FACTORS THAT AFFECT EFFECTIVENESS OF TAX COLLECTION FOR CATEGORY "C" TAX PAYERS (IN CASE OF WOLKITE TOWN)

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Statement of Declaration

I, Markos Mathewos have carried out independently a research work on "Factor that affect effectiveness of tax collection for category C tax payers in case Wolkite town" in partial fulfillment of the requirement of the BA Degree program in Accounting and Finance with the guidance and support of the research advisor. This study is my own work that has not been submitted for any degree or diploma program in this or any other institution, and that all references materials contained therein have been duly acknowledged.

Name: Markos Mathewos Advisor's Name: Mr. Teferi T. (MSC)

Signature---------- **Signature----------**

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List of tables

Tables 3.7.3 Summary of the independent variables measurement's and expected sign

Table 4.1: sex of the respondents

Table 4.2 Educational level of the tax officer's respondents

Table 4.3 Year of service in your organization

Table 4.4 Summary of descriptive statistics
Table 4.5 Test for multicollinearity Table

Table 4.6: Heteroscedasticity test: ZPRED(Y) and ZRESID(X)

Table 4.7 Test of multicollinearity

Table 4.8 Test auto correlation

Table 4.9: Correlation matrix of dependent and independent variables

Table 4.10 Summary of regression model

Table 4.11 Regress dependent variable on the selected variable using multiple regressions.

Table 4.12 Summery of hypothesized and actual impact

List of figures

Figure 2.1 conceptual framework

Figure 4.2 normality tests by jarque –Bera

Table of Contents

Statement of Declaration ..... **i**

Acknowledgements ..... **ii**

List of tables ..... **iii**

List of figures ..... **iii**

Table of Contents ..... **iv**

Acronyms ..... **vii**

Abstract ..... **viii**

CHAPTER ONE **1**

1 INTRODACTION **1**

1.1 Back ground of the study 1

1.2 statement of the problem 2

1.3 Hypothesis of the study 3

1.4 Objectives of the study 3

1.4.1 General objectives of the study 3

1.4.2 Specific objectives of the study 3

1.5 Significance of the study 3

1.6 Scope of the study 4

1.7 Limitation of the study 5

1.8 organization of the paper 5

CHAPTER TWO **6**

RELATED LITERATURE REVIEW **6**

2.1 Theoretical literature review 6

2.1.1 Definition of Tax 6

2.1.2 Objectives of Taxation 6

2.1.3 Taxation in Ethiopia 7
2.1.4 The Tax Process 8
2.1.7 Presumptive Taxation 13
2.2 Empirical review of literature 15
2.3 Conceptual frame work. 17
3. Research Design and Methodology 19
3.1 Introduction 19
3.1.1 Research Design 19
3.2 Research Approach 19
3.3 Targeted Population and Sampling Techniques 20
3.3.1 Sampling Techniques 20
3.4 Data Sources 20
3.4.1 Methods of Data Collection 20
3.5 Data analysis 20
3.5.1 Descriptive Analysis 21
3.5.2 Inferential Analysis 21
3.6 MODEL SPECIFICATION 21
3.7 Description of variables and their measurements 22
3.7.1 Dependent variable 22
3.7.2 Independent variables 22
CHAPTER FOUR 25
4. Results and Discussion 25
4.1 Introduction 25
4.1.1 Background Information about Respondents 25
4.1.2 Characteristics of tax officers 26
4.2 Descriptive statistics 27
4.3 CLRM Assumptions and Diagnostic tests 30
4.3.1 Normality 30
4.3.2 Heteroscedasticity 32
4.3.3 Test for multicollinearity 33
4.3.4 Test for autocorrelation 33

4.4 Correlation Analysis 34
4.5 Regression result 37
4.6 Discussion of Regression Result 40
Chapter Five 43
5. Conclusion and Recommendations 43
5.1. Conclusions 43
5.2 RECOMMENDATION 44
Reference 46
Appendix 1 Questioner 48
Appendix 2 Regression result 50

Acronyms

VAT	Value Added tax
TA	**Tax Awareness**
TC	**Tax Compliance**
II	**Income of Individual**
TE&TA	**Tax Evasion &Tax Avoidance**
SPSS	**Statistical Package for Social Science**
ET/ETC	**Effectiveness of Tax Collection**
OLS	**Ordinary least squares**
MOF	**Ministry of Finance**
VIF	**Variance Inflation Rate**
GDP	**Gross Domestic Product**

Abstract

The focus of paper was to assess factor that affect effectiveness of tax collection for category C tax payers in Wolkite town. The objective of the study was to identify factor that affect effectiveness of tax collection such factor like tax compliance tax awareness income of individual land tax evasion &avoidance. A study is important to identify significant variables affecting effectiveness of tax collection. The research approach adopted in this thesis included primary data set that consists which include questionnaire at sample used Judgment also sampling technique was random sampling. Both descriptive statistics and SPSS 20TH Version tools were employed to analyse and present the obtained data. The findings from this research provide evidence that, tax awareness regression result shows negative insignificant, tax compliance positive and significant, income of individual has the positive sign which is significant, and tax evasion &avoidance have positive insignificant impact on effectiveness of tax collection.

The main conclusions drawn from this study are, income tax compliance and income of individual have significant impact on effectiveness of tax collection.

CHAPTER ONE

1 INTRODACTION

1.1 Back ground of the study

Tax is one of the most important sources of revenue to the government. It is compulsory payable or contribution from an economic unit without any direct and proportional benefit from the government for their contribution. Tax is the major income for the state to fund a public expenditure and other costs (Gabriel, 2006). The government has carried out identifying the factors affecting effectiveness of tax collection and administration. The effectiveness of tax collection is dependent on variety of factors such as the state of the economy, public support priority of the government and willingness of tax payers. Internal factors such as the skill and experience of employees, infrastructure facilities including computerization of the revenue of the revenue also highly impact the effectiveness of tax collection.

In an ever-changing environment, revenue authorities must have a clear focus on what their goals are and continually over viewing their operating approaches and procedures to ensure that they are making the most effective and efficient use of the resources available to them (Baysa, 2005).Any nation, in order to ensure development, it needs revenue collected in the form of tax. Proper tax for collection in turn requires an efficient tax system. The task of establishing the necessary infrastructures like modern roads, schools, health centre and the like can be carried out when tax was properly collected. These infrastructures belong to the society as some put it. They not only provide service to the society but also are constructed by the money collected from them.

Thus, the tax that was collected from the tax payers is usually utilized for the construction of different infrastructural facilities for the public (wakumakudama 2006). Category “C” taxpayers are taxpayers: That are not classified under Categories “A” and “B”, and businesses whose annual turnover is estimated up to Birr 100, 000 are classified under this category of taxpayers. A standard assessment method should be used to determine the income tax liability of category C taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment

(ECC 2005). In our country tax is considered by the society as a debt imposed by government to increase the wealth of the government officials.

To avoid the negative attitude from the tax payer about tax collection and other related issues with designed tax collection about tax collection category 'C'. (Lemessa Tulu 2007) in addition, educating the society, regarding its obligation and the purpose of the tax collection minimizes the wrong attitude of the tax payer therefore; this study would be examined the factors that affect effectiveness of tax collection in the wolkite town

1.2 statement of the problem

Tax is the main source of revenue for the government to finance its expenditure. Therefore, it is better to have a proper plans and study in order to have effective collection system. Government must collect an appropriate amount of tax in order to provide essential services to public such infrastructure, health care, education etc. However, there are some factors that affect the effectiveness of tax collection more in developing countries like our country Ethiopia such as /awareness, tax compliance, income of individual and tax evasion etc. (Tanzi 2000).

Despite the fact that people need to pay taxes based on rationales of vertical and horizontal equities, it is not always the case that tax systems are comprehensible and transparent for category "C" tax payers especially for those who are fewer literate individuals. Tax systems are usually not elaborated properly with the society. Consequently, the Category „C" taxpayers complain that the tax assessment method is based on subjective estimation as a result of which they are frequently subjected to over-taxation. The extent of the impact of attitudes and attitudinal change on tax compliance behaviour was not well understood and studied in this area have not been carried out in wolkite town. Therefore, addressing this attitudinal or knowledge gaps among the Category „C" taxpayers are the primary purpose of this study.

It is for this reason that this study attempted to find out the Effectiveness on tax assessment and collection practice of category "C" tax payers in wolkite town administration, SNNPRS. Therefore, in this study the researcher would be tried to feel those gaps by engaging different way this research would address the stated difficulty in successful collection of tax.

1.3 Hypothesis of the study

H1, awareness had positive and significant impact on tax effectiveness of tax collection of category ‘C’ tax payers.

H2, tax compliance also had positive and significant impact on tax effectiveness of tax collection of category ‘C’ tax payer

H3, income of individual had positive significant impact on tax effectiveness of tax collection of categories ‘C tax payers.

H4, tax evasion and avoidance had negative and significant affecting tax effectiveness of tax collection of category ‘C’ tax payers.

1.4 Objectives of the study

1.4.1 General objectives of the study

The general objective of the study was to examine the factors that affect the effectiveness of tax collection for category ‘c’ Tax payers.

1.4.2 Specific objectives of the study

To examine the factors that affect tax payers’ awareness which affect effectiveness of tax for collection of categories ’C’ tax payers.

To investigate factors that tax compliance which affect effectiveness of tax collection of for category ‘C’ tax payers?

To assess the factors that income of individual which affect effectiveness of tax for collection of category ‘C’ tax payers?

To examine factors that tax evasion and avoidance which affect effectiveness of tax for collection of category ‘C’ tax payers.

1.5 Significance of the study

It is expected that the result of this study would be help the office of revenue in wolkite town to understand the weakness and strength of its operation in relation with collecting tax from the registered enterprise and individuals. It would help the office to take on necessary measurement and overcome the problem of tax. At first glance, the study would be important for management

bodies and employees of Wolkite Town Administration Revenue Authority Branch office by suggesting major factors those would influence their revenue collection decision and the most prominent strategy they have to care of as well. Moreover, it would also enable managers and employees to know how they have to treat such factors in order to increase compliance of tax payers to tax law thereby enabling to maximizing their revenue.

Moreover, it would provide constructive feedback about the efficiency and effectiveness of the existing tax practice in wolkite Town Administration. Secondly, this study would be significant for current category C tax payers in wolkite Town by providing feedback, knowledge and direction about tax payer's compliance with taxation thirdly; the results of this study could inform policymakers how the determinants influence tax compliance behaviour. The analysis focuses on tax compliance and its determinants and is therefore subject to an underlying assumption of tax payers' understanding of tax and other potentially relevant information.

The results of this study also provide specific insights and allow policy makers to gain a better understanding of the key variables that are significantly associated with tax compliance and enable them to implement suitable strategies to minimize potentially 10 damaging factors, and should also allow them to improve their government's tax revenue collections. Finally, this study would be used as a good reference, as indication, as a preliminary data, and as a stepping stone for other researchers in the future those would conduct their research in relation with factors affecting taxpayer's compliance in general and in case of category C taxpayers in particular.

1.6 Scope of the study

The scope of the study geographically limited to the wolkite and also, this study conceptually, to assess the factors affecting the effectiveness of tax collection in wolkite town. The researcher relay only on factors which associated mainly with study area on tax payers of investigate the factors that affect effectiveness of tax collection in town on category 'C' tax payers.

1.7 Limitation of the study

In the study process, we would expect the following limitation; these are time limitation, lacks of finance to reach the respondents, some people may not would to fill the question or give accurate answer and transportation constraints especially when the primary data would take place. However, there were above limitation the researcher solves by allocating time properly and financing from family and get information from migrant's family.

1.8 organization of the paper

The paper organized in to five chapters. Chapter one which tells about introduction part including back ground of the study, back ground of the organization of paper, statement of the problem, objective of the study, scope of the study, significance of the study and limitation of the study. Chapter two deals with the review of the literature which used as the theoretical frame work of the research. Third chapter deals with the methodology of the study. The fourth chapter deals with data presentation and discussions. And the fifth chapters are about conclusion and recommendation.

CHAPTER TWO

2. RELATED LITERATURE REVIEW

2.1 Theoretical literature review

2.1.1 Definition of Tax

The term tax could be defined in different ways by different scholars. The main reason why there could be different definitions is because of the perspective from which the different scholars look in to tax. A tax is a compulsory contribution to the government, imposed in the common interest of all for the purpose of defraying the expenses incurred in carrying out the public functions, or imposed for the purpose of regulation without reference to the special benefits conferred on the one making the payment (McGee). A tax can be defined as a payment to support the cost of government. A tax differs from a fine or penalty imposed by a government because a tax is not intended to deter or punish unacceptable behaviour.

On the other hand, taxes are compulsory rather than voluntary on the part of the payer. A tax differs from a user's fee because the payment of a tax does not entitle the payer to a specific good or service in return (Jones 2004,) The black's law dictionary defines tax as ''a charge by the government on the income of an individual, corporation or trust, as well as the value of an estate or gift".

2.1.2 Objectives of Taxation

The main objectives of taxation are the following:

1. **Raising revenue by government to finance expenditure of its agencies**: The primary objective of taxation is to raise revenue to support expenditure according to the writer, these expenditures includes education, health provision of utilities maintaining, laws and defence all needs expenditure.
2. **To minimize income and wealth inequalities**: To narrow the gap between the rich and the poor, most governments adopt progressive tax system. In such system the higher income groups pay more amount of tax and the middle-income tax pay lower amount of tax. Then the taxes collected from the higher and middle-income earning groups are used to subsidize

the lower income earning groups and unemployment.

3. **To ensure economic stability**: Governments use taxation to control inflation and deflation pressures. During inflation period government may increase the existing tax rates or impose additional taxes to reduce abnormal demand. During deflation period, governments may reduce the existing tax rates or remove certain taxes to increase demands and encourage business activities.
4. **To discourage the consumption of harmful products:** By imposing high heavy taxes on harmful products that worsen people's health such as tobacco and alcoholic products
5. **To promote private investment:** Through the provision of tax exemption, tax recession, and reduction, government promotes private investment in their countries.

2.1.3 Taxation in Ethiopia

The history of taxation in Ethiopia has a relationship with the government structures of the country; there exist hardly any reliable documentary evidences to justify the relation of emergence of government and taxation, when exactly taxation was introduced. Different stories and evidences point out that Emperor Zeria-Yakob started taxation in Ethiopia during the 15th century. Governments which came to power in Ethiopia at different periods have frequently revised and repealed the statutory bases for various types of taxes providing for tax bases and tax rates, time and mode payment, exemptions and offenses. However, there has been no document or materials produced which compiles tax proclamations issued at different periods.

The initial statutory bases for all the tax proclamations was the 1931 Constitution of Ethiopia which later revised and become Revised Constitution of Ethiopia. Because most of the products on which tax was levied (tax bases) were agricultural products, the type of taxation in traditional periods was unstructured and mostly in kind. Taxation in that period was varying highly from area to area and was often arbitrary, i.e. the amount to pay and the mode of payment depends on the will of the chief tax collector and the kind of resources available in the area (Lemessa, 2005).

According to the Constitution of Federal Democratic Republic of Ethiopia, revenue sources are assigned between Federal government and Regional states. Regional states can endorse their income tax proclamation and regulations based on the constitution in conformity with the federal income tax proclamation. According to the current federal income tax proclamation no.286/2002

taxpayers are categorized into three categories, namely category “A”, “B”, and “C” based on their volume of sales and form of business.

Category “A” includes any company incorporated under the tax law of Ethiopia or in or a foreign country and other entities having annual turnover of Birr 500,000 and more. Those who are categorized under “A” have to maintain all records and accounts which will enable them to submit a balance sheet and profit and loss account disclosing the gross profit, general and administrative expenses, depreciation, and provisions and reserves together with supporting vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2). Category ‘B’ includes those enterprises having annual turnover of more than Birr 100,000 and less than Birr 500,000. This category of taxpayers must submit profit and loss statement at the end of the year.

The law requires all entries in the records and accounts to be supported by appropriate vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2). Category ‘C’ unless already classified in categories ‘A’ and ‘B’ include those taxpayers whose annual turnover is estimated by the Tax Authority at Birr 100,000 or less. On the other hand, standard assessment is used to determine the income tax liability of Category ‘C’ taxpayers. This type of assessment is a fixed amount of tax determined in accordance with the Council of Ministers Regulation established Schedules. This category of taxpayers is the most problematic category of taxpayers and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by tax administration.

2.1.4 The Tax Process

Taxation is a very dynamic process of interaction among people. Tax rules are made, interpreted and administered in minutely different situations by unique humans who work with a very imprecise language. Because the taxing process is an entirely human one, distinct opportunities and problems are created. First, this means the rules are in a constant state of flux, and, under the proper circumstances, they can be rewritten or reinterpreted to the distinct advantage (disadvantage) of one or a few taxpayers. Second, it means a knowledgeable taxpayer can often prearrange events so only the most favourable tax results will be applicable. Third, it means that even when a taxpayer fails to exercise any preliminary auction, he or she may be able to argue successfully that a particular situation is

(is not) within the meaning of certain statutory words. Theoretically, the individual determines the tax liability and reports that determination with the proper remittance to the government on a timely basis. As a practical matter, the tax rules have become so complex that a majority of the taxpayers believe they are individually incapable of self-compliance and therefore, they turn to tax experts for assistance. Although an expert can help a taxpayer meet an obligation, the taxpayer alone bears the brunt of the liability for complying with the law.

2.1.4.1 Tax Collection Activities

The most recent work (Misrak, 2011), stated that tax collection activities are activities which are directly related to tax collections. These activities may include:

- Identifying and registering potential taxpayers to levy and collect taxes
- Advising taxpayer on tax matters to make them understand their tax rights and obligations.
- Authorizing withholding agents and issuing authorizations.
- Receiving tax returns from taxpayers
- Determining tax liabilities and payable of taxpayers (assessing taxes).

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2.1.4.2 Tax Collection Enforcement

As noted by Lisa (2007), tax collection enforcement is the action of enforcing the collection of the assessed outstanding tax debts or delinquent taxes from taxpayers who did not voluntarily comply with their tax obligations through seizure and sell of property or seizure of accrued wage/salary action and without going to a court. Such enforcing action also includes the collection of penalties, interest and further expenses resulting from the collection enforcement. As indicated by the prevailing income tax law of our country, any taxpayer shall comply with the law of the country and pay his tax obligation within the due date prescribed in the tax law. However, if taxpayers violate the tax laws and unable to discharge their tax obligations within the prescribed due date, the tax authority is forced to take measures.

2.1.5 Tax Payers Education

Comprehensive taxpayer education programs have been controversial for the taxpayer. Since then, the taxpayer education program has been improved tremendously. The positive correlation

between compliance and tax collected indicates the importance of taxpayer education to the general public, especially for tax payers who are willing to pay taxes when they feel they will receive something in return from the government and believe that others are paying their fair share of taxes. The taxpayer education programs need to convince the taxpayer that tax systems are equitable for all citizens.

2.1.5.1 Objectives of Taxpayers Education Program

As sated on the Common Wealth association of Tax Administrators 25th Annual Technical conference on Kuala Lumpur (2004) had the following objectives in order to have a successful taxpayer education program: Creating taxpayer awareness of laws and procedures, educating taxpayers on their tax responsibilities and rights, assisting and motivating taxpayer to comply voluntarily, assisting taxpayers on reporting the correct income and amount of tax, maintaining close relationship between the government and the taxpayer continuously. Ana also instilling public confidence, providing efficient, effective and professional services, and providing quality services to customers which is in line with tax authorities' slogan "Friendly, Helpful, Satisfying". Taxpayer education program designs are not only limited to providing tax information to taxpayers, but also offering tax assistance aimed at resolving taxpayers' problems quickly.

2.1.5.2. Benefits of Tax Payer Education

I) Improves efficiency in the organization

Through interactions with the taxpayers, tax authorities will get to hear views or complaints about the tax administrations. From this feedback, Revues Offices is able to plan on how to improve the services offered to them. This will result in improvement and increase in efficiency of Tax Administration.

ii) Reduces the incidence of tax evasion

By having taxpayer education and customer services, the taxpayers are aware of the tax laws and procedures and also the penalties. Further dissemination of information regularly will deter taxpayers from evading tax.

iii) Enhances voluntary tax fulfillment

Taxpayers are informed of their obligations and are persuaded to comply with the tax law and procedures. Taxpayers feel that they are appreciated by the tax authorities and in return, they willingly fulfil their tax obligation.

iv) Lower compliance cost

Compliance cost for the taxpayers is usually associated with the cost in terms of payments to tax agents or tax consultants on advice given, the number of times the taxpayers visit the tax offices, cost of transportation and loss of time in dealing with the tax matters. By offering the taxpayers more appealing options via revenue offices, the compliance cost can be minimized.

v) Increase in tax revenue

By having a good taxpayer education and customer services, tax revenue can increase because we would have better tax compliance as the taxpayers would know their obligation and the cost of compliance is reduced.

vi) Mobility of Resources

As sated on the Common Wealth association of Tax Administrators 25th Annual Technical conference on Kuala Lumpur 2004 with an increase in voluntary compliance, in time Tax Authorities will be able to shift its resources from tax education program to other activities such as improving infrastructure, field audits and specialized training to officers.

2.1.5.3 Tax Assessment

Tax assessment is the definition of the amount the taxation under particular state requires an analysis of the tax payers' situation and legal provisions that apply to him with income tax and also other taxes on the transfer the property, such as inheritance tax, the tax payer submits a tax return providing information as to his professional suppliers. Additionally, copies of balance sheet, income statement and minutes of the general meeting that approved these financial reports. The return with the attached reports and statements is means to provide such complete and correct tax. Most tax systems also collect information in other ways in order to inform as potential tax liabilities (The New Encyclopedia Britannica, 1997, Volume28).

2.1.5.4 Tax Awareness

The degree of knowledge and information might be important factor in the way taxpayers behave. Better educated taxpayers are supposed to know more amount tax law and fiscal connections and thus would be in a better position to assess the degree of compliance. However, it should be noticed that there might be people with a lower education who have acquired a high knowledge about taxation (BennoTorgler, 2003). One way of attempted the remedy for lack of awareness of taxpayers are simply undertake a campaign of "taxpayer education" to convince taxpayer that taxes are the price paid for a civilized society and that the tax system is equitable (R.M. Bird, 1992).

2.1.5.5 Tax Compliance

According to Lemessa (2007), tax compliance is expressed in terms of degree to which taxpayers comply with tax law, and the degree of non-compliance is measured in terms of the tax gap. It is the difference between the taxes that the law seeks to collect and those in fact collected. One issue is whether compliance refers to voluntary or compulsory behaviour. If taxpayers comply only because of dire threats or harassment or both, this would not appear to be full compliance, even if 100% of the tax was raised in line argued that proper compliance means that taxpayers meet their tax obligation willingly, without the need for enquire, obtrusive investigations, remainders or the threat or application of legal or administrative sanctions. A more appropriate definition could thereof include the degree of compliance with tax law and administration that can be achieved without the immediate threat or actual application of enforcement activity.

2.1.5.6 Competency

As stated by Nell (2001), the term "competency" refers to the mental ability to understand problems and make decisions. So that, the office employee should collectively possess the knowledge, and skills essential to the practice of the profession within the organization, employees should always maintain their technical competence through continuing education. The provision of education related to competence is geared partly towards providing an educated work force, prepared for the demands of the modern world of work and partly towards a more general goal of self-improvement and citizenship within a civilized society.

2.1.6 Tax Saving

Tax saving is a method of minimizing or decreasing tax because income and tax to be paid some of the methods are legal and some are illegal these are:

2.1.6.1 Tax Evasion

Tax evasion is a method of saving tax liability by tax payers through fraudulent means or by directly violating tax laws. It usually entails tax payers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability. Tax evasion is illegal, unethical and highly risky since it may result in penalty, imprisonment and closing up of business. Factors that cause tax evasion are high rate of taxation, complexity of tax laws shortage of experienced personnel and deterioration of moral standards.

2.1.6.2 Tax Avoidance

Tax avoidance is the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. It is also a method of saving tax liability by taking advantage of loopholes in the tax laws un like tax evasion tax avoidance is the art of escaping from tax burden without breaking tax laws.
(http://www.en.wikipedia.org/wiki/taxavoidanceandtaxevasion).

2.1.7 Presumptive Taxation

The dictionary meaning of the term presumptive is having a reasonable basis or grounds for belief or acceptance. Accordingly, presumptive taxation is the application of indirect means to ascertain tax liability and different form the usual provision and rules of income tax proclamations. That is a presumptive income tax is a tax based on some measure of economic activity that surrogates for taxable income, rather than on taxable income itself. For instance, it may be assessed on the basis of a firm’s inventory of output or of some input of the production process or of gross sales over a period of time and it covers a wide variety of alternative means of determining the tax base, ranging from methods of reconstructing income based on administrative practice. In any case, the aim of the tax authority is to estimate the taxable income of the whole economic activity at hand.

According to the above writers, presumptive income taxation is employed primarily in incomes where hard to tax taxpayers comprise the majority of the population and administrative resources are scares. In developed countries, the transaction from presumptive to actual income-based taxation parallels the shift from agricultural to industrial economies. In developing countries however, presumptive taxation may still be the most appropriate method of tax administration for specific groups of tax payers (www.addischamber.com).

2.1.7.2 Presumptive Taxation in Ethiopia

The income tax proclamation No286/2002 categorizes taxpayers in Ethiopia in to three: namely category "A", category "B" and category " C".

- Category "A" includes enterprises established as body and those who have annual turnover Birr 1,000,000and above.
- Taxpayers having annual turnover greater than Birr500, 000 and less than 1,000,000 falls under the category "B."
- Taxpayers having annual turnover Birr500, 000 and below are grouped under category "C".

The first two categories of the tax payers are required by law to keep books and records and assessment is based on such evidences. However, category "C" taxpayers are not compulsorily required to keep records of their transactions.

As the assessment and audit procedures are administratively costly, the Ministry of revenue developed presumptive methods for determining tax liability of category "C" tax payers. Article68(1) and (2) of the income tax proclamation and article 21 of the council of Ministers regulation provides for the procedures of determining tax liability under presumptive technique. The presumptive method used by the Ministry of Revenue for assessing the tax of category "C" tax payers is based on three variables:

- Estimated annual revenue of tax payer
- The number of working days of taxpayer in a year and
- The profitability rate of each business.

The Ministry of Revenue develops the other variable, the profitability rate. The research team in the Ministry of Revenue identified 69 types of trade activities through the survey

conducted through the country and the profitability rate is determined from data gathered from the traders. The profitability rate so developed is finally approved by Ministry of Finance (MOF) before its implementation. The profitability rate is revised every year by the team of researchers in this regard.

2.2 Empirical review of literature

James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for 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-compilers. 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 tax payers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons. On other side, other writers such as Smith and Kinsey (1987) argue that tax noncompliance is an intentional behaviour. 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 behaviour.

According to Fjeldstad and Ranker (2003), increased efficiency of the tax administration, however, is not enough. Many observers conclude that a lack of paying tax 'culture' is the largest obstacle to building a firm long-term revenue base. The opposite may, however, also be the case: as long as the tax administration cultures perceived to be influenced by sectarianism, nepotism, and corruption, it is unlikely to contribute to the fostering of a more conducive paying tax culture. It is pointed out by Adams (2003) that the success of income tax rests primarily upon the honesty of taxpayers. Adams further states that one of the factors that contribute to the dishonesty of the taxpayers is the complexity of the tax system, as it may lead to administrative failures. This can be viewed as it has relation with the tax culture of the society. Practically it is difficult to obtain genuine information from taxpayers regarding their income.

Hence, tax gap is created to the extent the taxpayers hide information regarding their business activity. Lack of ability to pay**,** this issue holds true in Ethiopia also where several small business operators (category 'taxpayers) are accumulating their annual tax obligations due to lack of

ability to pay. Generally, when taxpayers have no 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 (Lemessa, 2005) 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 voluntarily comply or not to comply with the tax law. As cited by Slemrod (2000), the dimension of trust that seems to affect compliance is trust in other citizens to pay their share of service 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.

Attitudes towards the government (Levi, 2005) may affect the taxpayer's normative commitment to comply with law. Similarly, Due and Fried lander (1999), also argue that, attitudes toward the general level of taxation and tax increases are dependent, of course, on attitudes about the desirability of governmental programs and on attitudes toward the government itself. On the other hand, citizens' willingness to pay taxes voluntarily rests on the local government's capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise non-compliant. Empirical literature related tax compliance factors in Ethiopia also show similar results. For instance, Yohnnes Mengesha and Zerihun Ashebir (2013), study conducted on identifying the gaps and problems that exist between the Dire Dawa business community and the tax authority results show that most of the taxpayers, especially those in the category 'C', do not exactly know how the tax is assessed or calculated and the procedures in the tax assessment and computations are not objectively understood by most of the taxpayers.

The finding also reveals, over taxation as result of over estimation of daily/annual income, No transparent, non-participatory standard assessment by the authority on category "C taxpayers", Lack of fairness or equity of taxation among similar businesses of category "C taxpayers" Poor tax laws enforcement especially for VAT and large number of tax defaulters, Poor

communication and understanding between the tax authority and taxpayers, Weakness in tax collection and unsatisfactory service delivery of tax authority. Study conducted by Suresh Vadde and SrinivasGundarapu (2010), on major factors that influence attitudes of rental taxpayers and their compliance behaviour with tax system in mekele city administration. The study indicated that there were some dishonest rental tax payers. Even there are some individually who entirely don't report their taxable income to the concerned body.

In addition to the above, the study also disclosed that with the exception of minority of the rental tax payers who hold certificate and diploma, majority of them were within educational back ground of elementary and high school completed. Hence, it can be concluded that rental tax Payers lack knowledge of easily understanding the laws and regulations of the tax system and How their taxable income is computed. Therefore, it can be concluded that still many respondents are not attending or participating in the tax training session. The researcher uses variables such as tax avoidance and evasion, tax compliance, tax awareness and income of individual to fill the gap, but in this research might be as much as possible to fill the gap. Also, no single researcher addresses this gap; the future researcher can fill the gap.

2.3 Conceptual frame work.

Conceptual framework means that concepts relate to another are used to explain the research problem. To align the conceptual framework with the research objectives, the effectiveness of tax collection is the dependant variable whereas tax compliance, tax awareness, income of individual and tax evasion& avoidance was independent variable.

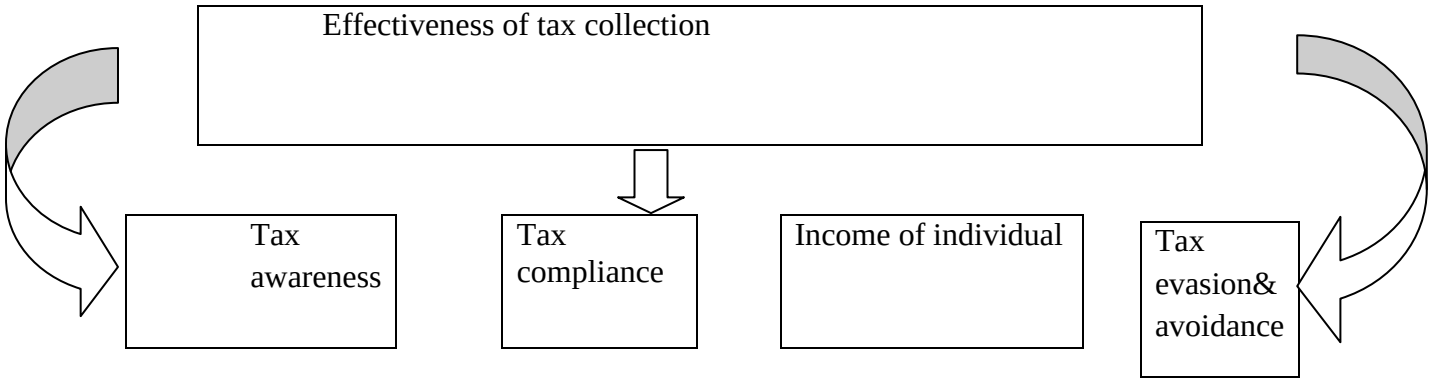

Figure 2.1 Conceptual Framework

CHAPTER THREE

3. Research Design and Methodology

3.1 Introduction

This chapter specifically gives a brief description of the research method that would be employed to capture factors that affect effectiveness of tax collection for category C tax payers. This includes research approach, research approach adopted and relation between research hypotheses and data sources. A detail description of mixed research design tools with their sample and sampling procedure, research approach, sources of data and the data collection procedures, type of data analysis and model specification would be discussed.

3.1.1 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions (John A.H. et al., 2007). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. The same authors discuss three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships). Therefore, the research problem tends to be explanatory which was seek to explain the relationship between the effectiveness of tax collection for category C tax payer and factors. The following section would be present a detail of each methods with their data source, data collection method, Sampling technique and population and sample.

3.2 Research Approach

Mixing quantitative and qualitative data sequentially helped the study, to understand a research problem more completely (Creswell, 2009). Therefore, this study would adopt a mixed research approach which is a combination of qualitative and quantitative approaches. Thus, the data collection also would involve gathering both numeric information (document review) as well as text information (e.g., on interviews) finally the database represented both quantitative and qualitative information.

3.3 Targeted Population and Sampling Techniques

The Populations for quantitative data collection for this study were Category "C" tax payers of wolkite town Administration. So, Total population of category <C> tax payers in wolkite town Administration is about 3757.The effectiveness of tax collection is measured by the collectors so the total number of tax collectors from Category "C" tax payers of wolkite town Administration is 52 in number of which the researcher was take 15 sample key informant include head of tax revenue office, revenue and tax collection work process coordinator and vice head of the office, tax collectors and tax assessors of town tax revenue office based on their administrative position and experience on the subject under study. The sample size is determined based on judgment sample techniques.

3.3.1 Sampling Techniques

To select the sample of this study first of all researcher would use random sampling. First of all, the researcher divides the tax collectors who engage in tax revenue office in to different strata's and then we select the respondents for the questionnaire by random sampling method. Moreover, the interview would be selected by non- probability purposive sampling method made with the managers of the tax collectors.

3.4 Data Sources

The study would have used primary data sources. The primary data would be collected from questionnaires and close ended collected from tax collectors who engage tax revenue office.

3.4.1 Methods of Data Collection

In order to obtain information, which are qualitative and quantitative that enable the researcher to collect data from primary source by using structured questionnaires would be made with owners of different tax collectors. Moreover, the interview would be conducted with the deferent of category C tax collectors in wolkite town.

3.5 Data analysis

This is the further effectiveness of the processed data to look for patterns and relationship between and/or among data groups by using descriptive and inferential (statistical) analysis. The Statistical Package for Social Science (SPSS) version 20 would be to analyse the data is obtained from primary sources. Specifically, descriptive statistics (mean, standard deviation and chart) and inferential statistics (correlation and regression) would take from this tool.

3.5.1 Descriptive Analysis

Descriptive analysis would be used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation). The reason for using descriptive statistics would to compare the different factors

3.5.2 Inferential Analysis

According to Sekaran (2000), inferential statistics allows to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. The following inferential statistical methods were used in this study: Linear regression is a method of estimating or predicting a value on some dependent variable given the values of one or more independent variables. Like correlations, statistical regression examines the association or relationship between variables. Unlike correlations, however, the primary purpose of regression is prediction (Geoffrey M. et al., 2005). In this study multiple regressions would be employed. Multiple regression analysis takes into account the inter-correlations among all variables involved. This method also takes into account the correlations among the predictor scores (John Adams, et al., 2007). They added multiple regression analysis, which means more than one predictor is jointly regressed against the criterion variable.

3.6 MODEL SPECIFICATION

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable (effectiveness of tax collection) and independent variables (tax awareness, tax compliance, income of individual and tax avoidance and tax evasion. In econometrics, Ordinary Least Squares (OLS) method is widely used to estimate the parameter of a linear regression model. OLS estimators minimize the sum of the squared errors (a difference between observed values and predicted values). While OLS is computationally feasible and can be easily used while doing any econometrics test, it is important to know the underlying assumptions of OLS regression. As a result of these, researcher would be used this model. The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables. Regress effectiveness on Selected Variables equation as follow:

$Yi = \beta o + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + EO$ Where: Y is the response or dependent variable- effectiveness of tax collection X1=tax awareness, X2= tax compliance, X3= income of individual, X4= tax avoidance & tax evasion and EO =errors. βo is the intercept term- constant which would be equal to the mean if all slope coefficients are 0. β1, β2, β3, β4, and are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables. Accordingly, this statistical technique would be used to explain the following relationships. Regress transformation (as dependent variable) on would the select linear combination of the independent variables.

3.7 Description of variables and their measurements

3.7.1 Dependent variable

The response variable is the effectiveness of tax collection for category C tax payers and it is measured by different types of variables such as tax awareness, tax compliance, income of individual and to tax avoidance and tax evasion (chelliah 1994 and Bahi, 2010, Tanzi 1992.

3.7.2 Independent variables

Many determinant factors make to impact on effectiveness and meet their intended purposes of which some of the main factors repeatedly detailed in different literature that due care has to be given by the researchers are presented here below:

Tax Awareness

The degree of knowledge and information might be important factor in the way taxpayers behave. Better educated taxpayers are supposed to know more amount tax law and fiscal connections and thus would be in a better position to assess the degree of compliance. However, it should be noticed that there might be people with a lower education who have acquired a high knowledge about taxation (BennoTorgler, 2003). One way of attempted the remedy for lack of awareness of taxpayers are simply undertake a campaign of "taxpayer education" to convince taxpayer that taxes are the price paid for a civilized society and that the tax system is equitable (R.M. Bird, 1992). In generally tax payers had higher level of tax awareness is expected to positive effect on tax.

Income of Individual

The income of individual factor was statistically significant and had positive relationship with the effectiveness of tax collection and is significant this could be due to the fact that income of individual has impact associated with effectiveness of tax collection successfully (Haider M 2013).

Tax Compliance

According to Lemessa (2007), tax compliance is expressed in terms of degree to which taxpayers comply with tax law, and the degree of non-compliance is measured in terms of the tax gap. It is the difference between the taxes that the law seeks to collect and those in fact collected. One issue is whether compliance refers to voluntary or compulsory behaviour. If taxpayers comply only because of dire threats or harassment or both, this would not appear to be full compliance, even if 100% of the tax was raised in line argued that proper compliance means that taxpayers meet their tax obligation willingly, without the need for enquire, obtrusive investigations, remainders or the threat or application of legal or administrative sanctions. A more appropriate definition could thereof include the degree of compliance with tax law and administration that can be achieved without the immediate threat or actual application of enforcement activity.

Tax Evasion

They have negative impact on effectiveness of tax collection which reduces government income in order to distribute social service. Tax evasion is a method of saving tax liability by tax payers through fraudulent means or by directly violating tax laws. It usually entails tax payers deliberately misrepresenting or concealing the true status of their affairs to the tax authorities to reduce their tax liability. Tax evasion is illegal, unethical and highly risky since it may result in penalty, imprisonment and closing up of business. Factors that cause tax evasion are high rate of taxation, complexity of tax laws shortage of experienced personnel and deterioration of moral standards. (Ghura1998).

Tax Avoidance

Tax avoidance is the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. It is also a method of saving tax liability by taking advantage of loopholes in the tax laws unlike tax evasion tax avoidance is the art of escaping from tax burden without breaking tax laws.

Tables 3.7.3 Summary of the independent variables measurement's and expected sign.

Independent variables	Their measurement's	Expected sign
tax awareness	Linkert scale	+
tax compliance	Linkert scale	+
Individual of income	Linkert scale	+
tax avoidance and evasion	Linkert scale	-

CHAPTER FOUR

4. Results and Discussion

4.1 Introduction

In the preceding chapters, the review of relevant literature helped this study to understand the problem and design an appropriate research approach to deal with. The previous chapter also discussed the research design employed to achieve the objectives of the study and to test the research hypotheses there on. In this chapter, the study analyses the collected data using various statistical tools and presents the results and discussion accordingly. This chapter is organized in three sections. The first sub section presents the result back ground information about respondents. The second section presents the result which includes descriptive statistics, CLRM Assumptions and Diagnostic tests, correlation analysis, the regression results and interview result. The second section is dedicated to the discussion of results.

4.1.1 Background Information about Respondents

Table 4.1: sex of the respondents

Sex	Number of respondents	Percentage
Male	9	60
Female	6	40
Total	15	100

Source: - SPSS output from survey data (2023)

Out of 15 respondents, 9 (60 percept) of the respondents are male and 6(40percent) are female. The table 4.1 indicates that there is a sex bias in wolkite town. Participation of human is less in modern paying and credit market due to the major decision in the hands of the males. These control decreasing the women participation, it is only depending on male's participation since women who play an important role for the effectiveness of tax collection as well as the country

as a whole are left or less in number than males it deals to affect the effectiveness of tax collection in the category C tax payers.

4.1.2 Characteristics of tax officers

Table 4.2 Educational level of the tax officer's respondents

Educational level	Number of respondents	Percentage
Certificate	1	7%
Diploma	4	27%
First degree	8	53%
Above degree	2	13%
Total	15	100%

Source, SPSS output from survey data, 2023

Out of 15 tax officers, had 1(7%) Certificate, 4(27%) diploma, 8(53%) First degree and 2(13%) had above degree. This shows the majority (53%) were first degree in general it may be concluded that educational level of the respondents is in better situation for the effectiveness of tax collection in the study area. This shows the tax is collected by skilled employees this enhances effectiveness of tax collection.

4.3 Position of the employee in the organization

No	Employee working position	Frequency	Percentage %
1.	Manager	1	7%
2.	Employee	12	80%
3.	Supervisor	2	13%
	Total	15	100

Source: -SPSS output from survey data 2023

From the table 4.3 above it can be easily seen that the majority of the respondents working under employee position and the remaining 7% and13% of the organization were under the manager and supervisor position respectively. Generally, from this the researcher understood that the manager plays a significant role in controlling, directing and by-passing necessary decision regarding how the overall objectives of the organization to be successful in every aspect.

Table 4.4 Year of service in your organization

Year of service	No. of respondents	Percentage
Below 2 years	4	26.67%
3-5 years	6	40%
6-10 years	4	26.67%
11-15 years	1	6.66%
Total	15	100%

Sources: - SPSS output from survey data 2023

Table 4.4

From the above table, 6(40%) of the respondents have 3-5 years' work experience; 4(26.67%) of the respondents have below 2 years work experience and 3-6-year work experience; and the remaining 1(6.66%) of them had 6-10 years' work experience. The researcher concluded that most of the respondents in the organization had 3-5 years, below 2 years, 6-10 years and 11-15 year' work experience. Thus, the more experienced employees help to the effectiveness of tax collection in town as well as in country.

4.2 Descriptive statistics

There are a number of challenges that affect effectiveness of tax collection for category C tax payers associated with different factors. This part explains the descriptive statistics calculated on the basis of the factors that affect the effectiveness of tax collection for category C tax payers. The explained variable of this study is the effectiveness of tax collection for category C payers and explanatory variables are to assess to tax awareness, tax compliance, tax evasion & tax avoidance, and income of individual. The descriptive statistics include mean, median, maximum, minimum and standard deviation of all study variables.

Table 4.5: Summary of descriptive statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TA	15	15.00	25.00	19.8000	2.70449
TC	15	21.00	30.00	25.0667	2.65832
II	15	15.00	25.00	20.9333	2.63131
TE&TA	15	16.00	30.00	23.1333	4.80872
ET	15	3.00	5.00	4.2667	.88372
Valid N (list wise)	15				

The descriptive statistics of the dependent and explanatory variables for the category C tax payers are summarized in the above table. The total observation for each dependent and explanatory variable was 15. Moreover, the table also shows the mean, standard deviation, minimum and maximum values for the dependent and independent variables. As shown in table 4.5 above, the dependent variable of this study, effectiveness of tax collection for category C tax payer's effectiveness of tax collection (ET), have a mean value of 4.2667 and from standard deviation of 0.88372.

This implies that during the study have normal accrual, with average mean value of 4.2667 On the other hand, the minimum and maximum value of 3 and 5 indicate that form the sampled effectiveness of tax collection (ET) with 5 have maximum have the highest effectiveness of tax collection while ET with 3 chance have to minimum effectiveness of tax collection. The entire table shows that the in wolkite town have averagely positively 4.2667 of normal accrual, that implicate effectiveness of tax collection for category C tax payers. This indicates of the effectiveness of tax collection of the mean value with 4.2667 with the standard deviation of 0.888372. This means that in average normal mean values of 4.2667 of category C tax payers are agreed in the effectiveness problem.

The first independent variable of the study, tax awareness, as demonstrated in table 4.3.1 has a minimum value and maximum value of 15 and 25 respectively. These imply that there is a tax collection out of effectiveness of tax collection (ET) with the maximum tax awareness is 25 and an ET with as minimum tax awareness is 15 ratio of total tax awareness available to ET and tax awareness unavailability during the review period. Yet, ratio of total availability of tax awareness to ET and effectiveness has 2.70449 standard deviations from its mean value with 19.8000. The average ratio is reported to be 19.8000% during the review period. According to this the effectiveness of tax collection for category C tax payers on their awareness 19.8000% from awareness.

The tax compliance another independent variable of the study, as shown on the table 4.5 has mean value of 25.0667% that clearly displays in this study period the sample ETC for category tax payers have composed, on average, 25.0667% of tax compliance from independent tax compliance. The minimum and maximum independent tax compliance value for this effectiveness of tax is show as 21 percept and 30 precepts respectively, where 21% implies gap of tax compliance to ETC independent tax compliance and 30% means the at least one category C tax payers have 30% use independent tax compliance for effectiveness in wolkite town. Standard deviation value 2.65832 of reveals the average spread from the mean value of category C tax payers has tax compliance.

Income of individual measure, category C tax payers another independent factors shows, have a mean value of 20.9333 and standard deviation 2.63131%. Besides, the minimum and maximum amount of ETC for category C tax payers of the sampled is 15% and 25% respectively. This indicates that there are category C tax payers with a maximum have in order to effectiveness 25% and a category C tax payers with a minimum income on effectiveness of tax collection for category C tax payer are 12%. Tax avoidance and evasion is another indicator of effectiveness of tax collection for category C tax payers in this study. As reported in table 4.3.1 its mean value and standard deviation is 23.1333% and 4.80872% respectively. The maximum and minimum value for TA&TE ratio of category C tax payers in wolkite town is 30% and 16%respectively. This implies that the category C tax payers have only 30% TA&TE have impact on effectiveness of tax collection out this 16% the payers were not affecting on effectiveness of tax collection.

4.3 CLRM Assumptions and Diagnostic tests

Different tests were run to make the data ready for analysis and to get reliable output from the research. These tests were intended to check whether the CLRM assumptions, i.e. the OLS assumptions, are fulfilled when the explanatory variables are regressed against the dependent variables. Accordingly, the following sub-section presents tests of CLRM. In this study an attempt is made to test Heteroscedasticity, Auto correlation, normality and Multicollinearity the result of which are presented and discussed as follows:

4.3.1 Normality

The other classical linear regression model assumption is normally distribution of the residual. The classical normal linear regression model assumes that each up is distributed normally with mean and standard deviation values are near to 0 and 1 respectively Gujarati (2004). As noted by Brooks (2008) JB uses the property of a normally distributed random variable that the entire distribution is characterized by the first two moments -- the mean and the variance. The standardized third and fourth moments of a distribution are known as its skewness and kurtosis. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how fat the tails of the distributed.

If the residuals are normally distributed, the histogram should be bell-shaped and the Jarque-Bera statistic would not be significant. This means that the p-value given at the bottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5% level. As can be seen from the Table depicted below, P-Value of the Skewness/Kurtosis, all variable is above the 5% cut-off point. Therefore, the null hypothesis is rejected.

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
TA	15	19.8000	2.70449	.294	.580	.156	1.121
TC	15	25.0667	2.65832	-.109	.580	-.612	1.121
II	15	20.9333	2.63131	-.514	.580	.394	1.121
TE&TA	15	23.1333	4.80872	-.054	.580	-1.504	1.121
ET	15	4.2667	.88372	-.601	.580	-1.494	1.121

Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
TA	15	19.8000	2.70449	.294	.580	.156	1.121
TC	15	25.0667	2.65832	-.109	.580	-.612	1.121
II	15	20.9333	2.63131	-.514	.580	.394	1.121
TE&TA	15	23.1333	4.80872	-.054	.580	-1.504	1.121
ET	15	4.2667	.88372	-.601	.580	-1.494	1.121
Valid N (list wise)	15						

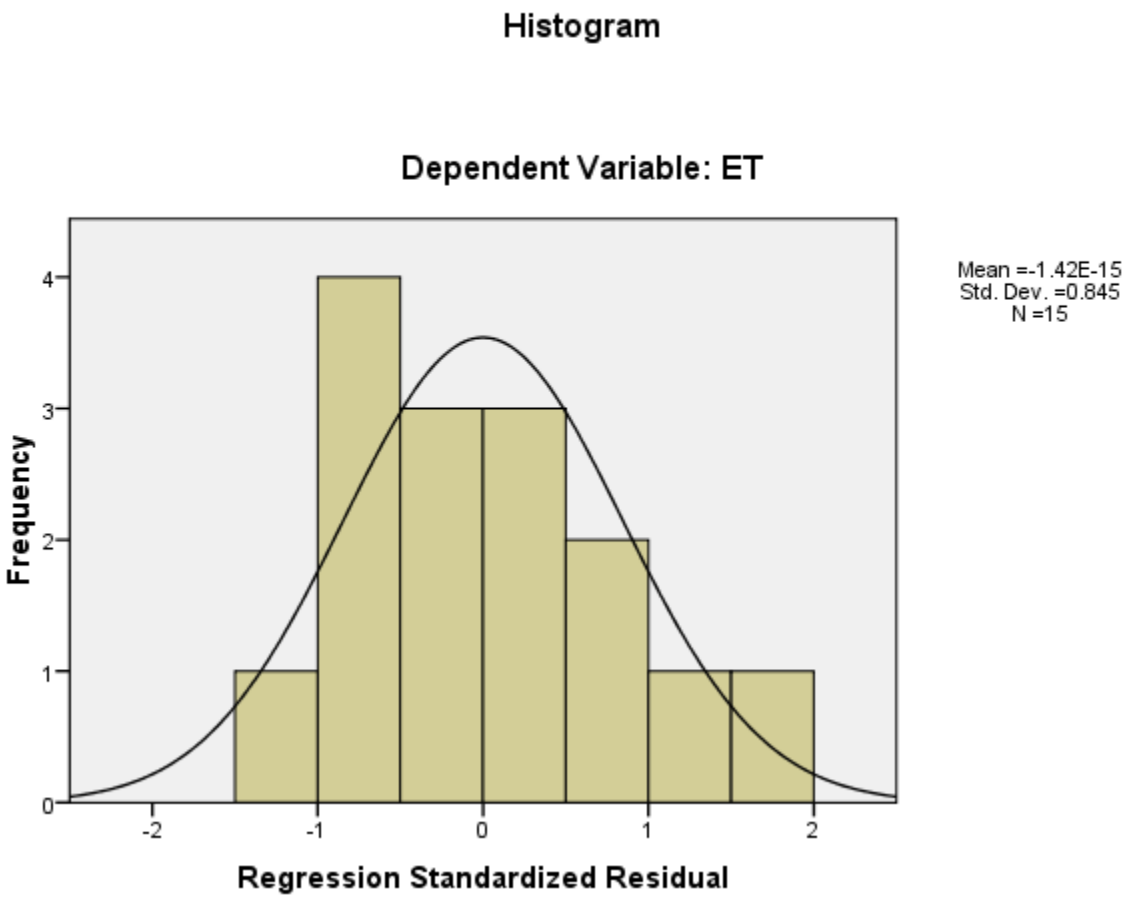

Figure 4.2 normality tests by jarque -Bera

4.3.2 Heteroscedasticity

It is a test made to check whether error terms variance is constant (homoscedasticity) or not (heteroscedasticity). To test for the presence of heteroscedasticity, the popular white test was employed (Brooks 2008).One of the important assumptions of the multiple regressions reveals that the variance of the disturbance term is constant. This is called the assumption of homoscedasticity. If disturbance terms (errors) do not have constant variance, they are said to be heteroscedasticity (Gujarati, 2004).In this case as presented in table 4.2, both the F-statistic and Chi-Square versions of the test statistic gave the same conclusion that there is no evidence for the presence of heteroscedasticity in this particular study, since the p-values are considerably in excess of 0.05. Therefore, the null hypothesis that the variance of the errors is constant (homoscedasticity) should not be rejected.

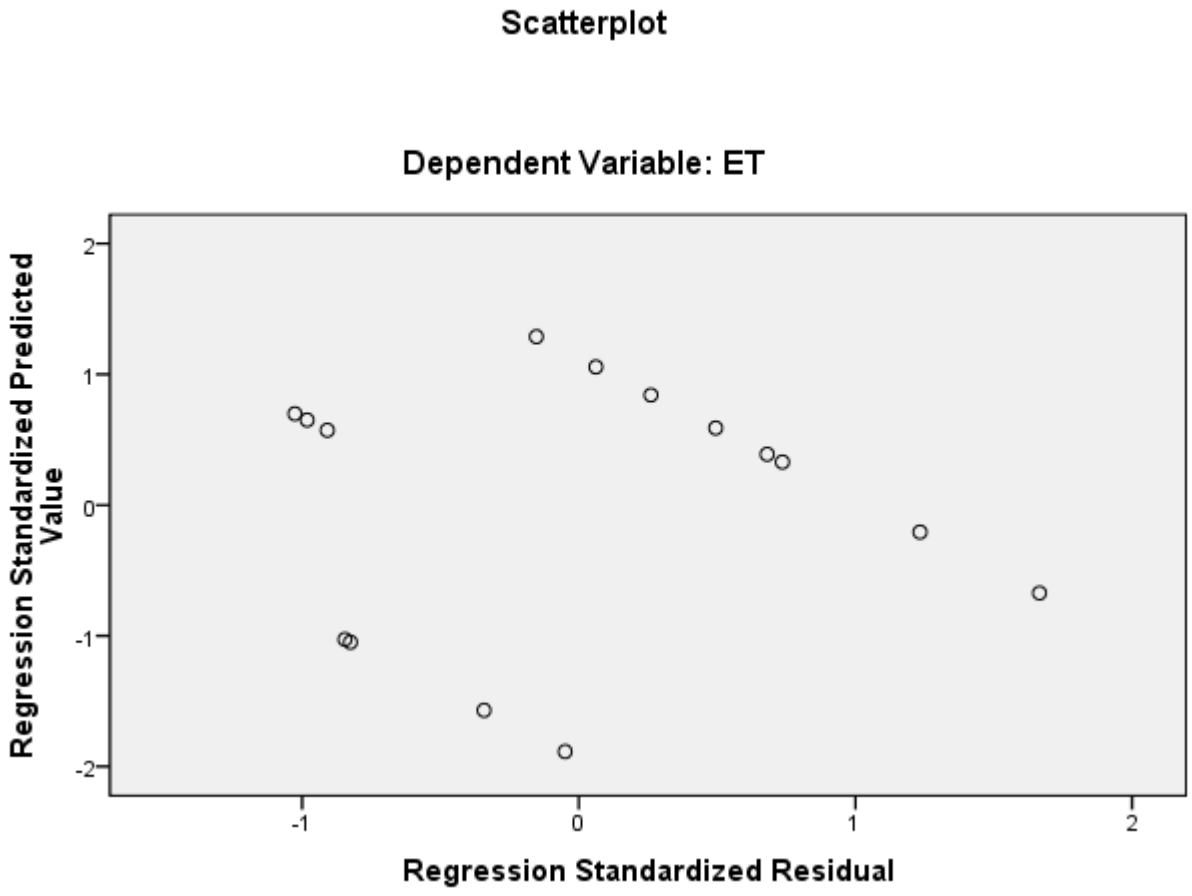

Table 4.6: Heteroscedasticity test: ZPRED(Y) and ZRESID(X)

4.3.3 Test for multicollinearity

The term multicollinearity refers to the existence of perfect or exact relationship among same or all explanatory variable. If the explanatory variables are hence to detect multicollinearity problem the variance inflation factor (VIF) or the detection tolerance for multicollinearity test would employees. As a rule of thumb if VIF or the mean VIF of the variable exceeds 10 the VIF for each variable there is multicollinearity problem and the mean VIF is less than 10 therefore there is no multicollinearity problem in the model. That variable said to be highly collinear based on the test result (Gujarati, 2003)

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	10.104	2.692		3.753	.004		
	TA	-.177	.076	-.542	-2.340	.041	.846	1.182
	TC	-.261	.085	-.785	-3.081	.012	.699	1.431
	II	.174	.090	.519	1.926	.083	.625	1.599
	TE&TA	.024	.045	.132	.541	.601	.760	1.316

a. Dependent Variable: ET

Table 4.7 Test of multicollinearity

Table shows that above a rule of thumb if VIF or the mean VIF of the variable less than 10 the VIF for each variable there is no multicollinearity problem all explanatory variables.

4.3.4 Test for auto correlation

Auto correlation test is the relationship not between two or more different variables, but between successive values of the same variable and it tested by Durban Watson and Durban's alternative test for auto correlation. If p –value is higher for the level of significance value accept the null hypothesis of no serial correlation. Otherwise accept the alternative hypothesis there is serial

correlation (Gujarati, 2003). In addition to when T- value greater than two there are no auto correlation.

Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.	95% Confi for B
		B	Std. Error	Beta			Lower Bound
1	(Constant)	10.104	2.692		3.753	.004	4.105
	TA	-.177	.076	-.542	-2.340	.041	-.346
	TC	-.261	.085	-.785	-3.081	.012	-.450
	II	.174	.090	.519	1.926	.083	-.027
	TE&TA	.024	.045	.132	.541	.601	-.076

a. Dependent Variable: ET

Table 4.8 Test auto correlation

Source: SPSS output from Data, 2023.

Table shows above that effectiveness of tax collection for category C tax payers has no auto correlation but it has positive relationship with explanatory variables and the t-value of TC is -3.081 and -0.785which shows that TC has no auto correlation with effectiveness of tax collection for category C tax payers. In other explanatory variables have t-value are -2.340, and their coefficients are-0.54 which refers TA has no auto correlation and has negatively and weakly relate with effectiveness of tax collection for category C tax payers, income of individual has positively and strongly relationship with effectiveness of tax collection and TE&TA has positively and weakly auto correlate with the effectiveness of tax collection for category C tax payers.

4.4 Correlation Analysis

The purpose of correlation matrix in this particular study was to show the linear association between the dependent and independent variables. As noted in Brooks (2008), correlation between two variables measures the degree of linear association between them. Values of the correlation coefficient are always range between positive one and negative one.A correlation coefficient of positive one indicates that a perfect positive association between the two variables;

while a correlation coefficient of negative one indicates that a perfect negative association between the two variables. A correlation coefficient of zero, on the other hand, indicates that there is no linear relationship between the two variables.

Table 4.9: Correlation matrix of dependent and independent variables

Correlations

		ET	TA	TC	II	TE&TA
ET	Pearson Correlation	1				
TA	Pearson Correlation	-.245	1			
TC	Pearson Correlation	-.373	-.296	1		
II	Pearson Correlation	.192	.098	.430	1	
TE&TA	Pearson Correlation	.159	.101	.217	.486	1

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

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

Source: SPSS Output

The Pearson correlations between independent variables tax awareness factor, compliance factor, income of individual land tax evasion and avoidance factor and the dependent variable effectiveness of tax collection for category C tax payers in Wolkite town are depicted in table.4.9 above. From the table income of income individual and tax evasion and avoidance had positive correlation with effectiveness of tax collection. Tax compliance and tax awareness had negative correlation with effectiveness of collection in category C tax payers. The correlation Analysis between income of individual, tax and avoidance had with effectiveness of tax collection for these variables Pearson correlation test was conducted and the results are shown in table 4.9 above.

The relation Analysis is that between these two factors and dependent factor Pearson correlation test was conducted to see the degree of relationship between the independent variable i.e. The results of the correlation between these variables are 0.192 & 0.159. As it is indicated in the table above, there is significant correlation between tax evasion and with and effectiveness of tax collection. In other word they have moderate relationship (r=0.192 & 0.159).Beside the variables tax awareness and tax compliance (-0.245 and -0.373) respectively show that a negative correlation between effectiveness of tax collection and these variables. This also Indicates are a moderate negative relation with that of the dependent variable.

4.5 Regression result

The multiple regression analysis is “an analysis of association in which the effects of two or more independent variables on a single, interval scaled dependent variable are investigated simultaneously” (Zikmund et al., 2010). The results of this analysis indicate how well a set of variables is able to predict the dependent variable. Furthermore, it shows how much unique variance in the dependent variable is explained by each of independent variables (Pallant, 2010). Regression analysis was conducted to know by how much the independent variable explains the dependent variable. It is also used to understand by how much each independent variable (awareness factor, compliance factors, individual income factor and tax evasion &avoidance related factor) explains the dependent variable.

The model summary in the following table presents how much of the variance in the dependent variable is explained by the model. The multiple coefficients of determination denoted as R square is 0.600. The value of the R square indicates that 60 percent of variance in the dependent variable was explained by the mode.

Table 4.10 Summary of regression model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775[a]	.600	.440	1.54428

a. Predictors: (Constant), TE&TA, TA, TC, II

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	35.752	4	8.938	3.748	.041[a]
	Residual	23.848	10	2.385		
	Total	59.600	14			

a. Predictors: (Constant), TE&TA, TA, TC, II

b. Dependent Variable: ET

Regression Analysis of the model summary in the table has presents how much of the variance in the dependent variable performance in ETC explained by the model. The Results of regression analysis against effectiveness of tax collection can be seen in the table. The result shows that explanatory variables have the power to explain ET collection. R-squared statistics of the model is 0.600. These indicate that explanatory variables included in this model could explain variation in the dependent variable by about 60 precepts. The remaining 40 percent can be taken as the role of explanatory variables that are not included in this model but that have an on effectiveness of tax collection. In this case the results of correlation of explanatory variables and ETC and adjusted R Square (0.440) was taken into consideration.

The regression analysis model summary indicates that an explanatory variable which is entered into the regression model on SPSS has relationship with effectiveness of tax collectionThe adjusted coefficient of determination (R^2) 0.440 indicates the effect/variability of explanatory variables on effectiveness of tax collection. Therefore, it is pointed out that 44 percent of explanatory variables can explain the dependent variable that is ETC.

Table 4.11 Regress dependent variable on the selected variable using multiple regressions.

Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.795	8.776		.660	.524
	TA	-.097	.200	-.101	-.487	.637
	TC	.127	.243	.153	.521	.032
	II	.403	.211	.607	1.909	.045
	TE&TA	.092	.203	.144	.452	.661

a. Dependent Variable: ET

By looking at the Sig.-value in table 4.11, it is possible to interpret whether the particular independent variable has a significant relationship with the exogenous variable. The above table shows that, all the explanatory variables included in this study can significantly explain at 95% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases or decreases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized, we can compare them. The relationship is significant if the Sig. value is not larger than 0.05.

The results show that there is a significant relationship for tax compliance (0.032) and income of individual (0.045). The remaining variable like tax awareness (0.637) and tax evasion & avoidance (0.661) are insignificant relationship with the effect variable. This means that half of the variables are good predictors of the dependent variable. The multiple regression result table 4.12 indicates that, most of the factors that used in this study have positive and significant influence on the explained variable. The value of (β= -.101, .153, .211 and .144 for tax awareness, tax compliance, income of individual and tax evasion & avoidance respectively. Furthermore, the study aims to identify which of the variables contributed the most to prediction

of the dependent variable. This information can be investigated via Standardized coefficient Beta in table 4.11. In this study the highest Beta value is 0.211 for income of individual factor, and second highest is 0.153 for tax compliance. The independent variables tax awareness factor (-.101) and tax evasion and avoidance (.144) are also good predictors. These results indicate that the variables income of individual factor, tax compliance and tax evasion and avoidance make the good contribution in explaining the dependent variable effectiveness of tax collection for category C tax payers. These results enable to conclude that the model explains 60 percent of the effectiveness of tax collection.

4.6 Discussion of Regression Result

The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

$ET = \beta 0 + \beta 1TA + \beta 2TC + \beta 3II + T\ E\&TA + U$

Where: ETC = effectiveness of tax β0 = Constant coefficient,

β1 – β4 = Regression coefficients for measuring independent variables,

TA =tax awareness, TC =tax compliance, II =income of individual,

TE&TA=, tax evasion & avoidance, U = Error term.

$ET = 5.795 + -.101\ TA + 0.153\ TC + 0.211II + 0.144\ TE\&TA + U$

The following section is to be addressing each explanatory variable and the hypothesis previously taken in achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly discussed to address each variable and its hypothesis.

Effectiveness of tax collection and Tax awareness (TA)

Tax awareness in this study refers awareness of tax payers during operation period of tax collection. The regression result of the model as presented in table 4.11 above clearly show tax awareness as measured by the awareness of tax payers in the case area have no statistically significant but positive impact on effectiveness tax collection for category C tax payers in Wolkite town the coefficient of variable indicates that a unit increase the awareness of tax collectors in the - 0.101. As it is much lower than the significant level of 0.05, its effect is

insignificant. Thus, sufficient awareness of tax of tax payers have there to pay the tax with their potential to run their responsibility and hence facilitates good effectiveness of tax collection in revenue office.This result indicates that the null hypothesis of the study is rejected, since the significant value is less than 0.05. This imply that effectiveness of tax collection for category C tax payers in Wolkite town would not be influenced by the tax awareness which leads us to reject the working hypothesis of the study, effectiveness of tax collection is positive and insignificant effect with tax awareness.

Effectiveness of tax collection and tax compliance (TC)

Related to tax compliance (TC) is refers to the compliance toward to tax payers to develop the effectiveness. It was statistically significant at less than 5% significance level and had positive relationship with the effectiveness tax collection for category C tax payers. The coefficient the variable was positive (0.153) and statistically significant at 5% significance level (sign-value=0.032) which is in line with a prior expectation or it would not reject the working hypothesis, which argues, that a tax compliance in relation to the effectiveness of tax collection has a positive and significant impact. In the same manner the decisive decision making of effectiveness/ineffectiveness is depend on tax compliance.

So, the availability of tax compliance can measure effectiveness of tax collection in category C tax payers. The marginal effect result also shows that, holding other factors constant, an increase in tax compliance support by 1 will also improve effectiveness of tax collection by 0.153 and the sig value of tax compliance is 0.032 reveals that it is statistically significant at 5% level of significance and tax compliance was considered as a proper explanatory variable. This result is accordance with the result expected by the researcher and consistent with many results in the literature. According to the findings of Haider m & Chaudhary (2013) the higher level of tax compliance results the greater level of tax effectiveness.

Effectiveness of tax collection and Income of individual (II): The income of individual factor was statistically significant at less than 1%probability level and had positive relationship with the effectiveness of tax collection and is significant This could be due to the fact that income of individual has impact associated with effectiveness of tax collection successfully.

Effectiveness of tax collection and Tax evasion $ avoidance

The effect regression result indicates that tax evasion & avoidance had a positive and insignificant impact on effectiveness tax collection for category C tax payers at 5% significance level. The result was not in accordance with working hypothesis which is effectiveness of tax collection for category C tax payers is negative and significantly related to tax evasion & tax avoidance. This implies that in Wolkite town category C tax payers they would be negatively influenced by the tax evasion $tax avoidance. This means that the positive sign not confirms that ineffectiveness of tax collection by (0.144), the insignificant (0.661) result indicates that even the tax evasion and avoidance affect positive their influence is a minimum effect on the effectiveness of tax collection. This result is not in accordance with the result expected by the researcher.

Table 4.12 Summery of hypothesized and actual impact

Independent variable	Measurement	Hypothesized	Actual impact	Hypothesis status
Tax awareness	Linkert scale	Positive and significant	Negative and insignificant	Reject
Tax compliance	Linkert scale	Positive and significant	Positive and significant	Accept
Income of individual	Linkert scale	Positive and significant	Positive and significant	Accept
Tax evasion and avoidance	Linkert scale	Positive and significant	Positive and insignificant	Reject

CHAPTER FIVE

5. Conclusion and Recommendations

The preceding chapter presented the results and discussion, while this chapter deals with the conclusions and recommendations based on the findings of the study. Accordingly, this chapter is organized into two sub-sections. The first section presents the conclusions and the second presents the recommendations.

5.1. Conclusions

This sub-section deals with the conclusion of the study paper. The data which were gathered through by using primary and secondary sources There is an increasing interest in research on effectiveness of tax collection. However, their effectiveness of tax collection to realize the intended goals is not as expected due to variety of factors which hinder their effectiveness. A regression analysis was applied with effectiveness of tax collection as the dependent variable and tax awareness, tax compliance, income individual and tax evasion and avoidance as independent variables.

The results showed that the variables, tax compliance, and income of individual were statistically significant at 5% probability level and had positive relationship with the effectiveness of tax collection for category C tax payers. And the remaining variables, tax awareness, and tax evasion & avoidance were statistically insignificant had negative and positive respectively, relationship with the effectiveness of tax collection for category C tax payers. This was not in line with prior expectations. This result implies that the availability of both factors for the tax collection for category C tax payers is insignificant. Regarding to the effect of tax compliance on the effectiveness of tax collection for category C tax payers in this study, the result shows that there was positive and statistically significant relationship with the explained variable, which is in line with the expected result.

Tax compliance factors are the most influential compared with the other. The impact of control variable income of individual is positive and statistically significant. The regression effect of tax awareness on effectiveness of tax collection for category C tax payers, the result shows that as there was negative and statistically insignificant relationship with the dependent variable, which is not in line with prior expectation. This result indicates that there is a poor awareness of tax payers in the study area but it is also a negative effect on their effectiveness of tax collection. Unfortunately, the tax evasion and avoidance had a positive relationship with the effectiveness of tax collection for category C tax payers and statistically insignificant. This result was also not consistence with expected one.

Finally, the study has further identified that the different influences in which each of the factors under study have in tax collection. The research clearly illustrates that, the most contextual factors that affect the effectiveness tax collection are tax awareness, tax compliance, income of individual and tax evasion and avoidance. Tax awareness and tax evasion and avoidance in Wolkite town had insignificant effects in the effectiveness of tax collection in category C tax payers compared to other factors in the research area.

5.2 RECOMMENDATION

To tackle the challenges of the above-mentioned difficulties and to improve the effectiveness of tax collection, suggestions for corrective and complementary measures to enhance the potential effectiveness of tax collection for category C tax payers are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding tax revenue office. Based on the findings and conclusions of the study, the following recommendations are forwarded:

- Income of individual factors is frequently indicated as the explanatory factor for most problems faced by the studied category C tax payers. Therefore, it is necessary to solve this deep-rooted problem. The tax collector should be capable, experienced and knowledgeable in the area. A continuous training and relation with the tax payers should be strong, so Wolkite town revenue office authorities should strengthen the payers in order to pay tax in their income position so income of individual have significant and positive relation effectiveness of tax collection also revenue training to tax payers about tax purpose.

- Income of individual has the positive coefficient sign and it significantly affect effectiveness of tax collection tax collection, Since revenue authorities tax system is progressive in nature an increase in per capita will leads to an increment of tax revenue, and so, it's recommended that wolkite town revenue office perform well in registering high economic development continuously that improve per capita income and life of a citizen lead to better collection of tax revenue that bring better financing government activities.
- Tax compliance have positive and significant impact on effectiveness of tax collection, tax collector creates tax compliance among tax payer which have impact on effectiveness of tax collection.
- Tax awareness of tax payers there is a poor awareness of tax payers in the study area but it is also a negative effect on their effectiveness of tax collection this implies that there is problem of tax awareness on effectiveness of tax collection so it's recommended that wolkite town revenue office to create awareness among the payer to the purpose of tax and to train payers used for what activity that collected tax.
- Also, for other tax evasion & avoidance their hypothesis is positive and significant but actual result is positive and insignificant this indicate that have some extent there is problem so researcher recommended to Wolkite town revenue office to work in this factor better.

Finally, investigating different factors based on the right information are vital for the good effectiveness of tax collection. This can be achieved by conducting more researches in related areas. The focus for this study was on some specific variable like, tax awareness, tax compliance, income of individual and tax evasion and avoidance. It is the researcher's view that future research could therefore investigate the other so many different variables. Further research could target the others tax category like category A, B by using different variables to measure the effectiveness of tax collection. It is an interesting area with many unresolved issues. It would be encouraging to get more solutions to many issues arising.

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Appendix 1 Questioner

Wolkite University

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondent,

The researcher is undertaking a research entitled ***'Factors That Affect the Effectiveness of Tax Collection for Category 'C' Tax Payers in Wolkite Town'*** for BA degree fulfillment. Thus, you are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a fact on the current status of the factors that affect effectiveness of tax collection for category 'C' tax payers in Wolkite town. Finally, I confirm you that the information that you share me will be kept confidential and only use for the academic purpose. ***Thank you in advance for your kind cooperation and dedicating your time!!!***

Instruction (I)

- No need of writing name
- Tick mark (√) and blank space when you give responses

PART I PERSONAL INFORMATION

1) Respondent gender distribution

Male ☐ Female ☐

2) Education background

Certificate ☐ Diploma ☐

Degree ☐ Above degree ☐

3) Your position:

Manager ☐ Employee ☐

Supervisor ☐

4) Year of service in your organization:

Below 2 years ☐ 3 – 5 ☐ 6 – 10 ☐ 11-15 ☐

PART II Question related to factor affecting effectiveness of tax collection for category 'C' tax payers

Please use a tick (√) mark for your thought and where appropriate give your opinion in the table. Where 5 indicate strongly agree, 4 agree, 3 neutrals, 2 disagree, 1 strongly disagree.

1. Please indicate the degree to which you agree with the following statements concerning with tax awareness.

No	**Tax awareness**	**1**	**2**	**3**	**4**	**5**
1	Promotion activity on creating awareness about tax to tax payer?					
2	Lack of tax payer's awareness about the importance of tax					
3	No awareness creation by concerned body					
4	Lack of knowledge about the purpose of tax					
5	Lack of motivation to fulfill civic responsibility					

2. Please indicate the degree to which you agree with the following statements concerning with tax compliance.

No	**Tax compliance**	1	2	3	4	5
1	There is a high possibility of being detected by the government for non-compliance.					
2	understanding that the tax system is just hence pay fair share of tax					
3	Lack of understanding tax laws for example on rates of tax, filing and payment dates etc.					
4	Feel understanding that tax is an obligation					
5	Remit the taxes to avoid paying fines and penalties.					
6	you easily understand tax laws for example on rates of tax, filing and payment dates					

3. Please indicate the degree to which you agree with the following statements concerning with income of individual.

No	**Income of individual.**	1	2	3	4	5

1	Do the office-imposed tax to the tax payers according to their income					
2	I know deductible and nondeductible expenses to determine my taxable income					
3	I can easily calculate my tax liability					
4	I think there are many problems in the income tax assessment					
5	Because of the high amount of tax levy					

4. Please indicate the degree to which you agree with the following statements concerning with tax evasion.

No	**Tax evasion and tax avoidance**	**1**	**2**	**3**	**4**	**5**
1	In Category 'C' the level of tax evasion is high					
2	Tax collectors can protect tax from tax evasion and avoidance					
3	I believe that tax payers are evading tax					
4	In category 'C 'the level of tax avoidance is high					
5	The offices can control tax evasion and avoidance					
6	Tax evasion and avoidance exist between tax collectors when tax collect from tax payers					

Appendix 2 Regression result

```
REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA
  /CRITERIA=PIN (.05) POUT (.10)
  /NOORIGIN
  /DEPENDENT ET

  /METHOD=ENTER TA TC II TE$TA.
```

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	TE$TA, TA, TC, II[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ET

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775[a]	.600	.440	1.54428

a. Predictors: (Constant), TE$TA, TA, TC, II

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.752	4	8.938	3.748	.041[a]
	Residual	23.848	10	2.385		
	Total	59.600	14			

a. Predictors: (Constant), TE$TA, TA, TC, II

b. Dependent Variable: ET

Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.795	8.776		.660	.524
	TA	-.097	.200	-.101	-.487	.637
	TC	.127	.243	.153	.521	.614
	II	.403	.211	.607	1.909	.085
	TE$TA	.092	.203	.144	.452	.661

a. Dependent Variable: ET

```
CORRELATIONS
  /VARIABLES=TA TC II TE$TA ET
```

```
/PRINT=TWOTAIL NOSIG
/MISSING=PAIRWISE.
```

Correlations

		ET	TA	II	TC	TE$TA
ET	Pearson Correlation	1	-.245	.192	-.373	.159
	Sig. (2-tailed)		.379	.492	.171	.571
	N	15	15	15	15	15
TA	Pearson Correlation	-.245	1	.098	-.296	.101
	Sig. (2-tailed)	.379		.727	.284	.720
	N	15	15	15	15	15
II	Pearson Correlation	.192	.098	1	.430	.486
	Sig. (2-tailed)	.492	.727		.110	.066
	N	15	15	15	15	15
TC	Pearson Correlation	-.373	-.296	.430	1	.217
	Sig. (2-tailed)	.171	.284	.110		.437
	N	15	15	15	15	15
TE$TA	Pearson Correlation	.159	.101	.486	.217	1
	Sig. (2-tailed)	.571	.720	.066	.437	
	N	15	15	15	15	15