ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

FACTORS AFFECTING VOLUNTARY COMPLIANCE OF VALUE ADDED TAX REFISTERED TAXPAYERS IN ADDIS ABABA REVENUE AUTHORITY

THE CASE OF NUMBER TWO MEDIUM TAXPAYERS' OFFICE.

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JUNE, 2020

STATEMENT OF DECLARATION

I confirm that the study entitled **"Factors affecting voluntary compliance of VAT registered taxpayers' in AARA:** the case of number two medium taxpayer's office**"** this thesis is my original work and has not been presented for a degree in any other university and that all sources of materials used for the thesis have been duly acknowledged.

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Abstract

The overall objective of this study was to identify the factors affecting voluntary compliance of VAT-registered taxpayers' in AARA: the case of number two medium taxpayers' office. The specific objective includes examining, the effect of economic, individual, social, and institutional factors. The research used explanatory research methods. The primary data was collected using Likert scale questionnaires distributed to the number two medium VAT registered taxpayers. Dependent variable (Tax compliance) was measured in terms of complied to tax law that is registered timely, collect VAT by a legal receipt, file the VAT returns in the actual filing date, compute the tax liability as per the tax rate specified in the law, paid the right amount of VAT within the time frame stipulated in the tax law and have adequate records to complete tax returns and associated tax documentation. The predictor or independent variables were tax knowledge, referral group, simplicity of tax system, Principle of Equity and Fairness, awareness of offenses and penalty, Perception of Government Spending, Efficiency of the tax authority and Tax audit. The target population was 3929 from VAT registered taxpayers and 90 tax office staffs. The researcher utilized systematic random sampling for taxpayers and purposive sampling for tax office staffs techniques to select the participants. A sample size of 367 has been drawn from the tax population in Addis Ababa medium taxpayers' branch office of taxpayers to fill questioner and 27 were questioned by the tax office staff. The descriptive statistics was used to analyze the tax compliance and inferential analysis (multiple regression analysis) to determine the cause and effect relationship Independent variables on dependent variable and to test the hypothesis. According to the regression output the Tax knowledge, Referral group, Simplicity of tax System, Principle of Equity and Fairness and Awareness of offences and penalty affect the tax compliance significantly and positively. The remaining variables were negatively related with tax compliance and their contribution was statistically insignificant. All these independent variables are making 41.78% of the contribution for tax compliance. The results of this study also provide specific insights and enable policymakers to gain a better understanding of key variables that are significantly linked to tax compliance and enable them to implement appropriate strategies to minimize potentially harmful factors, as well as improve tax collections for their government. Thus, these factors should be given due consideration to enhance taxpayers' compliance behaviour and improve government's revenue collection.

Independent variables on dependent variable

. Key words: Tax compliance, tax knowledge, referral group, simplicity of tax system, Principle of Equity and Fairness and awareness of offences, penalty, Perception of Government Spending, Efficiency of the tax authority and Tax audit

Abbreviations and Acronyms

Abbreviation	Description
AARA	Addis Ababa Revenue Authority
ERCA	Ethiopian Revenue and Customs Authority
GST	Goods and Services Tax
IRS	Internal Revenue Service
LTO	Large Taxpayer's Office
MTO	Medium Taxpayer's Office
OECD	The Organization for Economic Cooperation and Development
SADC	Southern African Development Community
STO	Small Taxpayer's office
VAT	Value-Added Tax
AACGRA	Addis Ababa City Government Revenues Authority
MOFED	Ministry of Finance and Economic Development of Ethiopia
NBE	National Bank of Ethiopia
OLS	Ordinary Least Square
VATR	VAT revenue
GDP	Gross Domestic product

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CHAPTER ONE

1. Introduction

1.1 Background of the Study

Governments have to be performing various functions in the field of political, social and economic activities to maximize social and economic welfare. To perform these duties and functions, governments require a large number of resources called public revenues. Public revenue consists of taxes, revenue from administrative activities like fines, fees, gifts, and grants. However, taxes are the first and foremost important sources of public revenue which are central to the current economic growth and development agenda. The importance of taxation as a veritable tool of economic growth and development depends on a proper tax system that can generate revenue through tax. While fulfilling the revenue function, taxes also have a pervasive influence on the economic decisions of individuals and businesses, and on social equity (SADC, 2004).

Tax is a Compulsory Contribution: Tax is a mandatory donation to the Government from taxpayers. Those who are charged the tax cannot refuse to pay the tax. They've to pay it once it's levied. Any rejection on this point leads to punishment.

The benefit is not the basic condition: There is no direct return or quid pro quo to tax payers for the payment of tax. That is, for the amount of tax they pay, people cannot expect any financial return. Since, there is no link between the payment amounts payable to taxpayers by individuals and the Government (Ramaswami, 2005).

A value-added tax (VAT) is a type of consumption tax levied on the incremental value increase of a good or service at each stage of the supply chain until the final consumer pays the full tax (Congressional budget office, 2018).

VAT is a part of the sales tax unit. It may be defined as "a tax payable based on value added by the manufacturers or traders of the goods and services." It is not a tax on the total value of the commodity being sold but on the value, the manufacturer or trader adds to it. They are not responsible for paying the tax on the whole value of the commodity. But they only have to pay the tax on the net value added by them during the production or distribution process (Ramaswami, 2005**).**

The goal of VAT is to only add tax value, reduce the cascading effect of the sales taxes, and thus improve the quality of production. A VAT-registered business also pays VAT on the goods and services it buys as inputs, and charges VAT on the product it sells.The value-added tax (VAT) system ensures no unfair competitive advantage for domestic or foreign businesses. Nevertheless, it may could international trade and constrain consumer choices. To test this concept of destination needs to be applied. (OECD, 2020).

Exports are VAT-free according to this definition; Value-Added Tax (VAT) (or Goods and Services Tax (GST) as termed in some countries) has become a major tax instrument in a large number of countries worldwide. (OECD 2011, 4).

Tax noncompliance may be a basic issue that ought to be investigated given changing charge sees of taxes. Assess compliance may be a complex issue and can clarify by both financial and social variables. Recognitions of reasonableness have played a vital part in taxpayers' deliberate tax compliance (Filiz Giray, 2015).

Tax administration basically consists of sets of rules and regulations guiding the tax authority to discharge its responsibilities in the implementation of the tax policy. The activities involved in the tax administration include: identifying and registering the taxpayer, invoicing, filing and payment requirements, control of filing and payments, refunds, audits and penalties. Tasks such as determining who would be administering the tax, what organizational setup to use and what resources are available are peripherally fall under the responsibility of VAT administration (Yesegat 2008, p. 146).

Failing to carry out these administration responsibilities by both the tax administrator and the taxpayer as well as existence of weaknesses in the design of these administration activities will definitely adversely impact on the administration efficiency which this in turn affects the achievement of the VAT objectives and implementation of the policy.

Hence, this study aims at identifying factors affect voluntary compliance of VAT registered taxpayers' ie. What factors motivate VAT registered taxpayers to comply with the tax system or what factors influence VAT registered taxpayers' not to comply with system. The output of this study helps the tax authority to incorporate measures that address these pitfalls while designing a tax system or policy registered.

Background of the organization

Under Article 3 of Proclamation No 587/2008, the Authority shall be deemed to be an independent federal agency with its legal identity created by a merger between the Ministry of Revenue on 14 July 2008; the Ethiopian Customs Authority and the Federal Inland Revenue Authority which had previously been responsible for raising revenue for the federal government and preventing contraband reason for the merge of the foregoing administrations into a single autonomous authority are varied and complex. The revenue and customs authority in Ethiopia is the body responsible for collecting customs duties and domestic tax revenues. In addition to raising revenue, the ERCA is responsible for protecting communities against the adverse effects of smuggling. It seizes and prosecutes smuggling people and vehicles while facilitating the legitimate movement of goods and people across the border.

According to the May 2014 ' Domestic Tax Audit Manual, the Ethiopian Revenue and Customs Authority (ERCA) headquarters segmented its taxpayers into the office of large taxpayers (LTO), the office of medium taxpayers (MTO), the office of small taxpayers (STO). The main purpose of the organization tax offices is to control and provide services to those taxpayers who collectively make huge amounts of total tax revenue each year for the governments.

 Ethiopia introduced VAT as a replacement for sales tax in the year 2003. The introduction of VAT aimed at enhancing economic growth and improving revenue performance measured in terms of government revenue to Gross Domestic Product (GDP) ratio (FDRE 2002). However, VAT revenue performance appears to be declining and is low compared to that in neighbouring countries (Wollela, 2016).

Proclamation No. 285/2002 introduces VAT in Ethiopia by replacing the former sales tax with different objectives like. A VAT is a sales tax based on the increase in the value or price of the product at each stage in each manufacture and distribution. The cost of the tax is added to the final price is eventually paid by the consumer. In Ethiopia, the rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services.

1.2 Statement of the problem

Tax revenue is the biggest source of government revenue for financing public spending. It is paid out as an obligation by the citizens without expecting any direct return benefit. Even if tax is the foundation of the state's life, most taxpayers are unwilling to pay their tax liabilities because of unfavourable voluntary compliance (Fredrick & Peter, 2019).

Taxpayers are inherently disposed to reducing their tax liability either through tax evasion or tax avoidance. This may give rise to incorrect filling of their tax returns and loss of revenue to the government.
Tax compliance is a major problem for many tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects (Bahl, R. and Bird, R. 2008)

Compliance with taxes often includes cooperation with tax authorities and supplying the data that they need to ensure fair and unbiased implementation of tax laws. Such cooperation should include the prompt and comprehensive response to requests for data submitted by a competent authority under the terms of a tax treaty or information exchange agreement (OECD, 2011:11).

Failure to comply with tax may be in one of many forms; either failure to file a tax return within the specified period or failure to submit a tax return, understatement of income, overstatement of deductions, failure to pay the assessed tax by due date (Kasipillai & Abdul Jabbar, 2006). And in some cases failure to comply may result in a blatant failure to pay taxes levied. (Ojochogwu Winnie Atawodi1 & Stephen Aanu Ojeka, 2012).

However, tax collection in Ethiopia history has a long period of time and the government collects public revenue from direct and indirect taxes. VAT is one of indirect tax which is charged when taxable business or individual make any taxable transactions. VAT is a tax not on the total value of goods sold or services rendered but only on the incremental value or newly created value by the last seller. The incremental value is the difference between sales proceeds and purchases of intermediate goods or services (excluding the preceding VAT) (Bhatia, 2008).
There are few researches done on determinants tax compliance attitude in general or specific types of tax and related issues in Ethiopia. For example, the researches done by (Amina & Saniy, 2015); (Tilahun & Yidersal, 2014); (kanbiro, 2018) (Tadesse & Goitom (2014) were on the same issue by incorporating some explanatory variables.

The factors affecting tax compliance behavior appear to vary from region to region. Some variables are Significant in one study also insignificant in another study. For instance, Tadesse & Goitom (2014) examined probability of being audit have significant impact on tax compliance in Mekelle city tax payers, Tilahun & Yidersal (2014), found Probablity of being audit have no significant impact on tax compliance behavior of Bahrdar city tax payers. A research conducted by Amina and Sania (2015) examined perception of government spending have significant impact on tax compliance in the case of Jima zone Ethiopia. A research conducted by Tadesse & Goitom (2014) examined perception of government spending have no significant impact on tax compliance in Mekelle city tax payers.

The primary objective most of past studies is to establish the core determinant of tax compliance and see the relation between determinant and tax compliance. Most of the researches, then, centered on taxpayers "A" (large taxpayers) who are liable for business tax shall keep books of accounts prepared in accordance with financial accounting standard and its mandatory obligation (proc. 2016). But, medium taxpayers liable for business income shall keep records of daily income and expenditures. The study focused on Medium taxpayers' population size is larger than large taxpayers, and as per the researcher's knowledge, the factors and their effect on tax compliance of tax payers are not concluded clearly especially in case of medium VAT registered taxpayers.

Most of studies focused on all or some types of tax compliance, not all forms of taxation contributes are the same to Government revenues. Among those indirect tax revenues VAT is one of the most significant domestic tax revenue in the country.

This research focused on factors affecting voluntary compliance VAT registered taxpayers and, this type of tax varies from other tax forms, by collection, reporting, and making payment. And the researcher was interested to examine factors of affecting of this different feature of VAT.

This study focuses primarily on VAT, which is variables that voluntarily affect VAT registered taxpayers, rather than the previous reviews addressed. Focused reasons are:

Firstly, the reason for the change of emphasis is that VAT generates a substantial proportion of government revenue (NBE 2016/17). And needs to Study individually to identify their factors and address the problem.

Secondly, to fill the gap, which are the previous researcher's results indicated that inconsistence each other's.

Thirdly, Results of Empirical studies on determinants of tax compliance recommended that further

studies and investigations will lead to a better compliance level.

Lastly, studies were not conducted on determinants of voluntary compliance of VAT registered taxpayers in the case of number two medium taxpayers in Addis Ababa.

However, to fill the gap in this field, the researcher is interested in analyzing factors of voluntary compliance with VAT registered taxpayers in the case of Addis Ababa's number two medium taxpayers. The researcher chose the tax center because of time and finance constraint and the place of accessibility. And, the study would bring the commitment to minimizing the problem of non-compliance.

1.3 Objective of the Study

1.3.1 General objective

The major objective of this study is to identify the factors affecting voluntary compliance of VAT registered taxpayers' in AARA: the case of number two medium taxpayer's office.

1.3.2 Specific Objectives

In line with above general objective, the specific objectives of the study are:

1. To examine effect of individual factors such tax knowledge and awareness of offences and penalty on voluntary compliance of VAT registered taxpayers.
2. To investigate the influence of social factors, peer influence, perception on fairness and equity of tax system on voluntary compliance of VAT registered taxpayers.
3. To examine the effect of institutional factors like simplicity of tax system and organizational efficiency of tax authority on voluntary compliance of VAT registered taxpayers
4. To examine the impact of economic factors such as the probability of being audit and perception on government spending on voluntary compliance of VAT registered taxpayers.

1.4. Significance of the Study

The medium Taxpayers office uses this study to improve its revenue-collection ability by defining factors that affect VAT register taxpayers ' voluntary compliance. Therefore, it is extremely important to produce some experimental evidence for advance inquiries and use it as a step for other analysts so that in a few other departments they can perform comparable thoughts. The study also helps to

identify areas of weaknesses with constructive recommendations. Moreover, it also will serve as a starting point or reference paper for the other researchers who will be working on the same subject areas.

1.5. Limitation of the Study

The study is conducted in Addis Ababa revenue Authority medium taxpayers' office and the taxpayers that are used as primary source of data are only from medium taxpayers which may not represent the total VAT registered taxpayers in the country. The respondents of medium business profit taxpayers are do not have enough time to respond to the questionnaires and, thus the willingness of respondents was constraint. Other limitation to get information from the tax office most of the employees were not in the office because of current situation that is pandemic disease. Moreover, limitation is on OLS assumption the errors do not have a constant variance that is P value <5%.another limitation is test normality distribution not normally distributed. And Lack of experience of the researcher is another limitation to conducting this study. And the lack of finance and time was the other constraint to conduct the study.

1.6. Scope of the Study

The study mainly focused on factors that affect voluntary Compliance of VAT-registered taxpayers in number two medium taxpayers' office. however this study limited to examine only eight factors (tax audit, tax system simplicity, perception on equity and fairness, perception on government spending, referral group, awareness on penalty and offence, tax knowledge, and efficiency of the tax authority) which will affect voluntary compliance VAT registered taxpayers'.

For undertaking this study, the researcher was only confined to an examination of tax compliance for those under medium business taxpayers. As per (proc. 2016) category "A" taxpayers liable for business tax shall keep books of accounts prepared in accordance with financial accounting standard and its mandatory obligation but, category "B" taxpayers liable for business income shall keep records of daily income and expenditures because of the above rule large taxpayers, who are few and are mandatory VAT registered taxpayers, the researcher has observed , As compared with medium taxpayers and large tax payer., this study focused on medium a taxpayer to addressed large number of population and increase number of voluntary registered VAT taxpayers and it will assume that represent other VAT registered taxpayers' categories. This study also limits only for the last ten years (2008/09 – 2017/18). The scopes of this research also have a geographical limitation which is restricted to Addis Ababa specifically in kirkos sub city.

1.7. Structures of the study

This research paper is organized in to five main chapters: chapter one deals with the introduction of the study including background, statement of the problems, objectives, scope and limitations of the study. Chapter two focused on the literature review and empirical evidences from previous research works done. Chapter three show research methodologies applied for the intended research paper. Data analysis and Interpretation were presented in chapter four and conclusions and recommendations based on findings in chapter five.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter presents a review of the related literature on value-added tax definitions and tax compliance. Similarly, the literature review section presents theories about tax compliance, factors affecting tax compliance and empirical review of previous studies.

2.1 Theoretical Literature

2.1.1 Value Added Tax

The disparity between the input and output VAT taxes is the business ' value-added tax and that tax is paid to the government. Therefore, VAT reduces the distortionary impact of sales tax on revenue, as companies are no longer taxed twice. In addition, VAT adds a paper trail effect, since proper reporting increases significantly at the intermediate level. Consequently, governments are expected to increase VAT tax revenues (Mesay M. Gebresilassey& Soule Sowz, 2016)

VAT is a broad-based corporation tax levied at any point of development and delivery (Tuan, 2007). It is an indirect tax dependent on products and services use within the economy. The additional benefit is the disparity between the profits of revenue and the acquisitions of intermediate products and services for a specified duration. For instance, the added profit for a retailer is the difference between the supplier's overall revenue proceeds that month and the overall invoice for products and services. Essentially, customers face the tax responsibility as anyone else in the chain deducts the VAT levied on inputs from the VAT received on their outputs (Angesom, 2013).

2.1.2 Category of Taxpayers

According to proclamation, no.979/2016 Ethiopian taxpayers ' federal income tax is categorized into three categories, namely categories "A," categories "B" and categories "C," based on their sales volume and business size. Category "A" includes any company incorporated under Ethiopian tax law that has annual turnover of 1,000,000 Birr and more.

Companies classified under category "A" are expected to maintain all records and reports that will allow them to send, at the end of the year, a balance sheet and a profit or loss statement showing their gross profit, general administrative expenses, depreciation expenses and provisions and reserves along with supporting documents. Under category "B" fall enterprises whose annual turnover is more than 500,000 Birr but less than 1,000,000 Birr and category "C" includes those enterprises whose annual

turnover is less than 500,000 Birr. The taxpayer will pay the tax calculated according to the standard valuation

2.1.3 VAT Registration

ERCA Registration Directive (No. 25/2001) Under the VAT law, any person (natural person, sole proprietor, body, joint venture or association of persons) conducting a commercial enterprise or intending to conduct a commercial enterprise may apply to be registered for VAT. However, similar to most other countries adopting VAT, VAT registration in Ethiopia has its own legal provisions and procedures. The base for VAT registration in Ethiopia is the gross annual sales value (turnover) of taxable supplies made by a person during a year. Turnover related to exempt supplies as listed in the VAT law is not to be included in the gross sales value.

2.1.4 Tax contribution

As per the national bank annual report of Ethiopia, government revenue including grants reached Birr 287.5 billion in 2017/18 and. About 87.2 percent of the total domestic revenue came from tax sources Direct taxes contributed 41.5 percent to total tax revenue while that of indirect taxes was 58.5 percent. At the same time, from the indirect tax portion VAT contributed a high percentage from indirect tax (NBE 2016/17). For further improvement of tax administration and revenue collection which is explained by the increased tax to GDP ratio compared to IMF standard still, there are a lot of challenges and opportunities.

Among the major sources of revenue, indirect tax like the Value Added Tax (VAT) has become a significant and growing source of revenue for the national government. In 2015/16, the share of domestic VAT revenue hit 3.7 per cent of GDP, twice as much as in 2014/15. (8 IMF Article IV, country Reference to Ethiopia, 2016).

Table 2.1: From the total of tax collection, the VAT Contribution show as follows.

	2014(June month)	2014/15	2015/16	2016/17	2017/18	2018/19
Total TAX	931	2,183	2,655	2,998	3,267	3,280
Direct Tax	290	1,090	1,392	1,616	1,770	1,889
Indirect tax	641	1,094	1,263	1,382	1.497	1,390
VAT	639	1,085	1,257	1,374	1,493	1,384
VAT CONTRIBUTION TO THE TOTAL INCOME%	0.69	0.50	0.47	0.46	0.46	0.42
VAT CONTRIBUTION TO INDITECT TAX%	1.00	0.99	1.00	0.99	1.00	1.00

Source: number two medium tax payers office annual report.
N.B. The Office of Medium Taxpayers has begun collecting tax since 2014

Table 2.1 shows that the tax office collect from VAT under stated period contributed from 42% to 50% from the total tax on the branch.

Table 2.2 VATR, Total Tax Revenue, Real GDP, Ratio of VAT to TTR & GDP

GCY	VAT Tax Revenue(in Milions of ETB)	Total Tax Revenue (in Milions of ETB)	Real GDP (in Milions of ETB)	Ratio of VAT to Total Tax Revenue (TTR) (%)	Ratio of VAT To GDP (%)
2002/03	372.2	8,194.30	197,331.46	4.54	0.19
2003/04	1,220.70	10,770.99	220,477.15	11.33	0.55
2004/05	4,032.05	12,036.99	248,354.75	33.50	1.62
2005/06	4,809.15	13,911.84	277,013.34	34.57	1.74
2006/07	5,931.48	16,289.77	309,686.77	36.41	1.92
2007/08	7,987.17	22,649.06	344,331.93	35.26	2.32
2008/09	10,638.78	28,092.16	378,907.38	37.87	2.81
2009/10	15,264.91	38,818.00	418,946.95	39.32	3.64
2010/11	19,343.91	58,980.00	466,648.14	32.80	4.15
2011/12	29,525.30	85,739.00	506,533.27	34.44	5.83
2012/13	38,115.15	108,217.80	562,251.93	35.22	6.78
2013/14	40,047.98	133,118.00	1,047,393.00	30.08	3.82
Average	11,437.73	44,734.83	414,823.01	30.45	2.95

Source: MoFED and ERCA.(Abaye J.,2015)

Table 2.2 shows that government revenue collection from VAT for the under reviewed period increased from time to time. The average VAT collection was 11,437.73 million birr for the years (2002/03 to 2012/14). The average ratio of VAT contribution to total tax revenue showed 30.45%. The maximum ratio of VAT support for the Total Tax Revenue was 39.32% and the minimum also was 4.54% since introduction.(Abaye J.,2015)

VAT COLLECTION PRACTICES IN NUMBER TWO MEDUEM TAX PAYERS OFFICES
Table 2.3: VAT Gap (All figures are in Millions)

	2014(June month)	2014/15	2015/16	2016/17	2017/18	2018/19
Plan	874.25	1791.71	1375.31	1591.98	1957.12	1898.27
Actual	639.09	1084.81	1257.47	1374.42	1492.64	1383.8
Gap	235.16	706.9	117.84	217.56	464.48	514.47

Source: number two medium tax payers office annual report.
N.B. The Office of Medium Taxpayers has begun collecting tax since 2014

Table 2.2 shows the branch of tax office does not collect as per the plan.

2.1.5 Tax Penalty

Under Proclamation no.609/2016 VAT (amendment) proclamation Non-compliance with VAT Proclamation failure to register for VAT as, failure to issue a tax invoice, failure to keep records such as original tax invoices received and a copy of tax invoices issued and failure to file a timely return shall be liable for administrative penalties ranging from a fine of 100% of the amount of tax payable and a fine of up to Birr 50,000. Tax violations such as tax evasion, making a false or misleading statement and refusing to report are all criminal offenses in addition to administrative sanctions. This penalty ranging from 10,000 Birr to 100,000 Birr and imprisonment ranging from 3 years to 5 years was making the false or misleading statement intentionally or recklessly makes such an offense is punishable by a fine of up to 200,000 Birr and imprisonment of up to 15 years.

2.1.6 Tax compliance

Compliance with taxes applies to taxpayers ' willingness to act in compliance with both the spirit and text of tax law and administration. Roth, et.al (1989) described tax compliance as filling out all necessary tax returns in due time and reporting their tax liabilities accurately with the tax law and regulation.

2.1.7 Tax noncompliance

In general, in all practices, tax non-compliance can be found, knowingly or not, resulting in the unlawful disposal or reduction of tax liabilities. These acts are of all kinds and relate to a number of factors, such as the nature of a well-developed and entrenched informal economy, an insufficient regulatory framework, a heavy tax burden, the committed financial situation of taxpayers, social acceptance or indifference to the phenomenon of tax noncompliance The government's lack of legitimacy and lack of confidence in its actions, the partial or total lack of knowledge of legal obligations (low tax culture), amongst others (Miguel Pecho Trigueros et-el,2013).

In terms of tax noncompliance, have two categories which are tax avoidance and tax evasion.

Tax avoidance is a legal activity because tax laws are used to reduce the amount of tax payable that denotes the ingenuity of taxpayers to properly organize their affairs, and any attempt to minimize tax is acceptable.

Tax evasion on the other hand, it is an illegal activity involving a taxpayer's deliberate contravention of tax law with a view to eliminating tax liability by not filing income tax returns altogether or misrepresenting the amount of tax liability. Tax evasion is the application of fraudulent practices to minimize or eliminate tax liability by making a false income return by omitting or underestimating income or overestimating expenses, by making a false statement in a tax liability return, by giving false information on any matter affecting tax liability and other matters. Consequently, tax avoidance and tax evasion will result in the reduction or elimination of tax liability resulting in loss of government revenue (Marziana Mohamad & Mohd Asri Mohd Ali, 2017)

2.1.8 Principal components of VAT

There are two principal components of VAT. These are input VAT and output VAT.

Input VAT

Input VAT is the VAT payable by a taxable individual on products and services that are provided to him and on products that are purchased for a company carried on by him and on which VAT has been registered. For a VAT registered individual (taxable entity), input VAT is not a part of the purchase/importation bill, however, the registered individual is entitled to input VAT exclusion on purchases against the VAT fee or is recoverable from the tax authorities. Hence, input VAT is a receivable for a registered person (Misrak Tesfaye, 2008)

Output VAT

The output VAT is the VAT collectible by a taxable person at the time of sale of taxable goods and services (supply).Whenever a taxable person sells taxable products or services to another person, that is the VAT chargeable on the price of taxable goods and services. The premium paid for such taxable products or services will contain VAT. That is the Supplier's production VAT. The output VAT is not a part of the purchase price, but a duty on behalf of the Tax Authority to the taxable company or individual.

2.2. Empirical Review

Developing-world governments also fail to collect tax revenues. Businesses avoid payment of VAT by Under-reported sales, Non-registration, Misclassification of commodities, & Omission of self-delivery (Michael Keen & Smith1, 2007). Civil servants and elected officials could weaken the mechanisms of compliance to reward the allies. Also, States are collecting more tax revenues by increasing their enforcement of existing tax regimes and facilitating tax payments. Typically, these measures include increasing fines to prohibit tax evaders from paying money, as well as allowing administrative flexibility to reduce the burden to law enforcement on citizens and businesses. Expanding non-compliance fines increases the likelihood of maintaining a strategic distance from taxes, contributing to more noticeable compliance with fees. Improving administrative forms increases government efficiency, and encourages tax collection.

Improving compliance with taxes includes a step beyond regulation and facilitation. States and governments will tackle the ability of the people and businesses to pay their taxes. They contend that the degree to which voters trust their governments to make wise public investments and use public resources without corruption strongly influences the ability of people to abide by existing tax laws (Michael Touchton, et.al. 2019).

In their research (Park et.al., 2003) found that penalizing taxpayers when caught encouraged taxpayers to report the real income they earn through experimental data analyzing tax compliance determinants: a case in which tax compliance determinants are investigated, this result shows a positive relationship between penalty and tax compliance. And if a taxpayer is required to file an income or excise tax return and fails to file it on time, (Oladipupo & Obazee, 2015) a penalty may be assessed for late filing. Tax knowledge, penalties and tax compliance in Nigeria's small and medium sized enterprises. (Lederman, 2003) argues that penalizing tax evaders can cause to feel sure others that they are doing the right thing.

Factors found from the empirical studies indicate that (Ashenafi, 2018) has an effect on tax compliance. Such tax fines, the likelihood of identification and awareness of tax violations are assumed to have a positive effect on tax compliance behaviour in his report. Other considerations such as recognizing government spending, liability and the cost of reporting have an effect on taxpayer enforcement. It is important, therefore, to capitalize on these factors to cultivate positive attitudes towards taxes and to encourage voluntary compliance.

Two styles of fines are provided for under all tax proclamations of Ethiopia. These are institutional penalties and judicial punishment. All of Ethiopia's tax proclamations state that taxpayers who fail to meet tax liability requirements are liable with penalties ranging from financial penalties to high imprisonment. In the case of Ethiopia, however, the size of the statutory penalty is not small, and cannot be elevated as the cause of tax evasion (Yohannes M. & Sisay B.,2009).

Kanbiro Orkaido Deyganto, (2018) A study on the title Factors Influencing Taxpayers' Voluntary Compliance Attitude with Tax System: Evidence from Gedeo Zone of Southern Ethiopia with the objective to identify factors that determine tax compliance behaviour. The researcher used Binary logistic regression model was employed to analyze the data through the Stata software application the data were collected using structured questionnaire. And, recommends that more the likelihood of being caught by tax audit, more positive the taxpayers' voluntary compliance attitude of respondents. This infers that taxpayers comply with taxation for the reason that they fear may be caught by a tax audit. This supplement by asking taxpayers why they are comply more with tax law because there is a possibility that at the end of each year they will be audited by tax auditors. And, then they answered that they respect the tax duet fact that they will be prosecuted if they miss any wrong action in the preparation of tax returns. The author forwarded that the tax authority could expand its audit activities more consistently and regularly, keeping in mind the costs associated with its minimum, and increase tax revenue to the planned one.

Dasalegn M. (2014) the title on The Role of Value Added Tax on Economic Growth of Ethiopia objective of the researcher was to analyze the role of VAT on economic growth of Ethiopia from 2003 to 2012 based on theoretical and empirical evidences. To meet his objective, he used time series macro-economic data on GDP, VAT, total tax revenue excluding VAT, non-tax revenue and foreign revenue. He employed Descriptive statistics and multiple regressions to analyze the data. The finding of the study reveals that as compared to sales tax, VAT boosts the general economic growth of Ethiopia but the issue of regressively resembling to sales tax still continues. During the periods under review, the growth rate of VAT was 66.27% on average. For the periods of sales tax, the average growth rates of GDP were only 2.53%. However after executions of VAT, such growth rate reached about 21.9% on average. The analysis also showed as the average ratio of VAT to GDP becomes 2.95%. The finding also reveals that, VAT, total tax revenue and non-tax revenue except foreign revenue were significant at 5% level of significance but all of them positively contributed for economic growth during the periods under review. However, to be effective, it requires strong administrations and cooperation's of the tax payers with taxing authority and the government in

general. To summarize, internationally most of studies found the determinants of tax revenue for developed and developing countries by using panel data methodology while in Ethiopia there are some researcher regarding the title but not full fledge study it was as mini research inclusions of some variables and not as such deep analyzed. On connection to tax revenue there are a lot research providing the researcher insight view and key findings for the conclusion.

Tilahun & Yidersal, (2014); a study on the title Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers with the objective to identify factors that determine tax compliance behavior has been open for empirical investigation. Accordingly the researcher used one-way ANOVA, two samples and one sample T-test, 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 researcher concluded 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 made by Amina & Saniya (2014) on tax compliance and its determinant the case of Jimma zone, Ethiopia, with the aim of investigating the determinants of tax compliance for the case of Jimma zone category "A" taxpayers. The findings shows that age, sex, penalty, audit, simplicity, fairness and government perception were found to affect tax compliance.

Tadesse G. & Goitom A., (2014). A research on attempting to identify consumer enforcement determinants of the tax system Nine determinants of tax enforcement were analyzed; the determinants of tax compliance studied were: likelihood of auditing; perception of government spending; perception of equality and fairness; fine, financial constraint; modifications to existing government policies; comparison group; tax authority role; and tax awareness. The study used a cross-sectional survey method of research design. Given the scaled ranking information of the dependent variable (tax compliance), an ordered probit was applied to examine determinants of tax compliance in Mekelle city, Ethiopia. The study results indicate that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy. On the other hand variables such as perception of government spending, perception of equity and fairness, penalties, roles of the tax authority and tax knowledge were not significantly correlated with tax

compliance at the time of this study. The researcher suggests that the study also attempts to enrich existing literature by providing a clearer picture and a holistic view of the compliance behaviours' of taxpayers from the perspective of a developing country.

Niway A.& Wondwossen J.,(2016) a study on the title Determinants of Voluntary Tax Compliance Behavior in Self-Assessment System: Evidence from SNNPRS, Ethiopia. the objective of this study is to examine factors that influence tax payer's voluntary compliance behavior in Self-Assessment System (SAS). Authors used a cross-sectional survey method of research design. The target population of the study was category "A" tax payers in purposefully selected five cities of Southern Nation Nationalities and Peoples` Regional State (SNNPRS), Ethiopia. A sample of 377 Category "A" tax payers were randomly taken from the selected cities. Pearson correlation matrix and logistic regression model were employed to analyze and present the results of this study. The findings of this study showed that tax literacy, ease of tax returns and administration, perception of equity and fairness, perception of government expenditure, likelihood of auditing, and the power of referral category were influencing factors that affected tax payers' voluntary enforcement actions in SAS. The researcher implies that the outcomes of the study may inform policymakers about the determinants of voluntary compliance behavior of tax payers in the region and helps to formulate better policy decisions related to voluntary tax compliance

A study made by (Frehiywot A. & Lemma S., 2018) on Determinants of Tax Compliance in Ethiopia: Case Study in Revenue and Customs Authority, Hawassa Branch Survey conducted using primary data collected from 185 sample taxpayers' and secondary data collected form published and unpublished documents. A combination of both stratified and simple random sampling techniques were used to select the sample tax payers. The study used descriptive method to assess the compliance situation and ordered logistic regression was applied to examine the main determinants of tax compliance level. The results of the study revealed that tax audit, strength of the tax authority and educational level, tax rate, tax compliance cost, corruption, referent group, tax payers' attitude towards tax and tax payers' awareness about the tax law were found to be statistically significant effect on tax compliance. The researcher as per the study suggest that, these factors should be given due consideration to enhance taxpayers' compliance behaviour and improve government's revenue collection in Ethiopia.

Lidetu A. & Samuel S.,(2018) a study on the Factors Affecting the Performance of Value Added Tax /VAT/Revenue Collection Administration Practices: In Case of Wolaita Zone Revenue Authority, Southern Ethiopia. The study has focused on identifying factors that affecting VAT revenue

performance and its management practices in Soddo, Areka, and Boditi towns in wolaita zone. The study raised major research hypothesis related to VAT awareness of the society, tax technology especially using (electronics tax registrations)ETRs, VAT evasion, VAT audit and enforcement, Tax payers Service Delivery of the authority, Tax administration, and politico- legal factors. In order to address the hypothesis, causal research method and purposive and disproportionate stratified simple random sampling techniques were employed and statistical package for social science (SPSS) version 16 software was employed to gather data. The findings of the study shows that awareness of the society, tax technology, VAT evasion, tax audit and enforcement, VAT administration and politico-legal factors have statistically significant and positive relationship with the performance of VAT revenue collection. On the other hand, the variable service delivery has a positive relationship with VAT revenue collection but found to be statistically insignificant. The researchers were given potential solutions: which include, undertaking regular awareness-raising campaigns to educate the corporate community and society as a whole on the definitions, laws and regulations, advantages and uses of Value Added Tax, expanding the number of consumers of ETRs and enhancing taxpayer recognition and registration, reducing VAT evasion practices, implementing efficient audit and compliance programs.

As mentioned above, the a empirical research on tax compliance determinants around the world indicates that multiple factors have been taken into account to analyze what influences different taxpayers' tax compliance. According to the findings of the various study tax compliance has been influenced specifically probability of being audited, perceptions of government spending, penalties, personal financial constraints, perception on equity and fairness toward tax compliance. Some variables are Significant in one study also insignificant in another study.

2.3. Factors Affecting of Tax Compliance

According to (Kirchler, 2007) and (Loo, 2006), tax compliance determinants are classified in four categories based on an interdisciplinary perspective representing a wider perspective of tax compliance determinants compared to other researchers .The Four categories 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 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); and 4) individual factors (personal financial constraints, awareness of offences and of penalties) (Tadesse G. & Goitom A. ,2014). In addition to this one determinant variable is 5) Demographic factors (gender, Age & Education) (Mesele, 2018).therefore the researcher has identify five major factors affecting Voluntary compliance VAT registered taxpayers.

2.3.1 Economic Factors

Although taxpayers are motivated either to evade or not to evade taxes by their mere economic interests, research shows that structural considerations often play a crucial role in their decisions to comply. Economic factors in relation to tax compliance refer to actions which are associated with the costs and benefits of performing the actions (Loo, 2006). (Hasseldine, 1993), and (Song & Yarbrough 1978) assumed 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 are explored in more detail.

Tax Audits

"Tax audit is one of the most effective policies to protect the behaviour of tax evasion…. Tax audit generates administrative cost. As a constraint of the fixed administration cost, an increase in the level of tax audit is required to decrease the level of other administrative functions, like taxpayer service, tax collection etc. (Nicoleta B., 2011)". Therefore, government spent the large amount of money for audit that is economic factors. If the taxpayers voluntary comply of the tax law, the government save resources.

Some studies claimed that audits have a positive impact on tax evasions (Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). These findings suggest that in self-assessment systems, tax audits can play an indispensable role and their essential role is to increase voluntary compliance. Frequencies and meticulousness of audits could encourage taxpayers to be more prudent in completing their tax returns, reporting all income and claiming the correct deductions to ascertain

their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

Perceptions of government spending

Taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. If the government is wisely spending the national revenue, for example, for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them, then taxpayers will feel betrayed and attempt to evade.

2.3.2 Institutional Factors

For efficient oversight and supervision, the numerous organizations set up by the government to direct and reduce tax evasion have not been adequately organized or functional. (Adekoya Adesanya, 2020).

Role (efficiency) of the tax authority/government

For many aspects of tax compliance, there is a debate in literature as to how the effective operation of the tax system by the tax authorities influences taxpayers' compliance behavior. The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. (Hasseldine & Li 1999) illustrated tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion. Besides, the study of (Richardson, 2008) also suggested that the role of a government has a significant positive impact on determining attitudes toward tax.

Simplicity of the tax system

Concerning the simplicity of the tax system (Amina & Sinay, 2015); (Silvani & Baer, 1997) discuss the importance of the tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law. In addition, (Silvani & Baer 1997) again added that simplifying the tax return will encourage tax payers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs as the main feature of self-assessment system.

2.3.3 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 and awareness of

penalties and offences are therefore likely to have a significant impact on taxpayer compliance behavior.

Awareness of offences and penalties

A theoretical economic model introduced by (Allingham & Sandmo, 1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non-compliant taxpayers, they might reduce their tendency to evade tax.

Tax Knowledge

The influence of tax knowledge on compliance behavior has been described in various researches. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen & Fallan, 1996). Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply (Singh & Bhupalan, 2001).

2.3.4 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 (i.e. the government, friends and family members) (Torgler, 2007). On the other hand, (Kirchler, 2007) suggested that social factors should be viewed in a broader sense than Torgler's perspective; this includes the psychology of the taxpayers. The factors discussed in this section are therefore perceptions of equity and fairness, changes to current government policy and referent groups.

Perceptions of equity or fairness

One of the main principles of the taxation system design is equity or fairness, which can be perceived via three dimensional views - horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes), vertical equity (taxes paid increase with the amount of the tax base) and Exchange Equity (Wallschultzky 1984); Richardson, 2006). The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Jackson & Milliron, 1986; Richardson, 2008).

Referent groups (family and friends)

Research in ascertaining the importance of referent groups such as family members and friends in

tax compliance is limited although (Ajzen and Fishbein 1980) (in their Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB) theorized that referent groups play a significant role in determining people's intentions and behavior. Decisions either to evade or not to evade tax sometimes are influenced by family members or friends (Allingham & Sandmo, 1972) although the extent of the influence was not clearly stated in this research. Therefore, the influence of referent groups is seemingly important in making a decision, particularly involving monetary aspects and the obedience to laws (tax compliance).

2.3.5 Research Gap

The earlier studies indicate that various researchers on the similarly presented field of studies are that the rationale dimension of these studies is still debatable between separate researchers. Hence, I looking at factor affecting tax compliance behaviours' there seem to be a disagreement in the findings. Some variables are Significant in one study also insignificant in another study. And also from the previous empirical research found that the factors affecting of tax compliance have been found to differ between countries. This means there is no universal findings are highlighted by researchers pertaining to genuine tax compliance determinants among countries sharing similar tax systems, and cultures. This means there is no universal findings are highlighted by researchers pertaining to genuine tax compliance determinants among countries sharing similar tax systems, and cultures. Most of studies focused on all or some types of tax compliance, not all forms of taxation contribute the same to Government revenues. This research focused on factors affecting voluntary compliance VAT registered taxpayers and, this type of tax varies from other tax forms, by collection, reporting, and making payment. Furthermore, the reason for the change of emphasis is that indirect tax generates a substantial proportion of government revenue (NBE 2016/17). Among those indirect tax revenues VAT is one of the most significant domestic tax revenue in the country.

The researcher will be undertaken to fill in the gap which is not solely based on other previous research which are variables affecting voluntary compliance with VAT registered in Addis Ababa City Gov't revenue Authority No.2 Medium Taxpayers and contribute to the knowledge base.

2.3.6 Conceptual Framework

This study proposed that voluntarily compliance of VAT is dependent variable while tax audit, perceptions of gov't spending, tax knowledge, awareness of offense, efficiency of the tax authority, simplicity of tax system, principle of equity and fairness and peer influence are the independent variables (Tadesse G. & Goitom A.,2014).

Independent variables
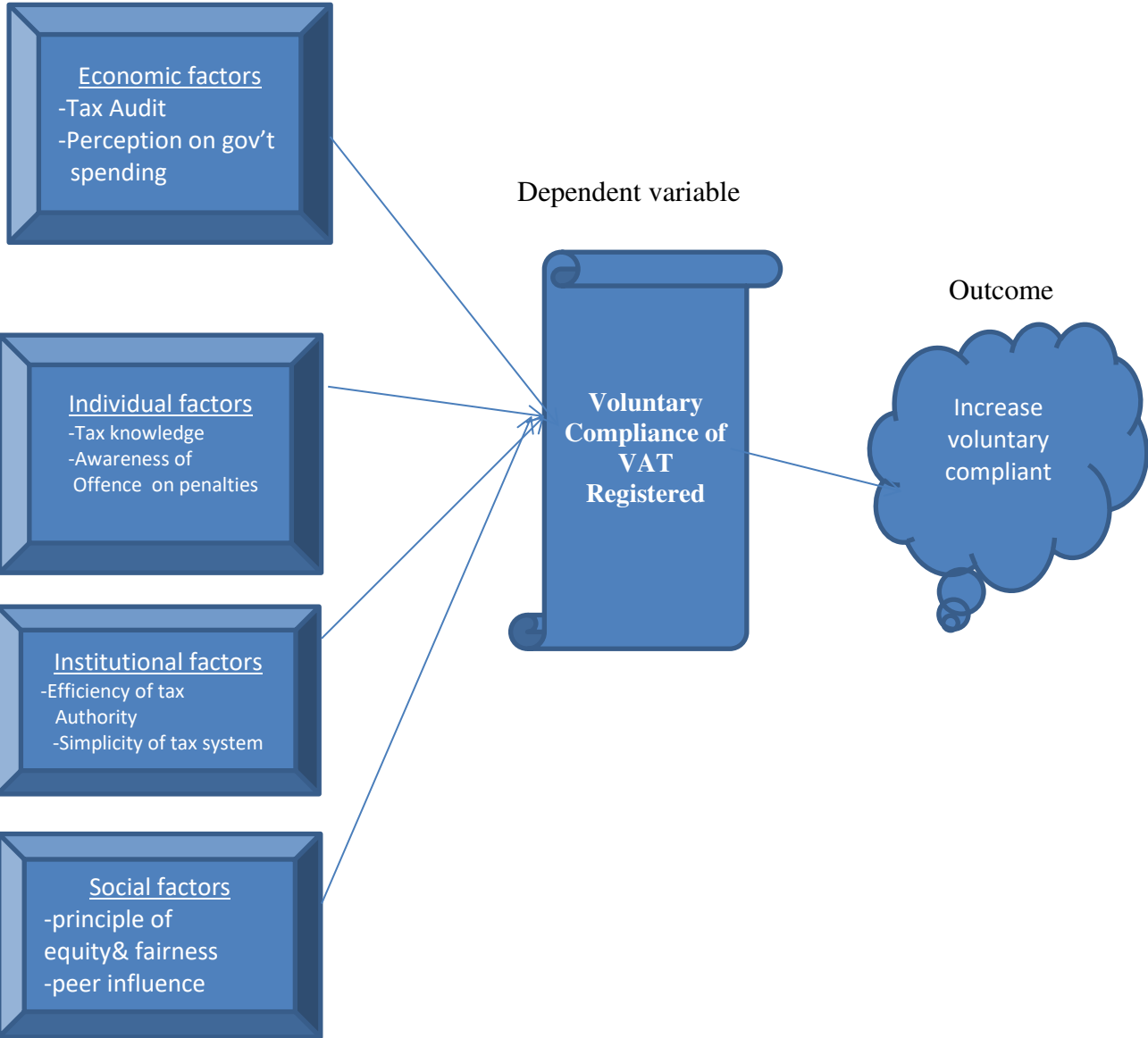
3. RESEARCH DESIGN AND METHODOLOGY

Introduction

This chapter presents the research Methodology, Research design and it describes the techniques and methods of data sampling, collection, processing, data analysis, reliability and validity of the test.

3.1 Research Design

An explanatory research design was used in line with the objective of the study. For this study, the researcher applied quantitative (questioner) and qualitative (document analysis). In the quantitative approach, data was collected through a systematic empirical study and the results were quantified with the help of statistics and mathematics (Kothari, 2004). A qualitative approach to research is concerned with the subjective assessment of attitudes, opinions, and behavior. The researcher was distributing the questioners to taxpayers and interviewed was made with employees of the number two medium taxpayer office. The data was processed by STATA(software).

3.2 Research Method Adopted
.
Every study requires a research design that is closely customized to the exact requires of the under investigation issue (Creswell, 2009). Where the analysis is focused on qualitative results and deals with the cause and effect relationship with quantitative approaches with variables are acceptable (Creswell, 2003). This research has also used quantitative approach, since the study is examining cause and effect relationship between variables.

3.3 Sampling Design and Sampling Techniques

Sample design is a definite plan for obtaining a sample from a given population. Employees, managers, and taxpayers of the number two medium taxpayer office was the target population of the study. The total population of this study is 3929 VAT register taxpayer and 42 assessment, enforcement, collection, customer service officers, and 38 auditors. It is impossible to collect from the whole population because the numbers are not manageable so, the required data collected from the sample respondent of staff employees and taxpayers of number two medium taxpayer' office. Purposive Sampling method was used to taken a sample from staff employees whose work is related to the research. The method was used to take systematic random samples from the taxpayers.

3.4 Sample Size

Setting population size and target population for the study intent is important for designing the sample. Accordingly, it is indicated in the above sections that the target population is the number of taxpayers and those employees of the branch. The samples should be representative so that the conclusion to be reached can be free of any hasty generalizations and biased nesses. Therefore, an appropriate formula has to be taken to minimize the risk of the above sampling unit. Also, researchers would have selected the degree of precision and level of confidence that would be preferred. And as a result, the researcher would like to be confident about 95% and that tolerated sampling error should be only 5%. The sample size determined only for taxpayers and 27(twenty seven) directly to tax office employees' were as taken as a sample for interview from the tax Authority. To ensure the validity of the findings, the study used adequate sample size. The researcher determined to accept at 5% sampling error and wanted to be at 95% level of confidence with the findings of this study. The researcher uses a sampling size determination formula.

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

n = sample size = 363 taxpayers, 15 employee and 12 Auditors

N = the size of the population are 3929 taxpayers & 42 assessment, enforcement, collection,

   & customer service officers & 38 auditors

e = the margin of error is assume to be 5%

Therefore the researcher had taken 390 samples from the number two medium taxpayers' office workers and taxpayers.

3.5 Sources of Data

The researcher was used primary and secondary sources of data.

Primary Data sources

The primary data sources were collected from taxpayers, the tax officials, and managers in the number two medium taxpayers' office. Questioners used to collected primary data form taxpayers. Questionnaires were distributed to the selected respondents to get primary data on the efficiency of value-added tax administration. By using questionnaires to taxpayers as well as intensive interviews with the tax officials of the authority. The purpose is to elaborate whether the VAT collection practices of the branch are performed as efficient as expected. To Also, the interview was done to get additional information that has not been collected through questioner.

Secondary Data sources

As important as the primary data, the researcher was also collected essential data from secondary sources. To analyze the VAT collection trends, ten years (2009 to 2018) data was taken from Addis Ababa City Gov't Revenue Authority office annual reports and ten years data was collected from Ethiopia Customs Authority Revenue collection reports website, empirical finding, and tax rules and regulation.

3.6 Hypothesis Formulation

Based on the proposed conceptual framework, relevant hypotheses are formulated and argued as presented in the following section. In order to achieve the research objective the researcher developed major variables such as, tax knowledge, peer influence, simplicity of tax system, principles of equity and fairness, awareness of offense and penalty, perceptions of gov't spending, efficiency of the tax authority and tax audit toward tax compliance. (Tadesse G. & Goitom A., 2014),

H1: Tax voluntary compliance attitude is positively correlated with tax knowledge

H2: Peer influence or referent group has negative association on voluntary compliance attitude of taxpayers.

H3: Simplicity of tax system is positively related with tax compliance attitude.

H4: Principle on fairness and equity of tax system is positively associated with compliance attitude.

H5: Tax voluntary compliance attitude is positively related with awareness of offences and penalty of taxpayers.

H6: Voluntary compliance attitude of taxpayers is positively related to government spending

H7: Organizational efficiency of tax authority is positively correlated with voluntary compliance attitude.

H8: Probability of being audit is positively correlated with voluntary compliance attitude of Taxpayers

3.7 Model Specification

Before presenting the data analysis methods adopted, the study tried to specify the variables and models used under the study. Accordingly, the study identified a total of nine(09) variables including one dependent, and eight independent variables based on the previews studies on similar topics namely, (Amina & Saniy,2015), (Tilahun & Yidersal,2014); (kanbiro,(2018).

The general equation for the model used to test is shown below:

$Y = \alpha + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + \beta 4 X4 + \beta 5 X5 + \beta 6 X6 + \dots + \mathcal{E}$

Where;

Y – Tax Compliance

α - Constant

Ɛ - Other factors undefined/Error term

X1,X2….X11Factors of compliance Substituted Coefficients

Tax Comp= α + β1Tax_knowldge + β2peer influence+ β3simpl + β4prin equ. fair+ β5penality+ β6 Gov.-Spend. + β7Org_Eff+ β8Prob_Audi + Ɛ

X1- tax knowledge, X2- Referent groups (family and friends), X3- Simplicity of tax system, X4- Principle of Equity and Fairness, X 5- Awareness of offences and penalties, X 6perception of government spending, X7- Organizational efficiency of tax authority, and X 8- Tax audit are Factors of tax compliances or independent variables.

3.8 Standard Error of Estimation

It is a measure of the dispersion of the data points from the regression line. Its objective is to identify whether a particular variable is significant at a certain level of confidence. Standard error can be measured in two ways: Using T-stat and Degree of freedom. It is also useful in determining the range in which the dependent variable will point to a specified probability.

In addition, the β coefficients for each independent variable generated from the model β1- tax knowledge, β2- Referent groups (family and friends), β3- Simplicity of tax system, β 4- Principle of Equity and Fairness, β 5- Awareness of offences and penalties, β 6 - perception of government spending, β7- Organizational efficiency of tax authority, and β 8- tax audit are Coefficients indicating rate of change of tax compliances with respect to independent variables.

Table 3.1 Variables description and expected associations with the level of tax compliance

Variable	Symbols	Unit of measurement	Expected signs/hypotheses
Dependent Variable			
Level of compliance	TCOM.	(1-5) likert scale Ordinal	+ (high probability and high frequency, high compliance)
Independent Variables			
Tax knowledge	Tax Knowledge	(1-5) likert scale Ordinal	+(High tax Knowledge, High Compliance)
Referent groups	Ref	(1-5) likert scale Ordinal	-(High influence, Low compliance)
Simplicity of tax system	Simpli.	(1-5) likert scale Ordinal	+(Simple tax system, high compliance)
Perception of Equity and Fairness	Equity_Fair	(1-5) likert scale Ordinal	+(good perception, high compliance)
Awareness of offences and penalties	Penalty	(1-5) likert scale Ordinal	+ (High penalty, high compliance)
perception of government spending	Gov_Spend	(1-5) likert scale Ordinal	+(good perception, high compliance)
Organizational efficiency of tax authority	Org.Eff.	(1-5) likert scale Ordinal	+(High Orga. Efficiency, High compliance
Tax audit	Prob _ Audi	(1-5) likert scale Ordinal	+(high probability of audit, high compliance)

3.9. Methods of Data Analysis and Interpretations

In this study, the researcher used STATA software to analyze the collected data. After collecting, editing, and processing the quantitative data and entering it into STATA software, a reliability test was conducted. After that, descriptive statistics mainly frequency count, percentage, central trend measure (mean), dispersion measure (standard deviations) were used to summarize and describe the observation results. The Ordinary Least Square (OLS) assumptions of the linear regression model were used to evaluate the relation between the variables and to check the hypothesis, correlation, and regression analysis. The assumptions of ordinary least square (OLS) like normality, Multi co linearity, autocorrelation, and Heteroscedasticity. Using frequency, the presentation and report was done through figures, and tables.

3.10 Summary

This research was used to design using explanatory research, systematic and purposive sampling technique and using primary and secondary data sources. From primary data collecting tools questionnaire and interview were conducted. In addition, from secondary data used office report, website, empirical finding, and tax rules and regulations. From research objective and conceptual framework was to develop Hypothesis Formulation and Method of Data Analysis and Interpretations.

CHAPTER FOUR

4.DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis and discussions for the research findings obtained from the questionnaires, interview and document reviews. The main objective of the study was to determine the factors of affecting voluntary compliance of VAT registered taxpayers in the case of number two medium taxpayers' office. The study presents the findings by use of tables and figures. The finding intended to answer the research objectives which were presented in previous chapter.

4.1. Descriptive analysis

Response rate

The questionnaires were distributed to VAT registered taxpayers in Addis Ababa City Gov't revenue Authority No.2 Medium Taxpayers office. 363 questionnaires were prepared and distributed for the respondents. However, out of 363 questionnaires distributed 289 respondents completely filled in and returned the questionnaires, these represent an 80% response rate and this response rate was satisfactory to make conclusion for the study.

Table 4.1.1 summary of the response rates

Data sources	Methods of data collection	Sample size	Response	Frequency	Percentage
Value added tax registered taxpayers'	Questionnaires	363	Filled and returned the questionnaires	289	80
			No response	74	20
Totals				363	100

Source: Field survey, 2020

Demographic information

The following outputs processed by STATA software is provided to show the demographic profile of the respondents in terms of gender, age, educations and number of years in the business which is depicted as follows.

Gender of the respondents

According to the study findings (56 %) of the respondents were female and (44 %) were male.

Table 4.1.2 STATA output for gender distribution

Gender	Frequency	Percentage
Female	162	56
Male	127	44
Total	289	100

Source: Field survey, 2020

Age of the respondents

The study requested the respondents to indicate their age category and the finding indicates that (35%) of the respondents were aged more than 50 years, (23%) of respondents indicated they were aged between 31 to 40 years and (21%) aged between 41 to 50 years, (21 %) of respondents indicated were aged between 22 to 30 years.

Table 4.1.3 STATA output for age distribution

Age category	Frequency	Percentage
22 up to 30	61	21
31 up to 40	63	23
41 up to 50	61	21
Above 50	104	35
Total	289	100

Source: Field survey, 2020

Educational level

Referring to the table 4.1.4 below, the respondents were asked to indicate their level of education. From the study findings, 49.5% of the total respondents had 10-12 grade , 43% of the total respondents had diploma and professional qualifications, this was followed by 5% who had had degree, 2.5% had less than 10 grade.

Table 4.1.4 STATA output for Educational Level

Education	Frequency	Percentage
10-12	143	49.48
Degree	15	5.19
Diploma	124	42.91
Less than 10	7	2.42
	289	100

Source: Field survey, 2020

The number of years in the business

The study also requested respondents, taxpayers, From the computation, 25% have been running their medium tax payers for a period of 0 to 5 years, 17% have been in business for 11 to 15 years, 26% have been in business for 5 to 10 years, 12% have been in business for 16 to 20 years and 20% have been in business for more than 20 years.

Table 4.1.5 STATA output for number of years in the business

Number of years in the business	Frequency	Percentage
0 to 5 years	71	25
5 to 10 years	74	26
11 to 15 years	50	17
16 to 20 years	36	12
Above 20 years	58	20
Total	289	100

Source: Field survey, 2020

4.2. Descriptive statistics

4.2.1 Tax Knowledge

No.	Tax knowledge Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
1	I know how to declare VAT output received from VAT payers' to the tax authority	255	88.24	31	10.72	3	1
2	I know how to maintain VAT records / documents on the purchase of goods or service output	248	85.82	37	12.8	4	1.4
3	I understand that I should pay VAT due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	223	77.16	43	14.88	23	7.96
	Average		**83.74**		**12.8**		**3.5**

Source: Field survey, 2020

Table 4.2.1 shows summarized the responses under which conditions VAT registered taxpayers' knowledge. The result indicated that the respondent agreed that 255(88.24%) of they know how to declare VAT to the tax Authority on the other hand 31(11%) of the respondent replied that they do not know how to declare and the remaining 1% of the respondents were neutral.

The result indicated that the respondent agreed that 248(85.8%) they know how to maintain VAT records/documents on the purchase of goods or service output 37(12.8%) of the respondent replied that they do not know how to maintain VAT records/documents on the purchase of goods or service output 1.4% of the respondents were neutral. The result indicated that the respondent agreed that 223(77%) they understand that they should pay the VAT due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period. On the other hand, 43(15%) of the respondent replied that they do not understand that they should pay the VAT due within the

prescribed period from the date of the issue of the Notice of Assessment or within the stipulated period 8% of the respondents were neutral.

As per the respondent, most of the taxpayers have awareness about the tax on how to declare, maintain the record, and the date of payment assigned by the tax authority. This is similar with the result of the interview with tax office staff that some VAT registered   taxpayers do not pay their taxes timely and as a consequence they are paying with penalty. It is mostly attributed to lack of knowledge of tax laws and procedures, they cannot quickly file tax returns and often do not register their everyday transactions and it takes time to list the transactions and send the reports at once. No regular training are given to taxpayers and since the experienced staffs leave the tax Authority. Frequently, the new staffs acquired such experience at the expense of the taxpayers'. But not all thus, they need more attention to aware them, to increase tax compliance.

4.2.2 Referral group (Friends, Relative Etc.)

4.2.2 Referral group (Friends, Relative Etc.)							
No.	Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
1	My friends do not comply and they have never been penalized	223	77.16	43	14.88	23	7.96
2	My parents and relatives do not comply and they have never been penalized	234	80.96	55	19.04		
	Average		79.06		16.96		3.98

Source: Field survey, 2020

Table 4.2.2 above summarized the responses under which conditions VAT registered taxpayers. In the case of referral groups, 223(77%) 0f the respondent agreed that their friends are not be penalized even though they are not comply with the tax laws and regulations, And, 15% of respondent replied that they disagree that they are not comply and penalized. On the other hand the remaining 8% of the respondents were not willing to say something about relatives. 234(81%) 0f the respondent agreed that their parent and relatives are not be penalized even though they are not comply with the tax laws and regulations, and, 19% of respondent replied that they disagree that they are not comply and penalized. This indicated that Referent groups play a significant role in determining people's

intentions and behaviour. Decisions either to evade or not to evade tax sometimes are influenced by family members or friends.

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4.2.3 Simplicity of tax System

	Simplicity of tax System						
No.	Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
1	Personally, I agree that the Ethiopian VAT tax system is easy understand and consider the taxpayers	233	80.62	50	17.31	6	2.08
2	There is fair neutrality of the procedure, trustworthiness of the tax authorities and polite, honourable, and respectful treatment in tax authority	221	76.47	52	17.99	16	5.54
3	comparisons are made on the individual, the group, and the societal level among VAT registered Taxpayers	239	82.7	39	13.5	11	3.81
4	The VAT tax proclamation ,regulations and directives are keeping their hierarchy and never collide each other	233	80.62	45	15.57	11	3.81
5	The tax authority circular does not affect the fairness of the tax system	199	68.88	34	11.76	56	19.38
6	The tax enforcement obligations have no caused taxpayers tension and anxiety. The tax systems have no causes for psychological impact.	230	79.88	33	11.42	26	9
	Average		78.195		14.59		7.27

In the case of simplicity of tax system were asked and replied that 233(81%) 0f the respondent agreed that the tax system is easy, understandable and considered the taxpayers, and, disagree with 50(17%) and the remaining are neutral (2%).

when taxpayers were asked about there is fair neutrality of the procedure, trustworthiness of the tax authorities and polite, honourable, and respectful treatment in tax authority, 221 (76)% were in agree with the statement and disagree with 52 (18 %) respondent and around 6% of the respondents are

remain neutral. The comparisons are made on the individual, the group, and the societal level among VAT registered Taxpayers are agree with 239(83 %) and disagree with of 13% and the remaining score 4% respondents were neither agree nor disagree.

Based on the survey responses, 233(80%) respondents were agreed the VAT tax proclamation ,regulations and directives are keeping their hierarchy and never collide each other, and, disagree with 45(16%) and the remaining are neutral (11%). The tax authority circular does not affect the fairness of the tax system are agree with199 (69%) and disagree with 34(12%) and the remaining 19% respondents were neither agree nor disagree. The tax enforcement obligation not have caused taxpayers tension and anxiety. The tax system have no causes for psychological impact are agree with 230(80%) and disagree with 11% and 9 % of the respondents are remaining neutral. This result indicates the respondent approve that the tax system is simple in terms of filing, understanding and the law of the tax office. But, as we can see statements, some taxpayers were not agreed in regards to the system of the tax office is simple. This indicates there is gap and needs more attention to satisfy its customers. The interview result of tax staffs also similar with the survey results of VAT registered taxpayers. The tax office staff believed the availability of problem of network, the new directives are not communicated timely to taxpayers. Concerning the simplicity of the tax system discussed the importance of the tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law.

4.2.4 Principle of Equity and Fairness

No.	Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
	4.2.4. Principle of Equity and Fairness						
1	Higher income earners should pay more taxes than lower income earners	243	84.08	34	11.77	12	4.15
2	I pay about the same amount of taxes as others making the same income	220	76.13	39	13.49	30	10.38
3	I believe that by paying the correct amount of tax, many people particularly the poor can get the gain	238	82.35	32	11.07	19	6.57
	Average		**80.85**		**12.11**		**7.03**

Source: Field survey, 2020

From the above table 4.2.4 Higher income earners should pay more taxes than lower income earners respondent are agree with average of 84 % and disagree with average 12 % and the remaining average score 4 % respondents were neither agree nor disagree.

The respondent are agreed with 76% about they were paid the same amount of taxes as others making the same income and disagree with 13% and the remaining average score 10% respondents were neither agree nor disagree. and 82% respondent agree that by paying the correct amount of tax, many people particularly the poor can get the gain and disagree that11% and the remaining average score 5 % respondents were neither agree nor disagree.

This result indicates that VAT registered taxpayers were know about the high income earners pay more tax. But some taxpayers are not agreeing with it. This indicates there is a gap and it needs more attention to awareness of tax system. Thus the tax authority will maintaining tax equity and fairness is not achieved only through levying equal taxes on individuals who have equal income but also each taxpayer should pay according to his ability- to pay. The interviewers also confirmed the existence of unfair tax among similar businesses. That means the presence of similar traders and friends that do not pay taxes contributed for their tax noncompliance.

4.2.5 Awareness of offences and penalty

No.	Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
	4.2.5. Awareness of offences and penalty						
1	The penalty rates are very low and I can afford to pay the penalty	219	75.78	40	13.84	30	10.38
2	The enforcement is very weak	203	70.24	46	16	40	13.76
3	If I detected not reporting VAT, I believe that the tax authority is tolerant towards my offence and most probably it will escape without any punishment.	228	78.89	38	13.15	23	7.96
4	I have no idea about penalty rates and offences	215	74.4	44	15.22	30	10.38
	Average		74.83		14.55		10.62

Source: Field survey, 2020

76% of the respondent agreed that the penalty rate is very low thus, they do not report VAT to tax authority and disagree with 14% and 10% are neutral. The enforcement is very weak are agree with 70% and disagree with 16% and 14 % of the respondents are remain neutral.

79% of the respondents were agree with, If I detected not reporting VAT, I believe that the tax authority is tolerant towards my offence and most probably it will escape without any punishment and 13% with disagree and the remaining respondent are neutral. 74% of the respondents' were no idea about penalty rates and offences and 15% with disagree and, the remaining was neutral. The study indicated that most of the respondents not willing to comply the law and, If the taxpayers are aware of the offenses, they are committing when evading tax, and the consequences of being non-compliant taxpayers; they might reduce their tendency to evade tax.

4.2.6. Perception of Government Spending

No.	Statements	No.of Respondents With positive Agreement	% of Positive Agreement	No.of respondents With Negative Agreement	% of Negative Agreement	No.of respondent With Neutral	% of Neutral
	2.6. Perception of Government Spending						
1	I believe tax authority is highly corrupted, so I don't want to declare the correct VAT	236	81.67	25	8.65	28	9.69
2	I believe that collecting money from me is not fair	185	64.01	34	11.77	70	24.22
3	I believe the government budget allocation is not fair, so I wish not to declare VAT	193	66.78	61	21.11	35	12.11
4	I believe declaring the required VAT benefit not for the poor	180	62.28	43	14.88	66	22.84
5	I believe government spending is unfair, So I don't need to declare the required VAT.	193	66.78	47	16.26	49	16.96
	Average		68.304		14.534		17.16

The study was conducted about the perception of government spending and the result revealed that 81% of the respondent believed that the tax authority is highly corrupted and they don't want to declare the correct VAT and disagree with 8.65% of respondent and the remaining were neutral. 64% of respondents are agreed with the collection of money is not fair and 12 % of respondent were disagree and the remaining were neutral. 62% of respondent agreed that I believe declaring the required VAT

benefit not for the poor and 15% of the respondent are disagree and the remaining average score23 % respondents were neither agree nor disagree. And the government spending is unfair, So I don't need to declare the required VAT respondent are agree with 67% and disagree with average of 16% and the remaining average score 17% respondents were neither agree nor disagree.

This result indicates more than half percent (68%) the taxpayers were not comply tax law for the reason of awareness of government spending is poor. But, as we can see statements taxpayers were not agreed in regards to the perception of government spending. As per interview the tax office officer's said that the tax office do not give awareness about the government spending. This signifies that the taxpayers have not positive view towards the tax system. This may lead them to stand on the side of the tax evasion and tax avoidance.

4.2.7 Role (efficiency) of the tax authority/government

No.	Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
	4.2.7.Role (efficiency) of the tax authority/government						
1	Government/tax Authority collects VAT Economically.	197	68.16	33	11.42	59	20.42
2	AACGRA(Addis Ababa City Government Revenues) personnel are capable in collecting VAT	202	69.90	47	16.26	40	13.84
3	The tax authority collects the required amount of VAT as planed and expected	215	74.40	31	10.73	43	14.88
	Average		**70.82**		**12.80**		**16.38**

The study was conducted about the efficiency of the tax authority and the result revealed that 68% of the respondent believed that the tax authority collects VAT Economically and disagree with 11% of respondent and the remaining 21% were neutral. And the respondent of response about AACGRA(Addis Ababa City Government Revenues) personnel are capable in collecting VAT are agree with 70% and disagree with average of 16% and the remaining average score 14% respondents were neither agree nor disagree. 74% of respondent are agree with the tax authority collects the required amount of VAT as planed and expected and disagree with 11% and the remaining average score 15% respondents were neither agree nor disagree. The survey result showed the respondent response the tax authority of the city administration efficient and effective. But not all respondent are agreed. The

interview result of tax staffs, also said that the tax office not collect tax as plan. The tax authority needs to improve in various aspects such as the tax assessment and collection procedures, creating awareness, enforcing the tax law, providing services, and information regarding tax.

4.2.8 Tax audit issues

No.	Statements	No.of Respondent With positive Agreement	% of Positive Agreement	No.of respondent With Negative Agreement	% of Negative Agreement	No.of respond With Neutral	% of Neutral
	Tax audit issues						
1	Tax audit have no effect on vat compliance	212	73.35	34	11.76	43	14.89
2	The likelihood of the tax authority for not declaring the exact value added tax is low	207	71.62	24	8.31	58	20.07
3	The probability of being audited by the tax authority are very low as aresult I can under report and over claim the VAT	213	73.7	36	12.46	40	13.84
4	I believe that tax audits can not play an important role to increase voluntary compliance	196	67.82	34	11.77	59	20.42
5	Taxpayers who have never been audited before cause for malicious report	210	72.66	30	10.38	49	16.96
	Average		**71.83**		**10.94**		**17.24**

From the above table 4.2.8 Tax audit have no effect on VAT compliance are agree with average of 73 % and disagree with average of 12% and the remaining average score 15% respondents were neither agree nor disagree. The likelihood of the tax authority not declaring the exact VAT is low are agree with on average 72 % and disagree with on average 8% and the remaining average score 20% respondents were neither agree nor disagree. The probability of being audited by the tax authority are very low as a result I can under report and over claim are agree with average of 74% and disagree with average of 12% and the remaining average score 14% respondents were neither agree nor disagree. I believe that tax audits cannot be play an important role to increase voluntary

compliance are agree with average of 68 % and disagree with average of 12% and the remaining average score 20% respondents were neither agree nor disagree. Taxpayers who have never been audited before cause for malicious report are agree with average of 73 % and disagree with average of 10% and the remaining average score 17% respondents were neither agree nor disagree. According to the interview result of tax officers, low audit coverage is the main reason why some VAT registered taxpayers underreport their income or overstate their expenses up on declaring their taxable income. In addition to that, some informal suppliers transact without using legal receipts as they know the probability of detection by tax office audit team is low due to low audit coverage.

The study indicated that more taxpayers do not audited regularly and then, they do not paid correct amount and/or timely. This implies that taxpayers comply with taxation for the reason that they fear may caught by tax audit. Thus the tax authority should be focused on audit to increase the revenue.

4.3. Reliability test of instrument

Reliability in statistics is the accuracy of a series of measures or measuring devices that are sometimes used to characterize a study. There are several different tests for the reliability of coefficients. One of the most frequently used is Cronbach's Alpha. If the items are standardized, Cronbach's Alpha is based on an average correlation of items within a test. The measurement of Cronbach's alpha is range in value from 0 to 1 in which the higher the score (close to 1) means the more reliable the generated scale. This test helps to improve data collection and to revise the instruments where necessary before going further to work. It is acceptable to have a reliability analysis value is greater than 0.60 (Cronbach's, 1951). The table 4.3.1 shows that, the Cronbach's alpha of this study is between 0.81 to 0.83 and Cronbach's Alpha Based on Standardized Items is a reliability analysis value (i.e., more than 0.70) is highly acceptable, according to Field (2009). This is reasonably sufficient, for the researcher to ensure about the reliability of the data collecte

Table4.3.1. Reliability Statistics

Variables	Cronbach Alpha based on standardized item
Tax knowledge	0.8213
Referral group	0.8206
Simplicity of tax system	0.8099
Principle of equity and Fairness	0.8370
Awareness of offences and penalty	0.8194
Perception of government spending	0.8200
Efficiency of tax Authority	0.8238
Tax Audit	0.8185
Tax compliance	0.8141

The above table shows the reliability test for the dependent variables Tax knowledge, reference groups, simplicity of tax system, Principle of equity and Fairness, Awareness of offences and penalty, Perception of government spending ,Role (Efficiency) of tax authority and Tax Audit. The Reliability tax knowledge consisted of three questions and the result is 0.8213representing an 82.1% scale reliable. The reliability test for reference groups consisted of two questions is 0.8206 representing 82%. The reliability test for simplicity of tax system consisted of six questions is 0.809 representing 80%. The reliability test for Principle of equity and Fairness consisted of three questions is 0.837 representing 83.7%. The reliability test for Principle of Awareness of offences and penalty consisted of four questions is 0.8194 representing 81.9%. The reliability test for Perception of government spending consisted of five questions is 0.8200representing 82%. The reliability test for Efficiency of tax Authority consisted of three questions is 0.8237 representing 82.3%. The reliability test for Tax Audit consisted of five questions is 0.8185representing 81.8%. This result is considered high according to the Alpha Coefficient Range. As shown in table for the reliability test Cronbach,,s Alpha coefficients for Tax Compliance factors range from 0.809 to 0.837 and thus the researcher concludes that the questions regarding determinants of Tax compliance are accept.

4.4. Assessments of ordinary least square assumptions

The study conducted the regression analysis to show the relationship between Tax compliance in tax knowledge, referral group, simplicity of tax system, principle of equity and fairness, awareness of offences and penalty, perception of government spending, efficiency of tax authority and tax audit. Before using the regression analysis the data was subjected to assumptions of regression analysis with no violation observed. Then, the followings were done to assess the assumptions of ordinary least square (OLS).

4.4.1. Assessment of normality

The Skewness and Kurtosis were used to test normality distribution. Skewness is used to describe the balance of the distribution, that is, it is unbalanced and shifted to one side (right or left) or it is centered or symmetrical. A positive skew denotes a distribution shifted to the left whereas a negative skewness reflects a shift to the right. Whereas, Kurtosis refers to the peakedness or flatness of the distribution compared with the normal distribution.

Table 4.4.1 Stata output for Skewness /Kurtosis tests for normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
My Residuals	289	0.9206	0.0001	13.91	0.0010

Source: Field survey, 2020

The table 4.4.1 shows the number of observations (which is 289 here) and the probability of skewness which is 0.9206 implying that skewness is asymptotically show normally distributed (p-value of skewness >0.05). Pr(Kurtosis) indicates that kurtosis is not asymptotically distributed (p-value of kurtosis <0.05). Finally, chi(2) is 0.0010 which is less than 0.05 implying its insignificance at a 5% level. Consequently, the null hypothesis can be rejected. Therefore, according to the Kurtosis test for normality, residuals do not show normal distribution.
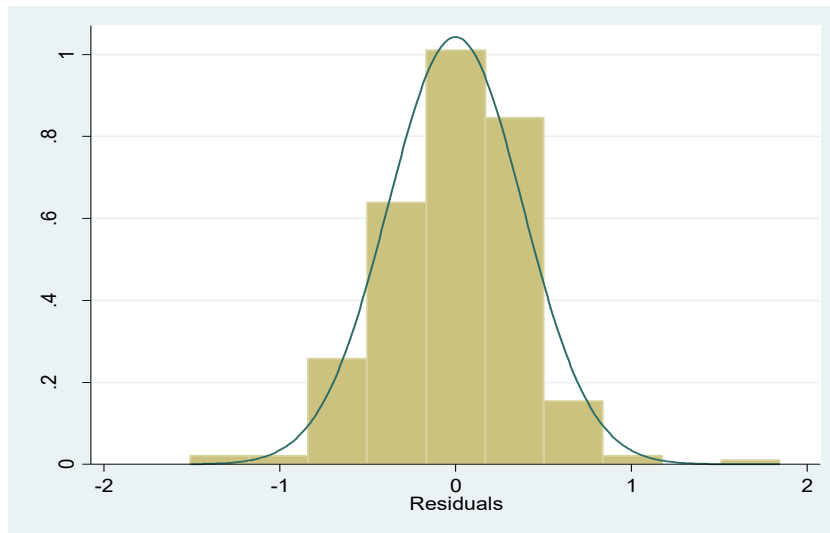
The figure above shows a bell-shaped distribution of the residuals. X-axis shows the residuals, whereas Y-axis represents the density of the data set. Thus this histogram plot confirms the normality test results from the two tests in this article. The graph skewness shows that normal but kurtoses do not show normality and then reject normality.

4.4.2. Assessment of Multi collinearity

In multiple regression analysis, the regression coefficient became less reliable as the degree of correlation between the independent variable increases and there is a problem of what is commonly described as the problem of multi collinearity (Kothari, 2004). Multi-collinearity is a statistical problem which occurs when the explanatory variables (independent variables) are much correlated with each other. It means when the strong correlation among predicators and the existence of correlation value greater than 0.80, tolerance value less than 0.10 and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix (Field, 2009). Tolerance in this case defined as a statistical tool which is used to indicate the variability of the specified independent variables from other independent variables in the model. Based on Table 4.4.2 the tolerance levels for all variables were greater than 0.10 and the Variance Inflation Factor (VIF) value for all variables were less than 10 and according to Table 4.4.3 which shows the correlation between independent variables, the correlation matrix of all variables among the predictor was also less than 0.80. Therefore, correlation value, tolerance level, and VIF value indicates that there were no multi collinearity problem in this study.

Table 4.4.2 Stata output for collinearity statistics

Model	Collinearity statistics	
	Tolerance	VIF
Tax knowledge	0.58	1.73
Referral group	0.61	1.63
Simplicity of tax system	0.63	1.58
Principle of Equity and Fairness	0.67	1.48
Awareness of offences and penalty	0.68	1.48
Perception of Government Spending	0.68	1.46
Efficiency of the tax authority	0.69	1.46
Tax audit	0.84	1.19

Table 4.4.3

	Tax knowledge	Referral group	Simplicity of tax system	Principle of equity and fairness	Awareness of equity and Fairness	Perception of Government spending	Efficiency of the tax Authority	Tax Audit	Tax compliance
Tax Knowledge	1.0000								
Referral group	0.3012	1.0000							
Simplicity of tax system	0.3383	0.4651	1.0000						
Principle of equity and fairness	0.2787	0.2537	0.3495	1.0000					
Awareness of equity and Fairness	03295	0.3872	0.4577	0.2406	1.0000				
Perception of Government spending	0.4609	0.4070	0.3701	0.1947	0.2917	1.0000			
Efficiency of the tax Authority	0.3386	0.3495	0.4528	0.1852	0.3791	0.4495	1.0000		
Tax Audit	0.4311	0.3403	0.4403	0.1887	0.4274	0.4571	0.3416	1.0000	
Tax compliance	0.4054	0.4118	0.4953	0.4625	0.4537	0.3090	0.2764	3780	1.0000

4.4.3. Assessment of auto correlation

If there are patterns in the residuals from a model, then they can be considered as auto correlated (Brooks, 2008). The Durbin-Watson (DW) is a test for first order autocorrelation (Field, 2009). It assumes that the relationship between an error and the previous of an error. In this type of test, the null hypothesis of no autocorrelation can't be rejected when DW result is near 2, (Brooks, 2008). Because, it shows there is little or no evidence of autocorrelation. Based on Table 4.4.4 the Durbin-Watson (DW) statistics value is 1.650 which is close to 2. Therefore, there is no evidence of autocorrelation among error terms in this study.

Table 4.4.4 Durbin Watson Test Model Summary

Model	R square	Adjusted R squared	Durbin Watson
1	0.4340	0.4178	1.65

Independent variable: (Constant), Tax knowledge ,Referral group, Simplicity of tax system, Principle of equity and fairness, Awareness of offences and penalty, perception of government spending, efficiency of tax authority & tax audit. Dependent variable: Tax compliance.

4.4.4. Assessment of Hetroscedasticity/ Presence of Homoscedasticity

It has been assumed that the variance of the error is constant and this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be hetroscedasticity (Brooks, 2008). All statistical packages have tests to assess homoscedasticity and P – value < 0.05 is acceptable (Joseph et al, 2014). Breusch Pagan test in STATA software for Homogeneity was conducted and the results mentioned in below table shows critical value less than 0.05 which shows there is evidence for the presence of hetroscedasticity.

Table4.4.5 for testing hetroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of Tax compliance
chi2(1)   26.09
Prob > chi2 = 0.000

4.5. Regression Results

Regression analysis was done to establish the statistical significant relationship between the independent and dependent variables. The regression analysis results were presented using model summary, ANOVA and beta coefficient tables. The analysis applied STATA software and the result of the analysis is presented as follows:

The coefficient determination also known as model summary was carried out to measure how well the statistical model was likely to predict future outcomes. In the course of model estimation, it is common practice to evaluate the appropriateness of a single descriptive model for the study with the help of coefficient determination, R2.

In empirical studies, the most important benefit of R2 is that it serves as a measure for the goodness of fit of the estimated model (Reisinger, 1997). The r-squared value more than 25% can be acceptable and good to fit (Thompson, 2002).

Table 4.5.1 Model summary

Model	R square	Adjusted R squared	Durbin Watson
1	0.4340	0.4178	1.65

Independent variable: (Constant), Tax knowledge ,Referral group, Simplicity of tax system, Principle of equity and fairness, Awareness of offences and penalty, perception of government spending, efficiency of tax authority & tax audit. Dependent variable: Tax compliance.

Based on the table 4.5.1, the model had a coefficient of determination (R2) = 0.4178 indicated that 41.78% of the variation in tax compliance was explained by the variables in the model leaving 58.22% of the variation in tax compliance to be explained by variables not in the model. Adjusted R2 indicates the true behaviour of R2 that varies in accordance with the changes in independent variables. It means the overall contribution of tax knowledge, referral group, Simplicity of tax system, Principle of Equity and Fairness, Awareness of offences and penalty, Perception of Government Spending, Efficiency of the tax authority and Tax audit to Tax compliance for 41.78% (0.4178) of the variation in tax compliance.

4.5.2 Tests of coefficient

The table below shows the level of significance on the variables. The standardized and unstandardized coefficients were also presented as follows:

Table 4.2.1 Regression Results Coefficients[a]

Model	Unstandardized coefficients		Standardized coefficients	t.	Sig.	Collinearity statistics	
	(β)	Std.error	(β)			Tolerance	VIF
Constant	0.543	0.236		2.29	0.023		
Tax knowledge	0.127	0.045	0.15	2.78	0.006	0.625	1.60
Referral group	0.088	0.037	0.13	2.36	0.019	0.625	1.60
Simplicity of tax System	0.205	0.061	0.20	3.35	0.001	0.526	1.90
Principle of Equity and Fairness	0.237	. 0.043	0.27	5.51	0.000	0.763	1.31
Awareness of offences and penalty	0.149	0.042	0.19	3.48	0.001	0.613	1.63
Perception of Government Spending	-0.001	0.046	-0.001	0.02	0.983	0.558	1.79
Efficiency of the tax authority	-0.043	0.043	-0.05	4.27	0.323	0.613	1.63
Tax audit	0.071	0.057	-0.06	1.53	0.222	0.575	1.74

Independent variable: Tax knowledge, Referral group, Simplicity of tax system, Principle of equity and fairness, Awareness of offences and penalty, perception of government spending, efficiency of tax authority & tax audit. Dependent variable: Tax compliance.

The Beta (β) sign includes a sign of positive (+) and negative (-). It shows the effect of independent variables over the dependent ones (Field, 2009). Based on table 4.2.1 beta sign of the independent variable shows positive (+). Thus, the independent variables Tax knowledge, Referral group, Simplicity of tax system, Principle of equity and fairness and Awareness of offences and penalty had a positive effect on dependent variable, tax compliance.

The independent variable with a level of significance (sig) value less than 5% can make a significance contribution to the predicted value of the dependent variable and a variable beyond this level of significance (sig) cannot make a significance contribution to the predicted value of the dependent variable, (Brooks, 2008). Based on table 4.2.1, the statistical significance of the independent variable over the dependent variable tax compliance was significance at 5% level of significance. The independent variable (Tax knowledge, Referral group, Simplicity of tax system, Principle of equity and fairness, Awareness of offences and penalty) was significantly contributed for the dependent variable for tax compliance. But the independent variable which is perception of government spending, efficiency of tax authority & tax audit was not significantly contributed for the dependent variable tax compliance.

From the estimated regression equation;

Where β_0 is the constant = 0.54, β_1= 0.15, β_2= 0.13, β_3= 0.20, $\beta_{4,}$ =0.27, $\beta5$=0. 19, $\beta6$= -0.001, $\beta7$=-0.05, $\beta4,$ =-0.06

The fitted regression equation of the model becomes:

Tax Comp= α + β1 TaxK + β2peer influ+ β3simpl + β4perception+ β5penality+ β6 Gov.-Spend. + β7Org_Eff+ β8Prob_Audi + Ɛ

(0.23)   (0.045)   (0.037) (0.061)   (0.043)   (0.042)   (0.046)   (0.043) (0.057

4.6. Interpretations & hypothesis test

The constant has a coefficient value of 0.54 and p value 0.0230 which is significant. The interpretation is that if all factors were to be held constant, tax compliance would be 54% and this amount will be up or down by the standard deviation of 0.23

H1: Tax voluntary compliance attitude is positively correlated with tax knowledge

The first hypothesis tested tax knowledge with tax compliance that have an effect in tax compliance. The result shows that tax knowledge have direct relationship with tax compliance at a statistical significant level of ($P<0.05$). The magnitude (β) of the effect of this variable on tax compliance was 0.15 and the t value of 2.78. The positive magnitude sign and t-value of greater than 2 is indicating a strong relationship between the independent and dependent variable (Tadios., 2016). The

interpretation is that holding all other variables constant, tax knowledge can contribute 15% of variation in tax compliance which is statistically significance at 5% level of test. Thus, the regression coefficient of tax knowledge was significant in predicting the tax compliance of VAT registered taxpayers. The positive beta sign and a statistically significance result of tax knowledge shows positive relationship with the tax compliance. (ß = 0.15, t =2.78, and P<0.05).

The result is consistent with the finding by Abdu & Wondimu, (2019) & Mesele K., (2018) who has got significance relationship between tax knowledge and tax compliance. But the findings are inconsistent with the research conducted by Kanbiro O., (2018); that the insignificance of tax knowledge on tax compliance. The studies thus do not reject the null hypothesis that Tax voluntary compliance attitude is positively correlated with tax knowledge. Tax awareness and information's can have a huge influence on tax compliance. Therefore the tax structure will not only have a direct and easy guide line on how to fill tax returns but also improve taxpayer education programs to help the taxpayers recognize their rights and responsibilities as taxpayers. This way tax compliance levels will be increase.

H2: Peer influence or referent group has negative association on voluntary compliance attitude of taxpayers.

Peer influence or referent group with tax compliance that have an effect in tax compliance. The result shows that referent group have direct and positive relationship with tax compliance at a significant level of (P<0.05). The magnitude (β) of the effect of this variable on tax compliance was 0.13 and the t value of 2.36. The positive magnitude sign and t-value of greater than 2 is indicating a strong relationship between the independent and dependent variable (Tadios., 2016). The interpretation is that holding all other variables constant, peer influence can contribute 13% of variation in tax compliance which is statistically significance at 5% level of test. Thus, the regression coefficient of tax referral group was significant in predicting the tax compliance of VAT taxpayers.
The positive beta sign and a statistically significance result of reference group shows positive relationship with the tax compliance. (ß = 0.13, t =2.36, and P<0.05).
The result is consistent with the finding by (Meaza W., 2018) who has got significance relationship between referral group and tax compliance. But the findings are inconsistent with the research conducted by (Mesele.K., 2018) & (Kanbiro O. 2018); that the insignificance of reference group on tax compliance. The study thus rejects the null hypothesis that Peer influence or referent group has negative association on voluntary compliance attitude of taxpayers. Referent groups play a significant

role in determining people's intentions and behaviour. Decisions either to evade or not to evade tax sometimes are influenced by family members or friends. Therefore, the influence of referent groups is seemingly important in making a decision, particularly involving monetary aspects and the obedience to laws (tax compliance).

H3: Simplicity of tax system is positively related with tax compliance attitude.

The simplicity of the tax system with tax compliance that shows has effects on tax compliance. The result shows that the simplicity of the tax system has a direct relationship with the tax compliance at a statistical significant level of ($P<0.05$). The magnitude (β) of the effect of this variable on tax compliance was 0. 20 and the t value of 3.35. The positive magnitude sign and t-value of greater than 2 is indicating a strong relationship between the independent and dependent variable (Tadios., 2016). The interpretation is that holding all other variables constant, simplicity of tax system can contribute 20% of variation in tax compliance which is statistically significance at 5% level of test. Thus, the regression coefficient of tax simplicity of tax system was significant in predicting the tax compliance of VAT taxpayers.

The positive beta sign and a statistically significance result of Simplicity of tax system shows positive relationship with the tax compliance. ($\beta = 0.20$, t =3.35, and $P<0.05$).. The result is consistent with the finding (Amina & Sania, 2015) and (Tilhun & Yidersal, 2014) who has got significance relationship between simplicity of tax system and tax compliance. . But the findings are inconsistent with the research conducted by (Mesele K., 2018); that the insignificance of Simplicity on tax compliance. The study thus does not reject the null hypothesis that Simplicity of tax system is positively related with tax compliance attitude**.** Simplicity in filing returns will encourage taxpayers to complete the tax return on their own rather than employing a tax agent and thus increasing tax compliance.

H4: Principles of fairness and equity of tax system is positively associated with compliance attitude.

A statistically significance result of principles of fairness and equity of the tax system shows positive relationship with the tax compliance ($P<0.05$). The magnitude (β) of the effect of this variable on tax compliance was 0.27 and the t value of 5.51. The positive magnitude sign and t-value of greater than 2 is indicating a strong relationship between the independent and dependent variable (Tadios., 2016). The interpretation is that holding all other variables constant, Principle on fairness and equity of tax system can contribute 27% of variation in tax compliance which is statistically significance at 5%

level of test. Thus, the regression coefficient of Principe on fairness and equity of tax system was significant in predicting the tax compliance of VAT taxpayers.

The positive beta sign and a statistically significance result of Principle of fairness and equity of tax system positive relationship with the tax compliance (ß = 0.27, t =5.51, and P<0.05).

This result is in line with the hypothesis formulated and the findings of previous researchers such as (Daniel, 2014) and (Amina & Sania, 2015); both of them are found that fairness of the tax system has a positive relationship with tax compliance. On the other hand, this finding is in the opposite of the other researcher who found that the fairness of the tax system has a little or no impact on tax noncompliance level (Kanbiro O., 2018). Thus, the study thus does not reject the null hypothesis that Principle on fairness and equity of the tax system is positively associated with compliance attitude. Even if most of the tax payers agreed with equity and fairness, but not all agreed thus, the authority must also involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity.

H5: Tax voluntary compliance attitude is positively related with awareness of penalty on taxpayers.

The Awareness of penalty with tax compliance shows that have an effect on tax compliance. The result shows that awareness of penalty has a direct relationship with tax compliance at a statistically significant level of (P<0.05). The magnitude (β) of the effect of this variable on tax compliance was 0.19 and the t value of 3.48. The positive magnitude sign and t-value of greater than 2 is indicating a strong relationship between the independent and dependent variable (Tadios., 2016). The interpretation is that holding all other variables constant, Awareness of penalty can contribute 19% of variation in tax compliance which is statistically significance at 5% level of test. Thus, the regression coefficient of Awareness of penalty was significant in predicting the tax compliance of VAT taxpayers.

The positive beta sign and a statistically significance result of shows positive relationship with tax compliance (ß = 0.19, t =3.48, and P<0.05). Then this result confirms with the established hypothesis and in line with the previous finding by (Atsbeha, 2016) which found that fines & penalties have a vital role in the tax compliance behaviour of taxpayers. On the other hand the result of this study is opposed to the previous finding (Mesele K., 2018) which stated that, penalty affects the taxpayers' tax compliance decision negatively. Thus, the study thus does not reject the null hypothesis that Tax voluntary compliance attitude is positively related with awareness on penalty on of taxpayers. Thus,

the study does not reject the null hypothesis that states that there is a significance effect between Awareness of penalty and tax compliance.

H6: voluntary compliance attitude of taxpayers is positively related to perception of government Spending

Perception of government spending with tax compliance shows that have an effect in tax compliance. The result shows that Perception of government Spending have indirect relationship with tax compliance at a statistical significant level (P<0.05). The magnitude (β) of the effect of this variable on tax compliance was -0.001 and the t value of 0.02.The negative magnitude sign is indicating an inverse relationship between the independent and dependent variable. The result is consistent with the finding by (Mesele, 2018) that has got insignificance relationship between the Perception of government's Spending and, the tax compliance. But the findings are inconsistent with the research conducted by (Amina & Sania, 2015); that the significance of perception of government spending on tax compliance. Thus, the study reject the null hypothesis that voluntary compliance attitude of taxpayers is positively related to perception of government Spending.

If, for example, the government wisely spends national income on basic facilities such as education, health and safety, and public transportation taxpayers feel positive and compliant, but if it spends too much on something that is considered unnecessary or not beneficial to them or the general public, then taxpayers will feel betrayed and try to escape.

H7: Organizational efficiency of tax authority is positively correlated with voluntary compliance attitude.

The organizational efficiency of the tax authority's with tax compliance that affects the tax compliance. The result shows that the organizational efficiency of the tax authority has an indirect relationship with tax compliance at a statistical significant level of (P<0.05). The magnitude (β) of the effect of this variable on tax compliance was -0.05 and the t value of 4.27. The negative magnitude is indicating inverse relationship between the independent and dependent variable. The result is consistent with the finding by (Mesele K., 2018) that has got insignificance relationship between efficiency of tax authority and tax compliance. But the findings are inconsistent with the research conducted by (Abdu M. & Wondimu S., 2019); that the significance of perception of government spending on tax. Thus, the study rejects the null hypothesis that Organizational efficiency of tax authority is positively correlated with voluntary compliance attitude. As per survey result the role of

the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important.

H8: Probability of being audit is positively correlated with voluntary compliance attitude of taxpayers

The Probability of being audited with tax compliance that effect on tax compliance. The result shows that the probability of being audit has indirect relationship with tax compliance at a statistical significant level of $(P<0.05)$. The magnitude (β) of the effect of this variable on tax compliance was -0.06 and the t value of 1.53. The negative magnitude is indicating inverse relationship between the independent and dependent variable. The result is consistent with the finding by (Kanbiro, 2018) & (Tilahun & Yedersal, 2014) who has got insignificance relationship between probability of being audit and tax compliance. But the findings are inconsistent with the research conducted by (Amina & Sania, 2015) that the significance of tax audits on tax compliance. Thus, the study rejects the null hypothesis that Probability of being audit is positively correlated with voluntary compliance attitude of Taxpayers. The implication of the study: most of the taxpayers assumed that the tax Authority enforcement of audited is weak and, thus they do not comply with the tax law. Thus it is need for tax authorities and government to come up with strategies to monitor this category of taxpayers effectively, with a view to increasing levels of compliance.

CHAPTER FIVE

5.CONCLUSIONS & RECOMMENDATIONS

5.1. Introduction

This chapter presents conclusions and recommendations which are based on the results of the responses for the questionnaires and document review. It has three parts; the first part presents conclusion of the study. The second part presents recommendations and the third part highlighted proposed future research areas.

5.2. Conclusion

This study was undertaken in examining of level of tax compliance of Voluntary registered tax payers and its determinant factors in the case of number two medium tax payers office. The study also used document reviews as a source of secondary data. The responses obtained from survey of voluntary registered VAT taxpayers were tabulated and interpreted by using STATA software through descriptive and inferential statistics while result from documentary reviews was presented to support the survey result. Eight potential determinants of tax compliance were examined in this study, namely tax knowledge, reference group, simplicity of tax system, Principle of Equity and Fairness, Awareness of offences and penalty, perception of government spending efficiency of tax authority and tax audit. From these potential determinants, the findings of the investigation showed that tax compliance was positively affected by tax knowledge, reference group, simplicity of tax system, Principle of Equity and Fairness, and Awareness of offences and penalty. But, the perception of government spending, efficiency of the tax authority and tax audit were not statistically significant factors influencing compliance behaviour of tax payers.

5.3. Recommendations

Based on the results and conclusions above, here are some possible recommendations forwarded so that it may help the tax authority, the branch office and other policy makers to approach the issue accordingly.

➢ To eradicate the knowledge gap of tax officials according to VAT laws and regulations, the revenue office should give additional manual training for tax officials in relation to VAT laws. In order to reduce the VAT payer's noncompliance behaviour and to increase the VAT collection

performance, the revenue office should provide continuous tax education and assistance program and apply equity and fairness tax system to their taxpayers on tax laws and regulations.

➢   The authorities should also educate taxpayers on how to keep records of revenue and expenditure, and how to complain about injustice procedures. In addition, by using various printed and electronic mass media, such as magazines, pamphlets, radio, television, etc., tax authorities should be aware of taxpayers' rights and responsibilities and the benefits of tax payments to the country's development.

➢   The most evident requirement for fairness or equity is equal treatment of equals in equal circumstances. Maintaining tax equity and fairness is achieved not only through horizontal fairness but also through fairness issues such as vertical equity and personal fairness in other cases. Accordingly, the issue of fairness or equity is not only about current taxpayers, but also about people outside the tax system, because ensuring fairness means encouraging and protecting the honest and loyalty of society by ensuring fair competition among business communities, especially about registration, tax assessment, collection and payment capacity. The authority can also include taxpayers or their members in addressing the problem of justice and equality when calculating the regular transactions or VAT of taxpayers.

➢   The simplicity of the tax system is also imperative to improve the level of compliance of tax payers. The tax authorities will also simplify tax returns and tax documents, tax estimates and payment dates which could enable tax payers to complete tax returns and measure tax obligation on their own rather than requesting tax agents' aid. Or put it another way, the tax returns and program and tax methods would be less complicated and the tax processes should be simple. The tax rules and regulations should also be presented in the local language to tax payers they could understand.

➢   So far as social factors are concerned, the influence of referral group is critical decisions to evade tax or not to evade tax will often base on social norms and ethical values, which can provide various opportunities for tax enforcement. To minimize negative influence of referral group, concerned government body and society will be aware to citizens should have been learned about social norms and ethical values. If the taxpayers who have good influences to their friends and relatives, they should be encouraged by tax authority.

➢   The taxpayers to know their right and obligation, the government should to give awareness to the taxpayers the tax office enforcement and the law. And, the tax office should keep the right of the

taxpayers and, should be making penalized to offences and thus keeps the laws of enforcement.

Finally, enhancing the living standards of citizens by extending various infrastructures to areas where they do not have adequate facilities before and the government needs to remind people that with their income they provide such public services. And providing adequate information on how the government utilizes tax proceeds (citizens' money) would also increase the voluntary degree of compliance by taxpayers. Consequently, the segment of the electoral education program will be allowed by the revenue authority to train citizens so that they can recognize their voting rights and responsibilities. That means which ensures increased levels of tax compliance.

5.4. Directions for future research

The future research might be conducted in other communities such as tax authorities and academics. The findings of these studies might be compared with the present study. The researchers are offered to conduct studies about approaches to reinforce the accountability sense of the community and to develop tax justice.

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Appendices 1 : Value Added Tax Registered taxpayers' survey instrument.

Saint Mary's University

Department of Accounting & Finance Dear Respondents,

This study entitled "Factors Affecting voluntary compliance of VAT register taxpayers in the case of number two medium taxpayers' office" and will be conducted for partial fulfillment of Masters of Business Administration in Accounting and Finance at Saint Mary's University. Its main objective is to examine determinant factors voluntary compliance of VAT register taxpayers in the case of number two medium taxpayers' office.

Your cooperation of filling the questionnaire is very important to this study because it represents a number of others who are not included in the sample. The information provided is purely for academic purpose and I would promise that all information you provide would be strictly confidential. In order to accomplish this study, you are kindly requested to answer every question and your kind cooperation is highly appreciated.

I thank you very much in advance for your cooperation

REQUEST FOR THE COMPLETION OF QUESTIONNAIRE

General Instruction

This close ended questionnaire has three parts, part I is regarding respondents' general back ground ,the second (II) part of the questionnaire contains questions on the factors affecting voluntary register VAT taxpayers' and third (III) part of the questionnaire contains questions on the tax compliance presented.

PART I: Tax payers' general information

Kindly tick (√) on the choice you do believe that it is the most appropriate response.

1) Gender ☐ Male ☐ Female
2) Age

☐ From 21-30 ☐ From 41 – 50

☐ From 31 – 40 ☐ Above50

3) Education level

Education Level	Please tick (√) one
Bellow 10	
10th -12th complete	
Diploma	
Degree	
MA and above	

4) How long have you been in the business?

YEARS	TICK
0-5	
6-10	
11-20	
OVER 21	

The number of years in the business

PART II; Factors affecting tax compliance

Questions on part II will be used to assess determinant factors of voluntary compliance of VAT register taxpayers. Please kindly respond to the following statements to depending on degree of agreement or disagreement to each of the statements. There are no right and wrong answer. (Please tick (√) from the given 5 scale boxes.

Strongly disagree (SD)= 1. Disagree (DA)= 2, Neutral (N) = 3, Agree (A) = 4, and Strongly agree (SA) = 5

2.1. Tax knowledge

S.N	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	I know how to declare VAT Input received from VAT payers' to the tax authority					
2	I know how to maintain VAT records / documents on the purchase of goods or service output					
3	I understand that I should pay VAT due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period					

2.2. Referral group (Friends, Relative Etc.)

Ser. No	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	My friends do not comply and they have never been penalized					
2	My parents and relatives do not comply and they have never been penalized					

2.3. Simplicity of tax System

Ser. No	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	Personally, I agree that the Ethiopian VAT tax system is easy understand and consider the taxpayers					
2	There is fair neutrality of the procedure, trustworthiness of the tax authorities and polite, honourable, and respectful treatment in tax authority					
3	comparisons are made on the individual, the group, and the societal level among VAT registered taxpayers'					
4	The VAT tax proclamation ,regulations and directives are keeping their hierarchy and never collide each other					
5	The tax authority circular does not affect the fairness of the tax system					
6	The tax enforcement obligation has not caused taxpayers tension and anxiety. The tax systems have no causes for psychological impact.					

2.4. Principle of Equity and Fairness

S.N	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	Higher income earners should pay more taxes than lower income earners					
2	I pay about the same amount of taxes as others making the same income					
3	I believe that by paying the correct amount of tax, many people particularly the poor can get the gain					

2.5. Awareness of offences and penalty

SN No	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	The penalty rates are very low and I can afford to pay the penalty					
2	The enforcement is very weak					
3	If I detected not reporting VAT, I believe that the tax authority is tolerant towards my offence and most probably it will escape without any punishment.					
4	I have no idea about penalty rates and offences					

2.6. Perception of Government Spending

S.N	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	I believe tax authority is highly corrupted, so I don't want to declare the correct VAT					
2	I believe that collecting money from me is not fair					
3	I believe the government budget allocation is not fair, so I wish not to declare VAT.					
4	I believe declaring the required VAT benefit not for the poor					
5	I believe government spending is unfair, So I don't need to declare the required VAT.					

2.7. Role (efficiency) of the tax authority/government

Ser. No	Statement	SD 1	DA 2	N 3	A 4	SA 5
1	Government/tax Authority collects VAT Economically.					
2	AACGRA(Addis Ababa City Government Revenues Authority) personnel are capable in collecting VAT					
3	The tax authority collects the required amount of VAT as planed and expected					

2.8. Tax audit issues

S.N	Statement	SDA 1	DA 2	N 3	A 4	SA 5
1	Tax audit have no effect on vat compliance					
2	The likelihood of the tax authority for not declaring the exact value added tax is low					
3	The probability of being audited by the tax authority are very low as a result I can under report and over claim the					
4	I believe that tax audits cannot be play an important role to increase voluntary compliance					
5	Taxpayers who have never been audited before cause for malicious report					

Part III: Tax compliance

	Statement	SDA 1	DA 2	N 3	A 4	SA 5
1	I registered in the concerned tax Authority as VAT taxpayer on time					
2	I've only collected VAT from customers by issuing proper legal receipt					
3	I file the VAT tax returns in the actual filing date on time					
4	I accurately compute the tax liability as per the tax rate specified in the law					
5	I paid the right amount of VAT within the time frame stipulated in the tax law					
6	I have adequate records in order to complete tax returns and associated tax documentations					

Value Added Tax Registered taxpayers' *survey instrument (Amharic V.)*

ቅድስተ ማርያም ዩኒቨርሲቲ ቢዝነስና ኤኮኖሚክስ ድፓርትመንት አካዉንቲንግና ፋይናንስ ት/ክፍል

<u>የተጨማሪ እሴት ታክስ ጥናት መጠይቅ</u>

የተከበሩ የጥናቱ ተሳታፊ፦

የጥናቱ ዋና ኣላማ ግብር ከፋዮች ለየተጨማሪ እሴት ታክስ ህግ ተገዥ እንዳይኑኑ በፍቃደኝነት በህጉና ደንቡ መሰረት ግብርን እንዳይከፍሉ የሚያደርጉ ነገሮችን ለማጥናትና አስፈላጊዉን የመፍትሄ ሀሳብ በጋራ ለመጠቆም ያለም ነዉ። የትናቱ ዝርዝር ኣላማ ከዚህ በታች የተዘረዘሩት ነገሮች ለግብር ሀግጎችና ደንቦች ከመገዛት ጋር ምን ኣይነት ግንኙነት እንዳላቸዉ ለማጥናት ነዉ።

እርስዎ ወይም ድርጅቶ በዚህ ጥናት ላይ እንድሳተፉ የተመረጡት በዕጣ ሲሆን በጥናቱ ዉስጥ የተካተቱትን ጥያቄዎች ለመመለስ ሙሉ በሙሉ በፍቃድዎ ላይ የተመሰረተ ነዉ። ከላይ እንደተገለጸዉ ጥናቱ የሚካሄደዉ አንዱ ኣላማ ለሁለተኛ ድግሪ ማሟያ ፅሁፍ ነዉ። በጥናቱ ላይ የተመለሱ መልሶች ወይም የግለሰቦች ወይም የድርጅቶች ስም በምንም መልኩ ኣይገለጡም። የዚህ ጥናት ተሳታፊዎች የጥናቱን ዉጤት ወይም ግኝት አጥኚዉ ጥናቱን ከጨረሰ በኃላ በሚከተሉት አድራሻ ጠይቀዉ መረዳት ይችላሉ።

ይህ የተጠናቀቀዉ መጠይቅ ሶስት ክፍሎች አሉት ፤ ክፍል 1 የተመልካቾችን አጠቃላይ መልስ የሚመለከት ነዉ ፤ ሁለተኛዉ **(II)** የቃለ መጠይቁ ክፍል በክፍል በፊቃደኝነት ምዝገባ የተ.እ.ታ. ግብር ከፋዮች ላይ ተጽዕኖ ሊያሳርፉ በሚችሉ ምክንያቶች ላይ ጥያቄዎችን ይይዛል።

በመጨረሻ በክፍል **III** የቀረቡት የግብር አያያዝ ሁኔታዎችን በተመለከተ ጥያቄዎች ።።

ጽጌሬዳ ደምሰዉ ተድላ

ስልክ 251-911-79-67-61

ኢሜል፦

ክፍል አንድ፤ የግብር ከፋዮች አጠቃላይ መረጃ

1.ጾታ   ወንድ   [   ]   ሴት   [   ]

2.   እድሜ

     [   ] ከ 22 – 30   [   ] ከ 41 – 50

     [   ] ከ31 – 40   [   ] ከ 50 በላይ

3. ትምህርት ደረጃ

☐ ከ10ኛ ክፍል በታች   ☐ ድግሪ

☐ 10ኛ-12ኛ ክፍል ያጠናቀቀ   ☐ 2ኛ ዲግሪ እና ከዚያ በላይ ዲፕሎማ

☐

5. በንግዱ ውስጥ ምን ያህል ጊዜ ቆይተዋል?

አመቶች	የሚጣጣም ቦታ ምልክት ያድርጉ
0–5	
6–10	
11–20	
21 በላይ	

በክፍል II ላይ የሚነሱ ጥያቄዎች በፈቃድ የተ.እ.ታ. ምዝገባ ግብር ከፋዮች በፈቃደኝነት ማክበርን የሚወስኑ ወሳኝ ሁኔታዎችን ለመገምገም ያገለግላሉ ። እባክዎን ለእያንዳንዱ መግለጫዎች በስምምነት ደረጃ ወይም አለመስማማት ላይ በመመርኮዝ የሚከተሉትን መግለጫዎች መሰረት ይመልሱ ። ትክክለኛ እና የተሳሳተ መልስ የለም። (እባክዎን ከተሰጡት 5 ልኬት ሳጥኖች ላይ ምልክት ያድርጉ (√)

በጣም በተደጋጋሚ = 5 ፤ ብዙ ጊዜ = 4 ፤ ብዙ ጊዜ አይደለም = 3 ፤ አንዳንድ ጊዜ = 2 ፤እና በጭራሽ 1.

2.1. የግብር ህግ እዉቀት

ተ.ቁ	ሃሳቦች	በጣምአል ስማማም 1	አልስማ ማም 2	ጋለልተ ኛ ነኝ 3	እስማማ ለሁ 4	በጣም እስማማለሁ 5
1	ከተ.እ.ታ. ከፋዮች 'የተቀበሉትን የተ.እ.ታ. እንዴት ለግብር ባለስልጣን ማሳወቅ እንደምችል አውቃለሁ					
2	በእቃዎች ወይም በአገልግሎት ውሎች ግዥ ላይ የተ.እ.ታ. ምዝገባ / ሰነዶችን እንዴት					
3	መቼ ማሳወቅ እንዳለብኝ ወይም በተጠቀሰው ጊዜ ውስጥ ለተ.እ.ታ. መክፈል እንዳለበት ተረድቻለሁ					

2.2. የቤተሰብ ተፅእኖ (ወላጅ፤ ዘመድ፤ ጉዋደኛ…ወ.ዘ.ተ.)

ተ.ቁ	ሃሳቦች	በጣም አል ም 1	አልስማ ስማም 2	ገለ... ነኝ 1	...እስማ ፤ እስመ 5
1	የቅርብ ጓደኞቼ ለግብር ህጉ አይገዙም ነገር ግን ቅጣት ተጥሎባቸዉ አያዉቅም				

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ተ.ቁ		
2	ወላጆቼ እና ዘመዶቼ ለግብር ህጉ አይገዙም ነገር ግን ቅጣት ተጥሎባቸዉ አያዉቅም	

2.3 የግብር ስርዓት ቀላልነት

ተ.ቁ	ሃሳቦች	በጣም አልስማማ 1	አልስማማም 2	ግለተኛ ነኝ 3	እስማማለሁ 4	በጣም እስማማለሁ 5
1	በግሌ እኔ የኢትዮጵያ የተ.እ.ታ. ቀረጥ ስርዓት በቀላሉ የሚረዳ እና ግብር ከፋዮችን ከግምት ዉስጥ ያስገባ መሆኑን እስማማለሁ					
2	ምክንያታዊ የሆነት ወጡነት ፣ የግብር ባለስልጣኖች እምነት የሚጣልበት እና ፍትሃዊ ፣ የታክስ ባለስልጣኖች በግብር ባለስልጣናት በ ተገቢ አያያዝ ያስተናግዷል።					
3	ማነፃፀሪያዎች በግለሰብ ፣ በቡድኑ እና በማህበራዊ ደረጃ የተ.እ.ታ. በተመዘገቡ የግብር ከፋዮች መካከል ተደርገዋል					
4	የተ.እ.ታ. የታክስ ግብር አዋጅ ፣ መመሪያዎች እና መመሪያዎች ተዋረድዋቻቸዉን የሚጣብቁ እና በጭራሽ እርስ በእርስ የማይጋጩ ናቸው					
5	የግብር ባለስልጣን ደንብ የግብር ስርዓት ፍትሃዊነትን አይጎዳዉም					
6	የግብር አስገዳጅ ግዴታ የግብር ከፋዮች ዉጥረትና ጭንቀት ሊፈጥር ጎይችልም። የግብር አሠራሩ ሥነልቦናዊ ተፅእኖን ሊያስከትል ለ ይችልም ።					

2.4. የግብር ህጉ እኩልነት እና ፍትሃዊነት

ተ.ቁ	ሃሳቦች	በጣም አልስማማ 1	አልስማማም 2	ግለተኛ ነኝ 3	እስማማለሁ 4	በጣም እስማማለሁ 5
1	ከፍትኛ ገቢ ያላቸዉ ግብር ከፋዮች አነስተኛ ገቢ ካላቸዉ የበለጠ ግብር ስለሚከፍሉ					
2	እኔ የምከፍለዉ ግብር ተመጣጣኝ ገቢ ካላቸዉ ጋር ሲነፃፀር እኩል ስለሆነ					
3	ተገቢዉን ግብር በመክፈል ደሃዉ ህብረተሰብ ተጠቃሚ ይሆናል					

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2.5. ስለቅጣት ያለ ግንዛቤ

ተ.ቁ	ሃሳቦች	በጣም አልስማማ 1	አልስማማ መመ 2	ጓለተኛ ነኝ 3	እስማማ አሁ 4	በጣም እስማማለሁ 5
1	የቅጣቱ መጠን በጣም ዝቅተኛ ስለሆነ ቅጣቱን ለመክፈል የማ የስቸል አቅም አለኝ					
2	የህጉ-ተፈፃሚነት አነስተኛ ስለሆነ					
3	ተ.እ.ታ.ን ሪፖርት ባላደርግ የግብር ሰብሳቢ መ/ቤቱ አይቶ እንዳላየ ያልፈኛል እና ያለቅጣትያልፈኛል ።					
4	ቅጣትን በተመለከተ ምንም አይነት ግንዛቤ የለኝም					

2.6. በመንግስት ወጪዎች ላይ ያለ ምልከታ

ተ.ቁ	ሃሳቦች	በጣም አልስማማ 1	አልስማማ መመ 2	ጓለተኛ ነኝ 3	እስማማ አሁ 4	በጣም እስማማለሁ 5
1	የግብር ባለስልጣን በከፍተኛ ሁኔታ የተበላሸ ነው ብዬ አምናለሁ ፤ ስለሆነም ትክክለኛውን የተ.እ.ታ. መግለጽ አልፈልግም					
2	ከእኔ ገንዘብ መሰብሰብ ትክክል አይደለም ብዬ አምናለሁ					
3	የመንግሥት የበጀት ምደባ ሚዛናዊ አይደለም ብዬ አምናለሁ ፤ ስለዚህ እኔ ተ.እ.ታ. ማሳወቅ አልፈልግም።					
4	አስፈላጊውን የተ.እ.ታ. ማወጅ ድሆችን እንደሚጠቅም አምናለሁ					
5	የመንግስት ገንዘብ ማውጣት አግባብ ያልሆነ ነው ብዬ አምናለሁ ፤ ስለሆነም የሚፈለገውን የተ.እ.ታ. መግለጽ አያስፈልገኝም ።					

2.7. የግብር ባለስልጣን / መንግስት ሚና (ክንዉን)

	ሃሳቦች	በጣም አልስማማ	አልስማማ መመ	ግለተኛ ኝ	እስማማ ለሁ 4	በጣም እስማማለሁ 5
1	የመንግስት / የግብር ባለስልጣን ተእታ በአግባቡ ይሰበስባል ።					
2	የግብር ሰብሳቢው ሠራተኞች ተ.እ.ታ.ን ለመሰብሰብ በቂ ችሎታ አላቸው					
3	የግብር ባለሥልጣኑ በታቀደለት እና በተጠበቀው መሠረት አስፈላጊውን ተጨማሪ እሴት ታክስ ይሰበስባል					

2.8. የግብር ምርመራ (ኦዲት)

ተ.ቁ	ሃሳቦች	በጣም አልስማማ 1	አልስማማ 2	ግላልተኛ 3	እስማማ ለሁ 4	በጣም እስማማለሁ 5
1	የግብር ኦዲት በሻት ተገቭነት ላይ ምንም ተጽዕኖ የለውም					
2	የታክስ ባለስልጣን ትክክለኛውን እሴት መርምሮ የማወቅ ሁኔታ ዝቅተኛ ነው					
3	በግብር ባለስልጣኑ ቁጥጥር የሚደረግበት ዕድል አላ በዚህ ምክንያት በጣም ዝቅተኛ በመሆኑ በሪፖርት ማቅረብ እና ከአቤቱታ በላይ መሆን እችላለሁ					
4	የግብር ኦዲተሮች በፈቃደኝነት ለመጨመር ጠቃሚ ሚና ሊጫወቱ ይችላሉ ብዬ አምናለሁ					
5	ለክፍያ ምክንያት ቀደም ሲል ኦዲት ያልተደረገላቸው ግብር ከፋዮች ተንኮል አዘል ዘገባ					

ክፍል III: የግብር ማክበር

ተ.ቁ	ሃሳቦች	በጣም አልስማማ 1	አልስማማ 2	ግላልተኛ 3	እስማማ ለሁ 4	በጣም እስማማለሁ 5
1	በሚመለከተው የግብር ባለስልጣን እንደ ተ.እ.ታ. ግብር ከፋይ በወቅቱ ተመዝግቤያለሁ					
2	ተገቢውን ህጋዊ ደረሰኝ በማውጣት ተ.እ.ታ. ደንበኞቻን ብቻ ሰብስቤያለሁ					
3	በትክክለኛው የሂሳብ ማቅረቢያ ቀን የተ.እ.ታ. የግብር ተመላሾቻን በወቅቱ አስገባለሁ					
4	በሕጉ ውስጥ በተጠቀሰው የግብር ተመን መሠረት የግብር ግዴታውን በትክክል እገምታለሁ					

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5	የግብር ተመላሾችን እና ተጓዳኝ የግብር ሰነዶችን ለማጠናቀቅ በቂ መዘግብት አለኝ					

Appendices: 3
In- interviews to -tax officers and Managers

General information

1. How long have you been in the accounting business and what types of services do you offer?

2. Please tell me some of the reasons why VAT taxpayers come to you.

Factors of tax compliance
3. From your experience, are there any tax compliance issues that are unique to VAT taxpayers?

4. What are the factors influencing VAT taxpayers' compliance decisions? Please explain

5. Tax knowledge of VAT taxpayers
6. Do you think that lack of knowledge is the main reason why VAT registered taxpayers seek your service? Please explain.

7. Do you handle any Tax Authorities inquiries relating to your clients and why?

8. Do you think VAT taxpayers are getting the necessary tax education and updates on any changes of tax directives and guidelines?

9. Do you feel that attitude towards taxes and presence of informal traders (those who do not pay their tax due properly) influence the loyal taxpayers' tax compliance? Please explain.

10. How do you explain the services given by the tax authority offices as a factor of tax compliance of VAT taxpayers?

11. Suggestions and improvements

   11.1 Is there anything you would like to add?

   11.2 Can you offer some recommendations that would improve tax compliance and promote a more cooperative relationship between VAT registered taxpayers and revenue Authority

   Thank you!