

FACTOR AFFECTING TAX COMPLIANCE ON BUSINESS INCOME TAX PAYERS IN WOLKITE TOWN



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DEPARTMENT OF ACCOUNTING AND FINANCE

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ACRONYMS

GDP-Gross domestic product

ERCA-Ethiopian Revenue and custom authority

FDFE-Federal Democratic Republic of Ethiopia

HPR-House of peoples Representative

IMF- International Monetary Fund

AAS- Self-Assessment system

OECD-Organization for economic co-operation development

TOT-Turn overtax

VAT-Value added tax

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ABSTRACT

Taxation is one of the important elements in managing national income of developed & developing country like Ethiopia. The main objective of this paper is to understand the influence of some possible factors that affect tax the compliance of Wolkite town income tax payers in Wolkite. The significance of this study helps to improve tax compliance and reduce tax compliance costs of the taxpayers & administrative costs of Ethiopian Revenues and Customers Authority. The data required for this research was collected from primary sources which were collected directly from taxpayers through researcher-administered questionnaire. In addition, the research employed quantitative research design. A sample size of 123 was drawn from the population of Wolkite town taxpayer's branch office. Both purposive and convenience sampling method employed for collecting data from tax payers. A research design was a plan, structure and strategy considered in order to obtain answers to research questions and control variables. The research implies that the study selected factors; Tax Audit, Tax payers service, strength of organization, perceived fairness of tax system, tax knowledge and education, fine and penalty and power and trust of the tax authority the taxpayers are have factors affecting on the tax compliance level. Conclude that the tax authority should suppose provide continuous education for the taxpayers for creating clear awareness the use tax for the citizens. Besides, there should be rigid enforcement of fines and penalties to deter tax evasion. The tax authority has not provided sufficient awareness with its directives and laws. The tax system, tax policy and tax proclamations should extract by considering the taxpayers' knowledge level, income level and perception.

Key word;Factor affecting tax compliance on business income tax payers in Wolkite town.

Table of Contents

ACRONYMS	1
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Table of Contents	3
CHAPTER ONE	6
Background of study	7
1,1,Introduction.....	7
1.2. Statement of problem.....	8
1.3 .Research Question	10
1.3. Objective of the study	10
1.3.1. General Objective	10
1.3.2. Specific objectives	10
1.4 .Significance Study	11
1.4.1. Scope of the study	11
1.4.2. Organization of paper	11
CHAPTER TWO	12
REVIEW OF RELATED LITERATURE	Error! Bookmark not defined.
2.1. Introduction.....	Error! Bookmark not defined.
2.2. Taxation system in Ethiopia.....	12
2.3. The Hierarchy of laws.....	Error! Bookmark not defined.
2.4 .Major types of taxes in Ethiopia	13
2.4.1 Value Added Tax (VAT)	13
2.4.2. Excise Tax.....	14
2.4.3 Turnover Tax	14
2.4.4 Income Tax	15
2.5 . Tax non compliance.....	16
2.6 .Tax compliance.....	17
2.7. Factor affecting of tax compliance.....	17
2.7.1 .Economic factors of tax compliance.....	18

2.7.2 Non economic factors compliance	18
2.8 Fines and penalties	21
2.8.1. Fines.....	21
2.8.2. Penalty.....	22
2.9.Tax Knowledge and Education	22
2.10. Effects of trust and power of tax authority	23
2.11. Perceived Fairness of tax System.....	24
2.12. Empirical Literature review	25
2.13 Summary and Knowledge Gap	26
2.14 . Conceptual Framework.....	27
CHAPTER THREE	29
RESEARCH DESIGN AND METHODOLOGY	29
Introduction.....	29
3.1. Research design	29
3.2 Population of study	Error! Bookmark not defined.
3.3. Sample size and sampling technique.	Error! Bookmark not defined.
3.4. Source of data	29
3.5. Method of data collection	31
3.6. Method of data analysis	32
REFERENCE	32
Appendices one.....	Error! Bookmark not defined.

CHAPTER ONE

Background of study

1.1. Introduction

Tax is defined as a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return' (Lymer and Oats, 2009). A tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any direct corresponding return of services or goods by the government. Government needs financial resources to act as government and play a role that is expected from it by the public (James and Nobes, 2000). As important sources of public revenue, taxes are very essential part of the daily functioning of a government. Taxes are important sources of Government revenue. Public goods and services are normally subject to collective utility, thus requiring that we put some of what we earn into government hands. Any government's priority is the generation of revenue money by means of which it can procure such services and goods necessary for the performance of its functions.

The best way to understand the term is to state the fundamental idea of a tax and afterwards to note its leading characteristics. Accordingly, in general terms, tax can be defined as a contribution from individuals out of their private property for the maintenance and defense of government, so that it may perform its functions and the ends of the state be earned.

The important point of any tax system is the manner in which it is administered. An essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their tax obligations. Tax compliance as filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed (Olaoye, Agbaje Ajewole, 2017).

The scope of tax compliance includes, reporting income and paying all taxes in accordance with the applicable laws, regulations, and court decision. Another definition of tax compliance is a person's act of filling the income tax form, declaring all taxable income accurately, and

disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. To execute the tax compliance the best methods the tax Self-assessment methods. SAS makes the tax systems more convenience, convince and economy. It is the most essential for avoiding unnecessary tax collection cost. (Manchilot 2018).

Many countries have accepted the self-assessment system (SAS) in order to simplify the tax assessment system and encourage voluntary compliance. As tax noncompliance affects revenue collection and the ability of the government to achieve its fiscal and social goals, the Ethiopian government, through its revenue collection agency (Ethiopian revenue and custom authority) clearly stated that efforts would be geared towards promoting voluntary compliance (ERCA, annual report, 2012). In Ethiopia, SAS was recently introduced in 2005. As generally, tax was defined as a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return' (Lymer and Oats, 2009). There are different non-economic factors affecting tax compliance like, penalty, fines, lack knowledge on tax and effect of trust and power (Kichler, 2007). I would study and identify on these factors of tax compliance and noncompliance in a good manner.

1.2. Statement of problem

Taxes were important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many facilities, business enterprises, industries and the general public. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (ERCA, 2015).

The problem of noncompliance is more serious in developing countries particularly in Sub-Saharan African countries (Cobham, 2005). Ethiopia is presently reliant on more on external economic resources (aids and loans) to fund their development activities. Hence, the country practiced a consistent excess of expenditure over revenue for adequately long period of time. Tax noncompliance is a growing concern for Ethiopia tax authorities and public policy makers since it seriously threatens the capacity of governments to raise required public revenue. So, the government introduced a number of rules, systems and methods aiming tax collection as a major

source of public revenue. However, this all efforts could not still bring the required result due to a number of reasons (ERCA 2015).

The main reason of this low revenue collection performance is due to tax noncompliance and due to poor tax administration (IMF, 2015). One of the main problems in implementing self-assessment system (SAS) is achieving acceptable levels of voluntary compliance (Palil, 2010).

This may happen due to factors such as lack of familiarity with the self-assessment system, poor tax, and authority administration, lack of awareness creation about tax provisions, regulations, directives and general limited knowledge of tax issues. Due to these reasons, tax compliance has been given a serious attention by study because of increasing non-compliance especially tax evasion and its consequences on the capacity of government in raising public revenue. Ethiopian government fails to fulfill income tax requirements and a number of them face prosecution for failing to pay taxes on time. (ERCA, 2014). Even if the government advocates voluntary compliance, the tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning (Proclamation, 286/2002). According to the information obtained from large tax payers office, number of non-filers, null-declarants and amount of tax collected from enforcement activity showed continual increment (ERCA, 2014).

According to the Report of (African Economic Outlook, 2015), the average 2010/11 to 2015/16 Ethiopia Tax Revenue Ratio to GDP is about 12.08. Although tax revenue-to-GDP showed a slight improvement in 2013/14 that is 12.7 compared to 12.4 in 2012/2013, it still remains low compared to the tax revenue generating capacity of the economy and the financing requirements of the development programs as GTP1 target of tax to GDP was 15-17%. Similarly, it is well below the average performances of sub Saharan African Countries of about 20% (Kenya 23%, Mauritius 19% and Tanzania 17%). It obviously shows that using old policies such as controls and forfeits may not work continuously and persistently. Hence, there is a clear need for more empirical research on the factors that affect tax compliance, since a better understanding of these factors can yield strategies that improve compliance. However, to the best of the study knowledge the factors influencing tax compliance studies have not been carried out especially on wolkite Town taxpayers in Ethiopia; The study focused on the large taxpayers which have sufficient and effective knowledge regarding with tax compliance and also they have good understanding for identifying their duties and rights which legislated under tax laws, regulation

and directives.(ERCA,2018). The, large taxpayers have hired well trained and professional accountant. The accountant has great impact on the tax compliance matter. Beside, most of the large taxpayers companies make agreement with independent external auditor. Lastly, the study has given emphasis on the income of the taxpayers. But, there is tax authority behavior that makes the tax payers to be non-tax compliant. The study has considered the issues as the limitations of the previous studies. These limitations are the problem of noncompliance, poor tax administrations, lack of familiar with self-assessment (SAS), lack of awareness creation about tax provisions, directives and limit knowledge of tax issues and failing to pay tax on time. The focus of this study is to identify factors affecting in Wolkite Town taxpayers compliance with respect to direct and indirect tax reporting requirements in Ethiopia.(Akalu,2016).

1.3 .Research Question

The core research question was what factor affect tax compliance behavior of taxpayers in Ethiopia. Precisely, this study has tried to answer the following four major research questions.

How is perceived fairness for tax system affecting tax compliance behavior?

How is tax knowledge and education infusing tax compliance behavior?

How are fines and penalties deterring compliance behavior

How is agreement and power of tax payers contributing compliance behavior?

1.3. Objective of the study

1.3.1. General Objective

The overall objective of this study would to be identified the factors that affect tax compliance of business profit taxpayers in wolkite Towns.

1.3.2. Specific objectives

I. To determine perceived fairness for tax system on tax compliance level.

II. To examine the effect tax knowledge on tax compliance level

III. To assess the effect of fines and penalties in tax compliance level.

IV. To evaluate the trust and power of tax administration compliance level.

1.4 .Significance of Study

The findings of this study would be 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 Ethiopian Revenues and Customers Authority.

Attitudes of taxpayers play a significant role in taxpayer's compliance behavior. Therefore, it is important to understand the factors that influence Tax Compliance toward taxation which affects the compliances level. Generally, the output of this study has the following significances:- It can assist tax administration to identify areas where taxpayers experience challenges and in identifying areas that need attitudinal change.

1.4.1. Scope of the study

This study include factor affecting business profit taxpayers found in Wokite town Administration in identifying the factors affecting their tax compliance level. Many factors can be considered to analyze tax compliance of business profit taxpayer .In this study, many factors, (social services, amount of tax liability, cost of tax compliance, tax knowledge, and attitude of taxpayers and services of ERCA to business profit taxpayers) were considered.

1.4.2. Organization of paper

This study have been organized as follows: The first chapter of this paper discuss about the background of study statement of problem, objective of study, significant of the study, scope of the study and research questions. The next chapter analyses prior literatures investigative compliance, its described factors from the viewpoint of different professionals and Ethiopian taxation history. Following the pertinent literature, there is a discussion of research methodology includes authority lotion, sampling techniques, methods of data collection and the research instruments employed.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

This chapter reviews earlier study and literature in tax compliance. Specifically, the chapter begins with a general discussion on Ethiopian tax system development and the current tendency, followed by tax compliance concepts and finally, a review of prior literature on possible factors affecting tax compliance and Conceptual Framework.

2.2. Taxation system in Ethiopia

Tax has been defined by different ruling classes and experts in various methods. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (Uremadu, 2000). Tax as liability on account of tax payers as contribution in some quantum measure to the fund available for use by the government in providing necessary infrastructure for her citizens (Loo, 2004). And another study by tax is defined as „a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the taxpayer receives nothing specific in return“ (Lymer and O, 2009).

Toward the end of the imperial period, the budgets of the various ministries increased progressively while tax yields deteriorated. With a majority of the population living at a sustenance level, there are limit opportunity to increase taxes on personal or agricultural income. Consequently, the imperial government relied on indirect taxes (customs, excise, and sales) to generate revenues. For instance, in the early 1970s taxes on foreign trade accounted for close to two fifths of the tax revenues and about one-third of all government revenues, excluding foreign grants. At the same time, direct taxes accounted for less than one-third of tax revenues. (Yohannes and Sisay, 2013).The revolutionary government changed the tax structure in 1976, replacing taxes on agricultural income and rural land with a rural land-use fee and a new tax on income from agricultural activities. The government partially lessened the tax collection problem that existed during the imperial period by delegating the responsibility for collecting the fee and tax on agriculture to peasant associations, which received a small percentage of revenues as

payment (Gebrie, 2008). That percentage declined after 1979, although it remained relatively higher than the figure for the pre-revolutionary period. (Yohannes and Sisay, 2013).

Since 1992/93, the Government of Ethiopia has made a major economic policy shift from Central Planning to market oriented economic system. In line with this change, a series of tariff and tax reform measures have been taken. Sisay(2013).

2.3 Major types of taxes in Ethiopia

The major types of taxes that exist in Ethiopia, their meaning, rates and conditions, as provided by the Federal Inland Revenue Authority, are presented as follows:

2.3.1 Value Added Tax (VAT)

Black's law dictionary on its part provides that "VAT is a tax assessed at each step in the production of a commodity based on a value added at each step by the difference between the commodities production cost and its selling price". This is a sales tax based on the increase in value or price of product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer. The concept of VAT was propounded first by American experts by 1920,,s. But at that time, Americans failed to implement it. The modern concept of VAT was truly introduced in France (1954). It is from France that other countries took lessons about VAT and introduced in their legal systems. According to some scholars, in 2003, VAT was exercised, it had been adopted and in more than 123 states of the world. In Ethiopia, VAT was introduced since January 1, 2003 designed to replace the out dated sales tax, which has served for more than four decades, which was collected at manufacturing level. VAT is taken as dispensable component of tax reforms in developing counties such as Ethiopia by considering it a miracle tax to replace direct and indirect taxes entirely. In other areas of taxation, where VAT is not regularly governing, turnover tax is introduced. The introduction of VAT under Ethiopian tax system, borrowed from foreign systems, clearly signifies advancement in the area of taxation (ERCA, 2003). Currently, since Ethiopia adopted federal structure the former tax law cannot be properly used and implemented in the presence of federal and state government for both have say on tax laws and enforcements thereof (Gebrie, 2008). All in all, Ethiopia adopted VAT proclamation No 285/2002 applied and practiced from January, 1, 2003 onwards. Good tax administration such as VAT is challenging in

all countries especially, developing ones. The rate and impose of VAT: The rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services; The export of taxable goods or services to the extent provided in regulations for zero tax rate (Desalegn,2014).

2.3.2. Excise Tax

Excise tax is one variety of sales tax like VAT and turn over tax but unlike turn over tax and VAT, It is applicable not on all kinds of goods rather on selected goods. It is imposed on luxury goods and basic goods which are demand inelastic. It is also applicable on goods which are hazardous to health and societal problems. But advalorem is calculated out from the value of the good. Excise tax in Ethiopia is introduced for many reasons. (Yohannes and Sisay,2013).

Firstly, it helps to improve government revenue by imposing excise tax payable on selected goods. When tax is imposed on certain items that were not subject to tax, the effect is usually increment of government's revenue to facilitate different projects a head. Secondly, tax shall be imposed on luxury goods and basic goods which are demand inelastic. Thus, the excise tax has positive impact on the reduction of consumptions of goods hazardous to health and cause social problems (Gebrie, 2008).

The attachment at the schedule indicates that the goods or products are related to luxury goods, goods dangerous to health and that cause serious problems to the society, ranging from perfumes to tobacco and tobacco products (ERCA, 2008). The excise tax is imposed on goods imported or produced locally in accordance with the schedule attached with the proclamation proc. No. 307/2002. The rate specified above is uniformly applied for goods produced locally and imported from abroad, what matters is the type of product (ERCA,2008).

2.3.3 Turnover Tax

It is applicable in Ethiopia tax law. Unlike VAT, where the threshold to identify persons subject to it is 1,000,000 birr ,turn over tax was applicable for those whose annual transaction is below this amount save voluntary registration for VAT (Yohannes and Sisay,2013). The base to compute turn over tax is the goods receipts in respect of goods supplied or service rendered (Art 5). Thus, the person who sells goods and services has the obligation to collect the turnover tax from the buyer and transfer collected tax authority. Two kinds of rates: 2% on goods sold locally

and for services rendered locally again in two rates: 2% for contractors, grain mills, tractors and Combine-harvesters and 10% on others. Rate of turnover tax is 2% on goods sold locally and 10% on others; as provided by the 'Excise Tax Proclamation No. 307/2002' (ERCA,2008).

2.3.4. Income Tax

The concept of income taxation was initially introduced in Ethiopia in the year 1944. The foundational principle of income tax in Ethiopia was laid by Emperor Haile sellasie in 1882, when the emperor issued a decree requiring all peasants to pay one-tenth of their agricultural products to tax officials (Gebrie, 2008).

The arrangement of income taxation of that period provided a modern structural and legal framework for the collection and levying of income taxation. Income taxation under this arrangement was classified into four schedules based on the sources of the income (Eshtu, 1987). The first schedule, Schedule A, provided for taxation of income from employment; the second schedule, Schedule B, provided for taxation of income from rent of land and buildings used for purposes other than agricultural purposes; the third schedule, Schedule C, provided for taxation of income from business, professional and vocational occupations, the exploitation of woods and forests for lumbering purposes and from interest; finally, the fourth schedule, Schedule D, provided for taxation of income from agricultural activities. By basing on these schedules, income was charged progressively. Employers were required to declare the incomes of employees and employees of more than one organization/institution were required to declare the total amount of their income from their employments (Gebrie, 2008).

As far as the history of the laws governing income taxation in Ethiopia go, it is said to have started with the Personal and Business Tax Proclamation No. 60/1944 which provided for income taxation in modern form as opposed to the traditional forms of taxation of earlier times. This proclamation was replaced by the Proclamation No. 107 of 1949, which was replaced seven years later by the Income Tax Decree No. 19 of 1956. Then after, Income Tax Proclamation No. 173/1961 was enacted followed by Proclamation No. 255/1967. (Gebrie 2008) During the Dergue period, Proclamation No. 77/1976 and Proclamation No. 152/1978 were adopted as amendments to Proclamations No.173/1961 and 255/1967. These two amendments changed the income structure levied on agricultural activities; and thus introduced rural land use fee and tax

on income from agricultural activity (which had been exempted from taxation by the Income Tax Proclamation No. 255/1967). Furthermore, Special Decree No. 18/1990 was passed thereby changing the rate of taxation on business income (Yohannes and Sisay, 2013).

2.4 .Tax non compliance

Makers since it seriously threaten the capacity of governments to raise required public revenue. The problem is more serious in developing countries. Tax non-compliance is defined as failure to obey with tax laws and/or declare understate revenue, the act of asking for unfitting expense, relief and refunds and/or paying the incorrect amount of tax beyond the stipulated time frame. Tax noncompliance is a growing international concern for tax authorities and public policy And, noncompliance is also perceived as the failure of a taxpayer to report the actual income, claim exaggerate deductions and rebates and remit the small amount of tax payable to the tax authority on time (Kirchler, 2007).

Taxes can be classified into two main types: direct and indirect taxes. Direct taxes mean the burden (incidence) of tax is borne entirely by the entity that pays it, and cannot be passed on to another entity; for example, corporation tax and individual income tax. Indirect taxes are typically the charges that are levied on goods and services (consumptions) for example VAT (Value Added Tax), sales tax, and excise tax and stamp duties. Indirect taxes are not levied on individuals, but on goods and services. Customers indirectly pay this tax in the form of higher prices. For example, it can be said that while purchasing goods from a retail shop, the retail VAT is actually paid by the customer. The retailer eventually passes this tax to the respective authority. The indirect tax actually raises the price of the goods and the customers purchase by paying more for that product. Unlike indirect tax, direct taxes are based on ability to pay' principle but (by being very obvious to the taxpayer) they sometimes work as a disincentive to work harder and earn more because that would mean paying more tax. Individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities. Some of these actions can be classified as tax avoidance, which is the legal reduction in tax liabilities by practices that take the full advantage of the tax code, such as income splitting and postponement of taxes for example through contribution to a Home Ownership Savings Plan.

The other classification of actions is tax evasion which consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations (Mansor, 2005). Individuals and firms can evade taxes by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns. In every jurisdiction, tax authorities are empowered to collect revenue from taxpayers. Although there are a number of taxpayers who have reported their income and paid their tax liabilities properly, there are a few taxpayers who have not done so. The issue of tax compliance is extremely important both to those concerned with the key role the increased tax yields can play in restoring macroeconomic balance and those concerned with tax policy and its effects on the economy in general (Mansor, 2005).

2.5 .Tax compliance

Tax compliance is a major problem for many tax authorities and it is not easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise“ (James and Alley, 2004).

According to James and Alley (2002), tax compliance refers to the willingness of individuals to act in accordance with both the spirit and the letter of the tax law and administration without the application of enforcement activity. Tax compliance is defined as the accurate reporting of income and claiming of expenses in accordance with stipulated tax laws. Thus, the failure of corporations to accurately report or pay tax is considered corporate tax non-compliance (Noor, Jeyapalan and Uchenna, 2014). A wider definition of tax compliance, tax compliance should be 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 (Kirchler, 2007).

2.6. Factor affecting of tax compliance

Tax compliance has affected by different factors. The previous study done in Arba Minch University by Wondwossen Jerche and Niway Adimasu in (2018), and in Addis Ababa University by Ketema Derar in(2019), and the study would done in wolkite University using the study to identify economical or non-economic factors. Both the studies have been done deeply and attain their research objective properly. Besides, the research was done in Ethiopia. The study extracted variables from both types of tax compliance factors which can exist the habitual

interactions among both the taxpayers and tax authorities. The variables which discussed in this study analyzed the impact of tax authority's system, power, procedures and activities that makes the tax payers to be non-tax compliance.

2.7. Economic factors of tax compliance

It seems that taxpayers were reluctant to lose their hard-earned money by “ gambling” with tax authorities (Kirchler2007).The tax rate had no effect on evasion and under reporting (Kirchler, 2008). When trust is high, the same level of tax rate would be interpreted as contribution to the community, which in turn again profits each individual. In the first case, the tax rate would be interpreted as the wielding of power by some tax offices and in the second case, as a joint agreement within the community (Kirchler, 2008).

If tax rates were described as abstract concept or in concrete terms by giving hypothetical examples. Knowledge about effects could help authorities in promoting changes in tax policy such as tax rate increases without undermining taxpayer’s compliance (Kirchler, 2007). Thus, entrepreneurs have done the migration from one form of organization to another, which offers tax advantages for purposes of paying lower taxes. As an example, we present the case of limited liability companies and individual enterprises (Nicoleta, 2011).Tax audit is one of the most effective policies to protect the behavior of tax evasion. The level of tax audit can be determined by two elements: one is how many taxpayers are selected for audit and the second is how much concentrated the audit is. The first element is easily measured by the number of audited taxpayers divided by the total number of taxpayers. However, these elements are so difficult to measure due to no published information about the process of tax audit. It was commonly measured by the first element to indicate the level of tax audit for practical comparison (Hyun, 2005).

2.7.1. Tax Audit

According to kricher (2008) cited in Badara (2012), tax audit is defined as the checking or examining of an individual or organizations’ tax return and assessments by any concerned tax authorities so as to achieve the compliance with the proper tax laws, regulations, and directives of a country. In addition, he also defines it further that tax audit is a process whereby tax

authorities give the confirmation to their stated tax returns whether these reports are prepared based on the consent of the tax laws or not (OECD (2006)).

In a similar fashion, OECD (2006) also defines tax audit as and check of tax payer if the books of accounts are correctly reported and whether these reports correctly reflect the liability of the tax payer. Further, tax audit is a primary activity of the tax authorities under the self-assessment system in enhancing and encouraging voluntary compliance with the tax laws and regulations (OECD (2006)).

2.7.2. Tax Payer Service

Service quality provided to tax payers in tax department becomes our concern because it is related to society as service users (Nunung, 2015) The National Taxpayer Advocate believes quality taxpayer service is a fundamental taxpayer right, and Congress should fund taxpayer services at a level that enables the internal revenue service's to provide the quality service taxpayers need to comply with their tax obligations. In an attempt to justify taxpayer service investments in the context of its return on investment (ROI), in recent years researches have studied whether taxpayer service, among other factors, impacts taxpayer compliance behavior. The study results show taxpayer attitudes about the IRS, and in particular IRS services, are among the most important factors influencing the compliance behavior of taxpayers with individual business income (Nunung, 2015).

An important trend in tax administration policies in recent years is the recognition that the traditional "enforcement" paradigm of tax administration, in which taxpayers are viewed and treated as potential criminals and the emphasis is exclusively on repression of illegal behavior through frequent audits and stiff penalties, is incomplete. A revised "service" paradigm recognizes the role of enforcement, but also emphasizes the role of the tax administration as a facilitator and a provider of services to taxpayer-citizens (Alm and Martinez-Vazquez, 2003). Taxpayer service plays a critical role in maximizing voluntary compliance by providing taxpayers with the information and assistance they need to enable them to meet their tax obligations. Taxpayer services curb compliance costs by providing programs that enable taxpayers to fulfill their obligations more easily, thereby minimizing the need for the tax administration to expend more costly resources to enforce compliance.

2.7.3. Strength of the organization

For many aspects of tax compliance, there is a debate in literature as to how the effective operation of the tax system by the tax authorities influences taxpayers' compliance behavior. The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important.

Tadesse E.(2014) illustrated tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion. Besides, the study of Richardson (2008) also suggested that the role of a government has a significant positive impact on determining attitudes toward tax.

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2.8 Non economic factors compliance

There are many non-economic factors to affect the level of tax compliance. Many researchers have been done to include these non-economic factors to explain the behavior of tax compliance under the framework of economic analysis (Alm, Sanchez and DeJuan, 1995). These non-economic factors include the willingness to pay for public provision, public education, tax morale, tax information etc. As there are some limitations to include all non-economic factors for the analysis of behavior of tax compliance, most studies pay attention on just one or several factors for rigorous analysis. Even though we understand that non-economic factors are the important determinants for the level of tax compliance. The release of tax information might be

one important determinant for tax compliance, as it gives taxpayers an exact figure about tax evasion. However, there is little empirical evidence whether or not the release of tax information has an effect on the level of tax compliance. There are three tax subjects under this public notification system, which are individual income tax, corporate income tax and inheritance tax (Hyun, 2005).

Attitudes toward taxes: Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive (Kirchler et al., 2008). Tax attitude in general also depends on the perceived use of the money collected and therefore is connected to knowledge (Kirchler et al., 2008). Norms is behavioral standard on three different levels: the individual level, the social level and the national level (Kirchler et al., 2008). On the individual level, norms define internalized standards on how to behave. Individual norms are related to moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency and values. A norm where all citizens are perceived as contributing their fair share would certainly help to increase trust in the authority (Kirchler et al., 2008).

2.8.1 Fines and penalties

Fines and penalty rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler 2007). Higher fines simply make evading taxes more hazardous for taxpayers and should deter them from evasion. Empirically, the deterrent effect of fines could not always be supported. The observed effects were weaker than expected and some studies even suggest that an increase of penalties can have undesirable effect and result in more tax avoidance (Kirchler, 2007). Some of the findings suggest that a policy based on deterrence is effective only in combination with frequent Audits (Kirchler et al., 2007).

2.8.2. Fines

Fines that are inappropriate because a taxpayer involuntarily made a mistake resulting from ambiguous tax laws, or fines that are exorbitantly high, would undermine the perception of retributive justice and induce tax evaders to try even harder to regain their losses incurred by

those fines (Kirchler et al., 2008). In an experimental survey study by Muehlbacher, Hölzl and Kirchler income-adjusted fines had more impact on the sentenced taxpayers' intention to commit the same offense again than fines which were solely adjusted to severity of evasion fact (Kirchler, 2007).

Fines that is in appropriate because a taxpayer involuntarily made a mistake resulting from ambiguous tax laws, or fines that are exorbitantly high, would undermine the perception of retributive justice and induce tax evaders to try even harder to regain their "losses" incurred by those fines (Kirchler et al., 2008).The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayer.(Kirchler et al., 2008).

2.8.3. Penalty

The structure of penalty system may be different in the countries: can be various types of penalty rate by the different tax subjects or different structure of penalty rates by the types of taxpayer. So, penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, value added tax etc.Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no book keeping of invoices, receipts etc. Or, the penalty rates are differently applied to the types of taxpayers, depending upon their evaded behaviors.

If some taxpayers had the intentional evasions, the penalty rate is much higher than that of unintentional evasions (Hyun, 2005).

2.8.4 Tax Knowledge and Education

Tax knowledge is the level of consciousness or understanding of the taxpayers to tax legislation. It refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information. Taxation knowledge is necessary to increase municipal alertness especially in areas regarding taxation laws, the role of tax in national advance, and especially to enlighten how and where the money composed is spent by the government(Mohd, 2010). This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make

the payment (Kasipillai, 2003). Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010).

Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996). Self-assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003).

The influence of knowledge on compliance behaviors has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003).

2.8.5 Effects of trust and power of tax authority

Trust and power not only determine the amount of tax payments but are also interrelated in so far as a change of one factor can affect the second parameter (Kirchler 2007; Kirchler, Hoelzl, and Wahl 2008).

The current dominant tax climate would have been observed as more contrasting. In the first setup the improved power is supposed as fair and thus as valid, where as in the second scenario, the increase in power is skilled a sun fair and therefore as forced. It is necessary, then, to distinguish between legitimate power and coercive power (Turner 2005). While reasonable authority can be seen as a helpful assessment of authorities' power that is associated with positive attitudes towards tax authorities, strong power describes tax authorities' abilities to notice tax crimes and to carry out severe penalty. As long as power of authorities is supposed as legitimate, it is not necessarily regarded as negative but instead is perceived as having positive effects on citizens' trust (Lavoie 2008).

Falk and Kosfeld (2004) found that being controlled and thus feeling distrusted reduces trust and consequently cooperation. An opposing effect is possible, however, as governments lacking real power are scarcely trusted by citizens. In this case, the single implementation of lying taxpayers could undermine a synergistic environment and honest taxpayers could start to disbelieve the authorities. Subsequently, authorities need to exert power in an appropriate way in order to be judged as acting fairly and serving the community by enforcing cooperation from evading taxpayers (Lavoie 2008). (Richardson 2008) found that trust and legal enforcement strategies were connected with lower tax evasion in different countries. In such a situation, a robust synergistic climate is perceived, by the authorities and by the taxpayers, which could lead to tax payments at the highest stage.

2.8.7 Perceived Fairness of tax System

Policy makers have long been concerned with taxpayers' perceptions of the fairness of the federal tax system. The importance of public perception has been the motivation for numerous studies that attempted to measure the level of perceived fairness and identify the determinants of the public's perception of taxes. Tax system is type of official governmental system connected to Governmental policy created to administer, collect, integrate, improve, change and manage methodically tax law and tax legislation. It is using accurate, defined, effective, transparent, just and evidence based on different tax rates tax compliance and related issues. A fair, transparent, accurate and effective tax system is important for a government to administer, collect, change and manage tax within a country or state (MCHarmonious, 2016).

Perceived fairness of tax system is referring to tax system fairness concerns (Taylor, 2003). A conceptual framework for fairness considerations suggests differentiating three areas of fairness, as in social psychology: distributive justice, which refers to the exchange of resources, both benefits and cost; procedural justice, which refers to the process of resource distribution; and retributive justice, which refers to the perceived appropriateness of sanctions in the case of norm-breaking (Kirchler et al., 2008).

2.9 Empirical Literature review

Fjeldstad et.al (2012) in their study explore factors that determine citizens' tax compliance behavior in Kenya, Tanzania, Uganda and South Africa using survey method for data collection. Results from the profit regression provide that individuals are more likely to express tax compliant attitude if they perceive that enforcement makes evasion more difficult in South Africa and Kenya.

Noor sharoja, (2014) conducted a study on determinants of taxpayer compliance behavior with respect to corporate income tax reporting requirements in Malaysia. A stud administered questionnaire survey method for data collection. The searching of this study reveal that business age, tax liability and tax complexity consistently influence the likelihood of tax non-compliance behavior in the areas of under-reporting income, over-claiming expenses and overall non-compliance. Nonetheless, the tax compliance costs have an insignificant relationship with the non-compliance behavior of corporate taxpayers.

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

Taxpayer's attitude on compliance may be affected by many factors, which eventually affect taxpayer's behavior. Those factors that influence tax compliance and /or non-compliance behavior are different from one country to another and also from one individual to another (Kirchler, 2007).

Study made by Nelson Maseko (2014) on Factors of tax compliance enterprises in Zimbabwe main objectives of the study were to investigate how the unique business situation of taxpayer's enterprises, the perceptions of taxpayer's operators towards taxation, levels of tax knowledge and compliance costs affect tax compliance of business enterprise taxpayers.

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

According to Lemessa (2007), when compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risk associated with non-compliance by developing strategies targeted at those risks. Voluntary compliance is maximized when revenue authorities are aware of major developments and trends in the business and legislative enforcement, and are responsive to their implications on tax administration and compliance.

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

According to Lemessa (2007), there is substantial tax gap between the tax that is planned collect from economically active individuals and the tax that is actually being collected. One of the main reasons for this tax gap is non-compliance of taxpayers and potential taxpayers, with the tax legislation because they have negative the attitudes and perceptions toward taxation.

2.10 Summary and Knowledge Gap

Noor sharoja, (2014) conducted a study on determinants of taxpayer compliance behavior with respect to corporate income tax reporting requirements in Malaysia.

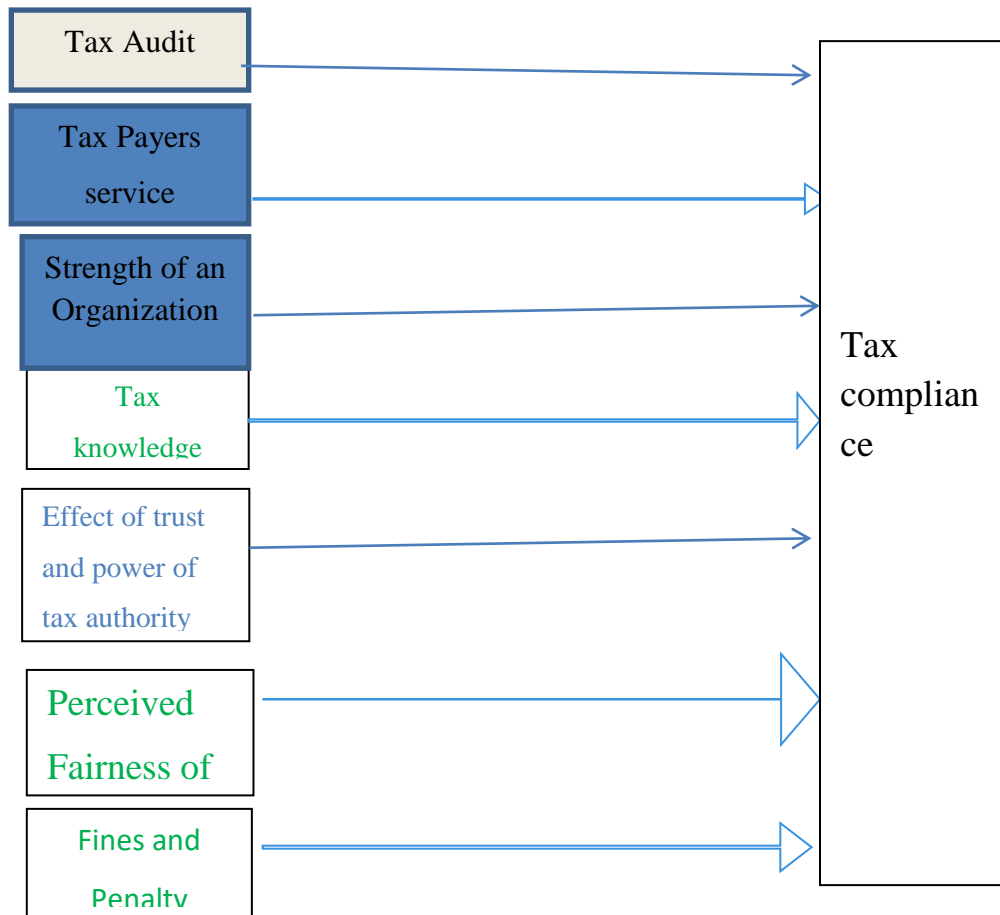
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According to Lemessa (2007), when compliance is not achieved on a voluntary basis, revenue authorities must identify and address the risk associated with non-compliance by developing strategies targeted at those risks.

The former studies indicates various studies on similarly area of studies presented are that the justification part of those studies address that findings are still debatable among different researcher. Hence, we looking at factor affecting tax compliance behaviors there seem to be a disagreement in the findings. Some variables are Significant in one study also insignificant in another study. And also from the previous empirical research found that the factors affecting of tax compliance have been found to differ between countries. This means there is no universal findings are highlighted by studies pertaining to genuine tax compliance identifies among countries sharing similar tax systems, and cultures. The case of Ethiopia is a good example for this situation. Therefore, this study was to fill the research gap that were not addressed by any one of the earlier studies, particularly problems related with tax payers and revenue authority in Wolkite town and also this study initiation is needed to fill the literature gap depending the factors of tax compliance behavior and contribute to the body of knowledge.

2.11 .Conceptual Framework

This study conceptualizes that the tax compliance could be affected by fines and penalties, tax knowledge and education, effects of trust and power of tax authority and perceived fairness of tax system. The objective of this study is therefore to test the nature and the development of these relationships. This study tests the conceptual framework presented in the following Figure:



(Independent variables)

(Dependent variable)

Figures 2.1 Conceptual framework

Source: Researcher developed based on previous empirical literature Review

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

Methodological issues used in conducted this study, and offers an explanation for each stage taken. It involves the general research design, population of study, Sample size and sampling technique, Sources of data, methods of data analysis and presentation. In order to study the topic, the study would use descriptive survey design. The required data for this study was collected by using survey method and key informant interview. It was selected on the assumption that it helps to gather adequate information and is more relevant to determine opinions of the taxpayers and helps to obtain the knowledge and experience from those who are familiar with the issue to identify the factors affecting tax compliance of business income taxpayers based on Wolkite Town revenue authority office.

3.1. Research design

A research design is a plan, structure and strategy considered in order to obtain answers to research questions and control variables. It helps to control the experimental, extraneous and error variables of a particular research problem being investigated (Creswell, 2005). This study was employed quantitative research design that would enable the study to collect data about the selected factors and presented in form of numerical value .Quantitative research design was used to analyze fairly the taxpayers response that have numerical format can be analyzed in a quantifiable way using statistical methods. Such a design was a systematic empirical inquiry in which the study does not have direct control of independent variables because they cannot be manipulated (Creswell, 2005).

3.1.2 Population of Study

The study is assessing the factors that affect business income tax payers of the mentioned branch office. Here, to deal with such assessment, an appropriate population is determined. Accordingly, the researcher has identified that the total population size is the total number of tax payers of Wolkite town. In addition, the numbers of staffs working in this branch are among those from which data was collected through interview. With regard to the total population, there were 1,197 tax payers up to June 2019. But this study only focuses only on the target population focusing on

the private owned tax payers that their head office is in Wolkite town. So, from the total population there are 215 governmental for profit organizations, 119 tax payers out of Wolkite town. Therefore, these are excluded from the total population. So, the target population is 863 tax payers.

3.2 Determination of Sample Size

To design the sample, setting the size of the population and the target population for the research purpose is essential. Accordingly, it is clearly indicated in the above sections that the target population is the number of tax payers in the branch and those employees of the branch. But, the question here is how many of these are enough to justify or respond so that the research questions are adequately answered. It is known that samples should be representative so that the conclusion to be reached can be free of any hasty generalizations and biased nesses. On the other hand the sample to be taken has to be manageable so that the output cannot be distorted. Therefore, an appropriate formula has to be taken to minimize the risk of the above two. Accordingly, Yamane (2015) has introduced a formula in which sample can be determined from a finite population. In addition, researchers have selected the degree of precision and level of confidence that would be preferred. And as a result the researcher would like to be confident about 95% and that tolerated sampling error should be only 8%. The formula the researcher have selected and obtained from Yamane (2015) for sample determination is presented below. Here, it must be clear that though the target population for this study is two different groups-tax authority staff and tax payers-, the sample size for the survey questionnaire is determined from tax payers only not from the tax office staff and this is because of the fact that the issue of compliance is better related to tax payers. However, tax authority staffs are also included not in the survey but to share their opinion through interview in the factors that influence business tax payer compliance.

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

n = sample

N =population size

$e = \text{An error}$

$$\text{Then the sample} = \frac{863}{1+863(0.08)^2} = 132$$

N. B. Here the error is assumed to be 8 percent.

The researcher used a sampling size determination formula developed by (Yamane ,2015).

Therefore, the study has taken 132 samples of companies from the branch and ten tax office higher staffs were also included via interviewing. After so many efforts due to irresponsiveness of selected sample population, 9 questioners were not collected so the data were entertained from 123 samples.

3.3. Source of data

In this study, the study would use primary data that was gathered from questionnaires'/Inquiry directly from employees of revenue authority office in Wolkite town. The primary data was obtained from selected taxpayers in Wolkite town and manager and employees of Wolkite town Revenue Authority office the advantage of using primary data was that, they were more reliable since they come from the original sources and were collected especially for the purpose of the study. Secondary data was generated from a desk review of published and unpublished sources on the topic. Some of these include documents of the Wolkite town tax administration and unpublished reports from the same office and published papers in the area. The study had adopted survey questionnaire and an informal interview, using a structured checklist, as a method of collecting data.

Primary data gathering was crucial for this study. Secondary sources may the study use if it was necessary for study. The study has interest in primary data about characteristics, attitude/opinion/interest, awareness/knowledge, intentions, motivation and behavior of the taxpayers. Thus the essential data for this research gathered mainly from primary sources with self-administered questionnaire. (Noor, 2014).

3.5. Method of data collection

Data gathered includes a procedure that was exact and involves deliberate social event of data applicable to the exploration sub-issues. The study utilized questionnaire as the essential instrument for information gathered. Questionnaires were format to contain sections reflected the

study variables .The survey was self-run through drop and picks technique to enterprises officers, via study assistants. Use of self-administered questionnaire was recommends for eliciting self-report on respondent's opinion, attitude and value. (Mugenda & Mugenda, 2013).

During planning study instrument, the pervious existed tools on tax compliance behavior were considered first (Noor Sharoja Sapiei, 2014). The questions prepared by considering the specific characteristics of the Ethiopian tax system, concentrated on factors that considered relevant to this study of taxpayers. The questionnaire comprised of five parts, refer to as part I to VIII the first part (part I) contained questions about the tax audit Part II Tax payer's service. Part III Strength of an organization. Part IV perceived fairness for tax system. Part V generally produced information on respondents' tax knowledge and education and Part VI required information on fines and penalties levy on taxpayers. While part VII prepared on the trust and power of taxpayers on the tax administration. The final part, which was part VIII focused on financial and demographic characteristics of companies.

3.6. Method of data analysis

After the necessary data is collected from the primary and secondary sources, then these data are grouped, coded and tabulated. Data are presented using tables, various chart types and graphs. All these data presenting techniques are implemented based on the nature of the data. The study employed descriptive method of data analysis.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Background of Study

This section describes respondents' demographic and their tax background including age, gender, educational levels, their experiences in the business operation and training at tax courses.

Table 1: sex of the respondents

Sex	Frequency	Percent
Female	38	30.9
Male	85	69.1
Total	123	100.0

Source: questionnaire's, 2020

The table 1 above shows that 69.1% of the respondents are males whereas 30.9% of them are female's respondents. so, from the table it is understood that most of the business is dominated by the number of males. Because the percentage of males respondents are higher than the females respondents.

Table 2: Age of the respondents

Age category	Frequency	Percent	Cumulative Percent
Less than 30	20	16.3	16.3
30-39	28	22.8	39.0
40-49	23	18.7	57.7
50-59	48	39.0	96.7
60 years and above	4	3.3	100.0
Total	123	100.0	

Source: questionnaire's'', 2020

Table 2 above displays that the age brackets of respondents in which 16.3% of the respondents are less than 30 years of age, 22.8% respondents are between 30-39 years, 18.7% are in the 40-

49 age brackets. Respondents between 50-59 years accounts to 39% and those above 60 years of age are 3.3%. This result explains that most of the respondents are above 50 years of age.

Table 3: Educational status

Level of education	Frequency	Percent
Secondary school	13	10.6
Certificate	9	7.3
Diploma	42	34.3
Degree	54	43.9
Master's degree and above	5	4.1
Total	123	100.0

Source: Questionnaires, 2020

According to the table 3 shown above, 10.6% of the respondents are secondary school graduates, 7.3% the of respondents are Certificate holders,34.1% respondents are diploma holders,43.9% and 4.1% respondents represent first degree and master's degree respectively. Therefore, from the table one can understand that most of the respondents are educated. And, it can be inferred that the respondents have the potential to deliver the answers with full ability.

Table 4: Type of Business:

Type of business	Frequency	Percentage
Manufacturing	26	21.1
Wholesalers	20	16.3
Constructions	19	15.4
Service providers	15	12.2
Real estate developers	12	9.8
Financial institutions	11	8.9
Other	20	16.3
Total	123	100.0

The above table 4 shows that 21.1% of the sample of population is engaged in manufacturing business implying that most of the business is dominated by manufacturing sectors. And wholesaler and other sectors each of them, however, account to 16.3% of the sample represents. Financial institution is 8.9% of the sample in the business sector. Construction sector is 15.4%. Service provider's were 12.2% of the sample of business sector. Real-estate developers are 9.8% of business sector.

Therefore, from the above information, less can be taken that most of the business in the country specially those of large taxpayers are in the sector of manufacturing businesses sector.

Table 5: Experiences of taxpayers in the business

Question	Response	Frequency	Percentage
For how many years you are in this business?	Below four years	3	2.4
	From 4-7	30	24.4
	From 8-12	73	59.3
	Above 12 years	17	13.8
	Total	123	100.0

Source: Questionnaires, 2020

Table 5 explain that 2.4% of the respondents have been in operation below four years, 24.4% of them have experiences between four and seven years, 59.3% have been in operation between eight and twelve years and the remaining 13.8% have been in operation for above twelve years. The result shows that majority of the business (70.8%) have been in operation for above eight years which implies that most of the tax payers in the large taxpayers office have relatively better experiences of the business..

Table 6: Questions Related to training

Questions	Response	Frequency	Percentage
Have you got training about the taxation?	Yes	51	41.5
	No	72	58.5
If your answer to the above question is No, why did not you have the training?	I had not got the chance	45	65.2
	I don't want to take training	5	7.2
	I expect it may not attractive training	19	27.5
If your answer is to the above question is yes, how often you take training on taxation?	1-3 times	37	68.5
	4-7 times	15	27.8
	7 and above	2	3.7

Source: Questionnaires, 2020

The results in Table 6 shows that 41.5% of the respondents got training that prepared by Ethiopian revenue and customs authority and above half of the respondents (58.5%) did not got training. As to the reason why they did not take training with tax matters, the study has asked respondents and accordingly 65.2% of them have responded that they had not got the chance implying that the opportunity of getting training from the tax office is very low. However, 7.2% of the responds have got the opportunity of getting training but they don't want to take training and the remaining 27.5% responds that they expect it may not be attractive training in which this also indicates that most of the training is not need based ones.

With regard to the frequency of trainings given to taxpayers, respondents have been asked as to how often be the training given. As a result, out of those who attended training, 68.5% of them had attended between one and three times, 27.8% of the respondents got training between four and seven times and the remaining 3.7% had attend training above seven times.

4.2. Factors that affecting business income tax compliance

This section deals with the factors that potentially have the effect on the compliance levels of business income tax payers. Accordingly, data was collected by focusing on the list of factors of compliance. Thus, the data is analyzed and interpreted as follows.

4.2.1. Tax Audit

A question of whether tax payers are audited by tax authority was asked to the tax payers to assess the influence of tax audit on compliance. Table 7 below shows the respondents who had experienced being audited by the tax authority. A total of only 37.4% of the respondents had never been audited while 16.3% of the respondents have been audited one times, and 22.0% of them have been audited two times whereas 15.4% and 9% have been audited three times and four and above times respectively.

From the discussion above, it can be said that significant part of the total taxpayers included in the sample have not been audited and it is true that if taxpayers are not audited frequently, their compliance level of the taxpayers is likely to decrease.

Table 7: Questions related to tax audit

Questions	Response	Frequency	Percentage
How often your company does have been audited by the tax authority?	Had not been audited	46	37.4
	One times audited	20	16.3
	Two times audited	27	22.0
	Three times audited	19	15.4
	Four times audited	4	3.3
	Five times audited	7	5.7

Source: Questionnaires, 2020

The table 7; shows that the most respondents of 37.4% are had not been audited,16.3% of respondents are one times audited,22% two times audited,15.4% three times audited,3.3% four times audited and 5.7% five times audited. Furthermore, Respondents have also been asked, by open ended questions, as to how be the audit result that conducted by the tax authority. As a result, 93.9% of the respondents replied that the audit result was not fair and it is not in accordance with the income tax laws. Some of the problems that are specified by the respondents include: lack of skilled tax auditors, auditors are harsh, dishonest and fault finders,

auditors do not accept business expenses. Due to these reasons the audit result was unfair and not followed the business income tax law.

Table 7.1: Questions related to Probability of tax audit

Statements	Strongly agree		Agree		Strongly disagree		Disagree		Neutral	
	Freq uenc y	%	Fre que ncy	%	Freq uenc y	%	Freq uenc y	%	Fre que ncy	%
Tax payers may evade tax if the probability of being audit is low	19	15.6	66	54.1	0	0	10	8.2	27	22.1

Source: Questionnaires, 2020

The study found out those tax payers may evade tax if the probability of being audit is low 15.6% strongly agreed, 54.1% agreed, strongly disagreed 0%, disagreed 8%, and neither agree nor disagree (neutral), and 22.1% .The majority of the respondents (69.7%) agreed that if the probability of audit is law tax payers may evade taxes.

Tax audits have been found to have a positive effect on tax. These findings suggest that in self-assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance

4.2.2. Tax payer service

Table 8 below deals with the parameters related to tax payers service. As a result, questions about these parameters were forwarded to taxpayers. Accordingly, majority of the respondents have disagreed (53.7%) and strongly disagreed (17.9%) to the statement that says tax authority officials are supportive and 17.1% of them remains indifferent to this statement. However, very few of the respondents support the statement in which they have agreed (7.3%) and strongly

agreed (4.1%) over it. The findings, therefore, indicated that the staffs of the tax authority are not supportive.

Similarly, the respondents are also asked if the tax authority provides information to the tax payers and in which 57.7% and 10.6% of them disagree and strongly disagree respectively. However, 21.1% of the respondents remain neutral and 6.5% and 4.1% of them have agreed and strongly agreed respectively. From this, it can be inferred that majority of the respondents claim that the tax authority doesn't provide relevant information with regard to various tax laws and tax matters to taxpayers.

Further, respondents have also been asked about whether the knowledge of the staffs of the authority is adequate for effective service and accordingly, 25.2% of them strongly disagreed, 55.3% disagreed, 6.5% neutral, 10.6% agreed and 2.4% of representatives respond strongly agreed. The result indicated that majority of the respondents agreed that the knowledge of the officials working in the tax authority is not adequate for providing quality service while there is a few number of respondents agreed.

The officials discussed that consulting tax laws to tax payers is not allowed by the employee's code of conduct so they fear to tell the true information to tax payers. Due to this reason tax payers couldn't get quality service within the time they need.

Table 8: Questions Related to Tax payer service

Statement	Strongly agree		Agree		Strongly disagree		Disagree		Neutral	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Tax authority officials are supportive and respond proximately to tax payers	5	4.1	9	7.3	22	18	66	53.7	21	17
E.R.C.A provides information & advice to tax payers who are in need.	5	4.1	8	7	13	11	71	55.7	62	21
The knowledge of staff working in the tax office is	3	2.4	13	11	31	25	68	55.3	8	6.5

adequate for effective service.										
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Source: Questionnaires, 2020

4.2.3. Tax knowledge and Education

To assess the factors of tax payer’s knowledge & education on tax compliance, the study questions were posed respondents.

The table 9 depicted below shows that 94.3% of respondents represent that taxpayers know why the pay taxes and 5.7% of them replied that they do not know why they pay taxes. Further, from

Question	Response	Frequency	Percent
Do you know why you pay tax?	Yes	116	94.3
	No	7	5.7

the open ended question that summarized for those who know why they pay taxes, majority of the respondents specified their reasons to facilitate the infrastructure, to cover government spending and generally for country development and growth.

Table; 9 Question related to tax knowledge& education

Source: Questionnaire’s 2020

4.2.4. Perception of Fairness and Equity

Table 10: Questions Related to fairness and equity

Statements	Strongly Agree		Agree		Strongly Disagree		Disagree		Neutral	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
The unwillingness to full fill some else's tax obligations affects me	37	30.1	58	47.2	0	0	10	8.1	18	14.6
The current business income tax law is appropriate and suitable with economic condition	3	2.4	13	10.6	9	7.3	75	60.0	23	18.7
The tax appeal committee is unbiased in determining business income tax liabilities	2	1.6	11	8.9	40	32.5	43	35.0	27	22.0

Source: questionnaires''', 2020

The results in Table 10 above indicate that majority of the tax payers who responded that 47.2% of them agreed and 30.1% strongly agreed, while 8.1% disagreed for the statement that states the un willingness to fulfill someone else's tax obligations affects one's self,16.4% is neither agreed nor disagreed.

Thus, it can be implied that in the large taxpayers' office the unwillingness of some taxpayers to fulfill their tax obligations have an effect on the others to discharge their obligations.

With regard to the appropriateness and suitability of the current Business income tax law with the economic condition, majority of the respondents means that are strongly disagreed 7.3% and

disagreed 61% while, of them agreed 61% and strongly agreed 2.4% and 18.7% of respondents are neither agreed nor dis agreed with this statement.

Concerning to the statement which says tax appeal (review) committee is unbiased in determining business income tax liabilities, 32.5% and 35% of the respondents strongly disagreed and disagreed respectively, whereas the remaining 10.5% of the respondents agreed and 22% respondents were neither agreed, nor disagreed with these statements. From this, it can be inferred that majority of the respondents questioned the fair decision of the tax appeal committee’s decision justifying that the committee simply supports the auditor.

4.2.5. Fines and Penalties

Table 11: Questions Related to Fines and penalties

Statement	Strongly agree		Agree		Strongly disagree		Disagree		Neutral	
	Frequen cy	%	Frequen cy	%	Frequen cy	%	Frequen cy	%	Frequen cy	%
I comply with business income tax law by fear of fines penalties	29	23.6	37	31.1	5	4.1	13	10.6	39	31.7
The penalty rates are very high and I cannot afford to pay the penalty	51	41.5	37	31.1	3	2.4	3	2.4	29	23.6
Compliance level can be achieved by increasing tax incentives than by increasing tax penalties	55	44.7	31	25.2	9	7.3	16	13.0	12	9.8

Source: questionnaire’s’’, 2020

Table 11 above shows that 4.1% strongly disagreed, 10.6% disagreed, 31.7% remains neutral, 30.1% agreed and the remaining 23.6% of the respondents replied strongly agreed concerning to the statement which says taxpayers comply with tax laws by fear of fines and penalties.

With regard to high penalty rates, the findings indicated that the majority of the respondents (71.6%) agreed that the penalty rates are high and they cannot afford it, while few respondents

(4.8%) are strongly disagreed and disagreed with this statement. The respondents are also asked the issue if Compliance level can be achieved by increasing tax incentives than by increasing tax penalties and thus 7.3% of them strongly disagree, 13.0% disagreed, 9.8% neutral, 25.2% agreed and 44.7% are strongly agreed. The result implies the best way to increase compliance by increasing penalties rather than conservatively increasing penalties.

4.2.6. Strength of the organization

The results in Table 12 below indicated that majority of the tax payers who responded, 44.7% agreed and 13% strongly agreed, while, 3.3% strongly disagreed 13.8% disagreed and 25.2% neutral to the statement that says the tax office is unable to adopt to technological developments. Furthermore, tax officials have also been interviewed and accordingly most of them replied that they believe as most of the tax payers are tax evaders and they perceived tax payers are almost non-compliant to tax laws. From this it can be easily understood that the authority has not trust on the compliance level of tax payers.

Concerning to the statement which says the requirements of tax payers are not taken in to account in determining tax policies, 7.3% and 11.4% of the respondents have strongly disagreed and disagreed respectively, whereas majority of them which accounts to 35.8% and 33.3% of them have agreed and strongly agreed with this statements respectively.

Therefore, from the finding it can understood the majority of the tax payers (69.1%) are claiming that as they are the very critical stakeholders tax authority or policy maker have not discuss with them before the tax policies are issued.

With regard to the presence of dishonest tax collectors in the tax office, most of the respondents which accounts to 53.7% and 29.3% have agreed and strongly agreed respectively that there are dishonest tax collectors. However, only 2.4% and 7.3% of the respondents have strongly disagreed and disagreed respectively and 7.3% neutral with the statement. Therefore, it can be understood that taxpayers claimed that tax collectors in the tax authority are dishonest and are not ethical.

Table 12: Questions Related to strength of the authority

Statements	Strongly agree		Agree		Strongly disagree		Disagree		Neutral	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
The tax office is unable to adapt to technological developments	16	13.0	55	44.7	4	3.3	17	13.8	31	25.2
The requirements of tax payers are not taken in to account in determining tax policies	41	33.3	44	35.8	9	7.3	14	11.4	15	12.2
There are dishonest tax collectors	36	29.3	66	53.7	3	2.4	9	7.3	9	7.3

Source: Questionnaires”, 2020

CHAPTER FIVE

Summary of Findings, conclusion and recommendation

5.1 Introduction

The general objective of this study is to analyze the factors affecting tax compliance level.

The target population consists of selected tax payers with regard to their risk level in Wolkite town taxpayer's office during the study period.

5.2 Summary of Findings

The study results on tax audit stated that above half of the tax payers have been audited however still many of (37.4%) tax payers never been audited. Findings on gender indicated that there are more male than females. It was also affirmed that majority of the respondents were between the age bracket of 50-59 years. It was also brought to light that majority of respondents were fairly educated, those with an undergraduate degree contributing the highest percentage followed by those with a diploma the result shows that most of the respondents are educated.

Findings information indicated that above half of the respondents had not been got training due to they had not got a chance to attend training, even though few number of respondents replied that they do not want training they anticipate that may not be attractive training.

Findings concerning to tax payer service affirmed that the majority of the respondents (71.6%) have agreed Summary of open ended questions indicated that majority of the respondents discussed the audit had been conducted on their company not fair and it is not in accordance the business income tax law, the tax office auditors were unskilled, harsh and dishonest.

The tax authority staffs are not supportive while the few respondents (11.4%) says tax authority officials are supportive. it can be inferred that majority (68.3%) of the respondents claim that the tax authority doesn't provide relevant information with regard to various tax laws and tax matters to taxpayers. Further the result indicated that majority(80.5%) of the respondents agreed that the knowledge of the officials working in the tax authority is not adequate for providing quality service while there is a few number of respondents agreed.

The study also provides some preliminary evidence that fines and penalties play a vital role in improving tax compliance

5.3 Conclusion

These study findings provide direct evidence that tax compliance cost is a contributory factor in tax compliance, and an indication of its magnitude effect. The specific objectives are to determine perceived fairness for tax system on tax compliance level, to examine the effect tax knowledge on tax compliance level, to assess the effect of fines and penalties in tax compliance level, to evaluate the trust and power of tax administration compliance level. The study results on tax audit stated that above half of the tax payers have been audited however still many of (37.4%) tax payers never been audited. It was also affirmed that majority of the respondents were between the age bracket of 50-59 years. Findings on gender indicated that there are more male than females. Precisely, for a tax system with fair tax rates of fines and penalties, tax compliance is likely to improve. The study also provides some preliminary evidence that fines and penalties play a vital role in improving tax compliance. The study results also inferred that perceived fairness tax system has a significant effect on tax compliance.

5.4 Recommendations

From this paper finding, it was deduced that trust and power of authority has a deep effect on tax compliance. The findings suggest tax systems with low trust and power of authority are most likely to be complied with. Therefore, more trust and proper use of power makes the taxpayers be more confident to obey their duties. The study finds strong upkeep for the argument that fines and penalties influence highly on tax compliance, Thus there recommended to be reasonable levels of fines and taxes to implement. This way, taxpayers been courage to comply since they will keep precise records for taxation purposes in order to escape from fines and penalties. Also, tax knowledge and education has a significant effect on tax compliance. Thus the tax system recommend to not only provide a clear and simple guide line on how to fill tax returns but also enhance taxpayer education services to enable the taxpayers understand their rights and obligations as taxpayers. This way tax compliance levels will increase.

Finally, perceived fairness tax system has a significant effect on tax compliance, therefore the tax system advise to target individuals at all levels of income to pay tax's that may discourage tax evasion. Specifically, Countries like Ethiopian which based on their budget on the tax collected from their citizen, tax compliance is the mandatory issue for proving what the citizen is looking for from their government.

5.5 Further Research Recommendations

In future, researchers recommended to work on this study to arrive whole over the country .A study on the self- assessment system can also be carried out to determinate effectiveness on enhancing tax compliance levels. Further the study recommended to also putting into consideration the influence of economic conditions on tax compliance.

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Appendices 1: Research Questionnaires

Wolkite University

BA Degree in Accounting and Finance

Research Questionnaire

The aim of this questionnaire is to assess information needed for the research report to be produced under the title “**Factors affecting tax compliance in business income tax payers.** The case of Wolkite town revenue and customs authority tax payer office, Wolkite Ethiopia.” The information you provide is believed to have a great value for the success of this study. The information you provide is to be used for academic purpose and will be strictly kept confidential. Nageso Kumbi is doing the study under the guidance of Wolkite University. In case you want to contact him, Nageso Kumbi can be reached at 0925390437 mobile numbers.

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

Thank you for your cooperation!!!

General Instructions:

- I. Please provide your responses by marking a tick (√) in the relevant boxes.
- II. To the questions with alternatives that do not match to your response, please write your appropriate response on the space provided
- III. Do not write your name on the questionnaire.
- IV. Questionnaire to be filled by Managers or owner of the company

Section - I. Background information of respondents

Please circle the letter that appropriately represents your response in each of the following questions.

Age: (In year)

- A. Less than 30 () D. 50 to 59 ()
- B. 30 to 39 () E. 60 years or above ()
- C. 40 to 49 ()

Gender: A. Male ()

 B. Female ()

Educational status:

- A. Illiterate () D. Diploma ()
- B. Secondary school E. Degree ()

C. Certificate () F. Master's degree and above ()

G. If other specify-----

Type of Business:

A. Manufacturing () E. Service providers F. Real estate developer ()

B. Wholesaler and retailers () G. Financial institution ()

C. Construction () H. Other ()

For how many years you are in this business? _____ Section –II

Questions related to different Determinant factors

1. Have you got training about the taxation?

A. Yes () B. No ()

2. If your answer for question no.1 is No, why did not you have the training?

A. I had not got the chance ()

B. I don't want to take training ()

C. I have enough knowledge about the tax law ()

D. I expect it may not attractive training ()

E. If other specify-----

3. If your answer for question no.1 is yes how often you take training on taxation?

A.1-3 times () B. 4-7 times () C.7 and above ()

4. Do you know why you pay tax?

A. Yes () B. No ()

C. if your answer is yes please specify the reason-----

5. How often does your company has been audited by the tax authority?-----times

6. If your company had been audited what is your opinion about the audit result conducted?

Section II: Please provide your responses by marking a tick (√) in one of the alternatives mentioned by saying strongly agree Agree, Neutral, and Disagree and strongly disagree to the statements.

Statements		Strongly agree	Agree	Strongly disagree	Disagree	Neutral
1	Tax payers may evade tax if the probability of being audit is low					
2	The tax authority officials are supportive and respond promptly to tax payers					
3	E.R.C.A provides information and advice to tax payers who are in need					
4	I know taxes are collected for country's development					
5	I know how to keep records and documents					
6	The un willingness to fulfill someone else's tax obligations affects me					
7	The current Business income tax law is appropriate and suitable with the economic condition					
8	The tax appeal (review) committee is unbiased in determining business income tax liabilities					

9	I comply with business income tax law by fear of fines and penalties					
10	The penalty rates are very high and I can't afford to pay the penalty					
11	Compliance level can be achieved by increasing tax incentives than by increasing tax penalties					
12	I evade taxes but never Penalized					

Statements		Strongly agree	Agree	Strongly disagree	Disagree	Neutral
13	The tax office is unable to adapt to technological developments					
14	The requirements of tax payers are not taken in to account in determining tax policies					
15	There are dishonest tax collectors					