



ቅድስት ማርያም ዩኒቨርሲቲ
St. Mary's University, Ethiopia

**THE INFLUENCE OF TAX EDUCATION ON TAX COMPLIANCE ATTITUDE A
CASE STUDY IN ETHIOPIAN REVENUE AND CUSTOM AUTHORITY MERKATO
NUMBER 2 BRANCH OFFICE**

BY

ENDALE ZELEKE

**A THESIS SUBMITTED TO ST.MARRY'S UNIVERSITY COLLEGE, SCHOOL OF
GRADUATE STUDY IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION**

ADVISOR

DR. ASNAKE MENWEYALTE

June 2 /06/ 2017

ADDIS ABABA ETHIOPIA

**ST.MARY'S UNIVERSTY COLLEGE
SCHOOL OF GRADUATE SYUDIES
FACUALITY OF BUSINES**

**THE INFLUENCE OF TAX EDUCATION ON TAX COMPLIANCE ATTITUDE A
CASE STUDY IN ETHIOPIAN REVENUE AND CUSTOM AUTHORITY MERKATO
NUMBER 2 BRANCH OFFICE**

B Y

ENDALE ZELEKE

APPROVED BY BOARD OF EXAMAINERS

Dean, Graduate Studies

Signatu

Advisor_

Signature

External Examiner

Signature

Internal Examiner

Signature

DECLARTAIION

I, the undersigned declare that this thesis is my original work, prepared under the guidance of DR ASNAKE MENEWEYALTE All sources of materials used for the thesis have been duly acknowledge . I further confirm that the thesis has not been submitted either in part or in full to any other learning institution for the purpose of earning any degree.

Name

Signature

ST.MARY'S UNIVERSTY COLLEGE, Addis Ababa

June 2017

ENDORSEMENT

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

Advisor

Signature

ACKNOWLEDGEMENT

First for most, I am grateful to God Almighty for giving me grace, wisdom and strength in all my endeavors.

My deepest appreciation and thanks go to my research adviser *Dr. Asnake Menweyalte*, as he provided me with all the necessary support, guidance, materials and constructive criticisms that helped me stay focused from the beginning of this work to the end.

My appreciation also goes to the Ethiopian revenue and custom authority merkato number 2 customers for the great effort in filling the questionnaires and thanks to the staff members to give for their valuable comments and their support and other required information for the successful accomplishment of the study.

Table of Content

Content	page
Acknowledgment.....	I
Table of Content.....	II
List of Tables.....	V
List of Figures.....	V
List Of Acronyms.....	VI
Abstract.....	VII
CHAPTER ONE: INTRODUCTION-----	1
1.1 Back ground of the study-----	1
1.2 Statement of the problem-----	4
1.3 research questions.....	5
1.4 The Objective Of The study-----	6
1.5 Significance of the study-----	6
1.6 Scope of the study-----	6
1.7. Limitation of the study.....	7
CHAPTER TWO: REVIEW OF RELATED LITRATURE-----	8
2. Review of related Literature-----	8
2.2.1. Theoretical Review-----	8
2.2.2. Tax compliance-----	8
2.2.3. School of thought-----	12
2.2.4. Economic deterrence models-----	12
2.2.5 Social psychology models-----	12
2.2.6. Fiscal psychology models-----	13

2.2.7. Tax compliance determinants-----	13
2.2.7.1 Tax knowledge-----	15
2.2.7.2 Ethics and attitudes toward tax compliance-----	16
2.2.7.3 Education-----	17
2.3 Empirical review.....	18
2.4 Conceptual framework.....	19
CHAPTER THREE: METHODOLOGY OF THE STUDY -----	20
3.2. Research Methodology-----	20
3.2.1 Research Design-----	20
3.2.2 Population and sampling procedure-----	21
3.2.2 Sample Size And Sampling Procedure And Techniques-----	21
3.3 Data Source and Data Collection Method-----	22
3.4 Data collection instrument-----	23
3.5. Data analysis techniques-----	23
3.6 Validity Test-----	23
3.7 Reliability Test-----	24
3.8 Organization of the paper-----	25
CHAPTER FOUR: DATA ANALYSES AND PRESENTATION-----	26
4.1 Respondent Profile and Data analysis-----	26
4.2 Descriptive statistics-----	27
4.2.2 Age of respondent-----	28
4.2.3 Educational level of the respondent-----	29
4.2.4 Marital status of the respondent-----	29
4.2.5 Business experience of the respondent-----	30
4.2.6 Tax payer's motivation-----	32

4.2.7 ERCA’s role for tax payer’s knowledge-----	33
4.2.8 The social role in creating tax payer’s knowledge-----	34
4.2.9 The role of system simplicity in knowledge creation-----	36
4.2.10 Tax payer’s compliance behavior -----	37
4.3 Inferential statistics-----	39
CHAPTER FIVE CONCLUSIONS AND RECOMMENDATIONS-----	48
5.1 Conclusions-----	48
5.2 Recommendations-----	50
References-----	53
Appendix A-----	56
Appendix B-----	62

LIST OF TABLES AND FIGURES

TABLE	page
3.1 Cronbach's Alpha result-----	24
4.1 Respondent Profile and Data analysis-----	26
4.2.6 Tax payer's motivation-----	32
4.2.7ERCA's role for tax payer's knowledge-----	33
4.2.8The social role in creating tax payer's knowledge-----	34
4.2.9The role of system simplicity in knowledge creation-----	36
4.2.10Tax payer's compliant behavior-----	37
4.3.1. Descriptive Statistics-----	39
4.3.2 Correlation table-----	39
4.3.3 Summery Correlation table-----	42
4.3.4 Model summery-----	42
4.3.5 Correlations (1 tailed)-----	42
4.3.6 Coefficients-----	43
4.3.7 Group Statistics for gender-----	46
4.3.8 Independent Samples Test-----	47
FIGURES	
4.2.2 Age of respondent-----	28
4.2.3 Educational level of the respondent-----	29
4.2.4 Marital status of the respondent-----	29
4.2.5 Business experience of the respondent-----	30

LIST OF ACRONYMS

- **ERCA-** ETHIOPIAN REVENUE AND CUSTOMS AUTHORITY
- **VAT-** value added tax
- **GDP-** GROSS DOMESTIC PRODUCT
- **SD-** standard deviation
- **IOSS-** individual, organizational effort, system simplicity, social contribution

ABSTRACT

The aim of this research is to examine the relationship between factors that affect tax knowledge and tax compliance behavior. The existence of high tax non-compliance behavior, lack of previous study in the area, inability to identify the root cause of noncompliance behavior, lack of success on previous effort that aims to minimize non-compliance behavior and the complexity nature of taxation system leads to conduct this paper. To determine the population of the study the researcher followed sequential frame procedure and finally 9,273 legally registered tax payers selected as target population among this 150 respondents selected as sample size of the study. To determine the respondent simple random sampling techniques were applied, self-administered questionnaire with 5-point likert scale questionnaire design technique and in-depth interview approach applied as data collection instrument technique. The collected data analyzed using descriptive and inferential statistical data analysis technique and to organize the data mean, percentage and standard deviation used in visually appealing tables, charts and in a graph formats. The result of this study revealed that there is statistically significant positive relationship between factors that determine tax knowledge and tax payer's compliance behavior. In addition to their relationship all independent variables has unique and significant contribution for the prediction of compliance behavior. In order to solve the stated problem the research recommended to all stakeholders should be actively participate in knowledge creation process. Compliance behavior can't be achieved unless otherwise, knowledge creation process given priority. To create knowledge individual tax payer's should be actively seek knowledge , the organization should be continuously and meaningfully exert his effort in challenging societies' culture and creating simple and accessible system.

CHAPTER ONE

1. Introduction

1.1 Back ground of the study

Tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Or tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority or tax Compliance' will essentially relate to the extent to which a taxpayer meets the following broad categories of obligations: Registration in the system, timely filing of requisite taxation information, reporting of complete and accurate information, and payment of taxation obligations on time. If a taxpayer fails to meet any of the above obligations then they may be considered to be non-compliantly.

Tax non-compliance become a serious challenge slackening tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries. (Lemessa, 2005) As reported in a tax administration workshop¹, the contribution of taxes to the government's total revenue (Tax-to-GDP) remained consistently low and even lower than sub-Saharan African countries. Normally, taxes are fundamental to the existence of governments, it is a way for governments' to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence (ERCA, Customer Charter, 2015).

Tax non-compliance is an area of concern for all government and tax authorities, and it will continue to be an important issue that must be addressed. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. The objective of this study is to examine the influence of tax education on the compliance attitude of tax payers. As this study's objective is to explore how provision of tax education influences tax compliance attitude of tax payers. The results of this study can inform policymakers, for the tax education department at the Erca and branch level that is to use as an input and for

other concerned body that is working related to tax administrator on the extent to which tax knowledge is important in voluntary compliance (ERCA, Customer Charter, 2015).

Tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). Roth et al. (1989), as cited in Singh, 2003, explained that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the need of laws, regulations, and court judgments. Those who fail to adhere to taxation laws intentionally or otherwise shall be considered as having committed an offence. Jackson and Milliron (1986), as cited in Mohd (2010), listed 14 main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Various researchers have listed factors that influenced tax compliance such as demographic, income, compliance cost, and tax agents, in addition to moral or ethical factors (Singh, 2003; Kasipillai et al., 2003).

Studying the influence of tax education in tax compliance attitude in Merkato is not only academic interest; it is also important from a policy perspective around the area and the country level. Tax compliance attitude around Merkato is low because of several factors among that tax education, tax knowledge, and other structural and demographic factor are the major influence on the tax payer to declare voluntarily their taxes to the tax offices (ERCA, Customer Charter, 2015). On the study the tax education influence in tax payer tax compliance attitude around Merkato investigated in detail through individual motivation, system simplicity, social contribution, organizational effort for the contribution tax knowledge and to show some way to the tax office and the city administration. Information on taxpayer attitudes or behavior is required for better analysis and a more informed tax policy design.

Back ground of the organization

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, it is responsible to protect the society from adverse effects of smuggling and contraband. It seizes and takes legal action on the people and vehicles involved in the act of smuggling, any tax evasion and avoidance while it facilitates the legitimate movement of goods and people across the border .establishment of ERCA The Ethiopian Revenues and Customs Authority (ERCA) was established by the proclamation No.587/2008 on 14 July 2008, by the merger of the Ministry of Revenue, Ethiopian Customs Authority and the Federal Inland Revenue Authority for the purpose of enhancing the mobilization of government revenues, while providing effective tax and Customs administration and sustainability in revenue collection. The main objective of the establishment of ERCA was to streamline the public revenue generation function by bringing the relevant agencies under the umbrella of the central revenue collector body. This structuring aimed at improving service delivering, facilitating trade, enforcing the tax and customs laws and thereby enhancing mobilization of Government revenue in sustainable manner (ERCA, Customer Charter, 2015).

ERCA structuring the revenue authority into federal and regional level under these category Addis Ababa city revenue authority categorized into regional tax administration office that contain 10 sub city revenue branches office and Addis Ababa middle tax payer branch office 1 and 2. The Addis Ababa city tax administration and ERCA have signed a memorandum of understanding in January 2011 to gain support from ERCA. The main objective of the agreement is to enhance the capacity of tax administration of the city to collect its revenue effectively and efficiently. Based on the agreement, the administration part of the city tax administration is temporarily merged to ERCA, but the agreement is continued up to now and working together, the revenue collected is to the Addis Ababa city government administration (ERCA, Customer Charter, 2015).

The Ethiopian Revenue and Customs Authority (ERCA) have two main branches in merkato. Merkato Number 1 and Merkato Number 2 branch office. Under this two main branch's there

are seven tax centers and Two Main branch offices i.e. Tana tax center, Chilalotaxcenter and Merab hotel tax centers under Merkato no-1 and Adarash tax center, Abdo Brenda tax center, Yirgahaile tax center, and Sebategna tax center under Merkato number two branch office. Merkato branch 2 offices contain a total of 9273 and above. The researches mainly depend on the Merkato number 2 branches office customer to assess the influence of tax education on tax compliance attitude. Non-compliance may take the lion share on the poor revenue performance for Merkato branch 2 office this due to In the area of merkato for long period of time traditional marketing activity is undertaking from the beginning of the market to the recent time this can create obstacle for long period of time for the tax office to enforce the tax law and rules at the national level. Assessing the influence of tax education in voluntary compliance of tax around the area is important to implement new policy and strategy around the area to change or to upgrade the tax payer attitude in voluntary compliance of tax to the tax office in collecting economic source of revenue generated in the area.

1.2 Statement of the problem

Most developing countries are currently dependent more on external financial resources to fund their development activities. Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. (Shina, June, 2014) To address this problem, the government introduced a number of rules, systems and methods aiming tax collection as a major source of public revenue. However, this all efforts couldn't still bring the required result due to a number of reasons (ERCA, Customer Charter, 2015).

Non-compliance may take the lion share on the poor revenue performance around merkato. From time to time Tax compliance is growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue. Tax payers will readily accept any new system introduced if they have simple knowledge to understand the system (Kasipillai, Norhani, and Noor, 2003). Thus, education programs organized by custom and duty authority or public education institutions are required to enhance taxpayers' ability to understand the importance of tax on country's economic development and to increase their confidence in fulfilling their responsibilities as taxpayers. It

is clear that developing tax knowledge in taxpayers is an important element in operating a successful tax system.

Achieving an appropriate voluntary compliance level could be achieved if taxpayers can complete the tax returns correctly and pay the right amount of taxes. Thus to realize the objectives of voluntary compliance, taxpayers need to be informed, well educated (particularly in tax matters), and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant. However, less attention has been directed toward understanding precisely how education will influence tax payer's attitude towards tax compliance in merkato area. Hence, the influence of education on tax compliance attitude must be investigated and the findings of this study can be used to inform sound public policy making.

1.3 research questions

This research tried to answer the following key hypothetical research questions.

- Is there statistically significant relationship between tax knowledge and tax compliance behavior
- Is there statistically significant relationship between tax payer's individual motivation and tax compliance behavior?
- Is there statistically significant relationship between organization effort (ERCA's effort) and tax payers' compliance behavior?
- Is there any statistically significant relationship between social contribution and tax compliance behavior?
- Is there statistically significant relationship between system simplicity and compliance behavior.
- Is there any demographic factor that has statistically significant relationship with compliance behavior?

1.4 THE OBJECTIVE OF THE TUDY

General objective of the study

The general objective of this study is to determine factors influencing tax knowledge and their relationship with tax compliance behaviors.

Specific objectives

This research conducted in order to address the following specific objectives

- To identify factors contribute to the compliance behavior
 - To determine effective way of affecting tax knowledge
 - To examine the relationship between tax knowledge and tax compliance
 - To describe the major factors that hinder tax compliance behavior
 - To indicate the focus area while, creating tax knowledge
- To identify factors this has unique contribution to the compliance behavior

1.5 Significance of the study

The significance of this study is that, the findings can be used by merkato number 2 branch office tax education department and other policy makers in order to make a sound policy in relation to providing tax education as means of reducing tax noncompliance attitude of tax payers around Merkato. It will also serve as a future reference for researchers who need to further investigate in this area.

1.6 Scope of the study

The scope of this study is conducted only to indicate factors influence tax knowledge and compliance behavior. The area of the study cover only in Addis Ababa around Merkato branch 2 registered tax payer. This research doesn't consider other factors that influence compliance behavior.the research also included category A , category B and category C except tax payer who pay their tax in a different tax collection center . in other words, the research

systematically excluded the knowledge level of non-registered trader and other tax payer who pay their taxes for different tax center.

1.7. Limitation of the study

It is acknowledged that this study has a number of limitations. First, the tax knowledge questions and the scope of questions asked in the questionnaire were only limited to system simplicity, organizational effort, individual motivation, social contribution awareness on responsibilities and rights. These questions only cover some levels of tax knowledge. This study unable to determine detail levels of tax knowledge as it this would have been time consuming and made the questionnaire lengthy, hence low response rates would potentially occurred.

Secondly, similar questions are prepared by considering the respondent's educational background clear and easy questions are asked to check the tax knowledge of tax payer that helps for compliance attitude of respondents. The reason for considering the respondent educational background is useful for excluding ambiguous and long questions because it would have been time consuming and made the questionnaire lengthy so that respondents may not feel out the questionnaire.

Lastly the researcher faced many problems from here, unwillingness of the respondents, lack of efficient and available information, in appropriate filling of questioners by the respondents, shortage of organized data and lack of enough sources are the major ones. And some fear to give appropriate answer to the specified questions because of the respondent attached the study with inappropriate implication and other current situation making hard to accomplish the research.

CHAPTER TWO

2. Review of related Literature

The purpose of this chapter is to review the existing literatures regarding the relationship of tax compliance with different variables especially with demographic variables particularly education. The chapter has three sections and organized as follows. The first section presents the theoretical reviews tax compliance. Section two similarly reviews different empirical results regarding the impacts of different variables on tax compliance behavior. Finally, section three deals with conclusion of the chapter and the knowledge gaps that inspire this study.

2.2.1. Theoretical Review

This section of related literature review presents basic concept of tax compliance, briefs the three schools of thought from which different models and theories of tax compliance behavior are derived and the theoretical review of factors that influence tax compliance are presented.

2.2.2. Tax compliance

The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy. Taking the narrow end of the continuum first, one suggestion is that the degree of non-compliance may be measured in terms of the 'tax gap'. This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance.

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-compliance only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to inordinate lengths to reduce their liability this could hardly be considered 'compliance' either. Such

activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law.

Tax compliance is a complex behavioral issue and investigation requires the use of a variety of methods and data sources as each instrument has strength and weaknesses. Alm (1991) defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. Roth explained that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the needs of laws, regulations, and court judgments.

Those who fail to adhere to taxation laws intentionally or otherwise shall be considered as having committed an offence. James and Alley considers tax compliance in terms of the tax gap, which is the difference between "true" individual income tax liability and that finally, collected on a voluntary basis or by enforcement action. In other words, 'tax gap' represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance. In this case, James and Alley (2004) state that 'compliance' refers to voluntary not compulsory behavior. Taxpayers' compliance would not be considered voluntary compliance if they adhere merely for fear of threats and or harassment.

Tax compliance is important for many reasons. This is because non-compliance leads to a reduction in tax collections, which in turn affects public services received by the citizens, including compliant taxpayers. It also requires the government to expend resources to deter

non-compliance, to detect its magnitude and to penalize its practitioners. According to Brand (1996), it is less expensive to collect taxes through voluntary compliance than through the use of enforcement. Tax compliance is a tenuous concept to define. Despite there is no standard all-embracing definition of compliance adopted across all tax compliance studies, the meaning of compliance can be seen almost as a continuum of definitions (James and Alley, 2004). According to these authors, the range of definition extends from the narrow law enforcement approach through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy. James and Alley (2004), considers tax compliance in terms of the tax gap, which is the difference between “true” individual income tax liability and that finally, collected on a voluntary basis or by enforcement action.

From the economic point of view, tax compliance has been defined as compliance with reporting requirements, meaning that the taxpayer files and pays all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the taxing system applicable at the time the return is filed (Devos, 2005). This definition holds an important extension from the previous definition, which is the timing issue. Late tax payments cannot be considered as proper compliance as cash today is worth more than cash tomorrow.

The rationale behind this notion is that whenever a government does not collect tax payments on time, it would be forced to either cut public expenditure or increases the amount it has to raise elsewhere (James and Alley, 2004). It is further asserted that although late payments of tax fit many of the ‘tax gap’ measures, they do not represent full compliance.

Tax compliance behavior may be perceived as a rational economic decision making process; as a reaction to perceived fairness; as an ethical conduct or as an action due to ignorance. Each of these factors in isolation may not by itself contribute to particular compliance behavior. In fact, analysis of the findings of some empirical studies indicated that tax compliance behavior varies widely over individual circumstances and influenced by factors such as the desire to

avoid sanction as well as being subjected to group influence. Taxpayers may under-declare their income and would be deterred only by the chances of detection and penalties imposed.

Tax non-compliance is of two types: intentional and unintentional. Intentional non-compliance is an offense against government in which the taxpayer understates the tax liability and subject to punishment. It could be emanated from seeking benefit from avoidance, taxpayers' personal attitude towards compliance, situational factors, complexity of tax structure, dissatisfaction on government service, and other. Tax evasion is one form of non-compliance, which Social scientists generally have considered it a typical "white-collar crime," defined by Sutherland (1939) as "a crime committed by a person of respectability and high social status in the course of his occupation". It is a serious challenge dealing with every nation's revenue authorities. It is further commented that unintentional understatement or overstatement of tax liability may arise because of, among others, lack of knowledge and failure to pay due care in the maintenance of book of accounts and the preparation of returns.

According to Hassel dine (1999), many tax agencies have used various techniques to measure the extent of non-compliance, but there will always be some compliance dependent on the social attitudes and behavioral aspects of taxpayers. Moreover, the extent of non-compliance among individual taxpayers not only depends on individual factors, but on a complex combination of circumstances.

Non-compliance represents the most inclusive conceptualization with respect to the failure to meet tax obligations whether intentional or unintentional (Kinsey, 1985), as cited in Kasipillai and Noor, 2003. Tax evasion however, involves some elements of fraudulent conduct accompanied by a real intention on the part of the taxpayer to willfully or deliberately mislead, deceive or conceal from IRB to pay less tax than actually owed. In general, non-compliance may take several forms and they include:

- Failure to submit a tax return within the stipulated period or non-submission;
- Understatement of income;
- Overstatement of deductions; and
- Failure to pay assessed taxes by the due date.
- Excessive Credit declaration In some tax type like vat and profit tax.

2.2.3. School of thought

Models and theories of compliance behavior tend to reflect one of three schools of thought commonly referred to as economic deterrence, social psychology, and fiscal psychology (McKerchar and Evans, 2009).

2.2.4. Economic deterrence models

Economic deterrence models in general are based on the theory that behavior, in a wide range of contexts including tax evasion, is responsive to punishment or sanctions. Economic deterrence models tend to have a narrow, theoretical view of behavior, reducing its dimensions to numerical measures and assigned probabilities from which outcomes can be predicted using calculus. In order to determine behavior in this manner, economic deterrence models tend to rely upon a wide range of fundamental assumptions that are generally unrealistic. For example, that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference. Although empirical testing has been limited, the theoretical principles of economic deterrence have been widely adopted by tax administrations in developing enforcement strategies that rely principally on penalties and the fear of getting caught (McKerchar and Evans, 2009).

2.2.5 Social psychology models

Social psychology models are concerned with the prediction and understanding of human behavior, or how people make decisions, using a range of methodological approaches including compositional modeling, attribution theory and equity theory (McKerchar and Evans, 2009).

Compositional modeling is characterized by the view that individuals undertake deliberate and reasoned action according to their personal preferences. This approach assumes that people consider the implications of their actions before they decide, or form an intention, to engage or not engage in a given behavior. Further, this approach assumes that intention directly translates into behavior, without any further influences. The model then seeks to explain how intention is formed (Ajzen and Fishbein, 1980).

Attribution theory is based on the assumption that individuals rationally interpret and analyze events in order to understand causal structures. People have internal (personal) and external (situational) attributes. In judging the behavior of others, people will generally attribute the outcome as being caused by their own internal attributes. In judging their own behavior, people tend to believe the cause is due to external attributes. Equity theory proposes that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable. Where there are perceived inequities, individuals will adjust their inputs to the exchange until equity is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (McKerchar and Evans, 2009).

2.2.6. Fiscal psychology models

Fiscal psychology models draw on both the economic deterrence and the social psychology models and generally view tax enforcement as a behavioral problem, one that can be resolved by co-operation between taxpayers and tax collectors. To obtain this co-operation, the role of the tax system itself in providing the positive stimulus (such as decreasing penalties) is emphasized. This stimulus is then expected to generate a more positive attitude in taxpayers that will in turn impact on their compliance decisions (McKerchar and Evans, 2009). It has been held that tax mentality; feelings of tax tension, and tax morale were the three psyches that together made up a taxpayer's attitude. The more positive the taxpayer's attitude towards paying tax the greater the level of co-operation with the tax authority and the greater the willingness to pay tax. However, fiscal ignorance may be a negative influence on a taxpayer's attitude (Lewis, 1979).

2.2.7. Tax compliance determinants

Jackson and Milliron (1986) listed 14 main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority, income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Other elements such as penalty, audit, and tax rates as also listed as factors having great influence on tax compliance behaviors (Mohani, 2001). In this sub-

section, determinant factors that influence tax compliance such as tax knowledge, ethics and attitudes towards tax compliance, awareness of offences and penalties, and tax education.

While the data indicate that noncompliance is case-specific, the data reflect that taxpayers incur obstacles to voluntary compliance under the following general categories: Complexity of the tax law; Procedural difficulty with IRS, including communication; Burdensome reporting and tax filings; Unreasonable penalty and interest assessments; Insufficient encouragement to file and pay timely; and Perceived lack of importance or priority (Georgetown University School of Law, 2007)

Perhaps among the most troubling of information from the survey is the number of preparers participating, 6 percent, who had clients who felt there was no need to timely file or pay their taxes. There was knowledge of what was required. The willful and deliberate attempt to avoid compliance was not believed to be important, and they would get to it when other more important issues no longer took priority (Georgetown University School of Law, 2007) Tax simplification was a complicated process – and needed not just adhoc responses but a strategy that took account of the different factors generating complexity and the best ways of responding to them in the context of the tax system as a whole. More generally, all aspects of policy should be consistent not only with other activities within a particular government department or agency but also with other government policies. For example, because they frequently have a large proportion of their receipts in the form of cash, small businesses may have more scope than other taxpayers to evade tax (Simon James, Thamrongsak Svetalekth And Brian Wright, 2006)

Eleven percent of participating preparers indicated that taxpayers could pay outstanding tax assessments, but the penalty and interest were prohibitive. Taxpayers cited that payments made over the remaining collection statute would retire the debt but not all of the interest and penalty. IRS, in many instances, was unwilling to accept an installment agreement that would not retire all the outstanding debt, including interest and penalty.

Taxpayers repeatedly cited examples of the tax liability being created, either through capital gains or other unusual income production. Further examples included those of taxpayers whose incomes had been substantially reduced from the year the liability was incurred. In both

cases, IRS application of penalty and interest was not an incentive to pay but a deterrent as it made the liability unrealistic for the taxpayer to resolve.

Responding taxpayers overwhelmingly indicated their willingness to pay the tax liability in full with a reasonable penalty for late payment (Georgetown University School of Law, 2007)

2.2.7.1 Tax knowledge

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 (Eriksen&Fallan, 1996). Tax knowledge was divided into seven sub-categories namely; taxpayers responsibilities' and rights, knowledge about employment income, dividend and interest, personal relief, child relief, rebates and awareness on offence, penalty and fine.(Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011).

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. This exposure could be given through seminars, dialogue sessions, or collaboration with the Ministry of Education to introduce the subject of Taxation at secondary schools (Mohani, 2003).

The importance of tax knowledge in determining taxcompliance behavior in self-assessment system (SAS) in Malaysia. SAS have become the key tax administrative approach in developed countries including the USA, UK and Australia. This approach emphasizes both the tax payers' responsibility to report their income and to determine their own tax liability. One of the main facilitating factors to achieving these aims is the development of the level of tax knowledge among taxpayers. In addition, the introduction of SAS typically achieves further efficiency gains by means such as, reductions in the requirements to supply the supporting documents and proof of income and deductibles to the tax authority when submitting a tax return (Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011)

Tax knowledge and compliance

The importance and the role of tax knowledge, particularly in determining taxpayers' attitudes towards taxation are discussed here. A significant amount of literature from various countries, different approaches, a range of variables and findings are also discussed.

The influence of knowledge on compliance behavior has been proven in various researches (Mohamad Ali, Mustafa H, Asri M, 2007)

according to Harris (1989) as cited by (Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation

2.2.7.2 Ethics and attitudes toward tax compliance

In a tax system which is based largely on voluntary compliance (such as a SAS), the taxpayers' standard of ethics is 'extremely important' (Song and Yarbrough, 1978). Ethics are a subjective continuum and the level of ethical behavior is heavily reliant on how people perceive the behavior being considered. It is assumed that ethics encourage individuals to act according to them and a taxpayer with a negative attitude towards tax evasion tends to be less compliant. The characteristics of taxpayers' knowledge including gender, ethnics, educational level and income level affect the compliant behavior (Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011)

Based on Ajzen (1991) the theory of reasoned action or the intention to evade will encourage a taxpayer to behave negatively toward taxation and thus attempt to under-report income. On the other hand, attitudes towards the tax authority are also important as tax attitudes and ethics generally depend on perceived use of the money collected by the government (Song and Yarbrough, 1978). It also provides an indicator for tax administrators of the relative importance of tax knowledge in assisting with the design of tax education programs,

simplifying tax systems and developing understanding of taxpayers' behavior (Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011)

2.2.7.3 Education

Greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2003). According to the Fischer Model, noncompliance opportunities can affect tax compliance both directly and indirectly through attitudes and perceptions. Chan et. al. (2000), investigates the direct and indirect effects of two noncompliance opportunities, namely educational and income level.

Previous literature supports the direct, negative relationship between educational level and taxpayer compliance but a direct relationship between income level and tax compliance is unclear. Chan et. al. (2000) also postulates that greater education is directly linked to a likelihood of compliance. They argue that educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Chan et. al. also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.

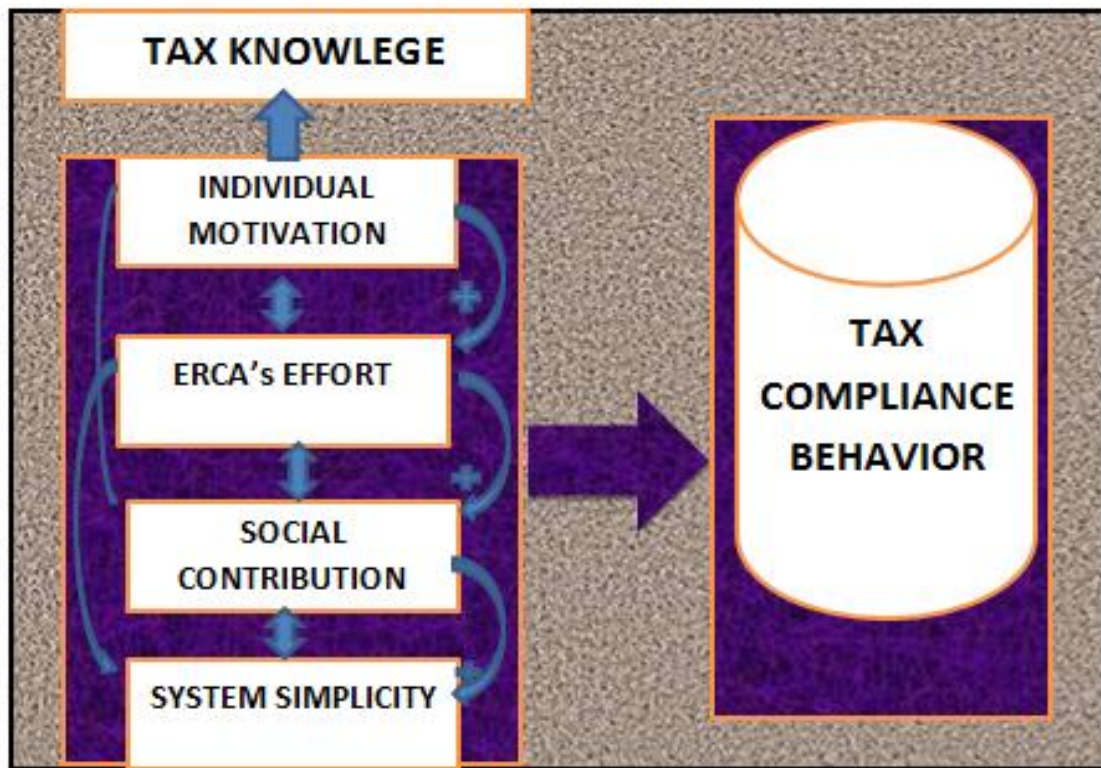
In contrast, the most recent study by Richardson (2008), cited in Mohd, 2010 also revealed that there is a negative association between education and compliance. Hite and Hassel dine (2001), Mohammad. al. 2011, investigate the current developments in the USA, highlighting that tax academics need to emphasize teaching and development. In other countries, tax education, as well as tax development is not as good as in the USA. Their study was expected to be able to help academics in other countries to adapt what has been done in the USA, especially in teaching methodology (in tax courses) so that other countries can learn how to educate taxpayers more effectively and efficiently.

The survey result of Demissie (2008) reveals that taxpayer's poor knowledge of tax rules and regulations is the most deterring factor of voluntary compliance. In addition, Kasipillai et al. (2003) states that tax knowledge has impact on tax compliance.

2.3 EMPIRICAL REVIEWS

Challenges of tax administration in Ethiopia are absence of well-organized taxpayers' education and assistance program about VAT, poor refund management and low voluntary compliance of taxpayers (TekluKassu, 2011). There are different factors that affect tax payer's compliance behavior if taxpayer has better tax knowledge, attitudes towards tax would be positive and this will in turn increase compliance and reduce the propensity to evade taxes (Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011). According to TesfayeAlemayehuDaba (2015)foreign direct investment to GDP, Industry sector in percentage of GDP and Per capita income have significant impact on tax revenue. On the other hand, Social services positively influence tax compliance of taxpayers, Lack of knowledge of tax rules contributed to the inability to calculate taxable income and tax liability is another form of non-compliance (KetemaDerarWolde, 2016). There are many challenges in VAT administration a research conducted by HabtamuDheressa, K.K Reddy, and DebelaYadeta (2015) revealed that Lack of Awareness of Taxpayers, resistance against registrations for Value Added Tax by some traders, weak culture of taxpayers, Poor Value Added Tax administration system are the major challenge in East Wolega Zone. There is also other factors influence tax administration such as Inconsistent government policy, influence from politicians and the black economy, some entrepreneurs see the benefits of evasion and they feel that they do not get any direct benefits from paying excise tax (Simon James,ThamrongsakSvetalekth and Brian Wright, 2006)

2.4. Conceptual frame work



Adopted from: Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011; Wolde, 2016; Georgetown University School of Law. 2007.

This conceptual frame work indicates the overall focus area of the study in which there are independent and dependent variables relate each other to systematically identify the cause and consequence of individual actions. The researcher assumes that Tax knowledge can't be standalone or can't be created in the effort of one entity. But, tax knowledge is the result of active participation of each entity with effective system working in a socially acceptable way. Based on this assumption the researcher identified 4 parameters to create tax knowledge (Individual motivation, organization effort, social contribution and system simplicity and tried to create relationship with dependent variable (compliance behavior). Ones the responsible body act in this way the activity of creating knowledge becomes smooth and in turn compliance behavior can be created.

CHAPTER THREE

3.1. METHODOLOGY OF THE STUDY

This chapter provides an overview of the research design and methodology which will be used to investigate the research problem. Thus, research design, sample and sampling techniques, instrument of data collection, data collection procedure, data processing and analysis using statistical tools will be discussed consequently.

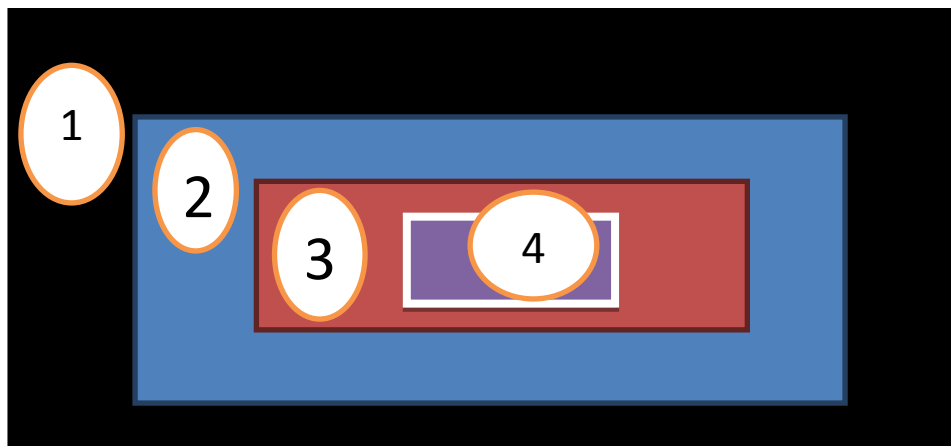
3.2. Research Methodology

3.2.1 RESEARCH DESIGN

This research used mixed approach research design mixed approach method commonly preferable when quantitative and qualitative data utilized. In order to present the collected data the researcher applied descriptive and explanatory research design technique. According to Bluman (2007) Descriptive research design is preferable to describe a situation needs a means of presenting the data in some meaningful form, such as charts, graphs, or tables. On the other hand, explanatory strategy is the most straightforward of the six major mixed methods approaches. It is characterized by the collection and analysis of quantitative data followed by the collection and analysis of qualitative data. The priority typically is given to the quantitative data, and the two methods are integrated during the interpretation phase of the study (Creswell, J., 2012).

3.2.2 Population and sampling procedure

To determine the total population of the study the researcher used sequential frame procedure. To show the procedure clearly let us consider the following picture



The above figure represent the procedure used to determine the population of the study in which number 1 represent tax payer's compliance behavior in Ethiopia, number two represent tax payer's compliance behavior in Addis Ababa , number three represent tax payer's compliance behavior in Merkato and number four represent tax payer's compliance behavior in Merkato number 2 branch office. In Merkato number two branch offices there are 9,273 legally registered tax payers. To the purpose of this study the researcher taken as a total population of the study.

3.2.3SAMPLE SIZE AND SAMPLING PROCEDURE AND TECHNIQUES

Ideally, samples are selected on random bases indicating the representativeness of the population (Tabachnick and Fidell, 2001). The intension of this study is to generalize the findings drawn from the sample to the total tax payer's and to obtain diverse number of sample in order to clearly identify the factors influencing knowledge and compliant behavior of taxpayers. To obtain the relevant and accurate research findings, the sample design is structured as follows.

As the literatures on survey methods reveal, how well a sample represents a population depends on the sample frame, the sample size and the specific procedures of selecting potential respondents. In respect of sample frame, the sample frame from which potential respondents are to be drawn have to be representative of the population of interest. The sample design provides the basic plan and methodology for selecting the sample. In a sample design, a sample selection about broader potential respondents giving equal chance of selection is vital in increasing the representativeness of the sample. Therefore, the total population used to determine the sample was all active and legally registered tax payer's inMerkato number 2 branch office.

In an attempt to obtain a fair representation of the population, the selection the respondent was done using simple random sampling technique. Simple random sampling is preferable toobtain

samples that are unbiased—i.e., that give each subject in the population an equally likely chance of being selected.

Another point to be raised in here about sample design is the sample size. The choice of sample size has a bearing on the reliability of the result 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 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). According to Aryet.al. (2002) all things being equal, the larger sample size, the better representative of the population.

On the other hand there is no single precise way for the determination of sample size hence there are a number of inadequacy for deciding on sample size. Therefore, it is better to decide the sample size by considering the different goals to be achieved by a particular study, sample size used by other researchers on similar studies for example, Wubshet (2011) and by considering practical issues like availability of time, resources and the size of the population to be studied. Fowler (1984) indicated that for a population, the level of precision increases steadily up to sample sizes of 150 to 200. If the desire is to increase the sample size beyond this limit, there is much more gain that is modest.

The most important characteristic of a sample, therefore, is its representativeness, not its size. Therefore, a sample of 150 respondent selected by using lottery method. The researcher also gathered qualitative data through interview from ERCA employee.

3.3 Data Source and Data Collection Method

Both primary and secondary data sources were used for the study. The primary data sources were collected using questionnaire and interview. The secondary source was used in a form of literature review and document from the Ethiopian revenue and customs authority reviewed when necessary.

3.4. Data collection instrument

In order to collect the necessary information the researcher used structured type of questionnaire designed and distributed to the respondent. However, the researcher used Likert scale questionnaire design of using point five with all points label verbally for dependent and independent variable questions (strongly agree(5), agree(4), neutral(3) , disagree(2), strongly disagree(1)) forms. The interview question also prepared for three employees to collect qualitative data. The researcher used probing question in order to get meaningful insight.

3.5. Data analysis techniques

After collecting all the necessary data the researcher used tables and charts to organize the raw data in a meaningful way. The researcher used Mean to measure the central value of the response, standard deviation to know how the values spread around the central tendency and percentage to measure the distribution of the response to describe the a certain phenomenon . In inferential statistics section the researcher used different inferential statistics tools (Regressionanalysis, t- test and ANOVA test when necessary)to show the relationship between variables. To do all the analysis the researcher used SPSS (statistical package for social science) version 20.0.

3.6 VALIDITY TEST

According to Stangor, (1998 as cited in Pallant, 2005) the validity of a scale refers to the degree to which it measures what it is supposed to measure. Content validity, criterion validity and construct validity are the major area to measure validity. Contentvalidity refers to the adequacy with which a measure or scale has sampled from the intended universe or domain of content. Criterion validity concerns the relationship between scale scores and some specified, measurable criterion. Construct validity involves testing a scale not against a single criterion but in terms of theoretically derived hypotheses concerning the nature of the underlying variable or construct. The construct validity is explored by investigating its relationship with other constructs; both related (convergent validity) and unrelated (discriminant validity).

In order to ensure the validity of the instrument the researcher received feedback from advisor, higher tax officials and other academicians who have knowledge and experience in tax compliant behavior. Based on their comments on content validity, criterion validity and construct validity more than five questions were added, seven questions were deducted and because of complexity of the question two questions were modified and used for final questionnaire.

3.7 RELIABILITY TEST

The researcher tested the Reliability of the criteria used in the study by using alpha coefficient and the coefficient of reliability. According to (Sekaran, 1992) as cited in (Soliman, 2011) the stability coefficient 'Cronbach's Alpha', (which measures the consistency and internal stability of elements which measure the independent and dependent variables of the study) if the coefficient is less than 0.60, the consistency and internal stability is considered weak, if the coefficient varies between 0.60 and less than 0.80, it is considered accepted. But, if the coefficient is varies between (0.80 - 0.85), it is considered good. In case the coefficient is higher than 0.85 to one, it is considered excellent. The closer the Alpha coefficient is to integral one, the more it is considered consistent and internally stable. As for the credibility coefficient, it demonstrates how credible are the answers of the investigated subjects. So, if the coefficient is higher than 0.70, this means high credibility in the answers of the investigated subjects.

The researcher used 15 randomly selected respondents as a pilot study to fill the questionnaire after their response the researcher checked the internal consistency of the scale. Based on the output of this study as indicated by table 3.1 below the internal consistency of this study is Cronbach alpha coefficient 0.787. This value is above .7, so the scale can be considered reliable and considered as acceptable range. The detail lists per items are attached as annex.

Table 3.1 Cronbach's Alpha result

Reliability Statistics				
Cronbach's Alpha	Cronbach's Alpha	Based on	Standardized Items	N of Items
.787	.814			5

Source: primary data, 2017

3.8 Organization of the paper

The thesis is organized in five chapters. Chapter one presents the introduction part. The second chapter shows the critical review of the related literatures relevant to understand the topic of the study deeply. The third chapter deals with the research design, which includes the research approach used, methods adopted, population & samples, questionnaire design, research stages and data analysis techniques used. Chapter four contains results and analysis and the fifth chapter summarizes the main results of the study and gives some recommendations. The paper ends with annexed list of reference, and data collection instruments

CHAPTER FOUR

4. DATA ANALYSES AND PRESENTATION

The major purpose of this chapter is to present, analyze, and interpret the raw data which collected from the respondents. The researcher collected raw facts from the respondent to describe and examine the relationship between tax knowledge and compliance behavior. To organize the collected data the researcher used tables , charts and different statistical tools mainly the researcher focused in two areas descriptive analysis(percentage , frequency, mean and standard deviation) of the data and relationship analysis(correlation , regression , t-test and ANOVA) to convert this data in to information. After grouping of the response the researcher also tried to show the implication of the data to the user in the interpretation part next to each table and graph.

4.1 Respondent Profile and Data analysis

4.1.1 Response Rate

A total of 150 questionnaires including a covering letter were delivered in person to the respondents. A follow-up telephone call was made to increase the response rate.

The response rate for questionnaires distributed in person was high. While conducting this study, the researcher faced many challenges to secure respondents' willingness to respond; many of them assumes as tax intelligence method for ERCA. In addition, many complained that there is dissatisfaction on taxation system.

The above reason may have impacted on response rate a total of 138 respondents or 92 % completed and returned the questionnaire.

Population	Sample size	Questionnaire distributed	Questionnaire not -returned	Questionnaire avoided	Used for analysis
12,714	150	150	12	3	135
Percentage		100	8%	2%	90%

Response rate = $\frac{\text{Number of respondents that cooperated}}{\text{Total number of selected respondents}} = \frac{138}{150} = 92\%$

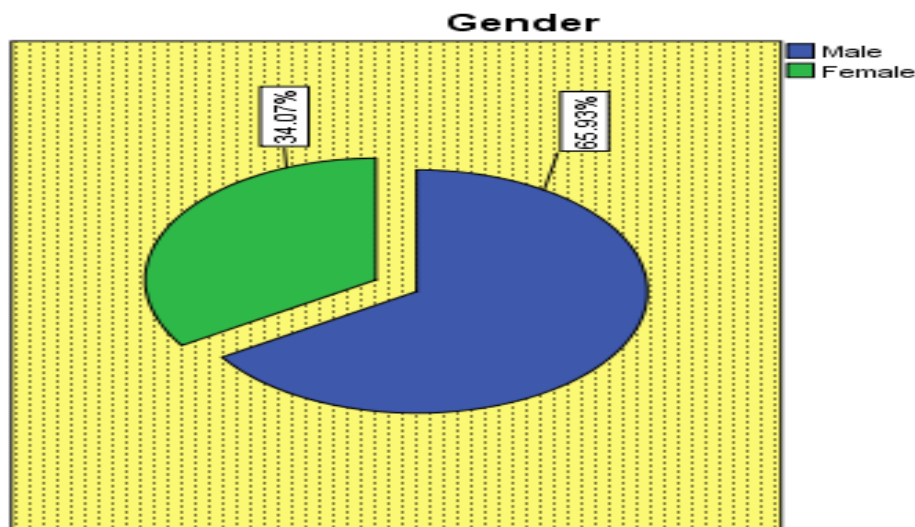
Total number of selected respondents = 150

On the other hand 3 of the questionnaire were not fully filled. To assure the quality of the research the researcher avoided those not fully filled responses. As a result only 135 of the questionnaire used for analysis. Finally the research utilized 90% of the sample size effectively.

4.2 Descriptive statistics

4.2.1 Gender

Chart: 4.2.1

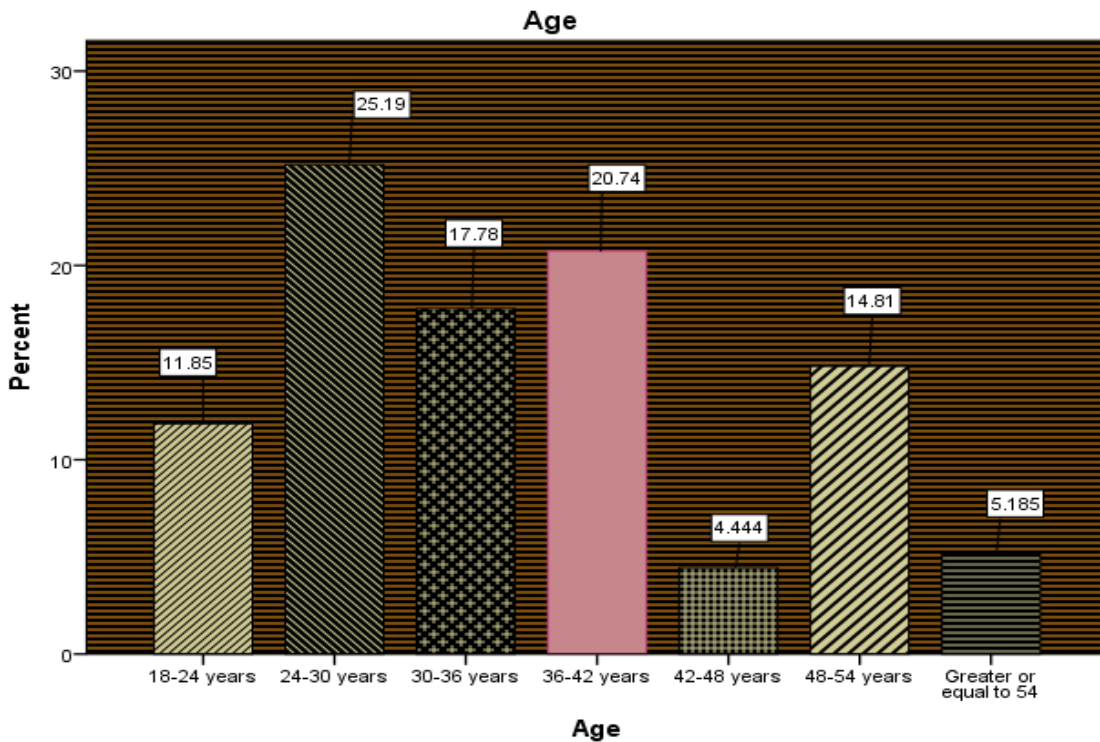


Source: primary data, 2017

The above pie chart indicates that the participant's gender distribution. The collected data reveals that majority of the respondents (65.93 %) are male respondents whereas, the remaining (34.07%) were Female respondents. The researcher doesn't make any discrimination or favor based on their gender but, based on random selection method criteria the proportion of gender determined. As indicated by the chart the proportion is fair enough to represent any gender perception and their behavior towards tax compliance behavior.

4.2.2 Age of respondent

Chart: 4.2.2



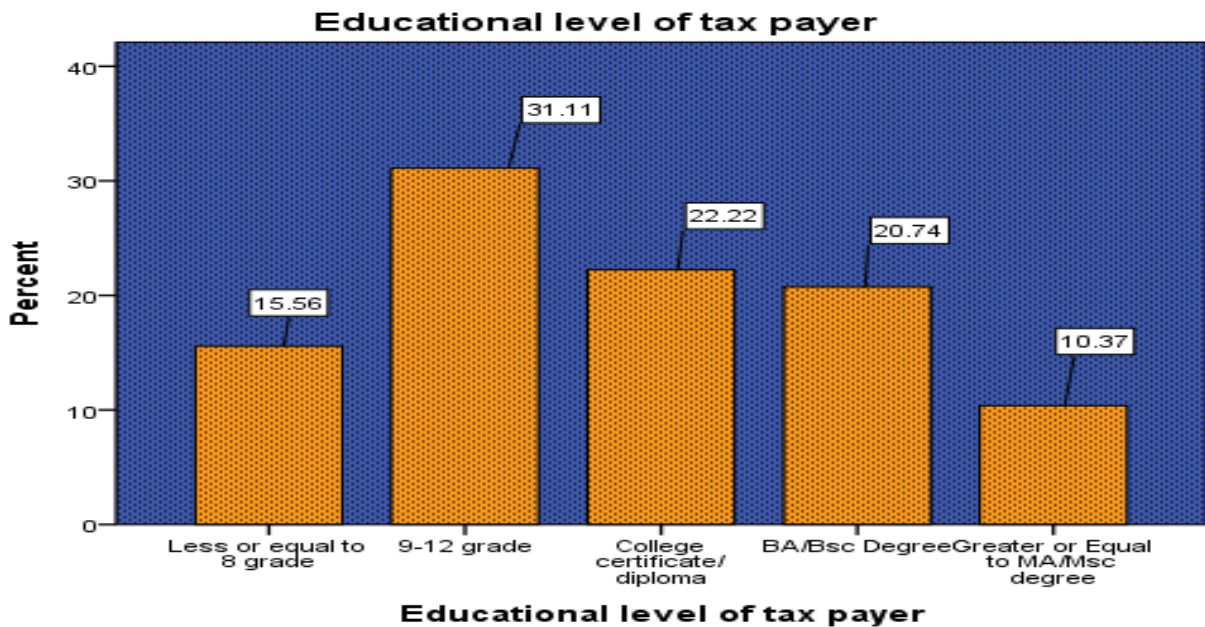
Source: primary data, 2017

The above bar chart presents the age of respondent participated in the study. The data shows that the majority of the respondents (63.71%) were the age between 24-42 years. Whereas, (24.44%) and (11.85%) of the respondents fall under greater or equal to 42 years and the age between 18-24 years respectively. As shown in the chart the majority of the respondent (63.71%) of the respondents comprises (25.19%, 20.74% and 17.78%) are evenly distributed

between the age of 24-30 years, 30-36 years and 36-42 years respectively which implies these age groups are active participant in the business.

4.2.3 Educational level of the respondent

Chart: 4.2.3



Source: primary data, 2017

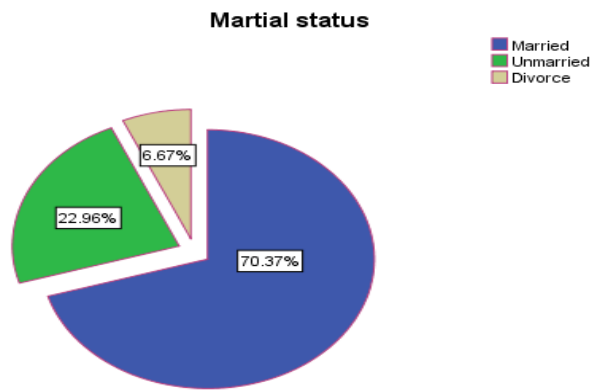
Chart 4.2.3 indicates educational level of respondents. Based on the response educational level of the respondent implies (31.11%, 22.22%, 20.74%, 15.56% and 10.37%) of 9-12 grade, college certificate/ diploma, BA/Bsc degree, less or equal to 8th grade and greater or equal to MA/Msc degree respectively. This data indicates that most of the respondents are well educated to understand the Questions of the study. On the other hand, the data implies that the majorities (53.33%) of the respondents are well educated or has ability to understand any verbal and non-verbal communication messages delivered by the authority.

According to Mohani (2003) Greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise

their tax responsibility. Educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance

4.2.4 Marital status of the respondent

Chart: 4.2.4

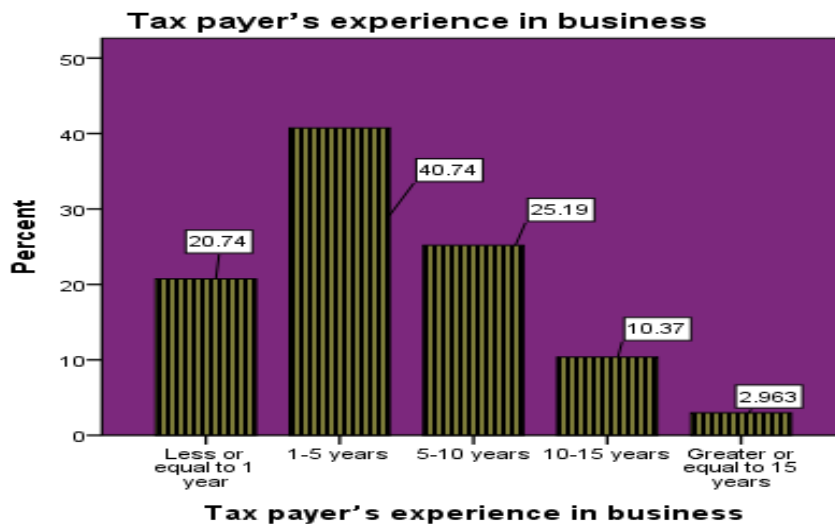


Source: primary data, 2017

As clearly indicated by Chart 4.2.4 the majority of the respondents (70.37%) are Married, (22.96%) are unmarried and (6.67%) of the respondents are divorced with their husband/ wife. Compliance behavior is the result of many factors on which marital status affect human behavior either positively or negatively. The data collected from the respondent fairly addresses all individual differences that affect individual behavior.

4.2.5 Business experience of the respondent

Chart: 4.2.4



Source: primary data, 2017

Chart 4.2.5 indicates (40.74%) of the respondents have 1-5 years business experience, (25.19%) of the respondents have 5-10 years business experience, (20.74%) of the respondents are new entrants or they have less or equal to 1 years duration and relatively small (13.33%) of the respondents are senior or they involved for greater or equal to 10 years in the business environment. Generally speaking, the majorities of the respondents (61.48%) have less or equal to 5 years business experience. The Ethiopian revenue and customs authority has greater chance to increase their knowledge and positively affect their compliance behavior.

4.2.6 Tax payer's motivation

Descriptive Statistics

Parameters	Mean	Std. Deviation
You makes considerable effort to know tax related rules	2.97	1.327
you have experience to join meetings that organized by ERCA aims awareness creation	4.04	.909
You have tendency to visit ERCA office in order to update your knowledge related with taxation	2.93	1.167
You have tendency to share ideas with tax compliant business owners	2.41	.949
you have received continuous trainings on taxation	2.53	1.028
Grand mean of tax payer's motivation	2.9763	.49659

Table 4.2.1 Source: primary data, 2017

Table 4.2.1, Includes five parameters of tax payer's motivation to equip themselves with tax knowledge. The result of the data (Grand Mean = 2.98) which is medium level and also the value of standard deviation shows some degree of inconsistency among respondents (SD = 0.49). This value implies that there are some respondents who rated below the grand mean which means they gave minimum attention to know about the taxation system. On the other hand, most respondents rated above from the cutoff point which means they make considerable effort to increase their knowledge related with taxation.

From different parameters listed to measure tax payer's motivation some parameters such as joining awareness creation discussion forum and individual effort to know about taxation rated high (Mean = 4.04) and (Mean =2.97) respectively. This result also indicated that there is high variation between different respondents which is indicated by relatively high standard deviation result (SD = 0.909) and SD= 1.327) respectively. On the other hand, tax payer's effort in visiting ERCA' s office to update their knowledge , participating in a continuous training and sharing idea with compliant tax payer rated relatively low (Mean= 2.93

),(Mean=2.53) and (Mean= 2.41) respectively. This figure also indicates that there is high response variability that means some respondents rated as they are performing the activity well and others do not perform at all (SD=1.167), (SD=1.028) and (SD=0.95) respectively.

According to Harris (1989) as cited by (Mohd Rizal Palil and Ahmad Fariq Mustapha, 2011) divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation

4.2.7 ERCA's role for tax payer's knowledge

Descriptive Statistics		
Parameters	Mean	Std. Deviation
ERCA creates awareness using social medias	2.08	.734
ERCA teaches different tax education for tax payers using different audiovisual media	3.50	1.184
ERCA informs tax payment schedule in tax payers personal phone using SMS	1.98	.893
ERCA introduce simple tax calculation method using print media such as brochure.	1.90	.892
Employee of ERCA are eager to cooperate with tax payers when difficulty occurs	2.87	1.318
ERCA meaningfully present information how effective they are in creating social welfare.	4.13	.841
Grand mean of ERCA's effort	2.7432	.43086

Table 4.2.2 Source: primary data, 2017

The data indicated in table 4.2.2 shows that ERCA’s effort to create favorable knowledge on tax payer’s mind. The respondent rated the effort of the ERCA as a medium level (Grand Mean= 2.74). The response variation between respondent is high (SD=0.431) this variation indicates that some tax payer recognized the effort of ERCA positively and others perceived as the effort as low ERCA teaches different tax education for tax payers using different audiovisual media

Based on the tax payer’s perception ERCA’s performance is relatively high (Mean=4.13) in meaningfully presenting information how effective they are in creating social welfare, medium performance in teaching different tax education for tax payers using different audiovisual media and low in employees of ERCA effectively cooperating with tax payers when difficulty occurs(Mean= 3.50) and (Mean= 2.87) respectively and low in creating awareness using social media ,informing taxpaying schedule via personal phone SMS notification and introducing simple tax calculation procedure in print media (Mean=2.08) , (Mean =1.98) and (Mean=1.90) respectively.

4.2.8The social role in creating tax payer’s knowledge

Descriptive Statistics		
Parameter	Mean	Std. Deviation
Most tax payers are compliant to the tax system	2.93	1.167
Being compliant increases social acceptance	2.28	.740
There is high opportunity to be caught those who involved in tax evasion.	2.84	.971
It is difficult to survive on business without adhering tax law	2.57	1.019
Our society has tendency to make transaction with receipt	4.13	.841
Your family encourages you to be compliant.	2.93	1.167
Grand mean of social role	2.9469	.50727

Table 4.2.3 Source: primary data, 2017

The above table 4.2.3 tries to identify the role of society in influencing tax payer's knowledge. The respondent rated that the role of society in creating tax knowledge have medium level (Mean = 2.95) influence. The response between respondents has some level of variation (SD=0.51) which means some respondents has inclined to agree or strongly agree with the statement describing the existence of social influence. On the other hand there is a significant number of respondent which stands against social influence in creating tax knowledge.

This research forwarded some points to the respondent that affect individual tax payer's perception in relation to forming tax knowledge. The respondent replied as high effect when our community increases the behavior of asking receipt for his transaction (Mean=4.13), Medium role (Mean = 2.93, Mean = 2.93 , Mean = 2.84 and Mean =2.57) when family encourage to pay tax, when tax payer's develop **most tax payers are compliant attitude**, when tax payer's thinks as there is high opportunity to be audited and when the respondent thinks as it is difficult to survive on business without adhering tax law and the society has low role (Mean = 2.28) when tax compliant behavior increases social acceptance.

4.2.9 The role of system simplicity in knowledge creation

Descriptive Statistics		
Parameter	Mean	Std. Deviation
- It is difficult to get taxation document in an organized way (should be accessible	2.25	1.151
- There is flexible time schedule to pay tax (fixed to be understand)	3.81	1.143
- Tax calculation method is complex (tax calculation method should be simple to be understand)	2.87	1.233
- There is subjective judgment or (ambiguous) reason to be penalized (there is no subjective judgment)	2.41	.988
- It is difficult to understand some technical terms on taxation document (using simple terms)	2.80	1.274
- Forms designed for self-assessment are difficult to understand. (use well organized self-assessment form)	4.04	.909
Grand mean of system simplification	3.0296	.45433

Table 4.2.4 Source: primary data, 2017

Table 4.2.4 indicates the contribution of system simplicity for creating tax knowledge. Compared with other factors respondents favorably rated as significant. Most of the questions represent complexity of the system but the researcher inverted after the data collected during coding stage. From the wider picture we can understand that system simplicity have medium impact (Mean= 3.03) on influencing tax knowledge. The response variation between respondents is high (SD=0.454) which implies based on different factors the respondent rated as strongly agree or agree option for favoring system simplicity is important on the other hand other respondents denied the significance of system simplicity.

When we come to specific parameter the respondent rate high (Mean = 4.04) for Self-assessment system simplicity and (Mean=3.81) for fixed time schedule, Medium role (Mean = 2.87, Mean =2.80 and Mean =2.41) on parameters Tax calculation method is simplicity, using simple words to understand some technical terms on taxation document and rational

judgment or (clear) reason to be penalized respectively. On the other hand the respondent rate as low (Mean=2.25) on parameter like making accessible taxation document in an organized way to increase tax knowledge.

As highlighted by Simon James, Thamrongsak Svetalekth And Brian Wright , (2006)

Tax simplification was a complicated process – and needed not just adhocresponses but a strategy that took account of the different factors generatingcomplexity and the best ways of responding to them in the context of the tax systemas a whole.

More generally, all aspects of policy should be consistent not only with otheractivities within a particular government department or agency but also with othergovernment policies. For example, because they frequently have a large proportion oftheir receipts in the form of cash, small businesses may have more scope than othertaxpayers to evade tax.

4.2.10Tax payer’s compliant behavior

Descriptive Statistics		
Parameter	Mean	Std. Deviation
Paying tax is manifestation of responsible citizenship	2.87	1.318
It is mandatory to obey with taxation rule in order to build sustainable business	4.13	.841
You believes that paying tax improves social development	3.76	1.205
- You were punished due to failure on sticking taxation rules	2.93	1.167
Paying tax provides you mental satisfaction	4.04	.909
-Most non-tax compliant business person has opportunity to be grown on their business.	2.97	1.327
Grand mean of tax compliant behavior	3.4506	.48616

Table 4.2.5 Source: primary data, 2017

The above table 4.2.5 indicates that the degree of tax payer’s compliant behavior. The researcher identified some variables that indicate compliant behavior of tax payers. The respondents asked to judge themselves whether they are tax compliant or not using positively

and negatively worded parameters. The data collected from the respondent reveals that tax payer's categorized themselves as Medium level (Mean= 3.45) this means the respondent afraid either categorize themselves as purely tax compliant or as non-compliant. The degree of response variation measurement tools indicates that there is high response variation between respondents (SD=0.486) which means there are some respondents who rate confidently as they have tax compliance behavior. On the other hand, there are some respondents who reveal themselves honestly they are not developed tax compliant behavior yet.

When we come to parameters some parameters have high contribution to the tax compliance behavior i.e. (Mean = 4.13) those who thinks as building sustainable business is the result of obeying taxation rules , (Mean = 4.04) those who pays tax for the sake of mental satisfaction and (Mean = 3.76) those who develop an attitude of paying tax improves social development. There are also parameters considered as Medium in increasing tax compliant behavior of the tax payers (Mean=2.97) who develops the perception of most non-tax compliant business person has opportunity to be grown on their business, (Mean=2.93) who had affected one way or another punished due to failure on sticking taxation rules and (Mean=2.87) who believes as Paying tax is manifestation of responsible citizenship.

As highlighted by Hassel dine (1999), many tax agencies have used various techniques to measure the extent of non-compliance, but there will always be some compliance dependent on the social attitudes and behavioral aspects of taxpayers. Moreover, the extent of non-compliance among individual taxpayers not only depends on individual factors, but on a complex combination of circumstances

This paper also tried to indicate additional factors (IOSS) that create tax knowledge in turn affects compliance behavior.

4.3 Inferential statistics

This sub-section of the research tries to show the relationship between variables (relationship between dependent and independent variables) in different statistical measurement tools. As indicated by in methodology section correlation, regression, t-test and ANOVA test section presented as follows.

4.3.1. Descriptive Statistics

Dimensions	Mean	Std. Deviation
Individual motivation	2.9763	.49659
Organizational effort	2.7432	.43086
Social contribution	2.9469	.50727
System simplicity	3.0296	.45433
Tax payer's compliance behavior	3.4506	.48616

Table 4.3.1 source: primary data, 2017

4.3.2 Correlation table

	IFA_ALL	OFA_ALL	SFA_ALL	ECFA_ALL	CB_ALL
Individual motivation	1	-.004	.328**	.186*	.573**
		.961	.000	.031	.000
Organizational effort		1	.228**	.360**	.362**
			.008	.000	.000
Social contribution			1	.136	.441**
				.115	.000
System simplicity				1	.446**
					.000
Tax payer's compliance behavior					1

** . Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.3.2 source: primary data, 2017

According to (Cohen, 1988), to determine the strength of the relationship between variables suggests the following guidelines: (r = .10 to .29) or (r = -.10 to -.29) small (r = .30 to .49 or r = -.30 to -.49) medium (r = .50 to 1.0) or (r = -.50 to -1.0) large these guidelines applied to determine either strong/large/, medium or weak/small/ relationship exist between variables.

Table 4.3.2 Pearson r correlation coefficients shows between each pair of variables listed. The researcher tried to minimize the effect of missing value by using option exclude cases pair wise in the SPSS which enable to remove missing value from the analysis. The sig. (2-tailed) shows the distribution as normal not determined either positive or negative direction. To determine the relationship, significance and direction of the variable it is better to see the value of each variable.

Based on the data given above there is one negative interrelationship between two co-variables (between individual motivation and organization effort (r = -.004) but, their relationship is insignificant). There are many positive relationship between co-variables with different degree of significance among variables in some variable there is strong positive correlation (r = 0.573) between individual motivation and tax payer's compliance behavior, there is Medium positive correlation (r = 0.446), (r = 0.441), (r = 0.362) , (r = 0.360)(r = 0.328) between system simplicity and tax payer's compliance behavior , social contribution and tax payer's compliance behavior , organizational effort and tax payer's compliance behavior , organizational effort and system simplicity and individual motivation and social contribution respectively and there is weak positive relationship (r = 0.228) and (r = 0.186) between organization effort and social contribution and individual motivation and system simplicity respectively. On the other hand there is no significant relationship (r = 0.136, P = 0.115) between social contribution and system simplicity. This table shows the value of Pearson correlation coefficient value between all variables. The summery of total value and its impact is presented in the following table. The correlation between compliance behavior to individual motivation, compliance behavior to organizational effort, compliance behavior to social

contribution and compliance behavior to system simplicity has statistically significance correlation because ($P < 0.05$).

4.3.2 Regression

Table 4.3.3 Summery Correlation table

		Compliant behavior	Knowledge influence
Pearson Correlation	Compliant behavior	1.000	.720
	Knowledge influence	.720	1.000

Source: primary data, 2017

Table 4.3.4 Model summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.720 ^a	.519	.515	.33845	.519	143.491	1

The above table 4.3.3 and 4.3.4 the summery correlation result and model summery result for between knowledge influencing factors and tax payer's compliant behavior. To calculate coefficient of determination or to determine the contribution of knowledge influencing factors to compliance behavior. As the data indicates the r value is ($r = 0.720$) it shows the availability of strong relationship between knowledge influencing factors and improved compliant behavior. The total contribution of r value to the performance can be calculated as $r^2 = 0.720 * 0.720$ is equals to 0.5184. To convert this to percentage of variance multiplying the

result by 100 it gives 51.84 % shared variance. We can say that knowledge influencing factors helps to increase compliance behavior by 51.84%.

As clearly indicated by model summary table 4.3.4 R Square result is 0.519 it shows how much of the variance in compliance behavior is explained by the independent variables (IOSS). The value can be expressed as a percentage 51.9% of the variance in compliance behavior explained by the model or predictor. Adjusted R square column used to eliminate over estimation that cause do to small sample size. The result of adjusted R square result for this study shows 0.515 The Adjusted R square statistic 'corrects' this value to provide a better estimate of the true population value. For the purpose of this study using adjusted R square value enables to generalize the value of the sample to the population. So that, the predictors has the ability to predict compliance behavior by 51.5%.

The relationship between knowledge influencing factors measured as(Individual motivation, Organization's effort, Social contribution, and System simplicity or IOSS) dimension and compliant behavior indicates there is strong relationship between the models constructed. Indicators were investigated using Pearson product-moment correlation coefficient analyses were performed to ensure no violation of the assumptions of normality and linearity. There was a strong Correlation between the two variables ($r= 0.720$, $N= 135$ and $p<0.01$) with high effort in IOSS dimension provide better compliance behavior.

Table 4.3.5 Correlations (1 tailed)

		CB_A LL	IFA_A LL	OFA_A LL	SFA_AL L	ECFA_A LL
Pearson Correlation	CB_ALL	1.000	.573	.362	.441	.446
	IFA_ALL		1.000	-.004	.328	.186
	OFA_AL L			1.000	.228	.360
	SFA_AL L				1.000	.136
	ECFA_A LL					1.000
Sig. (1-tailed)	CB_ALL	.	.000	.000	.000	.000
	IFA_ALL		.	.481	.000	.015
	OFA_AL L			.	.004	.000
	SFA_AL L				.	.057
	ECFA_A LL					.

Source: primary data, 2017

The above table 4.3.5 Used to determine whether the correlation value violate the assumption of multico-linearity and singularity or to show consistency with the assumption in which predictors show at least some relationship with dependent variable. The fact shows the score for Individual motivation, Organization’s effort, Social contribution, and System simplicity indicates ($r = 0.573$, $r = 0.362$, $r = 0.441$ and $r = 0.446$ respectively) all are (above .30 preferable) in preferable range . From the data we can understand that individual factor correlate strongly than others with compliance behavior. If the value of any predictor has strong correlation ($r > 0.9$) it violates multi co-linearity assumption at the same time when

predictors has weak correlation($r < 0.30$) singularity assumption violates. In this research all predictors are between ($r = 0.30$ and $r = 0.700$) so that it is preferable range because it satisfies multi co- linearity and singularity assumption.

Table 4.3.6 Coefficients

Model		Standard Coefficients	Sig.	Correlations		Co-linearity Statistics	
				Partial	part	Tolerance	VIF
		Beta					
1	Individual motivation	.461	.000	.535	.425	.853	1.172
2	Organizational effort	.227	.000	.292	.205	.819	1.221
3	Social contribution	.251	.002	.322	.229	.835	1.197
4	System simplicity	.204	.000	.267	.187	.840	1.191
Dependent variable: tax compliance behavior							

Source primary data, 2017

Table 4.3.6 used for diagnose co- linearity problem for multico-linearity cases. This can pick up on problems with multico-linearity that may not be evident in the correlation matrix. Tolerance and VIF used for to measure co-linearity statistics, Tolerance level: Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculated using the formula $1 - R^2$ for each variable. with its cut off less than 0.10 point and VIF(variance inflation factor with cut off above 10 point) for both less than 0.10 for tolerance value and greater than 10 point indicates the possibility of multi-collinearity. in this research case tolerance level indicates (0.853, 0.819, 0.840 and 0.835) for (Individual motivation, Organization effort, Social contribution and system simplicity respectively) and VIF value of (1.172, 1.221, 1.191 and 1.197) for

(IOSS respectively) for both measurement there is no value less than 0.10 in tolerance level and there is no point greater than 10 point in VIF value. This result enables to be sure that the correlations of each independent value are consistent with the multico-linearity assumption. if the value presented in tolerance level less than 0.10 and the value of VIF above to 10 point it needs removing one of the highly inter-correlated independent variables from the model.

Standardized coefficient Beta value evaluates the value of each independent variable. Beta value measures the contribution of independent variable for prediction of dependent variable. The output of this research shows (the largest Beta coefficient is 0.461 then 0.251, 0.227 and, 0.204) the largest value indicates higher contribution and by ignoring negative sign least Beta coefficient value indicates lower contribution. In this research all independent variables (IOSS) makes unique contribution to explaining dependent variable.

In the SPSS output the sig. column (sig value <0.05) shows the variable's ability in making a statistically significant unique contribution to the equation. So that all variables have statistically significant (sig. value 0.000 and 0.002) unique contribution to bring compliant behavior.

This table also provides potentially useful piece of information is the Part correlation coefficients.

According to Tabachnick and Fidell, 2001 as cited by (Pallant, 2005) Part correlation coefficients referred to as semi-partial correlation coefficient and it provide an indication of the contribution of that variable to the total R squared. In other words, it tells you how much of the total variance in the dependent variable is uniquely explained by that variable and how much R squared would drop if it wasn't included in your model. As indicated in this column (part correlation) part correlation result shows $0.425^2 = 0.181$, $.205^2 = 0.0420$, $0.229^2 = 0.0524$ and $0.187^2 = 0.03497$ this indicates individual motivation 18.10% , organizational effort 4.20%, social contribution 5.24 % and system simplicity 3.48 % of unique contribution to the explanation of variance in bringing compliance behavior. From the total significance of the model 31.02% of the result comes from unique contribution to the explanation of variance in bringing compliance behavior comes from unique contribution of each variable, and with

any overlap or shared variance removed or partial out.(that is why 31.02% part correlation value become less compared with 51.9 % of R² value in the above model summery table).

T-test and ANOVA test

The researcher tried to calculate independent samples T-test result for different demographic factors (Gender and marital status) in order to examine their compliance behavior .As stated in table 4.3.7 and 4.3.8 below the result of this analysis shows that there is statistically significant relationship between male and Female. An independent-samples t-test was conducted to compare the tax compliant behavior scores for males and females. There is statistically significant difference in scores for males (*Mean* =3.62, *Std. Deviation*=0.387) and females(*Mean*=33.17, *Std. Deviation*=0.4782; *t* (76.26)=6.356, *p*=.000]. The magnitude of the differences is large (eta squared=0.232). That means 23.2 % of compliant behavior explained by gender.

According to Abdullah Al-Mamun, Harry Entebang et al,(2014) both male and female respondents were found to be having similar complaint attitudes.

The result of this study is against the finding of previous study conducted in Malaysia, the result of this study revealed that there is statistically significant difference between Male and Female. In this case the magnitude of difference between Male and Female is very large.

Table 4.3.7 Group Statistics for gender

	Gender	N	Mean	Std. Deviation	Std. Error Mean
CB_A	Male	89	3.6273	.38764	.04109
LL	Female	46	3.1087	.47819	.07050

4.3.8 Independent Samples Test

		Levene's Test for Equality of Variances	t-test for Equality of Means							
			F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference
		Lower								Upper
CB_A LL	Equal variances assumed	4.573	.034	6.793	133	.000	.51865	.07635	.36762	.66967
	Equal variances not assumed			6.356	76.261	.000	.51865	.08160	.35612	.68117

The researcher also conducted an independent-samples t-test to compare the tax compliant behavior scores for married and unmarried tax payers. There was no statistically significant difference in scores for married (Mean =3.41, Std. Deviation=0.507) and unmarried (Mean=3.61, Std. Deviation=0.4315; $t(124)=-1.945$, $p=.150$]. The magnitude of the differences is very small. ($\eta^2=0.0296$).The table attached in the index as labeled as T-Test- Martial status1and T-Test- Martial status2The researcher conducted one way between group ANOVA with post-hoc test for some demographic variables to examine group

difference in compliance behavior (for Education level , age difference , experience in business) these demographic factors doesn't have statistically significant relationship in explaining compliance behavior based on their level.

Chan et. al. (2000), investigates the direct and indirect effects of two noncompliance opportunities, namely educational and income level. Previous literature supports the direct, negative relationship between educational level and taxpayer compliance but a direct relationship between income level and tax compliance is unclear Chan et. al. (2000). On the other hand, Abdullah Al-Mamun, Harry Entebang et al,(2014) reported as academic qualification and attitude towards compliance were the only variables that shown a statistically significant ($p < 0.05$).

Age, qualification/education, income, and working experience were correlated with tax compliance. Based on the result, age is significant at ($p < 0.01$ with $r = -0.151$) (Abdullah Al-Mamun, Harry Entebang et al,2014)The result of this study reveals that there is no statistically significant relationship between educational level and tax compliance, different age group and based on business experience.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The major objective of this chapter is to present the main point of the research and to draw some conclusions about factor influencing tax knowledge and the tax compliance behavior based on the fact presented in previous chapter. In addition to primary data the researcher included points from literature when necessary to support the primary data.

- Is there statistically significant relationship between tax knowledge and tax compliance behavior

There is statistically significant positive relationship between tax knowledge and compliance behavior. As the data indicates the r value is ($r = 0.720$) it shows the availability of strong relationship between knowledge influencing factors and improved compliant behavior. The total contribution of r value to the compliant behavior can be calculated as $r^2 = 0.720 * 0.720$ it equals to 0.5184. To convert this to percentage of variance multiplying the result by 100 it gives 51.84 % shared variance. We can say that knowledge influencing factors helps to increase compliance behavior by 51.84%.

- Is there statistically significant relationship between tax payer's individual motivation and tax compliance behavior?

Tax payer's Individual motivation has statistically significant positive relationship with the compliance behavior. The study reveals that individual motivation has higher value ($r = 0.573$) compared with other factor. In addition to statistically significant positive relationship, it has 18.10% unique contribution to the explanation of variance in bringing compliance behavior and 46.1 % contribution to the prediction of dependent variable.

- Is there statistically significant relationship between organization effort (ERCA's effort) and tax payers' compliance behavior?

ERCA's effort in creating tax knowledge has statistically significant positive relationship to the compliance behavior. ERCA's effort has considerable role in predicting compliance behavior

(25.1%) and 4.20% unique contribution to the explanation of variance in bringing compliance behavior.

- Is there any statistically significant relationship between social contribution and tax compliance behavior?

There is statistically significant positive relationship between social contribution and compliance behavior. Social contribution has (22.7%) of contribution to the prediction of dependent variable and (5.24%) of unique contribution to bring compliance behavior.

- Is there statistically significant relationship between system simplicity and compliance behavior.

System simplicity has statistically significant positive relationship with compliance behavior. System simplicity also has 20.4% contribution to the prediction of the dependent variable and relatively small (3.48%) unique contribution to bringing compliance behavior.

- Is there any demographic factors that has statistically significant relationship with compliance behavior

An independent-samples t-test was conducted to compare the tax compliant behavior scores for males and females, between married and unmarried tax payer's. The result reveals that there is statistically significant difference in scores between males and females. The magnitude of the differences is large ($\eta^2=0.232$). That means 23.2 % of compliant behavior explained by gender. On the other hand, There was no statistically significant difference in scores between married and unmarried tax payer's compliance behavior. The magnitude of the differences is very small. ($\eta^2=0.0296$).

One way between groups ANOVA with post-hoc test conducted in order to examine the relationship between different age groups, with different educational level and with different business experience level group with their compliance behavior. However, the study reveals that there is no statistically significant relationship to explain tax compliance behavior based on their group.

5.2 RECOMMENDATIONS

The result of this research exposed different factors that affecting tax knowledge creation and at the same time scientifically tested their potential for bringing compliance behavior. As indicated in the model individual motivation, organizational effort, social contribution and system simplicity together makes more than half (51.5%) of compliant behavior. however, the authority doesn't pay much attention to knowledge creation. To fill this gap all stakeholders should be actively participate in knowledge creation process. Compliance behavior can't be achieved unless otherwise, knowledge creation process given priority. To create knowledge individual tax payer's should be actively seek knowledge , the organization should be continuously and meaningfully exert his effort in challenging societies' culture and creating simple and accessible system.

Individual motivation and social contribution are the two factors out of ERCA's control to create knowledge and then to affect their compliance behavior. To bring change in this dimension ERCA should change their method of information delivery mechanism. To affect individual knowledge should apply customized information delivery system based on their specific needs. On the other hand social contribution has significant role in creating tax knowledge. Social contribution factor also have significant role in bringing compliant behavior. So that, ERCA should use a social networks and information delivery mechanism like word of mouth and electronic word of mouth method should be use creatively.

REFERENCE

Abdullah Al-Mamun, Harry Entebang et al. (2014). The Impact of Demographic Factors on Tax Compliance Attitude and Behavior in Malaysia. Journal of Finance, Accounting and Management, 5(1), 109-124.

Ahbabu, A. 2010, 'The effect of peer influence and government services on income tax compliance', Accounting and Finance department at Addis Ababa university, a project paper, 10 -15, 38 – 40.

Allingham, M.G., and Sandmo, A. (1972), 'Income tax evasion: A theoretical analysis', Journal of Public Economics, 1(3-4), 323-38.

Alm, J. 1991, 'Tax compliance and administration', economics department at Andrew Young School of policy studies, Georgia state university

Aryet.al. (2002). Changing regulatory environment for small and medium size enterprises and their performance in Ghana.

Azjen, I. and Fishbein, M. (1980), 'Understanding Attitudes and Predicting Social Behavior', Prentice Hall Englewood Cliffs, NJ.

Babbie, E. (1990), Survey Research Methods. Belmont, CA: Wadsworth.

Bluman, A. (2007). Elementary Statistics A Step by Step Approach (Vol. 7). New York: McGraw-Hill.

Brand, P. 1996, 'Gender and ethnicity differences in tax compliance', national tax journal, available at <http://www.ntj.tax.org/html>, accessed in March, 2011

Chan, C.W., Troutman, C.T., and O'Bryan, D. (2000), 'An expanded model of taxpayer compliance: Empirical evidence from United States and Hong Kong', Journal of International Accounting, Auditing and Taxation 9(2), 83 –103.

Collins, J.H., Milliron, V.C., and Toy, D.R. (1992), 'Determinants of tax compliance: A Contingency approach'. The Journal of American Taxation Association, 14(2), 1-29.

Cooper, D R and Schindler, PS (2006), Business research methods (9th ed.). The McGraw Hill Companies, New Delhi.

DABA, T. A. (2015). DETERMINANTS OF TAX REVENUE IN ETHIOPIA. Addis Ababa: Not publishe.

Demissie, A. 2008, 'Assessment of the status of voluntary income tax compliance: In the case of Addis Ababa', Master thesis, Addis Ababa University.

Fraenkel, J.R., & Wallen, N.E., (2006). How to design and evaluate research in Education. New York: McGraw-Hill

George Town University School of Law.(2007). Recent Research on Tax. Washington, DC: IRS Research Bulletin.

HabtamuDheressa, K.K Reddy, and DebelaYadeta. (2015). Challenges of Value Added Tax Administration: The Case of East. Research Journal of Finance and Accounting, 132-137.

Kassu, T. (2011). CHALLENGES OF TAX ADMINISTRATION IN ARADA SUB-CITY OF ADDIS ABABA CITY ADMINISTRATION. Addis Ababa: Not published.

Mohamad Ali, Mustafa H, Asri M. (2007). The effects of knowledge on tax compliance behaviors' among Malaysian taxpayers. International conference for business, (p. 268). Tokyo.

Mohd Rizal Palil and Ahmad Fariq Mustapha. (2011, December 21). Factors affecting tax compliance behavior in self assessment system. African Journal of Business Management, 5(33), pp. 12864-12872.

Pallanat, J. (2005). A step by step guide to data analysis using SPSS for Windows (Version 12). Retrieved April 2017, from www.allenandunwin.com/spss.html:
<http://www.allenandunwin.com/spss.htm>

RedaeBerheRedae, ²Professor ShailinderSekhon (Ph.D) Taxpayers' Knowledge and Tax Compliance Behavior in Ethiopia: A case Study in Tigray State ¹

Simon James, ThamrongsakSvetalekthAnd Brian Wright. (2006). THE BENEFITS OF A MORE STRATEGIC APPROACH TO TAX ADMINISTRATION AND THE ROLE OF PERFORMANCE INDICATORS. International Conference on Tax Administration (p. 3). Sydney: University of Exeter.

Soliman, H. S. (2011). Customer Relationship Management and Its Relationship to the Marketing Performance. International Journal of Business and Social Science, 2 (10), pp173.

Tabachnick, B.G., &Fidell, L.S. (2001).Using multivariate statistics (4th Ed.)BostonAllyn.

Taxpayers in Addis Ababa, Addis Ababa University

Wolde, K. D. (2016). Factors Affecting Tax Compliance of Small and Medium Business Profit Taxpayers in Addis Ababa. Addis Ababa: Not published.

WubshetAborat (2011). Taxpayers' perception towards fairness: Personal business profit

Saint Mary's University College

School of graduate studies

Master of business administration

The purpose of this study in general and this questionnaire in particular is to study on **“The influence of tax education on compliance attitude a case study in Ethiopian revenue and custom authority merkato number 2 branch office”** as a partial equipment for the Masters degree in business administration. The outcomes of this study will help policy makers and tax authorities, particularly Ethiopian Revenue and Customs Authority (ERCA) merkato number 2 branch office, with a deeper understanding of the compliance behavior of their clients' (i.e., taxpayers) and to identify strategies that help in fostering the level of voluntary compliance. This research is intended only for academic purpose authorized by the Saint Mary's university. Thus, your ideas and comments are highly honored and kept confidential. Your frank response and valuable support in responding to the questions raised is important to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. You should choose the answer you think is correct according to your understanding. There is no need to look up answers to make sure they are correct—I want to know what you know—it is not a test. The quality and quantity of information you provide determines the ultimate reliability of the study.

To create a conducive environment for your free and genuine responses, you are not required to write your name.

Thank you in advance for your cooperation and prompt response! Contact Address

If you have any questions or concerns about completing the questionnaire or about being in this study, you may contact me at the following address:

Endalezeleke

Cellphone:

0912289926

SECTION A – PERSONAL BACKGROUND

1. Gender

1. Male

2. Female

2. Age

1. 18-24 years

2. 24-30 years

3. 30-36 years

4. 36-42 years

5. 42-48 years

6. 48-54 years

7. Greater or equal to 54 years

3. Educational level of tax payer

1. less or equal to 8th grade

2. 9th – 12th grade

3. Certificate or college diploma

5. BA/BSc degree

6. Greater or equal to MA/MSc degree

4. Family status

1. Married

2. Unmarried

3. divorced

5. Tax payer's experience in business

1. Less or equal to 1 year

2. 1- 5 years

3. 5 –10 years

4. Greater or equal to 15 years

SECTION B–TAX KNOWLEDGE

Dear respondent! In this section there are listed many statements which used to measure your opinion. Please indicate level of your agreement with the sentence.

Instruction 1= Strongly Disagree (SD)

2= Disagree (D)

3 = Neutral (N)

4 = Agree (A)

5 = Strongly Agree (SA)

S.N	Parameters	1 SD	2 D	3 N	4 A	5 SA
IFA						
1+	You makes considerable effort to know tax related rules					
2+	you have experience to join meetings that organized by ERCA aims awareness creation					
3+	You have tendency to visit ERCA office in order to update your knowledge related with taxation					
4+	You have tendency to share ideas with tax compliant business owners					
5+	you have received continuous trainings on taxation					
OFA						
6+	ERCA creates awareness using social medias					
7+	ERCA teaches different tax education for tax payers using different audiovisual media					
8+	ERCA informs tax payment schedule in tax payers personal phone using SMS					
9+	ERCA introduce simple tax calculation method using print media such as brochure.					
10+	Employee of ERCA are eager to cooperate with tax payers when difficulty occurs					
11+	ERCA meaningfully present information how effective they are in creating social welfare.					
SFA						
12+	Most tax payers are compliant to the tax system					
13+	Being compliant increases social acceptance					

14+	There is high opportunity to be caught those who involved in tax evasion.					
15+	It is difficult to survive on business without adhering tax law					
16+	Our society has tendency to make transaction with receipt					
17+	Your family encourages you to be compliant.					
ECFA						
18-	It is difficult to get taxation document in an organized way					
19+	There is flexible time schedule to pay tax					
20-	Tax calculation method is complex					
21-	There is subjective judgment or (ambiguous) reason to fall under penalty					
22-	It is difficult to understand some technical terms on taxation document					
23-	Forms designed for self-assessment are difficult to understand.					
CB						
24+	Paying tax is manifestation of responsible citizenship					
25+	It is mandatory to obey with taxation rule in order to build sustainable business					
26+	You believes that paying tax improves social development					
27-	You were punished due to failure on sticking taxation rules					
28+	Paying tax provides you mental satisfaction					
29-	Most non-tax compliant business person has opportunity to be grown on their business.					

ክፍል አንድ፡ የግል መረጃዎን በተመለከተ

1) የግብር ከፋይ ምታ

- 1. ወንድ
- 2. ሴት

2) የግብር ከፋይ ዕድሜ

- 1. ከ18-24 ዓመት
- 2. ከ24-30 ዓመት
- 3. ከ30-36 ዓመት
- 4. ከ36-42 ዓመት
- 5. ከ42-48 ዓመት
- 6. ከ48-54 ዓመት
- 7. 54 ዓመት ከላይ

3) የግብር ከፋይ የትምህርት ደረጃ

- 1. እስከ 8ኛ ክፍል እና ከላይ
- 2. ከ 9ኛ ክፍል እስከ 12ኛ ክፍል
- 3. ሰርተፊኬት ወይም የኮሌጅ ዲፕሎማ
- 4. የመጀመሪያ ደረጃ
- 5. ሁለተኛ ደረጃ ከላይ

4) የቤተሰብ ሁኔታ

- 1. ያገባ
- 2. ያላገባ
- 3. አግብቶ የፈታ

5) በንግድ አለም ላይ የሎት ልምድ

- 1. ከ 1 ዓመት በታች
- 2. ከ1-5 ዓመት

- 3. ከ5-10 ዓመት
- 4. ከ10-15 ዓመት
- 5. 15 ዓመትና ከዚያ በላይ

ክፍል ሁለት፡ ጠቅላላ ጥያቄዎች

ውድ የዚህ ጥናት ተሳታፊዎች ከዚህ በታች የቀረቡ ጥያቄዎች ስለ ግብር ያሎትን ጠቅላላ አመለካከት ፣ ግንዛቤ ፣ እውቀትና እሳቤ ለመመዘን የሚረዱ ጥያቄዎች ሲሆኑ እርስዎም በቀረቡ ነጥቦች ላይ ሃሳብዎን በጣም እስማማለሁ ፣ እስማማለሁ ፣ ገለልተኛ ነኝ ፣ አልስማማም እና ፈጽሞ አልስማማም በማለት ሃሳብዎን እንዲያስቀምጡ በትኩረትና እጠይቃለሁ።

በጣም እስማማለሁ = ከ 5 ነጥብ ጋር እኩል ነው

እስማማለሁ = ከ 4 ነጥብ ጋር እኩል ነው

ገለልተኛ ነኝ = ከ 3 ነጥብ ጋር እኩል ነው

አልስማማም = ከ 2 ነጥብ ጋር እኩል ነው

ፈጽሞ አልስማማም = ከ 1 ነጥብ ጋር እኩል ነው

ተ.ቁ	መለኪያ	1	2	3	4	5
ኢ.ፋ						
1	በግል የታክስ ህጎችን ለማወቅ ጥረት ያደረጋሉ					
2	ባለስልጣን መስሪያ ቤቱ ለግንዛቤ ማስጨበጫ በሚያዘጋጁ የምክክር መድረኮች ተሳትፈው ያውቃሉ					
3	ወደ ባለስልጣን መስሪያ ቤቱ በመሄድ አዳዲስ ስለወጡ የንግድ ህጎች መረጃ በመውሰድ እራሶን ከጊዜው ጋር ያራምዳሉ					
4	የግብር ግዴታዎችን በአግባቡ ከሚወጡ ነጋዴዎች ጋር የመመካከር ዝንባሌ አሎት					
5	የታክስ ህጎችን በተመለከተ ተከታታይ ስልጠናዎችን ወስደው ያውቃሉ					

አ.ፋ					
6	ባለስልጣን ማህበራዊ ሚዲያዎችን በመጠቀም ስለታክስ ግንዛቤ ይፈጥራል				
7	ባለስልጣን መስርያ ቤቱ የተለያዩ ብዙሃን መገናኛ ዘዴዎችን በመጠቀም ስለታክስ ስርዓቱ ያስተምራል				
8	ባለስልጣን መስርያ ቤቱ የግብር መክፈያ ወቅት መድረሱን በአጭር የስልጠና ልዕክት በመጠቀም ለደምበኞቹ ያስታውቃል				
9	ባለስልጣን መስሪያ ቤቱ የተለያዩ በራሪ ፅሁፎችን በመጠቀም ታክስ የሚሰጥበት መንገድ ያስተምራል				
10	የባለስልጣን ሰራተኞች ግብርን በተመለከተ ግልፅ ያልሆኑ ጉዳዮችን ለደምበኛው ለማስረዳት ዝግጁ ናቸው				
11	ባለስልጣን መስሪያ ቤቱ በግብር የተሰበሰበውን ገቢ በማህበረሰቡ ላይ ያመጣውን ለውጥ ግልፅ ያሳያል				
ማ.ፋ					
12	በርካታ ነጋዴዎች የግብር ግዴታቸውን በአግባቡ ይወጣሉ				
13	የታክስ ግዴታን በአግባቡ መወጣት በማህበረሰቡ ዘንድ ተቀባይነትን ያሳድጋል				
14	ታክስ ለማግኘት በግብር ተሰማሩ ነጋዴዎች በህግ ቁጥጥር ስር የሚውሉበት ዕድል ሰፊ ነው				
15	የግብር ግዴታን በአግባቡ አለመወጣት በንግድ አለም የመቆየት ተስፋን ያመነምናል				
16	ማህበረሰባችን ለሚፈፀመው ግብይት ደረሰኝ የመጠየቅ ልምድ ከፍተኛ ነው				
17	ቤተሰቦቹ የግብር ግዴታ ይንበአግባቡ እንደ ወጣ ያበረታቱኛል				
18	ስለታክስ የተደነገጉ ህጎች ለማግኘት አስቸጋሪ ነው				
19	ግብር የሚክፈልበት ጊዜ ተለዋዋጭ ነው				
20	የታክስ ማስያዘዴው ውስብስብ ነው				

21	ቅጣት የሚጣልባቸው ምክንያቶች ግልፅ አይደሉም					
22	በታክስ ህጉ የተቀመጡ ቃላቶች ለመረዳት አስቸጋሪ ናቸው					
23	ታክስ ለማሳወቅ የተዘጋጁ ቅጾች ግልፅነት ይጎድላቸዋል					
ውጭ						
24	ግብር መክፈል የዜግነት ግዴታ እንደሆነ አምናለሁ					
25	ግብር መክፈል በንግድ አለም ላይ ለመቆየት ይረዳል					
26	ግብር መክፈል በርካታ ማህበራዊ ፋይዳዎች እንዳሉት አምናለሁ					
27	ግብር በወቅቱ ባለመክፈል በተደጋጋሚ ተቀጥተው ያውቃሉ					
28	ግብር በታማኝነት መክፈል መንፈሳዊ እርካታ ይሰጣል					
29	ግብር በታማኝነት የማይከፍሉ ሰዎች የመበልፀግ እድላቸው ከፍተኛ ነው					

ANEX

T-Test- Martial status1

Group Statistics

Martial status	N	Mean	Std. Deviation	Std. Error Mean
CB_AL Married	95	3.4105	.50693	.05201
L Unmarried	31	3.6075	.43151	.07750

T-Test- Martial status2

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means	
		F	Sig.	t	df
CB_AL	Equal variances assumed	2.099	.150	-1.945	124
L	Equal variances not assumed			-2.111	59.269

Independent Samples Test

		t-test for Equality of Means			
		Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference
					Lower
L	Equal variances assumed	.054	-.19700	.10130	-.39751
	Equal variances not assumed	.039	-.19700	.09334	-.38375

Independent Samples Test

		t-test for Equality of Means
		95% Confidence Interval of the Difference
		Upper
CB_ALL	Equal variances assumed	.00350
	Equal variances not assumed	-.01025

Reliability test

Inter-Item Correlation Matrix

	IFA2_AL L	OFA2_AL L	SFA2_AL L	ECFA2_AL L	factor2_AL L	CB_ALL
IFA2_ALL	1.000	-.004	.328	.186	.620	.573
OFA2_ALL	-.004	1.000	.228	.360	.589	.362
SFA2_ALL	.328	.228	1.000	.136	.690	.441
ECFA2_AL L	.186	.360	.136	1.000	.641	.446
CB_ALL	.573	.362	.441	.446	.720	1.000

Inter-Item Covariance Matrix

	IFA2_AL L	OFA2_AL L	SFA2_AL L	ECFA2_AL L	factor2_AL L	CB_ALL
IFA2_ALL	.247	-.001	.083	.042	.093	.138
OFA2_ALL	-.001	.186	.050	.070	.076	.076
SFA2_ALL	.083	.050	.257	.031	.105	.109
ECFA2_AL L	.042	.070	.031	.206	.088	.098
CB_ALL	.138	.076	.109	.098	.105	.236

Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance
Item Means	3.012	2.743	3.451	.707	1.258	.056
Inter-Item Correlations	.421	-.004	.720	.725	-169.674	.046

Summary Item Statistics

	N of Items
Item Means	5
Inter-Item Correlations	5

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
IFA2_ALL	15.0944	2.595	.443	.	.780
OFA2_ALL	15.3275	2.822	.375	.	.791
SFA2_ALL	15.1238	2.537	.468	.	.774
ECFA2_AL L	15.0410	2.684	.443	.	.777
CB_ALL	14.6201	2.261	.720	.	.705