

FACTORS AFFECTING TAXPAYERS VOLUNTARY COMPLIANCE ATTITUDE WITH TAX SYSTEM; EVIDANCE FROMGUBRE TOWN.

A Research Paper Submitted to partial fulfillment of the requirements for the Award of Bachelor Degree in Accounting and Finance.

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STATEMENT OF DECLARATION

This is to certify a thesis prepared by Amir Behja, entitled: ***“factor affecting tax payer voluntary compliance attitude tax system taxpayer in case of Gubrea town”*** submitted to Accounting and Finance Department of Wolkite University, in partial fulfillment of the Requirements for the Award of Bachelor Degree in Accounting and Finance; Complies with the regulations of the university and meets the accepted standards in respect of originality and quality.

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CERTIFICATION

This is to certify a research prepared by Amir Behja, entitled: “*factor affecting tax payer voluntary tax compliance attitude taxpayer in case of Gubrea town*” submitted to Accounting and Finance Department and is recorded as original research work carried out by Amir Behja under the guidance and supervision of Kirubel Asegdew. Therefore, I declare that no part of this research has been submitted to any other university or institutions for the award of any degree or diploma.

Main adviser's Name _____

Date _____

Signature _____

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ABSTRACT

The voluntary compliance behavior of the taxpayers is determined by various factors and identifying these factors and treating them accordingly should be the central premises of any tax system in order to maintain voluntary compliance at satisfactory levels. Thus this study investigated factor affecting tax payer voluntary compliance in case of Gubrea town. The target population of the study are category “C” tax payers and the sampling size is 67 from the total taxpayer population of 227. Based on this fact, the data uses from primary data. According, to this paper investigated the factors such as knowledge of the tax payers, awareness level of tax payers, social factors, and tax payers’ attitude towards the government that is extracted from literature. In order to analyze and present the results of this study mainly by use of inferential statistics such as regression. The results showed that knowledge of the tax payers, social factors, and tax payer attitude were factors that positively significantly affect tax compliance behavior. Finally, based on the findings possible recommendations were given. These include, to improve tax knowledge of tax payers through tax education program, so that voluntary compliance behavior can be developed, and the city government has to provide social services to the public and it has to inform the taxpayers that these services are provided by their money.

KEY WORDS: *Tax payer, voluntary tax compliance,*

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CHAPTER ONE

1.1. Introduction

The exact meaning of tax compliance has been defined in various ways. Alm(1999) and Jackson and Millison (2001) defined tax compliance as the reporting all income and payment of all taxes by fulfilling the provisions of law, regulation and judgments. Another definition of tax compliance is a person's act of filling their tax returns, declaring all taxable income , and disbursing all payable taxes within the stipulated period without having to wait for follow-up action from the authority (Singh, 2003).

Tax compliance is a major problem for many tax authorities and is not an easy task to persuade tax payers to comply with (James & Alley 2002). Tax compliance is referring to the degree that taxpayer complies or fail to comply with the tax regulations in their country. Tax compliance can be improved if the tax system is administrated tightly and strictly through law enforcement and imposition of penalty toward taxpayers who are found guilty of committing tax evasion. Tax evasion or tax non-compliance arise when the taxpayer fail to comply with tax law or meet their tax obligations in the way of intentionally or unintentionally. Issues of tax compliance such as understatement or overstatement of income and expenditures, late payment, fail fully meet tax obligation.

The concept of voluntary tax compliance is defining an exhibition of positive attitude towards the taxation and willingness to pay taxes.

Government needs financial resources to act as a government and play a role that is expected from it by the public. So what the government gives it must first take away. The economic resources available to society are limited, and so an increase in government expenditure normally means a reduction in private spending. In this regard James (2000) states that taxation is one method of transferring resources from the private to the public sector. Other writers (Auld & Miller, 1984) describe the role of taxes as an instrument that stabilizes the economy, and reduces private demand so that resources can be released for public sector use. Generally, governments levy taxes for multiple of purposes, but mainly to raise funds in order to cover public expenditures and on the other hand to properly allocate resources.

Taxation is one of the importance elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009: 1).

In many developing country governments levy taxes for a multiple purpose ,but mainly to raise funds in order to cover the public expenditures and on the other hands for proper allocation of resources(Lemesa,2005). But in Ethiopia a collected tax could not be able to cover the all needed fund to finance the economy, mainly due to the inefficiency of the tax collection system in Ethiopia.

For voluntary system to work successfully, the people must be confident that the taxes are levied fairly and that everyone pays his share. If the filling becomes widespread that the tax system is a collection of loopholes and evasions, if people see their equally prosperous neighbors paying substantially less or enjoying tax- free expense account living, taxpayer moral declines. Once this attitude prevailed in the public it is difficult to rectify it and costs the authorities a huge compliance and collection costs a research conducted by Lemessa T. (2007) concerning the determinants of tax payer's voluntary compliance with taxation in Diredawa City-Ethiopia.

The researcher motivated with tax because it is multi-disciplinary specially economics, law and accounting. The researcher has educational background with the above three disciplines. The objectives of this paper therefore are to examine analysis the degree of compliance of the relevant tax laws by taxpayers and find out the effects of tax knowledge, awareness, social factor and taxpayers' attitude to government.

1.2. Statement of the Problem

Tax noncompliance is a growing international concern for tax authorities and public policy makers since it seriously threatens the capacity of governments to rise public revenue. The problem is more serious in developing countries particularly in Sub-Saharan African countries (Cobham, 2005). Likewise, in Ethiopia it is evidenced by the current low tax-to-GDP ratio of 11% which is far lower than the average for tax systems (25-35%), developing countries (18-25%) and even of the Sub-Saharan average (16%). The main reason of this low revenue

collection performance is due to non-compliance and due to poor tax administration (IMF, 2015).

Tax non-compliance is a serious challenge slackening income tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries. Like other developing countries, Ethiopia faces hurdles in raising revenue to the required level in order to scale up the development endeavors. Ethiopia has experienced an unswerving surplus expenditure over revenue for a sufficiently long period of time. To address this problem, the government introduce direct and indirect taxes to improve public revenue although prior statistical evidence proves that the contribution of income taxes to the government's total revenue remained consistently low.

¹
The tax compliance literature has provided evidence suggesting that compliance is influenced by numerous factors (Brook, 2001). Scholars identified these factors as economic, social and psychological (Brook, 2001; Devos, 2008; Kirchler, 2007). To mitigate the challenge of tax non-compliance, it is necessary to understand factors affecting an individual's decision to comply with tax laws. As stated by Scholz (1998; 137) in Fjeldstad (2004), without trust there is little basis for social co-operation and voluntary compliance with laws and regulation that could potentially benefit everyone. The temptation not to comply even if other do comply defines the free riding problem that is endemic in collective action situations in private as well as public institution.

According to Kircher (2007) and Loo (2006), tax compliance determinants are classified in four category based on an interdisciplinary perspective representing a wider perspective of tax compliance determinants compared to other researchers. The four categories are 1) economic factors (tax rates, tax audits and perceptions of government spending); 2) institutional factors (the role of the tax authority, simplicity of the tax returns and administration and probability of detection); 3) social factors (ethics and attitude, perceptions of equity and fairness, political affiliation and change on government policy, referent groups); and 4) individual factors (personal financial constraints, awareness of offences and of penalties).

Even though Ethiopian modern tax administration is not older than half a century, it has undergone several legal amendments during this time. But the improvement is not as big as its

age as far as citizen's voluntary compliance is concerned. The tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning. For example, the current income tax proclamation (no. 286/2002) has increased the amount of penalties and strengthened the means of enforcement while it states nothing about how to create and increase the awareness of the taxpayers. It gave the tax authorities the right to sell the property of evaders without going to courts in order to collect the outstand liability.

Most of the reform efforts basically targeted institutional capacity building and putting enforcing legal frameworks in place while only insignificant effort, if any was deployed to make the public aware of the benefits of paying tax to the nation. The taxpayer's education program that is being carried on very occasionally, stresses more about teaching the contents of the tax laws and penalties rather than promoting citizens' sense of responsibility toward taxation and devising ways to reward compliant behavior. The extent of the effect of the factors influencing the tax compliance is not well understood and studies have not been carried out in Gubre town, SNNP, region, Ethiopia the best of the researcher knowledge. The first motive to undertake this paper is to fill the research gap that were not addressed by the earlier studies, specifically problems associated with tax payers and revenue authority, Gubrea was town and also this study initiation is needed to the factor affecting of taxpayer's voluntary compliance and contribute to the body of knowledge. Therefore, the study aims to examining the four factors knowledge of tax, awareness, social factors and tax payers' attitude to the government factors that affect tax compliance behavior in Gubrea town, SNNP, region, Ethiopia.

1.3 Research Hypothesis

The following hypotheses based on the literature. The test would be presented as

H.1 tax knowledge is positively correlated with tax compliance

H.2 awareness of penalty is positively correlated with voluntary tax compliance

H.3 social factors is positively related with tax compliance

H.4 attitude is positively related with voluntary compliance attitude of taxpayers

1.4 Objective of the study

The general objective of this study is to examine factors affecting taxpayers' voluntary compliance attitude with tax system in Gubre town.

1.4 Specific objective

To examine effect of tax knowledge on tax payer's voluntary compliance attitude.

To examine the effect of awareness of penalty on tax payer voluntary compliance attitude.

To examine the influence of social factor on tax payer voluntary compliance attitude.

To analyze the influence of attitude of tax payers toward to government on tax payer voluntary compliance attitude.

1.5 Significance of the Study

The findings of this study was used to identify tax compliance problems of taxpayers and to improve the tax laws and procedures accordingly. Hence, it helps to improve tax compliance and reduce tax compliance costs of the taxpayers & administrative costs of wolkite Revenues authority and also Ethiopian revenue authority

1.6 Scope of the study

There are multiple factors that affect tax compliance however this study limited to examine only five factors (awareness, attitude, knowledge, social factor, and tax payer's authority strength) which will affect taxpayers 'voluntary compliance attitude. In addition, the study will be more comprehensive it will include Categories C of tax payers in gubre town.

1.7 Limitation of the study

The research would use only four factors as independent variable.

The other limitation will be lack of availability and accessibility of adequate reference materials might have had constraining effect on the research.

The researcher would take a sample, so the conclusion reached from the sample may not fully express the characteristics of the population

1.8 Organization of the study

This paper is five chapters. The first chapter included background information, statement of the problem, research objective, hypothesis, significance, and scope of the study and limitation of the study. The second chapter deals about review of literature, theoretical and empirical reviews and knowledge gap. The third chapter deal about the research design and methodology, it includes research approach, data collection and analysis methods. The fourth chapter presents research findings and the chapter five provide concludes and recommends

CHAPTER TWO

2. LITERATURE REVIEW

2.1 INTRODUCTION

2.1.1. Definition of Compliance

Tax compliance has been defined in various ways by various authors. As stated by Song and Yarbrough, 1978, tax compliance defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. According to James (2000) cited on Tilahun (2007) tax compliance is expressed in terms of degree to which taxpayers comply with tax law, and the degree of noncompliance is measured in terms of the tax gap, which is defined as the difference between the taxes that the law seeks to collect and those in fact collected.

Furthermore, according to Song and Yarbrough (1978) tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns. Compliance in pure administrative terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames. In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation.

This perspective further reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of noncompliant behavior they face otherwise e.g. through continuously conducting tax audits of different sorts and other means such as various compliance influencing activities including tax education. According to Brown and Mazur (2003) theoretically tax compliance can be defined by considering three distinct types of compliance that is payment compliance, filing compliance

and reporting compliance. Organization for Economic Cooperation and Development (2001), advocates, dividing compliance into categories in considering definitions of tax compliance.

These categories are administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical requirements of tax laws in calculating taxes or provisions of the tax laws in paying the share of tax. Theoretically, views of the tax payers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another. According to McBarnett (2003) cited in Mohad,R. et al. (2011) compliance may take three forms, which include committed compliance, capitulated compliance and creative compliance.

Committed compliance - taxpayers' willingness to pay taxes without complaint;

Capitulated compliance - reluctantly giving in and paying taxes and,

Creative compliance – engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the bracket of tax laws.

Some literatures explain tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Tax enforcement aspects like penalties and the probability of detection also relate to tax compliance while other labor market behavior factors including an individual's wages and tax bracket also contribute to tax compliance (Kirchler, 2007).

In contrast with tax compliance, tax non-compliance is defined as taxpayer's failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure. Non-compliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler, 2007). Furthermore, it has been defined as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions, relief and rebates and/or paying the incorrect amount of tax beyond the stipulated time frame.

2.1.2. Theories of Tax Compliance

The main theoretical approaches to tax compliance have commonly been divided into the economic deterrence approach, and the wider behavioral approach which incorporates both social and fiscal psychological approaches.

2.1.2.1. Economic Deterrence Theory

Deterrence is based on the concept that the risk of detection and punishment will improve compliance behavior. Under this approach taxpayer pay their taxes out of fear that the government will catch and penalize them. The theory suggests that taxpayers are amoral utility maximizes- they are influenced by economic motives such as profit maximization and probability of detection. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risk (Trivedi and Shehata, 2005). The economic deterrence theory states that taxpayer's behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs (Allingham and Sandmo, 1972). This implies that if detection is likely and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial non-compliance. The theoretical principles of economic deterrence have also been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught.

2.1.2.2. Fiscal Exchange Theory

The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance. For instance, Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services. They suggest that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner, or by more effectively emphasizing that taxes are necessary for the receipt of government services. Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (quid pro quo). In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government. Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods

and services and to get others to contribute (Fjeldstad and Semboja, 2001). A taxpayer may therefore be seen as exchanging purchasing power in the market in return for government services. The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion.

The behavioral literature on tax compliance incorporates social and political motives to explain a sense of moral or social duty to pay taxes (Andreoni et al. (1998); Odd H.Fjeldstad, 2012). Three main lines of theoretical arguments have been made in relation to tax morale, i.e. arguments focusing on (i) social influences, (ii) comparative treatment of citizens, and (iii) the strength of the national political community. Each of these is now presented in turn.

2.1.2.3. Social Influences

It is reasonable to assume that human behavior in the area of taxation is influenced by social interactions much in the same way as other forms of behavior (Snively, 1990; cited on Fjeldstad, 2012). Compliance behavior and attitudes towards the tax system may therefore be affected by the behavior of an individual's reference group such as relatives, neighbors and friends. Therefore, if a taxpayer knows many people in groups important to him who evade taxes, his/her commitment to comply will be weaker. On the other hand, social relationships may also help deter individuals from engaging in evasion in fear of the social sanctions imposed once discovered and revealed publicly (Grasmick and Green 1980; Grasmick and Scott 1982; Fjeldstad, 2012).

2.1.2.4. Comparative Treatment

The comparative treatment model is based on equity theory and posits that addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (McKerchar and Evans 2009; Fjeldstad,Herzenberg, and Sjusen, 2012). Where there are perceived inequities, individuals will adjust their inputs to the exchange until fairness is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance.

Citizens may not consider their relationship with the state in a vacuum where both parties are the only actors. Likewise, they may not think about their fellow citizens without considering their own relationship with the state. They may also consider how the state treats them relative to their fellow citizens (Fjeldstad, Herzenberg, and Sjusen, 2012). Citizens feel able to trust their fellow citizens if they trust the state to intervene and resolve fairly when there is a breakdown in

relations between citizens. Thus, compliance rests not only citizens' trust in government, but also on their trust in each other.

2.1.2.5. Political Legitimacy

Legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good. According to the political legitimacy theory, tax compliance is positively related to perceptions about the government's, in particular the tax authorities, trustworthiness (Tayler 2006; Kirchler et al. 2008; Fjeldstad, and Herzenberg, 2012). Related to political legitimacy is identification with the state in the sense of national pride.

2.1.3. Tax Compliance Costs

The imposition of taxes represents a transfer of resources from households and businesses to the government. This transfer generates three broad types of social costs: efficiency, administrative, and compliance. Efficiency costs (alternatively referred to as deadweight losses or excess burdens), arising from tax-induced changes in relative prices, distort consumer and producer choices, and cause losses in overall output. Administrative costs are the costs to the government of collecting taxes; and compliance costs are the value of resources expended by taxpayers in meeting their tax obligations (Binh Tran-Nam, 2000).

Tax compliance costs are costs that the taxpayer has to bear to gather the necessary information like preparing and maintaining books of accounts and filling out tax forms can be other reasons for not complying with tax legislation. Compliance cost involves a myriad of expenses or difficulties encountered by the taxpayer in complying with the tax law both in terms of administrative compliance; that is registration, filing and subsequent payment of the taxes and also technical compliance which involves maintenance of appropriate records, machines and organization of the supply chain so as to observe the requirements of the law (Majiwa, 2014).

Sandford (1989) cited on Binh Tran- Nam (2014) states the three components of tax compliance namely, monetary costs, time costs and psychological costs to the taxpayers. Monetary costs include sums spent on tax professionals (i.e. tax agents and accountants) and expenses related to taxation guides, books, communication and other incidental costs. Time costs are incurred by the taxpayer, mainly on record keeping for the purposes of completing the tax return and preparing tax details for the tax professionals as well as time spent on dealing with the tax authorities. Psychological costs comprise costs such as anxiety of handling complex tax matters. Similarly,

Binh Tran-Nam (2014) states three major areas of opportunity costs applicable to tax compliance activities. time spent by taxpayers, unpaid helpers and (internal) paid employees (external) paid tax advisers non-labor costs (i.e., tax-related personal incidental expenses or business overhead costs) such as equipment, computers, stationery, photocopying, postage, telephone, facsimile, electricity, specific travel, etc.

Some of these costs are explicit, involving direct payments (e.g. paid employees or external tax advisers and non-labor costs) while others are implicit (e.g. taxpayers' own time and that of unpaid helpers).

2.1.3.1 Components of Tax Compliance Benefits

Offsetting benefits of tax compliance to taxpayers include managerial benefits, cash flow benefits and tax deductibility benefits (Binh Tran-Nam, 2014).

Managerial benefits (both to personal and business taxpayers) have proved too difficult to quantify. Cash flow benefits/costs (cash flow benefits may be negative for some individual taxpayers, in which case they are referred to as cash flow costs) are a critical component in arriving at an estimate of taxpayer compliance costs. The relative importance of cash flow benefits/costs to taxpayers depends crucially on the tax system under consideration. Tax deductibility benefits also need to be taken into account in determining taxpayer compliance costs. The tax deductibility of some compliance activities drives a wedge between Social compliance costs and Taxpayer compliance costs. The underlying assumption of tax deductibility benefits is that taxpayers are optimizing and well informed so that they will always claim the full amount of allowable tax deductions in order to minimize their income tax liabilities. Under this assumption, the value of the tax deductibility benefit to taxpayers depends upon:

The portion of taxpayers' compliance costs which is tax deductible

The taxpayers' marginal income tax rates

Whether taxpayers are income taxable or not.

2.1.4. Factors Determining Tax Compliance Behavior

Neway and Wondwesen (2015) states that tax knowledge, simplicity of tax returns and administration, perception on fairness and equity, probability of auditing, and the influence of

referral group were determinant factors that influence compliance behavior of tax payers in self-assessment system. Similarly Jackson and Milliron (1986) listed fourteen main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Kirchler (2007) provides a thorough description of the determinants of tax compliance, dividing them into three categories. He states there are social psychological determinants comprising attitudes, different types of norms, fairness perceptions, as well as motivational features relating to tax compliance, political determinants such as complexity of law and tax system, or fiscal policy, and economic determinants like the rational decision-making process and the effect of audits, fines, tax rates, income on tax behavior. Similarly, Fischer et al. (1992) cited on Geletaw (2015) stated there are four basic factors that determine tax compliance behavior in his expanded model (Fischer Model). i.e.

Demographic (e.g. - age, gender and education)

Noncompliance opportunity (e.g. income level, income source and occupation),

Attitudes and perceptions (e.g. fairness of the tax system and peer influence) and

Tax system/structure (e.g. complexity of the tax system, probability of detection and penalties and tax rates).

A comprehensive review of determinants of tax payers' compliance with tax system such as, awareness level/knowledge of tax payers, fairness/equity, tax payers' attitude towards government, Influences of Peer Groups, organizational strength of tax authority, and Detection and Punishment will be touched. The empirical work of various researchers and other reference materials are scanned to have basic conceptual framework of the subject matter.

2.1.4.1. Social Factors

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

and include friends, relatives and colleagues (Jackson and Milliron, 1986). The peer influence is reflected in an individual's expectations in relation to the approval or disapproval of that tax noncompliance behavior.

Sanvoly, 1990 also stated that compliance behavior and attitude towards the tax system is affected by the behavior of an individual's reference group such as relatives, neighbors, and friends. Thus if a tax payer knows many people in groups important to him who evade taxes, his commitment to comply will be weaker. On the other hand, social relationship may also help deter individuals from engaging in evasion for fear of social sanctions imposed once discovered and revealed publicly (Grasmick and Green, 1980; Grasmick and Scott, 1982).

The survey conducted by Mason et al. (1975) finds that people committing tax noncompliance are more likely to discuss tax matters with their peers. The study conducted by Chan et al. (2000) also reveals that taxpayers may still commit noncompliance so long as this noncompliance is consistent with in-group expectations and norms.

As cited by Slemrod (2000) and Levi (1998) in (Fjeldstad and Ranker, 2003), the dimension of trust that seem 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.

2.1.4.2. Taxpayers Attitude towards the Government

The presence of government expenditures may motivate compliance (Alm, Jackson, and Mckee, 1992; Andreoni, et al., Cowell and Gordon, 1988). Individuals may pay tax because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute. A tax payer therefore is seen as exchanging purchasing power in the market in return for the government services (Levi, 1988). Positive benefits may increase the probability that tax payers will comply voluntarily,

without direct coercion. Without a material benefit, compliance becomes less assured. Although most tax payers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and other' terms of trade with the government(Richupan).

It is then reasonable to assume that a tax payers' behavior is affected by his satisfaction or lack of satisfaction with his terms of trade with the government. Thus, if the system of taxes is perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the tax payer to adjust his terms of trade with the government.Wahlund (1992) also stated that tax compliance is related to political affiliation that is people favoring parties with social democratic values tend to comply more than people voting for liberal parties. Similarly, Due and Friedlaender (1981), 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, (Fjeldstad, 2004) 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-compliance

2.1.4.3. Awareness

James (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such 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 non compliance is an intentional behavior. In countries like Ethiopia where most of the business community have no access to information, lack of awareness cannot simply be overlooked rather it can be assumed as a major determinant of tax compliance behavior.

2.1.4.4 Culture

According to Fjeldstad and Ranker (2003), increased efficiency of the tax administration, however, is not enough. Many observers conclude that a lack of tax paying ‘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 culture is perceived to be influenced by sectarianism, nepotism, and corruption, it is unlikely to contribute to the fostering of a more conducive tax paying culture.

Gaining a better understanding of why people do and do not accurately report and fully pay the taxes they owe is obviously interesting to policy makers (Smith and Kinsey, 1987). In Ethiopia where the system of government has evolved from feudal (where taxes were used by individuals in government) to current one, it is obvious that negative attitude towards tax has been developed in the society. In this sense it is difficult to conclude that there is a culture in the country that appreciates voluntary compliance. Tax knowledge is the level of awareness or sensitivity of the taxpayers to the tax legislation. Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information. The level of formal general education received by taxpayers is an important factor that contributes to the understanding of tax requirements, especially regarding registration and filling requirements. Generally, citizens have very limited knowledge on government true expenditures and the cost of public services provided by the government. Hence, those taxpayers without tax knowledge are compelled to solicit the service of tax professionals (Oladipupo and Obazee, 2016). High awareness by the society would encourage people to fulfill their obligations to register as taxpayer reporting and paying taxes properly are forms of national and civic responsibility. Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is.

Studies on knowledge and evaluation have addressed people's understanding and acceptance of tax phenomena as well as relevant associations towards taxation held by different groups of taxpayers. While from the perspective of the community, tax avoidance, tax evasion, and tax flight all have similar negative consequences, people evaluate these phenomena differently. Palil (2012), states that in addition to tax education, knowledge about tax laws also plays a major role in determining taxpayers’ compliance behavior. Therefore, a step ahead, for example continuous

education programs and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. On the contrary, awareness and attitude of the taxpayer himself is more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers. Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et al., 2000). Chan et al. (2000) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. From the foregoing, it is observed that previous studies have evidenced that tax knowledge play an important role in increasing tax compliance. Tax knowledge could potentially encourage taxpayers to be more prudent in completing their tax returns.

2.1.4.5. Fairness or Equity

A good tax system is the one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. Within literature of tax compliance, the perception of the taxpayers about the fairness of the tax system is recognized as an important factor that can have significant influence on tax compliance behavior. According to Bhatia (1976) cited on Lemmesa (2007) the attitude of taxpayers is an important variable determining the contents of a good tax system. It may be assumed that each taxpayer would like to be exempted from taxpaying, while he would not mind if others bear that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. If this is not so, he will feel exploited.

In some literatures Tax fairness is perceived either be vertical or horizontal fairness. According to Erich, Niemirowski & Wearing (2006) vertical tax fairness is when taxpayers are being treated or taxed with different rate based on their different business activities. Horizontal tax fairness is the instances where taxpayers are being treated equally in terms of their taxes (Michael 1978). Horizontal tax fairness indicated that taxpayers that are into same business activities and earned same income should probably pay same taxes. On the other hand, Kirchler (2007); Wenzel (2004); O. Alabede (2011); Ariffin (2011) and Md Idris (2011), suggested that fairness can be conceptualized as distributive justice, procedural justice and retributive justice.

Distributive justice is concerned with fairness in exchange of resources in both the benefit and cost, while procedural justice refers to fairness in the process of resources distribution and retributive justice is concerned with about the fairness in appropriateness of sanctions when rules are broken. However, Kirchler (2007) stated that research relating to fairness and tax compliance only focuses on distributive justice.

With regard to distributive justice, comparisons are made on the basis of individuals, groups and societal level and at individual level; taxpayers will be interested in the fairness of his tax burden, if it is perceived to be too high compare to other individuals' tax burden, his rate of compliance is likely to decrease. At the group level, the taxpayers are interested on the fairness of treating their groups compare to other groups, when a group perceived that it is not fairly treated in respect to tax burden in relation to other groups that may lead tax noncompliance in the group. At societal level, the taxpayers are concerned with the fairness of tax system of the whole society, where they perceived the tax system to be unfair, tax noncompliance is likely to increase in the society (Kirchler et al., 2017).

2.1.4.6. Influences of Peer Groups

Both psychologists and economists believe that individuals conform to social norms established by peers. First, individuals can incur a high psychological cost (e.g. feelings of guilt, loss of self-respect) in undertaking an undesirable action when other individuals are inclined to follow the norm of truthful reporting. People tend to feel worse as the proportion of others in one's reference group who respect the norm increases (Geletaw, 2015). There is an existing social bond between the society and this bond influences the members of the society in complying with the tax law. According to Social psychology theories, tax compliance pertains to the relationship between tax compliance and social interactions and conventions. An aspect of this theory says that perceptions and attitudes towards a tax system and compliance behavior may be affected by the behavior of an individual's peer groups. The compliance behavior of peer groups like friends, neighbors and relatives is expected to impact on the perceptions and compliance decisions of others. More specifically, noncompliant decisions by peer groups may reduce the level of tax compliance by others. The literature further identifies comparative treatment of taxpayers as a factor that is expected to have a bearing on tax compliance behavior. The comparative treatment perspective implies that taxpayers may consider how the state, and the tax administration in particular, treats them relative to their fellow taxpayers. If taxpayers perceive that the tax

administration treats certain groups favorably, this may affect their relationship with the tax administration, the state at large, and the group receiving favors, and hence may impact on their willingness to comply. D'Arcy (2011) cited on Yesegat and Odd-Helge Fjeldstad (2016) argues that citizens think about how the state treats them relative to their fellow citizens; this judgment will affect not only their judgment of the state, but also how they view their peers. Similarly as cited by Geletaw (2015), Fischer and Huddart (2008) show how 'established norms' or 'peer pressure' can influence an individual's desirable actions, because agents occur at a personal cost in not following their peers. A second reason is that agents gain information from peers' behavior and form an accurate interpretation of reality and behave accordingly. According to these views, much of one's behavior is influenced by one's perceptions of what is 'typical' or considered to be 'normal'. This suggests that when other people behave honestly, such behavior will be followed. Yet, if the number of transgressors grows, the incentive to comply can dwindle.

2.1.4.7. Attitude of Taxpayers towards the Government

Taxes are the price paid for government services and taxpayers generally are sensitive to the way the government uses tax revenues. Taxpayers perceive their relationship with the state not only as a relationship of coercion, but also as one of exchange (Abebe B., 2015). If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade.

Positive actions by the state are intended to increase taxpayers' positive attitudes and commitment to the tax system and tax-payment and thus compliant behavior (Smith 1992). If the government acts in a trustworthy fashion, taxpayers might be more willing to comply with the taxes. On the other hand, as cited by Abebe (2015), Torgler (2004) States that perceived unfairness increases the incentive to act against the tax law as psychological costs are reduced.

According to Torgler, B. (2004) cited on Abebe B. (2015) noted that trust in the legal system, the government, the parliament and the national officer has a strong impact on tax morale. A government based on a well-functioning democracy produces more trust than a dictatorship. A lack of public trust could undermine state revenues and thus the government's ability to perform its function. Taxes can be seen as a price paid for government's positive actions. Thus, if taxpayers trust the public officials, they are more willing to be honest. If the government acts

trustworthily, taxpayers might be more willing to comply with the taxes. Similar to the tax administration, the relationship between taxpayers and government can be seen as a relational contract or psychological contract, which involves strong emotional ties and loyalties. Such a psychological tax contract can be maintained by positive actions, based on trust. If the government tries to generate trust with well-functioning institutions, co-operation can be initiated or increased. Furthermore, when taxpayers are satisfied with the way they are treated, the cooperation is enhanced.

2.1.4.8. Income Level of Taxpayers

Studies on tax compliance have proof the relationship between noncompliance opportunity factors and tax compliance behavior. Depending on risk preferences and the progression of the income tax schedules, income may increase or reduce tax morale. In countries with a progressive income tax rate, taxpayers with a higher income realize a higher dollar return by evading, but with possibly less economic utility. On the other hand, lower income taxpayers might have lower social “stakes” or restrictions but are less in the position to take these risks, because of a high marginal utility loss (wealth reduction) if they are caught and penalized (Jackson and Milliron, 1986 cited on Torgler, 2003)

Similarly, Barbuta-Misu as cited by Torgler (2003) pointed out that level of income actually earned by the taxpayer and tax rate imposed on small and medium enterprises are the main factors for non-compliant behavior. Another study by Fjeldstad and Semboja (2001) also observed that employees paying their taxes through a withholding system have fewer opportunities to be non-compliant.

2.1.4.9. Detection and Punishment

The concept of deterrence approach is based on the risk of detection and punishment will improve compliance behavior. Under this approach taxpayer pay their taxes out of fear that the government will catch and penalize them (Lavoie, 2008). This reduces tax evasion but the concept also includes the idea that the punishment of an evader will discourage future evasion. Valerie Braithwaite (2009) has described deterrence as a double edged sword because it can strengthen the moral obligation to pay tax by pointing out what is the right thing to do but can have a positive or negative effect on compliance. Research has shown that the effect of fines on tax compliance is usually also very small or negligible. As it is stated by Wenzel (2004) when personal norms are strong, compliance are strong, deterrence will have weak effect on

compliance. Taxpayers then comply because they think it is the right thing to do, not because they are afraid of punishment. But when personal norms are weak, deterrence becomes more important. If the taxpayer is not affected by a moral obligation to pay tax then the threat of punishment can have a positive impact on behavior. When social norms are strong, compliance are weak, deterrence will have weak effect on compliance, but when social norms are strong, deterrence will have a greater impact on behavior (Wenzel 2004). Allingham and sandmo (1972) as cited by Alabede, et al. (2011) introduced a theoretical economic model that indicates that penalties have an impact on tax compliance. There have been mixed results on the effect of tax penalties on tax compliance. Virmani (1989) observed that penalty rates had a positive association with tax evasion, meaning that higher rates would encourage people to cheat. The study shows a positive effect of fines and penalties on tax compliance. However, some studies suggest that an increase of penalties can have undesirable effect and result in more tax avoidance (Kirchler, 2007). The higher the penalty has the greater the discouragement for potential tax evasion. On the one hand, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on tax payers.

2.2. Empirical Review of Literature

This section highlights a number of previous studies and some specific finding that deal with tax compliance behavior and the determinant factors of tax compliance of the tax payers.

A research conducted by Pamella B. (2014) on the determinants of tax compliance by Small and Medium Enterprises (SMEs). The study was conducted in Magaba area, Harare with the main objectives of assessing the level of tax compliance among SMEs in Harare and establishes SMEs tax determinants that affect their level of compliance. The finding of the study reveals that the level of compliance among SMEs was very low. The study then concluded that most SMEs were not voluntarily willing to pay tax and the researcher recommended that the tax authorities should make an effort to educate the SMEs about issues concerning tax.

Another study by Anthony Majiwa (2014) on determinants of tax compliance in Kenya by analyzing data obtained from taxpayers interviewed within Nairobi County. The finding of the study reveals that compliance levels are higher in corporate than with individual tax payers. And also it showed that for corporate tax payers, enforcement measures had a negative impact on tax compliance level while tax rates, compliance costs and nature of tax had a positive impact. For

individual tax payers; enforcement measures had a positive impact on tax compliance while tax rates, compliance costs, nature of tax had a negative impact on tax compliance.

A study made by Alabede (2014) analyzed individual taxpayers' compliance behavior in Nigeria. The researcher used demographic variables such as age, income level, employment sector, and ethnicity in analyzing tax compliance problems. The study identifies that the demographic factors such as age and employment status are statistically significant in affecting taxpayers' compliance behavior in Nigeria. However, his result displays that gender and education are not statistically significant in influencing tax compliance. The finding of the study shows that older taxpayers are more compliant than younger taxpayers. Moreover, the result of the study also exhibits that taxpayers who have higher income level are more compliant than those who have lower income level. Additionally, taxpayers who are already settled with their job have better tax awareness than those who are unemployed. Finally, the research claims that education and religion are not statistically significant with tax compliance status.

Allingham and Sandmo (1972) conducted a study on compliance behavior of taxpayers. According to the study the compliance decision of taxpayers is considered to be affected by income of the taxpayer, tax rate, probability of audit, and fine rate. Similarly, Jackson and Millron (1986) came up with fourteen key determinants for tax compliance and these determinants were later categorized into four group determinants in the study of Fischer, Wartick and Mark (1992) cited on Geletaw (2017) and became known as Fischer's model of tax compliance. Demographic variables are within one of these groups of determinants. The demographic factors in Fischer's model include gender, age, education, and income level and employment status.

A study conducted by Helhel & Ahmed (2014) on elements impacting attitudes on and compliance to tax: A survey study of Yemen. The aim of the study was to bring about the influence of attitudes and considerations of individual tax payers on tax compliance in Yemen while taking into consideration the internal and external factors. The study was conducted in Sana'a the capital city of Yemen to evaluate and rank the factors that reduce tax payers' compliance rate. The results indicated that high tax rates and partial tax systems were the two major factors related to low tax compliance rate. Furthermore, there was an insufficient tax audit, little deterrent effects of tax penalties and tax amnesties. It was also revealed that the tax collected did not give as much return with the delivery of public services and goods. Comparison

on the response made based on gender, females were found to be more compliant compared to their male counterparts.

Ondieki Magiya (2016) Explore the different factors that determine tax payers' compliance in Nairobi East Tax District. The study found some similarities and differences in factors that are correlated to tax compliance in the locality under study. An increase in the tax payers understanding of the tax laws and the tax system as well as an increase in government accountability with regards to provision of public good and services results into higher compliance levels, thus more of funds through revenue collection. Hasseldine and Hite (2003) cited on Ondieki Magiya (2016) resolved that first, political party attachment does have a noteworthy effect on the behavior of taxpayers; moreover, the more narrowly recognized the provisions of tax are to a particular political party, the great positively it will be acknowledged by affiliates of that party in relation to taxpayers affiliated to other political parties; further, the strategy amendments inclined to be regarded positively by taxpayers; producing a rise in taxpayers confidence and in unforced compliance, and those who perceived it positively also tended to recognize the existing system as being fairer. In conclusion it was obvious that government resolutions and changes to strategies in accord with the economic and political state have a noteworthy influence on compliance. For instance, an affirmative move by the administration like tax rebate incensement is probable to enhance taxpayers' compliance.

Study made by Nelson Maseko (2014) on Determinants of tax compliance by small and medium enterprises in Zimbabwe can be summarized as follows: The main objectives of the study were to investigate how the unique business conditions of small and medium enterprises, the perceptions of small and medium operators towards taxation, levels of tax knowledge and compliance costs affect tax compliance of small and medium enterprise taxpayers. To achieve these objectives, the researcher stated research propositions: the current tax system in Zimbabwe does not cater for the special business needs of small and medium enterprises and that strong correlation do exist among tax knowledge, compliance costs, and tax compliance. The results indicated that small and medium enterprises face different business conditions from large companies which cause them to bear high tax compliance burdens. The results also indicated that the perceptions of small and medium enterprise operators about tax fairness, tax service quality and government spending priorities greatly affect their tax compliance decisions. Tax knowledge

was discovered to have no correlation with tax registration compliance but weak negative correlations with filing compliance.

Most tax compliance studies to date are based on data from developed countries. There are few studies that provide evidence from developing countries. Studies conducted in Ethiopia regarding tax compliance has provided evidence suggesting that compliance is influenced by numerous factors. Lemessa T. (2007) attempted to reveal determinants of taxpayers' voluntary compliance with the tax system. The study was conducted in Dire Dawa City, Ethiopia. The result of the study identifies the determinant factors of compliance include, maintaining tax fairness and equity, building capacity of the tax authority, conducting extensive awareness creation programs, and providing social services to the general public. Similarly, Tilahun & Yadersal (2014) study on Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City. The study focused only on category 'C' taxpayers. The results revealed that tax compliance influenced by the probability of audited, financial constraints, and changes in government policy. Other variable such as perception of government spending, perception of equity and fairness, penalties, role of the tax authority and tax knowledge not significantly corrected with tax compliance.

Another study conducted by Tadesse and Goitom (2014) on Factors Influencing taxpayers' compliance with the tax system. The study is conducted in Mekelle city, Ethiopia. Based on the findings the researcher has concluded that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy. The findings indicated that tax compliance was influenced by the probability of being audited, financial constraints and changes on current government policy. Other variables such as perception of government spending, perception of equity and fairness, penalties, roles of the tax authority and tax knowledge were not significantly correlated with tax compliance.

Desta Kassa (2010) conducts a study on assessment of taxpayers' voluntary compliance with taxation: a case of Mekelle city, Tigray, Ethiopia. The finding of the study indicated that, factors such as equity or fairness, organizational strength of tax authority, awareness level of tax payers, social factors, cultural factors and tax payers' attitude towards the government were found to be the determinant factors affecting taxpayers' voluntary compliance.

A study conducted by Niway and Wondwossen (2015) on Determinants of Voluntary Tax Compliance Behavior in Self-Assessment System. The study conducted in SNNPRS, Ethiopia.

The study focused only on category 'A' taxpayers. The result of the study revealed that tax knowledge, simplicity of tax returns and administration, perception on fairness and equity, perception on government spending, probability of auditing, and the influence of referral group were determinant factors that influence voluntary compliance behavior of tax payers in SAS.

2.2 Summary of Literature and Research Gap

Why do some people pay taxes levied upon them while other do not?. This is the broad question which this study seeks to answer in more specific terms, this study aims at providing a review of the factor affecting taxpayers' voluntary compliance, there is already a considerable literature on the subject of tax compliance, but they not include taxpayer's authority strength. And as to the best of researchers' knowledge, factors that affect tax compliance behavior is not well understood and studies have not been carried out in Gubre town, SNNP region, Ethiopia. Hence, the above research gap encourage researcher to examine the factors that affect voluntary compliance behavior of tax payers by taking evidence from Gubre town, SNNP region, Ethiopia.

CHAPTER THREE

Research Methodology

3.1 Research Design

This study was conducted in Guraghe zone, gubrea town. The target populations or group in this study is categories "C" tax payers of the sub city.

In this study factors which is affect the tax payer voluntary compliance attitude like tax knowledge of payer, awareness of penalty, social factor, attitude of tax payer were discuses. This is an explanatory study on factor that affect tax payer in the voluntary compliance attitude with tax system. Quantitative method would be employed under this research study as the empirical assessments consist of numerical measurement and analysis. In the perspective of time horizon. The researchers were followed a deductive approach by conducting the research based on existing theories and researches (BlackburnR.andJarvisR.,2010).

3.2 Data type and source

Primary data collection is necessary when a researcher cannot find the data need from secondary sources, especially when the researcher is interested in primary data about demographic characteristics, attitude/opinion/interest, awareness/knowledge, intentions, motivation and behavior. Primary data refers to data originate by the researcher for the specific purpose of addressing the research problem (Coper and Schindler, 2006). It is what the researcher originally collects from the sample or target population. In this study the researcher was used primary data. In this research, the primary data was collected by questionnaire. Primary data is the only source of data for this research. The primary data source is business taxpayers of gubrea town to gather relevant primary data a survey method with self-structured questionnaire used.

3.3 Method of data collection

primary data collection method was used during the study. Because of to get relevant and full information the primary methods were employed. The primary data collected through questionnaires, observation and structural interview. The observation method was used to assess the actual operation of tax payer voluntary compliance attitude. The structural interview method uses as of questions ask to the responsible body and records the response directly. Questionnaires was used as a major tool for primary data collection.

3.4 Target population and sampling technique

The population of the study is category 'C' taxpayers of GUBREA town. According to the GUBREA town Revenue Authority Office document in the year 2012 E.C. total number of category C taxpayers are 227.interview take simple random sampling is the basic selection

process of sampling and is easiest to understand. The sample size is determining use the formula props by (Kothari 2007). According to the formula for sample size determination.

$$n = \frac{pqZ^2N}{(N-1)e^2 + Z^2pq}$$

Where

n = is the sample size for a finite population

N = size of population which is the number of category "C" tax payers

P= population reliability for frequency estimate for sample size now where p is 0.5 and q is 0.5 e =Margin of error consider is 10 % for this study.

Z =normal reduce variable at 0.05% level of significance z is 1.96

According to the above formula, we have 67 tax payers as a sample out of 227 target population

3.4 Method of Analysis

after data collection further research procedures like processing and analysis of collected data was undertaken.Editing can be used for the collected data to detect errors, omissions and unnecessary questionnaires used in the field of editing techniques in the analysis. Finally, the collected data was analyzed by using different methods like tables, pie and percentage coding using numerical and classifying or organizing large volume data in to homogeneous group. Since the primary data collected from tax payers was quantitative, analysis technique used to convert the raw data into understandable form.

3.5 model specification

This study was conduct to examine factors that affect tax payer's voluntary compliance attitude with tax system in gubre town .to achieve the objective the researcher was used tax payer's compliance as a dependent variable and the independent variables was tax knowledge, awareness of penalty, social factor and attitude toward government the following model was derived

$$\text{Equation} = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Where: Y = tax payer volunteer compliance attitude

a = Fixed; equal to Y when b₁, b₂, b₃, b₄ = 0

b₁, b₂, b₃, b₄ = Slope of regression line

X₁ = tax knowledge

X2 = awareness of penalty

X3 = social factor

X4 = attitude tax payers toward the government

e = error

The abbreviations of the terms in the model are as follows:

KNOW - Knowledge of tax payers

AWR - Awareness level of tax payers

SFS - Social factors

ATG - Attitude of tax payers towards the government

TCOMP - Taxpayers compliance

CHAPTER FOUR:

4. RESULTS DISCUSSIONS AND DATA ANALYSIS

4.1 INTRODUCTION

The previous chapter also discussed the research methodology and design employed to achieve the objectives of the study and to test the research hypotheses there on. This chapter deals with four sections. First section contains a summarized description of the personal characteristics of the respondents. The second section shows tax payers general knowledge about taxation. The third section shows the inferential statistics. Analysis of measures, diagnosis test, testing of hypothesis.

The data are collected and then analyzed in response to the posed in the first chapter of this study. The findings are based on the responses of sample tax payers with the help of a structured questionnaire in the study area.

4.2. Demographic Characteristics of the Respondents

Table 4.1: Respondents Profiles

Age category in years	Frequency	Percentage
20 - 30	9	13.43

30 - 40	20	29.85
40 - 50	25	37.31
50 - 60	11	16.42
Above 60	2	2.99
Total	67	100%
Gender	Frequency	Percentage
Male	45	67.17
Female	22	32.83
Total	67	100%

Table 4.1 shows that the age factor of the respondent's profile was 13.43 percent (20 - 30); 29.85 percent (30-40); 37.31 percent (40-50); 16.42 percent (50-60); and 2.99 percent (above 60 years). As it is shown in the table above, the majority of the tax payers fall in the working age group accounting to 43.28 percent, almost half of the total population.

This shows that the young people who fall in the working age group are engaged in different business types or sectors in the study area. However, males were dominant, comprising 67.17 percent and females were 32.83 percent of the total respondents.

This high ratio of males reflects the structure of income earners in the study area. That is in most developing countries; including Ethiopia, husbands and single males are responsible for the earning of income and providing money for wives to purchase goods and services. And may be due to the cultural influences that Females are not capable of running a business; their participation in different business sectors is very minimum as compared to the participation of males.

TABLE 4.2 Educational status of the Respondent

Educational level	Frequency	percentage
High school certificate	35	52.23
Certificate/Diploma	17	25.37
Degree/Professional	9	13.43

Masters	6	8.95
PHD	0	0
Total	67	100%

In above Table 4.2 educational background of the respondents these are 52.23% respondents had high school complete; 25.37 of the total respondents had diploma; 13.43% of the respondents were degree, and the remaining 8.95 of the respondents had master. This indicates that the majority of tax payers were secondary school

4.3. Taxpayers' General Knowledge about Taxation

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

Table 4.3: Reasons why Tax Payers Pay Taxes

Possible answers	frequency	Percentage %
To avoid disturbance	4	5.97
In the anticipation of public service	16	23.88
There is no opportunity to evade	3	4.48
It is an obligation towards the government	44	65.67
Total	67	100

Table 4.3 shows when tax payers were asked why they pay taxes, 65.67 percent of the respondents said that they pay taxes because it is an obligation to the government or state and in the anticipation of public services from the government (23.88 percent). This indicates there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be registered. On the other hand, some of them (4.48 percent) said that they

have no opportunity to evade, and the remaining 5.97 percent of the respondents said that they pay taxes to avoid disturbance.

Table 4:4. the rank of tax evasion with respect to other crimes

Type of crimes	Frequency	Percentage
Kidnapping	2	2.98
Drunken driving	5	7.46
Tax evasion/ fraud	33	49.25
Stealing some one's cell phone	6	8.95
Bribery	21	31.36
Total	67	100

On the other hand, taxpayers understand that tax evasion is a crime and as it can be observed from the table above, 31.36 percent of the respondents ranked bribery as the most serious crime and 49.25 percent of the respondents said tax evasion is a serious crime while the remaining respondents chosen stealing, kidnapping, and drunken driving. From this response one can understand that taxpayers perceive tax evasion as a crime this indicates that there is an attention towards taxation. But the problem here is there is poor compliance even though tax evasion is considered as crime by the taxpayers. Perceiving tax evasion as crime is a normal and desired behavior that has to prevail in the society to build a positive attitude towards taxation and to discourage the problem of non-compliance.

Table 4.5 responses on overstatement or understatement of tax liability.

Considering your ability to pay how do you think the amount of tax liability you have paid?				
	Overstatement	Understated	normal	total
frequency	49	0	18	67
percentage	73.13	0	26.87	100

Table 4.5 shows majority of the respondents 73.13 percent said that the amount of tax liability they have paid is overstated whereas only 26.87 percent of the respondents said it is fair and equitable and even understated (5.0 percent). This indicates the amount of tax that the tax payers had paid is beyond their ability to pay which implies unfairness in the tax system in the study area.

4.4 Descriptive Statistics

This section report mean, maximum, minimum standard deviation and number of observation for each variable used in this study. The descriptive statistics for the dependent and independent variables are presented below. The dependent variable is tax compliance. The independent variables are: knowledge of tax payers, awareness of tax payers and social factor

	TCOMP	KNOW	AWR	SFS	ATG
Mean	3.287879	2.560606	2.863636	2.696970	0.015152
Median	4.000000	3.000000	3.000000	2.500000	0.000000
Maximum	5.000000	6.000000	5.000000	5.000000	1.000000
Minimum	1.000000	1.000000	1.000000	1.000000	0.000000
Std. Dev.	1.661928	1.458437	1.538094	1.568632	0.123091

More of the respondents are agreed with tax awareness affects tax compliance behavior of the tax payer, the mean response in this category is 2.86 and the standard deviations 1.538 this means awareness of tax payers has the ability to influence on tax compliance. The mean values of social factors are 2.69 and standard deviations of 1.568 From the total population. This means tax payer is encouraging to comply with tax by social factor significant effect on compliance. The knowledge of tax response of mean 2.56 and standard deviations of 1.458 this means knowledge of tax payers is significant effects on tax compliance. The tax payer's attitude towards to the government mean and standard deviation is 0.015 and 0.123 respectively.

4.7 Correlation Analysis

Correlation analysis provides the linear relationship between the dependent variable profitability and explanatory variables including both the independent variables by using correlation matrix. Correlation matrix helps to quantify the extent to which two quantitative variables, dependent

and independent variables, go together. Values of the correlation coefficient are always being in between -1 and + 1. The sign of the correlation coefficient determines whether the correlation is positive or negative (direct or inverse); whereas, the magnitude of the correlation coefficient determines the strength of the correlation. Accordingly, the closer the correlation coefficient to + 1, the stronger the positive correlation would be and if the correlation coefficient is close to -1, it indicates a strong negative correlation in between considered variables. However, if the coefficient of the correlation approaches to zero (0) it inform us, there would be little or no linear relationship exists among the variables. Hence, the analysis of the relationship between dependent variable (TCOMP) and independent variables (KNOW, ATG, AWR, and SFS) is detailed in Table 4.6 as follows using the correlation matrix

	TCOMP	KNOW	AWR	SFS	ATG
TCOMP	1.0000				
KNOW	0.084726	1.0000			
AWR	-0.044592	-0.205437	1.0000		
SFS	0.163808	-0.059097	0.193034	1.0000	
ATG	-0.021650	0.209051	-0.151439	-0.135211	1.0000

By taking a correlation result which is presented above. the study period the independent variables to dependent variable which is TCOMP. The result indicated in the table above awareness and tax payers attitude had negative correlation to TCOMP with coefficient of -0.044592, and -0.021650 respectively. Knowledge and social factor had positive correlation to TCOMP with correlation coefficient of 0.084726, and 0.163808 respectively. Hence, the results have to be interpreted as: positive sign of the coefficient means a positive linear relationship with Tax compliance

4.8 Test for absence of series Multicollinearity assumption

Multicollinearity is an assumption of a linear relationship between explanatory variables that creates biased regression model. This problem occurs when the explanatory variables are highly correlated with each other (Brook, 2008). Kennedy (2008) noted that the problem of correlation between explanatory variables exists when coefficient of correlation among the variables are greater than 0.70. As illustrated below, correlation coefficient of 0.040 which is relatively higher

than the other variables coefficients; still it is less than 0.70. It can be said that the problem of serious Multicollinearity had not existent.

Table 4.7 Correlation matrix between explanatory variable

	AWR	ATG	KNOW	SFS
AWR	1.000000	0.040032	-0.143688	-0.027856
ATG	0.040032	1.000000	0.384776	0.023008
KNOW	-0.143688	0.384776	1.000000	0.046024
SFS	-0.027856	0.023008	0.046024	1.000000

Source: E-views 7 output

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

This chapter tried to summarize the study findings and to provide possible recommendations in order to solve the problems. The first section of this chapter is presents the conclusion part and based on these summarized findings recommendations are given last.

5.1. CONCLUSIONS

The study covered the interaction between tax compliance and variables, i.e. - awareness, social factor, taxpayers' attitude and knowledge of tax payers. The main objective of the study was to examine the factor that affecting of voluntary tax compliance in Gubrae town. Survey design was used with questionnaire as the major tool of data collection. Selected sample size was 67. The study analysis was used the descriptive and inferential statistics, Pearson correlation matrix and Ordinary Least Square (OLS) estimation method. The outcome of regression result showed that all classical linear regression model assumptions were not violated.

In the study, awareness, social factor, taxpayers' attitude and knowledge. Were considered as independent variables while tax compliance behavior was considered as dependent variables. According to Pearson correlation matrix results in the Table 4.10, independent variables were significantly correlated with tax compliance behavior and the highest correlation occurred between tax compliance and tax payer attitude toward the government 0.658822 followed by knowledge 0.525682 positively and significantly correlated with tax compliance

Most of the respondents feel that people should pay taxes according to their ability. Generally, as long as the tax being levied is not fair and equitable it may reduce the motivation and voluntary compliance behavior of current taxpayers and also defer potential taxpayers from joining the tax system voluntarily.

The study also indicated that almost all of the respondents do not feel paying tax is unfair but they suggest the amount that they pay has to be fair and based on their ability to pay. In addition to this, majority of the respondents agreed that every tax payer has a moral obligation to respect the tax law. From the study, it is confirmed that knowledge, awareness, and attitude towards the government are determinant factors that are affecting tax payers' voluntary compliance with tax law in the study area.

Knowledge of taxation plays a key role in affecting the voluntary compliance behavior of tax payers in gubrae town. Yet, it does not necessarily guarantee tax compliance behavior of the learners (which in this case is the tax payers) unless it can positively influence their behavior and did not show any means where they would enact against the tax law. But it is believed in many literatures including this study that it would influence the tax payers in some way. The probability of being found out for non-complying (PDFNC) in most cases of Ethiopian tax payers depends on the knowledge of tax payers about taxation because those who have more information about taxation learn how to conceal and enact against the tax law. The probability of being found out in turn affects their compliance behavior positively. Complex tax systems in almost all cases tend to repel tax payers from complying. The business process they have to pass through in order to comply makes the tax system poorly fitting with the business community.

5.2 Recommendations

The most effective tool to creating a voluntary tax compliance is to improve tax knowledge of the taxpayers (improve the skill of taxpayers on how they calculate their tax liability) and changing taxpayer's attitude through sustainable tax education programs. Awareness creation

should go beyond simply giving tax education to taxpayers it should extend to having consultative sessions. Therefore, in order to reduce the obligatory registrants and to ascertain positive taxpayer's attitude towards taxation, the tax authority should engage in continuous awareness creation programs and to educate the public or taxpayers about tax issues.

According to the result, the taxpayers' need various social services (such as school, road, electricity, transportation, telecommunications and etc.) from the government in return of what they have paid as a tax. If there is no provision of sufficient services, the willingness and motivation of the taxpayers' to pay their tax obligation in full and on timely basis may be affected, i.e. the taxpayers' perceive that their money is being misappropriated or used for meaningless purposes. Therefore, the government should be transparent for the taxpayers' money and the service provided to the society.

The most obvious requirement for fairness or equity is to treat equal people in equal circumstances in an equal way. If there is a reason for not discriminating between equals, then this suggests that there should be discrimination between those who are not equal. Maintaining tax equity and fairness is not achieved only through levying equal taxes on individuals who have equal income but also each taxpayer should pay according to his ability- to pay. The authority must also involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity. Generally, the authority has to try its best in ensuring tax fairness and equity so that voluntary compliance behavior can be developed.

Improvement in service delivery for the majority of citizen is therefore a necessary condition to improve tax compliance. The existence of positive benefits in the form of public services, security, etc. may therefore increase the probability that taxpayers will comply voluntarily, without direct coercion. Hence, the city government has to provide social services to the public and it has to inform the taxpayers that these services are provided by their money. This is to convince the taxpayer that they are getting their money back and this in turn enhances voluntary compliance and increases the trust or attitude of the taxpayers on the government

Awareness creation should go beyond simply giving tax education to taxpayers. It should be extended to having consultative sessions with elderly, religious leaders, prominent personalities in the society or other influential individuals. This can help to influence the whole society through these influential persons who have acceptance in their respective groups. There should

be more preventative education for the public and increased awareness of tax responsibilities in schools. Students should be educated early in their career about tax responsibilities. Only through tax education concepts of taxation and tax knowledge can be imparted. Furthermore, taxpayers' need more information about their tax obligations and their role in promoting the growth of the economy of the country and the wellbeing of its citizens.

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Appendices 1- Research Questionnaire.

WOLKITE University

School of Business and Economics

Department of Accounting & Finance

Dear Respondents

This research is entitled “FACTORS AFFECTING TAXPAYERS VOLUNTARY COMPLIANCE ATTITUDE WITH TAX SYSTEM; EVIDANCE FROM GUBRE TOWN” and conducted in Partial Fulfilment for the Requirements of Bachelor of Art (BA) Degree in **Accounting & Finance**

Dear respondents iam Amir Behja work on the tile factors affecting tax payers voluntary compliance attitude with tax system in gubrea. Its main objective is to examine and understand the factors of tax compliance Gubrea town taxpayers in Ethiopia. The research is held on be carried out on your responses and other relevant data that could support it.

The concern of this questionnaire is to attain your observations and opinions regarding various aspects of taxation. The answers of the research will be give in to the concerned government bodies so that they can make use of the recommendations made. Hence, the response you will provide assist me to censoriously analyze why taxpayers obey and/or why not they obey with reporting preconditions.

Your collaboration to reply is so important to this research because it represents a number of others who are not included in the sample. Your response is purely for academic purpose. In order to achieve this research, you are kindly request to answer every question; your kind cooperation is highly appreciated.

I thank you very much in advance for your cooperation

Researcher's Name: AMIR BEHJA

Phone number 09 82 14 12 74

SECTION A: BACKGROUND INFORMATION OF THE RESPONDENTS

Gender: Male

Female

What is your age bracket?

AGE BRACKET	TICK APPROPRIATELY
20-30	
30-40	
40-50	
50-60	
Above 60	

What is your highest level of education?

Level of Education	Tick Appropriately

High School Certificate	
Certificate/Diploma	
Degree/Professional	
Masters	
PHD	
Other(Specify)	

SECTION B : BACKGROUND INFORMATION OF THE BUSINESS.

What is the name of your business?

(Optional).....

How many properties do you own/manage?

.....

How long have you been in the business?

66YEARS	TICK
0-5	
6-10	
11-20	
OVER 21	

SECTION C : Questions related to Tax Payers Compliance (Dependent Variable)

Ser. no.	Statement	Strongly disagreed	Moderately disagree	Neutral	Moderately agree	Strongly agree
1	Tax payers should evade tax if tax rates are too high					

2	Tax payers should evade tax if the tax system is unfair					
3	Tax payers should evade tax if everyone is doing it.					
4	Tax payers should evade tax if the probability of getting caught is low.					

1. Questions related to taxpayers' general knowledge about taxation

1.1 Do you know why you pay taxes?

Yes No

1.2 Why do you pay taxes (check all that apply)?

To avoid disturbances (penalties, sanctions,) []

In the anticipation of public services []

There is no opportunity to evade. []

It is an obligation towards the government. []

Don't know. []

State if any, _____

1.3 Do you think that the tax you are paying is fair and based on your ability to pay? If your answer is no, go to the next question.

Yes []

No []

1.4 Is your tax liability understated or overstated?

Overstated []

Understated []

1.5 The tax laws should be respected.

Strongly Agree []

Moderately agree []

Moderately disagree []

Strongly disagree []

1.6 Which of the following is the most serious crime? (rank them 1-6)

Kidnapping []

Drunken driving []

Hit and run []

Tax fraud/evasion []

Stealing someone's mobile []

Bribery []

1.7. How often you are attending education sessions about taxation?

Three times per year []

Twice a year []

Once a year []

Not at all []

2. Questions related to taxpayers' attitude towards taxation

2.1. Do you feel guilty if you are evading tax, provided that you remain unnoticed?

Yes [] No []

2.2. Have you paid your current tax obligation? If your answer is no, go to the next question.

Yes [] No []

2.3. What could be your reason for not paying your tax obligation (check all that applies)?

[] It is unfair/ beyond my ability.

[] I face no problem by doing so.

- I have no sufficient disposable income
- Since the payment period already passed, now I afraid of the penalty
- Expecting amnesty or write off

If you have other reasons you can mention them here_____

_____.

2.4. How do you guess the size of taxpayers who are not willing to pay taxes?

- Many
- Insignificant
- Few
- None

2.5. Why these taxpayers are not willing to pay taxes (check all that apply)?

- Lack of awareness
- Lack of ability to pay
- Intentional
- Negligence
- Poor and tiresome collection system

If any, mention here_____

_____.

2.6. Does the non compliance of other taxpayers have a negative impact on your own compliance behavior?

- Yes
- No

3. Question related to awareness

3.1. If there is no penalty or legal enforcement, is there a possibility that you may not pay a tax?

- Yes
- No

Ser. no.	statement	Strongly disagreed	Moderately disagree	Neutral	Moderately agree	Strongly agree

3.2	Tax is an obligation for all people.					
3.3	I have sufficient knowledge about the benefit of tax.					

4. Questions related to taxpayers' social factors

4.1. Do you think that social factor have an impact on tax compliance?

Yes No

If your answer is yes, state how it affects_____

_____.

4.2. The non compliance of other taxpayers has a negative impact on compliant tax payers' behaviour

- Strongly disagree
- Moderately disagree
- Neither disagree nor agree
- Moderately agree
- Strongly agree

4.3. Do you agree that tax payers including you may commit non-compliance as long as your non compliance is consistent with in-group expectations and norms?

- Strongly disagree
- Moderately disagree
- Neither disagree nor agree
- Moderately agree

Appendices 2

know	awr	sfs	atg	TCOMP
1	1	1	0	5
1	1	1	0	4
3	2	1	0	1
1	1	1	0	1
1	1	2	0	1
1	1	2	0	5
1	5	1	0	2
1	5	1	0	1
1	1	5	0	1
1	1	4	0	4
1	5	3	0	1
4	1	1	0	1
3	1	3	0	5
1	5	3	0	1
5	2	5	0	5
2	4	1	0	1
1	4	1	0	5
4	2	1	0	1
1	3	4	0	5
3	2	5	0	4
1	2	1	0	5
1	5	1	0	1
5	1	1	0	4
1	4	3	0	1
4	2	1	0	3
4	1	1	0	5
4	2	1	0	1
5	1	1	1	3
1	1	3	0	2

4	5	1	0	2
4	1	2	0	1
4	2	4	0	1
3	1	1	0	4
3	1	1	0	5
2	2	2	0	1
3	1	5	0	4
3	2	4	0	5
6	1	1	0	5
4	2	5	0	1
3	5	2	0	5
2	3	4	0	4
2	3	4	0	5
4	1	1	0	5
3	3	1	0	5
1	4	5	0	5
1	4	5	0	5
4	3	5	0	5
4	3	5	0	4
4	5	2	0	4
1	5	4	0	4
1	5	4	0	3
3	5	3	0	3
2	5	3	0	3
2	3	1	0	3
1	4	4	0	3
3	4	2	0	2
1	3	5	0	2