



**SAINT MARY UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF BUSINESS INCOME TAX PAYERS COMPLIANCE: A  
CASE STUDY IN ETHIOPIAN REVENUES AND CUSTOMS AUTHORITY  
WESTERN ADDIS ABABA BRANCH OFFICE**

**A THESIS SUBMITTED TO SAINT MARY UNIVERSITY SCHOOL OF GRADUATE  
STUDIES FOR THE PARTIAL FULFILLMENT OF MASTERS OF BUSINESS  
ADMINSTRATION IN ACCOUNTING AND FINANCE**

**BY  
MEBRAHTOM GEBRETSADKAN**

**JUNE 2018  
ADDIS ABABA**

**SAINT MARRY UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
EXAMINERS' APPROVAL SHEET**

We, the undersigned, members of the Board of Examiners of the final open defense by Mebrahtom Gebretsadkan have read and his thesis “**Assessment of Business Income Tax Payers Compliance: A Case Study in Ethiopian Revenues and Customs Authority Western Addis Ababa Branch Office**” and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree of Masters of Science in Accounting and Finance.

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Deans of the graduate School**

**Signature**

**Date**

\_\_\_\_\_  
**Advisor**

**Signature**

**Date**

\_\_\_\_\_  
**External Examiner**

**Signature**

**Date**

\_\_\_\_\_  
**Internal Examiner**

**Signature**

**Date**

## **DECLARATION**

I, Mebrahtom Gebretsadkan, confirm that the work for the following paper with the title **factors that influence business taxpayers' compliance: A case Study ERCA Western Addis Ababa branch office** submitted for the award of master of business administration in accounting and finance is my original work and it has not been submitted before for any other degree, part of degree or examination at this or any other university.

**Mabrahtom Gebretsadkan**

**Signature:** \_\_\_\_\_

Date 28/06/2018

## **ENDORSEMENT**

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

Simon Tareke (Assistant Professor)

\_\_\_\_\_

Advisor

Signature

**St. Mary University, Addis Ababa May, 2018**

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## **AKNOWLEDGEMENT**

I pay my obeisance to God, the almighty to have bestowed up on me good health, courage, inspiration, zeal and the light. After God, I express my sincere and deepest gratitude to my supervisor, Simon Tareke (Assistant professor) who helped me in consulting and guiding me.

I am highly thankful to Fisaha Tsehay who financially sponsored and inspired me to complete my education.

My gratitude is also extended to my friends Nikedimos Gebremicael, Chale Nega, Kife Hailemariam, Azeb Tekle who continually supported me for searching data and provision of valuable advises at the time of undertaking this research paper.

Last, but not least, I gratefully acknowledge to my father, mother, my loving and supportive wife, Genet, my wonderful children Natan and Anush who provide unending inspiration to complete this research.

## **ACRONYMS**

ERCA	Ethiopia revenues and customs authority
FDRE	Federal democratic republic of Ethiopia
MBO	Management by objectives
WABO	Western Addis Ababa branch office
PLC	Private Limited Company

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## **ABSTRACT**

*Taxes are vital and every citizen is mean to reap benefits of these taxes. That is why it is important that citizen endeavor to pay taxes. Understanding the factors that influence tax compliance is important for collecting the necessary tax. This study was conducted with the aim of investigating the factors that influence business income taxpayers' compliance in Ethiopian revenues and customs authority Western Addis Ababa branch office. The target population for this study was 12,383 from these 122 samples were selected using convenience sampling. A qualitative research approach was employed. Questionnaires for the business income tax payers and interview for ERCA tax professionals were conducted. Both primary and secondary data were used and the collected data was summarized and presented in tabular form using proportions and percentages. The findings of the study show that tax rate, early auditing , strengthening legal enforcement , simplicity of tax laws, regular following up of tax payers, ethics of the accountants employed, perception of government spending, perception of fairness and equity, corruption in tax audit, training and referent group are factors that influence business income tax payers compliance. Finally ERCA should improve tax compliance by Strengthening audit, adequate training, simplifying the tax rules and by devastating method of information access.*

**Key words:** *tax compliance, factors, business income taxpayers' compliance, Western Addis Ababa*

# **CHAPTER –ONE**

## **INTRODUCTION**

### **1.1 Back ground of the study**

Taxes are main sources of public revenue. Taxes are defined to be burdens or charges imposed by the “legislative power of a state on persons or property. Tax can be defined as a contribution from individuals out of their private property for the maintenance and defense of government, so that it may perform its functions and the ends of the state be realized. In simpler term, tax is a financial charge or other levy imposed on an individual or a legal entity by government (Sisay and Yohans, 2009).

The issue of tax compliance is a global problem. Most countries would like to be funding their recurrent expenditure through mobilization of domestic revenue. Currently the demand of government has increased and government has to collect more tax than ever to finance its operation. Every branch of the Ethiopian revenues and customs authority has a plan to increase tax revenue. From year to year the plan of tax revenue is increasing. But they are facing difficulty in collecting the tax they need for many reason. One of the main reasons is tax noncompliance.

Andreoni et.al (1998) stated that tax compliance should be defined as tax payers’ willingness to obey tax laws in order to obtain the economy equilibrium of a country. Compliance with the tax law usually means accurate reporting of tax, correct computation of the tax liability, timely filing of returns and timely payment of the amount due. Tax compliance can be explained as the degree to which a taxpayer obliges to tax rules and regulations. But tax noncompliance is individual failure to comply with their tax obligation.

Tax compliance behavior differs from one country to another country and also from one individual to another (Kirchler, 2007). The tax compliance studies show that numerous factors economic, social, psychological and demographic impact upon the compliance behavior of taxpayers.

Studies on tax compliance have been done for years. It has been studied in detail by academicians, professionals and government agencies especially in the United States and other western countries (Sitimariam, 1994).

Related literature shows there has been hostility between the taxpayers and tax collectors on issue relating to tax payers attitude and compliance behavior. Taxpayers' behavior implies that given a chance taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers' behavior in terms of factors which influence their attitude towards tax compliance and how to influence the factors would be a solution to this (Lumumba, et al., 2010).

Alm, (1991) as cited in Redae (2017) also described tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. According to Jackson and Milliron (1986), as cited in Mohd (2010), the major factors that have influence tax compliance as signified by various researchers are age, gender, level of education, income, status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority, income sources, perceived fairness of the tax system, possibility of being audited and tax rate.

Tax payers differ in their motivation to pay taxes (Kirchler, Hoelzl, & Wahl, 2008). Some might be motivated to pay taxes because of audits and severe fines; others might pay taxes because they feel a moral obligation to contribute their fair share. Theoretically, it is assumed that these different motivations also determine difference in tax compliance (Kirchler, 2008). Tax payers with dismissive motivations are expected to see it as less important to pay tax correctly than tax payers who are morally motivated to comply with the tax law (Braithwaite, Murphy & Reinhart, 2007).

## **1.2 Back ground of the study area**

The Ethiopian Revenues and Customs authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of while it facilitates the legitimate movement of goods and people across the border. The ERCA traces its origin to July 07, 2008 as a result of the merger of the ministry Revenues, the Ethiopian Customs Authority and the Federal Inland Revenue into one giant organization. ([www.erca.gov.et](http://www.erca.gov.et))

The objective of ERCA is to establish modern revenue assessment and collection system and provide customers with equitable, efficient and quality service, to make tax payers voluntarily discharge their tax obligations, to enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion, to collect timely and effective tax revenues generated by the economy. ([www.erca.gov.et](http://www.erca.gov.et))

ERCA implement awareness creation program to promote a culture of voluntary compliance of tax payers in the discharge of their tax obligations. The Ethiopian Revenues and customs authority has 19 branches in Addis Ababa .The branches are:

1. Large tax payers branch office
2. Western Addis Ababa branch office
3. Eastern Addis Ababa branch office
4. Addis Ababa, Kality Customs branch office
5. Addis Ababa Airport branch office
6. Bole Sub city small business income tax payers branch office
7. Yeka Sub city small business income tax payers branch office
8. Gulele Sub city small business income tax payers branch office
9. Kolfe Sub city small business income tax payers branch office
10. Adis Ketema Sub city small business income tax payers branch office
11. Kirkos Sub city small business income tax payers branch office
12. Nifa silk Lafto Sub city small business income tax payers branch office
13. Arada Sub city small business income tax payers branch office
14. Akaki Sub city small business income tax payers branch office
15. Lideta Sub city small business income tax payers branch office
16. Mercato No. 1 branch office
17. Mercato No. 2 branch office
18. Addis Ababa No.1 medium sized business tax payers branch office
19. Addis Ababa No.2 medium sized business tax payers branch office



The study was conducted on a branch level on Western Addis Ababa branch office. This branch office is for the medium business income tax payer whose type of business organizations are Private limited company. According to the business law of Ethiopia Art.510 a private limited company is a company whose members are liable only to the extent of their contributions. A private limited company shall not have less than two or more than fifty members and is always commercial in form. The company shall not issue transferable securities in any form.

Therefore this study tries to investigate the factors that influence business income tax compliance in ERCA Western Addis Ababa medium tax payer's branch office. The out puts of this study may help to understand the factors that influence tax compliance and to take corrective measures to boost tax revenue.

### **1.3 Statement of the problem**

Taxes are essential for the economic growth of a country. This why it is important that citizen endeavor to pay taxes. But the required tax of business income is not collected adequately. The methods by which business income tax payers decline their tax liabilities take a variety of legal and illegal forms. Tax compliance is complying with the tax rules and regulation which includes the filing reporting and payment of tax. Tax compliance is influenced by different factors. Understanding the factors that influence tax compliance is important for collecting the necessary tax.

The history of taxes tells that their coercive nature is of comparatively recent development. The original idea of a tax was that payment was not obligatory up on the subject , but considered rather as a voluntary gift toward the expenses of government, as appears from the medieval Latin term” donum” and the English “Benevolence”. This conception of the relation between the subject and government was gradually transformed; Payment become more and more obligatory until finally coercive taxation resulted. At the present time payment of tax is obligatory in all civilized nations.([www.abysinnialaw.com](http://www.abysinnialaw.com))

In Ethiopia tax payers due to different reasons do not pay the tax that can pay it. According to Tanzi, (2000) in many developing countries it is observed that there is low capacity of tax administration to monitor compliance among business income taxpayers.

Ethiopia, like any other developing countries, encounters difficulty in raising revenue to the level required for the promotion of economic growth. To control this problem the government began the imposition of tax among others as major and important sources of public revenue. However, this burden of tax couldn't still bring the necessary result due to lack of clear understanding about the tax system by the taxpayers, taxpayers don't comply with their tax obligation, lack of understanding between the taxpayers and tax officials, negative attitude of taxpayer towards the tax system, that is understating their taxable income by significant amount, etc. For these reasons, the actual amount of tax couldn't be collected properly. (Tilahun, 2016)

For any nation, in order to make sure development, it needs revenue collected in the form of tax. Proper tax collection in turn requires an efficient tax system. The tax collected is for the overall benefit of the people and growth of a country that is why tax should be properly collected. Taxation in developing countries has many problems like; poor administration failing to collect sufficient tax revenue and disintegrated tax structures are some of the problems (Vadde and Gunderpu, 2012).

The problem of tax compliance is as old as taxes. According to Marti (2010) tax compliance is a complex term to define. Simply put, tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely. Tax non-compliance may be in one of many forms; it could either be failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date.

In our country Ethiopia there are researches done on the factors that influence business income taxpayers' compliance. A study conducted by Atsbha (2016) in Addis Ababa large tax payers office revealed that adequate training, probability of being audited, quality service given by the authority staff like providing supportive information for tax payers ,fines and penalties are the factors that influence tax compliance but the researcher failed to include that as tax knowledge did not affect tax compliance. He also reflected that perception of fairness and equity has low influence on tax compliance.

A study done by Lemessa (2007) cited in Amina (2008, p8) tried to investigate determinants of taxpayers' voluntary compliance with taxation: The Case Study of Dire Dawa City by applying descriptive method of research and finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors and provision of social services by the government are the main determinant of voluntary compliance in the city. But the researcher does not reflect the other factors that influence business income tax payers. These researches do not cover the problem of corruption in tax audit, auditing early, follow up, simplicity of tax laws and reward. The impact of tax rate, incentives, tax knowledge, impact of

the employed accountants, authority follow up for business income tax payers, impact of information access, being audited, and bribe are not well addressed.

The issue of compliance is major problem and it should be researched at length. Even though there are studies made on different parts of the country, to the extent of the researcher knowledge there is no study on the issue of tax compliance on this study area. The issue is to identify the root problem. Thus the research examined the factors that influence business income tax payers in ERCA Western Addis Ababa Branch Office.

#### **1.4 Research questions**

In order to achieve the research objectives the researcher had the following research questions.

1. What are the determinant factors that affect tax payers' compliance?
2. What can be done to encourage business income tax payers to comply with the tax law?
3. What are the attitudes of business income tax payers towards taxation?

#### **1.5 Objectives of the study**

The overall objective of the study is to assess business income tax payers' compliance in ERCA Western Addis Ababa Branch Office.

##### **Specific Objectives of the Study**

1. To identify the causes for noncompliance of business income tax payers.
2. To find out the encouragement system for tax compliance
3. To assess the attitudes of business income tax payers towards taxation.

#### **1.6 Significance of the study**

The findings of this study will aid to the government in policy making about tax compliance and to raise revenue collected from tax. It will also help business tax payers to play their role in the voluntary taxpaying in contribution for the economic development and reduce noncompliance costs. It aids also for the authority to improve the strategies, regulations and policies of tax. In addition the study will support for other researchers to study more about tax compliance.

### **1.7 Limitation of the study**

Business income tax payers' compliance is influenced by many factors. The study of this magnitude requires enough time and resources to get to the depth of it. Due to the small sample size used for this study results may not be generalized beyond the specific population from which the sample was drawn. Since the business income tax payers are at different places and are scattered for this reason the sample size was small.

### **1.8 Scope of the study**

The scope of the study basically means all those things that will be covered in the research project. This study focused on the factors that influence business income tax payers' compliance in ERCA Western Addis Ababa Branch office business income tax payers since March 2010 E.C on the issues of corruption in tax audit, simplicity of tax laws, and follow up, yearly auditing, referent group reward, consultation session and training. In Addis Ababa there are 19 Revenues and customs branch offices. But the Study focused on one Branch office i.e. ERCA Western Addis Ababa branch office which is among the branch offices that are challenged with tax compliance to increase local revenue. It includes all the tax payers since March 2010 E.C.

### **1.9 Organization of the paper**

The paper is structured in the following way. Chapter 2 includes Literature, tax compliance, business income, taxable business income, types of taxes in Ethiopia, theories of tax compliance, theories of motivation, review of empirical Studies, conclusions and knowledge gaps and the conceptual frame work. Chapter 3 contains research methodology specifically research design, population, sampling design, sampling technique, data collection method, data analysis method and presentation. Data analysis and interpretation is stated in chapter 4. Finally chapter 5 presents the Summary of the finding, conclusion and recommendations.

## **CHAPTER –TWO**

### **LITERATURE REVIEW**

#### **2.1 Theoretical review**

##### **2.1.1 Tax Compliance**

Tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of the country ([https://:www. money control](https://www.moneycontrol.com)).

Tax compliance means making tax payments and producing and submitting information to the tax authorities on time and in the required formats ([https://: www. Quora](https://www.quora.com))

The tax compliance is defined in many ways by different scholars. Andreoni et.al (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country.

Compliance with the tax law typically means true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James and Alley (2004) pointed out that tax compliance is the willingness of individual and other taxable entities to act in accordance with tax law and administration without the application of enforcement activity.

Alm (1991) and Jackson & Milliron (1986) revealed tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. (Singh, 2003) also defined tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority

Mc Barnett (2003) categorizes compliance into three forms; committed compliance, capitulate compliance and creative compliance.

- Committed compliance is the eagerness to discharge tax liability by taxpayer without complaining.
- Capitulate compliance is the unwilling in discharging of tax obligations by taxpayer and
- Creative compliance refers to engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the confine of the law.

Kirchler et.al (2007) argues that compliance might be voluntary or enforced compliance. Voluntary compliance is made possible by the trust and cooperation ensuing between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations. Compliance is enforced on taxpayers who are unwilling to pay their taxes through the threat and application of audit and fine.

Andreoni et al, (1998) explained the problem of voluntary tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of tax non-compliance and ultimately finding ways to reduce it are of obvious importance to nations around the world. The attitudes of the taxpayers (Bhatia, 2001) in this regard are influenced by a host of other factors like the political situation, natural calamities, economic situations, socio cultural and so on. Similarly Friedlaender (1999) also stated that a person's preference for a tax may be influenced if the tax- or an increase in it- is tied directly to the expenditures he strongly favors. Generally, attitudes toward choice of taxes and tax structures are greatly influenced by various criteria- often called principles- of taxation that have come to be widely accepted.

Tax noncompliance is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally (James & Alley, 2004). Soos (1991) and Kirchler, (2007) broadly classified noncompliance as failing to file a tax return; underreporting of taxable income; overstating tax claims such as deductions and exemptions and failing to make timely payment of tax liability.

### **2.1. 2 Business Income**

Business income is any income realized as a result of business activity. Business income is a type of earned income and is classified as ordinary income for tax purposes. Business income

can be offset by business expenses and business losses. It can be either positive or negative in any given year. Business income may include income received from the sale of products or services. Business income is tax treated differently for each of the most common business forms, Sole proprietorship, partnerships and corporations. (<https://www.investopedia.com>).

In the context of Ethiopia according to Federal income tax proclamation number 979/ 2016 business income is defined as follows.

The business income of a tax payer for a tax year shall include the following

- a. the gross amounts derived by the tax payer during the year from the disposal of trading stock and the gross fees for the provision of services (other than employment income);
- b. a gain on disposal of a business asset (other than trading stock ) made by the tax payer during the tax year;
- c. Any other amount included in business income of the tax payer for the tax year under the proclamation 979/2016.

### **2.1.2. 1 Taxable business income**

Taxable business income is the amount of income used to calculate how much a business company or individual owes to the government in a given tax year .It is generally described as gross income or adjusted gross income which is minus and deductions or exemptions allowed in that tax year and a tax payer is a person liable for tax. (<https://www.investopedia.com>).

According the Ethiopian federal income tax proclamation number979/2016 Article 20, taxable business income is:

The taxable business income of a tax payer for a tax year shall be the total business income of the taxpayer for the year deduced by the total deductions allowed to the tax payer for the year.

The taxable business income of a tax payer for a tax year shall be determined in accordance with the profit and loss or the income statement of the taxpayer prepared in accordance with the financial reporting standards.



### **2.1.3 Types of Taxes in Ethiopia**

There are two types of taxes in Ethiopia. These are direct and indirect taxes. The categorization of taxes into direct and indirect owe to the relationship between the character of the taxes and the reason for payment of the taxes. A direct tax is one for which the formal and economic occurrence are essentially the same, i.e. the taxpayer is not able to pass the burden to someone else. Accordingly, direct taxes are paid wholly by those persons on whom they are imposed. On the other hand, an indirect tax is a tax whereby the taxpayers burden to pay the tax can easily be transferred on to another person. In general, the tax incidence of an indirect tax is on the ultimate consumer; however, sometimes, sellers might take up such indirect taxes so as to be competitive in the market in which they are operating. The main types of direct taxes in Ethiopia are personal income tax, rental tax, business profit tax, withholding tax and such other taxes like taxes from loyalties, from games of chance, dividends or property taxes. The major types of indirect taxes in Ethiopia are value added tax, custom duties, stamp duties, excise tax and turn over tax. (Sisay and Yohans, 2009)

#### **2.1.3.1 Categories of tax payers**

According the Ethiopian income tax payers proclamation No.979 /2016 States that For the purpose of the proclamation there shall be the following categories' of tax payers.

- a) Category 'A' tax payers being
  - 1) A body or
  - 2) Any other person having an annual gross income of birr 1000,000 or more
- b) Category 'B' tax payer being a person, other than a body, having an annual gross income of birr 500,000 or more but less than 1000,000.
- c) Category 'C' tax payer being a person other than a body, having an annual gross income of less than birr 500,000.

#### **2.1.3.2 Income From business**

The business income tax payable by a tax payer for a tax year shall be calculated by applying the rate or rate of tax applicable to the tax payer under business income tax rates of the proclamation to the taxable income of the tax payer for the year. (FDRE Proclamation NO. 979/2016)

### 2.1.3.3 Business income tax rates

- 1) The rate of business income tax applicable to a body is (30%).
- 2) The rates of business income tax applicable to an individual are

Taxable Business income (Per year ) Birr	Business income tax rate
0-7,200	0%
7,201-19,800	10%
19,801-38,400	15%
38,401-63,000	20%
63,001-93,600	25%
93,601-130,800	30%
Over 130,800	35%

**Source: (FDRE Income tax payers No.979 /2016 Proclamation).**

### 2.1.4 Theories of Tax Compliance

Kirchler (2007) , Loo (2006) , Palil (2010) argued factors that affect tax payers compliance were divided into five main categories, they are 1) economic factors (tax rates, tax audits and perceptions of government spending); 2) institutional factors (the role of the tax authority, simplicity of the tax returns and administration, reward and probability of detection); 3) Social factors (ethics and attitude, perceptions of equity and fairness, political affiliation and changes on current government policy, referent groups); 4) individual factors (personal financial constraints, awareness of offences and penalties) and 5) and other factors (age, income, level, culture, education, gender). These factors are discussed as follows;

#### **2.1.4.1. Economic factors**

Economic factors in relation to tax compliance refer to actions which are associated with the costs and benefits of performing the actions (Loo, 2006). Song and Yarbrough (1978) stated that taxpayers are rational economic evaders who likely would assess the costs and/or benefits of evasion. The tax compliance determinants associated with economic factors such as **tax rates, tax audits and perceptions of government spending** (Palil, 2010). Previous studies examined the relationship of tax rate and tax compliance. For example Hai and See (2011) found that the high tax rate causes high tax noncompliance. Spicer & Becker (1980) argue that those taxpayers who are aware that their tax rate is higher than average tax rate paid by other have higher records of tax evasion. Evidence suggests tax rates have mixed impact on tax compliance i.e. decreasing tax rates does not necessarily always increase compliance (Kirchler, Hoelzl & Wahl, 2008). Increase in tax rates might have positive or negative impact on evasion and increasing tax rates will not necessarily always decrease compliance behavior (Allingham & Sandmo, 1972). A recent study by (Modugu, Eragbhe, & Izedonmi, 2012) states tax rate do not have any positive or negative effect on tax compliance.

According to Chau and Leung (2009) cited in Karanja (2014) in the Fischer Model the effectiveness of tax system affected by **complexity of tax system, probability of detection and penalties and tax rates**. As the tax law has become increasingly complex, complexity has come to recognize as a possible reason for tax noncompliance (Jackson and Milliron, 1986). In the context of tax compliance decisions, complexity should include two dimensions, excessive detail in the tax rules and numerous computations required. Fisher model reveal that the probability of underreporting and the level of underreporting are positively related to the marginal tax rates.

#### **2.1.4.2. Institutional Factors**

Concerning **simplicity of tax system**, previous studies argue that simplest tax system encourage tax payers to voluntarily comply with tax system such as (Palil, 2010; Richardson; 2008 & Stephen, 2011). Slemrod (1989) also conclude that a simple tax return and simpler tax regulations will increase tax compliance especially in a self-assessment system because taxpayers do not have to spend much time in ascertaining the accuracy of the returns and calculating their tax liabilities.

Concerning **tax corruption**, tax corruption takes the form of a business transaction between two beneficiaries. If it is not a matter of administrative extortion related to voluntary compliance, a bribe is the reciprocation of benefit between a tax payer to the detriment of business competitors and the treasury i.e. the other tax payers. To understand tax corruption properly and counteract it effectively, it must distinguish between tax “clientelism “(State capture) and conventional tax corruption. The former as changing the existing statutes and regulations, i.e. the rules of the game , for unlawful consideration to serve vested business interest or a political clientele, while the latter is the misuse of officials powers in the process of implementation and enforcement of the existing statutes and regulations.(Kostanti,2005)

Kostanti (2005) described tax officers and tax auditors corrupt in tax audit for satisfying their personal interest and claimed that tax corruption exists in tax audit as well as in tax payers’ service. Today, corruption and tax evasion seem to take place in practically every country in the world, and should be considered a potential problem everywhere. Still, evasion and fraud in tax administration are phenomena which hit developing countries hardest (Fjeldstad, 2006). Similarly as cited in Luis (2014) Trust, perceptions of fairness and corruption have consistently been identified as playing a crucial role in tax compliance (e.g., Torgler, 2003, 2004; Wenzel, 2003a).Power increases enforced tax compliance and trust increases voluntary tax compliance (Luis 2014).

There exists some anecdotal evidence about the implementation of **rewards to enhance tax compliance**, especially in Asian countries. For example, Japan offers to have your picture taken with the Emperor if you were found to be honest. The Philippines put your name into a lottery if you were found to be compliant with the VAT. South Korea considers the allowance to airport VIP rooms, certificates or awards, and discusses the possibilities of free parking in public parking facilities. (Lars, Bruno, Frey and Benno 2006)

Lars, Bruno, Frey and Benno (2006) as cited in Nuttin and Greenwald (1968) described rewards could be more effective than punishments for eliminating undesired behavior or for motivating desired behavior because it is perceived as supporting.

### **2.1.4.3 Social Factors**

Tax compliance determinants from a social perspective relates to taxpayers' willingness to comply with tax laws in response to other people's behavior and their social environment (Torgler, 2007& Kirchler (2007). The factors argued in this section include perceptions of equity and fairness and referent groups. With respect to tax fairness and equity, a good tax system is the one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty (Bhatia, 1976). The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Jackson and Milliron, 1986; Richardson, 2008). When taxpayers perceive unfairness they will react by trying not to pay taxes. Etzioni (1986) argues that if a public feels increasingly over time that taxes are unfairly imposed, it will be increasingly likely to evade paying taxes.

### **2.1.4.4. Individual Factors**

Decisions either to evade or not to evade taxes are heavily reliant on taxpayers' personal judgment (Mohani, 2001). Personal circumstantial factors like personal financial constraints, tax payers' tax knowledge and awareness of penalties and offences are therefore likely to have a considerable impact on taxpayer compliance. People who face personal financial problems are likely to be more prone to evade tax when compared to people in less financial distress (Mohani, 2001). (Fjeldstad and Ranker, 2003) argue that in African countries like Namibia and South Africa, the nonpayment is due to poverty or inability 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. Conversely, studies by Vogel (1974) and Warneryd and Walerud (1982) as cited in Palil (2010) reveal that people with no financial distress also exercise tax evasion and surprisingly, the level of evasion they exhibit can be more serious than people in financial distress. According to (Kirchler et al., 2008) cited in Misu, (2011) "in an antagonistic climate, fines can be a part of the game of "cops and robbers"; in a synergistic climate, they can be perceived as an adequate retribution for behavior that harms the community". Similarly Atsbaha (2016) argues that fines and penalties, with fair rates can help likely to improve tax compliance level. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes (Kirchler et al., 2007).

#### **2.1.4.5. Demographic Factors**

Demographic factors such as gender and have long been studied by researchers. Some studies found that males are more compliant though other studies revealed contradictory results or no significant difference at all. As agreements on the findings still maintain, the need to explore current results is relevant. Hasseldine and Hite (2003), Mohamad, Mustafa and Asri, (2007) have found that female taxpayers were more compliant than males. In contrast, Richardson (2006) suggested that gender has no significant impact on compliance. Education, as a demographic variable relates to the taxpayers ability to comprehend and comply or not comply with the tax laws (Groenland and Veldhoven, 1983). Two aspects of education distinguished: “the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities” (Jackson and Milliron, 1986). They find that those with more fiscal knowledge had more positive tax ethics scores than those with lower fiscal knowledge.

#### **2.1.5 Theories of Motivation Related to Taxation and Tax Compliance**

The role of theory in explaining social phenomenon cannot be overemphasized. According to Riahi (2000), theories shape meanings and help in the analysis of concepts and their implications. Three theories relating to taxation and tax compliance are examined.

##### **2.1.5.1 Goal Setting Theory**

This theory was proposed by Locke (1966); as cited in Alm, (2013). The premise is that goals tell an employee what needs to be done and how much effort will need to be expended (Tamunomiebi & Zeb-Obipi, 2009). A specific goal set by an organization will increase performance than easy going goals, and that feedback leads to higher performance than non-feedback. Specific hard goals produce a higher level of output than a generalized goal. The specificity of a goal itself acts as a stimulant. The implications of this theory are that:

- (i) Organizations should promote Management by Objectives. When management proposes and set specific goals and communicates such goals with employee participation at the process of setting the goal, compliance becomes an easy task;
- (ii) Four ingredients are common to MBO programs. These are goal specificity, participative decision making, explicit time period and feedback on performance.

The objective of this theory to taxation and compliance is that tax policies should be formulated with social participation. Society should know why certain tax policies are to be implemented.

Taxes should be connected to specific goals and objectives not just a mere source of revenue to the government or a means of diversification of the economy (Appah and Oyadonghan 2011).

A good example is the education tax, which is attached to improving the educational system through grants for training and development of infrastructures in Nigerian universities and adequate funding for libraries and laboratories (Kiabel & Nwikipasi, 2012). Such provisions will enhance compliance with tax payment and reduce tax evasion and avoidance because the social goals are specified rather than the personal income tax, company income tax etc. all of which their imposition have no specific objective and with high level of tax avoidance (Appah, 2010).

#### **2.1.5.2 Social Capital Theory**

According to Alm (2013), “there is abundant evidence that individuals are influenced by the social context in which and the process by which decisions are made and that they are motivated not simply by self-interest but also by group notions like social norms, social capital, social customers, social networks, fairness, trust, intrinsic motivation, tax morals as well as by individual notions of guilt, shame, morality, oral truism”. He called this social interactions theory as agreed by Essia (2005). Working on the psychology of taxation, Kirchler (2007) called this process “a social norm of tax compliance.”

A social norm therefore represents a pattern of behavior that is judged in a similar way by others and that is sustained in part by social approval or disapproval. If others behaved according to some socially accepted mode, then the individual will behave appropriately; if others do not so behave then the individual will re-sent in kind (Alm 2013). Thus, if government complies with social norms, attaching specific goals to specific taxes and employ MBO principles in formulating tax policies then people will comply with the social norm of paying their taxes.

#### **2.1.5.3 The Expectancy Theory of Motivation**

The social-political theory of taxation does not promise any benefit on the tax payer. It necessitated tax payment as a civic duty or responsibility without expecting a proportionate

benefit from the government (Bhatia, 2004; Jhingan 2004; Appah & Oyadonghan, 2011). However, tax payers have a fiduciary relationship with the government. This benefit-received theory promoted that while the citizens pay tax, government is to, in turn, provide certain social goods and services to the tax payers. Bhatia (2004) pointed out that this theory overlooks the use of tax policy for economic growth and stabilization of a nation. Individuals see payment of tax as a means of contributing their quota to the cost of providing social goods by government (Appah & Oyadonghan, 2011).

The expectancy theory of motivation argues that the strength of a tendency to act depends on the strength of an expectation that an act will be followed by a given outcome and on the attractiveness of that outcome to the individual (Tamunomiebi & Zeb-Obipi, 2009). Three variables are identified with this theory:

- (a) **Attractiveness:** The importance that individuals place on the potential outcome or reward that can be achieved on the job (such as the unsatisfied needs to be satisfied);
- (b) **Performance – reward linkage:** The degree to which the individual believes that performance at a particular level will lead to the attainment of a desired outcome;  
Rewards could be an effective tool to increase compliance (Lars al.et.2006).
- (c) **Effort-Performance Linkage:** The perceived probability by the individual that exerting a given amount of effort will lead to performance.

In respect to tax payers there are identifiable attractive rewards if taxes are paid which are capable of satisfying their unsatisfied needs such as roads, electricity, and water for people lacking them. The government can also be trusted to be able to use tax payers' money wisely to satisfy their needs and that evidence exists that the government can be trusted. Corporations will also comply if seeing that their tax compliance promotes social development and environmental peace and security for business to grow and dominate in peace within the environment. This situation creates moral individuals towards the payment of tax (Akerlof&Kranton, 2010).

## **2.2 Review of Empirical Studies**

Factors that influence tax compliance and non-compliance are different from one country to another and also from one individual to another (Kirchler, 2007).



Research done on factors that influence business income taxpayers' compliance a case study in Addis Ababa Large tax payers' office by Atsbaha (2016) can be summarized up as follows. The study assessed the factors that influence business income tax payers' compliance, in Ethiopian revenue and customs authority large tax payers' branch office. The study used descriptive research design and used the simple random sampling using random lottery method to take sample size. Data was collected using structured interview and questionnaire. The study findings demonstrate that probability of being audited, providing quality service, perception of fairness and equity, fines and penalties and organizational strength are basic considerations by taxpayers in their compliance-non-compliance decision.

A study by Tadesse and Goitom (2014) on Factors influencing taxpayers' compliance with tax system an empirical study in Mekelle city, Ethiopia examined nine tax compliance determinants. the examined tax compliance determinants were: probability of being audited; perception of government spending; perception of equity and fairness; penalty, financial constraint; changes to current government policies; referral group; the role of the tax authority; and tax knowledge. The study used a cross-sectional survey method of research design. The study results from the survey conducted in Mekelle using 102 respondents indicate that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy.

Similarly Tilahun (2014) Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahr Dar City Taxpayers examined the determinants of tax compliance behavior in Ethiopia particularly in Bahr Dar city administration. This study examined the determinants of tax compliance behavior in Ethiopia particularly in Bahr Dar city administration. The data was collected using structured questionnaire. The results revealed that perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behavior. However, gender and probability of being audited have no significant impact on tax compliance behavior. Finally, the findings show that older people will comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favorable.

A study done by Lemessa, (2007) cited in Amina & Syra (2008, p8) tried to investigate Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case Study of Dire Dawa City using descriptive method of research and finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government are the main determinant of voluntary compliance in the city.

A research done by Abubakari and Christopher (2013) on the title of evaluate taxpayers' attitude and its influence on tax compliance decisions in Tamale, Ghana used Survey questionnaires, applied both descriptive and inferential statistics. They revealed that individuals are highly concerned with the amount of taxes they pay. The rates of income taxes in Ghana are generally perceived to be high. Furthermore, the burden of taxes paid affects the attitudes of individuals and this informs how they evaluate the tax system and consequently their compliance decisions. Individuals have little regard for the amount of taxes paid by them in comparison to amounts paid by higher income earners. It was further revealed that, the level of governmental accountability and transparency did not significantly impact taxpayers' attitudes. The results further indicated that, individuals did not clearly understand the tax laws.

Similarly Geletaw (2015) conduct a research on tax payers' tax compliance behavior business taxpayers of Addis Ababa city administration investigated that the determinants of taxpayers tax compliance behavior. The study examined six tax compliance determinants using the method of mixed research. The research concluded that tax compliance have been highly and significantly affected by tax knowledge , feeling of fairness ,the influence of peer groups , income level of tax payers and detection and punishment while confidence in government spending does not have significant impact on tax compliance of business taxpayers.

### **2.3 Conclusions and Knowledge Gaps**

This chapter the literature review states that the definition of tax compliance, definition of business income, definition of taxable business income, theories of tax compliance, theories of motivation related to taxation and tax compliance and review of empirical Studies.

Different scholars define tax compliance as the degree to which a tax payer complies with the tax system of the country. In contrast tax noncompliance is the failure to comply with the tax system of the country. Compliance is classified into three forms. These are committed compliance, capitulate compliance and creative compliance. Committed compliance is the eagerness to discharge tax liability by tax payers without complaining. Capitulate compliance is the unwillingness in discharging of tax obligations by tax payer and creative compliance refers to engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures

Business income is any revenue from business doings. Business income may be obtained from sales of different commodities and by service giving. Taxable income is the amount calculated by deducting the expenses or expenditures related to the business income.

According to Kirchler (2007) the different theories of the factors that influence tax payers' tax compliance are divided into five theories. They are:

- 1) Economic factors
- 2) Institutional factors
- 3) Social factors
- 4) Individual factors
- 5) Demographic (other) factors

Theories of motivation related to taxation and tax compliance are classified into goal setting theory, Social capital theory and the expectancy theory. The objective of goal setting theory to taxation and compliance is that tax policies should be formulated with social participation.

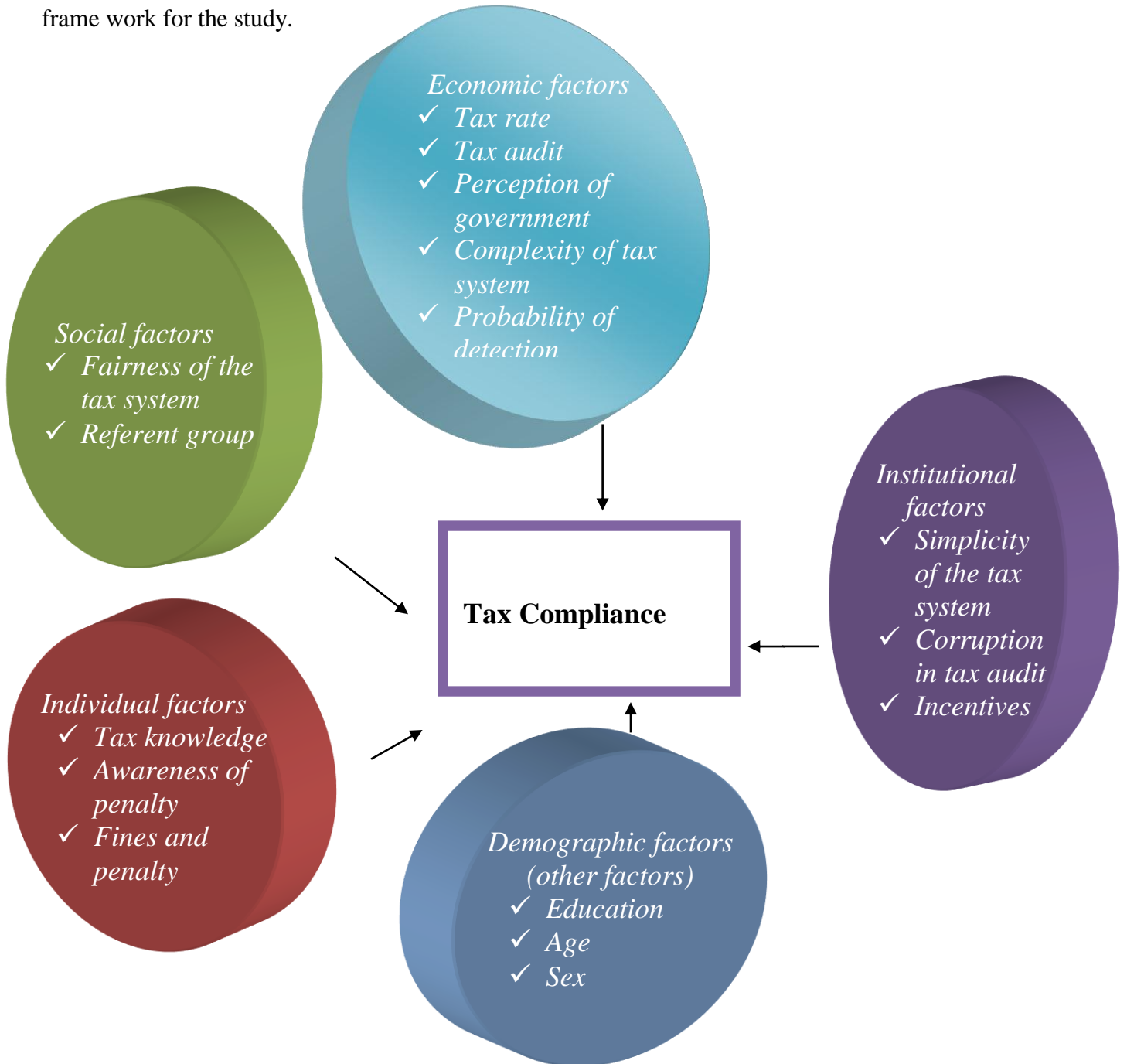
A social capital theory represents a pattern of behavior that is judged in a similar way by others and that is substantial in a part by social approval or disapproval. If others behaved accordingly to some socially accepted mode, then the individual will behave appropriately.

The expectancy theory of motivation (benefit received theory) promoted that while the citizens pay tax, the government is to, in turn provide certain social goals and services to the tax payer.

Reviews of past study conducted in different countries and in different areas of Ethiopia tried to review the factors that influence business income tax payers. But the studies did not cover the other factors that affect business income tax payers' compliance such as incentives, simplicity of the proclamations, regulations and directives, Authority follow up for tax payers, impact of accountants employed, Probability of detection, training and educating tax payers, Corruption in tax audit, preparation of statements by ERCA auditors, Information access of tax payers. This study addressed these listed impacts in addition to other factors that were investigated by different researchers. Thus this study assessed the factors that influence business income tax payers' compliance in the study area.

## 2.4 Conceptual Frame Work

From the literature review of the study the researcher had modeled the following conceptual frame work for the study.



**Figure 1: Conceptual frame work**

**Source: Developed by the researcher based on Literature review.**

## **CHAPTER –THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Research design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data.(Kothari, 1990)

As it is described in the objective of the research the objective of the study is to assess business income tax compliance thus the research design used in this study is descriptive research design. Descriptive studies are studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation are all examples of descriptive research studies. As its name suggests, describe as accurately as possible the interrelationship between characteristics of a group of people or a community and their opinions, beliefs, feelings, attitudes etc. (Kothari, 1990). This descriptive research helped to gather adequate information by frequency distribution and ratios by rating their trend about the assessment of business income tax payers’ compliance on the study area since it is tailored with the research problem.

#### **3.2 Population and Sampling design**

##### **3.2.1 Population**

The population under this study is Business income tax payers at ERCA western Addis Ababa Branch office those who are active in this Branch in 2010 E.C tax period. The business income tax payers under this branch are 12,383 since March 30, 2010 E.C (Source ERCA WABO).

### 3.2.2 Sampling design and sample size

In statistics and qualitative research methodology, a data sample is a set of data collected and/or selected from a statistical population by a defined procedure. The elements of a sample are known as sample points, sampling units or observations.

The target population for this research is the 12,383 business income tax payers and the staff (employees) in this branch. But in selecting the sample size how many of the tax payers and the staff members are enough to represent the population and how adequate information can be gather from the representatives is a big issue. To determine the sample size the researcher used the Slovin's formula. Slovin's formula is used to calculate an appropriate sample size form a population ([www.stasticshowto.com](http://www.stasticshowto.com)). It is computed as

$$n = \frac{N}{1 + Ne^2}$$

Where, n =Number of Samples

N=Total Population

e=error margin

Here the total population is 12,383 and the figure of confidence level to be is 91% giving an alpha level of 0.09. The error margin is expected to be 9% by the researcher. Since error margin depends on the accessibility of the sample size.

Using the Slovin's

$$N = 12,383$$

$$e = 0.09$$

$$n = 122$$

Thus the researcher took a sample of 122 tax payers, since the

Since the business income tax payers are placed at different places and they are high in number, it is costly and takes time to contact them by the probability sampling. They can be questioned when they come to the branch office conveniently thus the researcher used non probability methods of sampling. The non-probability sampling methods was employed in the case of both selecting the business tax payers and tax authority employees. The business income tax payers'

responded questionnaire and the authority employees were interviewed. The purpose of the researcher in getting the accurate data is the initiative factor in selecting the interviewee. Staff members who are expected to have deep knowledge and experienced were selected purposely. Accordingly, the researcher interviewed tax officers and head of the tax officers. In the case of conducting the survey questionnaires for the business income tax payers a convenience sampling was employed. In this research area it would be impossible to test the entire population; the population is just too large that it is impossible to include every individual and the business tax payers most of the time can be contacted in the ERCA office when reporting their tax. That is why the researcher used convenience sampling in conducting the survey questionnaires.

### **3.3 Data collection Method**

The nature of data that were used in this study is primary data and secondary data. The primary data was obtained using questionnaires distributed to the tax payers. The questionnaires were prepared by English language and translated to Amharic for reducing impact of language barriers. The questionnaires had questions framed in closed ended structured questionnaire using the Likert type scale from the literature reviews and empirical studies Amina (2007).

A Likert scale is an orderly scale from which respondents choose the option that best supports their option. It can be used to measure someone's attitude by measuring the extent to which they agree or disagree with a particular question or statement. Thus in this study the respondents asked to respond to each of the statements in terms of degrees, usually five degrees the respondent respond in any one of the following ways: (i) strongly agree, (ii) agree, (iii) undecided, (iv) disagree, (v) strongly disagree. (Kothari, 1990)

The questionnaires were grouped into three sections. The first section states general information of the tax payers, the second section also includes the determinant factors that influence business income tax payers and the last section signifies the questions related to the measures that should be taken to motivate tax payers to pay tax.



For collecting sufficient data for the factors that influence business income tax payers the researcher also interviewed for the staff members of the tax branch office. Accordingly the researcher interviewed head of the tax officers and tax officers.

### **3.4 Data Analysis Method and presentation**

Data in this study is more qualitative, primary data type is more related. These data was collected using survey questionnaires and interviews. It is clear that the study is about assessment of business income tax payers' compliance. After the necessary data was collected from the primary data then these data was coded and tabulated. Data was stated using tables, ratios and frequency distribution. All these data presenting techniques were implemented based on the nature of the data. The results were interpreted by comparing with the reviewed studies and literatures.

### **3.5 Validity and Reliability**

**Validity** refers to the extent to which a test measures what we actually wish to measure.

To raise the validity the researcher under taken the following

Data was collected using developed questionnaire from different papers and from different literatures with adjustment with the existing situation of the study and by understanding the situation of tax compliance.

**Reliability** has to do with the accuracy and precision of a measurement procedure (Kothari, 2004). The questionnaire was pretested with 5 tax officers and 10 business income tax payers to test the content validity of the instrument and checked the clarity, word ambiguity and structure and their suggestion were incorporate before the final distribution of the questionnaire.

## CHAPTER –FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 General Information of the respondents

This section reveals the respondents general information. It tells about gender, age group, level of education, for how many years do the respondents be in the business, business income status, level of business ,Number of accountants in the business, legal form of the business and Does the ERCA audit them yearly .

**Table 1: Demographic information**

Demographic information		Frequency	percentage
Gender	Female	89	72.95
	Male	33	27.05
Age	Between 18 &30	18	14.75
	Between 31 & 40	41	33.61
	Between 41 & 50	43	35.25
	Above 50	20	16.39
Level of Education	Illiterate	-	-
	Primary	17	13.93
	Secondary	68	55.74
	Diploma & Above	37	30.33
Duration of business tax payers in business	Less than 2 years	10	8.20
	Between 2 and 5 years	48	39.34
	Above 5 years	64	52.46
business Profit status	No loss and profit	3	2.46
	Profitable	98	80.33
	Loss	21	17.21

The gender of the respondents table reflects that 72.95% of the respondents are male and 27.05% of the respondents are female. This may lead to the suggestion of participation of males in business profit is higher than females.

The age group of respondents shows that 14.75% of the respondents are between 18 and 30 years of age, 33.61% of the respondents are between 31 and 40 years of age, 35.25% of the respondents are between 41 and 50 years of age and 16.39% are above 50 years age. From this result most of the respondents are between 30 and 50 years of age.

From the above table the level of education of the sampled respondents is 13.93% Primary school completed, 55.74% secondary school completed and 30.33% are diploma and above graduates. But there were not illiterate respondents'. Thus most of the respondents are Secondary school completed and diploma and above.

the respondents experience in business.8.2% of the respondents have been in business less than two years.39.34% have been in business between 2 and 5 years.52.46 % of the respondents have been in business for above 5 years .thus most of the respondents have been in business above 5 years.

The profit status table 5 explains that 98 respondents 80.33% of the respondents are profitable. 21 respondents 17.21% of the sample size are in loss and 3 respondents 2.46% of the respondents are at break even. Therefore most of the respondents 80.33% are profitable.

It is reliable that the most of the respondents are Profitable business income tax payers'.

#### 4.1.2 Categories of business income tax payers

**Table 2: Categories of business income tax payers**

Categories of tax payers.	Frequency	Percentage (%)
Below 500,000	-	-
From 500,001-1,000,000	-	-
Above one million	122	100
Total	122	100

**Source: Survey data (2018)**

The categories of the respondents indicate that all are under the category of tax payers "A".

### 4.1.3 Employed accountants in the business

**Table 3: number of employed accountants in the business**

Number of accountants	Frequency	Percentage (%)
Below 3	46	37.70
3-5	70	57.38
6-15	6	4.92
Above 15	-	-
Total	122	100

**Source: Survey data (2018)**

As the survey outcome of table 7 depicts that 46 of the respondents (37.70% of the sample size) have employed below 3 accountants in their business. 57.38% of the respondents have employed 3-5 accountants in their business. 6 respondents which seized 4.92% of the sample size have employed 6-15 accountants in their business. It is clear that most the tax payers in this study area have employed 3-5 accountants and significant tax payers employed below 3 accountants in their business. This indicates that most of the companies have accountants that prepares financial statements for tax purpose.

### 4.1.4 Legal form of business

**Table 4: legal form of business**

Legal form business	Frequency	Percentage (%)
Private	-	-
Partnership	-	-
PLC	122	1000
Corporation	-	
Total	122	100

**Source: Survey data (2018)**

As described in the introduction part of the study, this branch is for medium sized private limited company business income tax payers. This indicates that the branch can have high probability of collecting tax.

#### 4.1.5 ERCA audit status for business income tax payers

**Table 5: Audit status of business income tax payers**

Survey Question	Yes		No	
	Frequency	Percent age	Frequency	Percentage
Do ERCA auditors audit you yearly	19	15.57	103	84.43

**Source: Survey data (2018)**

As per the table 9 above 103(84.43%) of the respondents replied as they are not audited yearly. 19 respondents 15.57% of the sample size replied as they are audited yearly.

The survey outcome revealed that large numbers of business tax payers are not audited yearly.

#### 4.2 Determinant factors that affect tax payers' compliance with tax law

This section deals with the determinant factors that affect business income tax payers. Accordingly data is collected on the list of factors that influence business income tax payers. Respondent were asked to fill their assumption on the determinant factors listed .the statements were closed ended. Statements were prepared in a Likert- type scale .The respondents were asked to respond each of the statements in terms of degrees ; five degrees of measurement, namely Strongly agree, agree, uncertain ,disagree and strongly disagree .

The following table (Table10) is summary of the determinant factors responded and their details are below the table.

**Table 6 social, economic, institutional and individual aspects of tax compliance**

No	Institutional, economic, institutional and individual factors	Number of respondents and Percentages									
		Strongly agree		Agree		undecided		Disagree		Strongly disagree	
		frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	The Authority follows the tax payers in a scheduled program. They periodically follow tax payers.	-	-	15	12.29	8	6.56	99	81.15	-	-
2	The increase in the tax rate strengthens the incentive to report less income.	10	8.2	101	82.78	-	-	11	9.02	-	-
3	Accountants employed in the business agreed with the company (tax payer) to overstate expense by different ways.	12	9.83	76	62.3	20	16.39	14	11.48	-	-
4	Being audited yearly influences tax payers to pay the tax that they should pay.	43	35.25	65	53.27	7	5.74	6	4.92	1	0.82
5	Charging and penalizing tax payers when caught encourage reporting the actual income earned.	-	-	74	60.65	-	-	37	30.33	11	9.02
6	The tax rules, regulations and proclamations are not simple to interpret.	110	90.16	10	8.2	2	1.64	-	-	-	-

No	Institutional, economic, institutional and individual factors	Number of respondents and Percentages									
		Strongly agree		Agree		undecided		Disagree		Strongly disagree	
		frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
7	Tax payers will always declare their income correctly, if	48	39.34	56	45.91	-	-	18	14.75	--	-
8	The probability of detection (being audited) is high.	16	13.11	60	49.19	20	16.39	10	8.20	16	13.11
9	Tax payers can perceive the tax system as unfair if they believe that they are paying more than they receive from government or in relation to what other tax payers are paying.	60	49.18	45	36.89	1	0.82	14	11.48	16	13.11
10	Enough Training is given by the authority about tax compliance	9	7.38	38	31.15	2	1.64	70	57.38	3	2.46
11	Distance of ERCA office from business income tax payers creates service-link costs and time waste.	47	38.52	55	45.09	2	1.64	17	13.93	1	0.82
12	Some financial statements of business income tax payers are prepared by the ERCA tax officers.	-	-	83	68.03	25	20.49	11	9.02	3	2.46
13	Tax officers accept bribe/corrupt during tax audit to undetected overstated expenses and understated income of tax payers.	3	2.46	94	77.04	12	9.84	11	9.02	2	1.64

#### **4.2.1 ERCA follow-up to business income tax payers**

As table 6 depicts the respondents were asked how the authority follows them periodically in a scheduled program. 81.15% of the respondents disagreed as the authority follows taxpayers periodically in a scheduled program. 12.29% of the respondents agreed, 6.56% undecided but there are no respondents who replied strongly disagree and strongly agree. As the respondents replied that as there is no regular follow by the authority.

The study also conducted an interview on how the authority follows taxpayers' taxation activity and shows that as there is shortage of employees in the authority there is no regular follow up for each tax payers but when the authority think that there is a problem on the business tax payers they follow them. As described by the officials, the authority can held a sudden follow up without informing the tax payer. The authority follow how the business income tax payers are filling their documents, their cash register machine usage, billing and do they give receipt for the buyer when they pay cash or with credit. The authority follows sudden tax evasions by sudden supervision.

#### **4.2.2 Impact of tax rate in tax compliance**

Finding on the impact of tax rate to report less income showed that 8.2% of the respondents of the sample size strongly agreed as the increase in the tax rate strengthens the incentive to report less income, 82.79% agreed, 9.02% disagreed and there are no undecided respondents.

The same result was found in this study as described in the literature, Hai and See (2011) found that the high tax rate causes high tax noncompliance. Spicer & Becker (1980) argue that those taxpayers who are aware that their tax rate is higher than average tax rate paid by other have higher records of tax evasion.



### **4.2.3 Determinacy of accountants employed in the business for tax compliance**

The outcome of the survey revealed 9.83 % and 62.3% of the respondents strongly agreed and agreed respectively that accountants employed in the business taxpayers over state expense by agreeing with the owners. But 16.39 % did not reply they are neutral and 11.48% have negatively answered it. From the finding it can be seen that the accountants in employed in the business have a great impact in the tax compliance.

The interview result of the tax officials imply that the accountants employed in the business organization tax payers overstate expenses intentionally for not paying tax. The proclamation of tax indicates that any related expense to the business is deductive. Thus they add other related expenses which are not real expense of the organization. The FDRE tax proclamation says the following about certified public accountant, certified auditor, public auditor but silent about the accountants employed in any business organization. According article 14 sub article 1 of the FDRE tax administration proclamation No.983/2016 a certified auditor, certified public accountant, or public auditor who aided, abetted, counseled, procured, a taxpayer to commit fraud resulting in a tax shortfall or to evade tax was in any way knowingly concerned in, or was a party to, fraud resulting in a tax shortfall or tax evasion committed by a taxpayer, shall be jointly and severally liable with the taxpayer for the amount of the tax shortfall or evaded tax resulting from the fraud or evasion.

### **4.2.4 Probability of being audited**

Respondents were asked how the probability of being audited yearly can tax payers influence about the tax that they should pay. Accordingly 43 (35.25% of the respondents) strongly agree, 65 (53.27% of the respondents) agreed, 5.74% undecided and 4.92 % disagreed. 88.53% of the sample size has positive impact on the influence of tax audit yearly. Thus being audited yearly has great influence on the tax payer to comply with the tax. It can be concluded that probability of being audited is a determinant factor for the tax compliance. This result has been supported by Atsbaha (2016), Tadesse and Goitom (2014).

#### **4.2.5 Charging and penalizing taxpayers**

Moreover, in order to know charging and penalizing when caught encourage taxpayers in reporting the actual income earned, respondents were asked and their response is summarized below. 74 of the respondents agreed, 37 of the respondents disagreed, and 11 of the respondents strongly disagree. Bigger number of respondents agreed as charging and penalizing has influence in paying and reporting the correct amount of income they earned. But also a number of respondents also disagreed about the influence of charging and penalizing.

The finding of this study is consistent with Atsbaha (2016) as he argues that fines and penalties, with fair rates can help likely to improve tax compliance level. In contrast Kirchler et al. (2007) claims if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid taxes.

#### **4.2.6 Simplicity of Tax Proclamations, Tax regulations and tax directives**

Findings on the tax proclamations, regulations and directives are not simple to interpret showed that 90.16% and 8.2% strongly agreed and agreed respectively and two respondents were undecided. From the survey result a perfectly reliable number of the respondents have positive impact on tax proclamations, regulations and directives as they are not simple to interpret.

In line with this Palil (2010), Richardson (2008), Stephen (2011) and Slemrod (1989) also claimed simplicity of the tax system encourages tax payers to comply voluntarily with tax system.

#### **4.2.7 Impact of Probability of detection in declaring exact income**

Concerning the statement which says taxpayers will always declare their income correctly, if the probability of detection is high, 39.34% of the respondents strongly agree, 45.91% agreed, and 14.75% disagreed. Majority of the respondents believe that probability of detection makes business income tax payers to declare correct income; Implies that probability of detection is a determinant factor that influences business income tax payers to comply with tax law.

The result of the study is consistent with the study of Geletaw (2015) which argues that detection and punishment are significant factors that affect tax compliance.

#### **4.2.8 Perception of government spending**

Findings on the survey which says tax payers are very sensitive about where their tax may go, spending the national revenue, like for education, health, safety etc revealed that 16 and 60 respondents strongly agreed and agreed respectively, 20 respondents undecided, 10 respondents disagree and 16 of the respondents strongly disagree. Majority of the respondents are sensitive about where their tax may go. Minority of the respondents do not know where their tax may go. This leads to the conclusion that if the government spends the tax for public benefit of the country tax payers comply with the tax and if there is no public benefit accordingly tax payers discouraged to comply .When they pay tax they expect benefit from the government. In line with Tamunomiebi & Zeb-Obipi (2009 )explained the expectancy theory of motivation argues that the strength of a tendency to act depends on the strength of an expectation that an act will be followed by a given outcome and on the attractiveness of that outcome to the individual.

#### **4.2.9 Perception of Fairness and equity**

The result in the above table about the statement that says, Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from the government or in relation to what other tax payers are paying, indicate that 49.18% strongly agree,36.88% agree, 0.82% un decided ,11.48% disagree and 1.64 strongly disagree. Thus 86.07% believe that the tax system is unfair if the government does not spend proportional public service to taxpayers. They also believe that the tax system is unfair if all tax payers do not pay the tax that they should pay. Similarly Jackson and Milliron (1986) and Richardson (2008) examined as the perceived fairness of the tax system also has an influence on the inclination towards tax evasion.

#### **4.2.10 Training tax payers**

Regarding the result found on enough training is given by the authority about tax compliance, 7.37% of the respondents strongly agreed ,31.15% agreed,1.64% undecided ,57.38% disagree and 2.46% strongly agree. As training is a determinant factor for tax compliance, majority of the respondents replied as enough training is not given about tax compliance to taxpayers. Significant number of the respondents also replied as enough is given.

Data collected by structured interview from higher officials of the authority of the branch indicate that as they do have a written scheduled program for training tax payers, but it is not

implemented due to different reasons like shortage of budget. The interview signifies that training is given when there are new proclamations and directives. They described enough is important for tax payers to comply but a monthly, quarterly trainings are not given different reasons like budget. In line with Atsbaha (2016) examined as training is a determinant factor for tax compliance.

#### **4.2.11 ERCA tax office branches**

From the Table 10 above respondents were request to reply their suggestions about the Distance of ERCA office from business income taxpayers creates service link costs and time waste. Thus they replied as follows, 47 of the respondents strongly agree,55 of the respondents agree,2 of the respondents undecided ,17 of the sample size disagree and 1 respondent disagree.102 of the respondents have positive implication about the statement. Small number of the respondents disagreed. They neglect distance as an impact.

#### **4.2.12 Preparation of financial statements by ERCA tax Officers.**

It is clearly shown in table 10 that most of the respondents agreed as some financial statements of business income taxpayers are prepared by the ERCA tax officers and minority undecided and disagreed. 83 of the respondents agreed, 25 of the respondents undecided, 11 disagreed and 3 strongly disagreed. The result of the study is in consistent with the Proclamation of tax of FDRE, which states that financial statements of business income tax payers should not be prepared by any tax officer or tax auditor. But the findings depict that majority of the respondents revealed that as some financial statements are prepared by the tax officers or auditors.

#### **4.2.13 Corruption in tax audit**

The outcome of the survey for statement tax officers accept bribe /corrupt during tax audit to not detect overstated expenses and understated income of tax payers signify that 3 of the respondents strongly agree , 94 of the respondents agree , 12 undecided , 11 disagree and 2 strongly disagree. A reliable numbers of respondents responded that tax officers concur with business income tax payers to accept the overstated expense and understated income. Likely the tax payers give bribe to the ERCA auditors in order not to detect the faults. Small number of the respondents also disagreed and undecided. The findings of the study is consistent with the existing literature with

study done by Kostanti (2005), described as tax officers and tax auditors take bribe during tax audit and tax service.

### **4.3 Measures that motivate taxpayers to pay tax**

This section summarizes the statements related to measures that should be taken to motivate tax payers to pay tax. As described in chapter three, 122 questionnaires were distributed to business income taxpayers' of ERCA western Addis Ababa branch office. The respondents' replied their view by the degrees strongly agree, agree, undecided, disagree and strongly disagree. The table below summarizes the findings of the measures and every possible measure to motivate listed in the table is analyzed below the table.

**Table 7: Statements related to measures that should be taken to motivate tax payers to pay tax**

<i>Possible measures to motivate</i>		Number of respondents frequency and Percentage									
		Strongly agree		Agree		Undecided		Disagree		Strongly disagree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	Providing necessary information to tax payers regarding tax payers' activity, new events, and the provision of services and utilities of tax revenues by email, message etc. motivates to tax payers to compliance.	100	81.97	22	18.03	-	-	-	-	-	-
2	Educating the tax payers and conducting consultation session.	120	98.36	2	1.64	-	-	-	-	-	-
3	Strengthening legal enforcements .penalties and interest.	20	16.39	70	57.38	-	-	32	26.23	-	-
4	Reducing tax rates encourages tax payers to pay the required tax.	35	28.69	84	68.85	3	2.46	-	-	-	-
5	Participating tax payers in formulating policies.	99	81.15	14	11.47	-	-	9	7.38	-	-
6	Rewarding the tax payers who paid the tax that they can pay by the rule specified.	55	45.08	45	36.89	2	1.64	20	16.39	-	-
7	Make public names of nonpayer's in the Revenue office.	13	10.66	67	54.92	-	-	31	25.41	11	9.02

**Source: Survey (2018)**

#### **4.3.1 Providing necessary information**

As shown in the table 7, providing necessary information to tax payers regarding tax payers activity , new events , provision of services and utilities of tax revenues by email, message etc motivates to taxpayers to compliance was asked to tax payers and is analyzed as follows. 100 respondents strongly agree, 22 respondents agreed, and there were no respondents who replied

undecided disagree and strongly disagree. Thus it is reliable that providing the necessary information to taxpayers motivates them to comply with the tax system.

According to the result of the interview with the tax officials, it was observed that the authority forward information for tax payers by publishing on board at the branch office, letters regarding any information are written to the tax payers and give them when the tax payers come to the office, the authority does not deliver any letter to the tax payers office.

#### **4.3.2 Educating and consulting business income tax payers.**

Findings on educating the tax payers and conducting consultation session as a possible measure that should be taken to motivate tax payers showed that 98.36 % of the respondents strongly agreed, 1.64% of the respondents agreed, there were no respondents who replied undecided, disagree and strongly disagree. The result of the survey implies that educating and conducting consultation session to business income taxpayers motivate to comply with tax.

The interview conducted on the authority for higher official and auditors specify that tax knowledge is a determinant factor for tax compliance. Without knowing the rules and regulation of the tax many tax payers do not comply. Business income tax payers are penalized due to not having tax knowledge. In the existing literature Jackson and Milliron (1986) claimed that those with more fiscal knowledge had more positive tax ethics scores than those with lower fiscal knowledge.

#### **4.3.3 Strengthening legal enforcements**

Similarly respondents were asked about strengthening legal enforcement, penalties and interest to motivate tax payers to comply. Accordingly Out of the sampled, 20(16.39%) respondents agreed, 70(57.38%) respondents agreed, 32(26.23%) respondents disagreed, and none of the respondents replied strongly disagree and undecided. Majority of the respondents convince that strengthening legal enforcements, penalties and interest are measures that should be taken to motivate tax payer to pay tax. But significant number of the respondents also disagree as strengthening legal enforcements like penalty and interest are the not the possible measures that should be taken to motivate tax payers to pay tax. In line with Geletaw (2015) examine penalty as a factor that influence tax compliance.

#### **4.3.4 Reducing tax Rates**

As summarized in the table 11 respondents were asked whether reducing tax rates encourage taxpayers to pay the required tax or not. The finding points that 35 of the respondents strongly agree, 80 of the respondents agree, 3 of the respondents undecided, 4 of the respondents disagreed and none of the respondents replied strongly disagree. Majority of the respondent assumption is positive with reducing tax rates. Thus the outcomes indicate reducing tax rates encourage taxpayers to pay the required tax. In line with this Hai and See (2011) found that the high tax rate causes high tax noncompliance.

#### **4.3.5 Participating tax payers in formulating policies**

As per the table 11 respondents were asked whether Participating tax payers in formulating policies motivate tax payers to pay tax or not. Accordingly the result showed that 99 of the respondents strongly agree, 14 of the respondents agreed, 9 of the respondents disagreed and none of the respondents replied undecided and strongly disagree. High ranked respondents indicate that participating tax payers in formulating policies about tax motivate them to pay the required tax. If they are participated in formulating, they understand the tax policy and implement it and comply with tax law. The result of the study is consistent with the part of motivation theory; goal setting theory proposed by Lock (1966) implies tax policies should be formulated with social participation. In this result respondents have the same opinion as the goal setting theory describes.

#### **4.3.6 Rewarding tax payers**

Findings on the statement, rewarding the tax payers who paid the tax that they can pay by the rule specified showed that 55 respondents strongly agree, 45 respondents agree, 2 respondents undecided, 20 respondents disagree and none of the respondents replied strongly disagree. From the outcome rewarding the tax payers who paid the tax that they can pay by the rule specified is almost perfect possible measure that should be taken to motivate tax payers to pay tax. The finding of this of study is consistent with study of Lars al.et (2006) which argues that rewarding tax payers improves tax compliance.



#### **4.3.7 Publishing Names of defaulters.**

As the table 11 above respondents were requested to fill their opinion on the statement that says Make public names of nonpayer in the revenue office. The reply indicates that 13(10.66%) of the sample size strongly agreed, 67(54.92%) of the sample size replied agreed, 31(25.415) of the respondents disagreed 11(9.02%) strongly disagree and none of the respondents responded undecided. The result shows that substantial numbers of the respondents have positive implication on the statement and a fair number of the respondents have negative implication on the statement.

#### **4.4 Statements related taxpayers' attitude to tax compliance**

This section consists of statements related to tax payers' attitude to tax compliance. The statements were asked to the respondents to respond using the degree of strongly agree, agree, undecided, disagree and strongly agree .the statements were the following.

1. Since a number of traders do not pay tax at all there is no big issue if I understate my income.
2. It is not wrong to understate income since it does not really harm anyone.
3. All the business income tax payers pay their tax devotedly.
4. By paying accurate amount of income tax, I believe that I am contributing for the economic growth of the country.
5. I pay tax because it is a law.
6. Because tax auditors take bribe, it has no problem if I understate my income.
7. Politian misuses me about the perception and attitude of our tax.

The response of the respondents is summarized in the following table and their detail is below.

**Table 8: statements related tax payers' attitude to tax compliance.**

Number	Attitude	Frequency of respondents and Percentage									
		Strongly agree		Agree		undecided		disagree		Strongly disagree	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	Since a number of traders do not pay tax at all there is no big issue If I understate my income	5	4.10	70	57.38	-	-	40	32.79	7	5.74
2	It is not wrong to understate income since it does not really harm anyone.	-	-	22	18.03	-	-	70	57.38	30	24.59
3	All the business income tax payers pay their tax devotedly.	-	-	68	55.74	30	24.59	20	16.39	4	3.28
4	By paying accurate amount of income tax ,I believe that I am contributing for the economic growth of the country	18	14.75	73	59.84	10	8.20	17	13.93	4	3.28
5	I pay tax because it is a law.	18	14.75	67	54.92	-	-	30	24.59	7	5.74
6	Because tax auditors take bribe, it has no problem if I understated my income.	12	9.84	43	35.25	45	36.89	11	9.01	11	9.01
7	Politicians misuse them about the perception and attitude of our tax.	-	-	57	46.71	10	8.20	45	36.89	10	8.2

**Source: Survey (2018)**

Table 8 above shows business income tax payers' attitude in tax compliance. Based on this respondents replied to the statement that says, since a number of traders do not pay tax at all there is no big issue if I understate my income , 5 respondents Strongly agree , 70 respondents agree , 40 disagree, 7 strongly disagree and none of the respondents replied undecided. Moderate number of respondents has positive implication and their attitude towards tax depends on other traders. It leads to the assumption that if all other traders pay, they will not understate their

income and if they do not pay, they will not pay. Fair number of respondents has negative implication about the statement. Generally other tax payers that do not comply with the tax law have an influence on the other tax payers.

The study interview also implies that informal traders (those who do not pay their tax due properly) have great impact on the business income tax payers who pay their tax properly.

The finding of this study is consistent with the findings of Alm (2013) that is if others behaved according to some socially accepted mode, and then the individual will behave appropriately; if others do not so behave then the individual will re-sent in kind.

Similarly respondents were asked whether it is not wrong to understate income since it does not really harm anyone, accordingly 22 of the respondent agreed, 70 of the respondents disagreed, 30 of the respondents strongly disagree and none of the respondents replied strongly agree and neutral. Majority of the respondents' attitude towards use of tax is substantial .They showed that understating income harm to anyone. But Small number of the respondents also has poor attitude on usefulness of tax.

Further the respondents were asked as all the business income tax payers pay their tax devotedly. 24.59% of the respondents agreed, 16.39 % of the respondents undecided, 55.74% disagree and 3.28% of the respondents strongly disagree. From this outcome we can conclude that majority of business income tax payers do not pay devotedly, and slightly number of tax payers does not pay devotedly. Consistently Luis (2015) described if there is trust in tax there is voluntary compliance and if noncompliance there is enforcement.

Concerning the statement that says I pay tax because it is a law, 18(14.75%) of the respondents strongly agree, 67(54.92%) of the respondents agree, 30(24.59%) of the respondents disagreed, 7(5.74%) of the respondents strongly disagree. substantial number of respondents agreed as the pay tax because it is a law and a fair number of respondents also replied their negative response on the statement.

Furthermore respondents were asked about auditors of ERCA corruption. The statement was, because tax auditors take bribe, it has no problem if I understate my income. 12(9.84%) of the respondents strongly agree, 63(51.64%) of the respondents agreed, 21(17.21) % of the

respondents undecided, 15(12.30%) of the respondents disagreed and 11(9.01%) strongly disagreed. Substantial number of respondents replied as the auditors of the ERCA bribe. Thus bribe is one of the factors for the tax compliance. There are respondents who do have any know about this and some others also disagreed as they do not give bribe to the auditors to accept their prepared financial statement. Thus Business income tax payers give bribe and the auditors undetected the evaded tax. Consistently in the existing literature Kostanti (2015) a study made in Bulgaria entails tax officers for their personal interest the take bribe. Likely the tax payers give bribe to reduce their tax and conclude that tax payers and tax officers evade tax.

At the end the respondents were asked whether Politian misuse them about the view and attitude of our tax or not, 57(46.72%) of the respondents agreed, 10(8.20%) undecided, 45(36.89%) disagreed, 10(8.2%) strongly disagree and none of the respondents replied strongly agree. Thus according the finding politician also has impact of the attitude of tax compliance.

In line with this Gubta (2007) explained that political stability is significant and strong determinant factor of revenue performance.

Additionally Data was collected by interview from the tax officials imply that the numbers of employees working in the organization (ERCA) are not enough for the effective service given for the tax payers.

## **CHAPTER FIVE**

### **SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

This chapter presents the summary of the findings, conclusions and recommendations on the factors that influence business income tax payers' compliance in Ethiopian Revenues and customs authority Western Addis Ababa branch office.

#### **5.1 Summary of the finding**

Based on the data analysis the study has the followings summary

- The finding suggests that large numbers of the respondents do not audited yearly.
- Majority responses of the respondents on the statement, Ethiopian Revenues and customs authority follow up to business income tax players imply that as there is no regular follow up of business income tax payers. It is not programmed when the ERCA will supervise the business tax payers.
- Majority number of the respondents' response indicates that, the increase in the tax rate strengthens the incentive to report less income. On the other hand the study showed that the accountant employed in the business organization by agreeing with the owners overstate expense. Accountant employed has impact on the tax compliance. They influence the amount of tax that should be paid by the business income tax payers.
- The study also showed that a perfectly reliable number of respondents believe that being audited has a great influence on tax compliance. Auditing tax payers yearly influence them to report the accurate income and to pay the tax of the year.
- Similarly the finding demonstrates that charging and penalizing tax payers when caught encourage tax payers in reporting the actual income earned.
- Based on the findings tax proclamation, tax regulations and tax directives are not simple to interpret. A perfectly reliable number of respondents have positive impact on tax proclamation, regulation and directives as they are not simple. Simplicity is therefore a factor that influences business income tax payers' tax compliance.

- Likewise findings indicate that majority of the respondents responded that tax payers are very sensitive about where their tax may go, spending the income, like education, health, for safety; while minority of the respondents responded as they are not sensitive.
- According to the result 86.07 % of the respondents believe that the tax payers can perceive the tax system is unfair if they believe that they are paying more than they receive from the government or in relation to others tax payers are paying.
- Regarding the result found on enough training is given by the authority about tax compliance, majority of the respondents responded that enough training is not given by the authority. The interviewed tax officers also described that as there is no scheduled program for training business tax payers, but they train tax payers when new proclamations, regulations and directives are applicable.
- Findings on the distance of ERCA office from business income tax payers creates service link costs and time waste indicate that 102 of the respondents concur that distance of ERCA office creates service link costs and time waste.
- Concerning the preparation of financial statements by ERCA tax officers, majority of respondents agreed as some financial statements of business income tax payers are prepared by the ERCA officers.
- Findings on corruption in tax audit indicate that almost perfect number of the respondents agreed as ERCA tax officers accept bribe /corrupt during tax audit to not detect overstated expenses and understated income of tax payers.
- Results on providing necessary information indicate that majority of respondents believe providing necessary information to tax payers regarding tax payers activity, new events, and the provision of services and utilities of tax revenues by email, message, etc. motivate to tax payers compliance.
- The study looks into views of respondents on educating the tax payers and conducting consultation session to motivate tax payers. The result demonstrates that all of the respondents strongly agreed as educating and conducting a consultation session are motivating measure that should be taken.
- Regarding strengthening legal enforcements, majority of the respondents recommend as strengthening legal enforcements like levying penalties and interest motivate business income tax payers to pay to the actual income. On the other hand, majority of the

respondents argue reducing tax rates encourages tax payers to pay the required tax. Similarly the majority of the respondents replied that participating business income tax payer in formulating policies is an influential factor for tax compliance.

- Regarding on rewarding outstanding tax payers who paid the tax they can pay by the rule specified, respondents indicated that it is almost a perfect measure that should be taken to motivate tax payers to pay tax. Similarly majority of respondents replied that publishing names of defaulters or nonpayer in the revenue office is a possible measure that should be taken to motivate tax payers to pay tax.
- The study also explores the attitudes of tax payers to tax compliance. Regarding on others traders' attitude, moderate number of respondents suggest that their attitude to tax depends on the other traders paying tax, in their believe, if a number of traders do not pay tax it is not a big issue to understate their income. In general other tax payers that do not comply with tax law have an influence on the other tax payers' compliance.
- According the finding majority of the respondents' attitude towards use of tax is substantial. They indicated that understating income harm to the country. Similarly majority number of tax payers does not pay tax devotedly, and there are tax payers that that do not pay devotedly. Substantial number of respondents also replied that, the pay tax because it is a law.
- Furthermore, Substantial number of respondents replied as the auditors of the Ethiopian Revenues and customs authority corrupt/bribe in auditing of financial statements and documents. Business income tax payers give bribe and they evade much tax. Likewise majority of the respondents agreed that as politician abuse about the perception of business income tax and attitude of tax payers.

## 5.2 Conclusion

The analysis leads to the following conclusions

- The study shows that due to shortage of employed professional large numbers of business income tax payers are not regularly followed, supervised and audited yearly; however being audited yearly influence tax payer to comply with the tax and aids the tax payers to report the accurate income.
- Based on the result, increase in the tax rate strengthens the business income tax payers to report less. In addition ethics of the accountants' employed in the business organization have a role in overstating expenses and understating of income. In addition to this some financial statements are prepared by the Ethiopian revenues and customs authority tax professionals and tax auditors.
- The study indicates that strengthening legal enforcements like interest, charging and penalizing, publishing names of defaulters directs business income tax payers to report the actual income earned.
- The proclamations, regulations and directives are not simple to understand to the business income taxpayers. It is one factor that influences tax compliance.
- Majority of the business tax payers are very sensitive about where their tax may go, spending the income for education, health and safety while minority of the tax payers are not sensitive where their tax may go. Similarly most of the tax payers can perceive the tax system as unfair if they believe that they are paying more as they receive from the government or in relation to others tax payers are paying.
- The findings revealed that enough training is not given to the tax payers, necessary information regarding tax payers' activity and provision of services and utilities of tax revenues is not transferred by email, message etc. Ethiopian revenues and customs an authority office are far from the tax payers and creates service link cost as well as time waste.
- Educating tax payers and conducting consultation session, rewarding tax payers who pay the required tax as specified by the tax law, reducing tax rates are the factors that motivate tax payers to pay tax.



- Corruption and political stability are determinant factors that influence business income tax payers' tax compliance. The tax examiners corrupt /bribe to undetected the overstated expenses and other errors. Similarly the business income tax payers give bribe.
- Business income tax payers' attitude depends on other business income tax payers or traders. Referent group (Other traders) determines the attitude of tax payers' compliance. If they do not pay, they regret to pay. In contrast attitudes towards tax of most of the business tax payer is substantial; they know understating income harms a country development. There are business tax payers who do not pay their tax faithfully.

### 5.3 Recommendation

- Ethiopian revenues and customs authority should employ sufficient professionals and introduce additional new technologies. Business income tax payers must be followed regularly their activities related to tax. As soon as the tax period has finished the authority should begin assessing the business tax payers and auditing must be ended at the next tax period.
- Increasing tax rate and increasing types of rates only cannot increase the government revenue but it is recommended that decreasing the tax rate and make tax payers to pay the required tax and there will be voluntary tax payer.
- The Ethiopian Revenues and Customs authority has to work in certifying accountants, training professionals and educating ethics to the accountants employed in the business organizations.
- The authority has to be strong in implementing the tax laws, modify the current audit system, update the tax laws and formulate them to be simple to interpret, should work in maintaining fair tax for all business tax payers. There are more profitable business tax payers who hide tax; they pay below the ability to pay. Similarly there are business tax payers who are honest and loyal and other the honest tax payers are also obliged to pay another tax by different penalty types and are discouraged. Thus the authority should work on differentiating the tax payers.
- As training improves the tax payers' performance to help them attain the required knowledge and attitude the concerned body should give regular training to tax payers and the training video should be uploaded in the websites so as to the tax payer follow it in internet when they need it.
- ERCA has to work in informing individual business income tax payer activity, on new tax laws, programs, training by emailing and messaging directly to them. Similarly ERCA should open additional branches, has to motivate tax payers to use E-tax and pay their tax anywhere without wasting time.
- The government has to strengthen the audit system, tax documents and financial statements audited by the tax examiners should be audited again by other government audit firms for minimizing corruption.

#### **5.4 Recommendations for future research directions**

The study proposes researchers to extend the same topic to Small sized business tax payers and medium sized business income tax payers in different parts of the country and to identify other factors that influence business income tax payers' compliance. Similarly influence of education, tax audit and corruption in compliance can be recommended for future research.

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# **APPENDIXES**

## **APPENDIX 1-Structured Questionnaires**

### **SAINT MARY UNIVERSITY SCHOOL OF GRADUATE STUDIES**

#### **QUESTIONNAIRES TO THE RESPONDENTS**

Dear Respondent

The researcher is a Student of St. Mary University pursuing Master Business Administration in Accounting and Finance, is carrying out a study on the factors influencing business income tax payers compliance in ERCA western Addis Ababa.

The aim of this academic research is to investigate the factors that influence business income tax payers' compliance in ERCA western Addis Ababa. Therefore you are kindly requested to complete this questionnaire by ticking against the appropriate answer. Your responses will be used only for research purposes and shall be confidentially handled.

Thank you for participating and making this research a success.

Mebrahtom Gebretsadkan

Tel 0930283854

Email: [mebris5@gmail.com](mailto:mebris5@gmail.com)

#### **PART I: GENERAL INFORMATION**

**Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided.**

1. Your gender

1. Male       2. Female

2. Age Group

1. between 18 and 30   
2. between 31 and 40   
3. between 41 and 50   
4. Above 50

3. What is your highest level of education?

1. Illiterate   
2. Primary   
3. Secondary   
4. Diploma and above

4. For how many years have you been in this business?

1. Less than 2 years   
2. 2-5 years   
3. above 5 years

5. How is your business profit status?

1. Have not earned any profit and loss   
2. Profitable   
3. Loss

6. What is your level of business income?

1. below 500,000birr per a year   
2. Between birr 500,000 and 1000,000 per a year   
3. Over 1,000,000 per a year

7. How many employees in this business perform tax accounting?

1. Below 2     2. 3 – 5     3. 6 – 15     4. More than 15

8. What is the legal form of your business?

1. Sole proprietorship   
2. Partnership   
3. Private limited company   
4. Corporation

9. Do ERCA auditors audit you yearly?

1. Yes       2. No

**Part II: Questions related to different Determinant factors**

	Determinant factors	Strongly agree	Agree	undecided	disagree	Strongly disagree
10	The Authority follow the tax payers in an organized manner .they periodically follow tax payers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	The increase in the tax rate strengthens the incentive to report less income.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Accountants employed in the business agreed with the company (tax payer) to overstate expense by different ways.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Being audited yearly influences tax payers to pay the tax that they should pay.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Charging and penalizing tax payers when caught encourage reporting the actual income earned.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	The tax rules, regulations and proclamations are not simple to interpret.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	Tax payers will always declare their income correctly, if the probability of detection (being audited) is high.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	Tax payers are very sensitive about where their tax may go. spending the national revenue ,like for education, health ,safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	Tax payers can perceive the tax system as unfair if they believe that they are paying more than they receive from government or in relation to what other tax payers are paying	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	Enough Training is given by the authority about tax compliance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	Distance of ERCA office from business income tax payers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	creates service-link costs and time waste.					
21	Some financial statements of business income tax payers are prepared by the ERCA tax officers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22	Tax officers accept bribe/corrupt during tax audit to undetected overstated expenses and understated income of tax payers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Part III. Questions related to measures that should be taken to motivate tax payers to pay tax.**

	Possible measures to motivate	Strongly agree	Agree	undecided	disagree	Strongly disagree
23	Providing necessary information to tax payers regarding tax payers' activity, new events, and the provision of services and utilities of tax revenues by email, message etc. motivates to tax payers to compliance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	Educating the tax payers and conducting consultation session.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25	Strengthening legal enforcements .penalties and interest.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26	Reducing tax rates encourages tax payers to pay the required tax.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27	Participating tax payers in formulating policies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	Rewarding the tax payers who paid the tax that they can pay by the rule specified.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29	Make public names of nonpayer's in the Revenue office.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Part IV: Questions related to tax payers attitude to tax compliance**

No.	Attitude	Strongly agree	Agree	undecided	disagree	Strongly disagree
30	Since a number of traders do not pay tax at all there is no big issue If I understate my income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31	It is not wrong to understate income since it does not really harm anyone.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32	All the business income tax payers pay their tax devotedly.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33	By paying accurate amount of income tax ,I believe that I am contributing for the economic growth of the country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
34	I pay tax because it is a law.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35	Because tax auditors take bribe, it has no problem if I understated my income.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
36.	Politicians misuse me about the perception and attitude of our tax.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## APPENIX 2 -AMHARIC Structured Questionnaires

**ቅድስት ማርያም ዩኒቨርሲቲ  
የድህረ ምረቃ ትምህርት ቤት**



**በግብር ህግ ተገዢነት ለግብር ከፋዮች የተዘጋጀ መጠይቅ**

**የተከበሩ የጥናቱ ተሳታፊ**

የጥናቱ ዋና ዓላማ በገቢዎችና ጉምሩክ ባለስልጣን የምዕራብ አዲስአበባ ግብር ከፋዮች ለታክስ ህግ ተገዥ እንዳይሆኑና ግብርን እንዳይከፍሉ የሚያደርጉዋቸው ነገሮች ለመለየት ያለመ ነው። አጥኚው መብራህቶም ገ/ዓድቃን የቅድስት ማርያም ዩኒቨርሲቲ የፋይናንስና አካውንቲንግ የድህረምረቃ ተማሪ ነው። የሚመልሱትን መልስ ለዚህ ጥናት ብቻ የሚውል ሁኖ ሚስጢሩ የተጠበቀ ነው። መልስዎን በሚመልሱት ቦታ የፈጸሙት በማድረግ እንዲመልሱ በአክብሮት እጠይቃለሁ።

ለዚህ ጥናት ስኬት ለሚያደረጉት አስተዋፅኦ በቅድሚያ አመሰግናለሁ።

መብራህቶም ገ/ዓድቃን

ስ/ቁ 0914014339

ኢ- መይል: [mebris5@gmail.com](mailto:mebris5@gmail.com)

ክፍል አንድ: አጠቃላይ መረጃዎች

በሳጥኑ ምልክት በማድረግ ይመልሱ



1. ጾታ
  1. ወንድ
  2. ሴት
2. ዕድሜ
  1. ከ 18 ዓመት - 30 ዓመት
  - 2 ከ 31ዓመት - 40 ዓመት
  3. ከ 41 ዓመት - 50 ዓመት
  4. ከ 50 ዓመት በላይ
3. የትምህርት ደረጃ
  1. ያልተማረ
  2. አንደኛ ደረጃ
  3. ሁለተኛ ደረጃ
  4. ዲፕሎማና ከዛ በላይ
4. ድርጅትዎ ከተመሰረተ ስንት ጊዜ ሆነው?
  1. ከ 2 ዓመት በታች
  2. ከ2 ዓመት-5 ዓመት
  3. ከ 5 ዓመት በላይ
5. ድርጅትዎ ከተመሰረተ ትርፋማነቱ ምን ይመስላል?
  1. ትርፍም ከሳራም የለውም
  2. አትራፊ ነው
  3. ከስራል
6. ዓመታዊ የንግድ ገቢዎ ስንት ነው?
  1. ከ ብር 500,000 በታች
  2. ከ ብር 500,000 - ብር1,000,000
  3. ከ ብር 1,000,000 በላይ
7. በድርጅትዎ ውስጥ ስንት የሒሳብ ሰራተኞች አሉ?
  1. ከ 2 በታች
  2. 3 – 5
  3. 6 – 15
  4. ከ 15 በላይ
8. የድርጅትዎ ህጋዊ ሰውነት በየትኛው ይመደባል?
  1. የግል
  2. ሽርክና ማህበር
  3. ሸ/የተ/የግ/ማ
  4. ኮርፖሬሽን
9. ድርጅትዎ በገቢዎችና ጉምሩክ ባለስልጣን በየዓመቱ የሂሳብ ምርመራ ይደረግለታል?
  1. አዎ
  2. አይደለም

**ክፍል ሁለት: ለግብር ህግ ተገቢነት ግንኙነት ያላቸው ወሳኝ ነገሮች**

ወሳኝ ሁኔታዎች	በጣም	እስማማለሁ	ገለልተኛ ነኝ	አልስማማም	በጣም
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		እስማማለሁ				አልስማማም
10	ገቢዎችና ጉምሩክ በባለስልጣን ግብር ከፋዮችን በየጊዜው ይጎበኛሉ ፣ይከታተላሉ ።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	የግብር መጠን/ታክስ ሬት/ መጨመር ግብር ከፋዮችን የሚያቀርቡት የገቢ መጠን ቀንሶ እንዲያቀርቡ ያነሳሳል	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	በድርጅቱ የተቀጠሩ የሂሳብ ሰራተኞች ከድርጅቱ በመስማማት ግብር ላለመክፈል ወጪዎች በተለያዩ መንገድ ያጋንናሉ።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	ባለስልጣኑ ለግብር ከፋዮች በየአመቱ የሂሳብ ምርመራ ማድረግ ግብር ከፋዮች የሚጠበቅባቸው ግብር እንዲከፍሉ ወሳኝነት አለው።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	ግብር ከፋዮች የታክስ ህግ ጥሰት ሲኖርባቸው መክሰስና መቅጣት ትክክለኛውን ገቢ ሪፖርት እንዲያደርጉ ያበራታታል።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	የታክስ አዋጆች  ደንቦችና መመሪያዎች ለመተርጎም ቀላል አይደሉም።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	ግብር ከፋዮች ኦዲት የመደረግ ዕድላቸው ሰፊ ከሆነ ገቢያቸው በትክክል ያሳውቃሉ።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17	ግብርከፋዮች የሚከፍሉት ግብር ለሀገር ልማት እንደሚውል ያውቃሉ። ለምሳሌ ለትምህርት  ጤና ለሀገር መከላከያ	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	ግብር ከፋዮች የሚከፍሉት ግብር ከመንግስት ከሚያገኙት ልማት ወይም ከሌሎች ግብርከፋዮች የሚከፍሉት ይበልጣል ብሎ የሚያስቡ ከሆነ የታክስ ህጉ ፍትህዊ አይደለም ይላሉ።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	ባለስልጣኑ ለግብር ከፋዮች ስለ ግብር ተገዢነት በቂ የሆነ ሥልጠና ይሰጣል።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	የባለስልጣኑ መሰርያቤት ከንግድ ትርፍ ግብር ከፋዮች መራቅ ለጊዜ ማጥፋትና ለሌሎች ወጪዎች ምክንያት ነው።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21	የአንዳንድ የንግድ ትርፍ ግብር ከፋዮች ሂሳብ መዝገብ በባለስልጣኑ ሰራተኞች ይዘጋጃል።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22	የባለስልጣኑ ሰራተኞች ከገቢ ቀንሶና ወጪ አብዝቶ ካስገቡ የንግድ ትርፍ ግብር ከፋዮች በመስማማት የሂሳብ ምርመራ እንዳይደረግና እንዲፀድቅ ጉቦ ይቀበላሉ።	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**ክፍል ሶስት. ግብር ከፋዮች የሚጠበቅባቸውን ግብር እንዲከፍሉ ከሊደረግላቸው የሚገቡ ማበረታቻዎች የሚገናኙ**

	ማበረታቻ መንገዶች	በጣም እስማማለሁ	እስማማለሁ	ገለልተኛ ነኝ	አልስማማም	በጣም አልስማማም
23	ግብር ከፋዮች ስለ ሚያገኙት አገልግሎት አስፈላጊውን አዲስ መረጃ/እንቅስቃሴያቸው በአድራሻቸው መልእክት  ኢ.መ.ይ.ል እንዲደርሳቸው ግብር ከፋዮች ለግብር ህጉ ተገዢ እንዲሆኑ ያበረታታል \$	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	ግብር ከፋዮች ማስተማርና መምከር	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25	ህግን ማጥበቅ/መቅጣትና ወለድ እንዲከፍሉ ማድረግ\$	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26	የታክስ ክፍያ መጠን / tax rates/መቀነስ ግብር ከፋይ የሚጠበቅበትን ግብር እንዲከፍል ያበረታታል::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27	ግብር ከፋዮች በሚቀረፁ ፖሊሲዎች ማሳተፍ::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	ግብር በተቀመጠው ህግና በትክክለኛ መንገድ ለሚከፍሉ ግብር ከፋዮች መሸለም::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29	የህግ ጥሰት ያለባቸው ግብር ከፋዮች ለሌሎች ግብር ከፋዮች ይፋ ማድረግ	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**ክፍል አራት:ግብር ከፋዮች ስለግብር ያላቸው አመለካከት ከግብር ህግ ተገዥነት ጋር ያለው ግንኙነት**

No.	አመለካከት	በጣም እስማማለሁ	እስማማለሁ	ገለልተኛ ነኝ	አልስማማም	በጣም አልስማማም
30	ብዙ ግብር ከፋዮች ግብር ስለማይከፍሉ የገቢ ግብሬን ባሳንሰው ችግር የለውም::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31	ግብር ማሳነስ ለማንም ስለማይጎዳ የገቢ ግብር ማሳነስ ስህተት አይደለም::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32	ሁሉም ግብር ከፋዮች በእምነት ግብር ይከፍላሉ::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33	ትክክለኛ ግብር በመክፈሌ ለሀገሪት ዕድገት አስተዋፅኦ አደርጋለሁ ብዬ አስባለሁ::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
34	ግብር እምክፍለው ህግ ስለሆነ ነው::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35	የግብር መርማሪዎች ጉቦ ስለሚቀበሉ ገቢ ቀንሶ ማስገባት ችግር የለውም::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
36.	ፖለቲከኞች ስለ ግብር ያለኝ አመለካከት ጥቅም እንደሌለው ያደርጉኛል::	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**APPENIX 3 – Structured Interview**

- 1.** Does the authority organize training program for business income tax payers? If yes, how often are these program organized? And how are participants for the training program selected?
- 2.** Do you think that the number of employees working in the organization is sufficient for the efficient service?
- 3.** Does the branch tax authority office timely make known information to tax payers? If yes, how is information accessed?
- 4.** Do you think that lack of knowledge is the main reason why business income taxes not comply? If yes, what should be done by the authority?
- 5.** Do you believe that presence of informal traders (those who do not pay their tax due properly) influence the loyal taxpayers' tax compliance? Please explain.
- 6.** Do you think the accountants employed in a business organization overstate expenses intentionally for not paying tax?
- 7.** As a staff member of the authority do you follow tax payers' taxation activity? If yes, how and how often