ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DETERMINANTS OF LARGE BUSINESS TAXPAYERS TAX COMPLIANCE: THE CASE OF Addis Ababa CITY

BY

TEKLEMARIAM GIRMA

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Addis Ababa

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A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ST. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE.

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DECLARATION

I, the undersigned, declare that this thesis is my original work and all sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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ABSTRACT

This study attempts to analyze determinants of large business taxpayer tax compliance in Addis Ababa city Administration. Tax compliance issue is a major problem in revenue generation by government of Ethiopia. This research sought to obtain opinions about tax compliance of large business taxpayers in Addis Ababa. The study has employed a causal research design. In order to the required data gather for this research were both primary and secondary sources. Primary data was collected directly from tax payers through questionnaire survey method and interview from ERCA staff. Secondary data collected from relevant ratify legislation in related with the topic, tax journals, as well as published articles are used. A sample size of 171 is used from the total population of 1,080 large business operators in Addis Ababa cit administration. To ensure the representativeness of different business sectors of taxpayers, a convenience sampling technique was adopted. Multiple regression analysis was conducted to assess the relative predictive influence of the independent variables on the dependent variable. The statistical package for social sciences (SPSS) is employed in the different analyses conducted. The results indicated that knowledge of taxpayer, quality service of tax authority and transparency of tax system had influence on tax compliance of taxpayer and they have positive and significant relationship with tax compliance of large business taxpayer.

Key Words: *Addis Ababa, ERCA, Large business taxpayers, tax compliance.*

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ABBREVIATIONS/ACRONYMS

CTPA: Central for Tax Policy and Administration

ERCA: Ethiopian Revenues and Customs Authority

LTO: Large Taxpayers Office

OECD: Organization for Economic Co-operation and Development

PLC: Private Limited Company

SPSS: Statistical Package for Social Study

S.C: Share Company

TOT: Turn Over Tax

VAT: Value Added Tax

Introduction

1.1. Background to the Study

Taxes are major source of state revenue which is used for funding the Government's expenditures and development programs. Tax contribution is very important for organization of a country beside other revenues such as natural resources, profits of state owned enterprises, fees, and other revenue sources. It can be said that taxes revenue is worth the largest domestic revenue (Fauziati.et al, 2016).

The main objective of tax imposing on the public is to generate revenue for the government, to reduce inequality through a policy of redistribution of income and wealth and also to minimize income gap between rich and poor peoples. Otherwise, it may be defeated with adverse impact, if they are not properly applied and administered (Terrefe, 2016).

Tax compliance is currently a topical issue, especially in developing countries as governments at various levels are seeking ways to improve efficiency in tax revenue collection to finance their budgets. Tax compliance is defined as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions and exemptions, and pay all taxes on time (Kirchler, Hoelzl and Wahl, 2007).

(Cristus, 2011) as acited in Chebusit, et al., (2014), indicated tax noncompliance is a substantive universal phenomenon that transcends cultural and political boundaries and takes place in all societies and economic systems. There are many studies that explain the behavior of tax compliance in a more realistic situation. They focus on the determinants of tax compliance, respectively on economic and non-economic factors.

As the researcher reviewed related studies, various factors affecting tax compliance are listed by different researchers which include tax knowledge, fairness of tax, fines and penalties, attitude and perception of taxpayer, tax audit, high tax rates, corporate characters, (Mihret, 2011); (James, and Alley, 2004); (Alabede, et al., 2011); (Kirchler, Hoelzl and Wahl, 2007), (Chau and

Leung, 2009); (Palil, 2010); (Berhane, 2011); (Helhel and Ahmed, 2014), (Ahmed and Kedir, 2015); (Redae and Sekhon, 2016); (Oladipupo and Obazee, 2016) and (Natrah, 2014).

The researcher is motivated by the poor and inadequate research conducted on factors affecting tax compliance by large tax payers in Ethiopia. The study goal therefore is to identify the determinants of large business taxpayer tax compliance and find out the effects of tax compliance cost, structure of tax system, quality service, and transparency of tax system, taxpayer knowledge and fairness of tax system.

1.2. Statement of the problem

Paying taxes is a duty for citizens and the primary interest of the state is that citizens follow this duty and behave in compliance to the tax rules, regardless of the motives for compliance (Kirchler, et al., 2008). Tax compliance is a major problem for many country tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects (James and Alley, 2004).

Tax noncompliance is one of the problem many developing country face when it comes to tax administration. Taxpayers' believe and attitude toward tax compliance has been important issues to researchers and tax authority almost everywhere and every time this days. Understanding why taxpayers do or don't comply with tax law is very important as; if possible, it will help to increase level of compliance more effectively (Ahmed and Kedir, 2015).

The tax system is comprised of direct tax and indirect tax that levied by both central and regional government. Direct taxes are taxes including employment income taxes, business income tax, and taxes on royalties and chance winnings while indirect taxes are mainly composed of value added tax (VAT), excise taxes, and custom duties (Debere, 2014).

In recent years the Ethiopian government has been undertaking substantial efforts in reforming and modernizing the revenue administration with the aim of simplifying the tax system and increasing government revenue. Despite the efforts taken by government, there has been poor tax revenue collection, tax compliance has still remained a problem and the taxpayers continued to complain about the behavior of the ERCA staff (ibid).

Most studies conducted on this area, provided due attention to factors like tax knowledge, fairness of tax , fines and penalties, attitude and perception of taxpayer, and high tax rates are factors that affect the tax compliance character of tax payers in most countries (Agbadi, 2011), James, and Alley, (2004), Kirchler, Hoelzl and Wahl, (2007) Palil, (2010), Berhane, (2011), Helhel, and Ahmed, (2014), Ahmed and Kedir, (2015), Berhe and Sekhon, (2015), Oladipupo, and Obazee, (2016), Saad, (2016).

From studies conducted in Ethiopia Tsegaw (2015), Terrefe (2016) and Debere (2014) are tried to be review thoroughly, even though most of the variables indicated above are addressed, factors like tax compliance cost, tax system structure, quality service of tax authority and tax system transparency were not addressed which this study has planned to observe in Ethiopian case.

According to income tax proclamation No. 286/2002, corporate businesses are required to pay 30% flat rate of business income tax and the business income tax is progressive ranges from 10% to 35% for unincorporated or individual businesses.

The study is to determine large business taxpayer tax compliance in the case of Addis Ababa city because according to ERCA, (2007 E.C) large taxpayers contributed approximately 70% of the total government revenue therefore when the large taxpayer may become tax non compliance, the tax authority will loss significant amount of money.

Therefore the following are the research questions that the studies try to answer

- Is the tax payer's compliance to the tax law affected by the complexity of tax structure?
- Does poor tax quality service of tax authority affect tax compliance?
- Dose the tax compliance cost affect tax compliance of taxpayers?
- Does tax system transparency affect tax compliance?
- Does tax knowledge of assessee affect tax compliance?
- Does fairness of tax system affect tax compliance?

Consequently, this study is conducted to glimpse whether tax compliance is affected by complexity of tax structure, quality service of tax authority, compliance cost by assessee, transparency of the tax system, taxpayer knowledge and fairness of tax system.

1.3. Objective of the study

General and specific objectives are clearly stated in identifying the determinants of large business taxpayer tax compliance in Addis Ababa.

1.3.1. General objectives of the study

The objective of this study is to find out the determinant of large business taxpayer tax compliance (case of Addis Ababa city).

1.3.2. Specific objective

The specific objectives of the study are:

- ➢ To identify the effect of tax compliance cost on tax compliance firms.
- ➢ To identify the effect of tax structure system on tax compliance.
- ➢ To identify the effect of tax knowledge on tax compliance.
- ➢ To identify the effect of tax fairness on tax compliance.
- ➢ To identify the effect of quality service system on tax compliance.
- ➢ To identify the effect of transparency tax system on tax compliance.

1.4. Scope of the study

The primary focus of the study was on determinants of tax compliance of large business taxpayers. Many factors can be considered to analyze tax compliance of large business taxpayers, but this study, the researcher observe only those factors which are tax compliance cost, structure of tax system, knowledge and fairness of tax system, quality services of tax authority and transparency of the tax system at the period of (2009 E.C). That large taxpayer selected because approximately 70% of tax generated from large taxpayers that means they have a significant role on the government revenue.

1.5. Significance of the study

The study is expected to have importance to many parties to begin with, it provide some insight particularly It is well know that understanding about the determinant of large business tax

compliance for revenue authority**,** for those who wish to conduct further research and the policy makers can use the output of this paper to see alternative, researchers can use the output of the research to do further study, and Revenue authority can also use the findings to further improvement on structure of tax system and build awareness on their officers for factors of tax compliance.

1.6. Limitation of the study

The limitation of this study is the researcher time schedule of data collection does not meet with annual tax pay time of large business taxpayer which is from Sene 30 up to Tikimt 30 E.C.
The data collection is planned to be made at the end of each months for two consecutive months, when the taxpayers go to ERCA large taxpayer office for monthly tax compliance. It was conducted for two consecutive months because those who are not addressed during the first month can be addressed in the second month and this is supposed to solve the limitation.

1.7. Organization of the paper

The thesis has been organized in five chapters. Chapter one presents the introduction part. The second chapter is design demonstrates the critical review of the related literatures to understand the topic of the study deeply. The research design and methodology is presented in chapter 3. Specifically, this chapter presents sample design, sampling techniques, population, sample size, sources data and data analysis technique. Chapter four contains results and analysis of questionnaire and interview. Eventually, the fifth chapter presented conclusion and gives some recommendations.

Chapter two

Review of literature

This chapter presents a review of the related literatures concerning the definitions of large business taxpayers' and their tax compliance. Similarly, theories about tax compliance, determining of tax compliance and empirical review of previous studies are presented in the literature review part.

2.1.   Tax and tax authority

Taxes are major source of state revenue which is used for funding the Government's expenditures and development programs. Tax contribution is very important for the organization of a Country beside other revenues such as natural resources, profits of state owned enterprises, fees, and other revenue sources. It can be said that taxes revenue is worth the largest domestic revenue (Fauziati, et al, 2016).

Lymer and Oats, (2009) as a cited in (Palil, 2010), taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago.

According to (OECD, 2001), the main role of revenue authorities is to ensure compliance with tax laws. Their effectiveness is dependent on a variety of external factors such as the state of the economy, public support for the priorities of the government and the willingness of taxpayers to comply with tax rules.

The work of a tax administration includes activities that cover both compliance and customer service. For example, Revenue Authorities' range of functions includes: assessment, collection, debt management, audit and other interventions, anti-smuggling and other customs functions and anti-avoidance.

Effective tax administration requires qualified tax officials. Tax authorities must provide for training and retraining staff as needed. The tax authorities need to collect the information needed

for effective administration from taxpayers, relevant third parties, and other government agencies (Bird and Zolt, 2003).

In accordance with OECD (2001) Good revenue authorities make good tax treaty partners, as there cannot be significant differences in how taxation issues are addressed for domestic and international taxation purposes. For example, the availability of redress mechanisms and the confidentiality of taxpayer information are both domestic and international issues. In their dealings with other countries, good revenue authorities co-operate in a spirit of trust and ensure that non-tax disputes do not impact on the administration of tax laws. Moreover, the information requested from tax treaty partners should be relevant to a specific liability covered by tax treaties, imply a significant tax liability or principle of law, be obtainable under domestic laws of both competent authorities, and be used only in a manner prescribed by law or treaty. The competent authority receiving a request should take the measures necessary to provide prompt assistance as if its own taxes were at stake.

2.2. Ethiopian tax law and authority

Ethiopian tax law is basically originate from three sources of organs; legislative, administrative and judicial sources. There are a number of proclamations and tax reforms dealing with taxes in the country, the most prominent of which include Income Tax Proclamation No. 286/2002; Council of Ministers Income Tax Regulation No. 78/2002; Value Added Tax Proclamation No. 285/2002; Council of Ministers Value Added Tax Regulation No. 79/2002; Turnover Tax Proclamation No. 308/2002; and Excise Tax Proclamation No. 307/2002. These proclamations and tax reforms are aimed at expansion the base, justifying rates, strengthening the administration and enhancing taxpayer's compliance behavior in order to generate adequate revenue to cover recurrent and capital expenditures of the government, and hence, finance new projects and poverty reduction programs in the country (Redae and Sekhon, 2016).

According to income tax proclamation No. 286/2002, taxable business income would be determined per tax period on the basis of the profit and loss account or income statement. Accordingly, taxable business income of corporate businesses is taxed at a flat rate 30% and other business (unincorporated individual businesses and PLCs) taxpayers are taxed at a progressive rate between 10% to 35%. The standard rate of VAT is 15% of the value of every

taxable transaction by a registered person and all imports of goods and services other than those exempted.

World Bank Group's, (2016), The 1995 Constitution of the Federal Democratic Republic of Ethiopia (FDRE) classifies taxation power into three: as those assigned exclusively to the federal government, regional states, and concurrently to both regional and federal governments. As per the constitution, regional states have the power to levy and collect taxes from sources assigned to them.

Federal government revenues include:

- ➢ Income tax on employees of the federal government and international organizations;
- ➢ Income, profit, sales and excise taxes on enterprises owned by the federal government;
- ➢ Tax on income of air, rail and sea transport services;

Regional states revenues include:

- ➢ Income tax on employees of the state and of private enterprises;
- ➢ Taxes on the income of private farmers and farmers incorporated in cooperative associations;
- ➢ Profit and sales taxes on individual traders carrying out a business within their territory;
- ➢ Profit, sales, excise and personal income taxes on income of enterprises owned by the states;

Joint federal and regional states revenues:

- ➢ Profit, sales, excise and personal income taxes on enterprises they jointly establish;
- ➢ Taxes on the profits of companies and on dividends due to shareholders; and
- ➢ Taxes on incomes derived from large scale mining and all petroleum and gas operations, and royalties on such operations.

According to ERCA establishment proclamation No .587/2008, the Authority is looked upon as "an autonomous federal agency having its own legal personality". The Authority came into existence on 14 July 2008, by the merger of the *Ministry of Revenue*, *Ethiopian Customs Authority* and the *Federal Inland Revenue Authority* who formerly were responsible to raise

revenue for the Federal government and to prevent contraband. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex.

In accordance with report of ERCA (2016), The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The ERCA traces its origin to July 7, 2008 as a result of the merger of the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenues into one giant organization.

The ERCA shall have the powers and duties to:

1. Establish and implement modern revenue assessment and collection system;
2. Provide, based on rules of transparency and accountability, efficient, equitable and quality service within the sector; properly enforce incentives of tax exemptions given to investors and ensure that such incentives are used for the intended purposes;
3. Implement awareness creation programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligations;
4. Carry out valuation of goods for the purpose of tax assessment and determine and collect the taxes;
5. Conduct study and research activities with greater emphasis to improve the enforcement of customs and tax laws, regulations and directives and the collection of other revenues; and based on the result of the study and research initiate laws and policies and implement the same up on approval;
6. Collect and analyze information necessary for the control of import and export goods and the assessment and determination of taxes; compile statistical data on criminal offences relating to the sector, and disseminate the information to others as may be necessary;

World Bank Group's (2016) Currently, ERCA administers domestic taxes in its 10 branches offices (Large Taxpayers' Office (LTO), West Addis Ababa Branch, East Addis Ababa Branch, Mekelle, Adama, Hawassa, Bahir Dar, Jimma, Dere Dawa, Kombolcha). Similarly for customs

duties ERCA has 11 branches throughout the country (Addis Ababa Kaliti, Addis Ababa Airport, Adama, Mojo, Dere Dawa, Jigjiga, Moyalle, Kombolcha, Mekelle, Bahir Dar, and Millie customs branch offices).

2.3. General over view of large business taxpayer

According to the report of (OECD, 2004), Identification criteria for large businesses vary from country to country as one or more measures are used. Large business or large taxpayer differs from one country tax administration to another. The number of entities or group of entities classified as large taxpayers varies from one country to another due to the size of the economy as well as the definition and the criteria used to classify these taxpayers in the large business category.

The common identification criteria used to define taxpayers as large business or to place them under the responsibility of the large business unit include:

- ➢ Amount of turnover or gross sales;
- ➢ Value of assets;
- ➢ Amount of tax paid;
- ➢ Operating in certain business sectors (e.g. banking, insurance, oil, etc.);
- ➢ Engaged in international business activities; and
- ➢ Number of employees.

Major characteristics of large business segment, based on the participants' description of their large taxpayers, include:

a) **Concentration of revenue** – a small number of large taxpayers accounts for a disproportionately large amount of revenue and have a critical role in the administration of taxes. The amount of revenue results from the pure size of these taxpayers and the range of taxes for which they are responsible including their role as withholding agents.

b) **Complexity of the business and tax dealings** – several participants described large taxpayers as complex for a variety of reasons:

- ➢ Multiple operating entities;
- ➢ Diverse business interest;

- ➢ High volume of transactions in day-to-day business activities;
- ➢ Large number of employees;
- ➢ International business dealings;
- ➢ Cross border transactions with related parties;
- ➢ Unique industry characteristics (such as banking);
- ➢ Widely spread in geographical terms;
- ➢ Complicated issues (involving complex tax law and accounting principles);
- ➢ Polices and strategies to minimize tax liabilities; and
- ➢ Complex financing and business structures.

c) **Withholding agent or intermediary roles** – the main taxes collected by the large taxpayers, as intermediaries, include:
- ➢ Personal or employee income tax withholdings and social contributions;
- ➢ Value added tax or good and services tax; and
- ➢ Withholding tax on certain cross border payments such as dividends

d) **Uses of professional tax advisors –** a number of the large businesses retain professional advisors to handle their tax planning and compliance affairs.

Generally large businesses are publicly listed corporate companies; also they include multinational companies and some private groups.

According to ERCA, (2016), taxpayers are further classified in to large, medium, and small taxpayers at the Federal level and Regional level based on their annual turnover. Accordingly, large taxpayers are represented 1% of the total taxpayer and their annual sales turnover is above Birr 35 million, medium taxpayers are represented 10% up to 20% of the total taxpayer and their annual sales turnover between Birr 5 million and Birr 35 million and also small businesses are represented 80% up to 90% of the total taxpayers but on the other hands, their annual sales turnover is less than Birr 5 million.

The large taxpayer's office is located near Beklo Bet, on Debrezeit Road, which also has a Western Branch for medium taxpayers, for the Gulele, Kirkos, Kolfe Keranio, Lideta and Addis Ketema sub city districts. Medium taxpayers in other districts, however, pay at the Eastern

Branch located inside the headquarters of the ERCA, off Equatorial Guinea Street and also the lowest taxpayers located in every wereda level.

2.4. Tax compliance

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

James and Alley, (2004) as a cited in (Loo, 2006), Tax compliance refers to the willingness of individuals to act in accordance with in both the 'spirit' and the 'letter' of the tax law and administration without the application of enforcement activity.

Tax compliance is the willingness of taxpayers to obey tax laws in order to obtain the economy equilibrium of a country. These compliance with the tax law typically means true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due (Andreoni, et al., 1998).

According to the report of (OECD, 2008), all citizens and businesses would satisfy their obligations under the tax law to register where specifically required, and to voluntarily declare and pay on time their tax liabilities, all calculated fully and accurately in accordance with the law. There are four basic tax compliance obligations of citizens and businesses that generally speaking must be administered by all revenue bodies in accordance with their respective tax laws:

  ➢ To register for tax purposes;
  ➢ To file tax returns on time (i.e. by the date stipulated in the law) or at all;
  ➢ To correctly report tax liabilities (including as withholding agents); and
  ➢ To pay taxes on time (i.e. by the date stipulated in the law).

Roth, et al., 1989) as a cited in (Samuel, 2011), compliance with reporting requirement means that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the Internal Revenue code, regulation and court decisions applicable at the time the return is filed. This clearly states the line between tax compliance and noncompliance; yet, tax compliance requires adequate record keeping.

Consequently, a taxpayer can fail to comply either because he has made an honest mistake while filling his tax form, or because he wanted to evade his tax liabilities from the beginning. Whether the taxpayer made an honest mistake or intentional omission, the result is the same. For this reason, noncompliance includes situations where individuals underpaid or overpaid their taxes, called underreporting or over-reporting.

2.5. Tax non-compliance

Tax noncompliance is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally (James and Alley, 2004) and (Loo, 2006).
According to (Kirchler, 2007), broadly classified noncompliance as failing to file a tax return; underreporting of taxable income; overstating tax claims such as deductions and exemptions and failing to make timely payment of tax liability. Therefore, tax non-compliance is defined as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions and exemptions and/or paying the incorrect amount of tax beyond the stipulated time frame.

2.6. Determinants of tax compliance

This section discusses the factors that may affect tax compliance according to the literature. Factors discussed were divided into four main parts, namely tax compliance cost, structure of tax system, quality service of tax authority and transparency of tax authority.

Tax compliance from an interdisciplinary perspective which represents a wider perspective of tax compliance determinants compared to other researchers. For example, Fischer et al., (1992), James and Alley, 2004), Loo, (2006), Kirchler, (2007), Palil, (2010), Berhane, (2011), Helhel, and Ahmed, (2014), Ahmed and Kedir, (2015), Berhe and Sekhon, (2015), Oladipupo and Obazee, (2016), Saad, (2016), Mihret, (2011) and Agbadi, (2011). Tax compliance determinants into different categories and the study were based on tax knowledge, fairness of tax, fines and penalties, attitude and perception of taxpayer, and high tax rates.

2.6.1. Tax Compliance Cost

The cost of compliance, taxpayers appear to face a number of common costs of having to comply with their tax obligations over and above the actual amount of tax they pay. These include the time taken to complete requirements, the cost of having to rely on accountants and the indirect costs associated with the complexity of tax legislation. These can include 'psychological' costs such as stress that comes from not being certain that they have met all of the tax rules or even knowing what those rules are? (OECD, 2004).

As a cited in Sandford, et al., (1989), Tax compliance costs include three major components, namely monetary costs, time costs and psychological costs to the taxpayers. Monetary costs include sums spent on tax professionals (i.e. tax agents and accountants) and expenses related to taxation guides, books, communication and other incidental costs. Time costs are incurred by the taxpayer, mainly on record keeping for the purposes of completing the tax return and preparing tax details for the tax professionals as well as time spent on dealing with the tax authorities. Psychological costs comprise costs such as anxiety of handling complex tax matters.
Therefore, tax laws should be simplified to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers' and to improve the levels of tax compliance (Kasipillai, 2005).

Sandford, (1995) as a cited in World Bank Group's, (2016), defined tax compliance costs as costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities; costs over and above the actual payment of tax; costs which would disappear if the tax was abolished.

Tax compliance costs varies with tax type: business profit tax takes the largest share of total tax compliance costs (both internal and external costs), followed by value added tax and turnover tax. The burden of compliance costs of business profit tax and value added tax shows that these two taxes do have complexities that resulted in taxpayers incurring high costs of compliance in terms of staff time and professional fees paid to external assistance.

Total tax compliance cost, consisting of outsourcing and in-house costs, is high in Ethiopia: in the year 2012/13, the average cost to a business for general bookkeeping was found to be ETB 9,804 (USD 523.2). In the same year, average total tax compliance cost of a business including

costs of acquisition and maintenance of software and hardware was ETB 7,609 (USD 406) while average total tax compliance cost without acquisition and maintenance costs was ETB 5,842 (USD 311.7).

The tax compliance costs (TCCs) is estimated using the following:

TCCs = In house cost of time spent by employees + Outsourcing costs + Costs of
software/hardware/ data ware/ information

In-house cost of time spent by employees = time spent by various individuals on bookkeeping and tax accounting tasks ***** salaries (salaries of relevant workers was asked in the survey);

Outsourcing costs = Outsourcing cost paid to outside personnel for bookkeeping and tax accounting tasks;

Cost of software/hardware/data ware/information= Money spent by business on acquisition and maintenance of software, hardware, data ware and information in the five year period before the survey divided by five.

2.6.2. Structure of tax system

In accordance with Bird and Zolt, (2003), the manner in which countries raise taxes differs as widely as do the amounts they raise. The pattern of taxes found in any country depends upon many factors such as its economic structure, its history, and the tax structures found in neighboring countries. Choice also plays a part, as different countries may also attach different importance to such commonly accepted characteristics of a good tax system as fairness, economic effects and collection costs.

In the Fischer Model the effectiveness of tax system affected by complexity of tax system, probability of detection, and penalties and tax rates. As the tax law has become increasingly complex, complexity has come to recognize as a possible reason for tax noncompliance (Chau and Leung, 2009).

a. Complexity of tax system

As the tax law has become increasingly complex, complexity has come to be recognized as a possible reason for tax noncompliance. In the context of tax compliance decisions, complexity should include two dimensions, excessive detail in the tax rules and numerous computations

required. Taxpayers should be able to understand the tax rules for computations by which they are to be taxed. These tax rules should aim to be simple, understandable and clear in order to enhance tax compliance (Jackson and Milliron, 1986).

Joint Committee on Taxation, (2015), Complexity in the tax law may lead to decreased voluntary compliance in a number of different ways. For example, complexity that causes taxpayer confusion may affect levels of voluntary compliance through either inadvertent errors or intentional evasion by taxpayers. This type of complexity may cause taxpayers to decrease or increase their voluntary compliance. Complexity and ambiguity in the tax law can create uncertainty that may reduce taxpayer perceptions of fairness in the Federal tax system in several ways. First, ambiguity in the tax law can result in disparate treatment of similarly situated taxpayers and can lead individual taxpayers to believe that they bear a disproportionate tax burden. Second, taxpayers may believe that complexity creates opportunities for manipulation of the tax laws by other taxpayers, and that complexity confers an advantage for taxpayers who are able to obtain professional advice on reducing their tax liabilities.

b. Probability of detection and penalties

Alm, (1991) as a cited in Chau and Leung, (2009) higher audit probabilities and severe penalties encourage tax compliance. Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Raising the probability of detection will increase tax compliance and tax audit represents one of the effective detective measures used by tax authorities.

Another important factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of penalties prohibits tax noncompliance behavior. Establishing an effective system to penalize tax evaders is an important measure to encourage tax compliance. Taxpayers will be more likely to comply if noncompliance may result in severe penalties (Ibid).

Tax penalty is a punitive measure that the tax law imposes for the performance of an act that is proscribed, or for the failure to perform a required act such as failure to timely file return or filling wrong or undervalued returns etc. If a taxpayer is required to file an income or excise tax

return and fails to timely do so, a late filing penalty may be assessed (Oladipupo and Obazee, 2016).

c. Tax rate

Clotfelter, (1983) as a cited in Chau and Leung (2009) Economic models of rational compliance decisions provide either mixed predictions of the effect of the marginal tax rate on compliance, or predict that increased tax rates would increase compliance. On the contrary, earlier research concluded that high tax rates and complex tax legislations can lead to various tax problems. This includes tax evasion, tax fraud. Companies will create a kind of resentment against authorities who impose too high levies and too complex tax systems. The third major construct of tax system/structure in the Fischer model is tax rates. Empirical evidence has suggested that progressive versus flat tax rate is the significant structural variable in association with tax compliance behavior. Moreover, Kirchler et al, (2008) suggests tax rates have mixed impact on tax compliance i.e. decreasing tax rates does not necessarily always increase compliance and also increasing tax rates will not necessarily always decrease compliance behavior.

2.6.3. Knowledge of taxpayer

In accordance with (Rizal, 2010), knowledge of tax system 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.

High awareness by the society would encourage people to fulfill their obligations to register as taxpayer reporting and paying taxes properly are forms of national and civic responsibility. Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is. That tax knowledge reveals that there is a relationship with taxpayers' ability to understand the laws and regulation of taxation and their ability to comply.

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. 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 and Fallan, 1996).

2.6.4. Fairness of tax system

According to Jackson and Milliron (1986), It is widely believed by tax administrators and the taxpayers that growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance.

Tax fairness consists of at least two different dimensions. "One dimension appears to involve the equity of the trade - the benefits received for the tax dollars given. The other dimension appears to involve the equity of the taxpayer's burden in reference to that of other individuals". Thus unfairness of the tax system may reflect taxpayers' perceptions that they are overpaying taxes in relation to the value of the services provided by government or in relation to what other taxpayers pay.

The other dimension appears to involve the equity of the taxpayer's burden in reference to the other individuals (taxpayers' perceptions o f the horizontal and vertical equity of the tax system). In the other words, tax liability among taxpayers should be consistent with the ability to pay. Basically, taxpayers who have the same ability to pay must be imposed the same tax liability, while taxpayers who have different ability to pay must be imposed differently. Besides this, tax fairness also concern with procedural justice that is giving a right to taxpayer to propose an objection, postponement in paying tax and to appeal to tax review body. Perception of fairness can influence taxpayer ethical attitudes because a fair tax will increase ethical values.

Both tax payers and tax authority believe that fairness of the tax system is one of the major determinants of tax compliance. Fairness can be seen from two angles: equity of trade, which is related with the benefit received from paid tax and the other is equity in relation to burden of tax liability in comparison to other tax payers (Ahmed and Kedir, 2015).

2.6.5. Quality service of tax authorities

Quality service of tax officers can be seen on the seriousness in providing consulting assistance to taxpayers who do not understand the tax rules so that taxpayers understand their rights and obligations in terms of taxation (Andreas and Savitri, 2015)

According to Hodges, (2013) 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. With effective public information, forms, and services, and by convincing noncompliant taxpayers that they can comply with relative ease, taxpayer services can also encourage and help accomplish greater voluntary compliance.

As a tax administration formulates its organizational structure around various functions and/or activities, questions often arise relative to who is responsible for "taxpayer services." Although each employee within the organization must embrace the concept of providing effective taxpayer services, the tax administration should establish a dedicated unit responsible for programs, product design, planning, and coordination of initiatives related to taxpayer services (Ibid).

Andreas and Savitri (2015) defined best Service Quality of tax authorities to taxpayers related to tax compliance. Quality of service of tax officers can be seen on the seriousness in providing consulting assistance to taxpayers who do not understand the tax rules so that taxpayers understand their rights and obligations in terms of taxation.

Service quality may not be achieved without process quality. Hence, it needs an organization. Tax authorities are expected to have competence in terms of skill, knowledge and experience in terms of tax policy, tax administration and laws. In addition, the tax authorities must also have a high motivation as a public servant (Ibid).

The role of the tax authority in minimizing the tax gap and increasing voluntary Compliance is clearly very important. The government and tax authority are as the main parties that need to be continuously efficient in administering the tax system in order to minimize tax evasion. The government plays a central role through designing the tax systems itself, and the specific enforcement and collection mechanisms (Palil, 2010).

2.6.6. Transparency of tax system

Tax system design is also closely linked to domestic and international investment decisions, including in terms of transparency and fairness. Strengthening domestic resource mobilization is not just a question of raising revenue: it is also about designing a tax system that promotes inclusiveness, encourages good governance, matches society's views on appropriate income and wealth inequalities and promotes social justice (IMF, OECD, UN AND WORLD BANK, 2011). Transparency International (2009) as a cited in (Siahaan, 2013), Transparency is a characteristic of governments, companies, organizations and individuals of being open in the clear disclosure of information rules, plans, processes and actions. According to Rawlins (2009), there are three aspects of transparency:

- ➢ **Informational Transparency** means openness, making publicly available all legally releasable information -- whether positive or negative in nature in a manner which is accurate, timely, balanced, and unequivocal. Information must be substantial to meet stakeholders' needs. Disclosure by itself does not equal transparency; in fact some forms of disclosure can defeat the purposes of transparency.

- ➢ **Participatory Transparency** is what separates transparency from disclosure. Transparency cannot be successful unless you know what stakeholders want and need to know. So, to ensure that the information shared is relevant and useful, stakeholders must be allowed to identify what they need to know.

- ➢ **Accountability Transparency.** Transparency holds people accountable for their actions, words and decisions.

Tax transparency is the extent to which taxpayers have ready access to any required information about tax. To increase taxpayers' voluntary compliance, governments must be more open and transparent with their tax. Information transparency can be exploited by governments as an opportunity to improve voluntary compliance of existing taxpayers and to attract new ones. Increased tax transparency can encourage greater voluntary compliance by ensuring taxpayers that their tax payments are reaching the desired objectives (Siahaan, 2013).

2.7. Conceptual Framework

The research adopted a conceptual framework where determinant of tax compliance will be taken as an independent variable while tax compliance was list as dependent variable as illustrated in the Conceptual figure.

Determinants of tax compliance

- ✓ Tax compliance cost
- ✓ Structure of tax system
- ✓ Knowledge of taxpayer
- ✓ Fairness of tax system
- ✓ Quality service of tax authority
- ✓ Transparency of tax authority

Tax compliance

Independent variables   **Dependent Variable**
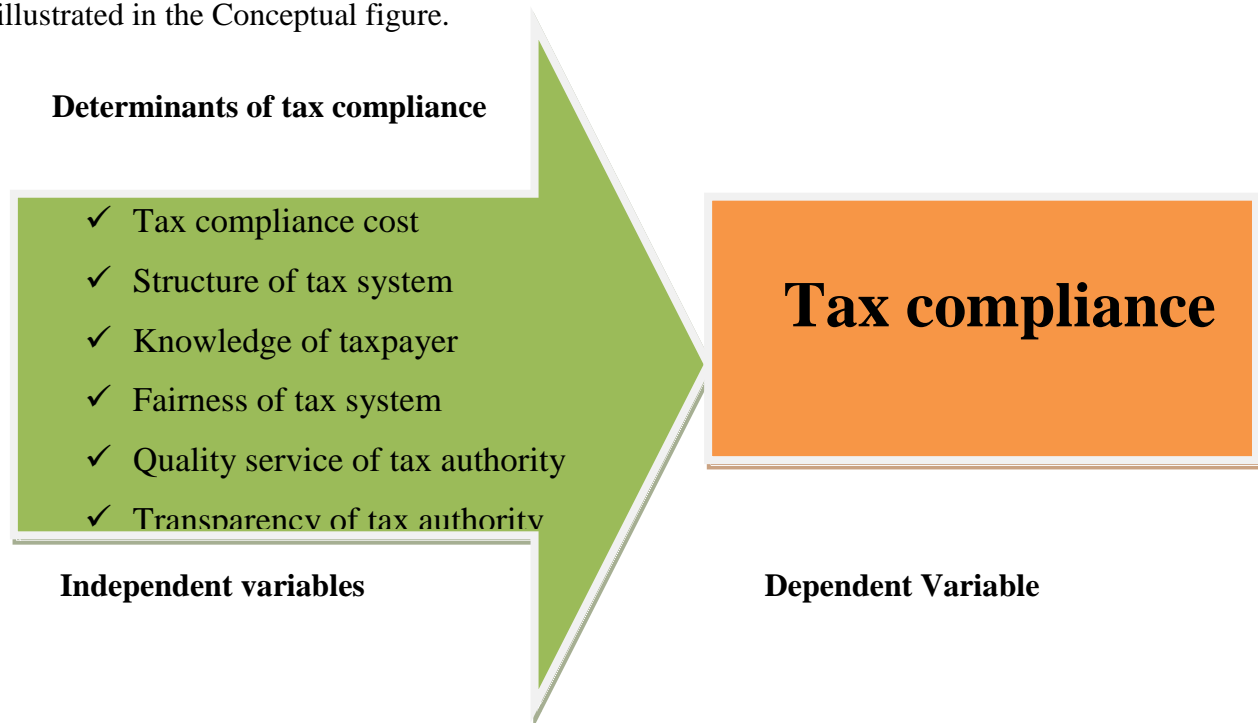
Figure: Conceptual Framework: Factors affecting tax compliance (researcher's own compilation)

Chapter Three

Research design and methodology

This research is causal research. The required data for this study is collected use survey questionnaire for essential information. It is selected on the assumption that helps to gather adequate information and that 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 determinants of large taxpayer's tax compliance in Addis Ababa City Administration. The research is quantitative research.

The study describes the perception of different large business taxpayers towards tax compliance factors. Hence, it is categorized as causal research. Data for this study is collected from primary sources by questionnaire. Therefore, the adoption of causal method in the study is helpful to identify the effects of complexity of tax structure, quality service of tax authority, compliance cost by assessee, transparency of the tax system, taxpayer knowledge and fairness of tax system on tax compliance. Questionnaire is distributed to different sectors of large business taxpayers in Addis Ababa city administration.

3.1. Sample design

A research design is a procedure or process that guides the researcher in providing answers to research questions and desired objectives of the study.
Sampling refers to the process of selecting individuals from a larger group of people and drawing conclusion that are "an accurate representation of how the larger group of people acts or what they believe" (Fraenkel and Wallen, 2009).

In the case of sample design, this is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample i.e., the size of the sample. Sample design is determined before data are collected. There are many sample designs from which a researcher can choose (Kothari, 2004). The target

population for the survey study is actual tax payers who are subject for large business taxpayer in Addis Ababa city and also used as participants in the survey study.

3.1.1. Population of the study

The target populations for this study were large business taxpayers in Addis Ababa city administration. According to (ERCA, 2016) the total registered large business taxpayers are about 1,500 in Ethiopia. The study is carried over a period of one year of 2009 E.C.

3.1.2. Sampling technique

According with (Etikan, Musa and Alkassim, 2016), convenience sampling is a type of no probability or nonrandom sampling where members of the target population that meet certain practical criteria, such as easy accessibility, geographical proximity, availability at a given time. In view of the researcher's inability to reach out to the entire population, and in order to gain the advantage of an in-depth study and effective coverage, samples are drawn using Convenience sampling from the total population.

3.1.3. Sample size

In this study the researcher selecting a sample from the above mentioned population, although, the choice of sample size has a bearing on the reliability of the result of a study. However that sample size is one of the factors that contribute to the credibility of the survey estimate. For the choice of sample size, different researchers have different opinions. For instance, some researchers noted that the choice of sample size is normally made after considering practical issues and available resources (e.g. cost and time). If the sample is large, this method is the best way to obtain a sample representative of the population (Fraenkel and Wallen, 2009).

The target total population is 1,500 large business tax payers as of (ERCA, 2016) or (2009 E.C) budget year, while there are 1,080 large business firms head office in Addis Ababa city under six business sector namely manufacturing, Construction, General merchandising & trade, mining, Services (secretarial, maintenance, food & beverage, etc.) and Others. There are several approaches to determine the sample size. In this study a simplified formula provided by

(Yamane, 1967), that applied to determine the required sample size at 95% confidence level, degree of variability = 0.05 and level of precision = 7%.

In compliance with Yamani, (1967).
$$n = \frac{N}{\{1+ (Ne)^2\}}$$

Where n= is the sample size

N= is population

e= is error limit (0.07 on the basis of 93% confidence level)

$$n = \frac{1080}{1+1080(0.07)^2}$$

$$n = \frac{1080}{6.292}$$

$$n = 171$$

Using a total population under study of 1,080 large business taxpayers with an error limit of 7%, a sample size of 171 is consider adequate as computed above. This is because the target population's nature of homogeneity. The taxpayers are segmented as small, medium and large based on the total annual revenue and the common requirement of LTO is annual sales turnover of Birr 35 million.

3.2. Source of data

The primary data is collected through structured questionnaire. The questionnaire consisted of close-ended and a few open-ended questions to understand large business taxpayers' opinions about the factors affecting their tax compliance to the tax system with respect to each and every variable indented. The primary data sources were large business taxpayers of Addis Ababa City (who were operational in the year 2016/17 (2009 E.C).

Most of the closed ended questions are designed on an ordinal level of measurement basis, and others are designed as multiple choice, some of the closed ended questions were a five scored likert scales (Kothari, 2004) to provide respondents a wider range of alternatives with end points

where '5"with the statement strongly agree, and "1' indicates with the statement refer to strongly disagree. In addition, open ended questions allow respondents to offer additional information.

Supplementary source of data related to tax compliance issue and concepts are collected from secondary source of data. From relevant ratify legislation in related with the topic, tax journals, as well as articles published in the media.

3.2.1. Data collection

In this study, primary data is the major source of this research via questioners to respondents as instruments in collecting primary data.
The structure questionnaire is the respondents. The questionnaire is prepared in English version and that had two parts. In the first part general characteristics of tax payers is asked. In the next section contain the main determinant of large business taxpayer tax compliance is measured. Eventually, questionnaires are attached as Appendix.

3.3. Data analysis techniques

First of all, collects survey data were compile, edit for error and irregularity and then coded. The analysis section is divided in to five parts. Part one presents the background information of the respondents involved in the study. The second part describes the tax compliance cost of actual tax payers, the third part explains structure of tax system; the fourth part present knowledge of taxpayer; fifth part present fairness of tax system; sixth part present quality service of tax authority and the rest explain transparency of tax authority.

Multiple regression analysis is conducted to assess the relative predictive influence of the independent variables on the dependent variable. The statistical package for social sciences (SPSS) is employed in the different analyses conducted. Moreover, tables chart and figures are used to be the analysis complete by Causal research method.

According to (Faizal and Palil, 2015) multiple linear regression analysis is used to test hypothesis 1 with model $y = \beta 0 + \beta 1 \chi 1 + \varepsilon$ in the representation of y = tax compliance, $\chi 1$ = tax compliance cost, Structure of tax system, Knowledge of taxpayers, fairness of tax, quality

service of tax authority and transparency tax system ε = error. Multiple regression analysis is used to test hypothesis 1, 2 …5 and 6 based on the following model:

$$y = \beta 0 + \beta 1\chi 1 + \beta 2\chi 2 + \beta 3\chi 3 + \beta 4\chi 4 + \beta 5\chi 5 + \beta 6\chi 6 + \varepsilon$$

y = Tax compliance

$\chi 1$ = Tax compliance cost

$\chi 2$ = Structure of tax system

$\chi 3$ = Knowledge of tax

$\chi 4$ = Fairness of tax

$\chi 5$ = Quality service of tax authority

$\chi 6$ = Transparency of tax authority

ε = Error

Chapter Four

Data presentation and analysis

This chapter presents the data analysis, presentation and interpretation of findings on the data collected from large business taxpayers in Addis Ababa city administration. The main objective of the study is to identify the determinants of large business taxpayers' tax compliance in Addis Ababa.

4.1.   Survey distribution and response rates

In this study, the total populations of large business taxpayers in the Addis Ababa city administration are 1,080 and the sample size of 171 is determined and questionnaires collected from the taxpayers. The responses of large business taxpayers gathered through questionnaire are encoded in SPSS version 16 software. In doing so, each factor collected from the respondents is given a particular code then the results are presented using percentages, mean, standard deviation, tables and charts.

At the end of the field work, a total of 171 usable questionnaires are retrieved representing 81.3% response rate. This shows that the response rate considered as fair and the response rate for a personal delivery approach varies considerably from the lower of 28% to the highest of 50%. As stated by Kothari (2004) and Mugenda and Mugenda (2008) 50% response rate is adequate, 60% good and above 70% is rated very well.

4.2. Respondents background

This section describes respondents' and their company background including main business sector, legal form of business, level of education, position in the company and age or life of the company.

4.2.1. Respondent main business sector

There are different categories of business sectors registered in large business taxpayer officer. Sectors distribution of respondents is summarized in Figure 1. As per the outcomes of the survey 34% of the respondents are engaged in general merchandizing and trade, 24% are manufacturing sectors, 19% are service sectors, 16%, 4% and the remaining 3% are construction, other (agriculture, Transit and Others) and mining respectively. This shows the majority of large businesses taxpayers in Addis Ababa city are engaged in merchandizing and trade businesses. Moreover, the survey result indicated huge number of investors take mainly part on international trade which suffering a negative trade balance (import more goods than exports) and also its clash with the government coming objective.

Figure: 1
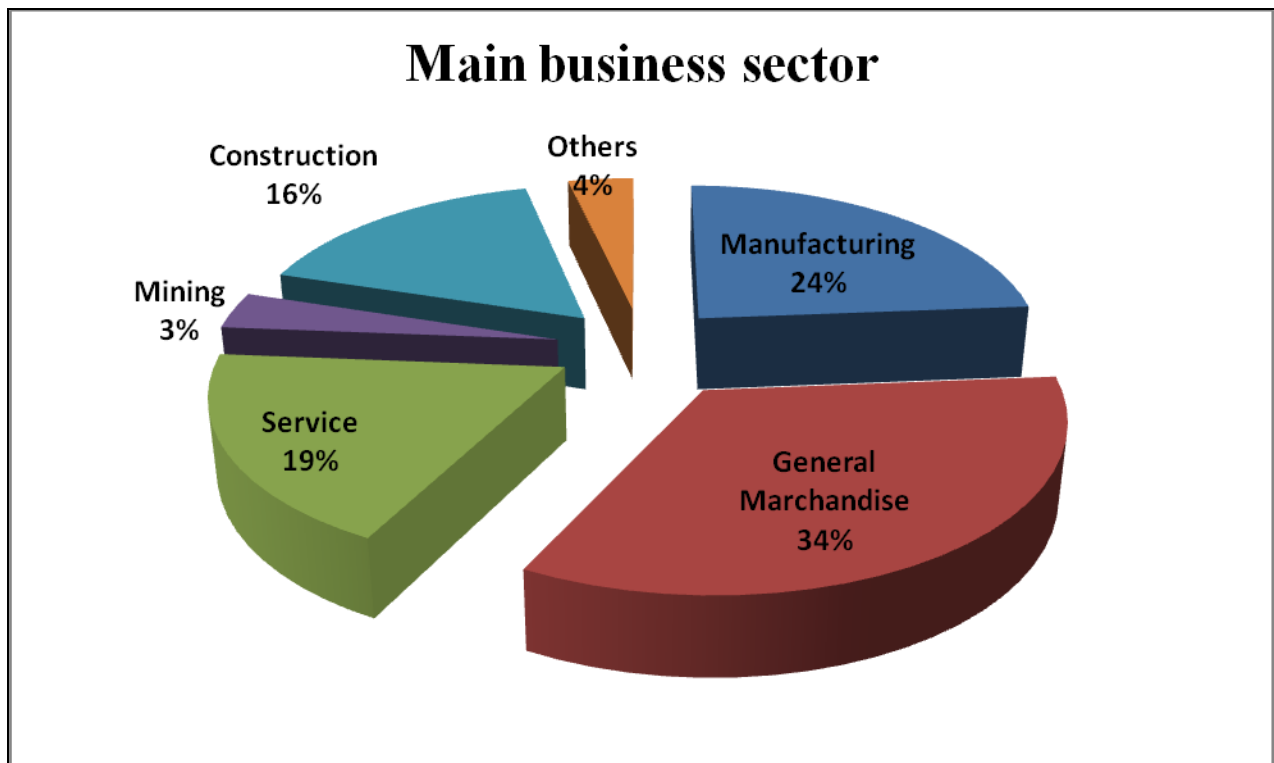
Source: researcher's computation (2016)

4.2.2. Legal form of business

All the sampled respondents are classified in to five legal form of business including proprietorship, partnership, private limited company, Share Company and others (Joint venture, Governmental Enterprise and other foreign companies). These shows 70% of the respondents are private limited companies (PLC), 14% are share companies, 11% of them are other, 3% and the rest 2% are partnership and sole proprietorship respectively. This is an indication in figure 2, that the majority parts of large taxpayers are PLC that registered in ERCA Addis Ababa city administration.

Figure: 2
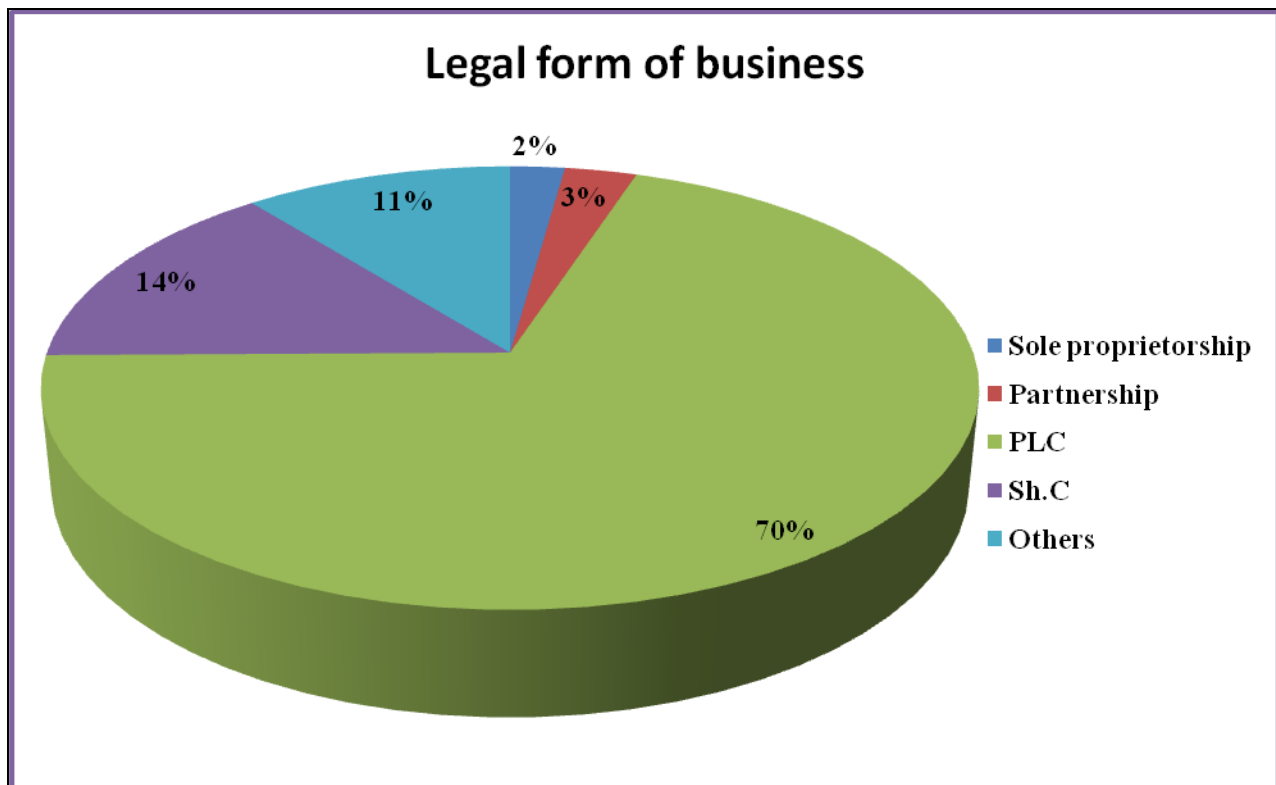
Source: researcher's computation (2016)

4.2.3. Level of education

Concerning the educational qualification of the respondents, Figure 3 below illustrates, most of the respondents had good academic qualifications from the total of 139 respondents representing 67.6% are first degree holders, 19.4% respondents are diploma holders, 9.4% represented masters and above holders, 2.2% respondents are 12 grade completed and the rest 1.4% were certificate holders. This can be an indication that the majority of the respondents have good academic background that can help them understand the tax laws and procedures and also they have specific tax knowledge that can help them to comply with different tax compliance requirements. Nevertheless, if the taxpayers have good academic background, its help them to able easily understand tax law and procedure and fulfill their tax obligation properly in terms of filing their tax return forms at exact amount with on time.

Figure: 3
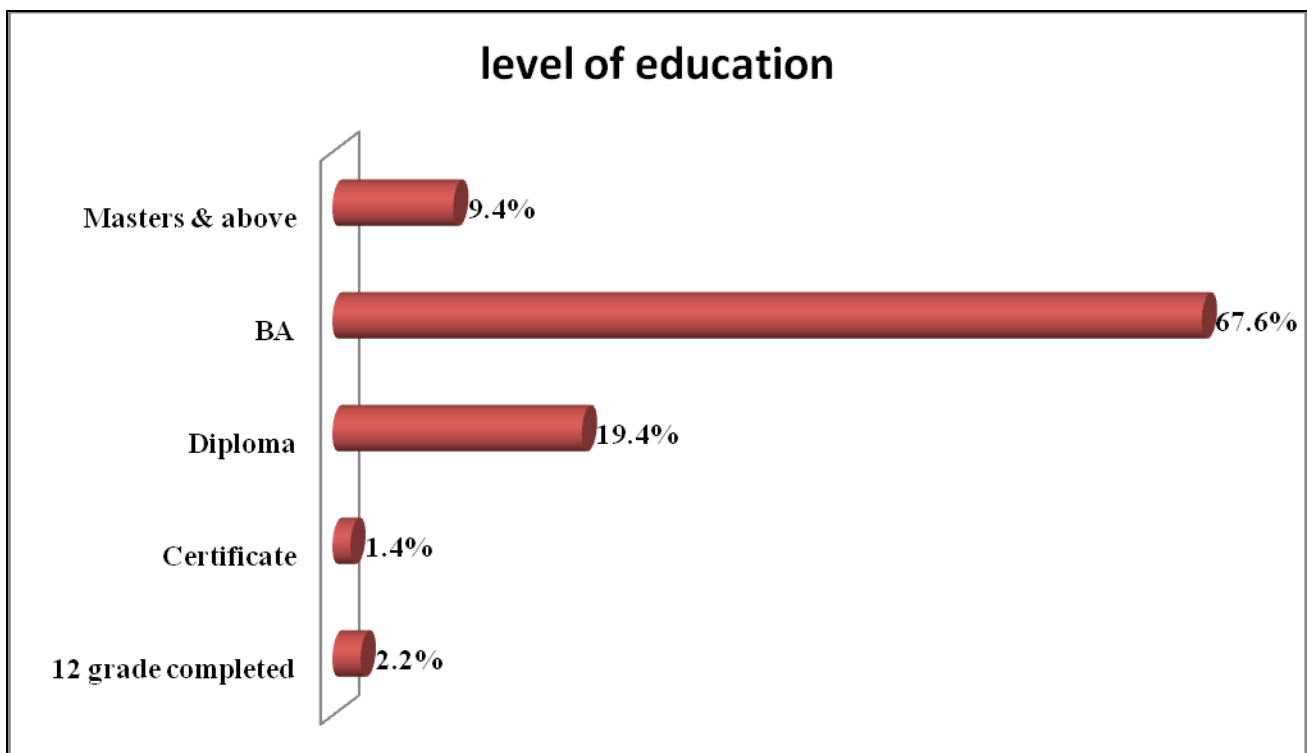
Source: researcher's computation (2016)

4.2.4. Respondent position in the company

From the total 139 respondents 80.6% were employees (Accountant and Financial head), 11.5% are Business managers, 5.8% are others (External Accountant, Tax and audit assistance, and tax agents) and the remaining 2.2 % are business owners. As this result indicated the majority of respondent are employees specifically accountant (most of the time) and some time finance head and external either tax agent or assistant, a number of business managers pay tax by themselves. These confirmed the lion shares of tax payment activity in large taxpayer are processed by employees and have knowhow for time to time either new or changed rule and regulation of ERCA. On the other hand, most of the businesses owners have no knowledge of tax authority task.

Figure: 4
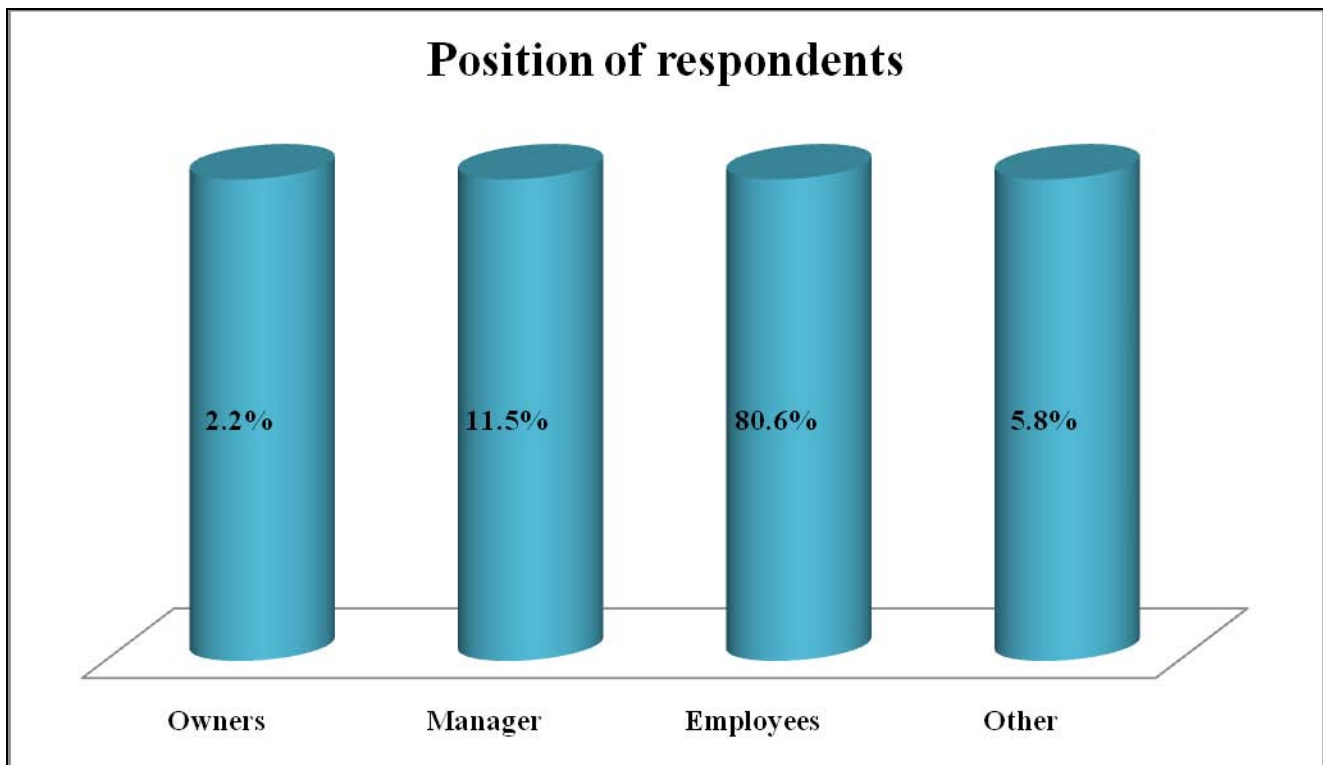
Source: researcher's computation (2016)

4.2.5. Age of the company

The results in Figure 5 indicate different business age. From 139 respondents the majority of large business taxpayers 38.8% had been in operation for more than 10 years, 31.7% had been in operation for 6 up to 10 years, while 28.1% had been in operation for 1 up to 5 years. Only 1.4% of business taxpayers are with life of 'Less than 1 years'. Since the majority of the respondents are in the business for more than ten years, these show that the sample business taxpayers had adequate experience and awareness in dealing with tax law, procedure, systems and related issues and also identifying the determinants of tax compliance.

Figure: 5
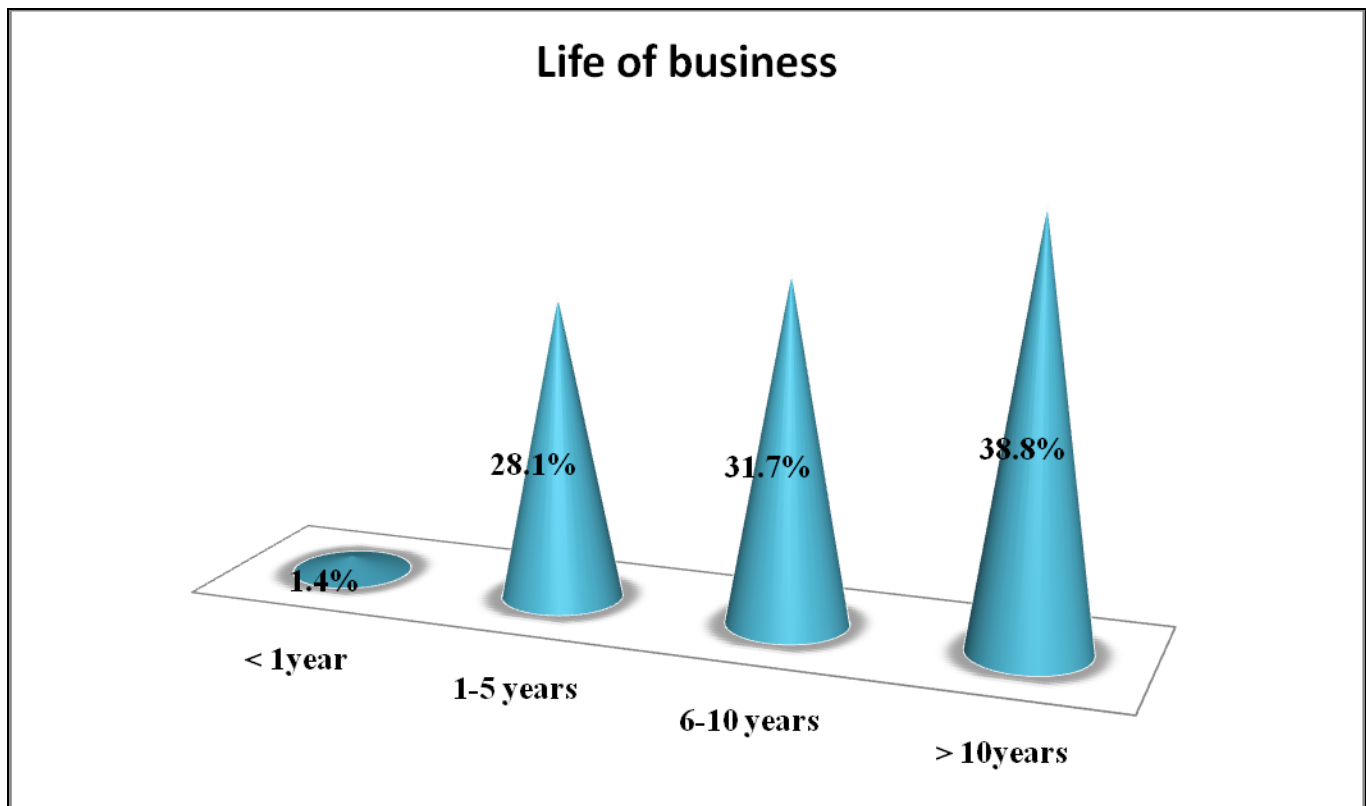
Source: researcher's computation (2016)

4.3. Factors influencing taxpayers tax compliance

This study intend to see taxpayers' tax compliance is affected by tax compliance cost, structure of tax system, knowledge of tax system that about tax policies, procedures, rules and regulations, fairness of tax system, quality service and transparency of tax system. Notwithstanding, this is based on a likert scale, where strongly Disagree to 1; Disagree to 2; Neutral to 3; Agree to 4, and Strongly Agree to 5. Effort is also made to calculate the mean and standard deviation of the result as well. The mean values of the reliability variable ranged from 1 to 1.8, reflecting lowest levels of agreement from the respondent to the variable; from 1.8 up to 2.6, is assumed as low; from 2.6 up to 3.4 is assumed as medium; from 3.4 up to 4.2 is assumed as high and from 4.2 up to 5 is taken as highest (Best, Hawkins, and Albaum, 1977). Moreover, the whole survey results are summarized here below in the table as follows.

4.3.1. Tax compliance

Under this section, the respondent response on tax compliance the current tax system has been discussed. The respondents are asked to indicate their extent of agreement or disagreement with some statements relating to some of the factors that influence ones' view on business tax system in Ethiopia.

Table: 1

Statements	N	Minimum	Maximum	Mean	Std. Deviation
I feel morally obligated to honestly declare all my tax liability on time	139	1	5	4.1151	0.84338
I feel good while obeying for tax law and procedure to declaring and paying honestly	139	2	5	4.1511	0.71133
I did report my exact income on time	139	2	5	4.1799	0.76378
I file my returns and pay timely the amount due	139	2	5	3.9928	0.96681
Average				**4.109725**	**0.821325**

The result shows that, the overall average mean and standard deviation are 4.1 and 0.82 respectively. As indicated in the above table the large business taxpayers comply their tax obligation at the exact amount and time. The mean score of that prominence of the statement, the tax is believed as a moral obligation to pay or declared by large business taxpayers are more than 4.00 and the standard deviation are also less than 1.00. This is an indicator for high number of large business taxpayers tax is a moral obligation to be declared honestly.

The mean score of those respondents who are obeying for tax law and procedure declaring and paying honestly in Addis Ababa is more than 4 and the Standard deviation is 0.7. This shows that, large numbers of the respondents are obeying for tax laws and regulation.
In the above the mean score most of respondents were reported exact income tax on time to ERCA is 4.17 with standard deviation of 0.76. This implies that, the majority of respondents were compliance on time their income tax obligation.

The mean score for whether the tax payers file returns and pay timely the amount due is 3.99 whereas standard deviation 0.966. This indicates most of the large business tax payers pay timely their tax obligation. In accordance with, the respondent's result on the above table the LTO taxpayers have good tax compliance at this time.

As the overall statement results of the above table the majority numbers of large business taxpayers comply their tax liability by either fear of fine and penalty or their business interest.

4.3.2. Tax compliance cost

Table: 2

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The complexity of tax system results for taxpayers incurring tax compliance cost	139	2	5	3.964	0.76528
The taxpayers are spent high tax compliance cost and time to tax comply	139	2	5	3.8417	0.69427

Burden of compliance costs of large business taxpayer in terms of staff time, professional fee and to external assistance are affect to tax compliance	139	1	5	4.295	0.70663
The complexity of tax administration(e.g., multiple tax, several d/t bases, requirement for multiple filing per year, etc) is increases tax compliance costs	139	1	5	3.7698	0.66285
I feel high tax compliance cost discourage the taxpayers compliance	139	2	5	3.9496	0.65191
Average				**3.96402**	**0.696188**

Source: researcher's computation (2016)

As it is shown in the above Table 2, the tax compliance cost is one of the major factors affecting taxpayer tax compliance that the overall average mean score of those respondents is 3.96 and standard deviation is 0.69. This indicates the tax compliance cost has high role for the taxpayers to be non tax compliant.

The mean score of response for, result of complexity tax system for a taxpayer is incurring tax compliance cost is 3.96 while standard deviation is 0.76. This illustrates high number of respondents agreed to incur tax compliance cost by complexity of the tax authority tax system.

The mean score and standard deviation of respondents state, the taxpayers spent high tax compliance cost and times to comply is 3.84 and 0.69 respectively. This shows high number of respondents spent time and tax compliance cost to tax compliance.

Respondents are asked to state, burden of large business taxpayer tax compliance cost (in terms of staff time, professional fee and pay to external assistance) affect tax compliance. Computations of mean score result indicated 4.29 however standard deviation is 0.70. Result indicated there is various cost of taxpayer to be honest or fulfill legal obligation of their income tax.

The mean score of those respondents whether the tax compliance cost increase by complexity of tax administration e.g., multiple tax, several different bases, requirement of multiple filing in per

year and etc. is 3.76 and standard deviation is 0.66. This indicated that also most of respondents believed that the tax compliance cost is increase when the tax authority administration system is complexity.

The mean score of when the tax compliance cost is high, the taxpayers became discourage to comply their tax obligation is, 3.94 while standard deviation is 0.65. This result indicated that, the most respondents are agreed that high tax compliance cost is discouraged to tax compliance of taxpayers.

As the overall results this can be concluded that the majority large business taxpayers spent time and financial cost of comply their tax liability and also discourage voluntary taxpayers' compliance.

4.3.3. Structure of tax system

Table: 3

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The structure of tax system is affect to tax compliance of taxpayer	139	2	5	3.8058	0.74091
I feel the tax authority stability of tax system helps to encourage tax compliance	139	2	5	3.8129	0.75727
I feel the overall structure of tax system is equitable	139	1	4	2.5396	0.78266
I believe that the current structure of tax system encourage voluntary tax compliance	139	1	5	2.3237	0.69382
The tax authority creating awareness for taxpayer about their tax structure to improve tax administration system and there for tax compliance	139	2	5	2.5324	0.8453
Average				**3.00288**	**0.763992**

Source: researcher's computation (2016)

Table 2 state the five statements of obtaining different question for factors of tax system structure that the structure of tax system is one of the factors influences of taxpayer tax compliance. The overall mean scores for each statement are 3 and 0.76 respectively. This imply around half of respondents on average were agree that the tax authority tax system structure does not supported to tax comply of taxpayers.

As can be seen in Table 2, the mean score and standard deviation of respondents for structure of tax system is affect to tax compliance of taxpayer is 3.8 and standard deviation is 0.74. This is an indicator for high number of respondent believes the tax authority tax system structure affect to tax compliance.

The mean score of stability of tax system encourage tax compliance is 3.8 and standard deviation is 0.75. This means most respondents believe that the taxpayers can be encouraged to their tax compliance when the tax authority tax system is stable.

As the result shown on the mean scores those respondents state, the overall structure of tax system is equitable is 2.53 however standard deviation is 0.78. This demonstrates the level of agreement is low from the respondents' response.

The mean score of those respondents weather the current structure of tax system encourage to voluntary tax compliance is 2.32 and also the standard deviation is 0.69. This reflect the level of agreement is low from the respondents response that means most of respondents did not agreed at current tax system.

The mean score for whether the tax authority is creating awareness for taxpayers about their tax structure to improve tax administration system and tax compliance is 2.53 and standard deviation is 0.84. This shows only the small number of respondent are agreed, but high numbers of respondent did not agree with these statements. That means the tax authority doesn't make awareness over taxpayers about structure of tax administration system.

Based on the overall statement result in the above table to state, the structure of tax administration system is not good in terms of simplicity, uniformity and equitability. Therefore, structure of tax administration system is influenced for tax non compliance of taxpayers.

4.3.4. Knowledge of taxpayer

Table: 4

Statements	N	Minimum	Maximum	Mean	Std. Deviation
I feel that taxpayer have enough knowledge on tax compliance	139	1	5	2.5827	0.97727
The authority given training on the Ethiopian tax law and its procedure to build tax compliance knowledge	139	1	4	2.5683	0.8345
I'm able to interpret taxation laws when computing taxes	139	2	5	3.5324	0.71528
I feel that every taxpayer have knowledge an obligation to fill a tax return form and calculate his own tax liability	139	1	5	2.5899	0.85815
I believe the tax authority awareness creation program is help to known of tax law and tax comply when you get a service	139	2	5	3.8633	0.66159
Average				**3.02732**	**0.809358**

Source: researcher's computation (2016)

As described in the Table 4 respondents were asked for knowledge of taxpayers on tax and related tax process and overall mean score on average is 3.02 and standard deviation is 0.80. The assessees are asked whether they have enough knowledge on tax compliance that competition mean score result indicated is 2.58 and also standard deviation is 0.97. This point up the level of agreement is low among respondent's response and most of respondents do not believed they have knowledge of taxpayers. In line with this, respondents are asked to give judgment on; the tax authority give training on the tax law and its procedure to build tax compliance knowledge of taxpayers. And mean score of 2.56 and standard deviation is 0.83. This implies that, the level of agreement is also low from the respondent's response that means solely a few numbers of respondents were believe via the authority give training.

Based on the respondent's responses to on whether they have the ability to interpret taxation laws when computing taxes. Computations mean score result indicated 3.53 and standard deviation is 0.71. From the result it can be inferred among high numbers of respondents were able to interpret the taxation law. Notwithstanding, the mean score of respondent have knowledge an obligation to file a tax return form and calculate his own tax liability is 2.58 and standard deviation is 0.85. This confirms the level of agreement is low. This is an implied for most of taxpayer did not know to fill a return and calculate his liability.

The mean score and the standard deviation on whether they believe that tax authority awareness creation program is help to known of tax law and tax comply when you get a service is 3.86 and 0.80 respectively. This indicate that, high numbers of respondent believe that awareness creation program help to know the tax law and fulfill their tax liability.

According to the overall statement result in the above table is possible to decide the great parts of large tax payers have not sufficient knowledge on tax rule, regulation and also procedure. Moreover, the tax authority does not give training for tax law and procedure to build tax compliance knowledge of taxpayer.

4.3.5. Fairness of tax system

Table: 5

Statements	N	Minimum	Maximum	Mean	Std. Deviation
I feel while the tax burden imposed upon large business firms is fair	139	1	5	2.5755	0.85955
I believe a fair tax system would inspire tax compliance of taxpayer	139	2	5	3.9209	0.59056
Every large business pays fair tax under the current income tax system	139	1	5	2.482	0.79265
I believe the tax system is fair and encourages business taxpayers to properly pay their tax compliance	139	1	4	2.3094	0.64661
Do you agree there is fair tax among similar	139	1	4	2.8345	0.88135

business in same proximity?					
Average				**2.82446**	**0.754144**

Source: researcher's computation (2016)

According to the above Table 5, the researcher asked different questions to get response on tax fairness affects to tax compliance of large business. This overall mean score of those respondents response on average is 2.82 and standard deviation is 0.75. This indicated that, a level of agreement is equilibrium among the respondents.

One of the above questions asked is whether the tax burden upon large business firms is fair. The mean score result indicated that, 2.57 while standard deviation is 0.85. This demonstrated that, only the small numbers of respondents were agreed by the tax imposed is fair on large business but on the other hands, high levels of respondent responses were disagreed.

The respondents were asked whether a fair tax system would inspire tax compliance of taxpayers. The result of mean score is 3.92 and standard deviation is 0.59. As can be understood form the response the level of agreement is high. It means, the majority numbers of respondents were believe that the taxpayers would inspire to tax compliance if there is fair tax system.

The mean score of, every large business pays fair tax under the current income tax system, is 2.48 however standard deviation is 0.79. Result indicated that, the largest part of respondents didn't agree however, the small number of respondents were agreed by current fair income tax system.

The means score and standard deviation of respondents state, whether they believe the tax system is fair and encourage business taxpayers to properly pay their tax compliance is 2.30 and also 0.64 respectively. This indicates the level of respondents responses were low that means the remaining high number of respondent did not believe that.

The mean score for whether the tax payer agrees there is fair tax among similar business in same proximity? That result is 2.83 and standard deviation is 0.88. This showed that, the level of agreement is medium among the respondent response. This means not more than half of respondents agreed.

As the overall statement result in the above table that imposed of tax burden on large business taxpayer's dose not fair and also most of taxpayers were discourage to be honest for their tax compliance.

4.3.6. Quality service of tax authority

Table: 6

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The tax authority provide adequate and timely service for taxpayer to encourage tax compliance	139	1	5	2.3381	0.92903
I feel the tax collection system by the authority is operating quickly and properly to encourage compliance	139	1	5	2.2518	0.79028
The tax authority well organized by ethical skilled man power and technological development to inspire compliance	139	1	5	2.1871	0.72799
I feel the tax authority provide reliable service to assure voluntary compliance	139	1	4	2.4748	0.72563
The tax authority provide consulting assistance service to encourage and help accomplish voluntary compliance	139	1	4	2.2662	0.64354
Average				**2.3036**	**0.763294**

Source: researcher's computation (2016)

Table 6 demonstrated that, quality service of tax authority affects tax compliance of taxpayers. This overall mean score of those respondents response on average is 2.30 and standard deviation is 0.76 which shows the level of agreement on average is low. The mean score of the tax authority provide adequate and timely service for taxpayers to encourage tax compliance is 2.33 while the standard deviation is 0.92. This means low numbers of respondent have agreed. However, most of respondents do indicated they did not get adequate and on time service.

The mean score of respondent response on whether the tax authority collection system is operating quickly and properly to encourage compliance, is 2.25 and also standard deviation is 0.79. And this indicated the majority of respondents do not agree with the tax authority operating tax collecting system is quick and proper but also low level of agreement is there.

The mean score of respondent response on whether the tax authority is well organized, ethical and skilled man power and technological development to inspire compliance, is 2.18 and standard deviation is 0.72. This shows the majority of among respondents are not agreed excepted low numbers of respondent response.

The mean score of those respondents whether the tax authorities provide reliable service to assure voluntary compliance is 2.47 and standard deviation is 0.72. This indicates that, the level of agreement is low among the respondents but on the other hands, significant respondents did not agree.

The mean score of whether the tax authority provides consulting assistance service to encourage and help accomplish voluntary compliance is 2.26 and standard deviation is 0.64. This implies the level of agreement is low among respondent response. Though, the remaining high number of respondents did not agree by the tax authority provide consulting assistance service to taxpayer.

In accordance with the overall statement results in the above table the tax administration provide poor service to their customers since the taxpayers did not get adequate and timely service, properly and quickly service. In addition, they never get consulting assistance service from tax authority. Therefore, quality service has great impact to tax compliance although, if the tax administration provides a quality service, the taxpayers became encourage to tax compliance and also to help volunteers' taxpayers.

4.3.7. Transparency of tax authority

Table: 7

Statements	N	Minimum	Maximum	Mean	Std. Deviation
The tax policy and procedure are clear and simple to comply	139	1	5	2.259	0.8106
The tax authority provide useful and accurate information to taxpayers to inspire compliance	139	1	4	2.3022	0.72885
I feel the tax authority collection procedure is simple and transparent to encourage voluntary compliance	139	1	5	2.2734	0.73035
Increased tax transparency can encourage greater voluntary compliance by taxpayers	139	2	5	3.7626	0.72814
The tax information should be publicize by tax administration itself or through the media of communication	139	2	5	4.2878	0.56779
Average				**2.977**	**0.713146**

Source: researcher's computation (2016)

As Table 7 shows, transparencies of tax authority affect tax compliance of taxpayers. From the study the mean of each statement explaining tax compliance was computed from the five likert scale and the overall mean is 2.97 and standard deviation is 0.71. This showed that the level of agreement is medium.

The means score of response for whether the tax policy and procedure are clear and simple to comply is 2.25 and standard deviation is 0.81. This confirms the majority respondents do not agree except a few level of respondent's agreement. This means the tax policy and procedure is not clear and simple to use for the largest number of taxpayers.

The mean score of tax authority provide useful and accurate information to taxpayers to inspire compliance is 2.30 and standard deviation is 0.72. The level of agreement is low among

respondents response but also that, the greater part of respondents were not agree. Therefore, most of taxpayers didn't get useful and accurate information from tax authority.

The mean score of respondent for whether tax authority collection procedure is simple and transparent to encourage voluntary compliance is 2.27 while standard deviation is 0.73. This illustrated that, almost half or medium of respondent are agree but on the other hands, half of results among respondents response are not agreed. This means almost fifty plus one of respondents does not believe that simple and transparent collection system of tax authority.

The mean score asked to respondents on whether increase tax transparency can encourage greater voluntary compliance by taxpayers is 3.76 and standard deviation is 0.72. This showed that, the level of agreement is high among respondents that means the majority of respondents believed that transparency of tax can be encourage volunteer taxpayers.

The residual statement of mean score of whether tax information should be publicized by tax administration itself of through the media of communication is 4.28 and standard deviation is 0.56. The result confirms that, the level of agreement is highest among respondents. As can be understood those the uppermost of respondents were believe that the tax administration related information should be publicize because it has significant role to taxpayers.

On the basis of the overall statement results in the above table, that transparency of tax administration is poor in terms of providing accurate and relevant information to taxpayer and also to provide simply and clearly tax policy and procedure and also clearness of tax collection procedure moreover, by the cause of this the large business taxpayers were not inspire to tax compliance.

4.4.   Multiple regressions Analysis

In conformity with (Ho, 2006), multiple regressions is a statistical technique through which one can analyze the relationship between a dependent or criterion variable and a set of independent or predictor variables. As a statistical tool, multiple regressions are frequently used to achieve three objectives.

> ➢ To find the best prediction equation for a set of variables; i.e., given X and Y (the predictors), what is Z (the criterion variable)?

- ➢ To control for confounding factors to evaluate the contribution of a specific variable or set of variables, i.e., identifying independent relationships.
- ➢ To find structural relationships and provide explanations for seemingly complex multivariate relationships, such as is done in path analysis.

Multiple regression analysis is conducted to identify determinants of large business taxpayers' non tax compliance. The predictor variables for the regression analyses were complexity of tax structure, quality service of tax authority, compliance cost by taxpayer, transparency of the tax system, taxpayer knowledge and fairness of tax system.

Based on this study conducted a test of four assumptions underlying the regression analysis, namely, normality, linearity, homoscedasticity and multicollinearity, revealed that no assumptions for multiple regressions were violated.

The outputs of multiple regressions are shown in Model Summary Table 8, the results show that Model accounted for The R Square represented the measure of variability in tax Compliance that is accounted for by the predictors (independent variables which include complexity of tax structure, quality service of tax authority, compliance cost by assessee, transparency of the tax system, taxpayer knowledge and fairness of tax system). From the model, (R Square = .162) shows that all the predictors account for 16.2% variation in tax Compliance.

Table: 8

Model Summary[b]									
Mo del	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.403[a]	.162	.124	.59623	.162	4.262	6	132	.001

a. Predictors: (Constant), TRSPY, TCCT, TSR, TFRS, QLSRV, TKWG

b. Dependent Variable: TAXCOM

As can be observed from table 9, the p-value of F-test is statistically significant which means at p-value of zero to two decimal places, the model is statistically significant.

The F- test was 4.262 and also p-value associated with the F value is small (.001) and when compared with our alpha level of 0.05 we can conclude that the independent variables reliably predict the dependent variable. If the p-value were greater than 0.05, we would say that the group of independent variables do not show a significant relationship with the dependent variable, or that the group of independent variables do not reliably predict the dependent variable (Samuel, 2011).

Table: 9

ANOVA[b]					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9.090	6	1.515	4.262	.001[a]
Residual	46.924	132	.355		
Total	56.014	138			

a. Predictors: (Constant), TRSPY, TCCT, TSR, TFRS, QLSRV, TKWG

b. Dependent Variable: TAXCOM

The coefficients for each of the variables as shown in table 10, indicates the predictor variables (Adjusted R Square) explained almost 12.4% of the variability in the tax compliance of large business taxpayers. Taxpayer knowledge (t= 1.885, p<0.05), quality service of tax authority (t= .743, p<0.05), and transparency of the tax system (t= 2.875, p<0.05), were found to be significant determinants of large business taxpayers tax compliance their tax liability.

Knowledge of taxpayer, quality service of tax authority, and transparency of the tax system were positively related to tax compliance. This findings support previous studies of (Mekonen, 2015); (Oladipupo and Obazee, 2016); (Palil, 2010); (Redae, et al., 2015 - 2016) and (Chebusit, et al., 2014), which evidenced that knowledge; quality service and transparency have a negative effects on compliance. The rest variables such as tax compliance cost, tax system structure and fairness of tax system were not significantly correlated with tax compliance at the time of this study. But some other studies found contradicting results, such as a tax system structure are factors that significantly affect tax compliance of large business taxpayers (Tehulu and Dinberu, 2014): (Ahmed and Kedir, 2015) and (Saad, 2011).

Table: 10 Estimates of coefficient results summary by multiple regressions

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.524	.649		2.348	.020		
	TCCT	.123	.103	.097	1.196	.234	.962	1.039
	TSR	.033	.126	.022	.264	.792	.882	1.134
	TKWG	.227	.121	.181	1.885	.048	.690	1.450
	TFRS	.003	.124	.002	.022	.983	.709	1.410
	QLSRV	.074	.099	.067	.743	.045	.781	1.280
	TRSPY	.380	.132	.257	2.875	.005	.796	1.256

a. Dependent Variable: TAXCOM

Multicollinearity

According to (Ho, 2006), Multicollinearity refers to the situation in which the independent/predictor variables are highly correlated. When independent variables are multicollinear, there is "overlap" or sharing of predictive power. Multi co linearity test checked by a system called variance inflation factor (VIF). The results in Table 10 report a mean VIF of 1.3, which is much lower than the limit of 10. The VIFs for individual variables is also very low and this model of study is free from multi co linearity problem.

Figure: 6 **Normality test by multiple regressions**
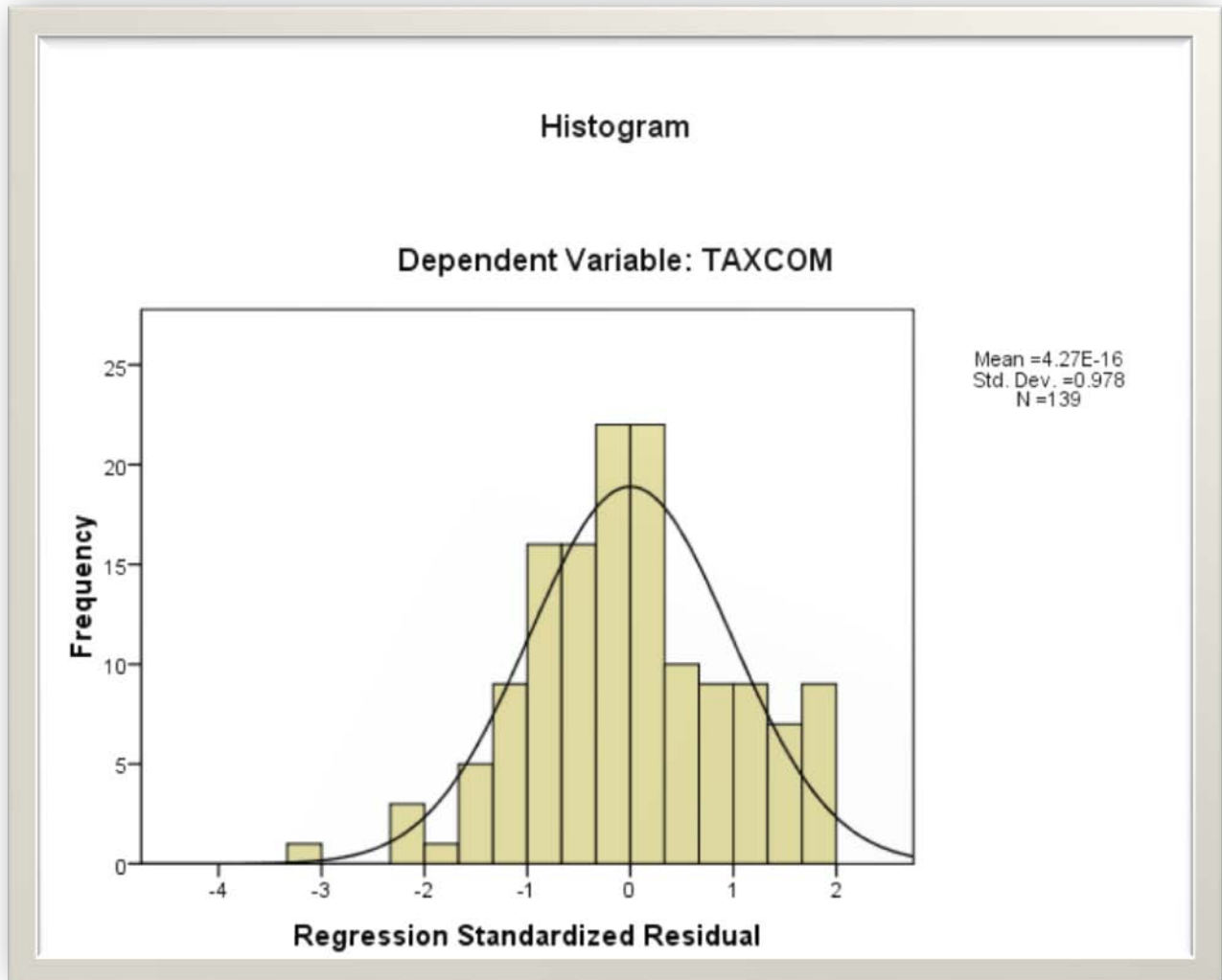
According to (Park, 2006), Statistical methods are based on various underlying assumptions. One common assumption is that a random variable is normally distributed. In many statistical analyses, normality is often conveniently assumed without any empirical evidence or test. But normality is critical in many statistical methods. Normality distribution tends to fall closely along the straight line. This study can be confirmed by visual inspection of the histogram of survey result from SPSS that model is free from normality problem.

Chapter Five

Conclusion and Recommendations

This chapter provides the conclusions and recommendations in line with the findings of the study. The chapter is structured in two sections. The first section deals with conclusions whereas the second section presents some recommendations suggested as a solution to problems that have been identified in the study.

5.1. Conclusion

The primary objective of this study was to gain insight into the influence of some possible causes that affect of large business taxpayer's tax compliance in Ethiopia particularly Addis Ababa city administration. Based on an objective analysis of data and discussion of findings, the following are the summary of major findings and conclusions.

The findings of this study revealed that most of the identified factors influence on the tax compliance of large business taxpayers'. The identified factors that might have affect tax compliance include affected by complexity of tax structure, quality service of tax authority, compliance cost by assessee, transparency of the tax system, taxpayer knowledge and fairness of tax system.

The results revealed that knowledge of taxpayer, quality service of tax authority, and transparency of the tax system significantly correlated with tax compliance of large business taxpayers.

> ➢ With regard to knowledge of taxpayers, large business taxpayers with a lack of knowledge tended to influence on tax compliant their tax liability. Knowledge of taxpayer is positively related to tax compliance. According to the rules and regulation of Ethiopian Revenue and Custom Authority, every tax payer should know their rule, regulation and procedure. Among other things portion of business income tax payers have understood the tax system of Ethiopia in some conditions but still they have difficulties to understand the tax system of the country.

➢ With regard to quality service of tax authority, the tax authority service with inferiority tended to influence to be non compliance of their tax liability. The quality service of tax authority is positively related to tax compliance. Moreover, the findings indicated that inadequacy service delivery of tax authority to taxpayers in terms of adequate and timely service, quickly and properly operating, ethical skilled manpower and technology development have great impact to be inspiring taxpayer's tax compliance.

➢ With regard to transparency of the tax system, the transparency of tax authority tax system is positively related to tax compliance and also more significantly correlated with tax compliance. The low compliance and non-compliance rates increased by transparency of the tax authority tax system in terms of unclear collection procedure, complexity of policy and procedure and unpublicized relevant information to taxpayers.

On other hands, in this study, other variables such as compliance cost by assessee, structure of tax system and fairness of tax system appear to be not significantly correlated with tax compliance decisions, even though previous studies in the country and other countries found structure of tax system has significant association's tax compliance (Alabede, et al., 2011); (Helhel and Ahmed, 2014).

Moreover as per study conducted by Tehulu and Dinberu (2014); (Palil, 2010) fairness of tax system has significant relationship with tax compliance but the find of this study does not indicate relationship. Tax compliance cost has significant relationship with tax compliance as per study of (Kibret, 2016); (Chebusit, et al., 2014) and (Sapiei, Kasipillai and Eze, 2014) but not in this study.

5.2. Recommendations

Based on the findings in this study, the researcher hereby make some recommendations that are suggested as a solution to mitigate problems of tax compliance of taxpayers so that to improve and increase level of voluntary taxpayers tax compliance and to meet the revenue needs of the government of Ethiopia. Therefore, this study has tried to provide briefly the following recommendations:

➢ The tax authority (ERCA) accordingly take into account to boost the tax payers̓ knowledge to help tax compliance in the future to reduce tax non compliance and give attention to tax education and awareness creation about tax policy and procedure. Tax knowledge could potentially encourage tax payers to be more prudent in completing their tax returns.

➢ A service of tax authority needs to be improved by quality service in terms of deliver relevant and sufficient information, quickly and properly service, provide consulting assistance to create know haw, well organized a service activity by ethical skilled manpower with technology development and also create good relationship between them. Among other things, the tax authority provides customer service training to their staff to improve and delivery quality service for their customer satisfaction with comply their tax liability.

➢ Transparency of tax authority tax system shall be improve in terms of simple and clear to be comply with policy and procedure, provide useful and accurate information, understandable collection procedure and establish more information desk to help and encourage voluntary taxpayer. Moreover, the tax information needs to be publicized by tax administration itself or through the media of communication.

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Appendices!

Appendices 1 Large business taxpayers' survey *instrument (English V.)*

St. Mary's University
School of Graduate Studies
MBA in Accounting and Finance
Inquiry for taxpayers

Dear Respondents,

This study is entitled **"Determinants of Large Business Taxpayers Tax Compliance in case of Addis Ababa City Administration"** and conducted in partial fulfillment of the requirements for the master's degree of MBA in Accounting & Finance at St. Mary's University.

The aim of the study is to identify and understand the determinants of large business taxpayers' tax compliance in case of Addis Ababa City administration. The outcomes of this study will help policy makers and tax authorities, particularly Ethiopian Revenue and Customs Authority (ERCA), with a deeper understanding of Tax Compliance of Large Business Taxpayers**.** Therefore, this research is intended only for academic purpose authorized by the St. Mary's University.

Your honest response and valuable support in responding to the questions raised is importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. Thus, your ideas and comments are highly honored and kept confidential.

I thank you in advance for your cooperation

For further information, please contact **Ato Teklemariam Girma** by the following address:
Tel: 0911-47-70-45 E-mail: beku.girma@gmail.com

Section I: Respondent's Background

1. What is your main business sector?

   a. ☐ Manufacturing   d. ☐ Mining

   b. ☐ General merchandising & trade   e. ☐ Construction

   c. ☐ Services (secretarial, maintenance, food & beverage, etc.)

   f. ☐ Others, please specify..

2. Please indicate the legal form of your business.

   a. ☐ Sole proprietorship   c. ☐ Privet limited company

   b. ☐ Partnership   d. ☐ Share company

   e. ☐ Others please specify..

3. What is your level of education?

   a. ☐ 12 grade completed   d. ☐ Bachelor degree

   b. ☐ Certificate   e. ☐ Masters or above

   c. ☐ Diploma   f. ☐ Other, please specify……..

   ………………………………………………………………………………………

4. What is your position in the company?

   a. ☐ Owner's   c. ☐ Employees

   b. ☐ Manager   d. ☐ Other, please specify

   If your answer is Employee, please tell us your position …………………………………..

5. Please indicate, how long your company has been in business?

   a. ☐ Less than 1 year   c. ☐ 6-10 years

   b. ☐ 1-5 years   d. ☐ More than 10 years

Section II- Factors influencing taxpayers tax Compliance

Please tick (√) on your choice

6. **Tax compliance –** tax compliance of business taxpayers. Please indicate to what extent you agree with each of the following statements**:**

No. Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1 I feel morally obliged to honestly declare all my tax liabilities on time					
2 I feel good while obeying for tax law and procedure to declaring and paying honestly					
3 I did report my exact income on time					
4 I file my returns and pay timely the amount due					

7. **Tax compliance cost –** tax compliance cost affects compliance of business taxpayers. Please indicate to what extent you agree with each of the following statements**:**

No. Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1 The complexity of tax system results for taxpayers incurring tax compliance cost					
2 The taxpayers are spent high tax compliance cost and times to tax comply					
3 Burden of compliance costs of large business taxpayer in terms of staff time, professional fee and pay to external assistance are affect to tax compliance					

No.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
4	The complexity of tax administrations (e.g., multiple taxes, several different bases, requirements for multiple filings per year, etc.) is increases tax compliance costs					
5	I feel high tax compliance cost discourage the taxpayer compliance					

8. **Structure of tax system** – tax structure affects tax compliance of business taxpayers.

Please indicate to what extent you agree with each of the following statements**:**

No.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The structure of tax system is affect to tax compliance of taxpayer					
2	I feel the tax authority stability of tax system helps to encourage tax compliance					
3	I feel the overall structure of tax system is equitable					
4	I believe that the current structure of tax system encourages voluntary tax compliance?					
5	The tax authority creating awareness for taxpayer about their tax structure to improve tax administration system and there for tax compliance					

9. **Knowledge of tax system** – tax knowledge affects tax compliance of business taxpayers.

Please indicate to what extent you agree with each of the following statements**:**

No.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	I feel that taxpayers have enough knowledge on tax compliance					

No.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2	The authority given training on the Ethiopian tax law and its procedure to taxpayer to build tax compliance knowledge					
3	I am able to interpret taxation laws when computing taxes					
4	I feel that every taxpayer have knowledge an obligation to fill a tax return form and calculate his own tax liability					
5	I believe that tax authority awareness creation program is help to known of tax law and tax comply when you get a service					

10. Fairness of tax system – tax fairness affects tax compliance of business taxpayers.

Please indicate to what extent you agree with each of the following statements:

No.	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	I feel while the tax burden imposed upon large business firms is fair					
2	I believe that a fair tax system would inspire tax compliance of taxpayer					
3	Every large business pays fair tax under the current income tax system					
4	I believe that the tax system is fair and encourages business taxpayers' to properly pay their tax compliance					
5	Do you agree there is fair tax among similar businesses in same proximity?					

11. **Quality service of tax authority** – the quality service of tax authority affects tax compliance of taxpayers. Please indicate to what extent you agree with each of the following statements:

No. Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1 The tax authority Provide adequate and timely services for taxpayers to encourage tax compliance					
2 I feel that the tax collection system by the authority is operating quickly and Properly to encourage compliance					
3 The tax authority well organized by ethical skilled man power and technological development to inspire compliance					
4 I feel that the Tax authorities provide reliable service to assure voluntary compliance					
5 The tax authority provides consulting assistance service to encourage and help accomplish voluntary compliance					

12. **Transparency of tax system** – the transparency of tax authority affects tax compliance of taxpayers. Please indicate to what extent you agree with each of the following statements:

No. Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1 The tax policies and procedure are clear and simple to comply					
2 The tax authority provide useful and accurate information to taxpayers to inspire compliance					

3	I feel that the tax authority collection procedure is simple and transparent to encourage voluntary compliance					
4	Increased tax transparency can encourage greater voluntary compliance by taxpayers					
5	The tax information should be publicize by tax administration itself or through the media of communication					

13. If you have any comment or suggestion, please specify about factors affecting tax compliance of taxpayers…………………………………………………………………………..
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14. Please state your possible solutions about how to improve taxpayer's tax compliance
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I thank you very much for your cooperation!!!!