

Assessment of Category “C” Business Tax Payers’ Perception on Tax Evasion: The Case of Debre Berhan City Administration

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Abstract

Tax evasion is a general term made by individuals, firms and other entities to evade the payment of tax by breaking the law. The study is focused on assessment of category “C” business tax payer’s perception on tax evasion a case of Debre Birhan City Administration. The study is aimed at identifying whether the tax payers are aware about the tax payment as an obligation and with tax evasion and what is the opinion and perception towards the preventing mechanism of tax evasion and knowledge on a tax evasion transaction. For this study the researchers’ collects primary data through interview and questionnaire on purposive basis for tax payers of 50 respondents which are interested to provide relevant information. The collected data were analyzed by using descriptive data analysis method and make the analysis supported by tables and percentage. The major problem on perception of tax evasion found in this study is that tax payers lake awareness towards the tax obligation and knowledge of transaction that constitute tax evasion.

Introduction

Taxation is a system of raising government’s revenue by imposing tax. It is a method of collecting funds by a government from tax sources to finance its operation. Taxation is also a means by which a government, through its law making body, raises internal income through tax for the use and support of

the government and to enable it discharge its appropriate functions (Tesfaye, 2011). Some economic development activities of the society such as the provision of social amenities in the form of education, health and sanitation facilities, the provision of recreation facilities and infrastructure development are the major function of governments. These governmental functions require expenditure so that government support those partly by taking apportion of the wealth of their citizens through tax (Ibid).

Although countries differ considerably in the amount of taxes they collect yet the most important source of revenue for modern government remains to be tax. While the remainder of government revenue comes from charging fees for services, borrowing and other related sources. (Gebrie, 2006). Taxes are an important source of public revenue for the production and supply of public goods and services and the nature of public goods make impossible for private suppliers to benefit by selling these produce at market prices like other commodities. Government intervention in the supply of public goods is, therefore, becomes inevitable and can only be done if the public pays taxes for the production and supply of such goods. (Yohannes and Sisay, 2009).

According to (Yohannes, and Sisay, 2009) tax is a contribution from individuals out of their property for the maintenance and defense of government in simpler term tax is financial charge or other levy imposed on an individual or legal entity by government. In contrast to the payment of tax to the government different business tax payers start to evade taxes through under reporting of their income and over deduction of their expense. Tax evasion is a general term or effort made by individuals, firms and other entities to evade the payment of tax by breaking the law. Tax evasion usually entails taxpayers deliberately misleading, representing or concealing the true

states of affairs to the tax authority to reduce the tax liability including dishonest tax reporting by tax payers (Ramaswarmi, 2005). Thus, in this study, effort was made to assess the perception of category “C” business tax payer’s on tax evasion in Debre Berhan city administration.

Statement of the problem

Tax become a part and parcel of all economic activities of human beings due to public expenditure is continuously increased with the increase in the function of modern government. The government finances its expenditure through the fund acquired from the service it provide to the general public, tax, loan, and donation. From all source of finance, tax is the major source; however, in most developing countries, it is a common phenomenon to notice serious problems in developing adequate tax system that permits a government to sufficiently finance its expenditures. One of the potential problems of tax administration is tax evasion. (Ramaswarmi, 2005) Researchers like (Torgler, 2003) and (Murphy and Hiris, 2007), work on tax compliance by focusing their attention on the western world and some Asian countries. On the other hand (Emrata, 2010) investigated about the underground economy and tax evasion in Ethiopia on his study he found that the amount of tax evasion in Ethiopia reached 10% of the economy that have great impact on the implication for tax policy. But as per the researchers knowledge it needs further investigation on the perception, attitude and knowledge of business tax payers on the tax evasion moreover since there is no study conducted by other researchers on such problems in Debre Berhan city administration the researchers work in this area so as to give appropriate solutions and recommendation.

Research Questions

- What is the awareness of business tax payers towards the payment of tax obligation?
- What is the tax payers' knowledge on tax evasion transactions?
- Why most business tax payers want to evade taxes?
- How is perception the most effective method to prevent tax evasion?
- What is the perception of tax payers towards tax evasion?

Objectives of the study

General objective

The main objective of the study is to assess category "C" business tax payer's perception on tax evasion in Debre Berhan City Administration.

Specific objectives

The specific objectives are:

- To assess the awareness of tax payers towards the payment of tax obligation
- To assess the tax payers knowledge on tax evasion transaction
- To assess the tax payers perception as to the most effective method to prevent tax evasion
- To assess why some business tax payers evade tax
- To assess the perception of tax payer towards tax evasion

Scope of study

In light of the availability of data, finance and time consideration, the study is confined to assess category "C" business tax payer's perception on tax evasion in Debre Berhan city administration and the exclusion of A and B tax payers were due to small number of population. Therefore, the researchers initiated to assess the perception, attitude and knowledge of

category C business tax payers. Business income tax is selected because of it is categorized under direct tax, which is highly exposed to tax evasion.

Significance of the study

The results of the study would be a good source of information for policy makers on how to minimize tax evasion and what appropriate action to take for tax evaders. It may also help in creating greater awareness to the business tax payers and would be used as source of information for those who would interest in conducting a research on similar topics and issues relate to it.

Limitation of the study

The study has a number of limitations. The main limitation of the study is some tax payers lacked openness and voluntariness in reacting to some questions forwarded to them through the questionnaires; lack of sufficient knowledge besides, the study faces lack of time and budget constraints. These limitation bear effect on the paper as good as it could be.

Research Methodology

Research design

The study used descriptive research design the major purpose of descriptive research design is describing the state of affairs as it exists at present. This study describes and critically finds out the potential perception, attitude of business tax payers on category C. In this study quantitative approach of doing research was employed, in order to express the respondent opinion and perception in terms of percentage.

Population and sample size

According to ERCA (2014) there were 2734 category “C” business tax payers in various sectors. From merchandise 1223, service sector 1454 and the manufacturing sector 57. Therefore, the target population of the study includes merchandise, service and manufacturing sector. The researchers used 50 business tax payers as sample.

Sampling design

The sample design is crucial to generate representative statistical data about population under study. In the case of how well a sample represents a population depends on sample frame, the sample size and the specific procedures of selecting potential respondents. In this study purposive sampling technique was used to get responses from different sector of category C tax payers in Debre Berhan city administration.

Data sources

The study used primary data sources to know the tax payers perception and attitude towards tax evasion. This data were collected through questionnaire and interview that were distributed and conducted to business tax payers and tax auditors respectively.

Data collection technique

In order to collect data through questionnaire the researchers distributed only closed ended questions to category “C” taxpayers while interview was conducted through structured interview and unstructured method to those tax auditors.

Data Analysis and Interpretation

Questionnaire was distributed to interested category “C” business tax payers while interview were conducted to tax auditors. The collected data were integrated and presented in a well verified manner. The researchers analyze

and interpreted the collected information through tabulation and percentage. 50 respondents have completed and submitted the questionnaire and all are returned and further analyzed and interpreted below.

Table 1: Demographic Characteristic of Respondents

No	Description	No	Percentage
1	Sex distribution		
	Male	26	52%
	Female	24	48%
	Total	50	100%
2	Service life to organization		
	Less than 3 years	19	38%
	3-6 years	13	26%
	6-9 years	8	16%
	Above 9 years	10	20%
	Total	50	100%
3	Educational status		
	Below certificate	8	16%
	Certificate	17	34%
	Diploma	19	38%
	First degree	4	8%
	Above first degree	2	4%
	Total	50	100%

As we can see from table 1, the sex compositions of the respondents were 52% and 48% for male and female respectively. From which majority of the survey respondents are males. With regard to tax payer in relation to service life to the organization, 38% of the survey respondents suggested that their service life to the organization are less than 3 years, 26% of the respondents are experienced with the organization 3-6 years, while 16% of the respondents are experienced to the organization for 6-9 years and 20% of the respondents are above 9 years. From this majority of the respondent are experienced with the organization from less than 3 years. Regarding the educational background 16% of the survey respondents are below certificate, 34% are certificate holders, 38% are diploma holder, 8% are first degree

holder and 4% are above first degree. Therefore majority of the selected respondents are Diploma holders. This information tells us tax payers are not more experienced with the payment of tax obligation as well as they do not take taxation course in diploma level and below diploma level.

Table 2: Taxation

Do you take any formal course for taxation	Respondent	
	Number	Percentage
Yes	15	30%
No	35	70%
Total	50	100%

As it clearly shown from table 2, 70% of the survey respondent do not took any formal course for taxation while the remaining 30% of the respondents took formal course for taxation. Most of the tax payers were unaware regarding the benefit of tax to the economy of a country. Therefore, education is necessary in creating awareness regarding the benefits of tax to economy of the country.

Table 3: Awareness of tax payers in relation to the payment of tax obligation

No	Are you awareness of the following thing	Percentage			
		Yes	No	Yes	No
1	To pay taxable income with in a period specified under the law	47	3	94%	6%
2	To pay final tax payment up on submission of tax return form	32	18	64%	36%
3	To inform to the revenue authority about the commencement and cessation of staff	12	38	24%	76%
4	Business tax payers are subjected to monthly tax deduction	18	32	36%	64%

Table 3 shows 94% of the survey respondents knew that business tax payers are obligated to pay taxes to the government on the income specified under the law, but 6% of tax payers were not aware of this obligation, this implies that majority of tax payers are aware.

On the ground of payment of tax obligation for final payment up on submission of tax return form, 64% of the respondents were awarded to pay final tax payment upon submission of tax return form and the remaining 36% of the respondents do not have any awareness to pay final tax up on submission of tax return. This indicates that most tax payers were aware for pay final payment. The result is consistent with the theory, which is by rule and regulation any tax payer pay final tax payment.

Also the above table show that, only 24% of the survey respondents were aware that business tax payers are needed to inform to the revenue authority about the commencement and cessation of staff while the remaining 75% of the respondents do not have awareness as needed to inform to the revenue authority about commencement and cessation of Staffs'. What the result indicates that most tax payers are not aware. The result is inconsistent with the theory, which is every tax payers can inform to revenue authority about commencement and cessation of staff when the business man is withdrawn.

Lastly 36% of the survey respondents are aware on the ground that business tax payers are subjected to monthly tax deduction while the remaining 64% were unaware that business tax payers are subjected to monthly tax deduction, which indicates most tax payers unaware. The result is not consistent with the theory explained in the literature, which are category "C" tax payers subject to monthly tax deduction.

Table 4: Does the following transaction constitutes Tax evasion (to measure knowledge of tax payers)

No		Percentage			
		Yes	No	Yes	No
1	Use personnel consumption expense as business expense	20	30	40%	60%
2	Under reporting of business income	15	30	40%	60%
3	Submitted tax return on tax to revenue authority without tax payment	47	3	94%	6%

As in table 4 40% of the respondents have knowledge on tax evasion using personnel consumption expense as business expense. But 60% of survey respondents are unaware on the ground that this activity is a tax evasion. This tells us the majority of tax payers are unaware about this tax evasion type. The result is not consistent with the theory explained in the literature, which is deduction of personnel consumption expense is a technique for tax evasion. With respect to under reporting of business income, 40% of survey respondents have knowledge for which the under reporting of business income is a tax evasion. But 60% of the survey respondents have no knowledge on this activity, which tell as majority were unaware on such activity. The result is inconsistent with the theory, which is under reporting of income is a tax evasion.

Lastly 94% of the respondents have knowledge on that submission of tax return to revenue authority without tax payment; this indicates the tax payers have knowledge. But 6% of the respondents have no knowledge that this activity is a tax evasion activity. As per interview of tax auditor most of the time tax evasion occurs on business income tax payers that they evade taxes through under reporting of business income and over overestimation of expense and the tax payers consider that all expenses incurred for his/her family for consumptions or other parent maintenance expense as an expense incurred for major operation of the business.

Table 5: Most effective method to combat tax evasion (to measure perception of tax payers)

No		effective	Most effective	Not effective	Not most effective	Effective	Most effective	Not effective	Not most effective
1	Create an environment to facilitate tax payment for tax payers	6	30	9	5	12	60	18	10
2	Imprisonment	5	5	25	15	10	10	50	30
3	Monetary penalty	25	1	19	5	50	2	28	10
4	Public exposure for those who under report their income or overstate deduction	7	7	13	23	14	14	26	46
5	Increase qualified tax auditor	20	21	14	13	40	26	28	26

Table 5 clearly shows that 60% of the survey respondents revealed that creating suitable environment to facilitate tax payment for tax payers is the most effective method to prevent tax evasion and 12% of say it is an effective method to prevent tax evasion, but 18% and 10% of the survey respondents say not effective and not most effective method to prevent tax evasion respectively, this indicates that majority of tax payers better option to compliance tax evasion. Next to the above preventing mechanism to tax evasion, if a business tax payers are not escaped from tax evasion on the condition that the environment created for tax payer facilitate the tax payment the survey respondents reveals that increasing the auditors to check the tax collected from tax payer and collected by the tax collector and to make opinion on the collected tax whether the tax payer as well as the tax collector are fair in reporting and collection of tax to the government is the

effective method since 40% of the survey respondents reveals that this method is effective method and 26% of survey respondents said that increasing qualified auditor is most effective method. But 28% and 26% of the survey respondents it is not effective and not most effective method to increase qualified auditor. This tells as a majority of tax payers perceived that increasing tax qualified auditor means of preventing tax evasion.

On the other hand, 50% of the respondents said that monetary penalty was effective method and 2% of the survey respondent's most effective method. But 10% and 20% of the survey respondents revealed that not the most effective and effective method to prevent tax evasion, which tell us most tax payers select an option of preventive tax evasion. The result is consistent with the law and regulation of the country. Most of tax payers (50% of the respondents said that imprisonment is not effective to prevent tax evasion and 30% of the respondents said that imprisonment not the most effective method. But 10% respondents said that imprisonment is the effective and the most effective method to prevent tax evasion. This indicates that not the best method rather discouraging of the business.

In addition 14% of the respondents revealed that those methods were effective by providing public exposure and 14% respondent said that those methods were the most effective method. But 26% not effective and 46% not most effective method provide public exposure to prevent tax evasion, this implies that majority were not accept rather conflicting with each other. But as per tax auditor responses that to control tax evasion the licensed professional accountants plays an important role to record and controls those amounts that the business person actually gets from his/ her major operation of the business.

Table 6: Reason for tax evasion (To measure attitude)

No		Number	Percentage
1	Government doesn't use the tax collection properly	27	22%
2	Tax payment is not paid by business	4	8%
3	I evade as my friend does it he/she is not caught	11	16%
4	Punishment for tax evasion in D/B in terms of monetary term is insufficient	8	54%
	Total	7	100%

As indicated in table 6 22% of the respondents attitude suggested that people evade taxes since the government does not use the collected tax and 16% of the survey respondents said that people evade tax since their friend does it and are not caught, as a result, they evade taxes. 54% of survey respondent revealed that people engaged in tax evasion because punishment is not sufficient for tax evader, but 8% of the respondent respond that tax payment is not paid by business activity, from this one can understand that tax payer evade tax due to lack of knowledge about tax uses for government. This indicate that most tax payer believes the government does not use properly of the revenue collected from tax.

But as per tax auditor response the government doesn't apply the punishment for tax payers, but this rule is applied for the purpose to increase frustration not to evade taxes as a result punishment do not occur regularly for tax evaders when they evade taxes and on the ground of tax auditor perspective tax payers evade taxes since thus people have no willingness and a motivator to pay tax to the government in addition people want to evade taxes when no much profit is obtained as a result evasion which occurs mostly in business tax payer through under reporting their income or overstating their expense to the government.

Table 7: Perception of tax payer towards tax evasion

No	Distribution	SA	A	U	DA	SD	Total
1	Punishment for in D/B is the same for different business with the same level of tax evasion	15 20%	4 8%	20 40%	7 14%	4 8%	50 100%
2	Tax evasion has an adverse effect on the government revenue	32 64%	2 4%	7 14%	4 8%	5 10%	50 100%
3	Tax evasion provides a long term benefit to continue a business	20 40%	2 4%	15 30%	6 12%	7 14%	50 100%
4	Of the tax rate is reduced more peoples are encouraged to pay their tax	26 52%	9 18%	4 14%	10 20%	1 2%	50 100%

As shown from table 7, 20% of the respondents strongly agrees 8% of them agrees, 40% undecided that punishment for tax payer in D/B is the same for different business with the same level of tax evasion while the remaining 14% and 8% of the survey respondents disagree and strongly disagree with the issue of punishment for tax payer in D/B is the same for different business with the same level of tax evasion respectively. In addition tax payers asked were tax evasion has an adverse effect on the government revenue 64% survey respondent strongly agree, this tell us that their perception towards tax evasion are high which have a great impact on the economy of the country, this is consistent with the theory. 4% agree, 14% undecided 8% disagree on tax evasion has an adverse effect on government rest of 10% survey respondents strongly disagree that the tax evasion has an adverse effect on the government revenue, This implies that majority perceived an effect for the government. The result is in consistent with the theory, which is tax are the main source for it. 40% the survey respondent revealed that tax evasion provides a long term benefit to continue a business and 4% agree 30% undecided, 12% disagree and 14% survey respondents strongly disagree that tax evasion provides a long term benefit to continue a business. This tell us the tax payer perceive that tax evasion provide a good benefit for our business, this is not consistent with the theory

Lastly 52% of the survey respondents strongly agree, 18% agree, 14% undecided, 20% disagree and 2% strongly disagree that the tax payer perceive that if the tax rate is reduced more peoples are encouraged to pay taxes, this indicate people who evade taxes was reduced. The result is consistent with the theory explained under the literature.

Conclusion and Recommendation

Conclusion

The study result shows that respondents know paying tax is an obligation but tax payers are unaware to inform to revenue authority about commencement and cessations of staff on such activity tax evasion occurs, and also unaware of such activity is tax evasion. Tax payers do not tell the expense of the business or the income that generates from when the employee of tax payer is withdrawn which leads for the government not to collect proper tax from the tax payers. The tax payer have no knowledge on the reporting of personnel consumption expense as business expense and under reporting of business income are tax evasion, therefore tax evasion occur because the tax payers do not have knowledge about those activities are tax evasion. According to tax payers, creating a suitable environment to facilitate payment for tax are the most effective method to prevent tax evasion in addition increase tax auditors and monetary penalty is also an effective method to prevent tax evasion. While the tax auditors revealed that licensed professional accountant plays an important role to prevent the tax evaders since the professional accountant have close contact with tax payers. Insufficient monetary penalty is the main reason that motivates people to evade taxes; tax payer also perceives that people also evade taxes since the government does not appropriately use the tax to facilitate the basic

infrastructures like construction of roads. Lastly the finding show that the tax payers perceived tax evasion provides a long term benefit.

Recommendation

Based on the end points of the findings, the following recommendations are forwarded.

- The tax authority should teach at least semiannually for tax payers about the payment of tax obligation and the kind of tax evasion in context of their day to day business operation.
- The revenue authority should create suitable environment for tax payers through training of tax officers to be more approachable and friendly in helping tax payers, providing clear information about the tax payments, organizing free public tax meeting and forum to create awareness for tax payers to prevent tax evasion.
- The revenue authority should also employ skilled and qualified auditors as well as licensed professional accountant to prevent tax evasion.
- The government should also apply the punishment for tax evaders based on the rules and regulations as per articles 960 of the income tax proclamation number 286/2002 mainly in monetary value and
- The revenue authority should improve the attitude of the business tax payers about the importance of taxation and its effect for economy development

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