

St Mary's University

School of Graduates Studies



**“BUSINESS TAX PAYERS’ PERCEPTION TOWARDES FAIRNESS OF THE
TAXATION SYSTEM: IN THE CASE OF ADDIS ABEBA CITY, IN THE CASE OF
AKAKI KALITY SUB CITY CATEGORY “B” TAX PAYERS”**

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Addis Ababa, Ethiopia

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**A Thesis Submitted to the School of Graduate Studies of St Mary’s University in Partial
Fulfillment of the Requirements for the Degree of Master of Business Administration in
General Business Administration.**

January 2017

Addis Ababa, ETHIOPIA

DECLARATION

I, the undersigned, have by declaration that I have completed research thesis on “Business tax payers’ perception towards fairness of the taxation system: in the case of Addis Ababa city, specifically Akaki Kality sub city category “B” tax payers”

I further declare that this study is my original work and that information presented is true. The matter embodies in this report has not been submitted earlier for the award of any degree or diploma to the best my knowledge and belief.

Declared by

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Date_____

Endorsement

This is to certify that Ermias Terefe Dejene has carried out his research work on the topic entitled “Business tax payers’ perception towards fairness of the taxation system: in the case of Addis Ababa city, specifically Akaki Kaliti sub city category “B” tax payers”. The work is original in nature and it is suitable for submission for the reward of the MBA Degree in General Business Administration.

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Board of Examiners Approval Sheet

We, the undersigned, members of the board of examiners read this thesis entitled “Business tax payers’ perception towards fairness of the taxation system: in the case of Addis Ababa city, specifically Akaki Kality sub city category “B” tax payers”and evaluated the final open defense made by Ermias Terefe. Accordingly, we examined the candidate and therefore we certify that it is suitable for submission for the reward of the MBADegree in General Business Administration.

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Final approval and acceptance of the thesis is contingent up on the submission of the thesis to the school of graduate studies (SGS) through the school graduate committee (SGC) of the candidate department

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Acronyms

Ec – Ethiopian Calendar

ERCA – Ethiopian Revenues and Custom Authority

EMoFED – Ethiopian Ministry of Finance and Economic Development

ETB – Ethiopian Birr

GTP – Growth and Transformation Plan

Std – Standard deviation

V- Variance

M- Mean

n- Number of test

FIRA- Federal Inland Revenue Authority

GDP – Growth Domestic Product

NPER- National Public Expenditure Review

AAPER- Addis Ababa Public Expenditure Review

BoFED- Bureau of Finance and Economic Development

MDG- Millennium Development Goal

APR- Annual Progress Report

AR- Annual Report

REP- Revenue Enhancement Plan

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Abstract

This study investigated the fairness perceptions of Akaki Kaliti sub city category “B” business tax payers towards the taxation system. The investigation of tax payers’ perception towards fairness perception is conducted by investigating the themes of tax fairness. Personal fairness, exchange fairness, horizontal fairness, vertical fairness, administrative fairness, tax complexity and tax efficiency. The study adopted mixed method research approach to achieve general and specific objectives of the research. The data is planned to collect from 198 business tax payers but 38 questioners were uncollected because of forget to return, leave the questioners blank and other related reasons. Statistical descriptive method is used for analyzing the finding. SPSS is used for computing mean, std. and variance of the perceptions. The result of this study shows that akaki kaliti sub city category “B” tax payers perceived fairness of the taxation system neutral. This means fairness of the taxation system is not common or not similar in all themes of tax fairness. The fairness is fluctuated in the system. The finding shows that there is a problem of implementing rules and regulations of the taxation system. Finally this study suggested some measures which could bring better taxation system in the authority; Giving continues training and awareness creation activities, There must be sufficient provisions of social services by the government, Building good governance in corporate level and in the authority, Design tax reform to strengthen governance, Conduct continues tax payer’s perception surveys, Pay attention to micro, smaller and middle –size enterprises.

Chapter One

Introduction

This thesis will try to investigate business tax payers perception towards the fairness of the taxation system in the context of Ethiopia, particularly Addis Ababa city, Akaki Kality Sub City Category “B” business tax payers case. Tax fairness issue encompass with a number of tax fairness dimensions or perspectives and other fairness affecting factors. If all those fairness dimensions and other factors are negatively interpreted or perceived by the tax payers, it will led to negative perceptions of the tax payers towards the taxation system, if not the opposite will happen.

The purpose of this chapter is to provide background on the thesis. The remaining parts of the chapter are organized as follows. The first section presents background of the thesis. After the background, Statement of the problem will follow. The objective of the research is the third section. The fourth section is Research questions. The final two sections are Scope of the study and Organization of the paper which are the fifth and the sixth sections in this chapter.

1.1. Background of the Research

This issue of fairness and attitude /perception/ towards the fairness of taxation system has evoked great attention among many revenue authorities in the whole world. Tax fairness is very essential for the revenue authorities because taxes are important sources of public revenue. Public goods and services are normally subject to collective consumption, thus requiring that we put some of what we earn in to government hand.

Taxes are considered as a problem by most of us. Not surprisingly taxation problems date back to earliest recorded history. When we see ancient history of taxation, there is no clear evidence to identify where taxation is started. But it is assumed that taxation is started in one of the three countries; Egypt, Greece or Roman Empire. (www.taxworld.org)

The Ethiopian tax system has not been blessed with the excellent organization of many of the modern laws of Ethiopia, which (thanks to Codification project the country undertook in 1950s and 1960s) were organized into well written codes. (Tadesse L., 2012)

The modern Ethiopian tax system is a project of more than half a century of experimentation, legislation and tax reform. It had neither the guide and directs it from behind or a clear set of over achieving policies to inform its direction. since its humble beginnings in 1940s the modern Ethiopian tax system has developed and evolved by first and starts as the need for revenue arise, as government change and as the

economy and international situation shift. Over the course of this period the Ethiopian tax system went through some major revisions and numerous piecemeal amendments. (Tadesse L., 2012)

The fundamental authority to tax is derived from the constitution of 1995, which, following the federal structure, share tax powers between the federal government and regional states. The Ethiopian constitution goes to great lengths than other areas of power in allocating taxation power between the federal government and regional states. The constitution classifies taxation powers as “tax exclusive to the federal government” “taxes exclusive to the regional states” “taxes concurrent to both the federal government and regional states” and “taxes not designed”. (Tadesse L., 2012)

1.2. Statement of The Problem

Ethiopian government continually follow the authority and also try to answer different question raised by the people, related to the fairness issue, service excellence, rent seeking activities of employees in the authority and other related question. It is not possible to answer those questions in the same time but the government tried to answer the question gradually.

Governments in order to meet the escalating needs of the people require large resources than ever, while balancing income and expenditure through collecting fair tax. As tax is major source of income to the government operation, the government of Ethiopia is working to promote fairness among the tax payers, so as to maintain equality between the collection plan and capacity of revenue generating with in country. With the same target regional and federal governments are also working to balance their income and expenditure through collecting fair tax. (Esayas S., 2014)

Addis Ababa has registered impressive economic growth in the last few years. The city government has implemented various social and economic infrastructural developments.

According to BoFDE’s Addis Ababa city Gross Domestic Product (GDP) estimates, the city economic activity is dominated by the Service sector, which contributes to about 77% of the city’s economy, followed by Industrial sector whose share in the economy is about 22%, Agriculture contributes to less than 1% of the city’s out-put. “Addis Ababa, city public Expenditure review”, July 2010, 67926NPER (PFR2010).

Insufficient revenue generation is the main constraint for government in order to meet the planned development and growth. As we know that tax is the basic revenue of government. So low tax collection is a result of different problems. According to Updated Revenue Enhancement Plan (REP); low tax base of important source, low tax coverage; weak tax assessment of tax administration, weak payment

processing, weak human resource. But, more than those problems understanding the perceptions of tax payers is the basic one. Update review of enhancement plan (REP, 2015)

Most of us or most tax payers assume tax is a burden, and also we asked our self and others about fairness of the taxation system. Because of this we are unhappy and not willing to pay our tax for the real income at the right time.

According to the information that the researcher obtained from Addis Ababa city tax administration authority, only about 55% and the business communities are committed to fulfill their tax obligation regardless of the existing powerful tax proclamation. This clearly shows that relying solely on legally enforcement (stick approach) may not work always and forever. (Wubishet A., 2011). There for fair taxation system is mandatory for every country, for achieving country's plans and goals. And also in order to have reliable tax payers.

So, for government addressing fairness issue of the taxation system is solving the major problem of low revenue generating and the major question of tax payers.

According to ERCA Akaki Kaliti Branch office annual report for FY 2007EC the total tax collection for the fiscal year was 67.92%, very below than the expectation.

In order to have fair taxation system in the country and in the sub city there are tasks that should be done. From those tasks awareness creation, requesting feedbacks, responding feedbacks and other related activities are part of the tasks. But from those tasks the basic one is understand and analyzing the perception of tax payers in fairness issues is the basic one. Because, the perception of tax payers towards the taxation system will leads them to be reliable for the tax law and other laws. So if we understand their perceptions it will make the process of improvement easier than ever. In order to achieve the countries' and the sub city's plan and objectives, conducting such kind of studies is too much help full.

According from "Annual report of AK/KA sub city ERCA branch office in FY of 2007EC", large number of complains are come from category "B". It is 1260 complains come from category "B", 304 complains from category "A" and 308 complains from category "C".

So in category "B" there are issues that should be address or problems that should be solved.

In this study the perception of category "B" business tax payers towards the fairness of the taxation system is investigated and analyzed.

So this study tried to investigate the perception of business tax payers' on fairness of the taxation system in the case of akaki kality sub city category "B" tax payers.

1.3 Objectives of the study

1.3.1 General Objectives

The broad objective of this study is to investigate and find out how Addis Ababa city, Akaki Kality sub city category "B" business tax payers perceived the fairness of the taxation system.

1.3.2 Specific Objectives

1. To find out how category "B" business tax payers perceive vertical fairness of the taxation system.
2. To find out how category "B" business tax payers perceive horizontal fairness of the taxation system.
3. To find out how category "B" business tax payers perceive administrative fairness of the taxation system.
4. To find out how category "B" business tax payers perceive exchange fairness of the taxation system.
5. To find out how category "B" business tax payers perceive personal fairness of the taxation system.
6. To find out whether tax efficiency and tax complexity affect fairness perception of category "B" business tax payers.

1.4 Research Questions

In order to achieve the above general and specific objectives, the researcher puts the following research questions:

The basic research question is "How Akaki Kality sub city, category "B" business tax payers perceive business taxation system?"

- Q1. What is the perception of business tax payers towards vertical fairness?
- Q2. What is the perception of business tax payers towards government's tax administration?
- Q3. What is the perception of business tax payers towards horizontal fairness?
- Q4. What is the perception of business tax payers towards exchange fairness?
- Q5. What is the perception of business tax payers towards personal fairness?
- Q6. What is the perception of business tax payers towards the authority's administration of the taxation system?

1.5 Significance of the Study

The main significance of this study is to help the branch office to analyze and understand the perception of business tax payers' towards the taxation system and help the tax payers by collecting their opinion and feedbacks to build fair and preferable taxation system. This study will also initiate other sub city branch offices to conduct such kind of studies.

Government is also the other beneficiary. Understanding the perception of tax payers is the prior tax of the authority and government, so this study helps the government in investigating tax payers' perception. After investigating tax payers' perception the government will take actions that can improve the perception of tax payers' like system reformation, system amendment, hosting discussion meetings with tax payers and conducting continuous tax payers' perception assessment.

This study will use as a reference for other studies and it might minimize the problem of reference.

1.6 SCOPE OF THE STUDY

According to the data base of the branch office there are 14,838 business tax payers in three categories. In category "A" 1001, in category "B" 6199 in three sectors (service, industry, agriculture) and in category "C" 7638 tax payers are found.

This study is tried to investigate the fairness perception of the taxation system in Akaki Kality sub city category "B" taxpayers. Category "B" tax payers are selected as it is explained in statement of the problem; According from "Annual report of AK/KA sub city ERCA branch office in FY of 2007EC", large number of complains are come from category "B". It is 1260 complains come from category "B", 304 complains from category "A" and 308 complains from category "C".

So in category “B” there are issues that should be address or problems that should be solved.

In this study the perception of category “B” business tax payers towards the fairness of the taxation system is investigated and analyzed.

In this study the perception business tax payers in vertical, horizontal, exchange, administrative, personal, complexity and efficiency fairness will be investigated in the three sectors.

This study investigated fairness perception of the current taxation system. After investigation the researcher putts some recommendations.

1.7 Definition of Terms

- Exchange Fairness- based on the premise that one would only respond fairly if the other party acts fairly to them.
- Horizontal Fairness- is defined as the equal treatment of equally circumstanced individuals.
- Vertical Fairness- is being fair when taxpayers are taxed based on their ability to pay.
- Administrative Fairness- is fairness of the administration activities to make the taxation system better. Like train the employees, awareness creation activates, modernizing the system and spending money for improvements.
- Tax Complexity-is sophistication in the tax law.
- Tax Efficiency- the tax system should not have an impact on the allocation of resources and it should be cheap to administer.
- Personal Fairness- is the individual assumption that he/she assumed the fair amount to pay.

1.8 Organization of the paper

The thesis is organized in to five chapters. Chapter one incorporates the introduction part of study, background of study, the statement of problem, objectives of study, scopes of study, significances of study and limitation of study. The second, chapter present critical review of related literature and analytical frame work. This part is part of researcher’s investigation and past research in the field. The third chapter gives detailed parts of study area, the methodology and design. Chapter four presents result and analysis and chapter five summarized the main results of the study and give some recommendation.

Chapter 2

Literature Review and Relative Theories

2. Introduction

In this chapter; tax fairness theories, themes (dimensions) of tax fairness and factors that affect fairness perception of tax payers are discussed as much as possible. Different authors' ideas related with tax fairness are used for more clarification and explanation of issues.

2.1 Tax Fairness Theorie

Tax Fairness and Tax Fairness Dimensions: Theoretical Background Perception of tax fairness is an important component of tax compliance. Taxpayers tend toward to evade paying taxes if they perceive unfairness on the taxes (Vogel, 1974). However, when the tax fairness literature is reviewed we notice that two critical problem arises. The first problem is; the concept of tax fairness is often not well defined. For example according to Adam Smith (1776), a tax system is defined as being fair when taxpayers are taxed based on their ability to pay. In this definition, Smith emphasizes the vertical fairness of taxation. But, this definition does not include the comprehensive tax fairness perception. Jackson and Milliron (1986) stress another issue which concerns tax fairness namely, Horizontal tax fairness. Horizontal tax fairness is defined as the equal treatment of equally circumstanced individuals (Michael, 1978). However, such equal treatment sometimes conflicts with other economic objectives of taxation, which therefore need to be compromised (Holmes, 2001). (Holmes, 2001) further claims that, in practice, almost all tax systems have abandoned the horizontal tax fairness premise to meet economic, social or political objectives.

On the other hand, (Christensen et al., 1994) emphasized that the concept of tax fairness is difficult to define because: (I) Tax fairness is multidimensional; (II) The concept of tax fairness can be defined both I individual and societal levels; (III) Tax fairness and tax complexity are inseparable; (IV) Lack of tax fairness can be perceived as a justification for a cause for noncompliance; The second problem is that the literature on the taxpayers' perception of tax fairness there is limited. (Gerbing, 1988) identified five dimensions of fairness which include; (I) General fairness and distribution of the tax burden; (II) Exchange with the government; (III) Attitude towards taxation of the wealthy; (IV) Preferred tax rate structure. (Gerbing, 1988)'s pioneering study formed the origin for many of other studies about perception of tax fairness. For example, using a revised version of the survey instrument of (Gerbing, 1988), (Christensen et al., 1994) and (Christensen and Wehrich, 1996) has confirmed these five

dimensions. (Richardson, 2005a), on the other hand, used a modified version of the (Gerbing's, 1988) survey. The study was conducted on postgraduate business students to evaluate their tax fairness perceptions and the relationship with their tax compliance behaviour (Richardson, 2005a). And the author consequently reveals five underlying dimensions of fairness perceptions including: general fairness, exchange with government, special provision, tax rate structure and self-interest. Another study conducted by Richardson reported six dimensions of fairness, namely general fairness; tax rate structure; middle income earners' tax burden; exchange with the government; self-interest; and special provisions in a survey among postgraduate students in Hong Kong (Richardson, 2006). (Richardson, 2005) and (Gilligan and Richardson, 2005) made a cross-cultural comparison between the findings from Australia and Hong Kong, where several significant differences of opinion regarding the fairness perceptions were reported.

More recent study on fairness perceptions was undertaken by (Azmi and Perumal, 2008), which attempted to identify the fairness dimensions among Malaysian taxpayers, using a revised version of (Gerbing's, 1988) questionnaire. Their study suggests that Malaysian taxpayers perceive the fairness of the income tax system in terms of general fairness, tax structure and self-interest. These dimensions of fairness, identified through a factor analysis, are slightly different from those documented in the US (Gerbing, 1988), and Australia and Hong Kong (Gilligan & Richardson, 2005; and Richardson, 2005). While previous studies indicate somehow differences in fairness perceptions between the countries, it is difficult to compare directly the fairness perceptions due to differences in tax structure, time period, methodology, sample characteristics, and measures used in each study. (Benk S., 2012)

Major types of taxations and Categories of tax payers existing in Ethiopia

As we know that Ethiopian Revenues and Customs Authority (ERCA) is the main administrating bode of the tax laws in the country. The ERCA is responsible for the enforcement of the tax laws relating income tax, particularly business profit taxes and other types of taxes.

The major types of taxes

The major types of taxes in Ethiopia are divided into **two**. They are **Direct Taxes** and **Indirect Taxes**. According to "proclamation no.286/2002 article6, tax regulation no.78/2002, FERA2002"

Direct Taxes are: Personal income tax/from employment/, Business profit tax, Tax on income from rental of buildings, Tax on interest income from deposit, Dividend income tax, Tax on income from royalties, Tax on income from games of chance, Tax from gains of transfer of certain investment property, Tax on

income from rental of property, Rendering of technical service out-side Ethiopia, Agricultural income tax and Land use tax.

Indirect taxes are: Turn over tax, Excise tax, Value Added Tax, Customs duty

Categories of tax payers

Tax payers are classified in to the following three major categories:

1. Category “A” tax payers
2. Category “B” tax payers
3. Category “C” tax payers

Category “A” tax payers

This category of tax payers includes:

- a) Any company in corporate under the laws of Ethiopia or in a foreign country.
- b) Any other business having an annual turnover of birr 500,000 or more.

Category “A” tax payers are required to submit to the tax authority at the end of the year, a balance sheet and profit or loss statement and the following details:

- i) Gross profit and the manner in which it is computed
- ii) General and administrative expense,
- iii) Depreciation expense, and
- iv) Provisions and reserves

In addition, these tax payers should register with the tax authority the type and quality of vouchers they use before having such vouchers printed. Any printing press before printing vouchers of tax payers shall ensure that the type and quality of such vouchers is registered with the tax authority.

Category “B” tax payers

Unless already classified in category “A”, any businesses having an annual turnover birr 100,000 would be classified under category “B” tax payers. This category of tax payers should submit to the tax authority profit or loss statement at the end of the year.

Category “C” tax payers

Unless already classified in category “A” and “B”, those business whose annual turnover is estimated up to birr 100,000 are classified under category “C” tax payers.

In many undeveloped countries like Ethiopia, the low revenue yield of taxation can be attributed to the fact that the tax provisions are not properly enforced, inability of the administration, corruption, problem with the system, lack of knowledge of the tax payers, attitude or perception towards the fairness of taxation system and some other reasons. That is, little attention is given to the cultural background of tax payers, their awareness level and its determinants when designing a given tax system. It is clear that for getting volunteer tax payers and to have a successful tax system in the country, it is mandatory that the tax payers must be confident on fairness of the levied tax amount and the system.

Many foreign researchers agreed that every taxes that levied and the system must be fair. Because it creates acceptance for the government, promotes equitable distribution of income and also for having more volunteer tax payers. But this issue which is the perception of business tax payers on the fairness of taxation system is not raised and conducted a research by any scholars/researchers/ in our country. Surprisingly, I got only one thesis on this issue “WUBISHET ABORAT 2011”. So, this study mainly conducted to investigate business tax payers’ perception towards on fairness of the taxation system in Ethiopia, particular Addis Abeba, Akaki Klity Sub City Category “B” Tax Payers.

2.2 Tax fairness dimensions

However (Gerbing, 1988) developed a survey instrument which was designed to supply structure to the operational definition of tax fairness by identifying the various dimensions of tax fairness. According to (Esay,2014), six major underlying tax fairness dimensions were identified which included; general fairness and distribution of tax burden, exchange with government, attitude towards taxation of the wealthy, preferred tax rate structure, self-interest and administration fairness.

What constitutes a “fair tax” has been the subject of debate since Adam Smith proposed his four canons of taxation in *The Wealth of Nations* in 1776:

- Equity: a tax should be seen to be fair in its impact on all individuals.

- Certainty: taxes should not be arbitrary; the taxpayer should know his or her liability and when and where to pay it.
- Convenience: it should be easy for taxpayers to pay what they owe.
- Efficiency: the tax system should not have an impact on the allocation of resources and it should be cheap to administer.

As long as we use Adam Smith's (father of economics) principles and thoughts in our economics and business educations it will be better to use his canons of fair taxation in 1776.

As stated in (Bhatia, 1976), a good tax system, in order to achieve various objectives, chooses and adheres to certain principles which become its characteristics. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. Since fairness of a tax system is its corner stone a brief overview can be presented in the following paragraphs.

According to (James, 2000), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. Similarly, Due and (Friedlaender, 1981), also argue that what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society.

2.2.1 Administration Fairness

Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system. Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or could aid in application of the law. (Mansfield, 1990)

Challenges to administer tax effectively

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax

administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

In the Fischer model, noncompliance opportunity can affect taxpayer compliance directly through income level, income source, and occupation. Almost all the theoretical model indicates that as income rises, tax evasions should increase over most ranges (Andreoni et al., 1998). In other way, the lower income group tends to have a lower proportion of tax compliance by under-reporting income and by over-claiming expenses than their counterparts in the higher income group. Taxpayers vary in terms of the opportunities available to them to overstating expenses and understating incomes.

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990).

2.2.2 Equity theory

Equity Theory emerged in the 1960s through the work of (Adams, 1965) who was particularly interested to test the concept of justice in organizations (Greenberg, 1987). Since Equity theory has been extends (Leventhal et al. 1980; Greenberg 1987; Watson et al. 1996) and applied in various fields of studies, such as payment and job-related rewards (Aryee et al, 2004) and information systems (Douglas et al. 2007).

(Adams, 1965) suggests that Equity Theory comprises two dimensions namely reciprocation and allocation. Reciprocal equity, or exchange fairness, based on the premise that one would only respond fairly if the other party acts fairly to them. Within this exchange framework, equity, or fairness achieved when there is an equivalence of the outcome/input ratios for all parties involved in the exchange (Cook and Hegtvedt, 1983). Inequity, on the other hand, said to exist when these ratios are not equal. In other words, a person will perceive a system as fair if the benefit he/she receives equals their contribution, and vice versa.

In contrast to reciprocal fairness, which deals with mutual exchange, (Eckhoff, 1974) contends that allocation fairness merely involves a one-way distribution of resources across a group or circle of recipients. This fairness dimension is also known as indirect exchange (Blalock and Wilken, 1979).

(Porcano and Price, 1992) suggest that traditionally equity theory indicates two types of equity within a tax system: (1) horizontal equity and (2) vertical equity. Horizontal equity refers to providing equal treatment to all in the same group whereas vertical equity refers to giving a suitable differentiation among unequal persons in that group. That means those who are rich should treat as able to pay higher than lower groups of income earners. In addition, the implementation of the tax systems based on either progressive tax structure or flat tax rate structure however, most of the individual taxes are progressive tax structures. i.e., that is vertical in terms of providing equity does not meet the expected equity. Therefore, (Saw, K, and Sawyer, A., 2010) found that taxpayers adjust their perceived inequalities through tax evasion. Therefore for reaching in to judgment of tax fairness issue looking the attitudes of taxpayers is quite important. The taxpayer behaves as tax fair or not based on the attitudes he/she has framed against the tax system. Therefore the researchers critical of equity theory claim that in a judgment on fairness, a number of other factors need to be addressed apart from exchange (either mutual or indirect) and horizontal and vertical equity aspect of tax fairness.

2.2.3 Distributive justice theory

In order to extend the idea of allocation as suggested in (Adam's, 1965) and (Porcano's and Price, 1992) Equity Theory, DJT will introduced. DJT, which represents one part of Social Comparison Theory (Lamm and Schwinger, 1980), postulates that individuals not only judge equity in terms of assessing their benefits they receive from their tax dollars (exchange fairness), but also by comparing themselves with others. In other words, individuals compare their benefits-received-to-contributions-ratio with that of others in their reference group. Based on this premise, DJT assumes that distribution outcomes should be equal among those with similar contributions.

However, in the process of allocating an incentive or reward, the principle of exchange fairness will not always maintain. There are circumstances in which the allocation of rewards violates exchange fairness as indicated in previous studies (Schwinger, 1980). Having this in mind, (Leventhal, 1980) contends that distributive fairness can achieve by applying allocation rules, namely the equity rule, equality rule or needs rule, depending on the situation. In achieving fairness, the equity rule suggests that there must be relative equality between an individual's contribution and benefits. Simply stated, the equity rule requires individuals that compensated with the same ratio to their effort, as stated in exchange fairness. In contrast,

the equality rule calls for equal distribution of rewards regardless of individual contribution. The equality rule suggests that everyone deserves treated equally irrespective of his or her contribution. With the needs rule, (Leventhal, 1980) proposes that the allocation decision should be made after taking into account the recipients' needs. Based on this rule, individuals with a low or a zero contribution may be allocated more benefits (to fulfill their needs), as compared to those with a higher contribution. (Porcano, 1992) argued justice is a multidimensional concept thus it is appropriate to use distributive theory which uses several justice rules in determining one's deservingness.

Another thing is, that it is no longer one is personal, or group treatment, but the distribution of tax burdens across as a whole e.g., the fairness of progressive tax rate. (Eckhoff, 1974), on the other hand, incorporates five principles that form DJT, of which three of them are similar to (Leventhal, 1980).

The principles are relative equality (the equity rule), objective equality (the equality rule), subjective equality (the needs rule), rank order equality and equal opportunity. The rank equality criterion postulates that, if investments of the members of one group are higher than, those of another their rewards should be higher too. This principle suggests that, even though the effort/reward is not necessarily equivalent, yet those with higher contributions should allocate more benefits than other groups. The remaining principle is equal opportunity, which normally discussed in relation to racial integration policies (Cook and Hegtvedt 1983).

The above discussion tends to focus on the positive side of DJT, that is, the allocation of benefits. However, DJT is also concerned with the fairness of allocation of punishments, known as retributive fairness (Cook and Hegtvedt 1983). Under retributive fairness, the social system considered fair if the penalty imposed matches the committed crime. Similarly, the social system will also be perceived as fair if the compensation received is equivalent to any loss incurred in the social system.

2.3 Tax Complexity, Tax simplification, Tax Knowledge and Tax Compliance

2.3.1 Tax complexity

Tax complexity arises due to the increased sophistication in the tax law (Richardson & Sawyer, 2001). Tax complexity can take many forms such as computational complexity, forms complexity (American Institute of Certified Public Accountants, 1992), compliance complexity, rule complexity (Carnes & Cuccia, 1996), procedural complexity (Cox & Eger, 2006) and the low level of readability (Pau et al., 2007; Richardson & Sawyer, 1998; Saw & Sawyer, 2010). A review of tax complexity in a comparative study of seven countries by (Strader & Fogliasso, 1989) suggests that Japan, the UK, France, Italy and the US, all have highly complex tax systems. Only Sweden and Netherlands are considered to have a

moderately complex tax system. In New Zealand itself, various tax reforms have been made since the mid 1980s to overcome the complexity of the tax system (for details, see Hasseldine & Bebbington, 1991).

However, (Tan and Tower, 1992) claimed that the efforts made by the tax authority at that time to simplify the tax law failed. In their study, the authors applied the Flesch Reading Ease Index to measure the readability level of New Zealand tax legislation, Tax Information Bulletins (TIBs) and Tax Return Guides. The Flesch Reading Ease Index measures the difficulty ranging from zero (most difficult) to 100 (least difficult). Their findings indicated that there was no progress with simplification at that time, except for the Tax Return Guides. Further, (Tan and Tower, 1992) recommended that shorter sentences and active style of writing will help improve the readability of tax legislation and consequently reduce the complexity of the tax law. A more recent study by Pau et al. (2007), however, provided contrary evidence on tax simplification in New Zealand. The researchers tested the effectiveness of the newly written Income Tax Act 2004, TIBS and binding rulings using readability measures, namely the Flesch Reading Ease Index, Flesch-Kincaid Grade Level Index, average sentence length and percentage of passive sentences. They found significant improvements in respect of tax simplicity through these measures. (Sawyer, 2007) agreed that there have been some improvements in tax simplification but continual change to the legislation has to a certain extent delayed the rewrite program (and also delayed the benefits).

As an extension to the previous studies, (Saw and Sawyer, 2010) examined the readability of a sample of the selected sections of the Income Tax Act 2007, TIBs and binding rulings using similar measures as in Pau et al. (2007). Overall, the results suggested further significant success to the review project, undertaken by the New Zealand government in its tax simplicity goals in the context of improved readability. Following this rewrite project, the results of this study also indicated that the percentage of people with an education level of Years 11-13 to understand the Income Tax Act 2007 has significantly increased. In Malaysia, (Mustafa, 1996), who studied taxpayers' perceptions towards the self-assessment system which was to be introduced (at that time), suggested the presence of tax complexity in Malaysia, particularly in terms of record-keeping, too much detail in the tax law and ambiguity. The findings were partly consistent with the six potential causes of complexity labeled as: ambiguity, calculations, changes, details, forms and record-keeping, identified by (Long and Swingen, 1987).

Such complexity was also present in Australia where it forces taxpayers to engage tax agents to deal with their tax matters (McKerchar, 2001; 2003). (McKerchar, 2003) further identified the most common problem faced by taxpayers is to understand the instructions in the (Taxpack, 2000). This is followed by the problems of understanding the rules, the tax return forms and other relevant written information

provided by the tax authority. (Richardson, 2006), in his research on 45 countries, found that complexity is the most important determinant of non-compliance, apart from education, income source, fairness and tax morale. His findings were consistent with (Cox and Eger, 2006) who focused on the State Road Funds in the US State of Kentucky. The authors found that procedural tax complexity contributes to an increase in tax non-compliance. In Australia, (McKerchar, 2005), who carried out a survey among tax agents, noted that tax agents were not happy with the increasing complexity of the tax law. She further claimed that the tax agents desired a much simpler tax law, with less regulatory material and ad-hoc change. Similar findings were documented by (Kirchler et al., 2006). He found that taxpayers were more likely to comply when the tax law was perceived as fewer complexes.

2.3.2 Tax knowledge

Tax knowledge is an essential element in a voluntary compliance tax system (Kasipillai, 2000), particularly in determining an accurate tax liability (Palil, 2005; Saad et al., 2003). More recent studies undertaken in Malaysia (Loo, 2006; Loo et al., 2008; 2009) also suggested tax knowledge to be the most influential factor to determine taxpayers' compliance behavior under the self-assessment system. This is empirically established by several other studies (for example, Kasipillai & Jabbar, 2003; Kirchler et al., 2006), which documented that possessing tax knowledge would lead to higher compliance rates. On similar note, the absence of tax knowledge may lead to non-compliance behavior among taxpayers, either intentionally or unintentionally.

This is postulated by (McKerchar, 1995) who studied small business taxpayers in Australia. She suggested that small business taxpayers are not even aware of their tax knowledge shortfall and this may lead to unintentional non-compliance behavior. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, et al., 2008). In this study, a mixed method design was used by conducting mail survey, quasi-experiment and case study concurrently between November 2005 and July 2005.

The abovementioned studies, which indicate a positive relationship between tax knowledge and compliance behavior, however, were not consistent with an earlier study by Harris (1989), who claimed that tax knowledge has no direct significant effect on taxpayers' compliance behavior. One possible explanation for such inconsistent results is the difference in tax jurisdictions. The studies mentioned above were either conducted in Malaysia or Australia, while this study was conducted in the US. Another potential reason may be that the different measures were used in the studies.

2.3.3 Tax simplification

One of the essential things affecting governments' ability in tax collection is the existence of proper tax laws and their correct performance. Having tax laws which are consistent and stable in enactment and performance will make the tax system to be less complex and can encourage tax compliance (Reza and et al. ,2011) . According to (Richardson. 2006) simplicity is the most important determinant of tax compliance in his study. Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd . and Ahmad ,2011).

It is importance to have a simple tax return and system .Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as simple as possible. The tax authority may assume its tax return is simple and easy tocomplete but it may not be from the taxpayers' point of view. Therefore, it is good practice, before the final version is delivered to taxpayers, to ensure that 'pilot' tests have taken place first so that the tax return is really as simple and easy as it can be. (Silvani and Baer,1997)

2.3.4 Tax compliance

According to James and Alley (2002, p. 32), tax compliance refers to the willingness of individuals to act in accordance with in both the 'spirit' and the 'letter' of the tax law and administration without the application of enforcement activity. Prior to that, Roth et al. (1989) defined tax compliance as filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed.

The findings from a cross cultural study between Hong Kong and Australia indicated that Australian taxpayers were generally more compliant than the Hong Kong taxpayers (Richardson, 2005). (Bobek et al., 2007), on the other hand, used a hypothetical tax scenario in their experimental study to investigate the taxpayers' noncompliance behavior in the US, Australia and Singapore. Results indicated that Singaporean taxpayers had the lowest noncompliance rate at almost 26 percent, while Australian taxpayers had the highest at 45 percent. The findings further suggested that complete compliance was highest in Singapore (54 percent) and lowest in Australia (30 percent). The US was in the middle in terms of both the compliance and noncompliance rates. (Belkaoui, 2004), in his study on thirty countries,

measured the level of tax compliance using the index that varies from 0 to 6, where higher scores indicated higher compliance. In this study, New Zealand was ranked the second most compliant after Singapore. This was followed by Australia, the United Kingdom (UK) and Hong Kong. Malaysia was ranked eighth, after the US, while Italy was considered to be the least compliant. A review of the above-mentioned studies provides useful information to the researcher on the level of compliance behavior across countries. However, studies on compliance behavior would be less meaningful without investigating the potential factors leading to such behavior. (Jackson and Milliron, 1986), in their earlier review of 43 tax compliance studies undertaken from 1974 to 1985, identified fourteen key variables of compliance behavior, which include: age; gender; education; income level; income source; occupation; peer influence; ethics; fairness; complexity; tax authority contact; sanctions; probability of detection; and tax rates. (Tax Knowledge, Tax Complexity and Tax Compliance: Taxpayers' View Natrah Saad, 2013)

CHAPTER 3

METHDOLOGY

3. Introduction

This chapter describes research design and methodology which was used in this study. First section describes research design and second section describes survey method used in the study including data collection, survey method, sampling procedure, questionnaires.

3.1 Research Design

In this study the researcher used mixed research method. For achieving the research objectives using both quantitative and qualitative research approaches is preferable. SPSS software is used for processing the data and Descriptive research design is used for analysis of the findings. This analysis method is selected because it is more appropriate for the research approach selected. And also it is preferable for analyzing likert five point scale questioners.

According from data base of the branch office total population is 6199, and sample size of the study is 198. For determining the total sample size mathematical formula is used.

A population can be defined as all people or items (unit of analysis) with the characteristics that the researchers wish to study. The analysis may be a person, group, country, organization, object, or any other entity that the researchers wish to draw scientific suggestions (B.Cheree, 2012). The respondents are category “B” business tax payers of Akaki Kality branch office.

3.2 Data Source

Primary source of data were collected through structured questionnaires. In order to enhance confidence in the ensuring findings and to increase the credibility and validity of the results quantitative and qualitative methods was applied. The questionnaires are divided in to two sections: the first section is background information about respondents and the second section is fairness perception questions.

3.3 Description of Study Area

Akaki kality is one of the sub cities in Addis Ababa federal government. According to the data base of the branch office in the sub city there are 14,838 business tax payers in three categories. In category “A” 1001, in category “B” 6199 and in category “C” 7638 tax payers are found. According to FY 2007EC annual report the tax collection was not effective and also there was complains in the taxation system. From those complains the maximum complains come from category “B” it is 67.3% of the total

complains in the branch office. So the researcher tried to investigate this category tax payer's perception on the fairness of the taxation system.

For ensuring reliability of the data collected a letter of confirmation is attached at the end of the thesis paper.

Perception of tax payers is obtained by using questionnaires. The questionnaire was prepared in five point Likert scale method. So the respondents evaluate fairness of the taxation system by scaling the level of fairness.

3.4 Research methods adopted

This study incorporated both quantitative and qualitative research approaches (used mixed method) in order to generate the advantage of both approaches like; to address different objectives of the study, which cannot be achieved by a single method; and to enable one approach to inform another approach, either in design or in interpretation. As well as to triangulate the findings of different approaches (either performed concurrently or sequentially) in an effort to provide greater confidence to the study. (McKerchar, 2010, p. 20) argues that "each strategy has its strength and weaknesses and the drive for mixed method research...is to use one strategy to either inform, validate or compensate for the weaknesses of another".

3.4.1 Survey design (self-administered questionnaires)

To gather data relevant for the examination of taxpayers' perception of category 'b' tax payers' towards the fairness of tax system in Akaki Kality sub city case to employee a survey method with self-administered questionnaire.

For the purpose of this study survey design is believed to be appropriate since survey design provides a quantitative or numeric description of trends and attitudes of a population by studying a sample data with the intention of statistically generalizing to the population under investigation (Creswell, 2003).

Surveys is one method of descriptive research method that help us to gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards against which existing conditions can be compared, or determining the relationships that exist between specific events. They may vary in their levels of complexity and in terms of their scope.

Therefore, the adoption of survey design in the study, helpful in order to represents a wider population, provides descriptive, inferential and explanatory information, gather data on a one-shot basis(hence is economical and efficient), or gathering of information that will not available from archive records. As well as to make inferences about the income tax system and perception about it based on the responses of a sample of respondents. In this regard, Fowler (1984, p. 12) noted that the strengths of survey methods that result in their wider use included the value of statistical sampling, consistent measurement, and the ability to obtain information not systematically available elsewhere.

From a different type of survey for this study, a researcher was goes to use self-administered questionnaires. When we see the self-administered questionnaires has the advantage of scanning a wide field of issues, population, programs etc. with low cost. However, this method is likely to result in a low response rate. On the demerits of self-administered the response rates were typically not as high as might be desired. With very low response rates, it is difficult to establish the representativeness of the sample because those who responded to the survey may be different from the population they will intend to represent. In the current research, by using the survey method with self-administered questionnaires, the desired data for the study were gathered. The drawbacks of the self-administered questionnaires will believe to be mitigating largely by informing respondent through different necessary personal techniques and using other methods.

In addition to the mode of collecting data, a sample survey is concerned with issues including sampling and instrument designs, and pre-survey evaluation. The subsequent sections, hence, review these issues in a sample survey in respect of the current study.

3.4.2 Sample design

The choice of a sample size has a bearing on the reliability of a study. However, this does not mean that large sample size always leads to high level of accuracy rather it is to indicate that sample size is one of the factors that contribute to the credibility of a survey estimate. For the choice of sample size, different researchers give different ideas. For example, Alreck and Settle (995 p,63) noted that the choice of sample size is normally made after considering statistical precision, practical issues and available resources (e.g. cost and time). Fowler (1984 p, 43) noted that there is no a single precise way for the determinations of sample size hence there are a number of inadequacy for deciding on sample size. For instance, in deciding of a sample size by specifying the fraction of the population to be included in the sample, there is no any right way. This is because the population from which a sample of a particular size is drawn has virtually no impact on how well that sample is likely to describe the population. In addition,

for using that a particular sample is the typical approach to studying a population may also practically lead to the wrong answer. Therefore, it is better if to see the sample size used by other researchers, because it is better if the sample size to be decided by considering the different goals to be achieved by a particular study. Finally, also for deciding on the sample size by calculating a desired confidence interval for one variable for an entire population is uncommon. However, Fowler contends that nothing is wrong with this approach in terms of some theoretical sense. Apart from the problem of basing sample size decision on the need for precision of a single estimate and the difficulty of determining the level of specific precisions in advance, the estimation of the level of accuracy fails to take into account errors arising from sources other than sampling.

In order to select respondents the researcher applied convenience sampling techniques by identifying the total number of tax payers. The reason for selecting convenience sampling is Convenience sampling (also known as Haphazard Sampling or Accidental Sampling) is a type of nonprobability or nonrandom sampling where members of the target population that meet certain practical criteria, such as easy accessibility, geographical proximity, availability at a given time, or the willingness to participate are included for the purpose of the study. It is also referred to the researching subjects of the population that are easily accessible to the researcher. Convenience samples are sometimes regarded as ‘accidental samples’ because elements may be selected in the sample simply as they just happen to be situated, spatially or administratively, near to where the researcher is conducting the data collection. Other example of convenience sampling include data taken subjectively near camp, around parking areas, or an areas where density is known to be high. Etikan I., Abubakar Musa S., Sunusi Alkassim R. (2016)

3.4.3 Method of Data Collection

This study is conducted based on both primary and secondary data, using structured questionnaires and different literatures. The questionnaire is prepared in English language and then translated into local language Amharic.

This study is conducted in Addis Ababa, ERCA Akaki Kality Sub city middle tax payers’ branch office. Akaki Kality Sub city middle tax payers’ branch office is selected because the researcher has easy access to collect data regarding cost and time consideration since the branch office is easily accessible. The research work is also limited itself to a single branch office due to time and financial constraints. In this regard, ERCA Akaki Kality Sub city branch office is selected purposively. The branch office is also chosen because of its average area coverage with tax payers

from 13 weredas in the sub city. Findings of the study in such an average population base are believed to provide opportunities to obtain different set of easily manageable and reliable ideas.

Qualitative methods are usually employed for deeply rooted studies that attempt to interpret social reality. The questionnaire was translated from English into Amharic for propose of clarity. The questioner was distributed to 198 clients from the total of 6199 clients. The respondents were select through convenience sampling procedure. Based on this the researcher adopted a mathematical formula for the purpose of determining the sample size. (Taro Yamane, 1967, cited in Meron, 2007) has suggested the following mathematical formula for determining sample size.

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

Where, N is the total population, and 'e' is the error or confidence level.

The conventional confidence level of 93% will use to ensure more accurate result from the sample. Based on this, the error term will equal to 0.07. Using the total population of 6199 and error margin of 0.07, the sample size is calculated as follows. The sample size that determined by using 0.07 error term is more appropriate for representing the population.

$$n = \frac{6199}{1 + 6199(0.07)^2}$$

$$n = \frac{6199}{1 + 6199 \times 0.0049} = 198$$

3.4.4 Primary data collection

The primary data was collected by structured questionnaire. The questioner was the recommendation of my adviser. The questionnaires are open ended and closed ended questions. Open ended questions were used to collect background information about the respondents closed ended questions used to collect background information about the respondents and perceptions towards fairness of the taxation system. There are 30 questions, nine questions are general respondents' background questions and the remaining twenty one questions are fairness perception questions.

3.4.5 The survey instrument

The adoption of the survey instrument would helpful to represents a wide target population, and generates numerical data as well as to gather information that would not available from archive records. (Babbie, 1990) noted that the survey as the preferred type of data collection procedure for study because it is used to generalize from a sample to a population. In designing survey instruments caution needs to exercise in preparing instructions and wording of questions to avoid ambiguity and enable the collection of the relevant data for the research. The survey instruments consisted of closed ended questions. To designed for collecting quantitative data to investigate perception of tax payers' towards the taxation system. The questionnaires was initially prepared in English and then translated into the Amharic. Copies of the English and Amharic versions of the taxpayer survey instrument along with the covering letters are at Appendices.

The survey instrument that used in this study prepared in the form of structured self-administered questionnaire and the questionnaire served as the measuring instrument for the study. There are two sections in the questionnaire. The first part intended to gather background information about respondents. While the second section have seven parts concerned with taxpayers' perceptions of tax, fairness issues specifically dimensions of tax fairness perceptions such as tax complexity, tax efficiency, exchange fairness, vertical fairness, horizontal fairness, personal fairness, and administrative fairness.

In order to measure, the items the researcher was used a Likert type-scale. i.e., "Strongly Agree" to "Strongly Disagree".

3.4.6 Data Processing and Analysis

The quantitative and qualitative data analyses was processed by using statistical analysis specifically, descriptive statistics. Quantitative and qualitative data was edited, coded and entered into a computer and processed using SPSS statistical software. According to (D. Rowntree, 2015), Descriptive statistics is one of the methods that used to analyses quantitative data. Descriptive statistic describes the relationship between variables.

In descriptive statistics analysis method there are tools which help us to find the research results. Mean, Variance, Standard deviation are the sum of the tools for the analyses of quantitative data.

Descriptive analysis provides on how taxpayers perceive their business tax systems, in relation to tax fairness. In this analysis, basic features of the survey data presented where the mean, standard deviation, variance for each item are calculated. (Wubishet A., 2011)

Mean is the sum of all scores divided by the number of scores. And it is the good measure of central tendency. Central tendency is simply the location of the middle in a distribution of scores. (D. Rowntree, 2015)

$$M = \frac{\sum x}{n} \quad \sum x = \text{sum of all individual scores}$$

n = number of scores

M = mean

Variance is a measure of how spread out a distribution is. It is the average squared deviation of the observations from their mean (how the observations 'vary' from the mean). D. Rowntree 2015

$$V = \frac{\sum (x - M)^2}{n - 1} \quad V = \text{variance} \quad x = \text{individual scores}$$

M = mean of all scores

n = number of scores

Standard deviation is a measure of the spread or dispersion of a set of data. Indicate the typical distance between the score of a distribution and the mean. D. Rowntree 2015

$$S = \sqrt{\frac{\sum(x-M)^2}{n-1}} \quad \text{S= Standard deviation}$$

M= mean of all scores

n= number of scores

x= individual scores

Based on the mean of all scores we can identify the average observation or perception of the tax payers towards fairness of the taxation system. (L. Colosi, 2015)

- 5- Strongly agree**
- 4- Agree**
- 3- Neutral**
- 2- Disagree**
- 1- Strongly disagree**

3.5 Conclusions and the relationship between research question and sources of data

This chapter has presented the research questions and methods appropriate to address them. Table 3.1 sets out how research question addressed by the appropriate item in the survey with business profit taxpayers.

To sum up, based on the overarching research problem stated in the earlier chapter, seven research questions have been developed. With respect to methodology, the principles of qualitative, quantitative, and mixed methods research approaches shown. Based on the underlying principles of research methods the mixed method approach were chosen as appropriate to this research. More specifically, to address the research questions, survey (self-administered questionnaires) were shown to be the appropriate method of inquiry for this research. The next chapter presents the results and analysis of each of these methods of inquiry.

3.6 Relation between the research question and source of data

Table 1Relation between the research question and source of data

Research questions	Tax fairness dimensions	Items in the self-administered questionnaires
What is the perception of business tax payers towards vertical fairness?	vertical fairness	16,17
What is the perception of business tax payers towards administrative fairness?	administrative fairness	18,19,20
What is the perception of business tax payers towards horizontal fairness?	horizontal fairness	14,15
What is the perception of business tax payers towards exchange fairness?	exchange fairness	12,13
What is the perception of business tax payers towards personal fairness?	personal fairness	10,11
What is the perception of business tax payers towards tax complexity?	tax complexity	21,22,23,24
What is the perception of business tax payers towards tax efficiency?	tax efficiency	25,26,27,28,29,30

Source: adviser recommendation

3.7 Reliability statistics

Table 2 Reliability statistics

Cornbrash's Alpha	N of Items
.782	21

Source: SPSS Software

Item-Total Statistics

Table 3 Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cornbrash's Alpha if Item Deleted
The Ethiopian tax system does not require me to pay more than my fair tax.	63.95	110.706	.349	.773
Comparing my business tax burden with others, I do not pay more than my fair tax.	64.23	107.908	.451	.766
I get my fair value in terms of benefits received from the government example, education, medical, and infrastructure.	63.69	109.669	.432	.768
The benefits I receive from the government in exchange for my income-tax payments are reasonable.	64.19	108.573	.414	.768
I believe that, it is fair for me to pay a similar share of business profit tax compared with other similar sectors earning an equivalent amount of profit.	63.59	114.680	.162	.785

It is fair for individuals with similar amounts of profit to pay a similar amount of business profit tax.	63.00	111.018	.386	.771
It is fair that high-income earners are subject to tax at progressively higher tax rates than low-income earners.	63.58	105.028	.489	.763
It is fair that low-income earners are taxed at a lower rate than middle-income earners.	63.08	113.621	.257	.778
I believe that, the government utilizes a reasonable amount of tax revenue to achieve social goals.	64.41	108.045	.519	.763
The administration of the tax system by taxing Authority is consistence across years and taxpayers.	64.17	109.707	.447	.767
I think the government spends too much tax revenue on unnecessary welfare assistance.	64.22	108.353	.429	.768
The rules related to business profit tax are clear and understandable.	64.24	112.568	.278	.777
I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes	63.62	122.546	.411	.799
The Ethiopian business profit tax system is too complicated.	63.80	120.342	.534	.797
The Ethiopian business profit tax rules are bulky and hard for taxpayers like us to navigate.	63.77	121.194	.640	.798

I believe that, the Ethiopian tax system encourages taxpayers for more investment.	64.42	105.374	.606	.757
I see that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia.	64.06	104.696	.584	.757
I think that, the Government of Ethiopia increases the tax rates under the conditions of inflation.	64.10	112.345	.309	.775
I see that, the current Ethiopian tax system encourages taxpayers for more production through different tax exempts.	64.05	106.324	.588	.759
I believe that, few people in Ethiopia own luxury automobiles because they have to pay higher tax rates for the ownership of these automobiles.	63.49	106.452	.415	.768
I find that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels.	63.40	111.387	.332	.774

Source: SPSS software

As it's shown in the Table 3.2, the participants were asked to indicate their degree of agreement in 21 item scale about tax fairness in a five point “strongly disagree-strongly agree” Likert scale questions. Reliability was assessed using Cronbach’s Alpha. The scale scores 0.782, which exceeds the minimum acceptable level of 0.70 as recommended by Carmines & Zeller (1979). In addition, it was observed that none of the variables has a negative relationship with the total correlation. Thus, this findings show us that internal consistency of the data is considerably high.

Chapter Four

Discussion, Result and Analysis of finding

4. Introduction

This chapter contains discussion and analysis of the findings. It presents the findings related with general and specific objectives of the study, which is find out how category “B” business tax payers perceive the taxation system. And find out how category “B” business tax payers perceive vertical fairness, horizontally fair, administrative fairness, general fairness, personal fairness of the taxation system and whether tax efficiency and tax complexity affect fairness perception of category “B” business tax payers or not.

In the last chapter of the research the planed respondents or total sample size of the research is 198, but in the process of data collection 38 questioners are uncollected because of different reasons like miss understanding of respondents, forgetting to return the questioners and leaving the research questions blank after receiving questioners.

4.1 Results, discussions and analysis

4.1.1 General information and categories of respondents

Table 4 - types of respondents business sectors

		Frequency	Percent
Valid	manufacturing/industry	34	21.3
	Agriculture	9	5.6
	service including trade	114	71.3
Total		157	98.1
Missing	System	3	1.9
Total		160	100.0

Source: Questioner

As it's shown in table 4.1, according from the data collected from the respondents 34 (21.3%) of the respondents are engaged in manufacturing or industry sector 9 (5.6%) of respondents are engaged in agriculture sector and 114 (71.3%) of the respondents are engaged in service and trade sector of the

business. This data implies that majority category “B” business tax payers are engaged in trade and service sectors. This result also shows that government still didn’t work enough on encouragement of manufacturing, industry and export products.

Table 5 types of ownership

		Frequency	Percent
Valid	sole proprietorship	112	70.0
	private limited Co.	15	9.4
	Partnership	20	12.5
	share company	10	6.3
Total		157	98.1
Missing	System	3	1.9
Total		160	100.0

Source: Questioner

According to table 4.2, 112 (70%) ownership of the respondents business is sole proprietorship, 15 (9.4%) of the business is owned by private limited company, 20 (12.5%) of the respondents business is partnership and the remaining 10 (6.3%) is share company.

This data shows majority category “B” tax payers are sole proprietorship or individual owned business. In this results it also show that there are some problems like organizing of dedicated office for the given sector, lack of accountability and supervision in government’s cooperative offices with the activity of creating and supporting group business.

Table 6 position of the respondents

		Frequency	Percent
Valid	Owners	96	60.0
	Manager	17	10.6
	Employees	31	19.4
Total		144	90.0
Missing	System	16	10.0
Total		160	100.0

Source: Questioner

In the data collection process 96 (60%) of the respondents are owner of the business and 17 (10.6%) of the respondents are managers of the business organizations and the remaining 31 (19.4%) of the respondents are employees of the business organizations.

So for this study it is very essential that more than half of the respondents are owner of the business, for the reliability and strength of the data. And also it is too much helpful for the study in the data collection process, because the researcher get the immediate problem takers. Majority of the business are lead and managed by the owners and also some of the business are recruited workers. Others are managed by shareholders.

Table 7 Other positions of the respondents

		Frequency	Percent
Valid	share holders	2	1.3
	member of association	14	8.8
Total		16	10.0
Missing	System	144	90.0
Total		160	100.0

Source: Questioner

Additionally 2(1.3%) of the respondents are shareholders and 14(8.8%) of the respondents are members of associations. So, these also increase reliability of the collected data.

Table 8 Sex

		Frequency	Percent
Valid	male	112	70.0
	female	48	30.0
	Total	160	100.0

Source: Questioner

As it's shown in the above table 4.5, 70% (112) of respondents are male and the remaining 30% (48) respondents are females. This shows there is high dominancy of males in the business sectors. And there is low participation of females in business activities. It shows still there are some problems of gender related issues like discouragements and fears. Still gender issues are not addressed effectively.

Table 9Age

		Frequency	Percent
Valid	18-25	34	21.3
	26-35	69	43.1
	36-50	46	28.8
	51-60	9	5.6
Total		158	98.8
Missing	System	2	1.3
Total		160	100.0

Source: Questioner

The above table shows that age of respondents. 34 (21.3%) of respondents are 18-25, 69 (43.1%) of respondents are 26-35, 46 (28.8%) of respondents are 36-50 and 9 (5.6%) of respondents are 51-60. This shows that majority of the respondents and tax payers are in productive age or working age. They have ability to work more.

Table 10 Time of business start

		Frequency	Percent
Valid	Less than 1 year ago	19	11.9
	1-5 years ago	72	45.0
	5-10years ago	30	18.8
	more than 10 years ago	39	24.4
Total		160	100.0

Source: Questioner

Table 4.7 shows that respondents starting time of the business. 19 (11.9%) of respondents start their business less than one year ago, 72 (45%) of respondents starts their business one up to five years ago, 30 (18.8%) of respondents starts their business five up to ten years ago and the remaining 39 (24.4%) of respondents starts their business more than ten years ago. This data shows majority of the respondents have experience in the business sector more than a year. This will help the study to be more reliable and strong. And also the respondents are more experienced in the taxation system of the county.

Table 11 Profit in 2008

		Frequency	Percent
Valid	Under Birr 100,000	79	49.4
	Birr 100,001 – Birr 500,000	50	31.3
	Birr 500,001 – Birr 1,000,000	3	1.9
	more than 1,000,000 birr	2	1.3
Total		134	83.8
Missing	System	26	16.3
Total		160	100.0

Source: Questioner

Table 4.8 shows that respondents profit in last year. 79 (49.4%) of respondents get less than 100,000 birr, 50 (31.3%) of respondents get 100,000-500,000 birr, 3 (1.9%) of respondents get 500,000-1,000,000 birr, and 2 (1.3%) of respondents get more than 1,000,000 birr profit in 2008EC. this data shows that majority respondents pay their tax in loss. Because annual profit of category “B” tax payers should be between 100,000-500,000. So this is difficult for tax payers.

Table 12 Respondents education level

		Frequency	Percent
Valid	Below 12 grade	44	27.5
	12 grade completed	36	22.5
	Diploma	40	25.0
	Degree	36	22.5
	masters and above	4	2.5
	Total	160	100.0

Source: Questioner

Table 4.9 shows education level of respondents. 44 (27.5%) of respondents education level is below 12 grade, 36 (22.5%) of respondents are grade 12 completed, 40 (25%) of respondents have diploma, 36 (22.5%) of respondents have first degree and the remaining 4 (2.5%) respondents have masters degree.

This shows that more than half of the respondents are educated and have basic knowledge about tax and business. This is very help full for the study.

4.1.2 Fairness perceptions

4.1.2.1 Tax payers' perception towards personal fairness

Table 13 Tax payers' perception towards personal fairness

Statements	N	Mean	Std. Deviation	Variance
The Ethiopian tax system does not require me to pay more than my fair tax.	152	3.05	1.265	1.600
Comparing my business tax burden with others, I do not pay more than my fair tax.	146	2.86	1.201	1.443

Source: Questioner

$$m = \frac{3.05 + 2.86}{2} \quad v = \frac{(3.05 - 2.955)^2 + (2.86 - 2.955)^2}{2 - 1} \quad s = \sqrt{0.018}$$

$$m = 2.955 \quad v = 0.018 \quad s = 0.134$$

Table 4.10 shows that tax payers' perception towards personal fairness. Category "B" tax payers was asked their perceptions towards two statements directly related with personal fairness of the taxation system. Both statements have their own mean, std. deviation and variance. But for having the total result of tax payers perception towards personal fairness it is better calculating as one.

In the first statement the number of respondents those gives an answer was 152. From those respondents' answer 24 respondents strongly disagree with the statement, 34 respondents disagree with the statement, 15 respondents are neutral for the statement, 68 respondents agree with the statement and 11 respondents strongly agree with the statement. And mean of the first statement is 3.05, variance is 1.600 and std. is 1.265.

In the second statement the total number of respondents those gives an answer was 146. From those respondents' answer 22 respondents strongly disagree with the statement, 45 respondents disagree with the statement, 15 respondents are neutral for the statement, 59 respondents agree with the statement and 5 respondents strongly agree with the statement. And mean of the second statement is 2.86, variance is 1.201 and std. is 1.143.

After calculating the total mean, std. and variance of tax payers' perception towards personal fairness of the taxation system, it shows that mean 2.955, variance 0.018 and std. 0.134.

According to the finding category "B" tax payers' perception for personal fairness is approximately neutral. Mean of the total perception is 2.995, so according to the standard (five point likert scale) it is neutral. Personal fairness is very mandatory in the taxation system, every tax payer organizations and individuals should perceive that government of the country or tax authority does not require more than fair amount of tax & every tax payers should feel that they are equal with others. According to Roth, schoiz & witten (1989) self-interest assumes that individual maximize their expected utility by reporting on income that balances the benefits of successful evasion against the consequences of direction. So some tax payers might use different methods to decrease their tax burden & other tax payers in the same business sector will observe that the tax amount is too different then this tax payer is going to have unfair perception for the taxation system. And this system of tax evasion will contaminate (spoil) the perception of tax payers. In personal fairness issue tax knowledge also matters. If someone has knowledge of tax the perspective that the person see thing will be browed and different.

According to std. the respondent or tax payers' perception is relatively similar. As we know that std. is the square rate of variance, standard division will help us to analyses in until based way. So std. is 0.134. This means the respondent answer (perception) vary or have distance from the mean is 0.134. The result show that total perception of tax payers' towards personal fairness is in similar domain. This show relative they have similar perception in the issue.

4.1.2.2 Tax payers' perception towards exchange fairness

Table 14 Tax payers' perception towards exchange fairness

Statements	N	Mean	Std. Deviation	Variance
I get my fair value in terms of benefits received from the government example, education, medical, and infrastructure.	160	3.27	1.164	1.355
The benefits I receive from the government in exchange for my income-tax payments are reasonable.	145	2.84	1.251	1.565

Source: Questioner

$$m = \frac{3.27 + 2.84}{2} \quad v = \frac{(3.27 - 3.055)^2 + (2.84 - 3.055)^2}{2 - 1} \quad s = \sqrt{0.092}$$

$$m = 3.055 \quad v = 0.092 \quad s = 0.304$$

Table 4.11 shows that tax payers' perception towards exchange fairness. Category "B" tax payers was asked their perceptions towards two statements directly related with exchange fairness of the taxation system.

In the first statement the number of respondents those gives an answer was 160. From those respondents' answer 14 respondents strongly disagree with the statement, 36 respondents disagree with the statement, 17 respondents are neutral for the statement, 79 respondents agree with the statement and 14 respondents strongly agree with the statement. And mean of the first statement is 3.27, variance is 1.355 and std. is 1.164.

In the second statement the number of respondents those gives an answer was 145. From those respondents' answer 22 respondents strongly disagree with the statement, 50 respondents disagree with the statement, 12 respondents are neutral for the statement, 51 respondents agree with the statement and 10 respondents strongly agree with the statement. And mean of the second statement is 2.84, variance is 1.565 and std. is 1.251.

After calculating the total mean, std. and variance of tax payers' perception towards exchange fairness of the taxation system, it shows that mean 3.055, variance 0.092 and std. 0.304.

According to the finding in exchange fairness perception, category “B” tax payers’ perception towards exchange fairness is neutral. Mean of tax payer’s perception is 3.055. This describes that average total perception of tax payer’s is neutral. Exchange fairness is also basic thing for everybody because it creates belongings. If we feel that every infrastructure and every mega projects that are financed by government is by our tax & other contribution, we will be delighted & willing to pay tax and other burden which expected from us. According to cook and hegtvedt (1983), based on the premise that one would only respond fairly if the other party act fairness achieved them with in this exchange framework, equity, or fairness achieved when there is an equivalence of the outcome input ratios for all parties involves in the exchange. So in this exchange the more tax payers get benefits from government the more they will be willing to pay their fair tax and there perception will change. It shows that the tax payers didn’t get what they expect from government in exchange to their tax or it isn’t fair enough.

Std. of tax payers’ answer is 0.304. According to the result perception of tax payers was similar or total tax payers’ perception towards exchange fairness is vary in neutral perception domain.

4.1.2.3 Tax payers’ perception towards horizontal fairness

Table 15 Tax payers’ perception towards horizontal fairness

Statements	N	Mean	Std. Deviation	Variance
I believe that, it is fair for me to pay a similar share of business profit tax compared with other similar sectors earning an equivalent amount of profit.	159	3.53	1.287	1.655
It is fair for individuals with similar amounts of profit to pay a similar amount of business profit tax.	153	3.88	1.149	1.320

Source: Questionar

$$m = \frac{3.53 + 3.88}{2} \quad v = \frac{(3.53 - 3.705)^2 + (3.88 - 3.705)^2}{2 - 1} \quad s = \sqrt{0.061}$$

$$m = 3.705 \quad v = 0.061 \quad s = 0.247$$

Table 4.12 shows that tax payers' perception towards horizontal fairness. Category "B" tax payers was asked their perceptions towards two statements directly related with horizontal fairness of the taxation system.

In the first statement the number of respondents those gives an answer was 159. From those respondents' answer 16 respondents strongly disagree with the statement, 28 respondents disagree with the statement, 5 respondents are neutral for the statement, 75 respondents agree with the statement and 35 respondents strongly agree with the statement. And mean of the first statement is 3.53, variance is 1.655 and std. is 1.287.

In the second statement the number of respondents those gives an answer was 153. From those respondents' answer 6 respondents strongly disagree with the statement, 20 respondents disagree with the statement, 15 respondents are neutral for the statement, 58 respondents agree with the statement and 54 respondents strongly agree with the statement. And mean of the second statement is 3.88, variance is 1.320 and std. is 1.149.

After calculating the total mean, std. and variance of tax payers' perception towards horizontal fairness of the taxation system, it shows that mean 3.705, variance 0.061 and std. 0.247.

In horizontal fairness category "B" tax payers perception is agree. Mean of the perception is 3.705, this shows tax payers agree with horizontal fairness of the taxation system. They agree with similar amount of profits should pay similar amount of tax. Horizontal fairness refers to providing equal treatment to all in the same group (Porcano & price,1992). So tax payers need to treat equally with same factor. And they perceived that horizontal fairness of the taxation system is fair, so similar sectors are treated equally in the taxation system and similar profited tax are paying similar tax amount. It is good for tax payers and government equal treatment is basic and expectation from government and authority and this perception is very big opportunity for authority and government too. Getting this acceptance from tax payers by itself it is one achievement.

Answer of the respondent variation is not much different from the mean. Standard deviation is 0.247. This show respondents' perception is not far from the average (mean) of the total perception towards horizontal fairness.

4.1.2.4 Tax payers' perception towards vertical fairness

Table 16 Tax payers' perception towards vertical fairness

Statements	N	Mean	Std. Deviation	Variance
It is fair that high-income earners are subject to tax at progressively higher tax rates than low-income earners.	149	3.38	1.383	1.912
It is fair that low-income earners are taxed at a lower rate than middle-income earners.	153	3.90	1.146	1.313

Source: Questionar

$$m = \frac{3.38 + 3.90}{2} \quad v = \frac{(3.38 - 3.64)^2 + (3.90 - 3.64)^2}{2 - 1} \quad s = \sqrt{0.135}$$

$$m = 3.64 \quad v = 0.135 \quad s = 0.367$$

Table 4.13 shows that tax payers' perception towards vertical fairness. Category "B" tax payers was asked their perceptions towards two statements directly related with vertical fairness of the taxation system.

In the first statement the number of respondents those gives an answer was 149. From those respondents' answer 18 respondents strongly disagree with the statement, 32 respondents disagree with the statement, 13 respondents are neutral for the statement, 48 respondents agree with the statement and 38 respondents strongly agree with the statement. And mean of the first statement is 3.38, variance is 1.912 and std. is 1.383.

In the second statement the number of respondents those gives an answer was 153. From those respondents' answer 8 respondents strongly disagree with the statement, 17 respondents disagree with the statement, 9 respondents are neutral for the statement, 67 respondents agree with the statement and 52 respondents strongly agree with the statement. And mean of the second statement is 3.90, variance is 1.313 and std. is 1.146.

After calculating the total mean, std. and variance of tax payers' perception towards vertical fairness of the taxation system, it shows that mean 3.64, variance 0.135 and std. 0.367.

Category “B” tax payers’ perception towards vertical fairness is agreed with the taxation system, mean of the perception is 3.64. Vertical fairness refers to unequal persons should treat unequally or rich people should not pay equally with poor peoples (porcano & price,1992). In this issue tax payers agree with the taxation system of the country. It would not fair if high profitable organization and individual pay some amount of tax. It is discouragement of low & medium profitable tax payers’, government also should more improve vertical fairness of the taxation system. The finding show that the tax payers perception in the case of vertical fairness is fair this means they are treated according with their scale of profit or income per year.

Perceiving vertical fairness as fair by tax payers, it will help the authority in the increment of compliant tax payers with the tax law. Because if the tax payers believe that the vertical fairness of the taxation system is fair, it will make the tax payers more compliant and reliable for the tax law. This means they are agreed with the vertical fairness issues in the tax law.

According to std. of tax payers’ response std. is 0.367. This show that the distance of perceptions from the average perception is a little bit different but majority (more than half) respondents are in agree domain.

4.1.2.5 Tax payers’ perception towards administrative fairness

Table 17 Tax payers’ perception towards administrative fairness

Statements	N	Mean	Std. Deviation	Variance
I believe that, the government utilizes a reasonable amount of tax revenue to achieve social goals.	155	2.57	1.156	1.337
The administration of the tax system by taxing Authority is consistence across years and taxpayers.	152	3.00	1.110	1.232
I think the government spends too much tax revenue on unnecessary welfare assistance.	152	2.82	1.252	1.568

Source: Questioner

$$m = \frac{2.57+3.00+2.82}{3} \quad v = \frac{(2.57-2.796)^2+(3.00-2.796)^2+(2.82-2.796)^2}{3-1} \quad s = \sqrt{0.046}$$

$$m=2.796 \quad v=0.046 \quad s=0.216$$

Table 4.14 shows that tax payers' perception towards administrative fairness. Category "B" tax payers was asked their perceptions towards three statements directly related with administrative fairness of the taxation system.

In the first statement the number of respondents those gives an answer was 155. From those respondents' answer 31 respondents strongly disagree with the statement, 51 respondents disagree with the statement, 32 respondents are neutral for the statement, 35 respondents agree with the statement and 6 respondents strongly agree with the statement. And mean of the first statement is 2.57, variance is 1.337 and std. is 1.156.

In the second statement the number of respondents those gives an answer was 152. From those respondents' answer 17 respondents strongly disagree with the statement, 35 respondents disagree with the statement, 38 respondents are neutral for the statement, 55 respondents agree with the statement and 7 respondents strongly agree with the statement. And mean of the second statement is 3.00, variance is 1.232 and std. is 1.110.

In the third statement the number of respondents those gives an answer was 152. From those respondents' answer 29 respondents strongly disagree with the statement, 37 respondents disagree with the statement, 30 respondents are neutral for the statement, 45 respondents agree with the statement and 11 respondents strongly agree with the statement. And mean of the third statement is 2.82, variance is 1.568 and std. is 1.252.

After calculating the total mean, std. and variance of tax payers' perception towards administrative fairness of the taxation system, it shows that mean 2.796, variance 0.046 and std. 0.216.

Category "B" tax payer's perception towards administration fairness is neutral. Mean of the perception is 2.796 this shows that perception of tax payers towards administrative fairness is more approximate to neutral. According to M.E Phillips & sandal (2008) administrative fairness is a result of good governance. Governance shapes tax system which how taxes are raised influence the creation of effective state institution and the dynamics of the investment climate & growth. Because of good governance deliver good tax system, better tax system deliver better governance, governance and tax system sapped the investment climate.

Regarding to the finding tax payers is not aware about the administration of tax. But they should and have to know why they are paying tax and for what purpose government or the administration is spent to. If tax payers know or perceived the administration is fair they will be more willing and happy to their fair tax. It is there right to know about tax administration and it is duty of government and tax authority to teach about tax administration.

According to std., it is 0.216. Based on this total respondents' perception is neutral perception for administrative fairness. The distance of tax payer perception towards administrative fairness from the man is 0.216, so it is very similar or approximate perception.

4.1.2.6 Tax payers' perception towards tax complexity

Table 18 Tax payers' perception towards tax complexity

Statements	N	Mean	Std. Deviation	Variance
The rules related to business profit tax are clear and understandable.	156	2.82	1.194	1.426
I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes	150	3.41	1.165	1.358
The Ethiopian business profit tax system is too complicated.	146	3.16	1.292	1.669
The Ethiopian business profit tax rules are bulky and hard for taxpayers like us to navigate.	147	3.22	1.252	1.569

Source: Questioner

$$m = \frac{2.82+3.41+3.16+3.22}{4} \quad v = \frac{(2.82-3.152)^2+(3.41-3.152)^2+(3.16-3.152)^2+(3.22-3.152)^2}{4-1} \quad s = \sqrt{0.060}$$

$$m=3.152 \quad v=0.060 \quad s=0.245$$

Table 4.15 shows that tax payers' perception towards tax complexity. Category "B" tax payers was asked their perceptions towards four statements directly related with tax complexity of the taxation system.

In the first statement the number of respondents those gives an answer was 156. From those respondents' answer 25 respondents strongly disagree with the statement, 46 respondents disagree with the statement, 23 respondents are neutral for the statement, 56 respondents agree with the statement and 6 respondents strongly agree with the statement. And mean of the first statement is 2.82, variance is 1.426 and std. is 1.194.

In the second statement the number of respondents those gives an answer was 150. From those respondents' answer 7 respondents strongly disagree with the statement, 36 respondents disagree with the statement, 21 respondents are neutral for the statement, 60 respondents agree with the statement and 26 respondents strongly agree with the statement. And mean of the second statement is 3.41, variance is 1.358 and std. is 1.165.

In the third statement the number of respondents those gives an answer was 146. From those respondents' answer 16 respondents strongly disagree with the statement, 39 respondents disagree with the statement, 20 respondents are neutral for the statement, 47 respondents agree with the statement and 24 respondents strongly agree with the statement. And mean of the third statement is 3.16, variance is 1.669 and std. is 1.292.

In the fourth statement the number of respondents those gives an answer was 147. From those respondents' answer 14 respondents strongly disagree with the statement, 39 respondents disagree with the statement, 16 respondents are neutral for the statement, 57 respondents agree with the statement and 21 respondents strongly agree with the statement. And mean of the fourth statement is 3.22, variance is 1.569 and std. is 1.252.

After calculating the total mean, std. and variance of tax payers' perception towards tax complexity of the taxation system, it shows that mean 3.152, variance 0.060 and std. 0.245.

Category "B" tax payers perception towards tax complexity is neutral. According to mean of tax payer's perception it goes to neutral perception. Mean of the perception is 3.152, it shows that tax payers are not concerned about tax laws and regulations. Understanding tax laws and regulations of the country is mandatory and expected from tax payers. And making tax laws and regulations of the country clear, simple, interesting and understandable is expected from government and tax authority. But in this study tax payers are more concerned about paying their tax bored. They are not interested in reading the tax law. Even there tax knowledge is low and limited.

Government and tax authority should increase awareness creation of tax law. Making tax laws and regulations complex, bulky and complicated will increase tax evasion, market complexity and market

sophistication, rent seeking behavior and difficulties of protecting the revenue base of government. And decrease willingness of the tax payers to pay, fairness perception of tax payers and interest of tax payers to read tax law. (T.oliver & S.bartley, 2014).Tax complexity highly affects fairness perception of tax payers in understanding, obeying and criticizing of the taxation system. If tax payers didn't understand the tax laws and regulations they could not obey and criticize the taxation system. And also it is difficult to say the taxation system is fair or not.

Standard deviation of respondent perception is 0.246. This show that perception of tax payers is varies in 0.245 distances from the mean. In general this result shows total tax payers' perception is in similar range or domain.

4.1.2.7 Tax payers' perception towards tax efficiency

Table 19 Tax payers' perception towards tax efficiency

Statements	N	Mean	Std. Deviation	Variance
I believe that, the Ethiopian tax system encourages taxpayers for more investment.	151	2.70	1.204	1.451
I see that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia.	150	3.02	1.266	1.604
I think that, the Government of Ethiopia increases the tax rates under the conditions of inflation.	150	3.00	1.153	1.329
I see that, the current Ethiopian tax system encourages taxpayers for more production through different tax exempts.	153	2.95	1.155	1.333

I believe that, few people in Ethiopia own luxury automobiles because they have to pay higher tax rates for the ownership of these automobiles.	149	3.43	1.439	2.071
I find that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels.	150	3.57	1.178	1.388

Source: Questioner

$$m = \frac{2.70+3.02+3.00+2.95+3.43+3.57}{6} \quad v = \frac{(2.70-3.11)^2+(3.02-3.11)^2+(3.00-3.11)^2+(2.95-3.11)^2+(3.43-3.11)^2+(3.57-3.11)^2}{6-1}$$

$$m=3.111 \quad v=0.0105 \quad s=\sqrt{0.0105} \quad s=0.324$$

Table 4.16 shows that tax payers' perception towards tax efficiency. Category "B" tax payers was asked their perceptions towards four statements directly related with tax efficiency of the taxation system.

In the first statement the number of respondents those gives an answer was 151. From those respondents' answer 25 respondents strongly disagree with the statement, 52 respondents disagree with the statement, 28 respondents are neutral for the statement, 35 respondents agree with the statement and 11 respondents strongly agree with the statement. And mean of the first statement is 2.70, variance is 1.451 and std. is 1.204.

In the second statement the number of respondents those gives an answer was 150. From those respondents' answer 26 respondents strongly disagree with the statement, 25 respondents disagree with the statement, 34 respondents are neutral for the statement, 50 respondents agree with the statement and 15 respondents strongly agree with the statement. And mean of the second statement is 3.02, variance is 1.604 and std. is 1.266.

In the third statement the number of respondents those gives an answer was 150. From those respondents' answer 19 respondents strongly disagree with the statement, 28 respondents disagree with the statement, 51 respondents are neutral for the statement, 38 respondents agree with the statement and 14 respondents strongly agree with the statement. And mean of the third statement is 3.00, variance is 1.329 and std. is 1.153.

In the fourth statement the number of respondents those gives an answer was 153. From those respondents' answer 18 respondents strongly disagree with the statement, 38 respondents disagree with the statement, 43 respondents are neutral for the statement, 41 respondents agree with the statement and 13 respondents strongly agree with the statement. And mean of the fourth statement is 2.95, variance is 1.333 and std. is 1.155.

In the fifth statement the number of respondents those gives an answer was 149. From those respondents' answer 13 respondents strongly disagree with the statement, 42 respondents disagree with the statement, 16 respondents are neutral for the statement, 24 respondents agree with the statement and 54 respondents strongly agree with the statement. And mean of the fifth statement is 3.43, variance is 2.071 and std. is 1.439.

In the sixth statement the number of respondents those gives an answer was 150. From those respondents' answer 9 respondents strongly disagree with the statement, 23 respondents disagree with the statement, 27 respondents are neutral for the statement, 56 respondents agree with the statement and 35 respondents strongly agree with the statement. And mean of the sixth statement is 3.57, variance is 1.388 and std. is 1.178.

After calculating the total mean, std. and variance of tax payers' perception towards tax efficiency of the taxation system, it shows that mean 3.111, variance 0.105 and std. 0.324.

In the case of tax efficiency category "B" tax payer's perception towards tax efficiency is neutral. According to mean of tax payer's perception is 3.111, this result show that tax efficiency of the taxation system perceived by the payers' neutral.

Revenue collection depends on efficient administration; trust in government, and political stability. Without these pre-conditions, fair, effective, and efficient tax system are difficult to develop. Should and fair domestic taxation system promote good governance because raising tax efficiency requires the consent of the tax-paying population (M.e.phillips & Sandall,2008)

Tax efficiency is basic for both parties, for tax authority and tax payers, because of the taxation system of any country should encourage foreign & local inverters. And also taxation system should consider small business enterprises in different ways. Not only that tax system should discourage harmful products like cigarette, alcohols& different related products. Also taxation system should discourage (highly taxed) luxuries products & importer of locally produced products. This activates encouraged local investors and foreign investors. Tax efficiency affect perception of the payers if the tax system does not encourage local investment and exports tax payers will have unfair perception towards the tax system.

Standard deviation of respondents perception is 0.324. This show that perception of tax payers varies from the mean is not too much. The distance from mean of the perception does not change the result, because it is in neutral perception domain.

4.1.2.8 Total fairness perception finding and discussion

According to the finding total fairness perception is developed like above. Total number of respondents is 160, from those respondents the researcher tried to investigate perception of fairness towards the taxation system and get the above results. The results show that fairness of the taxation system is neutrals. The total mean is 3.202, this means the average of all respondents' perception is neutral. Neutral describes that the taxation system is not complete or have some problem and have some fair parts. The taxation system has fairness problems in personal fairness, exchange fairness, tax complexity, administration fairness and tax efficiency, and in horizontal & vertical fairness the taxation system is fair.

Standard deviation of the perception is 0.342. Perception distance or perception difference between respondents (tax payers) is very little. Tax payers' perception distance from mean (average perception) is little. Not far from neutral perception region or all perceptions are in the area of neutral perception.

Total category "B" tax payers' perception of fairness towards the taxation system is closer to neutral. Mean of total perception is 3.202 this result goes to neutral perception. This means tax payers are not perceived the taxation system is unfair and also they didn't perceive it fair. It is in the middle, between fair & unfair. Fair taxation system is very basic and mandatory for every country. Fair taxation system is a result of good governance. And good governance is free from corruption & rent seeking activities, there is political stability, continues economic growth, very low unemployment rate no tax evasion, high foreign direct investment, high export, low migration, low brain drain etc....

So, fair taxation system has many purposes for a country and for tax payers. But in our country case we have a lot of work to do in tax knowledge and awareness, evaluating tax complexity and also basic area which needs attention of the government and tax authorizes.

Standard deviation of the perception is 0.342. This shows that respondents' perceptions vary between neutral and agree area. But no potential perception difference between tax payers. Perception distance from the mean is to some extent different.

Chapter-5

Conclusion and recommendation

5 Summery of findings

In this study the researcher tried to investigate the perception of tax payers in akaki kality sub city category “B” tax payers towards fairness of the taxation system. In the study the following results are found.

- Tax payers’ perception towards personal fairness is neutral fairness perception.
- Tax payers’ perception towards exchange fairness is neutral fairness perception.
- Tax payers’ perception towards vertical fairness is fair taxation system is perceived.
- Tax payers’ perception towards horizontal fairness is fair taxation system is perceived.
- Tax payers’ perception towards administrative fairness is neutral fairness perception.
- Tax payers’ perception towards tax complexity is neutral perception.
- Tax payers’ perception towards tax efficiency is neutral perception.
- Tax payers’ perception towards total fairness of the taxation system is neutral fairness perception.

5.1 Conclusions

The conclusion drawn based on major finding is discussed as follows. This study covers fairness perception of category “B” tax payers in akaki kality sub city towards the taxation system. As much as possible the researcher tried to investigate all those dimensions of tax fairness, personal fairness, exchange fairness, administrative fairness, vertical fairness, horizontal fairness, tax complexity and tax efficiency.

According to the finding more than half of tax payers are involved in service and trade sectors and majority of them are in incurred loss in the past year.

Perception of tax payers are investigated by dividing questions in to seven section in the questioner.

The first section is personal fairness; personal fairness perception of tax payers is neutral. This means personal fairness of the taxation system didn’t satisfy the tax payers. This means personal fairness of the taxation system is not satisfactoryfor tax payers.

The second section is exchange fairness; perception of tax payers towards exchange fairness is also neutral. Exchange fairness of the taxation system is not satisfactory. The return that tax payers expected from government in response of their tax payment is not equivalent.

The third section is horizontal fairness horizontal fairness perception of tax payers is more approximate to agree with the taxation system. This mean tax payers are perceived horizontal fairness of the taxation system is fair.

The fourth section is vertical fairness; tax payer's perception towards vertical fairness is also more approximate to agree. This shows that vertical fairness of the taxation and system is perceived by tax payers a fair.

The fifth section is administration fairness; tax payer's perception towards administrative fairness is more approximate to neutral. This means administrative fairness of the taxation system is not appropriately improvement or worked. It is difficult for payers to perceive & say it is fair or not. All tax payers should perceive administration fairness fair, because administration fairness is much influential than any fairness dimensions in making fair taxation systems and improving tax payers perception on fairness. There should be visible works that improve administrative fairness for tax payers.

The sixth section is complexity; tax complexity perception of tax payers is also neutral. This perception shows that tax payers are not interested and willing to read and know about tax laws and regulations. Tax payers are paying their tax just because of they have to, but they are not sure that they are paying according to the tax law or not. So they couldn't know that the tax law & regulations are complex or not. This problem will affect their perception highly.

The seventh section is tax efficiency, tax efficiency is perceived by tax payers as neutral too. This shows that efficiency of the taxation system doesn't make all tax payers benefiter or doesn't motivate, encourage, facilitate and attract all investors and business organizations equally or similarly and also doesn't discourage unwanted business activities, investments, imports, official activities like corruption & rent seeking, in all position and places.

The last section is total finding perception of tax payers towards fairness of the taxation system is neutral. They are not fully satisfied in the taxation system but horizontal and vertical fairness of the taxation system is perceived fair. The remaining themes of fairness perceived neutral. This means the total fairness of the taxation system is not fully fair it have problems. So the researcher says fairness perception of tax payers' is different or fluctuated from one fairness dimension to other fairness dimension. They don't have stable perception on the taxation system. This problem affects the total outcome. So, the total out is

neutral perception. Also the system is more available and simple for tax evasion, corruption and rant seeking activities.

5.2 Recommendations

Researcher provides the following recommendation on the basis of research work.

1. Giving continues training and awareness creation activities.

Government and tax authority should provide and improve ways of delivering tax education. Akaki kality sub city ERCA branch office has to work on tax education. 64.4% of the respondents are young. According to the sample majority tax payers are at young age, so it is easy to educate and train them. According to 2008EC annual report of the authority one of the main problem was poor performance in developing of tax payers' knowledge about taxation. Tax knowledge is basic for tax payers, if tax payers know his tax obligation there will be no need of penalty and other enforcements. So every tax payers will know the role of tax in economic development and growth of the country. Also they will know how tax is basic for the well-being of citizens. Because of these and other reasons sustainable awareness creation program is mandatory.

2. There must be sufficient provisions of social services by the government.

According to the result, the tax payers need various social services from the government in return of what they have paid as a tax. According from Ethiopian inland revenue authority data akaki kality sub city is the second high tax payer in the city, but the infrastructures are not fulfilled and not satisfactory when it is compared with other sub cities. Tax payers should believe that their tax payment is fully spent for their own purpose. Like fulfillment of citizens questions about basic necessities. If there is no provision of sufficient services, the willingness and motivation of the tax payers to pay the tax obligation is full and on timely basis may affected and also fairness perception of tax payers is going to affected, i.e. the tax payers perceive that their money is being misappropriated or used for meaningless purposes and corrupted by higher officials. Therefore the government should be transparent for the tax payer's money and the service provided to the society.

3. Building good governance in corporate level and in the branch office.

Revenue collection depends on efficiency administration; trust in government, and political stability. Without these preconditions fair, effective and efficient tax systems are difficult to develop. Good governance delivers good tax system, better tax system deliver better governance and tax system shape the investment climate.

According to 2008EC annual report of ERCA, good governance also the basic problem of the authority. This problem is also the problem of akaki kality branch office, administrative fairness problem is the cause. So insuring administrative fairness in the branch office can solve the main problem of good governance. Like improving service quality, requesting feed backs, answering tax payers' questions as soon as possible and focusing on continues tax payers' perception investigation analysis are some of the recommended activities for the branch office to build good governance.

4. Design tax reform to strengthen governance.

Reform the taxation system for making the system more fast and modern. The authority also in the annual report of 2008EC, believed that the taxation system has a problem in speed, security and compatibility with the country's tax law. And it is more available for corruption.

Tax reformations have its own objectives for transparency, accountability, fairness and effectiveness. According to the finding tax rules and regulation are not preferable to read by the tax payers, so it might be good to update the way of presentation. From the objectives of tax reformation some of them are the following.

Transparency

- Constrain the discretion of tax collectors and reduce corruption by publishing consistent and accessible tax regulations, rates, and procedures.
- Foster public-private dialogue on tax through a formal process of private-sector engagement with government on tax policy.
- Create visible links between taxes and expenditure; compliance rates increase when citizens and firms know how taxes are used.
- Conduct taxpayer education and outreach including to small business and the informal sector on the benefits of working in the formal economy, and strengthen incentives to do so.
- Change perceptions through improved outreach, services, and public-private dialogue to engage the private sector in the reform process from the outset.

Accountability

- Ask business and taxpayer associations, along with parliament, the media, and civil society, to participate in tax policy formulation and implementation.
- Make tax administration accountable through a complaints and appeals procedure.

Fairness

- Broaden the tax base and reduce exemptions to increase sense of justice.

Effectiveness

- Simplify law, regulations, and administration where possible.

5. Conduct continues tax payer's perception surveys.

In the branch office there is no even opinion box. The branch office should work on investigation of tax payers' perception. To bring real change in tax payers' perception it is mandatory to conduct a survey study.

Understanding attitudes towards the level of tax payer's moral, the effectiveness of the tax authority and the extent of compliance measuring the programs or level of fairness attitude and perception surveys of current and potential tax payers identify perceived weaknesses in the fairness of the tax system.

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APPENDECIES
ST MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF GENERAL MBA

Dear respondents

The purpose of this questionnaire is to gather relevant data that will be used in undertaking a study entitled as “Business tax payers perception towards the taxation system; a case of category “B” business tax payers in Akaki Kality subcity, Addis Ababa.” The main objective of this study is to investigate the tax payers’ perception towards the existing business profit tax system in akaki kality sub city, Addis Ababa with a particular emphasis on business profit tax payers. The researcher is a student in St Mary University. Since the success of this study depends on utmost cooperation of all targeted respondents, the information that will be obtained from the questionnaire will not identify individual respondents in the study. That means, your response will be used in aggregate terms. We would also like to assure you that, the information you provide will be solely used for academic purpose only and the data will be treated with strict confidentiality. **Your kindly cooperation is appreciated in advance!!**

General Instructions

Please indicate your choice by putting the mark (Ø) where you think is appropriate in the space provided to each preference.

Section I: Background information

1) Sex

€ Male

€ Female

2) Age

€ 18-25

€ 36-50

€ 26-35

€ 51-60

3) What is your main business activity?

€ Manufacturing/Industry

€ Services including trade

€ Agriculture

€ Other, please specify.....

4) What is your legal form of business operation?

€ A sole proprietorship

€ A share company

€ A private limited Co.

€ Others please specify.....

€ A partnership

5) When did you start business?

€ Less than 1 year ago

€ more than 10 years ago

€ 1-5 years ago

€ Other, please specify.....

€ 5-10years ago

6) What was the approximate turnover/birr value of sales that your enterprise made in 2008 fiscal year?

- € Under Birr 100,000
- € Birr 100,001 – Birr 500,000
- € Birr 500,001 – Birr 1,000,000
- € If your turnover was more than Birr 1000,001, please state the approximate turnover in the fiscal year: Birr.....

7) What is your level of education?

- € Below 12 grade
- € 12 grade completed
- € Diploma
- € Bachelor degree ,
- € Masters or above Please specify.....

8) What is your position in the sector?

- € Owners
- € Manager
- € Employees
- € Other responsibilities please specify

9) If your answer to question number 8 is other than owners, how long you have been in the position?

- € Less than 1 year
- € 1-5years
- € 5-10 years
- € More than 10 years
- € Other, please specify...

Section two

Instruction;

For the following statements choose the one best to describe your perception and Please indicate your choice by putting the mark (Õ) where you think is appropriate in the space provided to each preference.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

2.1 Tax payers’ perception towards personal fairnes

No.	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
10.	The Ethiopian tax system does not require me to pay more than my fair tax.					
11.	Comparing my business tax burden with others, I do not pay more than my fair tax.					

2.2 Tax payers’ perception towards exchange fairness

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
12.	I get my fair value in terms of benefits received from the government example, education, medical, and infrastructure.					
13.	The benefits I receive from the government in exchange for my income-tax payments are reasonable.					

2.3 Tax payers' perception towards horizontal fairness

No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
14.	It is fair for individuals with similar amounts of profit to pay a similar amount of business profit tax.					
15.	I believe that, it is fair for me to pay a similar share of business profit tax compared with other similar sectors earning an equivalent amount of profit.					

2.4 Tax payers' perception towards vertical fairness

No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
16.	It is fair that high-income earners are subject to tax at progressively higher tax rates than low-income earners.					
17.	It is fair that low-income earners are taxed at a lower rate than middle-income earners.					

2.5 Tax payers' perception towards administrative fairness

No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
18.	I believe that, the government utilizes a reasonable amount of tax revenue to achieve social goals.					
19.	The administration of the tax system by taxing Authority is consistence across years and taxpayers.					
20.	I think the government spends too much tax revenue on unnecessary welfare assistance.					

2.6 Tax payers' perception towards tax complexity

No.	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
21.	The rules related to business profit tax are clear and understandable.					
22.	I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes					
23.	The Ethiopian business profit tax system is too complicated.					
24.	The Ethiopian business profit tax rules are bulky and hard for taxpayers like us to navigate.					

2.7 Tax payers' perception towards tax efficiency

No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
25	I believe that, the Ethiopian tax system encourages taxpayers for more investment.					
26	I see that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia.					
27	I think that, the Government of Ethiopia increases the tax rates under the conditions of inflation.					
28	I see that, the current Ethiopian tax system encourages taxpayers for more production through different taxexempts.					
29	I believe that, few people in Ethiopia own luxury automobiles because they have to pay higher tax rates for the ownership of these automobiles.					
30	I find that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels.					

Thank you!!!!

Work Plan

Work plan for the study on data collection and analyze the data collected and finalize the study.

no	Title of the work	Resp. person	First Month				Second Month				Third Month			
			1wee k	2wee k	3wee k	4wee k	1wee k	2wee k	3wee k	4wee k	1wee k	2wee k	3wee k	4wee k
1	Finalize the research proposal													
2	Conduct the research													
2.1	To get prepared for the collection of data	Ermias												
2.2	To train data collectors	Ermias												
2.3	To collect data	Data Collector												
2.4	To enter data in to SPSS	Ermias												
2.5	To analyze the data	Ermias												
3	Report writing													
3.1	To prepare draft report	Ermias												
3.2	To submit the draft report to the advisor	Ermias												
3.3	To comment the draft report	Advisor												
3.4	To prepare the final report as per the comment and Submit	Ermias												
3.5	To prepare a power point presentation for defense	Ermias												
3.6	To defend the research	Ermias												
3.7	To incorporate examiners comment and finalize the paper	Ermias												

Financial Plan

Financial budget plan for the study

S.No	Activities	Total Budget	Remark
1	Conduct the research		
1.1	To get prepared for the collection of data	400.00	
1.2	To train data collectors	1,000.00	
1.3	To collect data	3,000.00	
1.4	To enter data in to SPSS	1,000.00	
1.5	To analyze the data	500.00	
2	Report writing		
2.1	To prepare draft report	200.00	
2.2	To submit the draft report to the advisor	00.00	
2.3	To prepare the final report as per the comment	150.00	
2.4	Submit the final thesis to the University College	150.00	
2.5	To incorporate examiners comment and finalize the paper	150.00	
	Total Cost	6,550.00	

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