



**ST. MARY UNIVERSITY, SCHOOL OF GRADUATE STUDIES**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**ASSESSMENT OF LARGE TAXPAYERS' PERCEPTION TOWARDS THE EXISTING  
TAX SYSTEM IN ADDIS ABABA**

**BY: EDEN EMIRU**

**JANUARY, 2018**

**ADDIS ABABA, ETHIOPIA**

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For the degree of

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**BY EDEN EMIRU**

**JANUARY 2018**

**ADDIS ABABA**

Assessment of Large TaxPayers' Perception towards the Existing Tax System in Addis Ababa

A thesis Submitted to St Mary University; Department of Accounting and Finance in Partial Fulfillment of the Requirements for the Degree of Masters in Accounting and Finance.

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## DECLARATION

I, the undersigned, declare that this study is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

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<b>Table of Contents</b>	<b><u>page</u></b>
Table of content	
Acknowledgment .....	15
<i>Abstract</i> .....	<b>Error! Bookmark not defined.</b>
CHAPTER ONE: INTRODUCTION .....	20
1.1 Background of the Study.....	20
1.2 Statement of the Problem .....	24
1.3 Objective of the Study.....	27
1.3.1 General objective .....	27
1.3.2 Specific objective .....	27
1.4 Significance of the Study.....	28
1.5 Scope and limitation of the Study.....	28
1.6 Organizations of the study .....	28
CHAPTER TWO: RELATED LITERATURE REVIEW .....	29
2.1 Theoretical Literature Review.....	<b>Error! Bookmark not defined.</b>
2.1.1 Traditional approaches of tax system .....	<b>Error! Bookmark not defined.</b>
2.1.1.1 Benefit Approach .....	<b>Error! Bookmark not defined.</b>
2.1.1.2 Ability-to-Pay Approach.....	<b>Error! Bookmark not defined.</b>
2.1.2 Tax Fairness .....	<b>Error! Bookmark not defined.</b>
2.1.2.1 Areas of fairness from the taxpayers' point of view .....	<b>Error! Bookmark not defined.</b>
2.1.3 Equity Theory/Justice Theory .....	<b>Error! Bookmark not defined.</b>
2.1.4 Dimensions of Tax Fairness.....	<b>Error! Bookmark not defined.</b>
2.1.5 Tax efficiency .....	<b>Error! Bookmark not defined.</b>
2.1.6 Taxpayer as a rational actor .....	<b>Error! Bookmark not defined.</b>
2.2 Empirical literature review.....	<b>Error! Bookmark not defined.</b>
CHAPTER THREE.....	30
3.3. Sample Method .....	54
3.2.1 Target Population.....	54
3.2.2 Sampling Frame .....	54
3.2.3 Sampling Techniques .....	54
3.2.4. Sample Size.....	54

3.4 Research instrument.....	55
3.5. Methods of Data analysis and presentation.....	56
<b>CHAPTER FOUR.....</b>	<b>57</b>
<b>Results and discussion .....</b>	<b>57</b>
4.1 Respondents profile /background information .....	57
Table 1: Respondents' profile .....	57
4.2 Descriptive analysis of Tax payers' perception towards tax fairness .....	61
<b>CHAPTER FIVE.....</b>	<b>76</b>
<b>5. Summary of findings, Conclusions and Recommendations .....</b>	<b>76</b>
5.1 Summary of Findings.....	76
5.2 Conclusion.....	77
5.3 Recommendation.....	78
<b>Bibliography.....</b>	<b>81</b>
.....	85



## List of Tables

Table 1: Respondents' profile .....	<b>Error! Bookmark not defined.</b>
Table.2. Responses to tax fairness .....	<b>Error! Bookmark not defined.</b>
Table.3. Responses to tax efficiency .....	49
Table.4. Responses to tax knowledge.....	<b>Error! Bookmark not defined.</b>

## ***Abstract***

*Issues related to tax payers' perception towards the tax authority have received great attention around the world. Their perception towards the tax system seems to obtain the degree of voluntary tax compliance. Therefore, understanding tax payers' perception towards the tax authority is an important issue for any government and revenue collecting authority particularly in a self - assessment environment. To achieve the research objective researcher has adopted a quantitative technique. The objective of this study is to assess how the Addis Ababa town taxpayers perceive the existing tax system in relation to tax fairness, tax efficiency and tax Knowledge. A survey using self-administered questionnaire has been used to collect the primary data. A total number of 294 sample sizes were administered and questionnaires have distributed to the respondents. Of the 294 copies of questionnaires distributed to respondents, only 275 were dully completed and returned and all were used in the analysis. The researcher has adopted the five-point Likert scale rating method for this study. The statistical package for social sciences (SPSS) version 20.1 was employ in the different analyses to run the results. In order to achieve the objective of the study, descriptive analysis has been applied. The collected data are described using mean and standard deviation. The study reveals that, the Addis Ababa town tax payers perceive the Ethiopian tax system as fair in terms of administrative fairness. It is also complex and economically inefficient from tax payers' point of view. As the tax system has its own loop hole that leads to corruption. Based on the findings obtained and conclusions drawn the researcher recommend that, the tax authority in particular state expenditure and utilization of tax money should be noticed as a sensitive issue and government in general shall try to empower the tax payers with knowledge and changing their perception through sustainable awareness creation transparent system between the tax payers and the Authority.*

**Key words** – Perception, Tax fairness, Tax efficiency and tax knowledge

## **CHAPTER ONE: INTRODUCTION**

In this chapter Background of the study, Statement of the problem, Objectives of the study, Hypothesis, Significance of the study, Scope of the Study, Limitation of the Study, Definition of key terms and organization of the report are briefly addressed.

### **1.1 Background of the Study**

The subject of taxation has received considerable intellectual and theoretical attention in the literature. Taxation is a way by which governments finance their expenditure by imposing taxes on citizens and their business entities. In many countries, one of the main purposes of taxation is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services (which are not provided by the market). Particularly, nowadays, in developing countries with the increasing task of the government, the role of taxation in economic development has become more significant. Furthermore, it has the goals of maintaining and expanding adequate system of social services, the curtailing of unnecessary consumption of luxury items, the maintaining of economic stability (ECC and EBDSN, 2005).

Taxes are important source of revenue to governments in both developing and developed countries (Teera and Hudson, 2004). But the amount of revenue to be generated by government from such taxes for its expenditure program depends among other things, on the willingness of the taxpayers to comply with tax laws of a country (Eshag, 1983). According to Franzoni (2000) and Chatopadhyay and Das Gupta (2002) cited in Alabede et al.(2011), tax compliance is operationally considered as complying with tax laws in the act of true reporting of the tax base, correct computation of the tax liabilities, timely filing of tax returns and timely payment of the amount due as per the tax provisions.

On the other hand, the failure to follow the tax provisions suggests that a taxpayer may be committing an act of non-compliance (Kirchler, 2007). The tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Roth et al., 1989).

Following the increasing cases of tax non-compliance, especially tax evasion and its consequences on the capacity of government to raise public revenue, great amount of attentions have been paid to the issue of tax compliance globally by public policy makers and researchers for the past few decades from now (Alabede et al., 2011).

The taxpayers' attitude on tax compliance may be influenced by many factors, which eventually influence taxpayer's behavior. Those factors which influence tax compliance and/or non-compliance behavior are differing from one country to another and also from one individual to another (Kirchler, 2007). As the same author, the term tax compliance has also been approached from various viewpoints shedding light on different aspects of taxpayers' behavior as cited in Nicoleta (2011).

As the empirical works (for example, Yeseget, 2008; Bisrat, 2010 and Lemessa, 2011) in Ethiopia revealed, when the size of the compliance gap is considered, it is wider and it may have an impact on revenue capacity of the country. On the other hand, when the effectiveness of the tax authority measured with considering the size of this tax compliance gap, there is no ground to conclude that there is best tax administration. This is because the amount of revenue collected alone could not explain the best tax administration but also enhanced tax compliance behavior by taxpayers. The tax administration has the responsibility to ensure tax compliance and thereby to increase the capacity of revenue collection.

Tax non-compliance become a serious challenge slackening tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries. (Lemessa, 2005)

Ethiopia begins the succeeding five year growth and transformation plan and has been working hard to achieve a lower middle income status. As tax non-compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals, the Ethiopian government, through its revenue collection agency (Ethiopian Revenue and Custom Authority) clearly stated that efforts will be geared towards promoting voluntary compliance (ERCA, annual report, 2011). Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers (Casnegra, 1992)

This low voluntary tax compliance behavior may be explain by less efficient and ineffective tax administration on one hand and many other affecting factors of taxpayers' attitudes towards

voluntary tax compliance. Thus, with view of the researcher, these aforementioned facts demand the assessment of large tax payers perception against the existing tax system in Addis Ababa.

It is clear that, most tax systems are in fact efficient, fair and simple but the way that this tax system perceived by taxpayers is the most important issue. Therefore, how tax payers perceive the existing tax system is the main problem of this study. This is because tax payers' perception determines the level of their compliance and cooperation. Moreover, it determines peoples' loyalty to their government (Ibrahim et.al, 2009).

A perception of fairness and trust are important tools for a tax administration. The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and emphasize the perceived fairness of the approach taken. Norms and the motivation to pay taxes are influenced by fairness both in how a person is treated by the administration individually and perceptions of fairness of the tax system in general (whether other people are also paying their fair share). If a tax administration can demonstrate its commitment in these areas, there will be a compliance benefit (Reeson, 2009).

Notwithstanding this view, however, it is useful to consider the concept of tax fairness as it relates to each of the goals of taxation. According to Duff, (2008) a government spending on publicly-provided goods and services, for example, traditional tax equity principles of benefits received and ability to pay provide useful criteria to assess the fairness of any particular tax or set of taxes designed to collect revenues for this purpose, despite considerable disagreement about the meaning of a taxpayers' "ability to pay". Just as important is horizontal equity - the principle that people who are equally able to pay and who benefit equally should be taxed equally (Parameswaran, 2005).

According to Christensen et al. (1994), tax fairness is difficult to define because of four problems. The first one is its multidimensionality, the second problem is that it can be defined at the individual level or for society at large, thirdly a lack of fairness may be perceived justification or a cause of noncompliance and the last one is that, tax fairness is intertwined with complexity. Tax complexity may be responsible for the misperception of the tax system. In this study, tax complexity is understood from two dimensions that is, excessive detail in the tax rules and numerous computations required. According to Martin et.al, (2010), at least a reasonable level of

simplicity should be there because; taxpayers come from various backgrounds, with differing levels of education, income and tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority is responsible to come up with a simple, but sufficient, tax return. With this regard Adams (1921) states that, the success of income tax rests primarily upon the honesty of the taxpayers and one of the factors that contribute to dishonesty in taxpayers is the complexity of the tax system as it may lead to administrative failures. As the tax law has become increasingly complex, complexity has come to recognize as a possible reason for tax payers' misperception thereby for tax noncompliance (Jackson, 1986).

In general, understanding of taxpayers' perception towards the tax system that can influence compliance will bring more revenue and less administrative cost to the tax authority (Anna, 2008).

The other main issue is that, one of the responsibilities of a government is to modify unreasonable patterns of behavior. That means, when tax payers feel that, there is a tax imposed on unreasonable patterns of behavior, most taxpayers will avoid these patterns, or they will try to reduce them. On the other hand the tax system should encourage investors through different means and it must be attractive for outsiders also. This is what we call it tax efficiency. However, it is worthless to be actually efficient unless the tax system is efficient in the minds of taxpayers, or to be perceived by taxpayers as efficient that means, the taxpayers perceive that the existing tax system is used in influencing their behavior. Whether taxpayers perceive, or do not perceive that the tax system is actually used to influence their economic behavior, is therefore the concern of this study.

Since taxpayers' perception towards the tax system has a serious influence on their compliance with the tax law, a study on taxpayers' perceptions is important. Hence, there are a number of studies conducted on tax payers' perception towards tax system. For instance, Etzioni (1986), Hite (1994), Manuel (1999), Khasawneh, (2008) and Wubshet (2011) were conducting their study on tax payers' perception. However, all these researchers investigate the tax payers' perception towards particular issue in the tax system that is, either tax fairness or tax complexity or tax efficiency independently. In order to fill this research gap, in this study the researcher tries to assess the large tax payers' perception towards tax fairness and efficiency at the same time.

In Ethiopia, those businesses having annual turnover of greater than 15 million are categorized under large business taxpayers and those having annual turnover of birr 500,000 up to 15 million are categorized under medium taxpayers and they are required to pay their obligation to federal government (ERCA,2012)

Therefore, a study on large taxpayers' perceptions towards the tax system is important. Hence; this study mainly intends to assess these taxpayers' perception towards the existing tax system in Ethiopia in terms of tax fairness and tax efficiency with a particular emphasis of large taxpayers in Addis Ababa.

## **1.2 Statement of the Problem**

Taxes are important source of revenue to government in both developing and developed countries (James et.al, 2011). As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services which otherwise would not be available to the general public by the market (Sisay, 2009).

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

Tax compliance is growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue (Kasipillai et al., 2003) as cited in zelalem (2011). It is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise' (James and Alley, 2002).

Ethiopian government fails to fulfill income tax requirements and a number of them face prosecution for failing to pay taxes on time. (ERCA L, 2014). Even if the government advocates voluntary compliance, the tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning. (Proclamation,286/2002).According to the information obtained from large tax payers' office, number of non filers,null-declarants and amount of tax collected from enforcement activity showed continual increment.

It is clear that, Ethiopia is a country that comprises a diverse collection of cultures, languages, beliefs and religious backgrounds. It is conceivable that these different population groups may have different perceptions of taxation which results from their educational, cultural backgrounds and even their political and social histories. According to Fochmann et.al (2010), these perceptions may, in turn, influence their attitudes towards the tax system. If taxpayers' perceptions influence their attitudes towards tax system, it is therefore important to assess the tax payers' perception. So that, Taxpayers' perception of the broader aspects of the tax system, such as government spending of the tax revenue, methods for distribution of tax burden and the benefits received is the first concern of this study.

On the other hand, in Ethiopia in relation to determinants of tax compliance, a few studies have been undertaken; Lemessa (2007), Yesegat (2008) and Bisrat (2010). The study undertaken by Lemessa (2007) tried to assess the determinants of voluntary compliance by taxpayers at Dire Dawa city administration concluded that the administration was not efficient and effective in enhancing voluntary tax compliance. At the same time, the study suggested that there was low level of tax compliance behavior and difficulty of narrowing the tax compliance gap in the study area.

As we all known, there is a substantial tax gap between the tax that is theoretically collectable from economically active persons and the tax that is actually collected. One of the main reasons for the tax gap is misperception by taxpayers and potential taxpayers, towards the tax system. It is therefore utmost importance to determine taxpayers' perceptions towards taxation, not only to influence government policy regarding taxation and protecting the country's tax base but also to enable government to provide its services more effectively to the general public (Martin et.al, 2010). This can be possible if and only if there is a good tax system. It is clear that, in order to be good, the tax should be fair. To be a fair tax, taxpayers should have the ability to pay, and the tax itself should be characterized by its horizontal and vertical equitability. This means that when any tax system is unfair, that system as a whole will be considered by tax payers as bad tax system (Jones, 2007).

The other issue is that, the tax authority as a responsible organ to activate tax system may not effectively utilize a reasonable amount of tax revenue to achieve social goals and it spends much



of the tax revenue for unnecessary welfare assistance. So that, the tax payers felt that tax is used by government for meaningless purposes and that the government does not provide enough information about how they utilize taxpayers' money (Martin F.et.al, 2010).

Moreover, as stated by Peters (1991) citizens do, on the whole, like the benefits they receive from government and tend to be much more willing to pay taxes when reminded of the benefits received as a consequence of doing so. Taxpayers may believe that they haven't received enough services from the government, when they compare the amounts of income tax that they pay with those services. In other words, the taxpayers may believe that the value of the services they receive from the government is lower than the value of business profit taxes that they pay to the government. If the taxpayers are negative about taxation, this can influence their compliance with the tax system and Government might lose not only revenue but also electorate.

The other main issue is that, one of the responsibilities of a government is to modify unreasonable patterns of behavior. That means, when tax payers feel that, there is a tax imposed on unreasonable patterns of behavior, most taxpayers will avoid these patterns, or they will try to reduce them. On the other hand the tax system should encourage investors through different means and it must be attractive for outsiders also. This is what we call it tax efficiency. However, it is worthless to be actually efficient unless the tax system is efficient in the minds of taxpayers, or to be perceived by taxpayers as efficient that means, the taxpayers perceive that the existing tax system is used in influencing their behavior. Whether taxpayers perceive, or do not perceive that the tax system is actually used to influence their economic behavior, is therefore the concern of this study.

Even though aforementioned studies have attempted to address a few issues in relation to tax payers perception and offer some pertinent contributions in the authority in general, according to the researcher knowledge, still little study has been comprehensively undertaken at the Authority. And the lack of empirical literatures on comprehensive analysis of Ethiopia's tax administration, policies and law and tax compliance in our country apparently leaves a gap between what the taxpayers perceive to be compliance to the administration and what it is in reality. Considering this together with the fact that perception of taxpayers is one of the most important but least studied fiscal aspects in tax system in Ethiopia; considerable scope for the study are appeared. Thus, this study tries to assess large tax payers' perception towards the existing tax system in Addis Ababa.

Since taxpayers' perception towards the tax system has a serious influence on their compliance with the tax law, a study on taxpayers' perceptions is important. Hence, there are a number of studies conducted on tax payers' perception towards tax system. For instance, Etzioni (1986), Hite (1994), Manuel (1999), Khasawneh, (2008) and Wubshet (2011) were conducting their study on tax payers' perception. However, all these researchers investigate the tax payers' perception towards particular issue in the tax system that is, either tax fairness or tax efficiency independently. In order to fill this research gap, in this study the researcher tried to assess the tax payers' perception towards tax fairness, efficiency, taxpayers' knowledge and perception towards the authority at the same time. As per the researcher knowledge, no study is conducted to examine the Addis Ababa's town tax payers' perception towards the existing tax system in relation to tax fairness, tax efficiency and taxpayers' knowledge. Thus, the researcher attempts to assess the tax payers' perception towards the existing tax system in terms of tax fairness, tax efficiency, taxpayers knowledge of the tax system and perception on the Authority in Addis Ababa with a particular emphasis of Large tax payers by seeking answers for the following research questions;

1. What is tax payers' perception towards tax fairness?
2. What is tax payers' perception towards tax efficiency?
3. How do the tax payers' perceive about their tax knowledge?
4. What is tax payers' perception towards the overall taxation system and service delivery of the Ethiopian Revenue and Customs Authority?

### **1.3 Objective of the Study**

#### **1.3.1 General objective**

The general objective of this study is to assess tax payers' perception towards the existing tax system with a particular emphasis of large tax payers in Addis Ababa, Ethiopia.

#### **1.3.2 Specific objective**

Specifically, this study is conducted to answer the following major questions;

1. To assess the tax payers' perception towards tax fairness
2. To examine the tax payers perception towards tax efficiency
3. To assess tax knowledge of individual large taxpayers

4. To find out problems related to the overall taxation system, tax assessment, collection and service delivery of tax authorities

#### **1.4 Significance of the Study**

Tax payer's perception concerning taxation is the major factor that determines the achievement of any tax system. Each taxpayer especially, 'higher tax' taxpayers perception behavior exceedingly shrinks the countries tax to GDP ratio. Hence by assessing large taxpayers perceptions towards the existing tax system in Addis Ababa, the main findings of the study are projected to provide insights and allows policy makers, particularly the tax authorities, to gain a better understanding of the factors that affect tax fairness, tax efficiency on large tax payers which enables them to implement suitable strategies to minimize voluntary compliance problems and to improve tax collections. In addition to that the findings of this study may help ERCA to know the problems that need attention to provide solution and further improve in the area of handling tax procedures and hence, better meet the need of taxpayers. Furthermore, the study may also serve as a reference for other researches for further study that might be conducted on related areas.

#### **1.5 Scope and limitation of the Study**

In this study the researcher attempts to assess the large taxpayers' perception towards the existing tax system. To make the study manageable and to evaluate the problem in detail, the researcher is only confined to the examination of " VAT payers" perception towards the existing tax system with a particular emphasis of Large tax payers found in Addis Ababa, Ethiopia.

Due to data and time constraints, the study is limited to large tax payers in Addis Ababa .These corporate tax payers are selected because the significant amount of the country's tax revenue originates from them.

#### **1.6 Organizations of the study**

This study will be focusing on the assessment of taxpayers' perception towards the existing tax system with a particular emphasis of Large tax payers in Addis Ababa. In due process, the reports of the paper logically will be organized in the following manner. The research paper will be divided

in to five chapters. Chapter one will present the introduction part. This part will give the background information and statement of the problem. It also will set out general and specific objectives, significance of the study, scope and limitation of the study, and organization of the entire paper. Chapter two also will discuss the key concepts that were used in the paper to place the problem in a broader perspective literature. Chapter three will contain Methodology of the study. Chapter four will provide results and discussion. Finally, chapter five will deal with conclusions and recommendations.

## **CHAPTER TWO: RELATED LITERATURE REVIEW**

The review of theoretical literature will include basic concepts about Tax definition, Traditional approaches of Tax system, characteristics of good tax system; factors determining tax compliance such as attitude of tax payers, socio-cultural, political legal, administrative and ethical issues will be addressed. In this literature review part the main focus is to review, taxpayers perception towards the existing tax system.

The review of theoretical literature includes Traditional approaches of tax system, Tax Fairness, Areas of fairness from the taxpayers' point of view, Equity Theory/Justice Theory, Dimensions of Tax Fairness, Tax efficiency, Taxpayer as a rational actor and also Tax payers perception towards the tax authority. Review of empirical studies includes topics such as tax payers' perception towards tax fairness and tax efficiency.

### **2.1 Theoretical Literature Review**

A tax is (Bhatia, 1976; James, 2000) a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government. Government needs financial resources to act as a government and play a role that is expected from it by the public. So, what the government gives, it must first take away. The economic resources available to society are limited, and so an increase in government expenditure normally means a reduction in private spending. In this regard James (2000) states that taxation is one method of transferring resources from the private to the public sector. Other writers (Auld & Miller, 1984) describe the role of taxes as an instrument that stabilizes the economy, and reduces private demand so that resources can be released for public sector use.

Tax is defined as a compulsory levy or contribution made by the public to the government for which nothing directly is received in return or without a quid pro quo (Song, 1978). As stated by Strauss, (2001), the first goal of a tax system in any democracy government is to finance budgetary programs through spending for public goods such as national defense, infrastructure such as roads, and education, and providing an income maintenance system which meet societal objectives. Taxpayers' attitude towards taxation is crucial in any tax system's success to achieve compliance. Perceptions of taxpayers' compliance are influenced by the many variables such as education, age, gender, norms, self-interest, complexity, fairness, audit rate, tax rate, peer reporting and tax

administration. These variables can provide critical judgments to develop methods to increase compliance. Tax fairness is one of the variables that have attracted researchers to discover the extent the variable in fostering noncompliant behavior.

Understanding taxpayer perception is crucial for policy makers to develop strategies to overcome problems of noncompliance among individual taxpayers' and prevent evasion (Jackson,1986). A tax system is meant to provide the revenue necessary for pursuing collective goals like social security, economic prosperity and redistribution of wealth, internal and national safety, and cultural life (Wenzel, 2002). In general, a tax is defined as a payment to support the cost of government. Tax differs from fine or penalty imposed by a government in that, tax is not intended to deter or punish unacceptable behavior. To be a good tax, the tax should be sufficient, convenient, efficient, and fair. The tax is considered as sufficient if it generates enough money to the government, so that government will be more able to pay for the public goods and services that it provides to people. A tax is considered as convenient when the government has a method for collecting the tax, which most taxpayers understand, and with which they routinely cooperate (Jones, 2007).

As stated in (James, 2000) a good tax system 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 a corner stone for the tax system. Brooks (2001) also states that fairness has always been widely regarded as the most important criteria in judging a tax system. The problem of unfairness is that a tax system allows taxes to be shifted from dishonest to honest taxpayers.

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.

According to Bhatia (2001), the attitude of taxpayers is an important variable determining the contents of a good tax system. It may be assumed that each taxpayer would like to be exempted

from paying tax, while he would not mind if others bear that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. If this is not so, he will feel exploited. To sum, regardless of this inherent problem ensuring the fairness or equity of a tax system is second to nothing. To put it another way, it is essential that a good tax system should appear equitable to the tax payers.

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. Lemessa (2005) also adds that a major responsibility is to ensure that all taxpayers dealt with by a given official are accorded similar treatment and that all officials dealing with a given taxpayer would accord the same treatment.

To sum, in spite of this inherent problem ensuring the fairness or equity of a tax system is second to nothing. To put it in another way it is essential that a good tax system should appear equitable to the tax payers.

Kaplow (1996) analyzed the effect of factors on the equity and efficiency of income tax system. In this study, he mentioned that much criticism of income tax system involves administrations, and the complexity of the system is responsible for large compliance costs, public and private, and the tax gap is large despite substantial resources devoted to enforcement. He also mentioned that the desire for simplification and an improved compliance motivates various incremental reforms as well as proposals for fundamental restructuring of the tax system. The author declared that the evaluation of such changes is difficult because the underlying problems had not been analyzed in terms of the equity and efficiency concerns that animate more familiar assessments of income tax policy. This study provides a framework for a unified analysis, in which the same factors that are used to justify the choice of the tax base and the rate structure were employed to resolve problems involving complexity, compliance costs, and enforcement difficulties.

The term efficiency is used by tax policymakers in two different ways. Sometimes the term describes a tax that does not interfere with or influence the economical behavior of the taxpayer as

efficient, and in other times, policymakers describe a tax as efficient when individuals or organizations react to the tax by deliberately changing their economic behavior. It is completely now clear that in order to be good, the tax should be fair. This means that when any tax system is unfair, that system as a whole will be considered by tax payers as bad tax system, and taxpayers' compliance to that system will be unreasonable. To be a fair tax, taxpayers should have the ability to pay, and the tax itself should be characterized by its horizontal and vertical equitable (Jones, 2004).

Tax can be described as horizontally equitable, if it is designed so that persons with the same ability to pay owe the same amount of tax, whereas the tax is described as vertically equitable if persons with a greater ability to pay owe more tax than persons with a lesser ability to pay. While horizontal equity is concerned with a rational and impartial measurement of the tax base, vertical equity is concerned with a fair rate structure by which to calculate the tax (Hessing et.al 1988).

### **2.1.1 Traditional approaches of tax system**

Theories of public finance generally explain public provision of these goods and services on the grounds that they satisfy social wants that cannot be supplied efficiently by the private sector and so-called merit wants that are considered so essential to human welfare and flourishing that they should also be provided through the public sector at least up to a basic minimum (Richard, 1995). While the former include so-called “pure” public goods and services like public security and national defense, the latter include quasi-private goods and services like public education, public pensions, and health insurance.

Assuming that public provision of these goods and services may be justified on some account, the key question for a concept of tax fairness is how the revenues that are needed to finance these expenditures should be obtained. For this purpose, traditional approaches to tax policy have generally supplied two answers, suggesting that the costs of publicly-provided goods and services should be allocated either according to the benefits that individuals and enterprises derive from government or according to some comprehensive measure of their taxable capacity or ability to pay (Richard, 2001).



While the benefit approach reflects a conception of tax fairness as transactional equivalence according to which one should pay only for the goods and services that one receives in exchange, (Richard, 1976) the ability-to-pay approach reflects a conception of tax fairness as equality of sacrifice according to which the burden of financing public expenditures should (as John Stuart Mill reasoned) apply so that whatever “sacrifices” the government requires of taxpayers “should be made to bear as nearly as possible with the same pressure upon all.

As an initial matter, one might think that the benefit principle might be an attractive way to allocate the cost of government expenditures in a liberal society, since it requires individuals and enterprises to pay only for those publicly-provided goods and services that they themselves enjoy, without having to pay for goods and services that governments provide to others. For this reason, some have argued that only benefit taxation accords with the values of individual autonomy and citizen sovereignty that underlie contractual conceptions of the state (Richard, 1991). Where benefit taxes are dedicated or earmarked to public expenditures on the goods and services in respect of which they are raised, moreover, this method of taxation also has the notable advantage of simultaneously determining both the level and structure of government spending and the manner in which it is financed (Lindahl, 1964).

In practice, however, the benefit approach suffers from three deficiencies as a general principle of tax fairness. First, as many advocates of benefit taxation themselves acknowledge, the application of this principle presumes a just distribution of economic resources, the achievement of which is apt to demand the collection of other taxes for distributive purposes. Second, where the publicly-provided good or service satisfies a merit want that is essential to human welfare and flourishing (like education and health care), benefit taxation may impede access to the good or service, contradicting the very rationale for public provision in the first place (Duff, 2004).

Finally, it is impossible to apply the benefit principle to pure public goods and services (like public security and national defense) the benefits from which are generally shared, without resorting to arbitrary presumptions regarding the manner in which these benefits are distributed (Thomas, 1985). For these reasons, several tax scholars have sharply criticized the benefit principle as a general concept of tax fairness, and advocates themselves generally acknowledge its limitations (Edwin, 1931).

Despite these limitations, however, the benefit principle can be a fair and legitimate way to finance various kinds of publicly-provided goods and services, provided that it is feasible to identify and measure specific private benefits that the good or service confers, that access to a merit good or service is not impeded by the collection of a benefit-related charge or tax, and that distributive concerns are adequately addressed through other measures. Although concerns about access and distribution mean that these goods and services are often subsidized from general government revenues, the substantial private benefits associated with these goods and services suggest that it is fair and reasonable to finance at least some portion of these expenditures from taxes and user fees premised on the benefit principle (Duff, 2004).

Indeed, considerations of economic efficiency, government accountability and tax fairness suggest that modern welfare states might make greater use of benefit-related taxes to finance public expenditures in several areas such as higher education, roads and highways, and municipal services such as water and sewage and the collection and disposal of solid waste (Lindhahl, 1960).

As an alternative to the benefit principle of tax fairness, it is often argued that fair taxes should be apportioned according to a comprehensive measure of each individual's taxable capacity or ability to pay. Although this ability-to-pay principle is sometimes rationalized as a surrogate for taxation according to benefits received (Duff, 2008). The most prominent conceptions of this approach ignore any connection to public expenditures altogether, treating the collection of taxes and it also colorfully characterized as "a common disaster – as though the money once collected were thrown into the sea" (Blum et.al, 1952).

The rationale for this approach to tax fairness is best expressed by John Stuart Mill, who was as fierce an opponent of the benefit principle of taxation as he was an advocate of the ability-to-pay approach. Rejecting the notion that taxes should be apportioned according to some measure of the protection that individuals obtain from the state, Mill argued that the purposes of government extend beyond the protection of persons and property to include all purposes "ends of the social union" and that government was "so preeminently a concern of all" that it was pointless to determine who are "most interested in it" More importantly, he continued, since a government should "make no distinction of persons or classes in the strengths of their claims upon it," it followed that "whatever sacrifice it requires from them should be made to bear as nearly as possible

with the same pressure upon all. As with the benefit principle, however, this principle of tax fairness presumes a just distribution of economic resources, which may require the collection of other taxes (Dodge, 2005).

Despite its theoretical appeal in this context, however, the concept of ability to pay is notoriously imprecise (Buehler, 1946). While Mill and subsequent writers have generally conceived of ability (and sacrifice) in terms of subjective utility or welfare, it is not obvious whether the measure of welfare for this purpose should be assessed at a particular point of time or over a period of time, nor the appropriate time period (e.g., annual or lifetime) should the latter approach be preferred. Nor is it clear that the concept of equal sacrifice should be understood in terms of subjective utility or welfare, as opposed to a more objective measure of each taxpayer's economic capacity (Buehler, 1946). In any event, since it is impossible to measure subjective utility directly, the concept of ability to pay must be defined in some objective manner if it is to serve as a practical basis for distributing tax burdens. In practice, however, the meaning of ability to pay has been defined in different ways, reflecting different interpretations as to the appropriate tax base and structure of tax rates that best implement this principle of tax fairness. In traditional approaches to tax policy, the definition of a fair tax base is described as a matter of "horizontal equity" while the specification of tax rates is characterized as a question of "vertical equity" (Boadway et.al, 1999).

Beginning with the subject of horizontal equity, it is often assumed that a person's annual income represents the best measure of their ability to pay (Musgrave, 1967). On this basis, a considerable body of literature exists on how best to define income as a comprehensive measure of each taxpayer's ability to pay. In contrast to this approach, another tradition in tax scholarship regards annual consumption or expenditure as a fairer measure of each individual's taxable capacity on the basis that a consumption tax base does not differentiate among taxpayers according to the period of time when income is earned and consumed (Duff, 2008).

Indeed, Mill himself regarded annual consumption as a better measure of ability to pay than annual income on the grounds that a laborer who must save for contingencies and old age does not have the same ability to pay as a property-owner with the same annual income who can maintain the same level of consumption over time without having to save for these purposes. For this reason,

others have suggested that wealth should also be taken into account in assessing a person's ability to pay (Kaldor, 1955).

### **2.1.2 Tax Fairness**

To be considered as a fair tax system, taxpayers should have the ability to pay their tax burden. Ability to pay means that underline the literature of taxes, the economic resources of a taxpayer should be under his/her control. When a tax system is designed so that individuals with the same ability to pay owe the same amount of tax, it can be described as horizontally equitable, while when it is designed so that individuals with greater ability to pay owe more tax than individuals with lower ability to pay, it is considered vertically equitable (Jones, 2004). Torgler (2001) mentioned that tax fairness is a very important factor influencing taxpayers' compliance behavior because it is related to tax burdens. For any 'good' tax system tax fairness is crucial. Policy makers in the US believe that public perceptions can directly affect tax compliance behavior (McGowan, 2000).

Bordignon (1993) introduced fairness as an additional motivation to tax evasion or noncompliance. When there is lack of equity in an exchange relationship it creates a sense of distress, with this anger it leads to a reaction which can restore equity, which is tax evasion or tax noncompliance. Fairness is difficult to define because of the four inherent problems: (1) it is multidimensional, (2) it can be defined at the individual level or for society at large, (3) fairness is intertwined with complexity and (4) a lack of fairness may be perceived justification or a cause of noncompliance (Christensen et al., 1994).

Referring back to the equity theory which emphasis on horizontal and vertical equity; it is insufficient to bring out the concept of fairness. One of the most important aspects that taxpayers' argue is the fair terms of trade between their public consumption and the government's provision of public goods. If the goods and amount they receive is greater than their payment then compliance will increase which means that individuals pay taxes to get benefits even though they know that chances of detention is slim (Porcano,1984).

According to Wenzel (2003), there are three areas of fairness from the taxpayers' point of view (social psychology): 1) distributive justice (viewed as the exchange of resources i.e. benefit and

cost); 2) procedural justice (viewed as the process of resource distribution) and 3) retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs).

Distribution in tax fairness refers to what individuals deserve and what they receive. Taxation involves various types of distributive justice whereas most studies only select very few and give them overall ratings. Basically there are three rules that affect a person's deserved outcome: contributions rules, needs rule and equality rule. Employed inequity which increased tax evasion and advantageous inequity reduced tax evasion. A tax system is a redistribution system, therefore, distributive framework is the best to analyze tax policy and measure the 'fairness' of the system (Spice, 1968). Porcano, (1984) 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's personal or group treatment but the distribution of tax burdens across as a whole e.g., the fairness of progressive tax rate.

With regard to procedural justice, the main elements for perceived fairness are Uncertainty of procedures used, trustworthiness of the tax authorities, and the polite, dignified, and respectful treatment of taxpayers as individuals or groups (Tyler et.al, 1992). Taxpayers expect that tax authorities will provide sufficient information about the tax law and regulations so that they can complete their tax return as accurately as possible. It is argued therefore that increased information about tax law and regulations can increase fairness perception and compliance (Wartick, 1994).

Galligan (2005) mentioned the pivotal role of legitimacy on tax compliance behavior. Procedural justice will lead to legitimacy. Legitimacy in tax compliance behavior is defined as a belief/ trust by taxpayer on the tax authority. This belief that they are fairly treated will want to obey the laws. Every year significant middle income taxpayers' use aggressive tax planning to either legally or illegally conceal their actual income. These illegal tax planning behavior cannot be settled just by using force or threatening strategies, because in the long run the legitimacy of tax authorities will be undermined. People are less inclined to accept an unfavorable outcome and are likely to challenge the situation when they believe that the procedures are unfair. Therefore the authority has to play a fair role that will increase the perception of legitimacy and can create cooperation and get the public to obey tax laws. Taxpayer has good view about the legitimacy the more they will be tax compliant (Murphy, 2005).

Moral legitimacy refers to norms that emphasize on motions of consequences, procedures, structures and personality; cognitive legitimacy which emphasizes on making decisions and predicting how, why and where these rules and practices are situated on this field of legitimacy. Public's voluntary compliance can be ensured when the tax system is equitable. The concept of legitimacy is found to be the key driver in their decision making process that leads to tax compliance. Then, one needs to think legitimacy as a belief, and evaluation between pragmatic legitimacy and moral legitimacy. Pragmatic legitimacy refers to norms which are self-interested calculations which bring in motions and exchange and values (Gilligan, 2005).

Retributive justice, unreasonable and intrusive audits and unfair penalties lead to stressful and dissatisfied taxpayers (Spicer et.al, 1976). Unfavorable retributive justice perceptions could lead to non-compliant behavior and consequently increase tax evasion and inflate the tax gap.

### **2.1.3 Equity Theory/Justice Theory**

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 be treated as able to pay higher than lower groups of income earners (Porcano, 1984).

The implementation of the tax systems are based on either progressive tax structure or flat tax rate structure. But most of the individual taxes are progressive tax structures. However, the progressive tax rate which is vertical in terms of providing equity does not meet the expected equity. Therefore taxpayers adjust their perceived inequalities through tax evasion. However, before looking at the link or association between tax fairness and tax compliance knowing the attitudes of taxpayers' is quite important. The taxpayer behaves to comply or not to comply based on the attitudes he has framed against the tax system (Spicer, 1980).

### **2.1.4 Dimensions of Tax Fairness**

It has been admitted by many researchers (Porcano et.al, 1984) that tax fairness is a multidimensional concept which was also stated as the reason why it produces inconsistent results. The following are the most important dimensions of tax fairness that are general

fairness/distribution, exchange with the government, self interest and Preferred Tax Rate/ Structure.

### **Dimension 1- General Fairness and Distribution of the Tax burden**

The role of the taxpayer cannot be looked as an individual's outcome because the taxpayer is looking at justice to decide is the tax system fair to all. The point to reach is that if the taxpayer perceives the tax system not fair, illegitimate then difficult to achieve compliance or in other words evasion increases (Wenzel, 2002). Fairness refers to one's tax burden whereby one person's tax burden compared with similar another person or people (horizontal equity) or else it is tax burden of a group compared with that of another group or others (vertical equity). If the tax burden is not distributed evenly due to the different categories of people then fairness is questionable. It is to be noted that disadvantageous inequity increase evasion and advantageous in equity decreases evasion (Spicer & Becker, 1980). Furthermore, the distribution of tax burden among all in the society is at large, referred as macro justice, that measures whether taxes are paid evenly by all society groups as stated by (Brickman, et.al,1981).

### **Dimension 2 – Exchange with the Government**

As stated by Roberts (1994) that taxation is actually similar to trading with the government. Therefore in return for the tax payment what quality and kind of public services do they get? To understand the relationship between taxpayer and the government research is focused on the perceived tax fairness and the compliant behavior. The degree of satisfaction the public has with the government will enhance tax compliant behavior. Positive actions by the state are expected to bring about positive attitudes and commitment of taxpayers' to the tax system and ultimately tax compliance (Torgler, 2001). However, to say that there is causal relationship between inequity and tax evasion (noncompliance) is not possible because of the uncertainty whether the reason is because of inequity or simply a means of excusing one to illegal behavior (Spicer, 1992). There was no significant evidence to say that fairness affects their decision in complying.

However if taxpayers consider equity is important then it will affect their decision so it is important to explain to them the return that they get from the government for their tax payments, according

to Kim (2002). Income declaration increases when individual perceive some form of benefit provided by the government through the tax money that the individual paid.

### **Dimension 3 - Preferred Tax Rate/ Structure**

Hite (1994) discussed about the preferred tax rate saying that increase in rate will increase compliance. The results by Kinsey (1993) were different that is progressive tax rate was judge unfair and chances of future cases of tax cheating. Factors such as progressive versus proportional tax rates are significant variables to compliance behavior. This implies that there is difference in tax rate.

### **Dimension 4 - Self Interest/ personal fairness**

Eisenstein (1961) noted that judging from the ideology of equity, fairness is an individualistic concept whereby the individual is the key determinant asking or arguing for equity. McGowan (2000) mentioned many studies have found that self interest (defined as direct personal benefit) significantly affects taxpayers' attitudes. Tax shelters have direct relationship with fairness attitudes. Hite (1991) describes that, people with higher income believe progressive tax rate are more fair (vertical equity) or in other words favor a lower tax rate

#### **2.1.5 Tax efficiency**

Tax systems efficiency is important, especially because the term of efficiency is used in two different perspectives under the context of taxation. The first one describes a tax system as efficient when it does not interfere with or influence taxpayers' economic behavior. The second perspective considers a tax system as efficient when individuals or institutions react to this system by deliberately changing their economic behavior. The former perspective is attributed to the classical economists Adam Smith, while the later one is attributed to the new conservative economists, John Maynard Keynes. Two perspectives are available nowadays concerning tax efficiency. The classical perspective considers a tax system as efficient when it does not affect the different patterns of taxpayers' behavior. Based on this perspective, tax is not purposive, so it is imposed and collected just to generate revenue for governments. According to this perspective, a tax that is designed to modify taxpayers' behavior is considered inefficient because it distorts the market.



The classical economist, Adam Smith, believed that a tax system should have as little as possible influence on taxpayers (Jones, 2004).

On the other hand, the British economist, John Maynard Keynes, considered a tax system as efficient when it has the ability to influence the different patterns of taxpayers' behavior. As a result, each type of tax is considered purposive according to Keynes perspective. It is worth noting that many unreasonable patterns of behavior can be modified and improved. It is worth noting that there is a difference between tax efficiency in fact and in appearance. Most income systems are, in fact, efficient, but the way that this efficiency perceived by taxpayers is sometimes more important issue. Efficiency in appearance means that a tax system consists of efficient rules, items, and regulations, when these are applied. It is inadequate to be actually efficient, but it is more important to be efficient in the minds of taxpayers, or to be perceived by taxpayers as efficient. The way taxpayers perceive a tax system is an important issue, because it determines the level of taxpayers' compliance, and their level of cooperation. Moreover, a tax system determines peoples' loyalty to their government (Ibrahim et.al, (2009).

### **2.1.6 Taxpayer as a rational actor**

A taxpayer is any person or organization required by law to pay tax to a governmental. Achieving tax compliance from the public is a challenge to almost every tax authority. Early research concentrated on model that made taxpayer behave like actors who will decide their action based benefit they can get from their actions (Allingham, 1972). Several research findings show that taxpayer will not comply if the systems persists to be unfair, unjust and illegitimate e.g (Alm et.al,1993) reports understanding taxpayers' attitudes will give IRS (US) a better position to design strategies to achieve greater compliance.

Braithwaite (2003) highlighted a position of resistance of protest as a motivation postures that one has against the tax system. These resistances encourage evasion and avoidance. But on the other hand taxpayers are of the view that they are bound by the rules of the tax authority which tries to collect as much as tax as it could while the taxpayer try to get away with paying little tax as they could. The law can be perceived as wrong and the type of behavior that follows cannot be blamed because the interpretation of the law and obeying the law for one may not be the same for another if the other perceive the system to be unfair so he will evade tax or become a non complaint

taxpayer, he will underreport, over-claim deduction, not file in his returns and delay payments (Wenzel, 2002).

According to the Constitution of Federal Democratic Republic of Ethiopia, revenue sources are assigned between Federal government and Regional states. Regional states can endorse their income tax proclamation and regulations based on the constitution in conformity with the federal income tax proclamation. According to the current federal income tax proclamation no.286/2002 taxpayers are categorized into three categories, namely category “A”, “B”, and “C” based on their volume of sales and form of business. Subsequently, the Tax Authority will determine whether the taxpayer shall continue in the same category or should be shifted from one category to the other.

Category “A” includes any company incorporated under the tax law of Ethiopia or in or a foreign country and other entities having annual turnover of Birr 500,000 and more. Those who are categorized under “A” have to maintain all records and accounts which will enable them to submit a balance sheet and profit and loss account disclosing the gross profit, general and administrative expenses, depreciation, and provisions and reserves together with supporting vouchers (Council of Ministers Regulation no. 78/2002: Article 18, Sub Article 2).

Understanding taxpayer perception is crucial for policy makers to develop strategies to overcome problems of noncompliance among individual taxpayers’ and prevent evasion (Jackson,1986).A tax system is meant to provide the revenue necessary for pursuing collective goals like social security, economic prosperity and redistribution of wealth, internal and national safety, and cultural life (Wenzel, 2002). In general, a tax is defined as a payment to support the cost of government. Tax differs from fine or penalty imposed by a government in that, tax is not intended to deter or punish unacceptable behavior .To be a good tax, the tax should be sufficient, convenient, efficient, and fair. The tax is considered as sufficient if it generates enough money to the government, so that government will be more able to pay for the public goods and services that it provides to people. A tax is considered as convenient when the government has a method for collecting the tax, which most taxpayers understand, and with which they routinely cooperate (Jones, 2007).

According to Fjeldstad and Ranker (2003), increased efficiency of the tax administration, however, is not enough. Many observers conclude that a lack of paying tax ‘culture’ is the largest obstacle

to building a firm long-term revenue base. The opposite may, however, also be the case: as long as the tax administration culture is perceived to be influenced by sectarianism, nepotism, and corruption, it is unlikely to contribute to the fostering of a more conducive paying tax culture. It is pointed out by Adams (2003) that the success of income tax rests primarily upon the honesty of taxpayers. Adams further states that one of the factors that contribute to the dishonesty of the taxpayers is the complexity of the tax system, as it may lead to administrative failures. This can be viewed as it has relation with the tax culture of the society. Practically it is difficult to obtain genuine information from taxpayers regarding their income. Hence, tax gap is created to the extent the taxpayers hide information regarding their business activity.

Lack of ability to pay, this issue holds true in Ethiopia also where several small business operators (category 'c' taxpayers) are accumulating their annual tax obligations due to lack of ability to pay. Generally when taxpayers have no enough disposable income and they used to consume the return from sales, it is clear that tax evasion is inevitable and leads to tax arrears (Lemessa, 2005)

Attitudes towards the government (Levi, 2005) may affect the taxpayer's normative commitment to comply with law. Similarly, Due and Friedlaender (1999), also argue that, attitudes toward the general level of taxation and tax increases are dependent, of course, on attitudes about the desirability of governmental programs and on attitudes toward the government itself. On the other hand, citizens' willingness to pay taxes voluntarily rests on the local government's capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise non-compliant.

## **2.2 Empirical literature review**

This section will highlights empirical literatures related tax compliance and a number of prior studies and some specific finding that deal with tax rated maters.

Serra (2000 ) in survey of measuring the performance of Chile's tax administration to develop an effectiveness indicator found that the high responsiveness of tax compliance to the tax base could be explained by the existence of scale economies in tax enforcement, taxpayers higher willingness to pay taxes in a fast growing economy, and changes in the tax structure. Procedures of tax have been simplified and the average time per procedure was 27.8 minutes, the number of frivolous

penalty assessments by tax auditors has also been cut back. The study also shows that taxpayers completed their procedure in a single visit tax administration.

Fjeldstad (2004) conducted the survey on citizens' views on taxation in local authorities of Tanzania, covering 210 households in 6 case councils. The researcher explored a variety of tax related issues such as taxation and tax evasion, compliance motivations, service delivery, tax collection problems as well as possible solutions to improve revenue collection. The result of the survey found that taxpayers would be willing to pay more taxes if public services were improved. However, taxpayers' unwillingness to pay is not perceived to be the main problem in revenue collection. According to the survey data, poor public services to be the most important explanatory factor behind poor tax compliance.

Fjeldstad (2001) cited in this survey, argues that coercive tax collection has important consequences for citizens' rights and for the democratization process. If taxpayers' rights are unclear for both taxpayers and tax authorities, tax compliance and accountability will be affected. The most serious problem hampering tax collection, according to citizens' perceptions, is that taxes collected are not spent on public services revenue collection. The survey concludes that citizens feel they get little in return for taxes paid. This perception has impacts on their willingness to pay and contributes to eroding peoples' trust in the local government's capacity to provide the expected services.

For instance, Yohannes Mengesha and Zerihun Ashebir(2013), study conducted on identifying the gaps and problems that exist between the Dire Dawa business community and the tax authority results show that most of the taxpayers, especially those in the category 'C', do not exactly know how the tax is assessed or calculated and the procedures in the tax assessment and computations are not objectively understood by most of the taxpayers. The finding also reveal, over taxation as result of over estimation of daily/annual income, Nontransparent, non-participatory standard assessment by the authority on category "C taxpayers", Lack of fairness or equity of taxation among similar businesses of category "C taxpayers" Poor tax laws enforcement especially for VAT and large number of tax defaulters, Poor communication and understanding between the tax

authority and taxpayers, Weakness in tax collection and unsatisfactory service delivery of tax authority.

Oberhlzer (2007) again conducted one plot study in 2008 in South Africa with aimed at investigating taxpayers' perceptions of taxation. The survey was carried out amongst the four different population groups of South Africa by means of personal, face-to-face interviews with a structured and semi-structured questionnaire administered at respondents' homes. The survey finds that although the majority of respondents did not feel it is unfair to pay tax. The survey also found that waste and corruption in government is high. Furthermore, according to the survey result, government does not provide enough information about how they utilize taxpayers' money and in addition, the survey reports that perception of taxpayer that tax rate should be reduced. The study also indicate that the most effective tools for making people more positive is to empower them with knowledge. Finally, the survey suggest that there is no better tool for government to positively influence the taxpayers of a democracy than to provide them with knowledge on how taxpayers' money is utilized.

Recently in Ethiopia, Gebreselassie (2011) conducted survey on tax assessment and collection problems of Category "A" taxpayers in Addis Ababa. The survey use self-administered semi structured and in-depth interview in the case study of Yeka sub city and the survey find that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. As a result, the survey point out that delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes.

At the same time Aborat (2011) investigated the fairness perceptions of Addis Ababa City business profit taxpayers and its impacts in their perceptions. The survey used self-developed questioner and in-depth interview to collect both qualitative and quantitative data. The survey found that Addis Ababa City business profit taxpayers did not perceive positively in respect of general, vertical, personal, exchange, and administration fairness except horizontal fairness on the prevailing business profit tax system. With regard to tax knowledge and complexity, the finding of this survey shows that the taxpayers did not have sufficient knowledge and there were no easily understandable and vague procedures of the business profit tax system. Finally, the survey suggests

that a series of measures should be taken by government in general, and tax authorities in particular; to improving policy and administration issues, educating the taxpayers and conducting awareness creation, and maintaining the tax system fair and equitable.

Robert et al (1994) on their article, examine how tax payers' compliance behavior affected by tax knowledge and perception. Result has indicated that, principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions as well as the fairness of enlightened tax compliance behavior of tax payers'. Thus leads that, study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion and perception of the fairness of the tax system increases as tax knowledge is enhanced. In contradictory to this report was indicated by Collins, Milliron and Toy (1992) that, study was conducted in the USA from a random mail survey of 700 respondents from telephone directories. Out of 220 practical responses, they had found that tax knowledge and the level of education were negatively correlated with compliance behavior. The scholars further suggested that, knowledge about tax law is expected to be of importance for preferences and attitudes towards taxation in USA.

Study conducted by Suresh Vadde and SrinivasGundarapu (2010), on major factors that influence attitudes of rental taxpayers and their compliance behavior with tax system in mekele city administration. The study indicated that there were some dishonest rental tax payers. Even there are some individuals who entirely do not report their taxable income to the concerned body. In addition to the above, the study also disclosed that with the exception of minority of the rental tax payers who hold certificate and diploma, majority of them were with an educational background of elementary and high school completed. Hence, it can be concluded that rental tax payers lack knowledge of easily understanding the laws and regulations of the tax system and how their taxable income is computed. Therefore, it can be concluded that still many respondents are not attending or participating in the tax training session.

Wollela A Yesegat and HelgeFjeldstad, (2011) jointly conduct study on tax payers views of business taxation in Ethiopia. The objectives of their study were to assess business peoples' views of paying taxes in Ethiopia and to identify (perceived) difficulties with the tax system and priorities

for tax reform. Hence the result shows that the main reasons for tax noncompliance were; lack of predictability in the tax system forces taxpayers to reduce their current tax liability, difficult to compete with businesses that import goods at manipulated custom duties, It is those who are not paying taxes that are quickly growing, so why should I comply, discrimination by the tax administration forces honest taxpayers to evade taxes. Nuguss et' al (2014) conduct study on the consequences of tax assessment on tax collection of category 'c' taxpayers in Ethiopia: a case study in Mekelle city, Tigray. The study result shows that unless good service delivery is provided, tax related laws are enforced and implemented, effective awareness creation is done and fair tax assessment is conducted, there may not be efficient and effective tax collection. Even though efficient tax assessment and collection cannot be made overnight, it is up to tax administrators to ensure sufficient tax revenue. Multiple approaches are needed to enhance tax collection efficiency. No single approach is likely to fully and effectively address the tax collection efficiency of category 'C'. Since it has multiple causes of tax related problems, the category "C" tax payers needs more attention.

Thomas (2012) assessed tax fairness and compliance behavior in Barbados and presented the comparative results of two other countries alongside: Barbados 3.3 (mean) and 0.92 (SD), Australia 2.92 (mean) 1.025 (SD), Hong Kong 3.31 (mean) and .91 (SD). These results indicated that taxpayers perceived the Barbadian tax system as relatively fair and specifically concentrated on general fairness of the tax rather than focusing on self-interest. Thomas ( ibid) says that this is generally pleasing to any government, as it provides an indication of the taxpayers' satisfaction of the current tax system, thereby, suggesting tax compliance and higher revenues.

Another study, Gberegbe, F.B. and Umoren, O. (2017), assessed relationships between perceptions of distributive, procedural, and retributive fairness and personal income and tax compliance in Rivers State. The relationship shown is positive and general perception of tax fairness is indicated as having positive significant influence on personal income tax compliance. Gberegbe et. al. (2015) studied fairness in Nigeria and showed perception of average tax as fair. The mean score (2.23) indicated that the tax system is fair in terms of the distribution of income tax. In a comparative study between New Zealand and Malaysia, Saad (2012) showed 3.6 ad 4.23 for general fairness, 3.65 and 4.42 for exchange fairness, 5.39 and 4.03 for horizontal fairness, 4.38 and 5.16 for vertical fairness. These mean values suggest that the Malaysian taxpayers have better

perceptions of tax fairness regarding their income tax system than their New Zealand counterparts. The only case where New Zealand taxpayers had better perceptions than Malaysian taxpayers was in terms of horizontal fairness.

In this review, a lot of issues have been shown from a variety of standpoints. From basic definition of taxes to variables interplaying in determining tax compliance to non-compliance have been assessed. The importance of understanding tax payers' perceptions has also been underlined as critical for establishing compliance behavior in the public. Truly, for a tax system to be a good tax, it should be sufficient, convenient, efficient and fair. Of these, the principles of fairness and certainty stand out as the basis (the corner stone) for a good tax system. Fairness goes to mean nothing complicated but just equity or treatment of people equally in all regards. However, it cannot be denied that no scientific specification is possible to determine an equitable pattern except consensus of public attitudes in the society. Even with such theoretical reservations, fairness or equity of a tax system is second to nothing. In the same way, closely related to equity or fairness, efficiency is an important principle to help in managing the tax system.

Four important approaches of taxation have also been discussed to highlight on various conceptions that tax systems are dealing with. The benefit approach, as one of the traditional ways to tax policy formulations, underlines that tax payers' pay according to the benefits they enjoy without having to pay for other services that governments provide to other citizens. For all its limitations, the benefit approach is still valued as related to fairness for tax system. The ability to pay approach brings two major considerations data of annual income and annual consumption or expenditure as a basic to determine a person's capacity to pay. In all tax issues, including the reviews assessed in the above sections, fairness is the most critical one for a good tax system. Fairness is represented with equity which again has dimensions (horizontal and vertical equity) for measuring if the system is functioning in an equitable way. Fairness is significantly affected by the terms of trade between the tax individuals pay and consumption of services goods and services delivered by the government. As noted by Wenzel (2003), three areas of fairness have also been touched here: distributive justice, procedural justice and retributive justice. All of this affect fairness of the tax system one or the other way. In regard to finding ways to ensuring fairness or equity in the system, both horizontal as well as vertical equity measures have been examined in this review. It has been noted that horizontal equity is the provision of equal treatment to all in the



same group whereas vertical equity means giving a suitable differentiation among unequal persons in that group. Both flat and progressive tax structures are to be seen in light of these equity markers. And any kind of failure to ensure equity in either structure is noted as leading to tax evasion.

Equally important, the tax dimensions have also been presented one after the other. As a multidimensional concept, tax fairness embraces four dimensions: general fairness, distribution of tax burden, exchange with the government, self-interest, preferred tax rate and structure. These four dimensions have been adequately defined and discussed in the review section above. Likewise, the actual study hereafter has made good use of them in both the design of the tools as well as the analysis.

The influence that a tax system has on payers determines its efficiency. When it does not influence their economic behavior or, in a different perspective, when it makes them change their economic behavior deliberately, then the system is said to be efficient. Likewise, tax compliance is critical for a tax system to operate; but compliance is a result of multiple variables perceived by the tax payers. Perception in a tax system has been stipulated as an important issue since it determines the level of taxpayers' compliance, and their level of cooperation. Perception is how every other issue in the system is experienced, understood and viewed by the tax payers and that in a way is the most determinant factor in tax compliance. Even when there are failures, negative tax administrative cultures and counterproductive influences in the tax system, tax payers' perception is the understanding that affects tax payer behavior as well as compliance.

### **2.3 Summary of Research Gap**

As to the researchers' knowledge, one of the responsibilities of a government is to modify unreasonable patterns of behavior. That means, when tax payers feel that, there is a tax imposed on unreasonable patterns of behavior, most taxpayers will avoid these patterns, or they will try to reduce them. On the other hand the tax system should encourage investors through different means and it must be attractive for outsiders also. However, it is worthless to be actually efficient and fair unless the tax system is efficient and fair in the minds of taxpayers, or to be perceived by taxpayers as efficient that means, the taxpayers perceive that the existing tax system is used in influencing their behavior. Whether taxpayers perceive, or do not perceive that the tax system is actually used

to influence their economic behavior, is therefore the concern of this study. Even though aforementioned studies have attempted to address a few issues in relation to tax payers perception and offer some pertinent contributions in the authority in general, according to the researchers knowledge no study is conducted to study fairness, efficiency and tax knowledge of taxpayers at the same time.

## **CHAPTER THREE**

### **Methodology of the Study**

The main purpose of this part is to present the underlying principles of research design and methodology, sampling design, data collection tools and method of data analysis in line with research questions, which is proposed in the first chapter.

#### **3.1. Research Design**

Research design is the logical structure of the study. The type of study and its design should be decided on the basis of its appropriateness to the objectives and/or research questions, the availability of resources and, in some cases, ethical considerations (Kothari, 2004). In line with this, the current study used descriptive research design. As it explained in this study, quantitative approach will be used to analyze finding. The data, which will be collected from documents and from questionnaires, will be analyzed by descriptive analysis. The analyzed data will be presented by using simple statistical tools such as figures, tables and percentages.

Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 1984). It often uses visual aids such as graphs and charts to aid the reader in understanding the data distribution. Because the human mind cannot extract the full import of a large mass of raw data, descriptive statistics are very important in reducing the data to manageable form. When in-depth, narrative descriptions of small numbers of cases are involved, the research uses description as a tool to organize data into patterns that emerge during analysis. Those patterns aid the mind in comprehending a qualitative study and its implications.

#### **3.2. Research approach**

Research approach can be regarded as a blue print, a master plan that specifies the methods (Leedy & Ormrod, 2013). Thus, every research requires a research design that is carefully tailored to the exact needs of the problem under investigation (Creswell, 2009). Therefore, the viewpoint of different methods approaches were discussed in the next paragraphs.

**Quantitative research**, in this approach, an investigator relies on numerical data (Creswell, 2003). Researcher uses postpositive claims for developing knowledge, such as cause and effect thinking, reduction to specific variables, hypotheses and questions, use of measurement and observation, and the test of theories. The main advantage of this approach is that numbers are easy to work with data are readily collected, coded, summarized, and analyzed. In addition, data collection is relatively quick and less time consuming and free from bias. But, in this approach researchers know much about the collective or average experience of research participants, and focus on theory or hypothesis testing rather than on theory or hypothesis generation (Creswell 2003).

**Qualitative research**, on the other hand, is “an inquiry process of understanding” where the researcher develops a complex, holistic picture, analyzes words, reports detailed views of informants, and conducts the study in a natural setting (Creswell, 2009). In this approach, the researcher makes knowledge claims based on the constructivist (Creswell 2009) perspectives. This has advantage of design results mainly from its flexibility to follow unexpected ideas during research and to explore processes effectively. However, knowledge produced may not be generalized to other people or other settings and it is also difficult to make quantitative predictions and to test hypotheses and theories.

The third research methods approach is **mixed method** approach in which the researchers build the knowledge on pragmatic grounds (Creswell, 2003). A major tenet of pragmatism is that quantitative and qualitative methods are compatible which can help better understanding of the research problem.

Based on the above discussions and by considering the research problem and objective, in this study, mixed-method research approach was used. This is to get the benefits of a mixed methods approach and to mitigate the bias in adopting only either quantitative or qualitative approach. The following section hence presents the method used in the study.

### **3.3. Sample Method**

#### **3.3.1 Target Population**

The first step in developing any sample design is to define the set of objects, technically called the Universe, to be studied. The target population for the research, the group to which the findings are applicable should be defined, consistent with the statement of the problem and objectives. A population is the total possible membership of the group being studied. The population of this study based on Large VAT Payers registered in Ethiopian Revenue and Customs Authority (ERCA). They will be taken as the target population for the purpose of the study.

#### **3.3.2 Sampling Frame**

It is one of the elements in the sample design from which potential respondents are to be chosen so that to be representative of the population. The sample frame should be comprehensive enough and there must be equal probability of selection so that to enhance representativeness of the sample. This is the actual list of sampling units from which the sample is selected. It is the list of the study population. In this study, the sets of sample frames mainly are Large taxpayers and employees of the VAT department of the authority. The sample frame for taxpayer respondents will be the lists of VAT registrants.

#### **3.3.3 Sampling Techniques**

Due to constraints such as time, budget and other methodological reasons, always it did not possible to collect data from the entire population. In such a situation, a census not conducted, and a sample has drawn from the given population. In this study, Convenience sampling method is used. In this regard, the sample will be drawn using Convenience sampling method which relies on data collection from population members who are conveniently available to participate in study.

#### **3.3.4. Sample Size**

In view of the researcher's incapability to reach out to the entire population business income tax payer's in the Agency, and in order to gain the advantage of an in-depth study and effective coverage, samples are drawn using stratified with conveniences sampling techniques from the total

populations of business income tax payers category of A. The researcher has used Taro Yamane (1967) formula in determining the size from the total population.

According to Yamani, (1964)  $n = N / [1 + (Ne^2)]$

Where n = is the sample size

N = is the population

e = is the error limit (0.05 on the basis of 95% confidence level)

Therefore,  $n = 1,109 / 1 + 1,109 (0.05)^2$

$n = 1,109 / 3.7725$

**n=294**

Therefore, a total number of 294 questionnaires will be administered and will be distributed during the research.

### **3.4 Research instrument**

A survey using self-administered questionnaire (quantitative approach) is conducted to assess taxpayers' perception towards the existing tax system. Respondents are asked to indicate their opinions for each listed item in the questionnaire by choosing one among the following five available options to them: (5) strongly agree, (4) agree, (3) Uncertain, (2) disagree, and (1) strongly disagree. In this study, Khasawneh's et.al, (2008) questionnaire is modified and used to measure the tax payers' perception towards tax fairness and Ibrahim's et.al, (2009) and Wubshet's (2011) questionnaire is modified and used to measure the tax payers' perception towards tax efficiency.

The questionnaire is written and administered in English language and the questionnaire consists of four sections. The first one is designed to collect the related demographical data of respondents. The second section is designed to collect data about tax payers' perception towards fairness, while, the third one is designed to collect data about tax payers' perception towards tax efficiency. Finally the forth section is designed to collect tax payers' perception towards the tax authority. Altogether, a 24 item scale is used with Likert's scale "Strongly Disagree to Strongly Agree" with discrete response categories, to measure the way that the existing tax system perceived by taxpayers.

The demographic information about the respondents is collected through the first section of the questionnaire. As previously mentioned, the second section of the questionnaire included 24 items,

of which, 9 items are used to measure the tax payers' perception towards tax fairness, 6 items are used to measure perception towards tax efficiency and the remaining 9 items are used to measure perception towards the tax authority and tax knowledge. After modifying the questionnaire, it was self-administered to 294 large taxpayers in Addis Ababa. The number of usable questionnaires that are received from those targeted respondents are 275. In other words, 19 copies of the administered questionnaires had not been received.

### 3.5. Methods of Data analysis and presentation

After administering and scoring research tools scripts, data are collected and organized. The collected data are known as 'raw data.' But, the raw data are meaningless unless certain statistical treatment is given to them. Analysis of data means to make the raw data meaningful or to draw some results from the data after the proper treatment (Singh, 2006).

As used by other authors for instance Ibrahim et.al, (2009) and Khasawneh et.al, (2008), in this study the collected data are analyzed using descriptive analysis techniques. In addition, the frequency distribution is also determined. The standard used by the researcher in this study is that, if the mean score is greater than or equal to 3, it is considered as Agree and if the mean score is below 3 it is considered as Disagree. The following numerical points were given to each available option:

Table 2: Numerical points to each option

Optional answer	Numerical weight
Strongly Agree	5
Agree	4
Uncertain	3
Disagree	2
Strongly Disagree	1

All these measures are obtained from the descriptive statistics available in the SPSS software version 20 which is the latest version.

## CHAPTER FOUR

### Results and discussion

This chapter deals with the presentation of data analysis, findings and interpretation. The purpose of this study is to assess tax payers' perception towards the existing tax system (the Authority) and it is mainly focus on tax payers' perception towards tax fairness, tax efficiency and tax knowledge of the taxpayers. The principal data sources is self-administered questionnaires conducted in Addis Ababa town large VAT taxpayers.

This section is divided into two parts which present the findings of the study. The first part presents the respondents profile /background information. The second part presents the findings which are related with tax payers' perception towards tax fairness, tax efficiency, tax knowledge of the taxpayers and perception of the Ethiopian Revenue and Customs Authority. The purpose of this section is to address the specific research question and hypotheses through considering broader objective of the study at large, using data presented. Accordingly, the analysis presents; how the research question was addressed.

#### 4.1 Respondents profile /background information

Table 1: Respondents' profile

No.	Respondents' profile	Categories	Frequency	Percentages
1.	Tax payers survey respondents by Sex	Male	196	71.3
		Female	79	28.7
		<b>Total</b>	<b>275</b>	<b>100%</b>
2.	Tax payers survey respondents by age	Below 20	0	0
		Between 21 and 30	50	18.2



		Between 31 and 40	127	46.2
		Above41	98	35.60
		<b>Total</b>	<b>275</b>	<b>100%</b>
<b>3.</b>	<b>Level of Education</b>	Below grade 10	0	0
		Diploma	25	9.1
		BA Degree	215	78.2
		Masters and Above	35	12.7
		<b>Total</b>	<b>275</b>	<b>100%</b>
<b>4.</b>	<b>Business Sector</b>	Manufacturing	54	19.6
		Building and construction	40	14.5
		Domestic Trade and service	63	22.9
		Import and Export	74	26.9
		Other	44	16.0
		<b>Total</b>	<b>275</b>	<b>100%</b>
<b>5.</b>	<b>Work Experience</b>	Below 1 year	5	1.8
		1 to 10 years	113	41.1
		11-20 years	83	30.2
		21-30 years	44	16.0
		Above 30 years	30	10.9

		<b>Total</b>	<b>275</b>	<b>100%</b>
<b>6.</b>	<b>Forms of business operation</b>	Sole proprietorship	5	1.8
		Partnership	15	5.5
		Share Company	38	13.8
		Private Limited Company	92	33.5
		Others	125	45.5
		<b>Total</b>	<b>275</b>	<b>100%</b>
<b>7.</b>	<b>Respondents' position</b>	Owners	5	1.8
		Managers	54	19.6
		Employees	162	58.9
		Other	54	19.6
		<b>Total</b>	<b>275</b>	<b>100%</b>
<b>8.</b>	<b>Annual Turnover</b>	Below Br 100,000	20	7.3
		From Br 100,000-500,000	4	1.5
		From Br 500,000-1,000,000	45	16.4
		More than Br 1,000,000	206	74.9
		<b>Total</b>	<b>275</b>	<b>100%</b>

**Source:** Primary Data

The above table shows the frequencies and percentage related to the respondents' profile. From the total of 275 respondents, 196(71.3%) of respondents are male while 79(28.7%) are female.

This implies that, the highest percentages of respondents are male. This high ratio of males reflects the structure of income earners in the study area. That is in most developing countries; including Ethiopia, husbands and single males are responsible for the earning of income and providing money in general. And may be due to the cultural influences that Females are not capable of running large business; their participation in different business sectors is very minimum as compared to the participation of males.

As it can be seen on the above table, 50(18.2%) of respondents are in the age range of 21 to 30 while 127(46.2%) is from 31 to 40, 98(35.6%) are above 41. Generally, this shows that respondents within the age group of 31 and above made up the largest portion with 225 (81.8%) of the total respondent in which case the age range is in consonance with the general age category range in a predominantly youth population of Ethiopia.

In the case of educational qualification of respondents, the survey showed that about 35(12.7%) percent have master degree while 215(78.2%) have a Bachelor Degree. The remaining 25(9.1%) of respondents have diploma. This can be an indication that the majority of the respondents have good academic background that can help them to understand the tax laws and procedures and they do have specific tax knowledge that can help them to comply with different tax compliance requirements.

With regard to the sectors distribution of respondents, the outcomes of the survey revealed that, about 54(19.6%) of the respondents are engaged in manufacturing sector, while 40(14.5%) are engaged in building and construction. The others 63(22.9%) and 74(26.9%) are engaged in Domestic trade service and Import Export respectively. Finally 44(16.0%) are engaged under other sectors. This implies that, the highest percentages of respondents are engaged with Import and Export.

The Table above also summarizes the respondents work experience with the firms. Accordingly, 5(1.8%) of the respondents are having one year experience, 113(41.1%) of them are having a work experience between 1 and 10 years, 83 (30.2%) of the respondents fall between 11 and 20 years and the rest of the respondents 44 (16.0%) and 30(10.9) of them have work experience between 21 and 30 years and above 30years respectively. Hence the majority of the respondents work

experience ranges between 1-20 years in the business which shows longer experience and matured business skills and exposure in many ways.

The above table also shows the legal forms of business ownership, accordingly 5(1.8%) of the survey of taxpayers respondents are sole proprietors while 15 (5.5%) and 38(13.8) of the respondents are partnership and Share company, and the rest 92(33.5%) and 125(45.5%) of the survey of taxpayer respondents are private limited companies and others respectively. The researcher recognizes that these respondents who fall in “others” category are either government agencies.

In respect of knowing the position of the respondent in the sector, the result revealed that about 5(1.8%) of the respondents are owners while 54(19.6%), 162(58.9%), 54(19.6%) of the respondents are managers, employees and others respectively. This implies that the highest percentages of the respondents are employees. With regard to the experience of the respondents in the position, the result revealed that the highest percentages of respondents are employees. Employees in this case means staff personnel and hired individuals representing the companies approached for this study. Their status could be taken as a favorable grounding to extract more professional and factual information to the questions asked.

The researcher found it of importance to ask the respondents to indicate their annual sales turnover, as this is the factor identifies the category of under which a taxpayer falls consequently determining whether the respondents can be classified as either small or medium businesses taxpayers. The Table 1 above shows that 206(74.9%) and 45(16.4%) of the respondents annual turnover were above 1,000,000 and between 500,000-1,000,000 taxpayers respectively. This can lead to an easy deduction that there is a very high number of VAT tax payers which is a broader base for high tax return for the government.

#### **4.2 Descriptive analysis of Tax payers’ perception towards tax fairness**

In this section, the descriptive analysis of tax payers’ perception towards tax fairness is presented. In this study the collected data are analyzed using descriptive analysis techniques.

**Table.2. Responses to tax fairness**

Table 2.Response to tax fairness	Strongly Agree		Agree		uncertain		Disagree		Strongly Disagree		Mean	SD
	No	%	No	%	No	%	No	%	No	%		
Measures												
The Ethiopian tax system does not require me to pay more than my fair tax.	25	9.1	84	30.5	79	28.7	53	19.3	34	12.4	3.05	1.166
Comparing my business tax burden with others, I do not pay more than my fair tax.	15	5.5	108	39.3	59	21.5	54	19.6	39	14.2	3.02	1.174
I believe that my business has benefiting from basic government spending like education, health, safety and etc	69	25.1	108	39.3	63	22.9	20	7.3	15	5.5	3.71	1.088
The benefits I receive from the government in exchange for my income-tax payments are reasonable	15	5.5	123	44.7	49	17.8	64	23.3	24	8.7	3.15	1.109
I believe that the overall tax system is not equitable.	34	12.4	94	34.2	93	33.8	39	14.2	15	5.5	3.34	1.042
I believe that paying taxes are my obligation whether the government spends wisely or not.	78	28.4	128	46.5	39	14.2	20	7.3	10	3.6	3.89	1.017



Table (2) indicates the taxpayers' perception towards fairness. In order to investigate the tax payers' perception towards fairness, respondents are asked whether they believe that, The Ethiopian tax system does not require them to pay more than their fair tax. As a result, as it is shown in table (1), out of 275 respondents' 34(12.4%) respondents are Strongly Disagree and 53(19.3%) Disagree, that is, they don't believe that, the Ethiopian tax system does not require them to pay more than their fair tax. The rest 84(30.5%) respondents Agree while, 25(9.1%) respondents Strongly Agree that, The Ethiopian tax system does not require me to pay more than my fair tax. The mean score of the result is 3.05, which is above the standard. Thus, the majority of the tax payers believed that, it is fair to say the Ethiopian tax system does not require me to pay more than my fair tax.

Respondents are asked whether they believe that, Comparing their business tax burden with others, they do not pay more than their fair tax. As a result, out of 275 respondents 39 (14.2%) respondents are Strongly Disagree and 54(19.6%) Disagree and 59(21.5%) of respondents are Uncertain. The rest 108 (39.3%) respondents Agree while, 15(5.5%) respondents Strongly Agree that, comparing their business tax burden with others, they do not pay more than their fair tax. The mean score of the result is 3.02, which is above the standard. Consequently, majority of the tax payers believed that, they are paying fair amount of tax comparing their business tax burden with others.

In respect of knowing respondents perception about their believe whether their business has benefiting from basic government spending like education, health, safety and etc, the outcomes of the business profit taxpayers' survey revealed that, about 15(5.5%) respondents Strongly Disagree and 20(7.3%) Disagree and 63(22.9%) tax payers are Uncertain. The rest 108 (39.3%) respondents Agree while, 69(25.1%) respondents Strongly Agree that, their business has benefiting from basic government spending like education, health, safety and etc. The mean score of the result is 3.71, which is above the standard. As a result the majority of tax payers' perceive that, their business has benefiting from basic government spending like education, health, safety and etc

In respect of knowing tax payers' perception towards the benefits they receive from the government in exchange for their income-tax payments are reasonable, the survey outcome revealed that, about 24(8.7%) respondents found to be Strongly Disagree and 64(23.3%) Disagree and 49(17.80%) tax payers were Uncertain. The rest 123 (44.7%) respondents Agree while,

15(5.5%) respondents Strongly Agree that, the benefits they receive from the government in exchange for their income-tax payments are reasonable. The mean score of the result is 3.15, which is above the standard. Hence, the benefits they receive from the government in exchange for their income-tax payments are reasonable and fair.

With regard to the tax payers' perception about the overall tax system is not equitable, the survey outcome revealed that, 15(5.5%) of the respondents are strongly Disagree and 39(14.2%) Disagree, while 93(33.8%) were Uncertain about that. The rest 94(34.2%) Agree and 34(12.4%) of the respondents strongly Agree that, the overall tax system is not equitable. The mean score of the result is 3.34, which is above the standard. Thus, the majority of tax payers perceive that, the overall tax system is not equitable. Thus, the majority of tax payers' perceive that, the tax system lacks administrative fairness.

Respondents are asked whether they believe that, paying taxes are their obligation whether the government spends wisely or not. As a result, out of 275 respondents 10 (3.6%) respondents are Strongly Disagree and 20(7.3%) Disagree and 39(14.2%) of respondents are Uncertain. The rest 128 (46.5%) respondents Agree while, 78(28.4%) respondents Strongly Agree that, paying taxes are their obligation whether the government spends wisely or not. The mean score of the result is 3.89, which is above the standard. Consequently, majority of the tax payers believed that, paying taxes are their obligation whether the government spends wisely or not.

In respect of knowing respondents perception about the administrative fairness, the outcomes of the business profit taxpayers' survey revealed that, about 29(10.5%) respondents Strongly Disagree and 45(16.4%) Disagree and 84(30.5%) tax payers are Neutral. The rest 93 (33.8%) respondents Agree while, 24(8.7%) respondents Strongly Agree that, the government utilizes a reasonable amount of tax revenue to achieve social goals. The mean score of the result is 3.14, which is above the standard. As a result the majority of tax payers' perceive that, the government utilizes a reasonable amount of tax revenue to achieve social goals.

In respect of knowing tax payers' perception towards the tax system consistency across years, the survey outcome revealed that, about 29(10.5%) respondents found to be Strongly Disagree and 60(21.8%) Disagree and 72(26.2%) tax payers were Neutral. The rest 27 (10.11%) respondents Agree while, 4(1.49%) respondents Strongly Agree that, the administration of the tax system by



taxing authority is consistence across years and tax payers. The mean score of this result is 3.00 which is equal to the standard. Hence, the majority of tax payers' perceive that, the administration of the tax system by taxing authority is consistence across years and tax payers.

With regard to the tax payers' perception about the government expenditure, the survey outcome revealed that, 76(28.46%) of the respondents are strongly Disagree and 124(46.44%) Disagree, while 12(4.95%) were Neutral about that. The rest 49(18.35%) Agree and 5(1.87%) of the respondents Strongly Agree that, the government spends too much tax revenue on unnecessary welfare assistance. The mean score for this result is 3.13, which is above the standard. Thus, the majority of tax payers perceive that, the government does spend too much tax revenue on unnecessary welfare assistance.

### 4.3 Tax payers' perception towards tax efficiency

**Table.3. Responses to tax efficiency**

Measures	Strongly Agree		Agree		uncertain		Disagree		Strongly Disagree		Mean	SD
	No	%	No	%	No	%	No	%	No	%		
I believe that, the Ethiopian tax system encourages taxpayers for more investment.	5	1.8	84	30.5	93	33.8	54	9.6	39	14.2	2.86	1.062
I believe that, the current Ethiopian tax system is attractive for foreign investors to invest more in Ethiopia.	19	6.9	89	32.4	98	35.6	49	7.8	20	7.3	3.14	1.027
I think that, the Government of Ethiopia increases the tax rates under the conditions of inflation.	10	3.6	79	28.7	97	35.3	60	1.8	29	10.5	2.93	1.035
I see that, the current Ethiopian tax system encourages taxpayers for more production through different tax exempts.	10	3.6	78	28.4	103	37.5	49	17.8	35	12.7	2.92	1.056

I would not feel guilty if excluded some of my income when completing my tax return.	9	3.3	93	33.8	84	30.5	50	18.2	39	14.2	2.94	1.104
I find that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels.	10	3.6	87	31.6	124	45.1	39	14.2	15	5.5	3.14	.898

Table (3) shows the tax payers perception towards tax efficiency. In which six items which used to measure tax efficiency are included. The respondents are asked whether they believe that, the current Ethiopian tax system encourages tax payers for more investment. Accordingly, out of 275 respondents about 39(14.2%) Strongly Disagree and 54(19.6%) Disagree with that statement and 93(33.8%) of respondents are Uncertain. The rest 84(30.5%) respondents Agree while, 5(1.8%) respondents Strongly Agree that, the current Ethiopian tax system encourages tax payers for more investment. The mean score of the result is 2.86, which is below the standard. As a result, the highest percentages of the respondents were uncertain about current Ethiopian tax system whether it encourages tax payers for more investment or not.

The respondents are asked whether they believe that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia Accordingly, out of 275 respondents about 20(7.3%) Strongly Disagree and 49(17.8%) Disagree with that statement and 98(35.6%) of respondents are Uncertain. The rest 89(32.4%) respondents Agree while, 19(6.9%) respondents Strongly Agree that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia. The mean score of the result is 3.14, which is above the standard. As a result, the highest percentages of the respondents were certain that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia.

The respondents are also asked whether they think that, the government of Ethiopia increases the tax rates under the conditions of inflation. The outcomes of the business profit taxpayers' survey also revealed that, about 29(10.5%) Strongly Disagree and 60(21.8%) Disagree with that statement and 97(35.3%) of respondents are Uncertain. The rest 79(28.7%) respondents found to be Agree while, 10(3.6%) respondents Strongly Agree that, the government of Ethiopia increases the tax rates under the conditions of inflation. The mean score of this result is 2.93 which below the standard. Hence, the highest percentage of the respondents perceives that, the government of Ethiopia doesn't increases the tax rates under the conditions of inflation.

In respect of knowing the tax payers' perception towards encouragement made by the current Ethiopian tax system for more production, the survey outcome indicates, about 35(12.7%) of the respondents Strongly Disagree and 49(17.8%) Disagree with that statement and 103(37.5%) of

respondents are Uncertain. The rest 78(28.4%) respondents Agree while, 10(3.6%) respondents Strongly Agree that, the current Ethiopian tax system encourages tax payers for more production through different tax exempts. The mean score of the result is 2.92, which is below the standard. Consequently, the majority of the respondents perceive that, the current Ethiopian tax system doesn't encourage tax payers for more production through different tax exempts.

The outcomes of the taxpayers' survey in respect of their perception about excluding some of their income when completing their tax return revealed that, about 39(14.2%) respondents found to be Strongly Disagree and 50(18.2%) Disagree with the method of distributing tax burden among tax payers and 84(30.5%) tax payers are Uncertain. The rest 93 (33.8%) respondents Agree while, 9(3.3%) respondents Strongly Agree that, about whether they feel guilty by excluding some of their income when completing their tax return. The mean score of the result is 2.94, which is below the standard.

The respondents are also asked whether they think that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels. The outcomes of the business profit taxpayers' survey also revealed that, about 15(5.5%) Strongly Disagree and 39(14.2%) Disagree with that statement and 124(45.1%) of respondents were Uncertain. The rest 87(31.6%) respondents Agree while, 10(3.6%) respondents Strongly Agree that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels. The mean score of the result is 3.14, which is above the standard. This shows that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels.

#### 4.6 Tax payers' perception towards tax Knowledge

**Table.4. Responses to tax knowledge**

Statements	Strongly Agree		Agree		uncertain		Disagree		Strongly Disagree		Mean	SD
	No	%	No	%	No	%	No	%	No	%		
My business has sufficient experience to share tax knowledge's with ERCA.	49	17.8	102	37.1	74	26.9	35	14.7	15	5.5	3.49	1.09
My business has the necessary channel of communications to share tax knowledge with ERCA.	35	12.7	102	37.1	68	24.7	65	23.6	5	1.8	3.35	1.03

Table (4) shows the tax payers perception towards tax knowledge. In which two items which used to measure tax knowledge are included. The respondents are asked whether they believe that, their business has sufficient experience in sharing tax knowledge with Ethiopian Revenue and Customs Authority (ERCA). Accordingly, out of 275 respondents about 15(5.5%) Strongly Disagree and 35(12.7%) Disagree with that statement and 74(26.9%) of respondents are Uncertain. The rest 102(37.1%) respondents Agree while, 49(17.8%) respondents Strongly Agree that, their business has sufficient experience in sharing tax knowledge with Ethiopian Revenue and Customs Authority (ERCA). The mean score of the result is 3.49, which is above the standard. As a result, the highest percentage of the respondents perceives that, their business has sufficient experience in sharing tax knowledge with Ethiopian Revenue and Customs Authority (ERCA).

The respondents are also asked whether they think that, their business has the necessary channel of communications to share tax knowledge with ERCA. The outcomes of the business profit taxpayers' survey also revealed that, about 5(1.8%) Strongly Disagree and 65(23.6%) Disagree with that statement and 68(24.7%) of respondents are Uncertain. The rest 102(37.1%) respondents found to be Agree while, 35(12.7%) respondents Strongly Agree that, their business has the necessary channel of communications to share tax knowledge with ERCA. The mean score of the result is 3.35, which is above the standard. Hence, the highest percentage of the respondents

perceives that, their business has the necessary channel of communications to share tax knowledge with Ethiopian Revenue and Customs Authority (ERCA).

#### 4.7 Tax payers' perception towards tax authority

**Table.5. Responses to tax Authority**

Statements	Strongly Agree		Agree		uncertain		Disagree		Strongly Disagree		Mean	SD
	No	%	No	%	No	%	No	%	No	%		
Service Delivery of the Tax Authority is Excellent.	40	14.5	84	30.5	59	21.5	73	26.5	19	6.9	3.19	1.18
I believe that tax authorities provide sufficient and equitable information to all taxpayers.	20	7.3	84	30.5	84	30.5	54	19.6	33	12.0	3.01	1.13
The authority clearly exercises with integrity the rule and regulation of VAT laws to approach taxpayers for the tax collection.	30	10.9	110	40.0	77	28.0	38	13.8	20	7.3	3.33	1.07
The authority make the tax system and tax obligation very easy and comfortable for taxpayers	24	8.7	88	32.0	69	25.1	64	23.3	30	10.9	3.04	1.15
I believe that the current tax system have many loopholes to lead Taxpayers towards corruption and tax evasion.	30	10.9	99	36.0	88	32.0	39	14.2	19	6.9	3.30	1.06
The authority has ability or willingness to combat tax evasion	20	7.3	103	37.5	97	35.3	25	9.1	30	10.9	3.21	1.07
My friends do not comply and they have never been penalizing due to improper execution of the law, and the absence of inconsistent enforcement.	15	5.5	79	28.7	118	42.9	53	19.3	10	3.6	3.13	0.91

Table (5) shows the tax payers perception towards the tax authorities'. In which seven items were used to measure taxpayers' perception. The respondents are asked whether the service delivery of the Ethiopian tax authority is excellent or not. Accordingly, out of 275 respondents about 19(6.9%) Strongly Disagree and 73(26.5%) Disagree with that statement and 59(21.5%) of respondents are Uncertain. The rest 84(30.5%) respondents Agree while, 40(14.5%) respondents Strongly Agree that, the service delivery of the Ethiopian tax authority is excellent. The mean score of the result is 3.19, which is above the standard. As a result, the highest percentage of the respondents perceives that, the service delivery of the Ethiopian tax authority is excellent.

The respondents are also asked whether they think that, sufficient and equitable information is provided by the tax authorities' to all tax payers. The outcomes of the VAT taxpayers' survey also revealed that, about 33(12%) Strongly Disagree and 54(19.6%) Disagree with that statement and 84(30.5%) of respondents were Uncertain. The rest 84(30.5%) respondents Agree while, 20(7.3%) respondents Strongly Agree that, sufficient and equitable information is provided by the tax authorities' to all tax payers. The mean score of the result is 3.01, which is above the standard. Thus, the highest percentage of the respondents perceives that, sufficient and equitable information is provided by the tax authorities' to all tax payers.

The outcomes of the taxpayers' survey in respect of their perception about the authority clearly exercises with integrity the rule and regulation of VAT laws to approach taxpayers for the tax collection revealed that, about 20(7.3%) respondents found to be Strongly Disagree and 38(13.8%) Disagree with and 77(28%) tax payers are Uncertain. The rest 110(40.0%) respondents Agree while, 30(10.9%) respondents Strongly Agree that, the authority clearly exercises with integrity the rule and regulation of VAT laws to approach taxpayers for the tax collection. The mean score of the result is 3.33, which is above the standard. This implies that, majority of the tax payers' believed that the authority clearly exercises with integrity the rule and regulation of VAT laws to approach taxpayers for the tax collection.

The respondents are also asked whether they think that, the authority make the tax system and tax obligation very easy and comfortable for taxpayer's tax. The outcomes of the business profit taxpayers' survey also revealed that, about 30(10.9%) Strongly Disagree and 64(23.3%) Disagree with that statement and 69(25.1%) of respondents were Uncertain. The rest 88(32.0%) respondents



Agree while, 24(8.7%) respondents Strongly Agree that, the authority make the tax system and tax obligation very easy and comfortable for taxpayers tax. The mean score of the result is 3.04, which is above the standard. Thus, the highest percentage of the respondents perceives that, the authority make the tax system and tax obligation very easy and comfortable for taxpayers.

The respondents are also asked whether they believe that, the current tax system have many loopholes to lead taxpayers towards corruption and tax evasion. The outcomes of the VAT taxpayers' survey also revealed that, about 19(6.9%) Strongly Disagree and 39(14.2%) Disagree with that statement and 88(32.0%) of respondents were Uncertain. The rest 99(36.0%) respondents Agree while, 30(10.9%) respondents Strongly Agree that, the current tax system have many loopholes to lead taxpayers towards corruption and tax evasion. The mean score of the result is 3.30, which is above the standard. Thus, the highest percentage of the respondents perceives that, the current tax system have many loopholes to lead taxpayers towards corruption and tax evasion.

The outcomes of the taxpayers' survey in respect of their perception about the authority has ability or willingness to combat tax evasion revealed that, about 30(10.9%) respondents found to be Strongly Disagree and 25(9.1%) Disagree with and 97(35.3%) tax payers are Uncertain. The rest 103(37.5%) respondents Agree while, 20(7.3%) respondents Strongly Agree that, the authority has ability or willingness to combat tax evasion. The mean score of the result is 3.21, which is above the standard. This implies that, majority of the tax payers' believed that the authority has ability or willingness to combat tax evasion.

The respondents are also asked whether there is improper execution of the law, and the absence of inconsistent enforcement on those who do not comply and they have never been penalized. In respect of knowing their perception the outcome of the tax payers' survey indicated that, out of the total respondents 10(3.6%) respondent were Strongly Disagree and 53(19.3%) Disagree with that statement and 118(42.9%) of respondents are Uncertain. The rest 79(28.7%) respondents Agree while, 15(5.5%) respondents Strongly Agree that, there is improper execution of the law, and the absence of inconsistent enforcement on those who do not comply. The mean score of the result is 3.13, which is above the standard. Consequently, the highest percentages of the

respondents perceive that there is improper execution of the law and the absence of inconsistent enforcement on those who do not comply and they have never been penalized.

## **CHAPTER FIVE**

### **5. Summary of findings, Conclusions and Recommendations**

#### **5.1 Summary of Findings**

It is obvious that taxes are important source of government revenue in both developing and developed countries. But the amount of revenue to be generated by a government from taxes for its expenditure program depends, among other things, on the willingness of the taxpayers to comply with tax laws of a country. Ethiopian government has undertaken substantial measures in reforming and modernizing the revenue administration expecting its customer remains satisfied. However, this reform has not yet brings the required result (still low revenue performance). Having this as a gap, the main objective of this study is to assess large taxpayers' perception towards the existing tax system in Addis Ababa. To achieve this objective, the study adopted a descriptive mixed method research approach. The results of survey with taxpayers were used in analyzing the business taxpayers' perception. Accordingly, the finding of this thesis is presented below.

Although tax reforms have been undertaken, a strong tradition of challenging the procedures and rules of the tax authority has not taken root in Ethiopia particularly in the area of simplicity and fairness. As a result, taxpayers are still complain regularly about lack of clarity over tax regulations, lack of access to information about rules and regulations, lack of transparency in the tax authority. In addition, unfair tax procedure makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers

- ❖ The taxpayers perceive that the Ethiopian tax system is as reasonably as fair. In other words, the tax payers' perceive that, the Ethiopian tax system doesn't require them to pay more than their fair tax and their tax burden is fair when they compare with other tax payers. In addition to that they perceive that their business is benefiting from the basic government spending like education, health and safety in exchange of their tax payment and also it is reasonable and fulfilling their self interest.

- ❖ The Addis Ababa Large taxpayers' believe that, the Ethiopian tax system is not fair in terms of equitability. In other words, these taxpayers believe that, taxpayers with same ability to pay are not requested to pay the same amount of tax.
- ❖ Taxpayers are also uncertain about whether the government spends the collected tax wisely or not. This shows that as there is an information gap between the taxpayers and the government.
- ❖ Another point raised by the respondents of the large taxpayers is that, the tax system is inefficient to encourage taxpayers for investing more, and also is not attractive foreign investors to invest more in the country.
- ❖ The taxpayers also perceive that they are uncertain whether the Ethiopian tax system encourages taxpayers to boost their production through different tax exemptions. This shows that there is an information gap between the authority and the taxpayers.
- ❖ With regard to efficiency, the taxpayers perceived that they don't feel guilty if they excluded some of their income when completing their tax return. This reveals the taxpayers dissatisfaction with the existing tax system and lacks fairness.
- ❖ The taxpayers also perceive that they are uncertain whether the Ethiopian Revenue and Customs Authority provide sufficient information to all taxpayers. Tax system encourages taxpayers to boost their production through different tax exemptions. This shows that there is an information gap between the authority and the taxpayers.
- ❖ Another point raised by the respondents of the large taxpayers is that, while the Authority has the ability to combat tax evasion, the current tax system have many loopholes to lead taxpayers towards corruption and tax evasion.

## **5.2 Conclusion**

As can noted in the results of the study, a few glaring points have shown the thinking perceptions of the respondents within the Addis Ababa large tax payer community. They believe that the system is fair in the sense that it doesn't require them to pay to a level that they do not consider to be unfair or beyond the level they feel is optimum for them. In a positive extension of this

perception, these respondents add that they are also benefiting from where the tax money is being spent. They claim that, in exchange for the taxes they are paying, they are benefiting from education, health and safety security services that the government is providing. But noticeably they have shown a perception trend with the lack of equity in which case they said it is not fair. Their points stem from comparing their tax amounts with other people of the same business line and probably volume. They simply say that they are being made to pay an amount that is different from others who are doing the same business activities.

In terms of making appropriate use of tax money collected, the respondents replied with uncertainty as to whether their tax money is being spent wisely or not. As much as this indicates directly the information gap that might have led to this perception, it appears related to what they have also said about the motivating potential of the system. Clearly, they view that it is not efficient enough to encourage them toward an increased investment as well as drawing foreign investors. The tax exemption issues have also hit with uncertainty in terms of boosting their productivity through incentives and exemptions. A level of dissatisfaction has also been noted in their perception in regard to transparency when filling out information to disclose their total incomes. They even have said that they do not feel any guilty about that and also believe that the system has more loopholes for corruption and tax evasion. In the same way, they are not also sure if the authority is providing them with sufficient information about the taxing system.

When all of the findings are put together a common theme to be noticed across the whole data is the lack of information leading to a lot of uncertainty about issues in the system. Even if more could be said about the individual perceptions items discussed, the information gap between the tax authority and the tax payers stands out so much that it needs to be addressed for a stronger taxing system.

### **5.3 Recommendation**

It goes without saying that a smooth tax collection process can be achieved when there is a positive and constructive interaction between tax payers and collectors in the process. There is every reason for gauging the perceptions and attitudes of the taxpayers in this study. As mentioned time again in the previous sections of the study, there are several challenges facing the system if positive

perceptions do not exist or if the payers do not perceive this national obligation. Likewise, the following suggestions are made as recommendation for the way forward:

1. Educate tax payers on principles of fair tax decision: payers need to know what is fair and what is not fair relative to their annual or periodic net incomes. This could take both sides along some distance by rectifying any misunderstandings or mistaken perceptions. What has been shown in the study as fairness may simply be from their personal experience in terms of what they are paying which could still be lower than what could be taken as fair in principle. It is also true that both sides- payers and collectors- may have a different perception of 'fairness' and even then payers could feel their dues are fair when they are fair in terms of the collectors and the principles they abide by value that the amount is not or less than what is fair.
2. As shown in the above, what they consider unfair is only in terms of what they can compare with other tax payers. This is no par with what a principled payer could believe. Always, people who value their commitments against set principles would know the right course and stick to their expectations. In the same way, educating them on the principles of fair tax should be strengthened and provided on regular basis.
3. State expenditure and utilization of tax money should be noticed as a sensitive issue. This has a potential to affect the motivation and perception of tax payers unless administered on the basis of sound national principles. The fact that they are not certain where the money goes can easily feed into their reservation of disinclination to pay the amount that they even call is fair. On this end, state tax authorities should organize data to share with the tax payers on annual basis so the payers would feel that there is good use of tax revenues. Doing this would even empower for additional responsibilities even within the tax system.
4. Decisions within the tax system should always consider ways to self-sustain the system itself. As a system where citizens have to pay set amount on regular terms, it should also be creative for ways that motivate more investment and more business from currently registered tax payers. Such innovations could be incorporating incentive packages that

would promote more business and more investment by reducing or exempting from some forms of taxes or periods so that payers could feel supported and assured for their next business initiatives. The primary step in such innovations could be periodic consultation with the community of tax payers on strategies to address gaps felt and actions and practices to adopt in order to resolve them.

5. Efficiency is a serious issue and requires serious attention. Part of the innovation suggested above should also work towards a more transparent data collection strategies and methods where human judgment and subsequent errors that it incurs on the process would be minimized. To this end, a holistic approach of investigating the current practices at all levels should be conducted to determine where the gaps are and reach consensus on how to approach the ensuing fallouts.

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# **APPENDICES**

**Questionnaire to be filled by Large Corporate VAT payers**



**St. Mary's University, School of Graduate Studies,  
MBA in Accounting and Finance**

Dear sir/madam,

This survey is conducted as a partial fulfillment for requirement of MBA in accounting and finance. The objective of this questionnaire is to assess “Assessment of Large Tax Payers perception towards the existing tax system in Addis Ababa. The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of taxation. It forms a major part of the research and the information you will give enable me to critically analyze why taxpayers comply and/or why not they comply with the tax law. Your cooperation to respond is very important to this study because it represents thousands of others who are not included in the sample.

Your response will keep strictly confidential and used for academic purpose. Only the researcher will have access the information you give.

For further information, please contact the researcher by the following address:

Thank you very much in advance for your time and cooperation

Data collector's name: \_\_\_\_\_

Researcher's Name: Eden Emiru

Position: MBA student at St Mary University

Telephone: 0911-12-77-42

**I. Personal Data**

1. Gender    Male                          Female   

2. Age  
L  than 20                       -30                       31-40                       above 41

3. Level of education

Below grade10                       BA degree  
 Diploma                                       Masters & above

4. In which type of business sector did you engaged

Manufacturing                       Import and Export  
 Building and Construction     Other, please specify \_\_\_\_\_  
 Domestic Trade and Services

5. Your work experience in the business

Below 1year                       21-30 years  
 1-10 years    Above 30 years      
 11-20 years

6. Legal form of Business operation

A Sole prop  orship                      Share company      
 A partnership                      Priv  imited company

Others, ple  pecify

7. What is your position in the company?

Owner        employee                                     

Manager                          Other responsibilities, pl  pecify

8. Your Business annual turnover is

1. Below Br 100,000  
 2. From Br 100,000 - 500,000  
 3. From Br 500,000 – 1,000,000

4. Please specify if is more Br\_\_\_\_\_

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

<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Uncertain</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

**II. Questions related with tax fairness-Tax payers perception**

NO	Statement	1	2	3	4	5
9.	The Ethiopian tax system does not require me to pay more than my fair tax.					
10.	Comparing my business tax burden with others, I do not pay more than my fair tax.					
11.	I believe that my business has benefiting from basic government spending like education, health, safety and etc					
12.	The benefits I receive from the government in exchange for my income-tax payments are reasonable.					
13.	I believe that the overall tax system is not equitable.					
14.	I believe that paying taxes are my obligation whether the government spends wisely or not.					
15.	I believe that, the government utilizes a reasonable amount of tax revenue to achieve social goals.					
16.	The administration of the tax system by taxing Authority is consistence across years and taxpayers.					
17.	I believe that the government spends the collected taxes wisely					

### III. Questions related with tax efficiency-Tax payers perception

	Statement	1	2	3	4	5
18	I believe that, the Ethiopian tax system encourages taxpayers for more investment.					
19	I believe that, the current Ethiopian tax system is attractive for foreign investors to invest more in Ethiopia.					
20	I think that, the Government of Ethiopia increases the tax rates under the conditions of inflation.					
21	I see that, the current Ethiopian tax system encourages taxpayers for more production through different tax exempts.					
22	I believe that, few people in Ethiopia own luxury automobiles because they have to pay higher tax rates for the ownership of these automobiles.					
23.	I find that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels.					

### IV. Questions related to the Tax Authority

	Statement	1	2	3	4	5
24	Service Delivery of the Tax Authority is Excellent					
25	I believe that tax authorities provide sufficient and equitable information to all taxpayers.					



26	The authority clearly exercises with integrity the rule and regulation of VAT laws to approach taxpayers for the tax collection.					
27	The authority make the tax system and tax obligation very easy and comfortable for taxpayers					
28	I believe that the current tax system have many loopholes to lead Taxpayers towards corruption and tax evasion.					
29	The authority has ability or willingness to combat tax evasion.					
30	My friends do not comply and they have never been penalizing due to improper execution of the law, and the absence of inconsistent enforcement.					
31	My business has sufficient experience to share tax knowledge's with ERCA.					
32	My business has the necessary channel of communications to share tax knowledge with ERCA.					

**Thank You!!!**