, penalty, tax evasion, peer influence group and tax knowledge are factor that significantly affect tax compliance behavior.

4.8. Interview Results

As stated in chapter three, apart from the survey, the study employed structured interview with tax authorities in the selected four administrative towns and three woredas Revenue Offices. This aimed at obtaining taxpayers' perception on the determinate of category 'A' taxpayers' on tax compliance behavior. This in turn enables the study to assess divergent views and arguments from different angles. In the context of the above data sources, this section presents the results of interviews with 7 tax authorities.

Regards to the attitude of category 'A' taxpayers towards tax, according to the result of the interview sessions almost all the participants claimed that attitude of taxpayers can play great role in determining the tax compliance behaviors' of any taxpayers either positively or negatively. However, as most of them further stressed that if a taxpayer has positive attitude tax related issues, the probability of non-compliance tax behavior will be decrease. Therefore, there is a positive effect of positive attitude towards tax related issues and tax compliance behavior of category 'A' taxpayers.

As to the cost of tax compliance, the interviewees were asked to respond on "How do you describe the effect of compliance tax cost on category 'A' taxpayers? Would you elaborate?" so, according to the result of the interview sessions, majority of the interviewees stressed that there is a link or correlation between tax compliance cost and tax compliance behaviour of category 'A' taxpayers. They further stressed what Slemrod (2004) conceded and stated; "high tax compliance cost stemmed as a result of the complex tax laws, dissuades or deters tax compliance". Therefore, this implies that the existence of the link as well as the relationship between compliance cost and tax compliant behaviour.

With respect to category 'A' taxpayers knowledge about tax and tax system, majority of the interviewees pointed out most of the taxpayers have many problems in understanding, completing and filing the tax return form(s) and in understanding the tax system in general; whereas the remaining participants believed that they don't have detail knowledge on the prevailing tax system. In general, all of the participants believed that knowledge of tax and tax system has positive effect on the tax compliance behaviour.

With regards to tax rate, the interviewees were asked to respond on "How do you see the tax rate for category 'A' taxpayers? Is it fair? Please would you explain?" majority of the respondents believed that the tax rate is not fair to some extent. It doesn't consider the inflation level

prevailing in the country. For instance, as stated by most of the tax authorities inflation level prevailing in the country have significant impact in affecting the tax compliance behavior of businesses as the tax rates, exemptions and penalties are not exposed to modifications in line with the inflation level prevailing in the country. In additions to this, many business owners believes that paying taxes hinder sustainable growth of business as some portion of their incomes goes to the government. Therefore, as they further stressed in order to improve tax compliance behavior the government must implement various policy mechanisms such as encouraging tax payers to pay their tax obligations voluntarily without the interference of third parties; and revising the applicable tax rates in line with the inflation levels.

Besides to the above determinant factors, less than half of participants of the interview reflected that the prevailing tax system was not as such complex and affects the tax compliance behavior of businesses. Whereas majority of the participants reflected that, the Ethiopian business profit tax rules are bulky and hard for taxpayers to navigate. Furthermore, they pointed out and agreed that the absence of the tax structure and treatment procedure by itself is very complex.

As to tax compliance behavior of category “A” taxpayers, the participants of the seven tax authorities selected from the four administrative towns and three woredas who have a direct relation to the subject matter on determinants of tax compliance behaviors of category ‘A’ taxpayers in their respective administrative towns and woredas in Gurage Zone pointed out that most of the category “A” taxpayers have the knowledge about the tax compliance behavior on tax related issues. In this regard, the results of most of the participants of the interviewees also confirmed that most of the tax payers have the awareness about the positive impact of tax compliance for the development of the country. Moreover, one of the participants of the interviewees stressed that: “Most of category “A” taxpayers does not have the problem of understanding about the positive impact of tax compliance for the development of the country, but they have the problem in fulfilling the obligation about the accomplishment of their income tax payment timely.”

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Major Findings

This study was conducted with the prime intent of to identify the determinants of tax compliance behaviors of category 'A' taxpayer's in Gurage Zone, SNNPR based on the following specific objectives:

- To determine how category 'A' taxpayers attitude towards tax affect their tax compliance behaviour in Gurage Zone.
- To investigate the extent to which the cost of tax compliance determines tax compliance behaviour of category 'A' tax payers in Gurage Zone.
- To assess how tax knowledge of category 'A' tax payers determines tax compliance behaviour in Gurage Zone.
- To assess the effect of tax rate on tax compliance behaviour of category 'A' tax payers in Gurage Zone.
- To assess how the tax system complexity determines the tax compliance behaviour of category 'A' taxpayers in Gurage Zone

5.2. Conclusions

Based on the findings of the study, the following conclusions are drawn.

Attitude of taxpayers is a corner stone as far as tax compliance behaviour is concerned. The survey data analysis using the descriptive, inferential and qualitative data have shown that majority of the taxpayers have positive attitude towards tax related issues. It can be concluded that there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be registered.

As to the cost of tax compliance, the result of the analyses revealed that there was a negative effect of cost of tax compliance on the tax compliance behaviour of most of category 'A'

taxpayers in the selected administrative towns and woredas. Therefore, as Slemrod (2004) conceded and stated; “high tax compliance cost stemmed as a result of the complex tax laws, dissuades or deters tax compliance”. Hence, this implies that the existence of the link as well as the relationship between compliance cost and tax compliant behaviour.

With regards to knowledge of category ‘A’ tax similar to the result of attitude, the three analyses results confirmed that there was a positive and significant effect of knowledge about tax related issues in most of the selected administrative towns and woredas business enterprises category ‘A’ taxpayers. Therefore, from this result it can be inferred that having sufficient knowledge is crucial for the betterment of tax compliance behaviour of category ‘A’ taxpayers.

Regards to tax rate, the result of the analyses from the three instruments shown that tax rate has negative effect on the tax compliance behaviour of category ‘A’ taxpayers. From this it can be concluded that the tax rate is a lot higher than what most taxpayers would like it to be. Most of the respondents feel that people should pay taxes according to their ability. Generally as long as the tax being levied is not fair and equitable it may reduce the motivation and voluntary compliance behavior of current category ‘A’ taxpayers and also deter potential taxpayers from joining the tax system voluntarily.

Regards to tax system complexity, the result of the three analyses revealed its negative effect on tax compliance behavior of category ‘A’ taxpayers. Therefore, from this result it can be inferred that, the current tax system doesn’t take in to account the prevailing inflation level and the income earning capability of businesses; and the highest and lowest tax brackets lags behind the prevailing inflation level in the country. For example, the tax-exempt income threshold is considered to be very low and as a result micro and small businesses, which normally generate small income from their activities, are obliged to pay taxes, which they could not afford. Finally, as to the tax compliance behavior of category “A” taxpayers they have awareness and knowledge about the fact that tax compliance improves the revenue of the government, it has a positive impact on a country’s growth and development, government service to the public may reduce due to low tax compliance and tax evasion should be considered as a crime. The study was conducted in four administrative towns and three woredas namely, Emdibir, Wolkite town, Buei and Gunchire administrative towns and three woredas: Ezha, Buei and Mareko. It

employed descriptive and explanatory research design using quantitative and qualitative approach. The target population of the study was 1,582 registered category 'A' taxpayers found in the 16 woredas and 7 administrative towns of Gurage Zone. Purposive, proportionate stratified; simple random and availability sampling techniques were employed. The study used questionnaire and structured interview to collect quantitative and qualitative data. Descriptive statistics such as mean and standard deviation were used to analyze the quantitative data and inferential statistics – Pearson correlation coefficient and classical linear regression analyses were employed. On the other hand, the qualitative data were narrated systematically using content analysis approach and supplemented to the quantitative analysis results. Based on the analyses, the major findings of the study are described as follows.

The descriptive statistics on the assessment of category "A" taxpayers attitude towards tax, compliance cost, knowledge of taxpayers, tax rates, and tax system resulted in the means and standard deviations of (M = 3.64; SD = .352), (M = 3.69; SD = .736), (M = 3.61; SD = .355), (M = 3.73; SD = .341), and (M = 3.74; SD = .336) respectively indicating high impact on the tax compliance behaviour in the selected administrative towns and woredas in Gurage Zone. As to the result of the descriptive analysis on the tax compliance behaviour of category "A" taxpayers of the selected SMEs indicated by the grand mean and standard deviation of (M = 3.82; SD = .401) indicating high understanding of the items stated under this dependent variable.

The correlation coefficient analyses revealed that tax compliance behaviour of category 'A' taxpayers has significant, positive and very strong relationship with attitude towards tax and taxpayers knowledge about tax with correlation coefficients .766** and .703** respectively, however, compliance of tax cost has significant, negative and very strong relation with correlation coefficient -.741** with the success of tax compliance behaviour, but significant, negative and strong relationship between tax rate; tax system complexity and tax compliance behaviour with correlation coefficient of -.690** and -.614** respectively.

According to the regression output, despite the contribution differences among the five predictors, attitude towards tax and taxpayers knowledge have positive contribution for the tax compliance behaviour of category 'A' taxpayers, but cost of tax compliance, tax rate and tax system complexity have negative contribution in most of the selected administrative towns and

woredas of Gurage Zone. Moreover, this study found that the five independent variables accounted for 78.9% variance for the tax compliance behaviour of category 'A' taxpayers. That is, the explaining capacity of these five independent variables on that of the dependent variable, TC, was 78.9%, but the remaining percentage 21.1% was explained by variables which were not included in this study.

5.3 Recommendations

Based on the findings and conclusions, the following recommendations are forwarded.

- ❖ In order to improve taxpayers' tax compliance behaviour the government must build transparent, non-bureaucratic, questionable and responsible institutions which in one way or another supports the tax collection tasks and encourages business profit taxpayers' to pay their tax obligations without any setbacks.
- ❖ A transparent and accountable tax administration that is service-oriented is likely to have a positive impact on public trust. If the revenue is furthermore properly spent in terms of a budget which the taxpayers' find agreeable, tax compliance behaviour should increase.
- ❖ The tax imposed by the government body has an impact on the firm's profitability and its existence as a firm. So, it is imperative from the government side to critically evaluate and understand the income level of the firm before imposing a tax rate.
- ❖ The tax attitude is more depends on the perceived use of the money collected and therefore are connected to tax knowledge. Therefore the tax authorities should be continuing in creating tax awareness to fill the tax knowledge gap.
- ❖ Tax authorities and officers should be encouraged to treat taxpayers equally in a respectful and responsible way, because it will increase trust in the government and thus voluntary tax compliance is likely to increase on the individual, group and societal level.
- ❖ 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.

- ❖ Category “A” taxpayers used bookkeeping but there is a challenge on income tax rates. This means that authorities need to establish simple and understandable tax laws. As the result, tax laws must be simple, clear to understand and certainly, it has an essential effect to remove any confusing loopholes that give room for different interpretation.
- ❖ To inspire compliance, it is important to create awareness on tax knowledge and education: educating and giving awareness for taxpayers will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes that tax authority administers the law and regulation fairly. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently. Functions such as tax assessment, collection, awareness creation, providing information, and enforcement has to performed effectively and efficiently, so that it will be perceived as strong and powerful by the taxpayers.
- ❖ In addition to this, efficient service delivery to taxpayers is a key factor against which the strength of the authority in well-organized structure, with enough ethical, responsible and honest respectful manpower, with enough material and budget.

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

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APPENDICES

WOLKITE UNIVERSITY

MSC IN ACCOUNTING AND FINANCE RESEARCH QUESTIONNAIRE

APPENDIX 1: RESEARCH QUESTIONNAIRE

The aim of this questionnaire is to gather information needed for the research report that will be produced under the title “Determinants of Tax Compliance Behaviors of Tax Payers. Evidence from category “A” tax payer in Gurage Zone Ethiopia.”

The information you provide is believed to have a great value for the success of this research. The information you provide will be used for academic purpose and strictly kept confidential. In case you want to contact the student researcher, Frehiwot Awoke

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

General Instructions:

Please provide your responses by marking a tick (√) in the relevant boxes.

Do not write your name on the questionnaire

Thank you for your cooperation!!!

Part I. General Information

Background information of respondents

1. Location of the enterprise within the woreda.....
2. Gender of the person filling the questionnaire. (Please tick the appropriate Male female
3. Age bracket of the owner
 - a) 19 years – 24 years
 - b) 0rs – 29 years
 - c) 30 years – 34 years
 - d) 40 years – 44 years
 - d) 25 year
 - e) 35 years – 39 years
 - f) 45 years and above
4. What is your highest level of education?
 - a) Primary level
 - b) Secondary level

c) College Certificate

d) College Diploma

e) University Degree

5. Kind of business

Trade

Service

Manufacturing

Agriculture

Construction

6. For how long has the category “A” taxpayer’s been in existence?

(Please tick the appropriate)

a) 0 – 3 years

b) 4 years – 8 years

c) 9 years – 15 years

d) Above 15 years

7. Has the business been formally registered by the Registrar? (Please tick the appropriate)

a) Yes

b) No

8. What is the number of staff employed in this organization including the owner of this business?

a) 1 – 5

b) 6 – 10

c) 11 – 20

d) 21 – 30

e) 31 – 40

f) 41 – 50

Part II: -Questions related to Tax compliance

S.N	Possible measures	1 Strongly Agree	2 Agree	3 Neutral	4 Disagree	5 Strongly disagree
1	Tax compliance improves the revenue of the government.					
2	Government service to the public may reduce due to low tax compliance					
3	Tax compliance has a positive impact on a country’s growth and development.					
4	Generally, tax evasion should be considered as a crime.					
5	Tax compliance deserves resources allocation to the society.					

Part III: -Attitude of taxpayers towards tax as determinate tax compliance, I wish to comply with the tax laws for the following reasons

S.N	Possible measures	1 Strongly agree	2 Agree	3 Neutral	4 Disagree	5 Strongly disagree
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1	I would fill guilty if excluded some of my income when completing my tax return					
2	By paying right amount of income tax, I believe that I am contributing for the economic growth of the country					
3	Serious enforcement and penalty may apply by Ethiopia Revenue and Customs authority if I do not comply					
4	There is fair tax among similar businesses in same proximity					
5	My friends and all similar traders pay their taxes faithfully					

Part IV: Cost of tax compliance as a determinant tax compliance of taxpayers Please state your opinion to the statements listed in the following table using the given scales: I wish not to comply with the tax laws for the following reasons

S.No	Statements	1 Strongly agree	2 Agree	3 Neutral	4 Disagree	5 Strongly disagree
1	The penalty due to not paying tax is higher than my tax saving					
2	Cost of stationeries, computer, etc. is high					
3	Cost of cash register machine and its operation is high					
4	Cost of hiring staff such as accountant & sales man is high					
5	Most of the time I hire external services (tax consultant) to file tax returns and I pay additional costs					

Part V: Business enterprises taxpayers' knowledge of tax rules as a determine of tax compliance: For each question below please tick one using the given scales, I wish to comply with the tax laws for the following reasons

S. N	Possible measures	1 Strongly agree	2 Agree	3 Neutral	4 Disagree	5 Strongly disagree
1	I know how to determine my taxable income					
2	I clearly know deductible and non deductible expenses to determine my taxable income					
3	I know schedule “A” income tax rates					
4	I am certain about the period and where to pay my tax liability					
5	I can easily get the necessary tax information & updates					

Part VI:- Tax rate as determinant of tax compliance: For each question below please tick one using the given scales,

S N	Possible measures	1 Strongly agree	2 Agree	3 Neutral	4 Disagree	5 Strongly disagree
1	Do you think the Ethiopian tax rates for category “A” taxpayer are high?					
2	The Ethiopian revenue and customs authority tax rate and procedure increase the non compliance of category “A” taxpayer.					
3	Do you think the existing tax rate is determine tax compliance					
4	The tax rates are very high and I can’t afford to pay the amount					
5	Is there a need to improve the Ethiopian tax rate					

Part VII:- level “A” Tax system determinant of tax compliance,

S.N	Possible measures	1 Stron gly agree	2 Agr ee	3 Neu tra l	4 Disa gre e	5 Stron gly disag ree
1	There are strategies that can improve the tax compliance by category “A” taxpayer. in Ethiopia?					
2	The existing tax system is promoting voluntary compliance that builds public confidence.					
3	Is there a need to improve the Ethiopian tax system of category “A” taxpayer?					
4	In Revenue and customs authority office of the branch, transparent procedures are made based on facts.					
5	The existing tax system has impact on tax compliance					

APPENDIX 2: STRUCTURED INTERVIEW

1. As a staff of tax authority, how do you describe the attitude of category ‘A’ taxpayers towards tax in your area? Dou you believe that attitude towards tax can affect tax compliance behaviour? In what way?
2. How do you describe the effect of compliance tax cost on category ‘A’ taxpayers? Would you elaborate?
3. Does tax knowledge positively affect tax compliance behaviour?
4. How do you see the tax rate for category ‘A’ taxpayers? Is it fair? Please would you explain?
5. How do you describe the tax system in your office? Is it complex or clear for most of category ‘A’ taxpayers? Would you elaborate?
6. How do you describe tax compliance behaviour of category ‘A’ taxpayers in your area?
7. Do you believe that the service rendered by your organization is fast and clear?
8. Do you agree that the attitude of the staff towards the tax payers is determining tax compliance?
9. How do you describe your tax authority office’s timely disclosure of information to

taxpayers?

10. Does your tax authority office provide training/awareness on tax law to taxpayers timely?

Thank you very much for your cooperation!!!