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**Taxpayers' perception towards:
Tax fairness, tax knowledge and tax complexity
of Bole sub city category "B" business profit
taxpayers**

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DECLARATION

I, the undersigned, declare that this thesis is my original work; prepared under the guidance of A/Professor Asmamaw Getu. 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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Abstract

Tax fairness is essential for a tax systems as tax system that have been perceived as fair leads to a high degree of voluntary tax compliance. Tax fairness issues encompass a number of tax fairness dimensions and other fairness affecting factors. If all tax fairness dimension and other affecting factors negatively interpreted by taxpayers, it could lead to the negative perceptions of the tax system by the taxpayers. Good understandings of business profit taxpayers' fairness perceptions help the tax authorities to improve the tax system in order to narrow the tax gap, encourage business profit taxpayers' compliance and consequently mobilize adequate tax revenues. Although past studies on tax fairness issues widely conducted in developed countries, literature and data concerning this topic are still scarce in Ethiopia.

This study was conduct on Taxpayers' perception towards fairness specifically on Bole sub city category "B" business profit taxpayers. The study was conducted on business taxpayers' in Bole sub city including trader (wholesaler and retailers), manufacturers and service providers. The research followed mainly qualitative (literature review), and quantitative (survey) methodology. A questionnaire was developed asking about background of respondents and the respondents opinions about tax fairness, tax knowledge, tax complexity and potential measures to improve the tax system. The data for this study was collected from a sample of 149 Category B business profit taxpayers' in Bole sub city by means of questionnaires collected during the period April 27- May 15, 2017.

The results show that Bole sub city category B taxpayers' perceive that the tax they are paying is unfair and they believe that they will not be caught when evading tax. Regarding to tax knowledge, even if most of the respondents' believe that they do not have a problem with completing and filing the tax return, they described the need of professional assistance to do that. Although most of the respondents' mentioned the complexity of business profit tax system, they also mentioned that the tax office makes sure to have the necessary information available to take decisions. The demography of the respondents shows that female, educated and young respondents dominated the survey, which indicates the increase in the involvement of the women and young generation in the business and in the tax system. Furthermore, the result of the study showed that most of the respondents agreed with the importance of taking measures to improve the existing tax system. This study highlighted the significance of improving the tax system by educating taxpayers', educating tax collectors to increase tax collection efficiency, develop simple and transparent tax collection systems, provide valuable information to taxpayers', building trust and confidence with taxpayers' to increase the positive perception of taxpayers' towards fairness.

Keywords: *Bole sub city category "B" business profit taxpayers; Ethiopia; Factor analysis; Qualitative analysis; Taxpayers' perception towards fairness, , Bole sub city category "B" business profit taxpayers,*

Chapter one

Introduction

1.1 Background of the study

Tax is an important source of government revenue to finance expenditures on goods and services that can help to create employment, fight inflation and stimulate economic growth. Fairness of the tax system is one essential element for tax compliance. Fairness is a prerequisite for legitimacy of the tax system as it affects willingness to pay or evade taxes directly or via trust in authorities and system legitimacy (Kazemi 2008). Fairness is also the most challenging since it means different things to different people. For example, taxpayers' may evaluate the fairness of the tax system based on their tax burden, tax-funded benefits and avoidance/evasion opportunities (Wenzel 2003).

Taxation involves numerous considerations of justice or fairness, that includes perceived fairness¹ of outcomes (e.g. Tax burdens and tax funded benefits), fairness of the procedures and treatment (e.g. Rights and respectful treatments), and fairness of sanctions (e.g. Punishments and amnesties). Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from government and/or in relation to their earlier tax burden and/or what other taxpayers are paying (Ahmed and Kedir 2015). Attitudes about the tax system and perceptions of fairness are naturally influenced by the knowledge of taxpayers' and tax authorities about the tax system. It is best practice for revenue agencies to provide taxpayers with detailed information on the tax system and how to comply with the obligations, including making returns, payment modalities, and sanctions relating to non-compliance (Mukasa 2011). Jakson and Milliron (1986) has argued that tax knowledge has two aspects, namely, the general knowledge through common or formal education received on the tax system and knowledge specifically directed at possible opportunities to tax evasion² opportunities. Complexity of the tax system is argued to have adverse impact on tax administration, tax compliance and compliance costs. Complexity is caused by ambiguity of tax laws, poorly drafted rules, complicated and time consuming administrative procedures, complicated bureaucratic procedures, lack of

¹ Perceived fairness refers to an individual's sense of how fair or unfair a particular action is.

² Tax evasion refers to illegal practices to escape from taxation.

professionalism in the tax administration, and in the process of favoring certain taxpayer groups and activities (Das-Gupta and Chattopadhyay, 2002; Pope 1994).

Alm and Torgler (Alm and Torgler 2011) discussed that fairness perception as an individual-based ethical dimension that impacts taxpayer behavior and voluntary tax compliance. Understanding taxpayers' attitude and behaviors toward voluntary compliance during developing tax policies and strategies is constructive to tax authorities which contributes to the sustainability of the taxation systems (Azmi and Perumal 2008; Ahmed and Kedir 2015).

Country specific dimensions of taxpayers' perception of the fairness is very important, as taxpayers perceptions depends on different factors (such as cultural, ethical, honesty, integrity, political and legal issues) which widely varies between countries (Serkan Benk et al. 2012). Although past studies on tax fairness issues widely conducted in developed countries, particularly in Australia, Canada, New Zealand, and USA, there have been relatively few studies performed in developing countries (Anna and Kamala 2008; Serkan et al. 2012; Abubakari and Adafula 2013).

Tax has a long history in Ethiopia, but the modern tax system began in early 1940s. Beginning with the establishment of a separate tax administration body in 1995, successive reforms were undertaken in the organization of tax administration and establishment of the Ethiopian Revenues and Customs Authority (ERCA) in 2008. Tax is collected by federal, state or regional governments. In Ethiopia, the tax revenue covers over 70% of the total government expenditure (Yesegat and Fjeldstad 2016; Abay 2010). There are two categories of taxes imposed by government, namely direct taxes and indirect taxes. *Direct taxes*³ are taxes including employment income tax, rental income tax, business profit income tax, agricultural income tax, and taxes on royalties and chance winnings, while *indirect taxes*⁴ are mainly composed of value added tax (VAT), excise tax, custom duty and turn over tax.

³Direct taxes refers to taxes paid directly to the government based on what the individual earns

⁴ Indirect taxes are indirectly paid taxes by the final consumer of goods and services.

Despite all the tax reform measures taken, the behavioral aspects of tax compliance decision making issues of income tax payers has not improved quite considerably over the last decade. For example, the share of direct taxes has declined from about 40% in the period 1979–80 to 1991–92 to about 34% during 1992–93 to 2007–08 and continuing to decline (Abay 2010). Furthermore, the tax-to-GDP ratio (11%) is lower than the average for developed countries tax systems (25-35%), developing countries (18-25%) and even of the Sub-Saharan average tax system (16%) (Abay,2010). Here it should be noted that, even if tax to GDP ratios are not completely comparable because of differences among countries with respect to the definition of tax base and rates, administrative capabilities and level of taxpayers' awareness, such a comparison can be made in practice and used as indicative although not conclusive (Yesgat 2009). Accordingly, assessing the tax burden of the Ethiopian government in comparison with the Sub-Saharan African average indicates that the tax revenue performance of the Ethiopian government is low. The existence of high-level noncompliance assumed to be caused by the application of excessive enforcement mechanisms and ignoring the behavioral aspects of tax compliance decision making issues of income taxpayers such as tax fairness is described as the main reason for the low level of tax income, especially the business income tax, (Belay and Viswanadha 2016). In Ethiopia, like other developing countries, only limited studies performed on tax fairness perception, especially on business profit taxpayers' (Tessema in 2015, Samuel Alemnew Belay and P. Viswanadham in 2016).

Hence, Taxpayers' perception toward fairness of tax system is one of the factors that enable the government to achieve its goals and programs. Besides, it reduces the country's dependability on the foreign loan and donations.

1.2 Statement of the Problem

A government should finance its expenditure using both domestic or internal sources (such as tax, non-tax, domestic loan) and external sources (including external loans and grants). Although tax is the major financial source in developed countries, in Ethiopia, the government raise significant amount of revenue through loans and grants due to serious problems in developing adequate tax systems that allows the government to sufficiently finance its expenditures. Tax

revenue contribution to GDP is about 11%, which is considered one of the lowest, even compared to the Sub-Saharan Africa average of 18% (Abay 2010). This can be due to lack of clear understanding of taxpayers' about the tax system, taxpayers' negative perception of the tax system and tax benefit, hostility between the taxpayers' and tax authorities and lack of confidence in government spending (Debere 2014). In a recent analysis of the Ethiopian Tax System, taking the revenues collected by the City Administration of Addis Ababa as an example, the Government has identified huge discrepancy among the income tax collected from employees compared with other income earners like business owners (Gemechu, 2014). The Government has noted that most of the revenues of the city came from direct tax collected from wages and salaries due to withholding schemes, whereas the lower income collected from other sectors including businesses profit tax is due to taxpayers' underreporting their income.

The low tax to GDP ratio suggests that the government could improve its tax revenue raising capacity. Good understandings of business profit taxpayers' fairness perceptions will also help the tax authorities to improve the tax system in order to narrow the tax gap, encourage business profit taxpayers' compliance and consequently mobilize adequate tax revenues. Although the topic of taxpayers' perception and compliance has evoked great attention among many Revenue Authorities in developed countries, literature and data concerning this topic are still scarce in Ethiopia. Besides, very limited work has been done with the objective of assessing the business profit taxpayer's perception toward fairness of tax system.

1.3 Research objectives

The overall objective of the study is to investigate the business profit taxpayers' perception towards fairness.

Specific objectives

- Explore the reason for complaints about tax system specifically categories B business profit taxpayers.
- Assesses the factors affecting taxpayers' perception toward fairness of the tax system.

- Examine the effect of business profit taxpayers' fairness perception, tax knowledge and tax complexity on business profit taxpayers' perceived tax fairness and compliance.

1.4 Research questions

Based on the objective of the study, the following specific research questions (RQ) were developed.

RQ1. What is the reason for complaints by business profit taxpayers towards the tax system?

RQ2. What are factors affecting taxpayers' fairness perception?

RQ3. How taxpayers' perceptions, tax knowledge and tax complexities affect taxpayers' fairness perception?

1.5 Scope and limitation of the study

The scope of the study is limited to category "B" business profit taxpayers' perception toward fairness of the business profit tax system. The study was conducted on business taxpayers' in Bole sub city including trader (wholesaler and retailers), manufacturers and service providers. The research followed mainly qualitative (literature review), and quantitative (survey) methodology. The data for this study was collected from a sample of 149 Category B business profit taxpayers' in Bole sub city by means of questionnaires collected during the period April 27- May 15, 2017. Any of the analysis and finding of this research will be confined only to the selected Category B taxpayers' in the selected case study area. Thus, the thesis does not include other sub cites and categories due to time and budget constraint.

1.6 Significance of the Study

The finding of this study will serve as input for tax authorities and other decision makers at various governmental levels (e.g. regional or local) to understand the taxpayers concerns and perception on tax system and improve tax system and tax policies. The output of the study can also be used to assess and improve the competences of service personnel's, ethical issues and decision making process in revenue offices, in order to increase taxpayers' willingness to comply

with tax laws. To the taxpayers', this study provides an insight into tax system and enhances their knowledge and fairness attitude so as to encourage their compliance and they will be benefited from an improved tax system. Besides, it can be used as an input for other interested researchers for conducting further study.

1.7 Organization of the study

This thesis is organized in to five chapters. Chapter one comprises of the background of the study, the statement of the problem which tells about the research gap and justifies the need for the research, the research questions which lead to hypotheses, the significance, scope and limitation of the study which summarizes the way the research proposal is organized. Chapter two reviews the theoretical backgrounds and empirical literatures related to the study. Chapter three outlines the methodological approach applied in the study, whereas the results and main findings of the study are presented in Chapter four. The main findings and contribution of the study as well as recommendations for further study is summarized in Chapter five.

Chapter two

Literature review

2.1 Theoretical Review

2.1.1 Fair tax system

A fair tax system should be designed considering a balance between the interests of the taxpayers' and the tax authorities. Most people agree that a fair tax system should ask taxpayers to contribute to the cost of public services based on their ability to pay. 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 (Chau and Leung, 2009).

Economists typically measure the equity of a tax system or a particular tax based on the percentage of a family's income. One way to strive for tax fairness is to "treat equals equally" i.e. two taxpayers with equal ability to pay should pay the same amount of tax. This perspective on tax fairness, known as horizontal equity, is quite intuitive. A second principle of tax fairness arises is called vertical equity, often described as (Wenzel, 2003):

- Progressive when higher-income households pay a larger share of their incomes in taxes.
- Proportional, or "flat," when the share of income paid in taxes is the same at all income levels, regardless of how much or how little households earn; or
- Regressive when lower-income households pay a larger share of their incomes in taxes.

Some people argue – and public opinion research suggests that many people believe – that proportional, or flat, taxes are the fairest, since everyone pays the same tax rate. However, this argument does not account for the fact that lower-income households spend most or all of their incomes on necessities, while higher-income households have more discretionary income and can afford to pay more in taxes without cutting into what they can spend on shelter, food, health care, and other basic needs.

2.1.2 Tax fairness perceptions

Tax fairness is a very important factor influencing taxpayers' compliance. Previous studies indicate that fairness perceptions can take various forms. Adams (1965) suggests that Equity Theory comprises two dimensions of fairness namely reciprocation and allocation. Reciprocal equity, or exchange fairness, based on the premise that one would only respond fairly if the other party acts fairly to them. In other words, a person will perceive a system as fair if the benefit he/she receives equals their contribution, and vice versa. In contrast to reciprocal fairness, allocation fairness (which is also known as indirect exchange) only involves a one-way distribution of resources across a group or circle of recipients.

Porcano and Price (1992) suggest that traditionally equity theory indicates two types of fairness within a tax system: (1) horizontal equity and (2) vertical equity. Horizontal equity refers to providing equal treatment to equally circumstanced individuals, i.e. taxpayers of similar economic positions should pay the same amount of tax. Vertical equity refers to giving a suitable differentiation among unequal persons in that group. That means those who are rich should be treated to pay higher than lower groups of income earners.

K and Sawyer, A. (2010) found that taxpayers adjust their perceived inequalities through tax evasion. This shows the importance of addressing other fairness or justice factors apart from equity aspect of tax fairness dimensions claimed by equity theory since the fulfillment of tax obligations is an issue of fairness. Kazemi (2008) developed multi-faceted fairness framework of taxation to explain and predict tax attitudes and voluntary tax compliance. The study proposes fulfillment of tax obligations to be an issue of fairness and perceived fairness of the tax system is assumed to play a paramount role in producing genuine acceptance of tax obligations and regulations. The framework proposed in the study related fairness and willingness to pay taxes with the following four justice aspects; distributive justice (how societal resources allocated), procedural justice (how tax decisions are made), interpersonal justice (how citizens are treated by the tax authorities/employees), and informational justice (how tax decisions and the legislation are explained and justified to the citizens) (Kazemi 2008).

Distributive justice: refers to the perceived fairness of the final outcome of a resource allocation event (e.g., a tax expenditure programme). That means, it refers to how societal resources (for

e.g. subsidies, education and Medicare) are allocated among citizens. This is presumably the dominant and most salient fairness aspect relevant to willingness to pay taxes. Three allocation principles are usually discussed in the justice literature: equity, equality, and need (Saad, 2010).

According to Kazemi (2008), the equity principle (requiring proportionality between an individual's inputs and outcomes should be proportional to his/her inputs) may be formulated in terms of amount of expended effort, ability, innate or achieved and productivity (i.e., the actual results accomplished).

The principle of equality (for which inputs are irrelevant) may be conceived in terms of equality of treatment refers everyone receives the same outcomes; opportunity indicate everyone has the same chance to receive and results shows everyone ends up with the same amount of resource in the long run, even though they may receive unequal shares.

The need principle can be conceptualized in terms of Biological means of survival like food, shelter, and air; Basic items and conditions which are considered a minimal standard of living in a given society as well as Functional means and tools required to fulfill one's function in society.

Procedural justice: targets the formal structural aspects of how tax decisions are made and may be assessed using multiple criteria including Consistency (equal treatment across persons, e.g., the same rules of taxation applies to all citizens including governmental officials); Bias suppression (refraining from self-interest and preconceptions, e.g., the tax agency cannot make prejudiced tax decisions); Accuracy (using all correct information available about the financial situation of individual taxpayers); Correct ability (opportunity for second opinions and modification of decisions, i.e., taxpayers should be provided an opportunity to get a second opinion if they believe that their tax return is faulty) and Ethicality (compatibility of the tax legislation with universal moral standards and values).

Interpersonal justice: targets the informal communicative parts of justice and has to do with whether authorities are perceived as considerate and respectful, treating the citizens with dignity (which do not incur any monetary costs, yet is quite effective in eliciting positive attitudes toward the tax agency and in the end for citizens' willingness to pay taxes).

Informational justice: focuses on the explanations for why certain procedures were followed or why certain decisions were made. Thus, it refers to the extent to which tax decisions are justified

and to the explanations that the tax agency employees offer when citizens ask about the legislation, their tax shares, and penalties.

Other concepts in this theoretical framework are uncertainty, trust, and legitimacy.

The review of studies performed by Saad (2010) identified seven important dimensions of taxpayers' fairness perception namely;

- I. **General fairness** relates to an overall fairness evaluation of the income tax system.
- II. **Exchange fairness** is concerned with reciprocal exchange between taxpayers and the government,
- III. **Horizontal fairness** deals with equal tax treatment among taxpayers in similar economic positions.
- IV. **Vertical fairness** is assessed based on the ability to pay principle and preference for tax rate structure, either a flat rate or progressive rate.
- V. **Retributive fairness** is concerned with the fairness of punishments imposed.
- VI. **Personal fairness**, leads to individuals' judgments about whether the income tax system is favourable to them.
- VII. **Administrative fairness** relates to the content of the tax law (policy fairness) and procedures employed by the tax authority (procedural fairness).

2.1.3 Tax compliance

Tax compliance is the willingness of taxpayers' to obey tax laws by true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due (Ahmed and Kedir (2015). Tax compliance may be seen in terms of tax avoidance and tax evasion (Tulu 2007). The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures.

In the contrary, tax noncompliance is individual failure to comply with their tax obligation. Tax noncompliance consists of three distinct types:

- **Filing noncompliance**: refers to non-filing of returns to the tax authority which will lead to tax gap i.e. the amount of unpaid taxes due foregone.

- *Nonpayment compliance*: refers to untimely taxes paid, that means payment not made on a timely manner to the tax authority. Timely tax payment is important to the tax authority. The dues received now will be used for the government's expenditure otherwise, the insufficient fund needs to be borrowed and incur additional cost.
- *Tax underreporting*; considered a criminal offence that imposes severe penalty. The taxpayer practices no reporting by way of evasion and avoidance; both are the same except that the latter is legal while the former is illegal. This area of noncompliance poses a serious problem to tax authority because these taxpayers' escape tax and their burden is pushed to the other complying taxpayers'. This is where the fair and equitable tax system is questionable.

According to James et al (2003), the degree of non-compliance measured in terms of the net tax gap (the difference between 'true' individual income tax liability and that finally collected on a voluntary basis or by enforcement action) which happens by means of both tax avoidance and tax evasion. Most tax administrators and taxpayers believed that, the growing dissatisfaction with the fairness of tax system is the major cause for increasing tax noncompliance (Chau and Leung, 2009). Tax noncompliance can reduce revenue, distort labor market and weaken state stability by feeding perception of cheating and fraud (Ahmed and Kedir 2015).

Literatures on tax compliance theory have identified some categories of factors that overlap each other in explaining tax compliance behaviour (Yesseget 2009):

- The *effectiveness of tax enforcement* (including the probability of detection and the size of fines);
- *economic factors and factors associated with fiscal policy and fiscal structure* (including ratio of direct to indirect taxes and growth of public expenditure);
- the *structure of government and constitution* (including the role of pressure groups and responsiveness of policymaking to public opinion); and
- the *perceptions and attitudes of taxpayers towards the other three influences*. The perceptions and attitudes of taxpayers category also includes *personal characteristics of taxpayers* such as their fiscal knowledge, social class, economic well being, risk aversion,

deference to authority, familiarity with and acquaintance to tax evaders, income, occupation, and personal tax-compliance costs.

Researchers from different disciplines have involved in studying tax compliance behavior and identified factors affecting tax compliance into three approaches namely economic, social and psychology factors (McKerchar 2001, Yeseget 2009).

The early researchers based their work on economic perspective of tax compliance and they identified tax rate, penalty and detection probability as factors influencing taxpayers' behaviour (Allingham & Sandmo, 1972). In the course of time, researchers realised that taxpayers' compliance behaviour is equally influenced by social and psychological factors and as a result, extended their studies to cover these factors (Fischer, 1992).

Jackson and Milliron (Jackson and Milliron, 1986) carry out a comprehensive review of the tax compliance literature and identify 14 key factors that have been studied by researcher on tax compliance. Fischer and associates (Fischer et al., 1992) categorized these factors into 4 groups (Fischer Model, see Figure 1) incorporates economic, sociological and psychological factors into a comprehensive one (Chau and Leung, 2009):

- i) ***Demographic (e.g. age, gender and education⁵)***: indirectly affect taxpayer compliance by their impacts on noncompliance opportunities and attitudes and perceptions.
- ii) ***Noncompliance opportunity (e.g. income level, income source and occupation)***: can affect taxpayers' compliance directly through income level, income source and occupation and indirectly through attitude and perception.
- iii) ***Attitudes and perceptions (e.g. fairness of the tax system and peer⁶ influence)***: can affect tax payers compliance through fairness of the tax system and peer influence.
- iv) ***Tax system/structure (e.g. complexity of the tax system⁷, probability of detection⁸ and penalties and tax rates)***: effectiveness of tax system is affected by complexity of tax system, probability of detection and penalties and tax rates.

⁵ Education relates to the tax payers ability to comprehend and comply or not comply with the tax laws (Jackson and Milliron, 1986).

⁶ ***Peers*** referred to taxpayers' associates, and include friends, relatives and colleagues (Jackson and Milliron, 1986).

⁷ ***Complexity of tax system*** include 2 dimensions, excessive detail in the tax rules and numerous computation required (Chau and Leung, 2009).

2.2 Tax system in Ethiopia

Ethiopian tax system in the recent past indicates, until the year 1992, had a central tax system (in line with the principles of a command economic system) where all tax revenues belonged to the central government (Yeseget 2009). The principal revenue organs were the Ethiopian Inland Revenue Authority and Regional Finance Ministry Offices. The Ethiopian Inland Revenue Authority had limited its tax administration duties to the capital city (Addis Ababa) delegating the Regional Finance Ministry Offices to administer various types of taxes in their respective regions on its behalf. Later in the fiscal year 1992/93, the Ethiopian government embarked on the path of a market oriented economy as opposed to a command economy for the preceding 17 years. This change coupled with the establishment of regional governments (with the enactment of Proclamation No. 7/1992) made the replacement of the central taxation system by federal taxation system inevitable. Following the establishment of regional governments, Proclamation No. 33/1992 (Definition of Sharing of Revenue between the Federal Government and Regional Governments) was enacted to differentiate revenues belonging to the federal and regional governments.

Business profit tax is the tax imposed on the taxable business income / net profit realized from entrepreneurial activity (Vadde 2014). Taxable business income would be determined per tax period on the basis of the profit and loss account or income statement, which shall be drawn in compliance with the generally accepted accounting standards.

According to the federal income tax proclamation no.979/2016, source of income has classified into four schedules: Schedules A (income from employment), Schedule B (income from rental of buildings), Schedule C (income earned from business) and Schedule D (other income not categorized in any of the three, e.g. Income from royalties). Schedule C type of tax system, which is the topic of this study, is further divided into three major categories, namely Category “A”, “B”, and “C” based on the volume of their sales, form of their business and annual turnover.

⁸ *Probability of detection* refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Tax audit represents one of the effective detective measures used by tax authorities.

Category "A" taxpayers' are composed of two groups. The first group comprises of those taxpayers whose annual turnover of Birr 1,000,000 or more. The second group comprises of any company incorporated under the laws of Ethiopia or in a foreign country is a category "A" taxpayer irrespective of their annual turnover.

Category "B" taxpayers' are those taxpayers with annual turnover greater than Birr 500,000 but less than Birr 1,000,000.

Category "C" taxpayers' are those taxpayers with annual turnover less than Birr 500,000. Small businesses their main types of business incorporated under this category.

For individual businesses, the business income tax ranges from 10%-35%. As per the income tax proclamation no 979/2016, individual businesses taxed in accordance with the computation given in Table 1.

Table 2.1: Computation of business profit tax*, in accordance with income tax proclamation no 979/2016.

Annual taxable business income (net annual profit in Birr)	Tax rate (payable income tax)	Deduction (Birr)
0-7 200	Exempted	-
7 201-19 800	10%	720
19 801-38 400	15%	1 710
38 401-63 000	20%	3 630
63 001-93 600	25%	6 780
93 601-130 800	30%	11 460
>130 800	35%	18 000

*An example of business profit tax computation for net profit of 19 801 is $19\ 801 \times 15\% - 1\ 710 = 1\ 260$.

2.3 Empirical reviews

Kazemi (Kazemi 2008) studied a multi-faceted fairness framework of taxation. He stated taxation fairness as not only related to the tax expenditure programme (distributive justice), but also to how tax decisions are made (procedural justice), how citizens are treated by the tax authorities/employees (interpersonal justice), and how tax decisions and the legislation are explained and justified to the citizens (informational justice).

Perception of fairness is mainly discussed as one of the determinant factor of tax compliance. Jackson and Milliron (Jackson and Milliron, 1986), in their earlier review of 43 tax compliance studies undertaken from 1974 to 1985, identified fourteen key variables of compliance behavior, which include: age; gender; education; income level; income source; occupation; peer influence; ethics; fairness; complexity; tax authority contact; sanctions; probability of detection; and tax rates.

Several studies show that tax knowledge is considered as one of the most influential factor, which determine taxpayers' voluntary compliance or noncompliance behavior. Richardson (2006) study on 45 countries, found that complexity as the most important determinant of non-compliance, apart from education, income source, fairness and tax morale.

White (1990) and Sawyer (1996b), discussed the complexity scenarios preferred by various groups of tax professionals. Belay & Viswanadham (2016) also mentioned the complexity of the income tax system had benefited none other than the accountants and lawyers.

Studies in different countries show that in developed countries, about 90% of governmental expenses is provided with tax income and ratio of tax income to gross national production (GNP) is about 25-30%, while this ratio, in developing and specially undeveloped countries, is 28% and 5% respectively (Reza and et al ,2011). On the other hand, there have been a relatively few studies covered tax fairness issues in developing countries (Anna A. Che Azmi and Kamala A. Perumal 2008; Serkan Benk et al. 2012; Abubakari Abdul – Razak and Adafula 2013), including Ethiopia (Tessema 2015, Samuel Alemnew Belay and P. Viswanadham 2016), especially in the case of business profit tax system. Ethiopia like many developing countries suffers from tax revenue loss due to tax noncompliance.

Tessema (2015) who analyzed Addis Ababa business profit taxpayers' tax compliance behavior, identified that the taxpayers' tax compliance behavior significantly affected by tax knowledge, feeling of fairness, the influence of peer groups, income level of taxpayers and detection & punishments variables, while confidence in government spending doesn't have as such significant impact on tax compliance behavior of businesses.

A study conducted by G/Meskel (2011) on fairness perception of Addis Ababa business profit taxpayers and its impact on their fairness perception of the income tax system concluded that they perceived the system as unfair. The study showed that Addis Ababa City business profit taxpayers did not perceive positively in respect of general, vertical, personal, exchange, and administration fairness except horizontal fairness on the prevailing business profit tax system. With regard to tax knowledge and complexity, the finding showed that, the taxpayers did not have sufficient knowledge and there were no easily understandable and vague procedures of the business profit tax system. The study also suggested improving tax policy and administration issues, educating the taxpayers' and creating awareness, and providing all necessary social service to the public, as well as maintaining the tax system fair and equitable.

Another study performed by Debere (2014) on Addis Ababa federal business taxpayers' satisfactions with the tax system also show dissatisfaction of the taxpayers'. The findings identified high compliance costs, a lack of clarity and access to information about tax regulations, arbitrary behavior of tax officials and a lack of transparency in the tax authority makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers. In addition, the study found that taxpayer are encountered a lot of inconveniences, including from misconduct of the tax officers like an impersonal, insensitive and heartless bureaucracy and imbalance between location and accessibility of the tax office with number of taxpayer.

The study performed by Tulu (2007) on Dire Dawa City taxpayers' voluntary tax compliance finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government as the main determinant of voluntary compliance in the city.

A study performed by Belay & Viswanadham (Belay & Viswanadham 2016) to evaluate the business income taxpayers' level of tax knowledge, perceived complexity of the income tax system and tax compliance issues in Amhara regional state of Ethiopia shows taxpayers' have inadequate technical knowledge and perceive the income tax system as complex. The result also revealed that tax knowledge and tax complexity as important factors towards non-compliance behavior among business income taxpayers'.

2.4 Knowledge gaps

The literature review reveals the existence of limited studies and knowledge gaps in tax fairness perception in general and business profit taxpayers' fairness perception in particular. According to 2014 Addis Ababa business profit taxpayers' data (Table 2), Bole sub-city represented the highest number of category B business profit taxpayers' next to Nifas Silk Lafto.

Table 2.2 : Number of Addis Ababa business profit taxpayers' as per their categories and respective sub-cities (Tessema 2015)

No	Name	Tax Payers-Category							
		A		B		C		Total	
		No.	%	No.	%	No.	%	No.	%
1	Arada	2,131	4%	4,882	10%	10,652	5%	17,665	6%
2	Gullele	2,943	6%	2,238	5%	18,357	8%	23,538	7%
3	Addis Ketema	1,723	3%	4,925	10%	12,045	5%	18,693	6%
4	Lideta	1,213	2%	2,366	5%	8,349	4%	11,928	4%
5	Bole	6,446	13%	5,211	12%	33,717	15%	45,374	14%
6	Kirkos	3,000	6%	2,500	5%	19,192	9%	24,692	8%
7	Akaki Kality	1,630	3%	5,067	11%	15,215	8%	21,912	7%
8	Yeka	4,302	9%	3,753	8%	31,177	14%	39,232	12%
9	Nifas Silk Lafto	3,954	8%	7,216	15%	33,150	15%	44,320	14%
10	Kolfe Keranyo	3,721	7%	4,019	9%	32,013	14%	39,753	12%
11	A.A. No. 1**	4,598	9%	-	-	-	-	4,598	1%
12	A. A.No.2**	5,187	10%	-	-	-	-	5,187	2%
13	Markato No.1**	3,582	7%	3,183	7%	4,955	2%	11,720	4%
14	Merkato No.2**	6,827	13%	1,640	3%	2,240	1%	10,707	3%
Total		51,257	100%	47,000	100%	221,062	100%	319,319	100%

To the knowledge of the researcher, there is no study performed on Bole sub-city Category B business profit taxpayers' fairness perception. Existing studies focused on tax compliance behavior and discussed perception of fairness as one of the determinant factor of tax compliance.

Tessema (2015), who studied Addis Ababa (including Bole sub-city taxpayers') business profit taxpayers' compliance behavior, claimed the study performed as the first of its kind for Addis Ababa city administration. However, the study focused on compliance behavior of business profit taxpayers (Category A, B and C) considering fairness perception as independent variable.

In addition, the finding from the study was not presented per each sub-city and per each taxpayer's category.

One study was performed on taxpayers' perception towards the fairness of business profit tax system through considering various tax fairness dimensions and other influencing factors in the case of Addis Ababa City Administration Business profit taxpayers' fairness perception (G/Meskel 2011). The researcher commented no single study on such issues especially in the case of business profit tax system. The study considered all business category business profit tax payers and lack presentation of the result per each sub-cities and per each taxpayers' category.

Chapter Three

Research methodology

3.1 Research strategy and design

This study incorporated both quantitative and qualitative research approaches in order to generate the advantage of both approaches. Using the two approaches helps to address different objectives of the study, which cannot be achieved by a single method; and to enable one approach to inform another approach, either in design or in interpretation. McKerchar (2010) argues that “each strategy has its strength and weaknesses and the drive for mixed method research is to use one strategy to inform, validate or compensate for the weaknesses of another”.

This study was conducted by designed questionnaire. The questionnaire is divided into four main parts, namely Part 1; respondents background, Part 2; perception of fairness, Part 3; tax knowledge and Part 4; tax complexity. Furthermore, additional questions related to possible measures that can be considered to improve the tax system is included. The questionnaire was designed in order to get an answer for the research questions defined under this study. All items under Part 2-Part 4 of the questionnaire was developed based on the 5-point rating scales, from strongly disagree (1) to strongly agree (5). In addition, respondents were also asked to provide demographic background information, including, gender, age, education level, annual income, business type and experience under Part 1 of the questionnaire.

3.2 Types of sampling techniques and data sources

Primary data was collected from sampled business profit taxpayers' through semi-structured questionnaires, and using accidental non probability sampling technique. Before the final version of the question was defined, a draft questionnaire was designed and pilot test was conducted by using it to a number of taxpayers' in order to check the understanding and completeness of the questions defined in the questionnaire.

The survey was conducted from April 27 – May 15, 2017. Moreover, data also collected from secondary data sources including scientific conference and journal articles, reports, internal audit

manuals, web pages, social Medias and other sources that are related to the topic under study. Thus, both primary (surveys) and secondary (literature) data sources were used to address the issues that are directly related to taxpayers' perception toward tax fairness. Questions in the survey referred to the two years periods in the 2008 and 2009 Ethiopian Fiscal year and taxpayers' that were not registered for the entire year were excluded from the sample frame.

3.3 Target population

The target population in this study are Category "B" business profit taxpayers' in Bole sub city, Addis Ababa, Ethiopia. According to the information got from some tax payers, the study the select Category B taxpayer because these taxpayers' have negative perception towards fairness of the tax system due to the subjective tax levy system procedure.

Addis Ababa is divided into 10 sub cities and 99 Wereda (see Figure 1). Bole is the largest sub city in size (with an area of 122.08 km²), and relatively lower population density (2691.1).

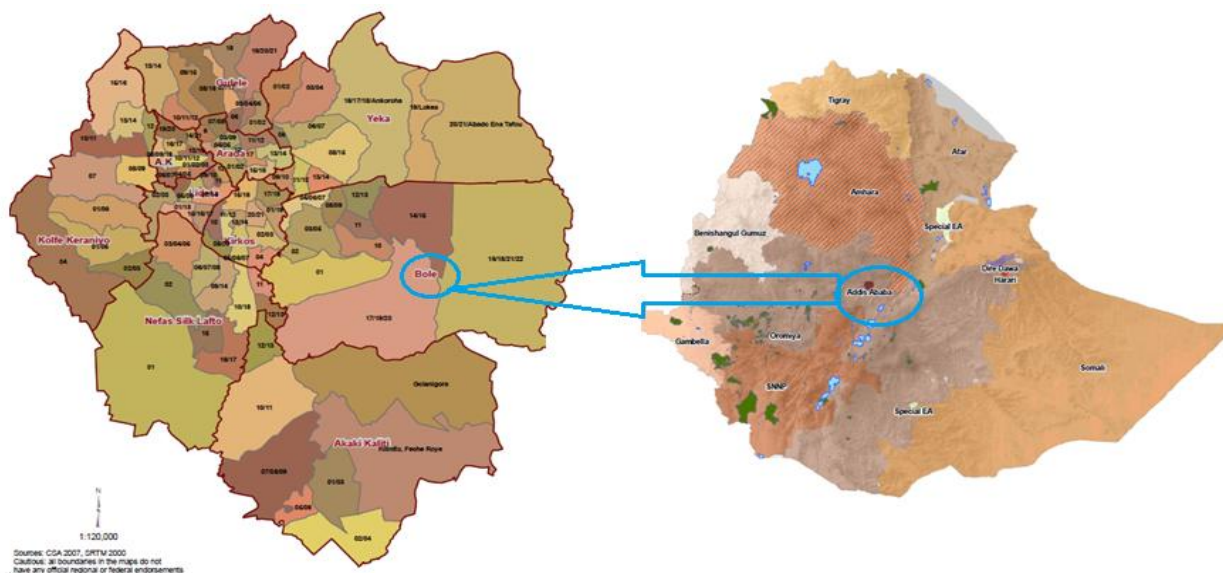


Figure 1 Addis Ababa city administration sub-cities and Wereda, adapted from (Statistical Agency, 2011)

According to 2015 total Category B business profit taxpayers' data obtained from Ethiopian Revenue and Custom authorities (ERCA), there are 6,892 registered Category B business profit taxpayers' in Bole sub city.

3.4 Sampling method and sample size

The choice of a sample size has a bearing on the reliability of a study. However, this does not mean that large sample size always leads to high level of accuracy rather it is to indicate that sample size is one of the factors that contribute to the credibility of a survey estimate. For the choice of sample size, different researchers follows different methodologies and judgments (Yesehat 2009; Debere 2014; Berhe and Sekhon 2016; G/Meskel 2011, Tessema 2015).

The researchers followed the principle of Fowler (1984) stated as "For a population, the level of precision increases steadily up to sample sizes of 150 to 200. After that point there is much more modest gain to increasing sample size." In addition, in order to obtain a high response rate to ensure the representatively of the sample (bearing in mind refusal to response rates and other reasons for failure to conduct survey), 10% (15) of the sample respondents were taken as contingency. Thus, the researcher selected a total of 165 sample size (including 150 samples and 15 reserves) out of the total population size 6892 Category B taxpayers.

Therefore, 165 questionnaires were distributed to different groups. In order to increase the representativeness of the sample, the potential respondents were accidentally selected to represent different taxpayers' groups in the Bole sub city including merchandise, manufacturing and service providers.

This study incorporated both quantitative and qualitative research approaches in order to generate the advantage of both approaches. Using the two approaches helps to address different objectives of the study, which cannot be achieved by a single method; and to enable one approach to inform another approach, either in design or in interpretation. McKerchar (2010) argues that "each strategy has its strength and weaknesses and the drive for mixed method research is to use one strategy to inform, validate or compensate for the weaknesses of another". The questionnaire was designed in order to get an answer for the research questions defined under this study.

3.5 Data processing and analysis

The data collected in this study was analyzed and interpreted using both qualitative and quantitative techniques which includes descriptive statistics and inferential statistics for the factor analysis part using tables and graphs. SPSS software version 21.0 was employed to

analyze the data. Then, after analyzing the data and proper interpretation, the findings were summarized. Based on the findings, conclusions and possible recommendations were included.

3.6 Validity and reliability of the data collection Instruments

Factor analysis section, reliability refers to the extent to which a scale produces consistent result if repeated measurements are made on the characteristics. Further, reliability has to do with the extent to which measures obtained by using a particular instrument are repeatable. There are a number of coefficients of reliability that can provide the researcher with a check on the quality of an instrument (Hair et al, 2002).

Even if the reliability of the questioner was tested by the developer of the model and in the pilot study of this research, for accuracy analysis and interpretation, its reliability is tested for the second time. According to Cortina (1993) when we use a likert scale data, the cronbach alpha coefficient used to check the reliability. In addition Kasier-Meyer-Olkin(KMO) measure of sample adequacy is utilized and to determine the factor affect the fair perception and compliant based on the variance method is implemented .

3.7 Measurement techniques

The measurement technique was developed based on relevant studies (Saad 2010; G/Meskel, 2011). The study considered 11 independent variables (three dimensions of tax knowledge, two dimensions of tax complexity and seven dimensions of fairness) to measure the perceived fairness of the tax system in Bole sub city, Addis Ababa (See Figure 2).

Eight questions were used to measure the seven dimensions of fairness, namely: *general fairness*⁹, *exchange fairness*¹⁰, *horizontal fairness*¹¹, *vertical fairness*¹², *retributive fairness*¹³, *personal fairness*¹⁴ and *administrative fairness*¹⁵ (See Annex 1, Table 1.1).

⁹ *General fairness* measures individuals' judgments whether the (income) tax system is generally fair or not.

¹⁰ *Exchange fairness* concerned with a reciprocal exchange between taxpayers and the government.

¹¹ *Horizontal fairness* considers equal tax treatment among taxpayers in similar economic positions.

¹² *Vertical fairness* assessed based on the ability to pay and preference for tax rate structure.

¹³ *Retributive fairness* deals with the fairness of punishments imposed.

¹⁴ *Personal fairness* concerns individual's self-interest.

¹⁵ *Administrative fairness* relates to the content of the tax law (policy fairness) and procedures employed by the tax authority (procedural fairness).

Four questions were developed to measure tax complexity using both content and compliance complexity (See Annex 1, Table 1.3) Content complexity relates to difficulty in understanding tax-related materials while compliance complexity concerns with taxpayers' difficulty to comply with their tax obligations. In addition, the questionnaire includes respondents' demographic information. Furthermore, eight additional questions were developed to evaluate possible measures that can be used to improve fairness of the tax system.

A five-point Likert-type scale, with values ranging from 1 (strongly disagree) to 5 (strongly agree), were used to measure fairness perception. The tax fairness and tax knowledge items were scaled such that a higher number reflects a fairer perception and higher tax knowledge, respectively, whilst, tax complexity was scaled such that a higher number corresponds to a lower level of tax complexity. The research model and construction of the questionnaire were modified through pre-testing.

Chapter Four

Results and findings

This chapter consists of presentation, analysis and interpretation of data gathered through primary and secondary data. Data was collected through a questionnaire prepared and distributed to assess taxpayers' perception towards fairness for the case of Bole sub city, Addis Ababa, category B business profit taxpayers. Out of 165 questionnaires (including 150 samples and 15 reserves) distributed and 149 respondents' filled out and returned the questionnaires. That means the response rate was about 99%.

4.1 General Background of Respondents

Under this section information about the general background of the respondents was collected including the demographic characteristics of respondents such as age group, gender and educational background. In addition to the above data's like respondents' position at the company year of service in the business, company main business area and the annual revenue of the company in the year of study and others issues are presented in this section.

Table 4.1 presents the gender and age group of the respondents'. It indicates that the gender share of the respondents are almost equal with females dominating with a share of 51.7 percent and while male respondents were about 48.3 percent of the sample size. Besides the table indicates that most of the respondents are within the age range of 20 and 29 years of age with the frequency of 43 percent, followed by respondents whose age ranges are 30-39 with a frequency of 25.5%. The next group ranges are 40-49 with 22.1 percent share. Among the age ranges specified in this study more than 60 years has the lowest frequency consisting 1.3 percent followed by the range 50 -59 years of age with 6 percent.

As to the press release of National Youth Policy, young age range is 14-35. Thus, it can be said that majority of the respondent engaged in the business are of young age.

Table 4.1 Personal background of respondents

Variables		Frequency	Percent
Gender	Male	72	48.3
	Female	77	51.7
	Total	149	100
Age group	<20	11	7.4
	20-29	64	43
	30-39	38	25.5
	40-49	25	16.8
	50-59	9	6
	>60	2	1.3
	Total	149	100
Educational background	Illiterate	5	3.4
	General secondary school or less	24	16.1
	Secondary school	29	19.5
	TVET certificate	26	17.4
	Diploma	33	22.1
	Degree	29	19.5
	Masters and above	3	2
	Total	149	100
Working Experience	< 1 year	41	27.5
	1- 5 years	60	40.3
	6 – 10 years	29	19.5
	>10 years	19	12.8
	Total	149	100

Source: own computation based on the questionnaire

In addition to the above points, Table 4. also shows that the majority of the respondents are found to be diploma holders with about 22.1 percent and followed by degree holders as well as secondary school both with equal share of about 19.5 percent each which makes about 63 percent of the respondents are basically secondary school and above. This indicates that most the respondents are more or less with better understanding of the phenomena which they acquire it in their professional experiences as well as from being educated. Besides only 2 percent of the respondents are master holders and above followed by 3.4 percent being illiterate.

When we look at the work experience of the respondents as it is summarized in Table 4.1, above 40 percent of them have a working experience of between 1-5 years whereas 27.5 percent and

19.5 percent of the total respondents have a working experience of less than one year and 6-10 years, respectively. The remaining category which is about 12.8 percent of the respondents are found to be more experienced with working experiences of more than ten years. Though this figure looks less in relative to the other categories of respondents, complement to this situation one can conclude that the more experienced staffs are few in number and high level managements.

Table 4.2: Business area, position at the company and years of experience at the current position of respondents

	Variables	Frequency	Percent
Company's business area	Manufacturing	30	20.1
	Wholesale	70	47
	Services	41	27.5
	Employee	8	5.4
	Total	149	100
Position at your company	Owner only	36	24.2
	Manager only	16	10.7
	Owner and manager	32	21.5
	Employee	65	43.6
	Total	149	100
Years in current position	< 1 year	57	38.3
	1- 5 years	59	39.6
	6 - 10 years	24	16.1
	>10 years	9	6
	Total	149	100

Source: own computation based on the questionnaire

Table 4.2 indicates that the majority of the company's business area participated in the questionnaire are engaged in a wholesale activities with a share of about 47 percent. Similarly, service providing enterprises and manufacturing business become the second and third larger shares with 27.5 percent and 20.1 percent respectively. Whereas, business of employee agencies are found to be the best at least share with about 5 percent only.

With the same manner, 43.6 of the respondents are in the company simply because they are employed to develop their career further and/or earn a salary. The analysis also shows that 24.2 percent and 21.5 percent of the respondents are owners only and owners and managers as well

respectively which makes more than 45 percent of them are one in another way the owners of the companies. Those who are managers only make the least of the share identified in this category with a share of 10.7 percent.

In some case, if the owners are well educated and well experienced, it gives sense to be the manager of the company for the fact that the performance will be better and at the same time, being owner and manager at the same time will help to improve the overall productivity as owners seek to maximize their own profit. In contrast to this, it is also believed that if ownership and managing responsibility is kept separated and left for experts, performance can be further increased.

The longer years employees stay in a position, the higher the probability that they will be able to adopt the working environment and the better they will perform. Consequently, as it is shown in the above table, 39.6 percent of the respondents have stayed in similar and current position for at least one year and maximum of five years. However, 38.3 percent have worked for less than one year which makes a total of 78 percent of the participants have a working experience on the current position for five and less years and the remaining 22 percent have worked and stayed in the same position for six years and above with about 6 percent of them have worked for more than ten years.

Table 4.3 shows us the annual revenue collected for the year, 2008 E.C and number of years in which respondents have involved in tax and tax related issues in the companies under this sample study. Accordingly, 42.3 percent of them have been involved for at least one year and maximum of five years and 35.6 percent have participated in tax and tax related issues of the companies where a majority of the participants have an exposure and/or involvement of less than five years. However, more than 7 percent have been working and involved in the tax issues for more than ten years where one can conclude that they are simply an expertise on the area.

Table 4.3: The annual revenue (estimated for 2008 EC) and number of years involved in tax

		Frequency	Percent
Number of years involved on tax related issues	< 1 year	53	35.6
	1- 5 years	63	42.3
	6 - 10 years	22	14.8
	> 10 years	11	7.4
	Total	149	100
	Annual revenue for your company for 2008 E.C	100,000 – 199,999 Birr	70
200,000-299,999 Birr		22	14.8
300,000-399,999 Birr		17	11.4
400,000-499,999 Birr		16	10.7
500,000 and more		24	16.1
Total		149	100

Source: own computation based on the questionnaire

Similarly, Table 4.3 indicates that almost half of the respondents have answered that the annual revenue of the company which they are working for is estimated to be between one hundred thousand and two hundred thousand birr. Others which are about 16 percent have indicated that for the 2008E.C the revenue of the company was above five hundred thousand. About 15 percent of the respondents still, indicated that the annual revenue of their company was between two hundred thousand and three hundred thousand Birr.

4.2. Taxpayer's fairness perception

The following section presents the perceptions of different tax payers which are participated in the questionnaire and a conclusion was drawn based on the information gathered.

As shown in Table 4.4, almost half of the respondents have mentioned that everyone pays their fair share of income tax under the current income tax system of the country. Dividing the respondents in two folds, one can see from the analysis below that it is almost balanced responses. That means, the respondents believe fair income share is paid as income tax where

there exists slightly difference in the folds that is, 53 percent agreed on the idea of fair payment under the current system whereas the remaining 40.3 percent have indicated their disagreement.

It is also indicated in Table 4.4 that about 47 percent of the participants have agreed those companies that gains higher level of income need to pay high amount of income tax compared to those companies earning less amount of income. Those who disagree on the idea of higher earners should pay higher taxes and those who strongly agree on the same point accounts for 18.8 percent and 18.1 percent respectively. Generally speaking,of the respondents, 63.7 percent have agreed on the progressive nature of the income tax whereas about 26.2 percent have decided not to agree with it. And the remaining 10.1 percent decides to be neutral which implies they are indifferent whether higher earners pays higher level of income tax or not.

Table 4.4: the fairness perception of tax payers

	Frequency	Percent	Valid percent	Cumulative Percent
I believe everyone pays their fair share of income tax under the current income tax system				
Strongly disagree	19	12.8	12.8	12.8
Disagree	41	27.5	27.5	40.3
Neutral	10	6.7	6.7	47.0
Agree	68	45.6	45.6	92.6
Strongly agree	11	7.4	7.4	100.0
Higher income earners should pay more taxes than lower income earners				
Strongly disagree	12	7.4	7.4	7.4
Disagree	28	18.8	18.8	26.2
Neutral	15	10.1	10.1	36.2
Agree	68	45.6	45.6	81.9

Strongly agree	27	18.1	18.1	100.0
The amount of tax I am paying is fair and based on my ability to pay				
Strongly disagree	12	8.1	8.1	8.1
Disagree	49	32.9	32.9	40.9
Neutral	17	11.4	11.4	52.3
Agree	55	36.9	36.9	89.3
Strongly agree	16	10.7	10.7	100.0
Individuals who deliberately evade their taxes should be penalized with the same amount of penalty regardless of the amount of tax evaded				
Strongly disagree	13	8.7	8.7	8.7
Disagree	44	29.5	29.5	38.3
Neutral	16	10.7	10.7	49.0
Agree	66	44.3	44.3	93.3
Strongly agree	10	6.7	6.7	100.0
It is unlikely that I will be caught when evading taxes				
Strongly disagree	17	11.4	11.4	11.4
Disagree	35	23.5	23.5	34.9
Neutral	34	22.8	22.8	57.7
Agree	54	36.2	36.2	94.0
Strongly agree	9	6.0	6.0	100.0
I have little idea about the deductions that I can claim as a taxpayers in the computations of my tax liability				
Strongly disagree	16	10.7	10.7	10.7

Disagree	49	32.9	32.9	43.6
Neutral	24	16.1	16.1	59.7
Agree	47	31.5	31.5	91.3
Strongly agree	13	8.7	8.7	100.0
Tax evasion is ethical if the tax system is unfair				
Strongly disagree	21	14.1	14.1	14.1
Disagree	43	28.9	28.9	43.0
Neutral	24	16.1	16.1	59.1
Agree	50	33.6	33.6	92.6
Strongly agree	11	7.4	7.4	100.0
The tax office takes the circumstances of individual tax payers into account when taking decisions				
Strongly disagree	24	16.1	16.1	16.1
Disagree	44	29.5	29.5	45.6
Neutral	21	14.1	14.1	59.7
Agree	51	34.2	34.2	94.0
Strongly agree	9	6.0	6.0	100.0

Source: own computation based on the questionnaire

According to the data collected from the questionnaire, 37 percent of the respondent believe that they are made to pay as balanced as their ability to pay and concluded that the tax payment is made fair to them. However, about 33 percent believe the opposite and they believe that they are forced to pay beyond their capacity and unfair tax. Similar to the above cases, 11.4 percent assumed that the tax payment neither more than their capacity nor it is as balanced as the capacity or ability they have. They simply responded as being neutral not to say something about the fairness with regard their ability to pay. Besides, 8.1 percent and 10.7 percent of them have

mentioned their strong disagreement and strong agreement respectively with regard their ability to pay and the fairness of the tax system.

Those individuals and/or any business entities need to be penalized provided that they deliberately evade taxes as a result the respondent have responded accordingly. 44.3 percent have agreed that evaders should penalized regardless of what the amount is which as of me will give the courage to evade huge amount of their tax given that they will be punished as equal amount as those who evade small amount. In contrast to this, 29.5 percent have expressed their disagreement on the amount of penalty being the same for those who evades different amount of their taxes. The amounts of respondents who strongly disagree and strongly agree on this idea are 8.7 percent and 6.7 percent respectively.

Table 4.4 also indicates that there is higher probability of not being caught when they invade their taxes deliberately because huge number of the respondent which is about 36.2 percent have answered that there less likely to be caught. It can be due to the fact that they have the experience of evading taxes in their past experience and did not found caught by the authority. 22.8 percent of the respondents have decided to be neutral which implies that they might be in the practices if evading and that is why they decided not to clearly specify their answer. In contrast to this, 23.5 percent of the respondents have indicated that it is not unlikely not to be caught when anybody evades.

Sufficient enough knowledge about any deductions and computations of liability is very crucial for any business entity and about one third of the respondents have indicated that they don't have any knowledge limit how to deduction claims and computations of liabilities are to be made which means they are well trained and experienced to deal with those ideas. However, 31.5 percent have limited idea or knowledge how deduction claims are to be made as a tax payer and how to compute liabilities. This indicates that there exists knowledge gap in the employees or experts which in turn calls for an advanced training on the subject matter.

Tax fairness and tax evasion are basically two different things and literally it is recommendable to conclude that tax should be evaded if it is not fair. It is simply correcting a failure with a mistake which exacerbates the problem on the ground. However majority of the respondent which are about 33.6 percent have indicated that tax needs to be evaded provided that the tax

system is not fair enough and about 29 percent responded that they will disagree on the statement tax evasion is ethical if the tax system is unfair.

The tax offices of the country including revenue authority is supposed to considered all the circumstances of the tax payers in the times the decisions. The result shows that, 34.2 percent of the respondents have clearly indicated that the tax offices do consider the situations of individual tax payer into account while making a decision and 29.5 percent have disagreed on the statement.

4.3. Tax knowledge of Respondents

This section summarizes the degree of knowledge that the employees, owners, managers participated in the completion of the questionnaire so that to identify the knowledge gap they have and to conclude based on the analysis.

Table 4.5 indicates that majority of the respondents have clear understandings on the explanations provided by the Ethiopian Revenue and Customs Authority (ERCA) in the form of guidelines and other explanatory materials. According to the analysis, above 61 percent have understood the guidelines and 19 percent have shortage of capacity to understand the guideline as well as other materials provided by ERCA. In general above 71 percent of the respondents can recognize the rules, principles, explanations whereas about 21.5 did not have the ability to interpret it and understand it. Similarly, in times of tax return, they have explained that the tax return form is found to be difficult to understand and is simply an impediment for them. Thus, about 58 percent of them have indicated it is not easy to understand the form and about 22 percent have responded that they don't face any problem with the tax return form while understanding it and filling it as well.

Table 4.5: the Tax knowledge of the respondents

	Frequency	Percent	Valid percent	Cumulative Percent
I understand the explanations given in Ethiopian Revenue and Custom Authority guidebooks and other similar explanatory materials				
Strongly disagree	3	2.0	2.0	2.0
Disagree	29	19.5	19.5	21.5
Neutral	11	7.4	7.4	28.9
Agree	91	61.1	61.1	89.9
Strongly agree	15	10.1	10.1	100.0
The term used in the tax return forms are difficult to understand				
Strongly disagree	4	2.7	2.7	2.7
Disagree	33	22.1	22.1	24.8
Neutral	16	10.7	10.7	35.6
Agree	86	57.7	57.7	93.3
Strongly agree	10	6.7	6.7	100.0
I need assistance from professionals for tax related issues				
Strongly disagree	6	4.0	4.0	4.0
Disagree	19	12.8	12.8	16.8
Neutral	20	13.4	13.4	30.2
Agree	92	61.7	61.7	91.9
Strongly agree	12	8.1	8.1	100.0
I do not have any problem with completing and filing the tax return form(s)				

Strongly disagree	7	4.7	4.7	4.7
Disagree	31	20.8	20.8	25.5
Neutral	11	7.4	7.4	32.9
Agree	88	59.1	59.1	91.9
Strongly agree	12	8.1	8.1	100.0

Source: own computation based on the questionnaire

The tax collecting authority is supposed to identify the need assessment for any technical assistance to those who are in a need of it. Of the 149 total respondents, about 104 respondents (61.7 percent of them simply agreed and 8.1 percent strongly agreed) have believed that they need technical assistance from those who are tax professionals to narrow the knowledge gap they have. Only 25 of the respondents (19 percent of them simply disagreed and 6 percent strongly disagreed) have indicated they don't need any assistance from the tax offices, whilst 20 of the respondents (about 13 percent) decided to stay neutral.

As it is discussed in the above section, majority of the respondents have indicated that the tax return form is not easy to understand. However, in this final question of the tax knowledge, 59 percent of them have explained that they don't have any problem of filling the tax return form and about 25.5 percent have faced difficulties to complete the tax return form. That means there is some degree of complexity in the form making them to be in a problem while they are filling.

4.4. Tax complexity degree to the respondents

This section analyses the perception of taxpayers' on the degree of complexity degree of the tax system.

As it is indicted in Table 4.6, majority of the respondents have perceived that the Ethiopian business profit tax is too complicated which does not easy to understand it. To mention the magnitude, 64.4 percent of them found the business profit tax to be complicated and about 24.8 percent have found it clear and not difficult.

Table 4.6: Tax complexity degree to respondents

	Frequency	Percent	Valid percent	Cumulative Percent
The Ethiopian business profit tax system is too complicated				
Strongly disagree	6	4.0	4.0	4.0
Disagree	31	20.8	20.8	24.8
Neutral	16	10.7	10.7	35.6
Agree	85	57.0	57.0	92.6
Strongly agree	11	7.4	7.4	100.0
The Ethiopian business profit tax rules are bulky and hard for taxpayers like us to navigate				
Strongly disagree	5	3.4	3.4	3.4
Disagree	31	20.8	20.8	24.2
Neutral	25	16.8	16.8	40.9
Agree	81	54.4	54.4	95.3
Strongly agree	7	4.7	4.7	100.0
The tax office makes sure to have the necessary information available to take decisions				
Strongly disagree	8	5.4	5.4	5.4
Disagree	18	12.1	12.1	17.4
Neutral	22	14.8	14.8	32.2
Agree	84	56.4	56.4	88.6
Strongly agree	17	11.4	11.4	100.0
The tax system is transparent and understandable to taxpayers				
Strongly	13	8.7	8.7	8.7

disagree				
Disagree	36	24.2	24.2	32.9
Neutral	22	14.8	14.8	47.7
Agree	71	47.7	47.7	95.3
Strongly agree	7	4.7	4.7	100.0

Source: own computation based on the questionnaire

The tax offices makes sure to have all the necessary information available to take any decision according to the participants that is, 67.8 percent have witnessed all this. However 17.5 percent have disagreed on the statement. This implies the tax office makes all information available while taking any decision.

Tax system need to be transparent easily understandable to tax payers as far as possible and majority which are about 52.4 percent of them have explained that the tax system of the country is recognizable and transparent to the public. In contrast to this, 32.9 percent of the respondents have explained their disagreement on the degree of transparency of the tax system while the remaining 14.8 percent kept neutral to share their view on the understandability and transparency of Ethiopian tax system. This show the transparence issues are main constraint for the taxpayers and expect more attention from the government side to avoid the problem.

4.5. Possible measures to improve fairness of the tax system

So far, the study has attempted to analyse the perception of tax payers on the tax fairness, the knowledge of respondents on the tax system of the country and the degree of complexity of the tax system according to the data collected from the respondents and in the following section, possible solutions recommended by the participants is presented.

Table 4.7: Possible solutions forwarded from the respondents

		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total
Develop simple and transparent tax collection systems	Frequency	5	12	13	89	30	149
	Percent	3.4	8.1	8.7	59.7	20.1	100
Building trust and confidence with taxpayers'	Frequency	1	18	15	83	32	149
	Percent	0.7	12.1	10.1	55.7	21.5	100
Treats everyone in the same manner	Frequency	4	17	10	78	40	149
	Percent	2.7	11.4	6.7	52.3	26.8	100
Provide valuable information to taxpayers'	Frequency	6	10	10	88	35	149
	Percent	4	6.7	6.7	59.1	23.5	100
Educate taxpayers'	Frequency	3	12	11	87	36	149
	Percent	2	8.1	7.4	58.4	24.2	100
Educate tax collectors to increase tax collection efficiency	Frequency	5	15	18	81	30	149
	Percent	3.4	10.1	12.1	54.4	20.1	100
Reducing tax rates	Frequency	14	22	17	81	15	149
	Percent	9.4	14.8	11.4	54.4	10.1	100
Strengthening legal enforcement and penalties	Frequency	5	12	13	89	30	149
	Percent	3.4	8.1	8.7	59.7	20.1	100

Source: own computation based on the questionnaire

Table 4.7 indicates that majority of the respondents explained the above measurements should be taken in to action for the good working environment as well as better perception of taxpayers. To

mention about 80 percent of the respondents have agreed that developing simple and transparent tax collection systems is a possible solution to improve and solve the problems observed in the previous sections. Only 11.5 percent of the respondents explained the reverse.

Similarly, the respondents have also indicated that Building trust and confidence with taxpayers' and treating everyone in the same manner will also be a possible solution forwarded with a share of about 77.2 percent and 79.1 percent, respectively. Only 12.8 percent and 14.1 percent of them responds perceived the other way, which means either another strong methodology should be adopted to tackle the problems or those are in practices in the tax system of the country.

Providing valuable information to taxpayers', educating taxpayers', educating tax collectors to increase tax collection efficiency, strengthening legal enforcement and penalties and Reducing tax rates are also among the commonly agreed strategies to be taken so that the problems of tax system and the perception of tax payers will be smoothly corrected.

Table 4.8 : KMO, Bartlett's Test and Cronbach's Alpha

Cronbach's Alpha		0.819
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.705
Bartlett's Test of Sphericity	Approx. Chi-Square	2376.160
	Df	666
	Sig.	.000

Source: - SPSS Output

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is utilized to ensure that the samples used are adequate. According to Field (2007), if the KMO values within a range of 0.7 to 0.9 are great and if the Bartlett's Test values are below 0.005 it indicates that the data are suitable for multivariate statistical analysis like factor analysis and also Cronbach's alpha coefficient above 0.8 means the items are consistent internally. Thus, the value in the table above indicates that the KMO result is great, Sphericity is suitable and the data reliability is also highly acceptable.

Chapter Five

Conclusions and Recommendations

5.1. Conclusions

The result from this study provides valuable insight about the fairness perception of Category B taxpayers in Bole sub city. The study provides awareness of the issues that are needed to be addressed and suggested solutions in order for the tax authorities and other decision makers at various governmental levels (e.g. regional or local) to understand the taxpayers concerns and perception on tax system and improve the system in order to increase taxpayers' voluntary compliance.

By implication of the selected respondents which the study consider them as the most relevant sources of information, the researcher can conclude that the composition of employee is less dominated by females and this in turn helps to infer that the share of women is increasing with time. Besides, the younger ages of the total labor force are demanded by the different business participated in this study. According to the data collected using the questionnaire, majority of the respondents are found to be in the age group between 20 and 39 years.

Majority of the respondents works in the company because they are employed to develop their career further and/or earn a salary. That is, almost half of the respondents are one in another way the owners and/or managers of the companies. Those who are managers only make the least of the share identified in this category.

The longer years employees stay in a position, the higher the probability that they will able to adopt the working environment and the better they will perform. Consequently, the result of the data analyzed shows most of the respondents have stayed in similar and current position for at least one year and maximum of five years. About one-fourth of the respondents have worked and stayed in the same position for six years and above with about 6 percent of them have worked for more than ten years.

About two-third of the respondents have agreed on the progressive nature of the income tax where the higher income earners should pay higher amount of taxes whereas still about 26.2 percent have decided not to agree with it which is not negligible figure. Those individuals and/or any business

entities need to be penalized provided that they deliberately evade taxes as a result the respondent have responded accordingly. Majority of the respondents have agreed that evaders should penalize regardless.

Sufficient knowledge about any deductions and computations of liability is very crucial for any business entity and about one third of the respondents have indicated that they don't have any knowledge limit how to deduction claims and computations of liabilities are to be made which means they are well trained and experienced to deal with those ideas.

Tax fairness and tax evasion are basically two different things and literally it is recommendable to conclude that tax should be evaded if it is not fair. It is simply correcting a failure with a mistake which exacerbates the problem on the ground. However, majority of the respondent have indicated that tax needs to be evaded provided that the tax system is not fair enough.

Developing simple and transparent tax collection systems, building trust and confidence with taxpayers' and treating everyone in the same manner, providing valuable information to taxpayers', educating taxpayers', are among the commonly agreed strategies by the respondents to be taken by tax authorities so that the problems of tax system and the perception of tax payers will be smoothly corrected. Furthermore, the output from this study can be used as an input for other interested researchers for conducting further study.

5.2. Recommendation

Based on the results from this study, the following recommendations can be made for further work on taxpayers' fairness perception, inside or outside the scope of this work:

- Tax authorities and other decision makers at various governmental levels (e.g. regional or local) should understand the taxpayers concerns and perception on tax system and improve tax system and tax policies accordingly.
- Tax authorities should work on the development of simple and transparent tax collection system. The authorities should work on the expansion of electronic system that adopts for category large taxpayers' to category B tax payers. Furthermore, the tax authorities should build trust and confidence with taxpayers' rather than always consider as thieves, it is better to think as development partners.

- Educate tax collectors to improve the competences of service personnel's, ethical issues and decision making process in revenue offices. An educated tax collector is vital to increase tax collection efficiency and to take measure for the tax evaders.
- Educate taxpayers' to enhances their knowledge and fairness attitude so as to encourage their compliance.

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