



WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

**ASSESSMENT OF CATEGORY “C” TAX PAYER COMPLIANCE WITH TAX LAW
(IN CASE OF GUBRE TOWN)**

**A RESEARCH THESIS PAPER SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT FOR THE
REQUIREMENT OF BACHELOR DEGREE OF ART (BA) IN ACCOUNTING AND
FINANCE.**

**PREPARED BY: GADISA BEDANE
ADVISOR: MR. ANDARGACHEW(MCS.)**

Gubre, Wolkite, Ethiopia

March 2025.

Declaration statement

I, the undersigned confirm that the senior essay entitled ASSESSMENT OF CATEGORY “C” TAX PAYERS COMPLIANCE WITH TAX LAW (IN CASE OF GUBRE TOWN REVENUE OFFICE AUTHORITY)

Declare that this study is My original work and is being submitted in fulfillment of BA degree in Accounting and Finance in Wolkite University.

Declared by:

Name

signature

Gadisa Bedane

.....

Date

Confirmed by advisor

Name

Signature

Date

Approved by board of examiner

Name

signature

.....

.....

.....

.....

Date

Department head

Name

Signature

Acknowledgment

First and foremost, I would like to praise God who helps Me for the success of My task from the beginning to end. Secondly, I would be very happy to express My heartfelt deepest gratefulness to My advisor Mr. Andargachew (MSC) for his priceless and unreserved support through his continuous advice. I am also greatly indebted to those, who are members of administrative staff of Gubre town revenue authority office. Finally, My deepest thanks go to My families that encouraged Me to do My best and for their financial assistance.

ABSTRACT

Tax compliance behavior among taxpayers is influenced by multiple factors, and understanding these Assessments is crucial for building effective tax systems that encourage voluntary compliance. This study assessed the voluntary compliance behavior of Category "C" taxpayers in Gubre Town, Central Ethiopia. Both primary and secondary data were used. A descriptive research design was employed, integrating both quantitative and qualitative approaches. A stratified proportionate random sampling technique was used to select 90 taxpayers from four major business activity categories, ensuring proportionate representation. Additionally, 10 tax authority employees were included using a census method. Findings indicated that taxpayer knowledge, perceived fairness of the tax system, service satisfaction with the tax authority, and trust in government significantly influence voluntary compliance. Many taxpayers perceived their tax liabilities as unfairly high relative to their ability to pay, and a significant portion expressed low awareness of tax laws. Organizational weaknesses in service delivery and communication were also identified.

The study concludes that enhancing taxpayer education, ensuring fair and transparent tax assessments, and strengthening tax authority service delivery are crucial for improving voluntary compliance. It is recommended that tax authorities implement targeted awareness campaigns, revise assessment methods to better reflect taxpayer realities, and foster public trust through transparent and responsive tax administration.

Keywords: *Tax compliance, Category "C" taxpayers, voluntary compliance, tax fairness, Gubre Town.*

Table of Contents	Page Number
Declaration statement	I
Acknowledgment	II
ABSTRACT	III
List of table	VI
ABBREVIATION	VII
CHAPTER ONE	1
1. INTRODUCTION	1
1.1 Background of the study	1
1.2. Statement of the problem	2
1.3. Research Question.....	3
1.4. Objective of the study	3
1.4.1. General objective.....	3
1.4.2. Specific objective	3
1.5. Significance of the study	3
1.6. Scope of the study	4
1.7. Limitation of the study	4
1.8.Organization of the Paper.....	4
CHAPTER TWO	5
2. LITERATURE REVIEW	5
2.1. INTRODUCTION.....	5
2.2. Theoretical framework	5
2.2.1. Definition of Tax Compliance.....	5
2.2.2.Factors Determining Tax Compliance Behavior	7
2.2.3 Is Non-Compliance An Intentional Behavior?	12
2.2.4 Dimension Of Ensuring Compliance Behavior	12
2.2.5 The Relevance Of Tax Compliance.....	13
2.2.6. Theories of Tax Compliance (TTC)	14
2.3. Empirical Evidence	16
2.4. Conclusion and Knowledge Gaps	17
CHAPTER THREE	19

Research design and methodology	19
3.1. introduction	19
3.2. Background of the study area.....	19
3.3 Research design.....	19
3.4 Data source and collection	19
3.5 Target population and sampling techniques.....	20
3.5.1 Sampling Method	20
3.6. Data analysis method and presentation	22
3.7. Ethical Considerations.....	23
Chapter four	24
4. Data Representation, Analysis and Interpretation	24
4.1. Characteristics of the Respondents	24
4.2 Taxpayers General Knowledge about Taxation	25
4.2.1. Tax equity and fairness	27
4.2.2. Organizational effectiveness	27
4.3. Content Analysis of Open Questions	32
4.5 General characteristics of employee	34
Chapter 5	37
5. Conclusions & Recommendations	37
5.1 Conclusions	37
5.2 Recommendations	38
Reference	41
APPENDIX I	43
APPENDIX II.....	48

List of table

Table 1: Respondents profile	24
Table 2: Distribution of Business sectors included in the sample	25
Table 3: Reasons why taxpayers pay tax	26
Table 4: rank of tax Evasion with respect to other crime	26
Table 5: Response on overstatement/understatement of tax.....	27
Table 6:evaluation of tax authority by respondents	27
Table 7:tax payers' response on paying tax is unfair.....	28
Table 8:tax payers response on tax law should be respected.....	28
Table 9:tax payer's response on major problems in tax system	28
Table 10:Response on motivational factors	30
Table 11:responses on tax payers on other motivational factors	31
Table 12:tax payers response questions related to socio cultural values	32
Table 13:sex, age and level of education of employees.....	34
Table 14:Table 15:Job status of employees	35
Table 16:service year of employees.....	35
Table 17:obstacles in the collection of the tax liability	36

ABBREVIATION

BA: Bachelor of Arts

CSA: Carrot and Stick Approach

E.C.: Ethiopian Calendar

FDRE: Federal Democratic Republic of Ethiopia

G.C.: Gregorian Calendar

IRS: Internal Revenue Service

MSC: Master of Science

RCA: Responsible Citizens' Approach

SPSS: Statistical Package for the Social Sciences

TPB: Theory of Planned Behavior

TTC: Theories of Tax Compliance

TVET: Technical and Vocational Education and Training

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Tax may be defined as compulsory contribution (levy) by an economic unit to a government without expectation of direct and equivalent return (quid pro-quo) from the government for the contribution made. Government needs a financial resource to act as a government and play a role that is expected from it by the public. So what that government gives it must first take away. The economic resource available to society is limited and so an increase in government expenditure normally means a reduction in private spending. In this regard James (2000) states that taxation is a one method of transferring resources from private to the public sector.

Generally, governments levy taxes for multiple purposes, but mainly to raise funds in order to cover public expenditure and on other hand to properly allocate resources, Law and Society Association Negara gazieta (2002).

As stated in Misrak, (2008), the history of taxation in Ethiopia has a relationship with the government stricture of the country; there exists no reliable documentary evidence to justify the relation of emergency of government and taxation, when taxation was introduced.

The initial statutory basis for all the tax proclamation was the 1931 constitution of Ethiopia which later revised and became the revised constitution of Ethiopia. Because most of the products on which taxes were levied (tax bases) were agricultural products, the types of taxation in the traditional period was unstructured and mostly in kind, Income tax Regulation 78/2002/, FDRE: Addis Ababa Old man O. (1965).

According to the constitution of FDRE, revenue sources are assigned between the federal government and regional states. According to federal income tax proclamation number 286/2002 taxpayers are categorized into three categories, namely category “A”, “B” and “C” based on their volume of sales and form of business.

Category “A” includes any company incorporated under the tax law of Ethiopia having annual turnover of 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 income statement accounts and provisions and reserves together with supporting vouchers (council of ministers regulations 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 500,000. This category of taxpayers must submit a profit and loss statement at the end of the year. Category “C” unless already classified in category “A “and “B” includes those

taxpayers the annual turnover is estimated by the Tax Authority at birr 100,000 or less. On other hand, standard assessment is used to determine 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 regulations established schedule. This category of taxpayers is the most problematic category of taxpayers and it is concerned as hard to tax group.

Tax payers’ knowledge of tax law, their attitude towards the government and taxation, culture, personal norms, perceived social norms, and fairness, as well as motivational tendencies to comply are Assessments factors shaping tax behavior kirchler (2007). Empirical research on Assessments of tax behavior has shown mixed evidenced on the specific weight of economic variables: some study found audits and fines to increase compliance; other have not found any or even opposite effects (Fischer,Wartick, and Mark, 1992; Andreoni, Erard and Feinstein,1998). Kirchler, Holzl and Wahl (2008) developed a model suggesting that audits and fines are relevant under the condition of law trust in a governmental institution and tax authorities in particular, especially if the government has the power to exert audits effectively.

The tax system must be fair, both to promote the objective of an equitable distribution of income and to assure continued voluntary compliance by the taxpayer (Eckstein, 1979). Successful tax administration requires taxpayers to cooperate in the operation of a tax system rather than to be forced to carry out every aspect of their tax obligation. That is tax law cannot cope with every eventuality and therefore has to be supplemented with supporting provisions (James &Wallschutzky, 1995). Administrative procedures and decisions as well as appeal arrangements all have a part to play but the tax system cannot work properly without a reasonable degree of voluntary compliance on the part of taxpayers’ themselves. Therefore, the research team has tried to assess factors that affect taxpayers’ voluntary compliance with taxation.

1.2. Statement of the problem

Without trust there is little basis for social cooperation and voluntary compliance with laws and regulations that can potentially benefit everyone. No tax system can function effectively without the cooperation of great majority of taxpayers, so the factors which affect compliance are taxpayers knowledge of tax law, their attitude towards the government and taxation, culture, personal norms, perceived social norms and fairness, as well as motivational tendencies to comply are determinant factors shaping tax behavior Kirchler, (2007). The definition of compliance is usually cost in terms of the degree to which taxpayers comply with tax law. It has been said that the degree of non compliance can be measured in terms of ‘tax gap’. This represents the difference between actual revenue and that which would be received if there were 100% compliance James, (2000). Public towards taxation is also in turn affected by the social, cultural and political factors as well as awareness about tax and fairness of the tax system. The efficiency of the tax system is not determined only by appropriate legal regulation but also it depends on the efficiency and integrity of the tax administration. In many countries, especially in developing countries, a small amount of collected public revenue can be explained by either the

capability of tax administration in realization of its duty or with the sum degree of corruption. Regardless of how carefully tax law has been made, they could not eliminate conflict between the tax administration and tax payer.

According to the officials of Gubre town revenue development office, however, there is no documented research undertaken on the assessment of category “C” taxpayer’s voluntary compliance with tax. This study was try to assess taxpayer’s voluntary compliance with tax law with a special reference to category “C” taxpayers in Gubre town, in Central Ethiopia regional state.

1.3. Research Question

In this study the researcher would try to answer the following questions.

- How to investigate the situation that initiates tax compliance of category “C” taxpayers to pay taxes?
- What are the variables that affect the taxpayer’s voluntary compliance with tax law?
- How do taxpayers pay their tax obligation?
- Does the tax office have sufficient, motivated and competent tax offices?

1.4. Objective of the study

1.4.1. General objective

The main objective of this study is to assess category “C” taxpayer’s voluntary compliance with taxation in the study area.

1.4.2. Specific objective

The specific objective of the study includes:

- ✓ To investigate the situation that initiates tax compliance of category “C” taxpayers to pay taxes.
- ✓ To identify the variables that affect the taxpayer’s voluntary compliance with tax law.
- ✓ To forward the importance of taxpayers’ voluntary compliance with tax law.
- ✓ To assess whether the tax office has sufficient, motivated and competent tax offices or not.
- ✓ To assess whether taxpayers are based on their income or not.

1.5. Significance of the study

Taxes are fundamental to the existence of governments for tax revenues, finances for the bulk of services that the government provides including education, welfare, public safety, infrastructure and basic public services.

Improved tax system enhances the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers.

The impact of taxpayers; attitude towards taxation is the major factor that determines the success of the tax system. Unless these voluntary compliance measures are pointed out and addressed properly, it may be difficult to design an efficient and effective tax system that helps to narrow the existing compliance gap. Hence, this study is significant in that it may help the police makers of the town administration and other concerned bodies in addressing voluntary compliance problems. The study is to be used as a reference to undertake other related studies on the area that taxpayers' voluntary compliance is not researched well. The study also was help Me (the research Individual) to get the reward of a BA degree.

1.6. Scope of the study

This study is limited to the assessment of taxpayers' voluntary compliance with taxation with respect to category "C" taxpayers' found in Gubre town, central ethiopia regional state because category "C" taxpayers are not required by law to declare their income or keep books of account and considered as hard to tax group.

1.7. Limitation of the study

The quality of the output of this study is contingent on the genuine responses from the respondents. But there were some limitations while conducting this study.

Unwillingness of the respondents to receive the questionnaire and even some respondents brought the questionnaire having the open ended question unfilled. Out of 80 were returned back and only 10 were lost (unable to be collected). There was suspicion that the respondents may not give what in the heart because they seem tired of filling a number of research questionnaires on different fields of study which are in their opinion not problem solvers.

1.8. Organization of the Paper

This research report is organized in such a manner that the first chapter presents Introduction. Particularly, Background of the Study, Statement of the Problem, Objectives of the Study Significance of the Study, Scope and Limitation of the Study, and Organization of the Paper. The

The second chapter presents the Literature Review. Chapter three presents Research Design and Methodology. Particularly, this session has shown Sources of Data and Data Collection Techniques, Target Population and Sampling Methods, and Method of Data Analysis and Presentation. The fourth chapter presents data presentation, discussion and interpretation the results of the different methods used. Specifically, the results of survey questionnaires were presented in this chapter. Finally, chapter 5 presents summary, conclusion, recommendations and future research direction.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. INTRODUCTION

Tax compliance has been a subject of considerable academic interest for decades. Various scholars have tried to explain why taxpayers comply or evade their obligations. This chapter presents the theoretical framework, factors influencing tax compliance behavior, relevant theories, empirical evidence from prior research, and the knowledge gap addressed by this study.

2.2. Theoretical framework

This section deals about the theoretical framework supported by different authors regarding taxpayers' compliance with taxation. It is composed of definition of tax compliance, factors determining tax compliance behavior, and theories of tax compliance.

2.2.1. Definition of Tax Compliance

The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions, and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy (Andreoni, Erard, & Feinstein, 1998; James, 2000).

Taking the narrow end of the continuum first, one of the continuum first, one suggestion is that the degree of non-compliance may be measured in terms of the "tax gap". This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance. Andreoni, Erard and Feinstein (1998) include a time dimension to compliance but are still mainly concerned with tax evasion as the central part of the tax gap definition. As they put it: 'a popular indication of the magnitude of evasion is the tax gap- the difference between the federal income taxes households actually owe, and what they report and pay voluntarily on a timely basis' regarding time dimension, James (2000) states that a taxpayer might eventually pay his/her full liability but, if the payment is late, the taxpayer cannot be considered to have been compliant, a more recent definition of compliance and reporting compliance.

Successful Tax administration requires taxpayers to co-operate in the operation of a tax, rather than be forced to undertake every aspect of their obligations unwillingly. The internal revenue service (IRS, 1996) has two definitions – gross tax gap and the net tax gap. The gross tax gap is the amount of 'true' tax liability that is paid 'voluntarily' and on time and the net tax gap is this amount less tax paid late or collected by the internal revenue service through enforcement activities. Both the gross and net tax gaps can be subdivided into the three main components

(internal revenue service, 1996)- the non-filing gap, the under-reporting gap and the underpayment gap. The underreporting gap is in turn made up of three elements-underreported income overstated offsets and net arithmetical mistakes.

A major concern with such definitions is that they might be taken to indicate a certainty in the measurement of tax compliance that does not exist. Bergman (1998) suggests that tax compliance 'is what the state assumes is legally owed by taxpayers, but the state and taxpayers do not necessarily share the same interpretation' the extent to which taxpayers dispute the meaning of tax law can depend on a number of things, including their basic willingness to comply with a tax system. The basic concept of the 'tax gap' of non-compliance seems to be inadequate. The 'tax gap' definition and measure are far too simplistic for practical policy purposes since successful tax administration requires taxpayers to cooperate in the operation of a tax system rather than to be forced to carry out every aspect of their tax obligations. Tax law cannot cope with every eventuality (James and Wallchutzky, 1995) and therefore has to be supplemented with supporting provisions. There is the question whether 'compliance' refers to voluntary or compulsory behavior. If taxpayers 'comply' only because of dire threats or harassment or both, this would not appear to be proper compliance even if 100% of the tax were raised in line with the "tax gap" concept of non-compliance.

Instead, it might be argued that successful tax administration requires taxpayers to comply willingly, without the need for enquiries, obtrusive investigation, reminders or the threat or application of legal or administrative sanctions. A more appropriate definition could therefore include the degree of compliance with tax law and administration, which can be achieved without the actual application of enforcement activity. This voluntary aspect appears in the definition supplied by Andreoni et al. (1998) which recognizes a basic difference in terms of compliance between tax paid without direct enforcement activity and tax paid as a result of it. If taxes were considered to be intrusive or unfair, taxpayers might wish to reduce it. If taxes were considered to be intrusive or unfair, taxpayers might wish to reduce their tax liability by working less. It is not known how powerful any spite effects might be but it is clearly possible that, apart from the direct costs of compliance themselves, difficulties in the willingness of taxpayers to comply might affect the revenue potential itself. The 'tax gap' definition of non-compliance might then have been partly satisfied because there is less to collect.

A fuller economic definition of compliance should also take into account other possible economic effects of the tax system and its enforcement. There has been some economic analysis of such possibilities, for example, by Cowell (1985) who considered the case where a worker can choose not just between working in the legal or illegal sectors but how much time to spend in work of any sort as opposed to leisure. It has also been specifically shown that uncertainty in tax audits could affect labor supply (Horowitz & Horowitz, 2000). Paradoxically, therefore, a severe tax enforcement policy could even claim to have improved tax compliance by the narrow 'tax gap' definition because it would have reduced the amount there was to collect. Timing issues

will also affect the value of the potential revenue available. If the Government does not receive tax payments on time it either increases the amount it has to raise elsewhere or reduces the revenue available for public expenditure. Although late payments of tax for many of the 'tax gap' measures, they do not represent full compliance. As already indicated above, tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. James (2000) describes tax avoidance as the legal manipulation of an individual's affairs in order to reduce tax. Clearly tax evasion is a form of non-compliance.

However, if taxpayers go to inordinate lengths to reduce their liability, this could hardly be considered 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on.' Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law. They are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law. Many of the studies of compliance are concerned with intentional non-compliance. There is, however, considerable scope for unintentional non-compliance. Full compliance may require positive actions on the part of the taxpayer to discharge his or her legal duties in full. It may be that taxpayers innocently fail to meet their tax obligations because they fail to complete their tax returns correctly or are unaware of, or misunderstand, various provisions of the tax system, or for similar reasons. Attempts by different tax authorities to improve tax administration in this respect have often found the problem of assisting taxpayers more difficult than might at first appear (James et al., 1987 and James, Sawyer, Wallschutzky, 1998)

Since taxation is not always precise, Seldom (1979) and James et al (2003) has coined the term tax 'avoidance' to denote those areas of the tax system where the law is unclear. To the extent that there is such uncertainty in a tax system, it follows that tax compliance should follow the spirit of the law. It would therefore seem that compliance is a much wider issue than simply the gap between actual revenue and some concept of 100 per cent of revenue collected.

In all the expressions, compliance can be understood as acting in accordance with the law and non-compliance is deviation from the law. Based on the above expressions the definition of tax compliance can be shortly refined as the desire or willingness of the taxpayers to act in accordance with the tax law and the voluntary effort they exercise to pay their tax liability on a timely basis

2.2.2. Factors Determining Tax Compliance Behavior

The problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of the non-compliance, and ultimately finding ways to reduce it, are of obvious importance to nations around the world (Andreoni et al, 1998). The attitudes of the taxpayers

(Bhatia 1997) in this regard are influenced by a host of other factors like the political situation, natural calamities, economic situation, socio-cultural and so on. Due and Friedlander (1981) also stated that a person's preference for a tax may be influenced if the tax - or an increase in it - is tied directly to the expenditures he strongly favors. Generally, attitudes toward choice of taxes and tax structures are greatly influenced by various criteria – often called principles – of taxation that have come to be widely accepted Bhatia(1976).

A comprehensive review of Assessments of tax payers voluntary compliance with taxation such as the cultural background of taxpayers, their awareness level their honesty. Fairness/equity, taxpayers' attitude towards government, socio-political factors, organizational strength of tax authority, will be touched. The empirical work of various researchers and other reference materials are scanned to have a basic conceptual framework of the subject matter.

2.2.2.1 Fairness/Equity

As stated in Bhatia (1976) a good tax system, in order to achieve various objectives. Chooses, and adheres to certain principles which become its characteristics. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. Since fairness of a tax system is its cornerstone, a brief overview can be presented in the following paragraphs.

According to James (200), the most obvious requirement of equity of fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. Similarly, due and Friedlaender (1981), also argue that what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is inevitable 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 contemporary society. Lemessa (2005) also adds that a major responsibility is to ensure that all taxpayers dealt with by a given official are accorded similar treatment and that all officials dealing with a given taxpayer would accord the same treatment.

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

According to Bhatia (1976), the attitude of taxpayers is an important variable determining the contents of a good tax system. It may be assumed that each taxpayer would like to be exempted from tax paying while he would not mind if others bear that burden. In any case, he would want from taxpayers while he would not mind if others bear that burden. In any case, he would want

his share to be within the general level of tax burden being borne by others. If this is not so, he will feel exploited.

Similarly, due and Friedlaender (1981), argue that persons will oppose taxes that they feel strike them 'unfairly' and allow others to escape a 'reasonable' burden, and they will favor taxes they accept to concentrate on others, especially when 'others' are non – humans such as corporations. To sum, regardless of this inherent problem ensuring the fairness of equity of a tax system is second to nothing. To put it differently, it is essential that a good tax system should appear equitable to the payers.

2.2.2.2 Organizational Strength Of Tax Authorities

According to Bird and Oldman (1967), no tax will work effectively, unless its administrators maintain an aggressive attitude with respect to the correctness of the taxpayers' actions. Some taxpayers will fail to file or make mistakes through ignorance or neglect; others will deliberately cheat. A passive attitude by the authorities towards these errors and falsifications will soon undermine the entire structure, since the diligent and honest taxpayers will almost in self – defense be forced to the level of the careless and dishonest, a tax administration which seeks compliance must protect those who comply or else compliance will not be forthcoming. Bird and Oldman (1967) further state that the sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of tax payer respect for the tax system. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite. These writers argue that in large part the solution for the large delinquency lies in providing the bite. In this sense effective tax collection is a facet of the large delinquency lies in providing the bite. In this sense effective tax collection is a fact of the larger problem of providing adequate penalties, to which reference will later be made. In other words tax is evaded to the extent that tax authorities are perceived as weak by taxpayers.

A tax system doesn't function in a vacuum. Its relationship at every turn is with the public, and since the combination of taxes reaches nearly every individual in one way or another, the administration finds itself dealing with the nation as a whole. Hence, inevitably its operations and effectiveness are affected by the attitudes of the nation towards the tax system (bird and oldman, 1967).

But while tax administration is thus affected by these national attitudes (Bird and Oldman, 1967), it is equally true that the attitudes can in turn be affected by tax administration. 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 taxpayer. Lemessa (2005) states that tax systems that depend on ad hoc administration it is equally important that tax authorities administer the law fairly. This implies both an absence of arbitrary or corrupt behavior on the part of the officials, and 'normative standards' to ensure that the same laws are applied and administered in a standard fashion across the board.

A taxpayer (peacock and forte, 1981) will be more receptive to information on his obligation if, in his efforts to comply, he receives a reasonable degree of service from the revenue administration. Poorly drafted forms, long waiting lines and even charges for acquiring them, bureaucratic hassle in processing the case, rudeness from the officials, cumbersome appeal procedures, and the like, can repel even the most loyal taxpayers.

2.2.2.3 Awareness Level Of Taxpayers

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. Even if such taxpayers understand their obligations, they may not know how to meet them or may be unable to do so for their reasons. On the other hand, other writers such as smith and Kinsey (1987) argue that tax non compliance is an intentional behavior. In countries like Ethiopia where most of the business community have no access to information, lack of awareness cannot simply be overlooked rather it can be assumed as a major determinant of tax compliance behavior.

2.2.2.4 Cultural Factors

Culture is considered to be a powerful environmental factor that affects the taxpayer's compliance. Different social norms and ethical values will create different incentives for tax compliance. In fact, ethical values influenced by social norms may prohibit taxpayers from engaging in tax evasion (Blanthorne and Kaplan, 2008). The cultural framework most widely used is that of Hofstede (1980). Based on an attitude survey of about 116,000 employees, Hofstede identifies four underlying societal values; individualism, power distance, uncertainty avoidance and masculinity. Cultural research has found significant differences between the US and Chinese citizens (Hofstede, 1991).

Chan et al. (2000) suggests that the cultural dimension affecting tax compliance is collectivism and individualism. In Hofstede's model, individuals (Hofstede,1991).

The cultural dimension of individualism relates to the degree of integration a society maintains among its members. A high individualism culture is signified by people focusing on themselves rather than on the group to which they belong. Under this perspective, an individual is seen as separable from and independent of a group affiliation. People in such a low individualist culture

as Chinese citizens tend to be collectivists who are expected to follow and subscribe to the values of their in – groups in order to gain peer acceptance and social status (Hofstede, 1991). In contrast, a high individualism culture such as US citizens is signified by people focusing on themselves rather than on the group to which they belong. Under this perspective, they view themselves as distinct entities and place great value on individual rights. These cultural differences may have a direct impact on ethical values and moral development and ultimately affect tax compliance decisions.

The study conducted by Chan et al. (2000) indicates that culture if the taxpayers has an impact on taxpayer compliance efforts. There is reason to believe that societal reasons may account for the way taxpayers behave. While tax evasion may be considered wrong and immoral in some societies, it may be regarded as socially tolerable in others (Schwartz and Orleans, 1967; Ekstrand, 1980; Warneryd and Walerud, 1982).

In countries with a tradition of high compliance with tax law; few taxpayers would attempt tax evasion strategies. However, empirical evidence seems to suggest that taxpayer compliance with the law is influenced by their perception about whether or not other taxpayers are complying (van den Doel, 1979; Lever, 1981; Lewis, 1982), especially when they feel that the taxes they pay are intended for worthy purposes (Oldman, 1965; Dean, Keenan and Kenney, 1980).

In Ethiopia where the system of government has evolved from feudal (where taxes were used by individuals in government) to current one, it is obvious that a negative attitude towards tax has been developed in the society. In this sense it is difficult to conclude that there is a culture in the country that appreciates voluntary compliance.

2.2.2.5 Lack Of Ability To Pay

Some observers (Fjeldstad and Ranker, 2003) argue that in African countries like Namibia and South Africa, the non payment is due to poverty or inability to pay, this issue holds true in Ethiopia also where several small business operators (category ‘c’ taxpayers) are accumulating their annual tax obligations due to lack of ability to pay. Generally when taxpayers have not enough disposable income and they used to consume the return from sales, it is clear that tax evasion is inevitable and leads to tax arrears.

2.2.2.6 Social factors

The issue of (non-) compliance is not only a question of state-society relationships but also a question of relationship between citizens and /or groups of citizens within local communities. There is an existing social bond between the society and this bond influences the members of the society in complying with the tax law. That is, taxpayers may be influenced by their peer groups to comply or not comply with the tax law.

As cited by Slemrod (2000) and Levi (1998) in (Fjeldstad and Ranker, 2003), the dimension of trust that seems to affect compliance is trust in other citizens to pay their share charges. In particular, trust in other citizens to pay their share seems to be important. The larger the fraction

of the local population that is observed not paying, the lower perceived risk of being prosecuted. This has impacts on the individual taxpayer's perception of the credibility and trustworthiness of the revenue administration.

2.2.2.7. Attitude Towards The Government

Attitude toward the Government (Levi,1988) may affect the taxpayer's normative commitment to comply with law. Similarly, Due and Friedlander(1981) also argue that attitude toward the general level of taxation and tax increases are dependent, of course, on attitudes about the desirability of government programs and on attitude toward the government itself, on the other hand, (fjeldstad,2004) citizens' willingness to pay taxes voluntarily rests on the local government's capacity to provide secure and its demonstrated readiness the compliance of the otherwise non-compliant.

2.2.3 Is Non-Compliance An Intentional Behavior?

Most theories of tax compliance, as well as empirical works (Smith and Kinsey, 1987) have until recently been premised on the assumption that tax underreporting is intentional behavior, Behavior that is unintentional has either been ignored or set aside in footnote or can be safely ignored as random noise. However, as noted earlier, the evidence is accumulating that unintentional noncompliance is neither small nor inconsequential. Nor is it necessarily random in nature. As far as Ethiopia's practice is concerned tax non compliance is not only an intentional behavior it is also attributed to lack of ability to pay, lack of awareness and weak institutional capacity of the revenue administration and other factors.

2.2.4 Dimension Of Ensuring Compliance Behavior

Edmund Burke in (Long and Swingmen, 1991) states' the revenue of the state is the; put another way, without the legal authority to collect taxes and the compliance citizenry to these laws, government is a sham. It is this fact that taxes are profoundly essential to the existence of central interest.

Clearly much depends (James, 2000) on the motives of taxpayers. This is a complex area and different commentators have offered different analyses. The two main approaches are to concentrate on the probability of detection and on penalties for non-compliance (the 'carrot and stick' approach) or activates designed to promote voluntary compliance (the 'responsible citizen' approach),

2.2.4.1 The 'Carrot And Stick' Approach(CSA)

According to James (2000), the carrot and stick approach is based on a relatively narrow interrelationship of economic rationality. According to this approach, totally amoral individuals maximize their utility by maximizing their income and wealth. They will evade tax they consider that by doing so they can expect to increase their spending power Non- Non-compliance can therefore be explained by factors such as the level of tax rates, the probability of being caught evading, the penalties imposed and the degree of risk aversion.

2.2.4.2 The Responsible Citizens' Approach(RCA)

Regarding the responsible citizens approach James (2000), extends his discussion that looking outside economics; other academic disciplines have suggested factors which might be important in influencing taxpayers' behavior. Sociology has offered a number of variables such as social support, influence, attitudes and certain background characteristic such as age, gender, race and culture, psychology reinforces this approach and has even created its own branch of 'fiscal psychology; The contribution from psychology includes the indication that attitudes towards the state, the revenue authorities are as important factors as perceptions of equity. If psychological and sociological factors are important then a major drawback of the carrot and stick approach becomes apparent. While such an approach might be considered by some as suitable for donkeys, human beings might not respond so positively. The result might be a reduction in voluntary compliance. For instance strumpet (1996) and Schmolders (1970) as cited in James (2000), reported that the German tax system was very rigid in its assessment procedures, which led to an effective but expensive and confrontational system. The result was a high degree of alienation and resistance among taxpayers.

The conclusion would seem to be that successful compliance police should take account of a much wider range of motivations than simply rewards and punishments James (2000), The tax system (Eekstein,1979) must also be fair, both to promote the objective of an equitable distribution of and to assure continued voluntary compliance by taxpayers.

2.2.5 The Relevance Of Tax Compliance

According to James et al(2003), a number of tax authorities have been moving towards a more sophisticated approach to tax compliance. Traditionally there seems to have been an assumption that with a basic level of assistance for taxpayers, together with an enforcement program, tax compliance could be expected to be maintained at satisfactory levels. However there seems to have been a shift in attitudes towards treating the taxpayer less as a passive person who simply has been billed for taxes due and more as a customer sometimes requiring particular forms of assistance and support.

According to Lemessa(2005), when compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risk associated with non – compliance by developing strategies targeted at those risks. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on tax administration and compliance.

The choice (smith and Kinsey, 1987) between compliance and non compliance may only be a matter of opportunity, convenience, or even interpretation of the law legal validity, economic and social purpose, distributive justification and revenue yield may all be defeated if a tax is not levied and collected well. No matter what the justifications advanced, a tax fails to the extent that it is avoided or evaded (Shultz and Harris,1949).

Taxation is an inevitable phenomenon in any economy or nation as far as services and other roles are expected from government. Even though the history of taxation is as that of states or governments, still there are gaps in every nation, particularly underdeveloped countries like Ethiopia as far as voluntary compliance is concerned. Taxes are considered by many citizens as necessary evils that cannot be avoided under normal conditions. From the above review of literature several writers have discussed factors that affect voluntary compliance behavior and how it is related with various socio-cultural, political, legal and administrative aspects. Legal enforcement (i.e. penalties and sanctions) all exist in the tax laws of every nation to varying degrees. But still are gaps in tax compliance regardless of these laws. This clearly shows that compliance cannot be ensured only through enforcement or stick approach.

Even though the existence of enforcement and penalties cannot be undermined when dealing with tax compliance, focusing on the positive side i.e. encouraging voluntary compliance is by far rewarding as far as long lasting and consistent advantage is concerned. Hence, the understanding of tax compliance, that is why people tend to comply and why they are tempted to evade, gives a clear road map to the solution of this very classical problem.

2.2.6. Theories of Tax Compliance (TTC)

My review of on this papers suggests that several theories of behavior, borrowed from economics and the psychological sciences, can be useful in classifying the variables in this analysis. These include:

- Allingham and Sandmo (1972) Model,
- Institutional Anomie Theory, and
- The Theory of Planned Behavior.

2.2.6.1. Allingham and Sandmo (1972) Model

In 1968 Nobel laureate Becker theorized the economics of crime on the basis of which Allingham and Sandmo (1972) produced an economic model of tax compliance. The model was seminal for it was followed by a large number of contributions to the literature which extended the original model in a number of directions. In the model, the taxpayer is assumed to have an income I and must choose the amount to declare to the tax agency (Alm, Jackson and McKee, 1992). Declared income ‘‘ D ’’ is taxed at the rate ‘ t ’; undeclared income is not taxed, but the taxpayer will face a probability of detection p at which point a fine f will be imposed for cheating.

The taxpayer has the choice between two strategies: (1) He may declare his true income or (2) he may declare less than his true income. If he chooses the latter strategy his payoff will depend on whether or not he is investigated by the tax authorities. If he is not, he is clearly better off than under strategy one. If he is investigated, he is worse off as the audit may lead to penalties. Thus the taxpayer chooses ‘‘ D ’’ to maximize the expected utility of the evasion gamble. This framework suggests that declared income depends upon I , p , f and t : . This model shows that declared income ‘‘ D ’’ varies directly with income, the probability of detection (audit rate) and the penalty (fine rate), but inversely with the tax rate. There are however other factors that affect

compliance decision; while government “taketh away, it also giveth back” (Alm, Jackson and McKee, 1992) and this surely exerts influence on compliance or evasion.

The declared income ‘D’ may be modified to reflect individual’s receipt of Government expenditures ‘G’ as follows: Thus compliance is also directly related to individual’s perceived benefits from public goods funded by their tax payments.

2.2.6.2. Institutional Anomie Theory (IAT)

Anomie is a sociological theory that holds that individuals make decisions based on socialized values, which separately may be contradictory but together, balances each other out, producing behavior considered “normal” by society. When one holds an imbalanced set of values, decisions made on that set may produce deviant behavior, such as everyday crime (Itashiki, 2011). Specifically, the most recent rendition of anomie theory, institutional anomie theory (Messner & Rosenfeld, 2001) appears readily adaptable for examining the relationship between cultural values and tax evasion behaviors (Riahi-Belkaoui & Picur, 2000). Institutional Anomie Theory highlights four theoretically derived sets of national cultural dimensions likely to promote or suppress tax evasion. They include individualism, achievement orientation, assertiveness and humane orientation.

Individualistic cultural values set the stage for behaviors that emphasize the pursuit of firm self-interest, largely neglecting concern for ethical consequences. According to IAT, individualistic cultural values encourage firm’s decision makers to choose goal achievement beyond concerns for the ethical or legal means to achieve goals (Bame-Aldred, Cullen, Martin & Parboteeah, 2011). Thus, in such societies, firms more willingly deviate from accepted norms and evade taxes. On the contrary, collectivist cultures favor allegiance to the greater collective rooted in the notion that societal members are interdependent (Triandis, 1995) and, as such, should deter individual gains at the expense of the collective. This suggests that individualistic cultural values should inflate temptations for firms to evade taxes.

2.2.6.3. Theory of Planned Behavior

The Theory of Planned Behavior was proposed by Ajzen (1985) as an extension of the Theory of Reasoned Action, which had been proposed a decade earlier, by (Fishbein & Ajzen, 1975). According to the Theory of Reasoned Action, people are more likely to do a behavior if they evaluate the suggested behavior as having positive results (attitude) and if they think their significant others want them to perform the behavior (subjective norm). A high correlation of attitudes and subjective norms to behavior has been confirmed in many studies (Sheppard, Hartwick, & Warshaw, 1988).

However, the same authors have raised a counterargument against the high relationship between attitude, subjective norms and behavior. They argued that because of circumstantial limitations, attitude and subjective norms do not always lead to behavior. To improve on the predictive power of the Theory of Reasoned Action Ajzen added a new component "perceived behavioral control" to help account for behaviors that arise where an individual's control over the behavior is incomplete. By this, he extended the Theory of Reasoned Action to include the role of non-volition in predicting behavior. The extended version is called the Theory of Planned Behavior.

2.3. Empirical Evidence

This section highlights a number of previous studies and deals with the empirical framework supported by different researchers regarding the taxpayers compliance with taxation.(Merima Ali, Odd-Helge Fjeldstad, Ingrid Hoem Sjursen, and Chr.Michelsen, 2011-2012.) Explore factors that determine citizens' tax compliance behavior in Kenya, Tanzania, Uganda and South Africa using attitude and perception data from the new round 5 of Afro barometer surveys.

The survey includes a series of theoretically rooted questions about citizens' views about taxation. A main challenge was to find an accurate proxy for taxpayer compliance since individual's reporting of own compliance is likely to be over-reported. Thus we used an indirectly phrased question on respondent's opinion about other people's action of whether not Paying taxes is wrong or not. Results from the logit regression provide robust results for two Assessments of tax compliance. We find that individuals are more likely to express a tax compliant attitude if they perceive that enforcement makes evasion more difficult in South Africa and Kenya. This is in line with the prescription of the standard economic theory of deterrence.

The analysis also finds evidence that those who are more satisfied with public service provision are more likely to support the government's right to tax in all the four countries, supporting certain elements of the fiscal exchange theory. However, the link between tax compliance attitude and public service provision depends on the specific service in question and differs between countries. While access to infrastructure such as roads and electricity encourage tax compliant attitudes in Kenya, respondents in Tanzania and Uganda refer to education and health services as key to their tax compliance. In South Africa, government provision of issuing Identity cards and police services are more likely to support a tax compliant attitude.

A key finding of the study that applies to all the selected countries is that payment to non-state actors such as criminal gangs for protection reduces tax compliant attitudes. Previous research suggests that the way the state treats individuals or groups relative to their fellow citizens is an important factor in determining taxpayer compliance attitude (D'Arcy 2011). We have tested this hypothesis by examining how citizens' perceive their ethnic group is treated by the government compared to other groups. Only in South Africa and Tanzania this seems to matter for tax compliance attitudes. The study finds no strong evidence that political legitimacy, e.g. trust in government policy and institutions, impacts on taxpayers' compliance attitude. These findings are robust for a different econometric estimation, where we include all the responses of individuals regarding other people's action about tax in an ordered logit regression.

The study provides us with some directions for further research. For an improved understanding of tax compliance attitude and behavior in Africa, there is a need for a more thorough examination of the concept of fairness in fiscal exchange, i.e., the contractual relationship between taxpayers and the government. In this context it is also relevant to analyze if – and when– User charges are to be preferred instead of general taxes to finance public services.

Critical factors in this respect are citizens' perceptions about the role of the state, how the tax law is administered, perceptions about enforcement, government trustworthiness, and impacts of payments to non-state actors may have on tax compliance. Furthermore, there is a need for research focusing on fairness in tax collection and comparative treatments of taxpayers. Can, and under what conditions, compliance be established in African countries without an extensive and

costly enforcement apparatus? This question is important because it is likely that governments, seeking power on the basis of popular consent, face restrictions in their use of coercion in tax collection. Thus, the challenge for taxation in Africa is to raise domestic revenues from consenting citizens.

(Wenzel, M, 2011) Tax compliance has been studied in economics by analyzing the individual decision of a representative person between paying taxes and evading taxes. In the research of tax compliance many empirical studies have been done that emphasized the impact of a wide variety of potential Assessments of compliance with individual income/profit tax filing and reporting obligations. The most important Assessments identified are: economic factors as the level of income, audit probabilities, tax audit, tax rate, tax benefits, penalties, fines and other non-economic factors as attitudes toward taxes, personal, social and national norms, perceived fairness etc.

Measuring compliance behavior would seem to be simple, but the problem is to find a measure which allows the researcher to directly study how compliance is changed with a change in an underlying tax-related parameter, such as the audit rate. Thus, directly asking the participants about their own past involvement in tax evasion is not sufficient. What is needed is a compliance indicator which can be repeatedly measured with changes in policy parameters. One possibility is to ask hypothetically about tax evasion behavior (possibly with a case situation to describe the context in detail) and how it would differ if a specific change occurred.

The study of tax compliance is related to avoided tax as a measure of reporting compliance because several of the potential Assessments of voluntary compliance (e.g., marginal tax rates, filing thresholds, marital status and allowable child exemptions) also have a direct role in the calculation of tax from gross income, making it difficult to separate their impact on compliance (Plumley, 2002). The findings of many studies suggest that taxpayers' attitudes towards the tax system and the way taxpayers feel treated by a tax authority are important in explaining taxpayer non-compliance. Related to the tax system itself, there is specific evidence to suggest that perceptions of unfair tax burdens can affect taxpayers' views about paying tax and can go on to affect their compliance decisions.

Tax fairness seems to involve at least two different dimensions (Jackson and Milliron, 1986): the first relates to the benefits one receives for the tax given; the second dimension involves the perceived equity of the taxpayer's burden in reference to that of other individuals. This second dimension relates to taxpayers' perceptions of the vertical equity of the tax system. If a taxpayer were to feel that they pay more than their fair share of tax when comparing themselves to wealthy taxpayers, they are more likely to see paying tax as a burden than a taxpayer not concerned about these issues.

2.4. Conclusion and Knowledge Gaps

There is evidence from the literature reviewed that although tax compliance has been the subject of considerable empirical research, however, no homogeneity in the Assessments of tax compliance has been achieved. There are too many and different explanatory factors that have been proposed in the literature as Assessments of tax compliance. The problem with this situation is that when undertaking an empirical study one would be faced with choosing a set of predictor variables from what is a very large set of candidate predictors. It is therefore

recommended that future research needs to develop a meaningful set of few predictors that yield accurate predictions.

The second conclusion and related to the one above is that some studies on tax compliance proceed without a theoretical framework to help guide the selection of independent factors. In some of the studies that use some theory, the theories are not comprehensive. For example the Allingham and Sandmo Model focus on economic factors. While the Institutional Anomie Theory focuses on cultural factors. Only the Theory of Planned behavior embraces a wider spectrum of variables involving attitudes, social norms and behavioral control. Nevertheless the literature suggests that tax compliance research has made a big step forward in recent years by adopting the more comprehensive TPB.

This development has significantly strengthened the theoretical foundation of research on tax compliance. Now, researchers would be able to build their studies upon some fairly comprehensive theoretical foundation. Despite this positive progress in theory development, the tax compliance literature is still plagued by several problems. The TPB is a general theory, not specifically developed for tax compliance behaviour and hence it may fail to capture behavioural factors that are unique to tax compliance. In fact it is a requirement by the TPB that investigators should interview a sample of the group under investigation to determine the salient attitudes, identify significant others and subjective control factors that are relevant to the study group or research issue in question. (Edward E. Marandu, 2014) So far various researchers have tried to examine this particular topic. However, there is a gap in the literature due to the absence of studies, specifically in Gubre Town, Central Ethiopia context.

In order to fill the identified gap knowledge concerning the taxpayers' compliance with taxation, the researcher try to undertake the study to replicate knowledge by using mixed methods of study and provide additional information by considering of the missed components tax compliance not studied together with the topic by the previous researcher so as to increase the level of understanding about the taxpayers' compliance with taxation here in Gurage Zone by focusing category "C" tax payers which is found in Central Ethiopia specifically Gubre Town.

CHAPTER THREE

Research design and methodology

3.1. introduction

The previous chapter reviewed both theoretical and empirical studies, providing a brief conclusion and identifying gaps in existing knowledge. This chapter provides a detailed explanation of the research methodology, including Research design, sampling techniques, data sources, data collection methods, and data analysis procedures. It outlines how the research was conducted to assess Category “C” taxpayers' compliance with tax laws. Since this chapter is a critical part of the research, it is divided into subsections to ensure clarity and structured presentation.

3.2. Background of the study area

Gubre Town is located in the Central Ethiopia Regional State, within the Gurage Zone, Cheha District. Geographically, it lies at approximately 8°12'0" North latitude and 37°48'0" East longitude, with an elevation of about 2,044 meters (6,709 feet) above sea level. The town is situated approximately 164 kilometers southwest of Addis Ababa. The primary economic activities include small-scale retail, services, and informal sector enterprises, making it a relevant site for studying Category "C" taxpayers.

3.3 Research design

The research employed a descriptive design, which is appropriate for analyzing the compliance behavior of Category "C" taxpayers. This approach allows for careful observation and detailed documentation of taxpayer compliance without influencing the variables under study. The study uses both qualitative and quantitative research methods. **Quantitative approach:** Surveys were conducted using structured questionnaires to collect numerical data on compliance levels.

Qualitative approach: Open-ended responses and interviews provided insights into taxpayers' perceptions, challenges, and motivations.

The study focuses on assessing Category "C" taxpayers' compliance with tax law in Gubre town, using a survey methodology for data collection.

3.4 Data source and collection

The data used in this study consists of both primary and secondary data. The study relies on **primary**.

Primary data was collected through structured questionnaires with both open-ended and closed-ended questions. These questionnaires were distributed to Category "C" taxpayers and tax office employees. Secondary data was obtained from prior studies related to taxpayer compliance.

3.5 Target population and sampling techniques

The target population for this study consists of Category "C" taxpayers and employees of the revenue office in Gubre Town. According to the revenue office, the total number of Category "C" taxpayers in the town as of 2025 G.C. is 1,000, and there are 10 employees in the revenue office.

3.5.1 Sampling Method

This study used a **stratified proportionate random sampling technique** to select taxpayer respondents.

Stratification: Taxpayers were first divided into five major business activity categories. If taxpayers are stratified into **five major business activity categories**, these typically reflect the main sectors recognized for taxation or economic activity purposes.

- ✓ Agriculture and Related Activities , Retail and Wholesale Trade , Construction and Real Estate , Service Industry and Manufacturing and Industry. however, in the five major business activity categories of manufacturing were not included because they do not exist here in Gubre.
- **Proportionate Allocation:** The number of respondents selected from each stratum was proportional to the size of the stratum relative to the total taxpayer population.
- **Random Selection:** Within each stratum, individual respondents were randomly selected.

The sample size for taxpayers was calculated using **Yamane's (1967) simplified formula:**

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

Where:

- n = sample size
- N = population size (1,000 taxpayers)
- e = margin of error (0.05)

- Thus:
 - $n = \frac{1000}{1 + 1000(0.05)^2}$
 $= \frac{1000}{1 + 2.5}$
 $= \frac{1000}{3.5} \approx \mathbf{90}$

Additionally, all 10 tax authority employees were included using a **census approach**, due to their small number.

Now let's calculate how many taxpayers (sample) to select from each of the 4 existing categories, using proportional stratified sampling

- Total Target Population = 1000
- Sample size = 90 taxpayers
- Strata:

Business Activity Category	Number of Taxpayers In Stratum
Agriculture and Related Activities	400
Retail and Wholesale Trade	300
Construction and Real Estate	100
Service Industry	200
Total	1000

Apply Stratified Sampling Formula

$$\text{Sample Size Stratum} = (\text{Size of Stratum} / \text{Total Population}) * \text{Sample Size}$$

Where:

- Total population (N)=1000
- Total sample size(n)=90
- population in stratum i (N_i)
- sample size in stratum i (n_i)

➤ **Calculations: Agriculture and Related Activities:**

$$\text{Sample Size Stratum} = (\text{Size of Stratum} / \text{Total Population}) * \text{Sample Size}$$

$$= (400/1000) * 90 = 0.4 * 90 = \mathbf{36}$$

$$\text{Percent of Sample Size Stratum} = (\text{Sample Size Stratum} / \text{Total sample size}) * 100$$

$$= (36/90) * 100 = \mathbf{40\%}$$

➤ **Retail & Wholesale Trade:**

$$\text{Sample Size Stratum} = (\text{Size of Stratum} / \text{Total Population}) * \text{Sample Size}$$

- = $(300/1000) * 90 = 0.3 * 90 = \mathbf{27}$

$$\text{Percent of Sample Size Stratum} = (\text{Sample Size Stratum} / \text{Total sample size}) * 100$$

- = $(27/90) * 100 = \mathbf{30\%}$

➤ **Construction & Real Estate:**

Sample Size Stratum=(Size of Stratum/Total Population)* Sample Size

• = (100/1000) * 90 = 0.1 *90=9

Percent of Sample Size Stratum= (Sample Size Stratum / Total sample size)* 100

▪ =(9/90) * 100 = **10%**

➤ **Service Industry:** Sample Size Stratum=(Size of Stratum/Total Population)* Sample Size

= (200/1000) * 90 = 0.2 *90=18

Percent of Sample Size Stratum= (Sample Size Stratum / Total sample size)* 100

=(18/90) * 100 = **20%**

Final Stratified Sample Allocation

Category	Pop. in Stratum(Ni)	Sample Size in Stratum	Stratum Sample %
Agriculture	400	36	40.00%
Retail & Wholesale Trade	300	27	30.00%
Construction & Real Estate	100	9	10.00%
Service Industry	200	18	20.00%
Total	1000	90	100%

Reason for Sample Size

The sample size was determined considering **limitations of time and budget**, while ensuring adequate representation from each business activity stratum.

3.6. Data analysis method and presentation

It is the most important component of this study. The collected data was organized, analyzed, and interpreted using both descriptive statistical tools and qualitative analysis. Quantitative data (from closed-ended questions) was analyzed using frequency distributions, percentages, and tabulations to show trends in tax compliance. Qualitative data (from open-ended questions) was analyzed using content analysis to identify common themes related to taxpayer behavior, motivations, and challenges. The study utilized SPSS, Excel for statistical analysis.

3.7. Ethical Considerations

Ethics are norms or standards of behavior guiding moral choices about My behavior and relationships with others, therefore in research; ethical considerations aim to ensure that no individual suffers adverse consequences or is harmed (Leedy & Ormrod, 2013). The basic ethical principles of autonomy, beneficence and justice (Marshall & Rossman, 2011) was incorporated in this study by means of maintaining confidentiality of information and of respondents.

Chapter four

4. Data Representation, Analysis and Interpretation

This paper deals with five sections. First section contains a summarized description of the personal characteristics of the respondents followed by their respective business type or sector. The second section shows taxpayers general knowledge about taxation. The third section shows the respondent's response on motivational factors. The fourth section is the contents analyses of open ended questions. The data are collected and then analyzed in response to the problems posed in the first chapter of this study. The findings are based on the response of sample tax payers with the help of structured questionnaires in the study area.

4.1. Characteristics of the Respondents

Table 1: Respondents profile

Age category in years	Frequency	Approximate Percentage
Below 30	48	60
31-40	20	25
41-50	8	10
51-60	3	3.75
61 years	1	1.25
Total	80	100
Sex	Frequency	Approximate Percentage
Male	55	68.75
Female	25	31.25
Total	80	100
Education Status	Frequency	Approximate Percentage
Illiterate	3	3.75
Secondary school and above	17	21.25
TEVT certificate	22	27.5
Diploma	21	26.25
Degree and above	17	21.25
Total	80	100

Source; Questionnaire 2025G.C

Table 4.1 shows that the age factors of the respondent's profile was 60% (below 30); 25% (31-40); 10% (41-49); 3.75% (50-60); and 1.25% (61 years and above). As it is shown in the table above, the majority of the taxpayers fall in the working age group accounting to 60% above half of the total population.

This shows that the young people who fall in the working age group are engaged in different business types or sectors in the study area. However, males were dominant, comprising 68.75% and females were 31.25% of the total respondents.

This high ratio of males reflects the structure of income earners in the study area. That is in most developing countries; including Ethiopia, husband and single male are responsible for the earning of income and providing money for wives to purchase goods and services. And may be due to the cultural influence that females are not capable of running a business; their participation in different business sectors is very minimal as compared to the participation of male. When we see respondents' educational status 3(3.75%) are illiterate 17(21.25%) are in secondary school and below 22(27.5%) are TVET certificates, 21(26.25%) are Diploma and 17(21.25%) are Degree and above. Here we can see that most of the respondents are illiterate and are expected to have good awareness of tax (97.5%). According to income tax regulation No. 78/2002, there are 65 categories of business sectors and for the purpose of this study only the major ones were surveyed and their distribution is presented in the table below.

Table 4.2: Table 2: Distribution of Business sectors included in the sample

Business sector	Frequency	Percentage
Woodwork and furniture	5	6.25
Juice and fruit shop	6	7.5
Barbary and beauty salon	12	15
Café and restaurant	14	17.5
Music and video center	7	8.75
Small shop	19	23.75
Printing Stationery	5	6.25
Pool house	8	10
Laundry	4	5
Total	80	100

Source; documentation in authority

4.2 Taxpayers General Knowledge about Taxation

In order to know the general knowledge of the respondent about taxation in the study area, different questions were forwarded to them on different issues. The responses of the respondents are briefly summarized in the following tables and figures.

Table 4.3: Table 3:Reasons why taxpayers pay tax

Possible answer	Frequency	Percentage
To avoid disturbance	15	18.75
In the anticipation of public service	18	22.5
There is no opportunity to evade	5	6.25
It is an obligation towards to the government	42	52.5
Total	80	100

Source; questionnaire 2025G.C

Table 4.3 shows when taxpayers were asked why they pay taxes, 42(52.5%) of the respondents said that they pay taxes because it is an obligation to the government or state and the anticipation of public service from the government 18(22.5 %). This indicates there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be registered. On the other hand, some of them 5(6.25%) said that they have no opportunity to evade, and the remaining 15(18.75%) of the respondents said that they pay taxes to avoid disturbance. Particularly with respect to those who said they pay taxes to avoid disturbances; the response indicates that the revenue collection regime is not considered by the majority of taxpayers (at least percent) to be harsh and unpleasant. In other words, only 5(6.25%) of the respondents think that way. The response of others who said there is no opportunity to evade, indicate that they have the intention not to pay if they have the opportunity to do so or their compliance behavior is questionable.

Table 4: rank of tax Evasion with respect to other crime

Types of crime	Frequency	Percentage
Drunken driving	18	22.5
Stealing someone's mobile	5	6.25
Tax evasion	40	50
Hijacking	17	21.25
Total	80	100

Source; documents from institution

Table 4.4 shows that taxpayer understand that tax evasion is a crime and as it can be observed from the table above, 40(50%) of the respondents ranked tax evasion as the most serious crime and 18(22.5%) of the respondent said drunken driving is a serious crime while the remaining respondents chosen hijacking and stealing someone mobile. From this response one can understand that taxpayers perceive tax evasion as a crime, thus, ranked first indicates that there is an attention towards taxation by taxpayers. But the problem here is poor compliance even though tax evasion is considered a crime by the taxpayer.

Précising tax evasion as crime is a normal and desired behavior that prevails in the society to build a positive attitude towards taxation and to discourage the problem of non-compliance.

4.2.1. Tax equity and fairness

Table 5: Response on overstatement/understatement of tax

Considering your ability to pay how do think the amount of tax liability that you have paid				
	Overstated	Understated	Normal	Total
Frequency	45	1	34	80
Percentage	56.25	1.25	42.5	100

Source: questionnaire 2025G.C

Table 4.5 shows the majority of the respondents (56.25%) said that the amount of tax liability they have paid is overstated whereas 42.5% of the respondents said it fair and equitable and even understated (1.25%). As stated by books (2001). Fairness or equity is one of the main variables that determine the compliance of taxpayers. If there is fairness or equity in the tax system, voluntary compliance of the taxpayer with tax law can be easily assured. But the response from table 4.5 indicates the amount of tax for more than half of the taxpayers is somewhat beyond their ability to pay which implies unfairness in the tax system in the study area. On the other question, respondents said that the tax authority is not fair in determining their tax liability. From this we can conclude that the tax authority does not show significant fairness on tax liability.

4.2.2. Organizational effectiveness

Table 6: evaluation of tax authority by respondents

Parameter	Excellent	Good	Fair	Poor
Service delivery	25.71	35.71	22.86	15.71
Tax collection efficiency	51.43	34.29	10	4.29
Law enforcement	4.29	12.86	52.56	30
Awareness creation	12.86	28.57	27.14	31.43

Source questionnaire 2025 G.C

According to the above information we can say that the majority of the respondents rated the tax authority from excellent to fair except for awareness creation where (31.43%) of them said poor.

Attitude of taxpayers on different issues

Attitudes of tax payer towards taxation and its administration is the other key factor that has to be considered and analyzed duly. Accordingly, the respondent was masked for various questions to know their attitude and their response is summarized in the following table.

Table 7:tax payers' response on paying tax is unfair

	Strongly agree	Agree	Disagree	Strongly disagree	Total
Frequency	7	10	13	50	80
Percentage	8.75	12.5	16.25	62.5	100

Source questionnaire 2025G.C

Table 4.7 shows when taxpayers were asked if paying tax is unfair 78.57% disagreed with the statement and 21.43% said it was unfair to pay tax. From this it is clear that the majority of the population 78.57% knows that it is fair to pay their legal share of tax. But 21.43% are in agreement showing that there is lack of awareness among the taxpayers as to whether paying their legal share of tax is fair or not. From the above data researchers can conclude that 78.57% disagreed with the statement of fairness on tax.

Table 8:tax payers response on tax law should be respected

	Strongly agree	Agree	Disagree	Strongly disagree	Total
Frequency	5	6	16	53	80
Percentage	6.25	7.5	20	66.25	100

Source questionnaire 2025 G.C

Table 4.8 shows when taxpayers were asked about respecting the tax law 85.5% were in agreement with the statement and 14.5% said it is not mandatory to respect the tax law. From this it is clear that the majority of the population (85.5%) knows respecting the tax law is mandatory. But the response of those who said the tax law should not be respected 14.5% implies they have the intention to participate in evading tax if they have the opportunity to do which in turn may have its own impact on the compliant taxpayers. These impacts can be like, unwilling to pay tax liability.

Table 9:tax payer's response on major problems in tax system

Problems	Frequency	Percentage
Tax revenue is not spent on public service	22	27.5
Tax rate are too high	33	41.25
There are dishonest tax collector	11	13.75
Several tax item are levied at the same time	14	17.5
Other problems	0	0
Total	80	100

Source questionnaires 2025 G.C

Table 4.9 shows when the respondents were asked to rank the major problem in the tax system from the list of most probable options, majority of the respondents 33(41.25%) felt the tax rates at too high 22(27.5%) said tax revenue are not spent on public service 14(17.5%) said several tax items are levied as the same time and 11(13.75%) of the respondents there are dishonest tax collectors. From this response it is clear that the tax rate is not based on the ability to pay principle or it is perceived to be unfair by taxpayers. Even though the principle says, tax should be based on the ability to pay; the problem here is determining the ability for each taxpayer. The communication gap between the tax authority and taxpayers might have created this perception (i.e., the tax rate is too high)and it continues to be the issue as far as the understanding of the taxpayers regarding tax rates, assessment, calculation etc. is low. On the other hand, a significant number of respondents 22(27.5%) said that tax revenue is not spent on public services. Theoretically tax revenue is used to finance services provided by the government. This might be

Practically true, but the public must be made aware of this social service which is being financed by taxpayers money. As long as there is a gap in communicating these facts to the public, the above attitude problem will not be changed. The other issue which has risen as a problem thirdly is that taxpayers 14(17.5%) are asked to pay all of their liability items at the same time. This problem is the central problem as far as tax compliance is concerned and it is related to a variety of factors.

Possible measures (motivational factors) to be undertaken:as stated in the literature part, there are two main approaches (i.e. James (2000) the carrot or stick approach and the responsible citizens approach) that is forwarded by different scholars as motivational factors. The stick or carrot approach relies heavily on penalties and sanction to motivate taxpayers to pay taxes. This approach was not effective in many developed countries because human beings are not donkeys. The same result was reflected in the study area that strengthens legal enforcement and penalties cannot motivate them to pay taxes voluntarily. This should not be misinterpreted as if the taxpayers do not want the presence of penalty and legal enforcement, but it simply means penalty and legal enforcement is not the best way to ensure tax compliance. As it is shown below in table 4.10 the respondents were in favor of the responsible citizens approach such as educating taxpayers, improving relationship with public, providing necessary information about utilization of the revenue collected, and making the collection system simple and transparent as motivational factors. More detail of the result is depicted in table 4.10 below.

Table 10:Response on motivational factors

Possible measure	Agree		Disagree	
	Frequency	Percentage	Frequency	Percentage
Strengthening legal enforcement and penalties	30	37.5	50	62.5
Improving relationship with public	73	91.25	7	8.75
Educating taxpayers and conducting consultation sessions	76	95	4	5
Providing necessary information to taxpayers regarding the provision of service and utilization of tax collected	75	93.75	5	6.25
Reducing tax rates and making collection procedure simple and transparent	76	95	4	5

Source; questionnaire 2025 G.C

Table 4.10 shows a significant size 50(62.5%) of taxpayers do have a view that strengthening legal enforcement and penalties by itself can ensure voluntary tax compliance behavior. These people rather have the belief that encouraging the responsible citizen’s approach has to be the axis of the motivational factor. Regarding the other measures, it is evident from the table that the majority of the respondents felt that educating the tax payers and conducting consultation sessions and reducing tax rate making the collection procedure simple and transparent 76(95%) could motivate them to pay their fair share of tax voluntarily. Similarly improving relationship with public and providing necessary information to tax payer regarding the provision of service and utilization of tax collected 73(91.25%) and 75(93.75%) respectively, is another possible measure which is strongly proposed by the respondent as other motivational factors in the study area.

Table 11: responses on tax payers on other motivational factors

Questions	Disagree		Agree	
	Frequency	Percentage	Frequency	Percentage
People are getting comparable social service from the government for the tax they pay	47	58.75	33	41.25
Tax payers behavioral including you is affected by your satisfaction with your term trade with government	24	30	56	70
Taxpayers attitude towards the general level of taxation and tax compliance is dependent on attitudes about the desirability of the government programs and government itself	29	36.25	51	63.75
Taxpayers should evade if tax rates are too high	31	38.75	49	61.25
Taxpayers should evade if large portion of money collected from tax is wasted	26	32.5	54	67.5
Evading tax due to lack of ability to pay should not be considered as a crime	21	26.25	59	73.75

Source; questionnaire 2025 G.C

The above table is about the respondent's attitude towards other related issues. More than half of the respondents agreed with all cases listed except with the first case. According to these respondents; People are not getting comparable social service from government for the tax they pay 47(58.75%)

Their compliance behavior is affected by their satisfaction or dissatisfaction with their terms of trade with the government 56(70%).

Taxpayers attitude towards the general level of taxation and tax compliance is dependent on the attitude about the desirability of the government programs and the government itself 51(63.75%).

As the tax rate are too high, tax payers are intended to evade tax 49(61.25%).

As a large portion of the money collected from tax is wasted taxpayers are intended to evade tax 54(67.5%).

Evading tax due to lack of ability to pay should not be considered as a crime 59(73.75).

Socio –cultural factors

As cited by Slemorod (2000)and Levi (1998)in the literature review it is mentioned that taxpayers compliance behavior can be affected by socio-cultural factors. Hence the respondents were asked to know where these factors really have an impact on tax compliance. Their responses are presented below.

Table 12:tax payers response questions related to socio cultural values

Questions	Agree	Disagree
The non-compliance of other taxpayers have negative impact on your own compliance behavior	72.5	27.5
Cultural difference have a direct impact on ethical values and social development and ultimately affected tax compliance decision	11.25	88.75

Source questionnaire 2025 G.C

According to respondents;

- Tax compliance behavior is negatively affected by other non-compliance (72.5%)
- Cultural values have no direct impact on the tax compliance decision of tax payers (88.75%)

Political factors

In this study political factors are assumed to be among the factors that determine taxpayers compliance with the tax law. Based on this assumption respondents were provided with questions and their response was as follows.

For major respondents (61.43%) the political system has no impact on taxpayers' attitude towards the tax system.

4.3. Content Analysis of Open Questions

The respondents were also given the opportunity to give their general comment on the overall tax system. Accordingly, they issued several comments regarding the problem and measures that have to be undertaken. These additional comments forward by the taxpayers are generally summarized in six points as listed below.

- ❖ The tax system lacks fairness or equity (85.25%).
- ❖ Many business operators are not accommodated by the tax system and there is a high prevalence of illegal trade (78.65%).

- ❖ Less effort to create awareness and pro communication between tax authority and tax payers (69%)
- ❖ No adequate provision of social services (85.75%).
- ❖ Weakness in tax collection and enforcement (74.54%).
- ❖ Absence of transparency in the overall tax system (66%).

As shown above, several respondents firmly commented that the tax system lacks fairness or equity. They further elaborated their comment that individuals having equal income are not paying equal tax and this highly affects the tax payer's motivation to be compliant and remaining compliant. In other words, as long as the tax system lacks horizontal equity (individuals with equal income pay equal tax) it is difficult to change taxpayers' attitude in order to bring about voluntary compliance. The other point strongly raised by the respondents is that there are several individuals who are doing business but not paying tax or not known as taxpayers. According to their view, all these abnormal acts are hampering their activities and as a result unfair competition has prevailed in the study area.

The respondents have said that the tax authority has done little to curb these acts so as to reduce tax evasion.

The comment given by the respondents is that the tax authority does not provide sufficient education to taxpayers to boost awareness. According to the respondents the root cause of all the problems in the overall tax system is lack of awareness which is attributed to poor tax education practice and absence of consultation sessions between taxpayers and the authority. That is, there is no culture of communication and consultation between both parties and this resulted in the existence of a gap. On the other hand the respondent indicates that there is no sufficient provision of social service by the government. According to their comment taxpayers need various social services from the government in return of what they have paid as a tax. If there is no provision, the willingness and motivation of the taxpayers to pay the tax obligation in full and on a timely basis may be affected.

The respondents also commented that the tax authority is not effective with respect to tax collection and enforcement. They further explained that there are several taxpayers who are not included in the tax brackets and large amounts of uncollected tax exist in areas. Moreover, the tax authority exercises little effort in enforcing the tax law. This could be as a result of the tax authority's lack of capacity. Finally the respondents indicated that there is no transparency in the tax system. That is, the procedure in tax assessment and computation are not objectively understood by taxpayers.

4.5 General characteristics of employee

Table 13:sex, age and level of education of employees

No	Item		Frequency	Percentage (%)
1	Sex	Male	7	70
		female	3	30
		total	10	100
2	Age	18-25	3	30
		26-35	5	50
		36-45	2	20
		Above 45	-	-
		Total	10	100
3	Level of education	Certificate	-	-
		diploma	3	30
		degree	7	70
		above	-	-
		total	10	100

Source; survey result 2025G.C

From the above table 4.1 shows that, about 70% of the respondents were male and 30% of respondents were females. This shows that the majority of the employees who worked in the revenue authority office were male. In other cases the age factor of the respondents profile was 30% of those between 18-25 ages. About 50% and 20% of the respondents are between 26-35 and 36-45 ages respectively. But, none of the respondents are about 45 years old. As it is shown in the table above, the majority of the employees fall in the working age group accounting (50%) above half of the total population.

When we see the levels of education, about 30% of the respondents are diploma bosses, 70% of respondents are degree bosses. However, from the respondents that responded none of them are certificate and above degree.

We can understand that the majority of employees are degree level. This shows the finding has an advantage in gating the appropriate information from qualified persons.

In the revenue authority are fields with youngest and educated peoples and this will have a positive impact in the tax collection and enforcement activities of authority.

Table 14:Table 15:Job status of employees

No	Job status	Frequency	Percentage (%)
4	Workers	5	50
	supervisors	2	20
	managers	1	10
	others	2	20
	total	10	100

Sources; survey result 2025 G.C

As indicated in the above table, about 50% of the respondents are workers, 20% of respondents are supervisors and 10% and 20% of the respondents are managers and others respectively. From this the finding concluded that the 50% of employees were workers.

Table 16:service year of employees

No	Service year	Frequency	Percentage (%)
6	1-5	7	70
	6-10	2	20
	11-15	1	10
	Greater than 16	-	-
	Total	10	100

Sources; survey result 2025 G.C

Table 4.15 shows the service year of the employee of the revenue authority office and the table shows that 70% of them have between 1-5 years of service.

Table 17 obstacles in the collection of the tax liability

No	Item	Frequency	Percentage (%)
7	Time	3	30
	Safeguarding	1	10
	Lack of awareness	6	60
	Total	10	100

Source; survey result 2025 G.C

It can be seen from above table 3(30%) of respondents are said that time obstacle in the collection of tax liability and 10% of the respondents also said that safeguarding obstacle in revenue office, on the other 60% of the respondents are said lack of awareness obstacles. Generally the tax collection and enforcement of tax liability is not presented and collected correctly, this has an effect on the intended purpose of the revenue authority office.

Chapter 5

5. Conclusions & Recommendations

5.1 Conclusions

There appears to be substantial tax gaps between the tax that is theoretically assumed to be collectable from economically active individuals in Gubre town and the tax that is actually being collected. One of the main reasons for the tax gap is non-compliance of taxpayers and potential taxpayers, with tax legislation. One of causes for non-compliance has been demonstrated to be the attitudes and perceptions of people. This perception may, in turn, influence their attitudes towards tax compliance.

Against this background, it is of utmost importance to determine taxpayer's perceptions toward taxation in order not only to influence government policy regarding taxation and protecting the town's tax base but also to enable government to market itself and its services more effectively to the general public. This study was aimed at assessing a sample of taxpayer's compliance with tax law in Gubre town.

- ❖ From this study it is 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 liability. In other words they feel that they do not pay about the same amount of tax as others in similar situations. Generally as long as the tax being levied is not fair and equitable it may reduce the motivation and voluntary compliance behavior of current taxpayers and also deter potential tax payers from joining the tax system voluntarily.
- ❖ Awareness is a cornerstone as far as voluntary compliance is concerned. It can be concluded that there is a positive understanding as to why people pay taxes and if successive workers are done, probably better results can be registered.
- ❖ Tax authority is the responsible body for assessing and collecting the town's tax revenue. The amount of revenue collected is directly dependent on the efficiency and effectiveness of the authority. In light of this fact the survey result showed the tax authority of the town administration is not efficient and effective in various aspects such as improving the tax assessment and collection procedures, creating awareness, enforcing the tax law, providing services, and information regarding tax. It can be concluded that, so long as this is the fact, it is not easy to bring about voluntary compliance and narrow tax gap. The study also indicates that almost all of the respondents do not feel paying tax is unfair but they suggest the amount that they pay has to be fair and based on their ability to pay.
- ❖ In addition to this, the majority of the respondents agreed that every taxpayer has a moral obligation to respect the tax law.
- ❖ The survey data also revealed that majority of the respondents do have a reservation that improving relationship with the public (91.43%), educating taxpayers conducting consultation sessions (95.71%), providing necessary information to taxpayers regarding

the provision of service and effective utilization of the tax amount collected (94.26%) to put it in nutshell, the survey indicating factor that determine tax payers voluntary compliance behavior. These are

- ✓ Equity and fairness of tax system
- ✓ Level of awareness of tax payers
- ✓ Effectiveness and efficiency of tax authority
- ✓ Socio-cultural factors
- ✓ Other factors such as taxpayers' attitudes are found to be the result of lack of awareness or other while political factors are found to have little impact on taxpayers attitude towards taxation. Hence it is advised to capitalize on these factors to strengthen taxpayers voluntary compliance.

5.2 Recommendations

Based on the study conducted factors that determine tax payer's voluntary compliance were identified and possible recommendations are forwarded so that it may help the tax authority and other policy makers to approach the issue accordingly. Multiple approaches are needed to reduce the tax gap. No single approach is likely to fully and cost-effectively address non-compliance, since; it has multiple causes and spans different types of taxes and taxpayers. Generally, understanding better these factors, and their interrelationship, that impact on taxpayer behavior can help to develop targeted strategies which impact on the non-compliance without adversely affecting compliant taxpayers.

- ✓ The most obvious requirement for fairness or equity is to treat equal people in equal circumstances in an equal way. If there is a reason for not discriminating between equals, then this suggests that there should be discrimination between those who are not equal. Maintaining tax equity and fairness is not achieved only through levying equal taxes on individuals who have equal income but also each taxpayer should pay according to his ability –to pay. In addition, bringing non tax payers to the tax system has to be considered as a measure of ensuring tax equity. In other words, it is unfair to say that the tax system is equitable as long as several capable traders are not paying tax. Tax payers will be discouraged to the extent that the tax is believed to be unfair and inequitable or so many others are not paying.

Hence, the question of fairness or equity is not about dealing with current tax payers but also concerned with people outside the tax system. Ensuring equity means encouraging and protecting honest and loyal taxpayers by adopting fair competition. This can be achieved by incorporating into the tax system all of those who are eligible. The authority must also involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity.

Generally, the authority has to try its best in ensuring tax fairness and equity so that voluntary compliance behavior can be developed.

An effective compliance program requires tax administration to have sufficient powers that enable it to enforce compliance effectively. 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. Tax systems that depend on ad hoc administrative procedures rapidly become discredited and endanger compliance. To encourage compliance it is equally important that the tax authority administers the law fairly. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently. Functions such as tax assessment, collection, awareness creation, providing information, and enforcement has to be performed effectively and efficiently, so that it will be perceived as strong and powerful by the taxpayers. In addition to this, efficient service delivery to taxpayers is a key factor against which the strength of the authority is judged. Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. This directly hampers the compliance behavior of compilers and 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 cross functional training for employees, so that they can have an understanding of the entire system of tax administration.

In addition to this, authorities should make the tax law and procedures simple, understanding, and transparent. Voluntary compliance is enhanced when vibrant and efficient tax authority exists.

- One of the areas to stress on while dealing with the issue of voluntary compliance is the developing of persuasive communication between the tax authorities and taxpayers. The most effective tool for making people more positive is to empower them with knowledge. It is believed that there is no better tool for the government to positively influence the taxpayer than to provide them with knowledge on how taxpayers money is utilized. Any resistance or government to communicate in this most important area will lead to possible speculation and resistance. Taxpayer's attitude towards taxation is changed mainly through sustainable awareness creation programs.

Awareness creation should go beyond simply giving tax education to taxpayers. It should be extended to having consultative sessions with elderly, religious leaders, prominent personalities in the society or other influential individuals. They can help to influence the whole society through these influential persons who have acceptance in their respective groups. There should be more preventive education for the public and increased awareness of tax responsibilities in schools. Students are educated early in their career about tax responsibilities. Only through tax education can the concept of taxation and tax knowledge be imparted. Furthermore, taxpayer's need more information about their tax obligation and their role in promoting the growth of the economy of the country and the well-being of its citizens.

Tax education can be a tool to motivate voluntary compliance by taxpayers. In the context of reaching to the society at large, the tax authority can use the electronic media such as radio,

television, etc. as a means to educate taxpayers and change their perceptions about taxation. All of these promote a positive view to voluntary compliance. This is to inculcate in citizens as a sense of responsibility towards taxes. There is a need for citizens to understand and accept their responsibilities of compliance.

There is also a need to publicize the tax burden carried by compliers versus the burden that would be carried if everyone complied. Hence, awareness creation must remain the tax system's central premise in building voluntary compliance so that robust revenue productivity will be ensured simultaneously.

- Tax resistance is likely to continue (and increase) if service provision does not improve, necessitating costly and coercive methods of tax enforcement that may undermine the legitimacy of the government. Improvement in service delivery for the majority of citizens is therefore a necessary condition to improve tax compliance. The existence of positive benefits in the form of public services, security, etc. may therefore increase the probability that taxpayers will comply voluntarily, without direct coercion. Hence, the city government has to provide social service to the public and it has to inform the taxpayers that these services are provided by their money. This is to convince the taxpayer that they are getting their money back and this in turn enhances voluntary compliance and increases the trust of the taxpayers on the government. Tax compliance will be developed only with the voluntary participation of the society.

Reference

- Ajzen, I. (1985). *From intentions to actions: A theory of planned behavior*. In J. Kuhl & J. Beckmann (Eds.), *Action control* (pp. 11–39). Springer.
- Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics*, 1(3-4), 323–338.
- Andreoni, J., Erard, B., & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature*, 36(2), 818–860.
- Bhatia, H. L. (1976). *Public finance* (19th ed.). Vikas Publishing House.
- Bhatia, H. L. (1997). *Public finance* (23rd ed.). Vikas Publishing House.
- Bird, R. M., & Oldman, O. (1967). *Readings on taxation in developing countries*. Johns Hopkins University Press.
- Blanthorne, C., & Kaplan, S. E. (2008). An egocentric model of the relations among the opportunity to underreport, social norms, ethical beliefs, and underreporting behavior. *Accounting, Organizations and Society*, 33(7-8), 684–703.
- Brooks, N. (2001). Key issues in income tax: Challenges of tax administration and compliance. *Tax Conference Paper*, 10–12.
- Chan, C. W., Troutman, C. S., & O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from the United States and Hong Kong. *Journal of International Accounting, Auditing and Taxation*, 9(2), 83–103.
- Cowell, F. A. (1985). The economic analysis of income distribution. In A. J. Auerbach & M. Feldstein (Eds.), *Handbook of public economics* (Vol. 1, pp. 103–162). Elsevier.
- Due, J. F., & Friedlaender, A. F. (1981). *Government finance: Economics of the public sector* (6th ed.). Richard D. Irwin.
- Eckstein, O. (1979). *Public finance*. Prentice Hall.
- Fjeldstad, O.-H., & Ranker, A. (2003). Taxation and tax reforms in developing countries: Illustrations from Sub-Saharan Africa. *Forum for Development Studies*, 30(1), 137–156.
- Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Sage Publications.
- Hofstede, G. (1991). *Cultures and organizations: Software of the mind*. McGraw-Hill.
- Horowitz, J. K., & Horowitz, S. L. (2000). Tax audit uncertainty and income reporting behavior. *American Economic Review*, 90(5), 1487–1498.

- Internal Revenue Service (IRS). (1996). *Federal tax compliance research: Individual income tax gap estimates for 1985, 1988, and 1992* (Publication 1415).
- James, S. (2000). *Taxation: Critical perspectives on the world economy*. Routledge.
- James, S., & Wallschutzky, I. G. (1995). Tax compliance theory and the literature: A survey. *Australian Tax Forum*, 12(3), 333–378.
- James, S., Sawyer, A., & Wallschutzky, I. (1998). Tax compliance research: Past, present and future. *Fiscal Studies*, 19(4), 459–475.
- Lemessa, B. (2005). Federal income tax administration in Ethiopia: Problems and prospects (Unpublished master's thesis). Addis Ababa University.
- Levi, M. (1988). *Of rule and revenue*. University of California Press.
- Long, S. B., & Swingen, J. A. (1991). Taxpayer compliance: Setting new agendas for research. *Law & Society Review*, 25(3), 637–684.
- Marshall, C., & Rossman, G. B. (2011). *Designing qualitative research* (5th ed.). Sage Publications.
- Merima Ali, Fjeldstad, O.-H., Sjursen, I. H., & Michelsen, C. (2011–2012). Factors affecting tax compliant attitudes in Africa. *Bergen: Chr. Michelsen Institute (CMI Working Paper)*.
- Oldman, O. (1965). Taxation and development: The weak link. *Harvard Law Review*, 78(8), 1210–1230.
- Plumley, A. H. (2002). The Assessments of individual income tax compliance: Estimating the impacts of tax policy, enforcement, and IRS responsiveness. *Internal Revenue Service Research Bulletin*.
- Riahi-Belkaoui, A., & Picur, R. D. (2000). Understanding fraud in the accounting environment. *Managerial Auditing Journal*, 15(9), 468–478.
- Slemrod, J. (2000). Why people pay taxes: Introduction. In J. Slemrod (Ed.), *Why people pay taxes* (pp. 1–22). University of Michigan Press.
- Smith, K. W., & Kinsey, K. A. (1987). Understanding taxpayer behavior: A conceptual framework with implications for research. *Law & Society Review*, 21(4), 639–663.
- Wenzel, M. (2011). Tax compliance and the psychology of justice: Mapping the field. In J. Alm, J. Martinez-Vazquez, & B. Torgler (Eds.), *Developing alternative frameworks for explaining tax compliance* (pp. 41–70). Routledge.

APPENDIX I

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

The aim of this questionnaire is to assess information needed for the research paper to be produced under the title “Assessment of category C taxpayers' compliance with tax law in the case of Gubre town, Ethiopia.” The information they provide is believed to have a great value for the success of this research. Besides its academic purpose, the study is entirely devoted to assess tax payers’ voluntary compliance with tax law.

General Instructions

Please circle the number or put a tick that appropriately represents your response in each of the following questions.

To the questions with alternatives that do not match to your response, please write your appropriate response on the space provided.

Section 1: Background information of respondents.

1. Age: (in year)

Less than thirty 30 to 39 40 to 49 50 to 59 60 years or more

2. Gender: Male Female

3. Educational Status:

Illiterate General Secondary School or Less TVET
Certificate Diploma Degree

If other specify:-----

4. Type of business:

For how many years you are in this business?-----

For how many years you are known as taxpayer?-----

Section 2. Questions related to taxpayers' General knowledge about taxation

5. Why do you pay taxes?

To avoid disturbances (penalties, sanctions ,)

In anticipation of public services

There is no opportunity to evade.

It is an obligation toward the government

Don't know, state if any, -----

6. Considering your ability to pay, how do you think the amount of tax liability you have paid?

Overstated Understated Normal

7. Is it unfair to pay tax

strongly disagree Moderately agree

Moderately disagree Strongly agree

8. The tax law should be respected

Strongly disagree

Moderately disagree

Moderately agree

Strongly agree

9. What are the major problems in the tax system/collection?

Tax revenues are not spent on public services

Tax rates are too high.

There are dishonest tax collectors

Several tax items are levied at the same time

Taxpayers are not willing to pay taxes

State if any;.....

Section 3: Questions related to motivational factors

10. Which Of the following measures should the tax authority undertake to motivate taxpayers to pay tax?

Possible measures	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	Strongly agree
Strengthening legal enforcement and penalties					
Improving relationship with the public					
Educating the tax payers and conducting consultation sessions					
Providing necessary information to taxpayers regarding the provision of services and utilization of tax revenues					
Reducing tax rates and making the collection procedures simple and transparent					

Section 4. Questions related to different determinant factor

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

Parameters	Excellent	Good	Neither nor	Poor	Extremely poor
Service delivery					
Tax collection Efficiency					
Law enforcement					
Awareness creation					

12. Do you agree that cultural differences have a direct impact on ethical values and moral development and ultimately affect tax compliance decisions?

Agree

Disagree

13. The noncompliance of other taxpayers has a negative impact on compliant taxpayers' behavior?

Strongly disagree

Moderately disagree

Moderately agree

Strongly agree

14. Would you agree that a good political system has a positive impact on taxpayers' attitude towards the tax system?

Strongly disagree

Moderately disagree

Moderately agree

Strongly agree

15. Do you think that people are getting comparable social services from the government for the tax they pay?

Strongly disagree

Moderately disagree

Moderately agree

Strongly agree

16. Do you agree that taxpayers' behavior including you is affected by your satisfaction or lack of satisfaction with your terms of trade with the government?

Agree

Disagree

17. Do you agree that taxpayers' attitude including you towards the general level of taxation and tax compliance is dependent on attitudes about the desirability of the government programs and the government itself?

Agree

Disagree

SN	Questions	Strongly disagree	Moderately disagree	Neither disagree nor agree	Moderately agree	Strongly agree
18	Taxpayers should evade if tax rate are too high					
19	Taxpayers should evade if tax system is unfair					
20	Taxpayers should evade tax if large portion of the money collected from tax is wasted					
21	27. Evade tax due to lack of ability to pay should not be considered as crime/problem					

State _____ if any;.....

22. Give your general comments on the overall tax system and how possible attitude towards taxation _____ can _____ be developed.....

APPENDIX II

The aim of this questionnaire is to assess information needed for the research paper to be produced under the title “Assessment of category C taxpayers' compliance with tax law in case of Gubre town, Ethiopia.” The information they provide is believed to have a great value for the success of this research. Besides its academic purpose, the study is entirely devoted to assess tax payers' voluntary compliance with tax law.

Directions

You are not supposed to write your name, your response will be confidential and it will be used only for academic purposes. Please put a tick “√” mark in the box according to your choice.

Part 1: Personal information

1. Sex: A. Male B. Female
2. Age: 18-25 26-35 36-45 Above 45
3. Level of education: Certificate Diploma First Degree Above first degree
4. Job status of employees: Workers Supervisors Manager Others
5. Monthly income of employees: 500-1000 1001-2000 Above 2000
6. Service year of employees: 1-5 6-10 11-15 Above 15

Part 2: Specific information

1. Amount of tax liability is determined with certainty by the tax officer?
Strongly disagree moderately disagree moderately agree strongly agree
1. Is the tax collection period convenient to the taxpayers?
Strongly disagree moderately disagree moderately agree strongly agree
1. Does the tax office prepare sufficient time to create awareness to the taxpayers?
A. Yes B. No
1. If your answer is “yes” in question number “3” for how many times do you take?
A. Once a year Twice a year Three and above three per year Not at all
1. Do you think that there is an obstacle in the collection of tax liability?

Yes No

1. If your answer in the above question is “yes” which one of the following obstacles will occur?

Time Safeguarding Lack of awareness others

7. Would you agree that a good political system has a positive impact on taxpayers' attitude towards the tax system?

Strongly disagree moderately disagree moderately agree strongly agree