



ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

**THE INFLUENCE OF TAX EDUCATION ON TAX COMPLIANCE ATTITUDE A
CASE STUDY IN MINISTRY OF REVENUE OF ETHIOPIA MERKATO NUMBER
2 BRANCH OFFICE**

BY

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ID NO: SGS/0513/2012A

ADVISOR: - ASMAMAW GETIE (ASST. PROFESSOR)

**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
FINANCE OF SENT MERRY UNIVERSITY FOR THE PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS IN ACCOUNTING
AND FINANCE**

JULY, 2021G.C

ADDIS ABABA, ETHIOPIA

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie (Asst. Professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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JULY, 2021

ENDORSEMENT

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

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JULY, 2021

AKNOLOGMENTS

The Almighty God, I do not know how I can state for all; I am heartily grateful to him for his bright gifts throughout my life from the beginning wherever I go.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBD	:	Central Business District
DC	:	Developing Countries
IC	:	Industrialized Countries
ICT	:	Information Communication Technology
ERA	:	Ethiopia Revenue Authority
PAYE	:	Pay As You Earn
PIN	:	Personal Identification Number
SAS	:	Self-Assessment Systems
SPSS	:	Statistical Package for Social Sciences
VAT	:	Value Added TAX

ABSTRACT

Tax non-compliance is an area of concern for all government and tax authorities, and it will continue to be an important issue that must be addressed. The aim of this research is to examine influence of tax education on tax compliance attitude a case study in ministry of revenue of Ethiopia merkato number 2 branch office. non-compliance behavior and the complexity nature of taxation system leads to conduct this paper. To determine the population of the study the researcher followed sequential frame procedure and finally 12,312 legally registered tax payers selected as target population among these 284 respondents selected as sample size of the study. To determine the respondent simple random sampling techniques were applied, self-administered questionnaire with 5-point Likert scale questionnaire design technique as data collection instrument technique. The collected data analyzed using descriptive and inferential statistical data analysis technique and to organize the data mean, percentage and standard deviation used in visually appealing tables, charts and in a graph formats. The result of this study revealed that there is statistically significant positive relationship between factors that determine tax knowledge and tax payer's compliance behavior. In addition to their relationship all independent variables has unique and significant contribution for the prediction of compliance behavior. In order to solve the stated problem the research recommended to all stakeholders should be actively participate in knowledge creation process. Compliance behavior can't be achieved unless otherwise, knowledge creation process given priority. To create knowledge individual tax payer's should be actively seek knowledge , the organization should be continuously and meaningfully exert his effort in challenging societies' culture and creating simple and accessible system.

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CHAPTER ONE

INTRODUCTION

1.1 Back Ground of the Study

Tax is defined as a compulsory levy imposed by a government or a government appointed body (tax authority) on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return. On the other hand, tax may be viewed as a cost to the tax payer whether as an individual or a corporate body. However, there is a conflict in taxation whereby tax payers' desire to minimize costs and maximize profit, while government's desire is to maximize revenue through enhanced tax compliance. To strike a balance between the taxpayer and the tax collector, the latter need to come up with strategies and methods of simplifying tax procedures and requirements. One such strategy is the use of enhanced tax payer education. (Misra, R. (2014).

Taxation is a branch of public law. As important sources of public revenue, taxes are very important part of the daily functioning of a government. Taxes are important sources of public revenue. Public goods and services are normally subject to collective consumption, thus requiring that we put some of what we earn into government hands. Any government's priority is the generation of revenue money by means of which it can procure such services and goods necessary for the performance of its functions. (Ethiopian Chamber of Commerce and Ethiopian Business Development Services network, 2005).

Tax non-compliance become a serious challenge slackening tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries. (Demissie, A. 2018) As reported in a tax administration workshop¹, the contribution of taxes to the government's total revenue (Tax-to-GDP) remained consistently low and even lower than sub-Saharan African countries. Normally, taxes are fundamental to the existence of governments, it is a way for governments 'to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence (ERCA, Customer Charter, 2015).

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

Tax compliance behaviors of a taxpayer usually differ from the compliance behaviors estimated in economics models. Taxpayers are greatly influenced by other taxpayers. Besides, the rate and quality of audit will also influence tax compliance behaviors of a taxpayer (Kasipillai et al., 2003). The influence of knowledge on compliance behaviors has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003). Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Therefore, the purpose of this study is to examine the influence of tax education on tax compliance attitude by conducting an experiment on second year graduate Accounting students of St. Marry University College. In addition to this, level of tax knowledge of tax payers and the relationship between tax education and tax knowledge is also examined. This chapter is organized in eight sections. The first Section presents the

study's statement of problem. The second section deals with stating the purpose of this quantitative study. Under section three, the two hypotheses which are tested in this study are presented. Following this section, the research methodology which is utilized in this study to achieve the research objective is presented. The fifth section briefs the significance of this study. The scope and limitation of this study are presented under section six and seven respectively. Finally, the last section briefs about how this study is organized.

1.2. Statement of the Problem

Low tax compliance is a major concern for the policy makers in many developing countries. This is because it limits the capacity of governments to raise revenue for developmental and recurrent expenditure purposes (Aldehayyat, J. S. and Anchor, J. R. (2010). This means that the higher the revenue to the government, the more likely the government will provide more services to enhance the standard of living of the people. Tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments; for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayers. (Aldehayyat, J. S. and Anchor, J. R. (2010).

Tax compliance is growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue. Taxpayers will readily accept any new system introduced if they have ample knowledge to understand the system (Kasipillai, Norhani, and Noor, 2003). Thus, education programs organized by custom and duty authority or public education institutions are required to enhance taxpayers' ability to understand the importance of tax on country's economic development and to increase their confidence in fulfilling their responsibilities as taxpayers. It is clear that developing tax knowledge in taxpayers is an important element in operating a successful tax system. Achieving an appropriate voluntary compliance level could be achieved if taxpayers can complete the tax returns correctly and pay the right amount of taxes. The Ethiopian Revenue and Customs Authority (ERCA) have two main branches in merkato. Merkato Number 1 and Merkato Number 2 branch office. Under this

two main branch's there are seven tax centers and Two Main branch offices i.e. Tana tax center, Chilalo tax center and Merab hotel tax centers under Merkato no-1 and Adarash tax center, Abdo Brenda tax center, Yirgahaile tax center, and Sebategna tax center under Merkato number two branch office. Merkato branch 2 offices contain a total of 9273 and above. Thus, to realize the objectives of voluntary compliance, taxpayers need to be informed, well educated (particularly in tax matters), and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant. However, less attention has been directed toward understanding precisely how education will influence tax payer's attitude towards tax compliance in influence of tax education on tax compliance attitude: the case of Addis Ababa number two medium taxpayers branch office, the influence of education on tax compliance attitude must be investigated and the findings of this study can be used to inform sound public policymaking.

1.3. Research Questions and Hypothesis

1.3.1. Research questions

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

In order to address the objective of the study, the researcher sought to answer the following research questions:

- What was the effect of Ministry of Revenue of Ethiopia role in creating tax payer's knowledge on tax compliance behavior among Small and Medium Enterprises in Ethiopian revenue and custom authority merkato number 2 branch office?
- What was the effect of tax payer's motivation on tax compliance behavior among the SMEs in Ethiopian revenue and custom authority merkato number 2 branch office?
- What was the effect of system simplicity on Tax Compliance among SMEs in Ethiopian revenue and custom authority merkato number 2 branch office?
- How social role on creating tax payer's compliance behavior affects tax payers on among SMEs in Ethiopian revenue and custom authority merkato number 2 branch office?

1.3.2. Research hypothesis

Oxford dictionary defines hypothesis as, ‘A supposition or proposed explanation made on the basis of limited evidence as a starting point for further investigation’. Hence the hypothesis on which this research study based on has been stated in null form as follows:

Hypotheses

Ho₁: ERCAS role in creating tax payer’s knowledge has no significant effect on tax compliance SMEs in Ministry of Revenue of Ethiopia Merkato number 2 branch office

Ho₂: Tax payers’ motivation to tax education has no significant effect on tax compliance behavior among SMEs in Ministry of Revenue of Ethiopia Merkato number 2 branch office

Ho₃: System simplicity has no significant effect on Tax Compliance behavior among SMEs in Ministry of Revenue of Ethiopia Merkato number 2 branch offices

Ho₄: There is no significant effect between social role on creating tax payer’s compliance behavior among SMEs in Ministry of Revenue of Ethiopia **Merkato** number 2 branch offices

1.4 The objective of the study

1.4.1 General Objective of the Study

The general objective of this study was to assess the influence of tax education on tax compliance attitude a case study in Ministry of Revenue of Ethiopia merkato number 2 branch office.

1.4.2 Specific Objectives

- To determine the effect of Ministry of Revenue of Ethiopia role in creating tax payer’s knowledge on tax compliance among SMEs in Ministry of Revenue of Ethiopia merkato number 2 branch office.
- To determine the effect of tax payer’s motivation on tax compliance among Small and Medium Enterprises in Ministry of Revenue of Ethiopia merkato number 2 branch office.
- To determine the effect of system simplicity on tax compliance among SMEs in Ministry of Revenue of Ethiopia merkato number 2 branch office.

- To determine the effect of social role on creating tax payer's compliance behavior among SMEs in Ministry of Revenue of Ethiopia merkato number 2 branch office?

1.5 Significance of the Study

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

1.6 Scope of the study

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

1.7. Limitation of the study

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

Secondly, similar questions are prepared by considering the respondent's educational background clear and easy questions are asked to check the tax knowledge of tax payer that helps for compliance attitude of respondents. The reason for considering the respondent

educational background is useful for excluding ambiguous and long questions because it would have been time consuming and made the questionnaire lengthy so that respondents may not feel out the questionnaire.

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

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

The purpose of this chapter is to review the existing literatures regarding the relationship of tax Compliance with different variables especially with demographic variables particularly education. The chapter has three sections and organized as follows. The first section presents the

Theoretical reviews tax compliance. Section two similarly reviews different empirical results regarding the impacts of different variables on tax compliance behavior. Finally, section three Deals with conclusion of the chapter and the knowledge gaps that inspire this study

2.2. Theoretical Review

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

2.2.1. Tax Compliance

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

terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-compliance only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to inordinate lengths to reduce their liability this could hardly be considered ‘compliance’ either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. ‘Tax exiles’ even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law. Tax compliance is a complex behavioral issue and investigation requires the use of a variety of methods and data sources as each instrument has strength and weaknesses. Alm (1991) defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person’s act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. Roth explained that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the needs of laws, regulations, and court judgments. Those who fail to adhere to taxation laws intentionally or otherwise shall be considered as having committed an offence. James and Alley considers tax compliance in terms of the tax gap, which is the difference between “true” individual income tax liability and that finally, collected on a voluntary basis or by enforcement action. In other words, ‘tax gap’ represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance. In this case, James and Alley (2004) state that ‘compliance’ refers to voluntary not compulsory behavior. Taxpayers’ compliance would not be considered voluntary compliance if they adhere merely for fear of threats and or harassment. Tax compliance is important for many reasons. This is because non-compliance leads to a reduction in tax collections, which in turn affects public services received by the citizens, including compliant taxpayers. It also requires the government to expend resources

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

From the economic point of view, tax compliance has been defined as compliance with reporting requirements, meaning that the taxpayer files and pays all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the taxing system applicable at the time the return is filed (Devos, 2005). This definition holds an important extension from the previous definition, which is the timing issue. Late tax payments cannot be considered as proper compliance as cash today is worth more than cash tomorrow. The rationale behind this notion is that whenever a government does not collect tax payments on time, it would be forced to either cut public expenditure or increases the amount it has to raise elsewhere (James and Alley, 2004). It is further asserted that although late payments of tax fit many of the ‘tax gap’ measures, they do not represent full compliance. Tax compliance behavior may be perceived as a rational economic decision making process; as a reaction to perceived fairness; as an ethical conduct or as an action due to ignorance. Each of these factors in isolation may not by itself contribute to particular compliance behavior. In fact, analysis of the findings of some empirical studies indicated that tax compliance behavior varies widely over individual circumstances and influenced by factors such as the desire to avoid sanction as well as being subjected to group influence. Taxpayers may under-declare their income and would be deterred only by the chances of detection and penalties imposed.

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

According to Hasseldine (1999), many tax agencies have used various techniques to measure the extent of non-compliance, but there will always be some compliance dependent on the social attitudes and behavioral aspects of taxpayers. Moreover, the extent of non-compliance among individual taxpayers not only depends on individual factors, but on a complex combination of circumstances. Non-compliance represents the most inclusive conceptualization with respect to the failure to meet tax obligations whether intentional or unintentional (Kinsey, 1985), as cited in Kasipillai and Noor, 2003. Tax evasion however, involves some elements of fraudulent conduct accompanied by a real intention on the part of the taxpayer to willfully or deliberately mislead, deceive or conceal from IRB to pay less tax than actually owed.

2.2.2. School of Thought

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

2.2.2.1. Economic Deterrence Models

Economic deterrence models in general are based on the theory that behavior, in a wide range of contexts including tax evasion, is responsive to punishment or sanctions. Economic

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

2.2.2.2. Social psychology models

Social psychology models are concerned with the prediction and understanding of human behavior, or how people make decisions, using a range of methodological approaches including Compositional modeling, attribution theory and equity theory (McKerchar and Evans, 2009). Compositional modeling is characterized by the view that individuals undertake deliberate and reasoned action according to their personal preferences. This approach assumes that people consider the implications of their actions before they decide, or form an intention, to engage or not engage in a given behavior. Further, this approach assumes that intention directly translates into behavior, without any further influences. The model then seeks to explain how intention is formed (Ajzen and Fishbein, 1980). Attribution theory is based on the assumption that individuals rationally interpret and analyze events in order to understand causal structures. People have internal (personal) and external (situational) attributes. In judging the behavior of others, people will generally attribute the outcome as being caused by their own internal attributes. In judging their own behavior, people tend to believe the cause is due to external attributes. Equity theory proposes that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable. Where there are perceived inequities, individuals will adjust their inputs to the exchange until equity is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance (McKerchar and Evans, 2009).

2.2.2.3. Fiscal psychology models

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

2.2.3. Tax Compliance Determinants

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

2.2.3.1. Tax knowledge

Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand Taxation laws and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Eriksen & Fallan, 1996). Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the

money collected is spent by the government (Mohd, 2010). More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. This exposure could be given through seminars, dialogue sessions, or collaboration with the Ministry of Education to introduce the subject of Taxation at secondary schools (Mohani, 2003).

2.2.3.2. Ethics and attitudes toward tax compliance

In a tax system which is based largely on voluntary compliance (such as a SAS), the taxpayers' standard of ethics is 'extremely important' (Song and Yarbrough, 1978). Ethics are a subjective continuum and the level of ethical behavior is heavily reliant on how people perceive the behavior being considered. It is assumed that ethics encourage individuals to act according to them and a taxpayer with a negative attitude towards tax evasion tends to be less compliant. Based on Ajzen (1991) the theory of reasoned action or the intention to evade will encourage a taxpayer to behave negatively toward taxation and thus attempt to under-report income. On the other hand, attitudes towards the tax authority are also important as tax attitudes and ethics generally depend on perceived use of the money collected by the government (Song and Yarbrough, 1978).

2.2.3.3. Awareness of offences and penalties

From the tax administration viewpoint, researchers have concluded that compliance could be influenced by education taxpayers of their social responsibilities to pay and thus their intention would be to comply. As a behavior problem, tax compliance depends on the cooperation of the public. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. Assisting tax payers by improving the flow and quality of information or education them (eg, TV campaigns) in to becoming more responsible citizens has the potential to yield greater revenue than if it were spent on enforcement activities. A theoretical economic model introduced by Allingham and 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 discouragement for potential tax evasion.

2.2.3.4. Education

Greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2003). The next section will present the previous research results about tax compliance and the accompanied determinant factors for the existence of tax compliance.

2.3. Empirical studies

2.3.1. Tax knowledge and tax compliance

This sub-section discusses the importance and the role of tax knowledge, particularly in determining taxpayers' attitudes towards taxation. The influence of knowledge on compliance behaviors has been assessed in various researches. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996). Harris (1989), divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation. Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). Eriksen and Fallan (1996) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. The research done by Eriksen and Fallan has illustrated the importance of tax knowledge in a tax system, especially in a SAS. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. Eriksen and Fallan's study is divided into three main parts. Firstly, the investigation is focused on taxpayers' knowledge. Secondly, the research

tries to reveal the overall impact of tax knowledge on tax compliance behavior among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers' behaviour because in SAS, tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system.

Eriksen and Fallan (1996) attempt to determine the relationship between the level of tax knowledge and attitudes toward taxation; whether specific tax knowledge influences attitudes in general (not only tax attitudes) and investigates people's behavior toward traditional crime. The study was conducted through quasi-experiment with pre-testing and post-testing of two student groups in Norway. The control group comprised of students who were going to take marketing as an elective subject in the second year of their BA education whereas the other group (experimental group) consisted of students who had selected tax laws as an elective. Tax knowledge was measured in the pre-test and post-test using a score calculated from 12 questions concerning tax allowances and tax liabilities. In the post-test, the researchers extended the questions to 28 in order to get a better picture of tax knowledge between the two groups. Erikson and Fallan used multiple choice questions in which in each question respondents had to choose either 'Yes', 'No' or 'Do not Know'. Tax knowledge was measured based on the answers. The result of the study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion. The result of the study supports the principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions as well as the fairness of progressive tax which was studied by Robert *et. al.* (1994). The students' perception of the fairness of the tax system increases as tax knowledge is improved. This result is in line with previous studies by Lewis (1982) where low tax knowledge correlates with negatives attitude toward taxation. 'Tax attitudes can be improved through better tax knowledge' (Eriksen and Fallan, 1996) and thus this will in turn increase compliance and reduce the inclination to evade taxes.c Furthermore, Eriksen and Fallan (1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others' tax evasion and thus suggesting that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system. It

would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools. Collins, Milliron and Toy (1992) on the other hand produced a contradict result in their study in the United States from a random mail survey of 700 households from telephone directories. Out of 220 usable responses, they found that tax knowledge and the level of education were negatively correlated with compliance behavior. According to these researchers, knowledge about tax law is assumed to be of importance for preferences and attitudes towards taxation. As self-assessment system requires the full capability and competency of taxpayers' knowledge; some aspects of attitudes towards taxation, such as tax ethics and their perceptions of the fairness of the tax system also have an influence on the inclination towards tax evasion (Jackson and Milliron, 1986).

Lewis (1982), as cited in Mohamad *et. al.* 2011, attempted to determine whether there is a connection between specific tax knowledge and compliance attitudes during completing the tax return. His aim was to study any changes in the attitudes towards taxation that result from increased knowledge about taxation which might have a significant impact on tax compliance. Lewis argued that there is insufficient knowledge about tax regulations and this situation leads to negative economic effects (an increase in the tax gap). Furthermore, there also seemed to be considerable differences in the level of knowledge although the level of education remains the same. Moreover, there are no comparable experiments focusing on how better specific tax knowledge affects attitudes towards taxation as mentioned by Alm (1991), who presents a survey of experiments in tax compliance research. A study in Malaysia conducted by Loo and Ho (2005) examined salaried individual competency in SAS but limited their sample to individuals who pay taxes in and prior to 2003 and who are likely to pay taxes in and after the year of 2004. Tax knowledge was measured in terms of chargeable income, exemptions, reliefs, rebates and tax credits. By using a survey of 250 questionnaires, the study concluded that although the respondents have tertiary education, their tax knowledge in relation to personal taxation was considered to be relatively low thus making them 'incompetent and not ready to exercise appropriate compliance under self-assessment regime' (Loo and Ho, 2005).

2.3.2. Ethics and Attitudes Toward Tax Compliance

According to Jackson and Milliron, (1986) tax ethics and attitudes towards tax compliance have an influence on the inclination towards tax evasion. Roth, Scholz, and Witte (1989) identified two primary factors in taxpayer compliance, namely financial self-interest and moral commitment. Individuals comply with tax laws because it is in their own financial interests to minimize their tax bill, but also because of their perceived moral obligation to obey tax laws.

The results of Roth, Scholz, and Witte (1989), reveals that there is a consistently positive relationship between moral commitment and compliance behavior. These researchers assume that ethics have a positive effect on compliance behavior more than financial self-interest. The best predictor of a person's behavior is ethics, but this link can be disrupted by the passage of time, unforeseen events or new information. Song and Yarbrough (1978) states that the average taxpayer's tax ethics is 60.3 on a scale of 100 and 21 per cent of taxpayers have a negative level of tax ethics. These researchers consider this overall level of tax ethics as "barely passing." Tax ethics at this level should be taken as symptomatic of a disease seriously threatening the moral fiber of society and the viability of the democratic system.

2.3.3. Awareness of Offences and Penalties

Since previous studies indicate that penalty rates impact upon tax compliance behavior, the awareness of offences was presumed to have a significant influence as well. 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. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus, educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure (Mohamad *et. al.* 2011).

2.3.4. Education

According to the Fischer Model, noncompliance opportunities can affect tax compliance both directly and indirectly through attitudes and perceptions. Chan *et. al.* (2000), investigates the direct and indirect effects of two noncompliance opportunities, namely educational and income level. Previous literature supports the direct, negative relationship between educational level and taxpayer compliance but a direct relationship between income level and tax compliance is unclear. Chan *et. al.* (2000) also postulate that greater education is directly linked to a likelihood of compliance. They argue that educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Chan *et. al.* also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. In contrast, the most recent study by Richardson (2008), cited in Mohd, 2010, also revealed that there is a negative association between education and compliance. Hite and Hasseldine (2001), Mohamad *et. al.* 2011, investigate the current developments in the USA, highlighting that tax academics need to emphasize teaching and development. In other countries, tax education, as well as tax development is not as good as in the USA. Their study was expected to be able to help academics in other countries to adapt what has been done in the USA, especially in teaching methodology (in tax courses) so that other countries can learn how to educate taxpayers more effectively and efficiently. The survey result of Demissie (2008) reveals that taxpayer's poor knowledge of tax rules and regulations is the most deterring factor of voluntary compliance. In addition, Kasipillai *et al.* (2003) states that tax knowledge has impact on tax compliance. The study specifically evaluates the influence of education on tax compliance among undergraduate students in Malaysia. Questionnaire was administered on undergraduate accounting students of University of Utara Malaysia (UUM) to determine whether education influences respondents' tax avoidance and tax evasion behavior. 560 questionnaires were distributed to UUM students who had yet to commence their taxation course. The statistical findings confirm the prevalence of a relationship between tax education and tax compliance, suggesting tax education positively contributes towards tax noncompliance. However, students' responses may not accurately reflect the

taxpaying public as a whole and generalization on the change in attitude among the 'real' taxpayers may not be appropriate.

2.4. Conclusions and identification of knowledge gap

To conclude on this chapter, the results of various studies indicate that tax knowledge appears to be an important element in tax compliance. The study of Mohamad et al. (2011) reveals that educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure. Jackson and Milliron (1986) states that tax ethics and attitudes towards tax compliance have an influence on the inclination towards tax evasion. It is also suggest by Eriksen and Fallan (1996) that, successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system.

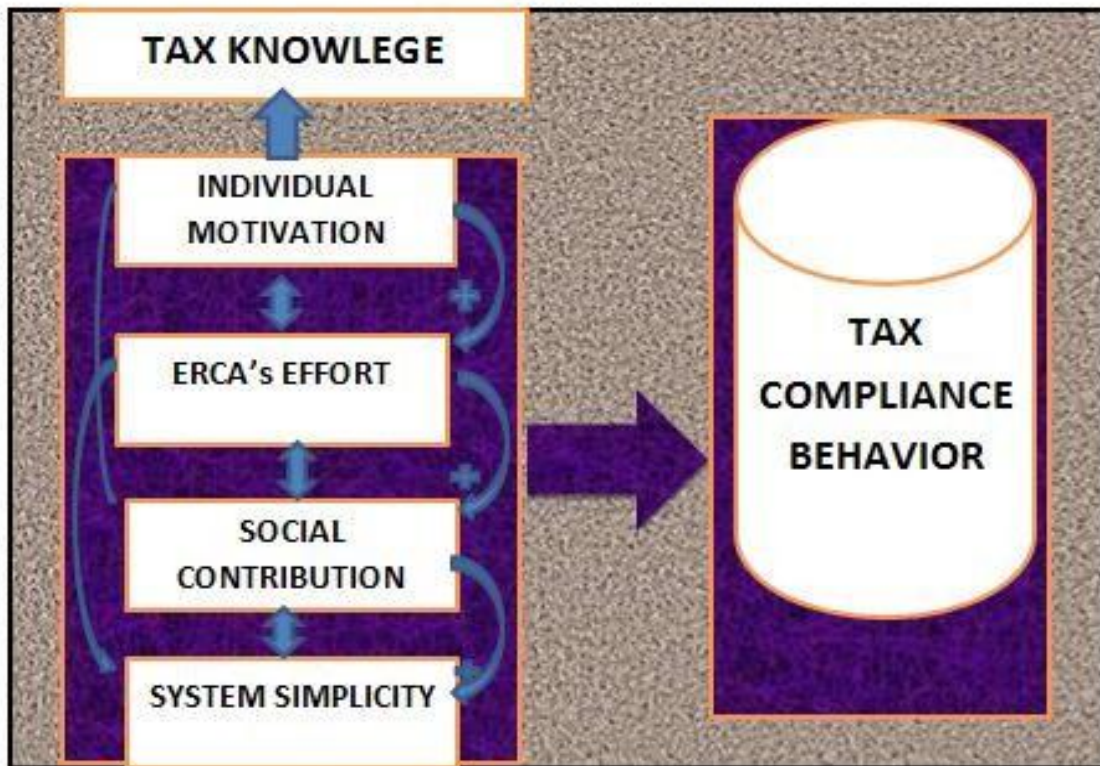
In opposite to this, Collins, Milliron and Toy (1992) on the other hand produced a contradict result in their study in the United States. They found that tax knowledge and the level of education were negatively correlated with compliance behaviour. In addition to this, the most recent study by Richardson (2008), cited in Mohd, 2010 also revealed that there is a negative association between education and compliance.

This indicates that there is a contradictory results of studies conducted on tax compliance determinants. Therefore, this difference in results motivates the researcher to carry out this study.

In addition to this, even though there are studies on tax compliance conducted before, such as a study on the assessment of the status of voluntary tax compliance among taxpayers in the Ethiopian perspective by Demissie (2008) and, a quantitative research of the effect of peer influence and government services on income tax compliance by Ahababu (2010) the influence of tax education on tax compliance attitude is not independently studied by other researchers previously. Therefore, this knowledge gap also motivates the researcher to explore how tax education will influence tax compliance attitude by using experiment on students of higher institution.

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

2.4. Conceptual frame work



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

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

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1 Introduction

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

3.2. Research Methodology

3.2.1 Research design

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

3.2.2 Population and sampling procedure

The procedure used to determine the population of the study in which number 1 represent tax payer's compliance behavior in Ethiopia, number two represent tax payer's compliance behavior in Addis Ababa , number three represent tax payer's compliance behavior in Merkato and number four represent tax payer's compliance behavior in Merkato number 2 branch office. In Merkato number two branch offices there are 12,312 legally registered tax payers. To the purpose of this study the researcher taken as a total population of the study.

3.2.3 Sample size and sampling procedure and techniques

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

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

In an attempt to obtain a fair representation of the population, the selection the respondent was done using simple random sampling technique. Simple random sampling is preferable to obtain samples that are unbiased—i.e., that give each subject in the population an equally likely chance of being selected.

Another point to be raised in here about sample design is the sample size. The choice of sample size has a bearing on the reliability of the result of a study. However this does not mean that large sample size always leads to high level of accuracy rather it is to indicate that sample size is one of the factors that contribute to the credibility of the survey estimate. For the choice of sample size, different researchers have different opinions. For instance, some researchers noted that the choice of sample size is normally made after considering practical issues and available resources (e.g. cost and time). According to Aryet.al. (2002) all things being equal the larger sample size, the better representative of the population.

On the other hand there is no single precise way for the determination of sample size hence there are a number of inadequacy for deciding on sample size. Therefore, it is better to decide the sample size by considering the different goals to be achieved by a particular study, sample size used by other researchers on similar studies for example, Wubshet (2011) and by considering practical issues like availability of time, resources and the size of the population to be studied. Fowler (1984) indicated that for a population, the level of precision increases steadily up to sample sizes of 299 to 1190. If the desire is to increase the sample size beyond this limit, there is much more gain that is modest.

According to (Yamane, (1967) to determine the number of elements to be selected form each stratum the researcher can use a simplified formula for calculation of sample size, suggested that for a 95% confidence level and $e=0.05$, with a population of 1190 the size of the sample representatives, 299 respondents were targeted for this research:-

Thus, the formula is used to calculate the sample size is

$$n = N / (1 + N (e)^2)$$

Where $N=$ is the total population

$n =$ is the sample from the population $e=$ is the error term, which is 5% (i.e. at 95% confidence interval) Using the above formula the simple size of the study is determined as $n= 1190 / (1+1190(0.05)^2) = 299$

The most important characteristic of a sample, therefore, is its representativeness, not its size. Therefore, a sample of 299 respondent selected by using lottery method The researcher also gathered qualitative data through interview from ERCA employee.

3.3 Data Source and Data Collection Method

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

3.4. Data collection instrument

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

3.5. Data analysis techniques

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

3.6 Validity Test

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

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

3.7 Reliability Test

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

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

For a research to be valid the Cronbach's alpha result is expected to be at least 0.7. Therefore while the questionnaire is distributed for 20 first respondents in advance the Cronbach's alpha result has been checked and found to be above 0.7 implies that its reliability has been verified.

Table 1 Reliability test of Cronbach's Alpha result

Dimensions	Cronbach's Alpha value	Number of items
TAX Knowledge	.819	4
Individual Motivation	.822	4
ministry of revenue of Ethiopia effort (ERCA' S EFFORT)	.761	5
Social contribution	.801	4
System simplicity	.860	5

Source: primary data, 2021

3.8 Organization of the paper

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

CHAPTER FOUR

DATA ANALYSES AND PRESENTATION

4.1 Introduction

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

4.2 Respondent Profile and Data analysis

4.2.1 Response Rate

A total of 299 questionnaires including a covering letter were delivered in person to the respondents. A follow-up telephone call was made to increase the response rate. The response rate for questionnaires distributed in person was high. While conducting this study, the researcher faced many challenges to secure respondents 'willingness to respond; many of them assumes as tax intelligence method for ERCA. In addition, many complained that there is dissatisfaction on taxation system. The above reason may have impacted on response rate a total of 284 respondents or 94.98 % completed and returned the questionnaire.

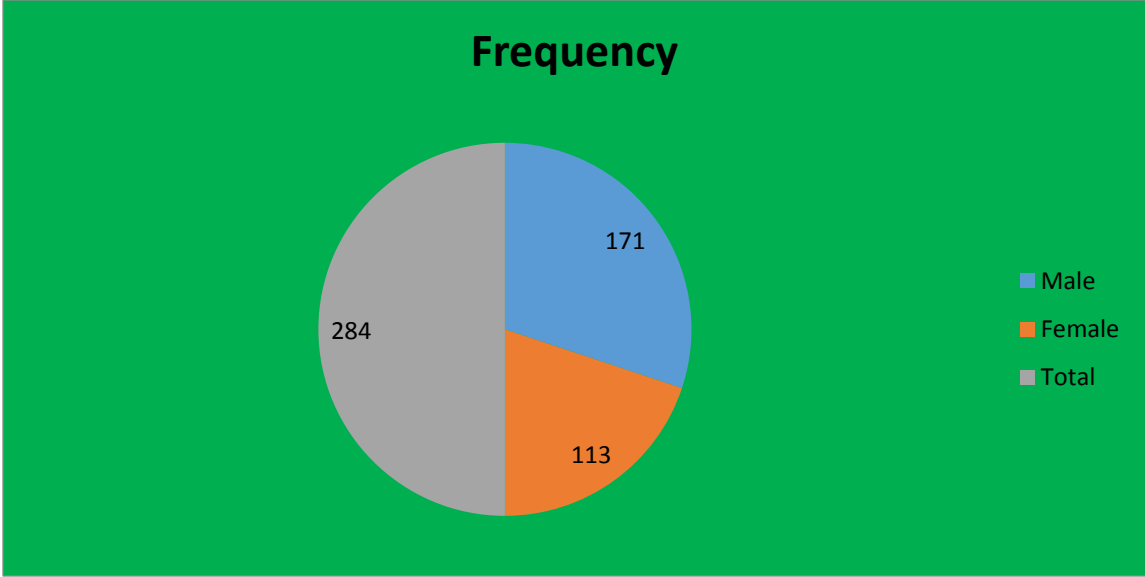
Table 4.1: -Age profile of respondent

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	23-30	83	29.2	29.2	29.2
	31-40	135	47.5	47.5	76.8
	41-50	53	18.7	18.7	95.4
	51-60	13	4.6	4.6	100.0
	Total	284	100.0	100.0	

Source: Own survey 2021

As it is clearly depicted out on the above table, out of the 284 responses obtained, 284 questionnaires has been given and responded back by those whose age categories lies between 121 (42.6%), 83 (29.2), 59(20.8) .

Figure 4.2: -Age profile of respondents



Source: Own survey 2021

Based on the above table among the total number of responses obtained, the majority 171(60.2%) of them were collected from men while the remaining questionnaires were being field and returned back by females which accounts for 39.8% (113) of the total figure.



Source: Own survey 2021

Likewise among the general responses obtained from the data the majority of the participants of the study which are 76.4 percent are those who are at a diploma/level iv holders,12.0 percent are degree levels and Maters and above has contain 11.6 percent, therefore we can conclude that there is high level of degree level in the organization.

Table 4.4:- Work Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	138	48.6	48.6	48.6
	6-10 years	75	26.4	26.4	75.0
	6 to 10 years	71	25.0	25.0	100.0
	Total	284	100.0	100.0	

Source: Own survey 2021

4.3 Descriptive Analysis

The second part of the research questions seeks to understand what the the influence of tax education on tax compliance attitude a case study in Ethiopian revenue and custom authority merkato number 2 branch office”. Looks like, ERCA’s role for tax payer’s knowledge, the social role in creating tax payer’s knowledge, the role of system simplicity in knowledge creation and Tax payer’s compliant behavior. Which has been analyzed and presented on following tables and presented. Hence analyzed by comparing the mean and standard deviation score of each variable.

Table 4.5:-ERCA’s role for tax payer’s knowledge

	N	Max	Mean	Std. Deviation
ERCA creates awareness using social medias	284	5	4.05	.652
ERCA teaches different tax education for tax payers using different audiovisual media	284	5	4.00	.716
ERCA informs tax payment schedule in tax payers personal phone using SMS	284	5	4.00	.408
ERCA introduce simple tax calculation method Using print media such as brochure.	284	5	3.62	1.007
Employee of ERCA are eager to cooperate with tax payers when difficulty occurs	284	5	3.95	.592
ERCA meaningfully present information how effective they are in creating social welfare.	284	5	3.90	.678
Valid N (listwise)	284			

Source: own survey (2021)

The data indicated in table 4.5 shows that ERCA’s effort to create favorable knowledge on tax payer’s mind. The respondent rated the effort of the ERCA as a medium level (Grand Mean= 3.9196). The response variation between respondent is very high (SD=.40643) this variation indicates that most tax payer recognized the effort of ERCA positively perceived as the effort as high level in ERCA teaches different tax education for tax payers using different audiovisual media Based on the tax payer’s perception ERCA’s performance is relatively high in meaningfully presenting information how effective they are in creating social welfare, medium performance in teaching different tax education for tax payers using different audiovisual media and low in employees of ERCA effectively cooperating with tax payers when difficulty occurs.

Table 4.6:- The social role in creating tax payer’s knowledge

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Most tax payers are compliant to the tax system	284	1	5	3.72	1.049
Being compliant increases social acceptance	284	1	5	3.66	.897
There is high opportunity to be Caught those who involved in tax evasion.	284	1	5	3.53	1.024
It is difficult to survive on business without adhering tax law	284	1	5	3.80	.828
Our society has tendency to make transaction with receipt	284	1	5	3.67	.883
Your family encourages you to be compliant.	284	1	5	3.89	.699
Valid N (listwise)	284				

Source: own survey (2021)

The above table 4.6 tries to identify the role of society in influencing tax payer’s knowledge. The respondent rated that the role of society in creating tax knowledge have medium level (Mean = 3.7113) influence. The response between respondents has some level of variation (SD=.63024) which means some respondents has inclined to agree or strongly agree with the statement describing the existence of social influence. On the other hand there is a significant number of respondent which stands against social influence in creating tax knowledge. This research forwarded some points to the respondent that affect individual tax payer’s perception in relation to forming tax knowledge. The respondent replied as high effect when our community increases the behavior of asking receipt for his transaction.

Table 4.7:- The role of system simplicity in knowledge creation

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
It is difficult to survive on business without adhering tax law	284	1	5	3.80	.828
Our society has tendency to make transaction with receipt	284	1	5	3.67	.883
Your family encourages you to be compliant.	284	1	5	3.89	.699
It is difficult to get taxation document in an organized way	284	1	5	3.88	.696
There is flexible time schedule to pay tax	284	1	5	3.99	.735
calculation method is complex	284	1	5	3.79	.835
Valid N (listwise)	284				

Source: own survey (2021)

Table 4.7 indicates the contribution of system simplicity for creating tax knowledge. Compared with other factors respondents favorably rated as significant. Most of the questions represent complexity of the system but the researcher inverted after the data collected during coding stage. From the wider picture we can understand that system simplicity have no impact (Mean= 3.7887) on influencing tax knowledge. The response variation between respondents is high (SD=.61022) which implies based on different factors the respondent rated as strongly agree or agree option for favoring system simplicity is important on the other hand other respondents denied the significance of system simplicity. When we come to specific parameter the respondent rate high (Mean = 3.99) of there is flexible time schedule to pay tax. And When we come to specific parameter the respondent rate high (Mean = 3.67) Our society has tendency to make transaction with receipt.

Table 4.8:- Tax payer's motivation

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
There is subjective judgment or (ambiguous) reason to be penalized (there is no subjective judgment)	284	1	5	3.85	.764
It is difficult to understand some technical terms on taxation simple terms	284	1	5	3.93	.639
Forms designed for self-assessment are difficult to understand	284	1	5	3.30	1.179
You makes considerable effort to know tax related rules	284	1	5	3.78	.712
you have experience to join meetings that organized by ERCA aims awareness creation	284	1	5	3.91	.636
Valid N (listwise)	284	1	5	3.42	.1.02

Source: own survey (2021)

Table 4.8 Includes five parameters of tax payer's motivation to equip themselves with tax knowledge. The result of the data (Grand Mean = 3.7113) which is medium level and also the value of standard deviation shows some degree of inconsistency among respondents (SD = .63016). This value implies that there are some respondents who rated below the grand mean which means they gave minimum attention to know about the taxation system. On the other hand, most respondents rated above from the cutoff point which means they make considerable effort to increase their knowledge related with taxation.

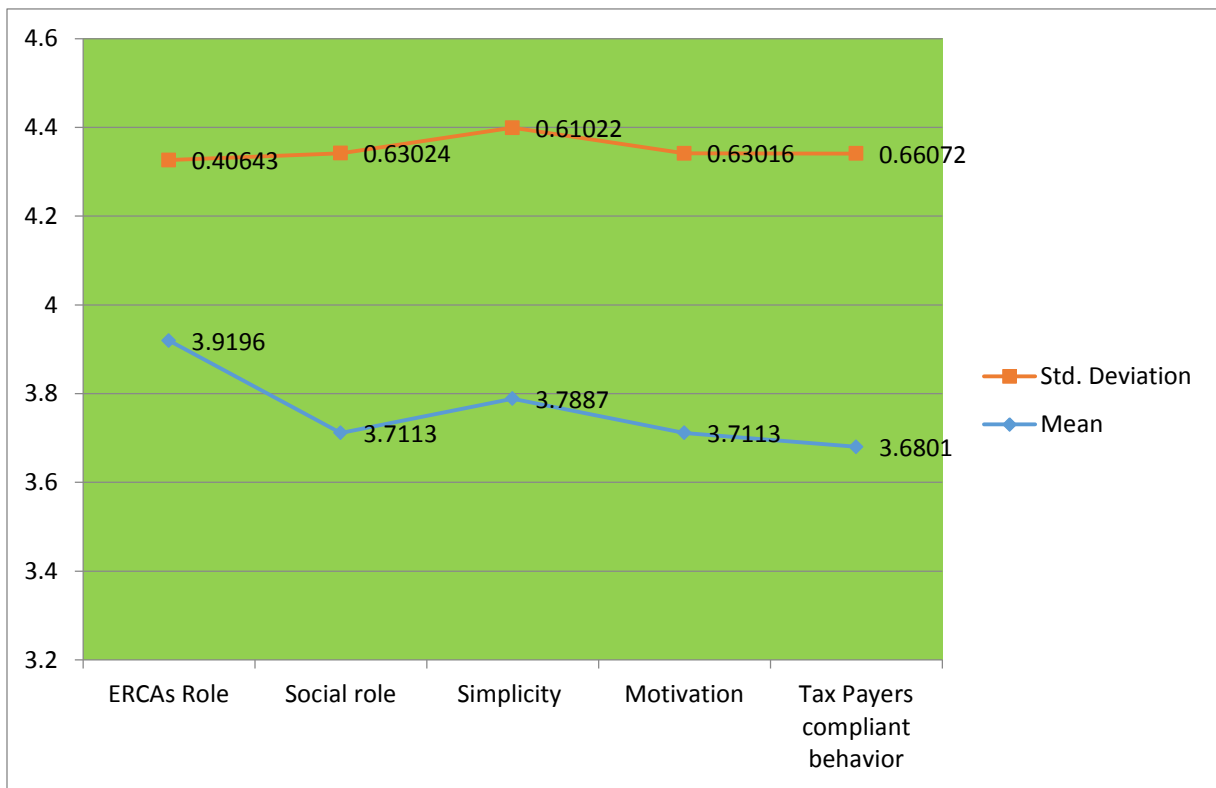
Table 4.8:- Tax payer's compliant behavior

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Paying tax is manifestation of responsible citizenship	284	1	5	3.32	1.174
It is mandatory to obey with taxation rule in order to build sustainable business	284	1	5	3.50	1.045
You believes that paying tax improves social development	284	1	5	3.68	.869
You were punished due to failure on sticking taxation rules	284	1	5	3.82	.794
Paying tax provides you mental satisfaction	284	1	5	3.67	.883
Most non-tax compliant business person has opportunity to be grown on their business.	284	1	5	3.89	.699
Grand mean of tax compliant behavior	284	1	5	3.88	.696
Valid N (listwise)	284				

Source: own survey (2021)

The data indicated in table 4.8 shows that ERCA’s effort to create favorable knowledge on tax payer’s mind. The respondent rated the effort of the ERCA as a medium level (Grand Mean= 3.89). The response variation between respondent is high (SD=.699) this variation indicates that some tax payer recognized the effort of ERCA positively and others perceived as the effort as low ERCA teaches different tax education for tax payers using different audiovisual media. Based on the tax payer’s perception ERCA’s performance is relatively high. From the above table paying tax is manifestation of responsible citizenship comparing to other questionnaires slightly low and its value is mean 3.32 and standard deviation is 1.174.

Table 4.9:-summary of mean and standard deviation



Source: own survey (2021)

From the above table 4.9 shows that ERCA’s role for tax payer’s knowledge has high mean value of 3.9196 and low mean value tax payer’s compliant behavior mean value of 3.6801.

4.3 Correlation Analysis

The Pearson's Correlation Coefficient (r) is a measure of the degree of association between variables and it takes a value between -1 and 1 Adams et al. (2007) when the correlation is 1 or -1 an impeccable linear positive or negative relationship occurs. However, when the correlation is resulting 0, it entails there is no relationship between the two sets of data ratio level independent variable and dependent variable.

4.3.1 Normality Test

The underlying assumption in Pearson Correlation and Multiple Linear Regression is the data tested must be normally distributed. Therefore, normality test is conducted to ascertain whether the data are normally distributed as to fulfill the normality assumptions before proceeding to further tests. Assumption of normality will be fulfilled when the p-value is more than 0.05 (Razali & Yap, 2011). Table 4.10 below indicated that the p-value is greater than 0.05, which implies that there was no evidence for the presence of abnormality in the data.

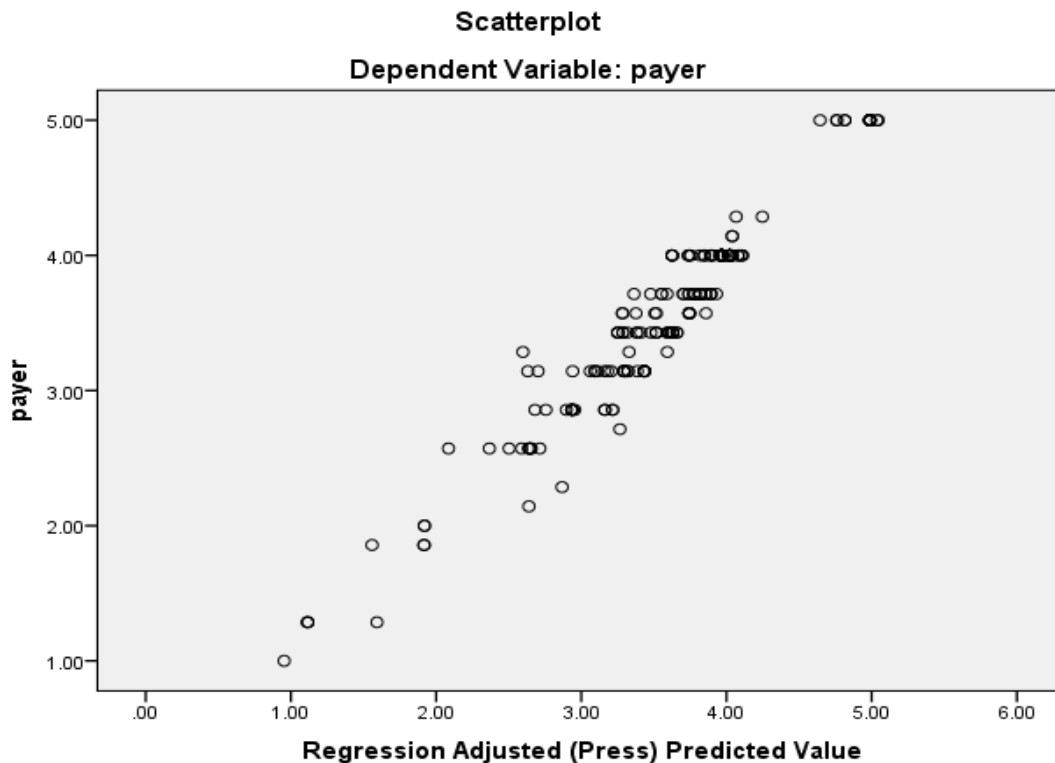


Table 4.10:- Correlation analysis						
		Tax	Social	Role	moti	Payer
Tax	Pearson Correlation	1	.753**	.844**	.753**	.801**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	284	284	284	284	284
Social	Pearson Correlation	.753**	1	.777**	1.000**	.941**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	284	284	284	284	284
Role	Pearson Correlation	.844**	.777**	1	.777**	.887**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	284	284	284	284	284
Moti	Pearson Correlation	.753**	1.000**	.777**	1	.941**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	284	284	284	284	284
Payer	Pearson Correlation	.801**	.941**	.887**	.941**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	284	284	284	284	284

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

Source: own survey (2021)

In the above table 4.10 analyze the inter correlation between the variable, in other words it represent the correlation between the independent (ERCA's role for tax payer's knowledge, the social role in creating tax payer's knowledge, the role of system simplicity in knowledge creation, tax payer's motivation and Tax payer's compliant behavior) and dependent variable (i.e. influence of tax education on tax compliance attitude a case study in Ethiopian revenue and custom authority merkato number 2 branch office) and the correlation indicated that the relationship between perception of role for tax payer's knowledge and Tax payer's compliant behavior was strong and statistically significant since $r=.753$ and $P=0.000$ which is less than 0.05. Increase in social role in creating tax payer's knowledge was positively correlated with Tax payer's compliant behavior as $r =.844^{**}$, and the relationship was statically significant since $P = 0.000$ which is less than 0.05. The researcher also noted that there is positive relationship between the role of system simplicity in knowledge creation and Tax payer's compliant behavior which was evidenced with result of $r = .753^{**}$ and $P =0.000$ that showed as there was a significant relationship as P-value was less than 0.05. The researcher also revealed that, there was a positive correlation between tax payer's motivation and Tax payer's compliant behavior as showed in the above tale as $r = .753^{**}$ and $P = 0.000$ which indicates spastically significant relationship among variables. Additionally the researcher also observed positive correlation between all independent variables.

4.4. Multiple Regression Analysis

After testing for assumptions of multi co-linearity, independence, interval/ratio, and normality, (see appendix 4) the study attempted to establish the statistical significance of the independent variables on dependent variable regression analysis. Regression analysis was conducted to know by how much the independent variable explains the dependent variable and to see significance of each variable. A standard multiple regression was performed between overall tax compliance as the dependent variable and Tax simplicity, ERCAs Effort, Motivation, and social as independent variables.

As clearly indicated in methodology part, the regression equation took the following form:

$$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 +\epsilon$$

Where,

Y = TAX Compliance (TCOM)

β_0 = constant term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6,$ and, β_7 = estimated coefficients

X1 = tax simplicity (TS)

X2 = ERCAs Role (ER)

X3 = SOCIAL ROLE (SR)

X4= MOTIVATION (MO)

In the model, β_0 = the constant term while the coefficients were used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. ϵ is the error term which captures the unexplained variations in the model. Results were illustrated below.

SPSS output of regression result is divided into three panels. The top panel summarizes the model summary to the regression, the middle panel ANOVA, indicates the overall significance. Moreover, the third gives information about each regression coefficient.

Table 4.11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.973 ^a	.973	.946	.15380	.946	1647.712	3	280	.000

Source :own survey

Table 4.11 presents the estimation results of the regression model of total explanatory variables on dependent variable. All together the influences of explanatory variables captured in the model are significant, The R-squared and adjusted R-squared 97.3 % and 94.6 % respectively. It indicates that the model is a Very good fit. This means, more than 94.6 % of variations in total tax compliance behavior of tax payers found in Merkato 2 were explained by independent variables included in the model. However, the remaining 3.4 % changes in

total tax compliance behavior in the study area are caused by other factors that are not included in the model.

I. Fitness of the model

Furthermore, the F-statistic, in table 4.12 was 38.974 and, the probability of not rejecting the null hypothesis that there is no statistically significant relationship existing between the dependent variable and the independent variables, is 0.000 indicates that the overall model is highly significant at 5% and that all the independent variables are jointly significant in causing variation in total tax compliance effect.

Table 4.12 “ANOVAa analysis

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	116.922	3	38.974	1647.712	.000 ^b
Residual	6.623	280	.024		
Total	123.545	283			

Source: own survey

TABLE 4.13 Coefficients of Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.314	.095		3.309	.001
	Tax simplicity	.053	.044	.033	1.222	.223
	ERCAs ROLE	.448	.030	.414	14.689	.000
	MOTIVATION	.675	.024	.644	28.046	.000
	Social role	.255	.211	.257	12.02	.000
a. Dependent Variable: Tax Compliance behavior						

Source: own survey (2021)

II. Hypothesis Testing

To test the hypothesized relationship, a series of multiple regression analysis were conducted. The output from this analysis, a beta coefficient, provides an assessment of the Significance and the impact of the predicator variables on the dependent variable. Gender and age difference were tested using independent t-test and one way ANOVA above. Therefore, in this part the rest hypothetical tests were given attention and results were analyzed based on the coefficients sub table.

Test of Hypothesis 1.

Table 4.13 presents the results to test hypothesis 1 which states about the effect of tax simplicity on tax compliance behavior. As shown above, the effect of tax simplicity on tax compliance behavior was not significant ($t = 1.222$, $p = 0.223 > 0.05$). Thus, this result support for hypothesis; therefore Hypothesis 1 could be accepted.

Test of Hypothesis 2

Hypothesis 2 tried to test the effect of ERCAs role and tax compliance behavior. The results presented in model 1, above revealed the presence a positive and significant direct effect between ERCAs role and tax compliance behavior ($t = 14.689$, $p = 0,000 < 0.05$). Therefore hypothesis Two is rejected.

Moreover, the slope (β_1) = .448 indicates that when ERCAs role increases by one unit, tax compliance behavior increases by .448

Test of Hypothesis 3

It is expected to test motivation of tax payers to education effect on tax compliance behavior. Table 4.13 reveals that the effect of motivation of tax payers on education on tax compliance behavior ($t = 28.046$, $p = 0.000 < 0.05$). Thus, this result could not provide support for hypothesis. Therefore, H3 is rejected.

For every one unit increase in a respondent's attitude to motivation of tax payers to education the likelihood of high tax compliance increases by .675 times. This predictor is the important variable in the model. Porcano (1988) indicates that taxpayers' general honesty is important in explaining compliance behavior.

Test of Hypothesis 4

It is expected in hypothesis 4 that, tax payer's social role has no significant effect on tax morale. Table 4.13 reveals that the effect of social role and tax compliance behavior was significant ($t = 12.02$, $p = 0.000 > 0.05$). These results could not provide support for hypothesis 4. Therefore hypothesis 4 is rejected.

Generally except in tax simplicity, the rest three variables were significant and the overall regression model expressed by the following box:

$$\text{Tax compliance behavior (units)} = 0.314 + 0.053(\text{tax simplicity}) + 0.2679(\text{ERCAs Role}) + 0.675(\text{Motivation}) + 0.225(\text{social Role})$$

Table 4.14. Summary of Hypothesis Testing

Hypot he sis	independents	Main testing methods	effect of null hypothesis	Sign of correlation
1	Tax simplicity	Multiple regression	Accepted	No correlation
2	ERCAs role	Multiple regression	Rejected	Positive
3	Motivation	Multiple regression	Rejected	Positive
4	Social role	Multiple regression	Rejected	Positive

Source: own survey (2021)

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The major objective of this chapter is to present the main point of the research and to draw some conclusions about the influence of tax education on tax compliance attitude based on the fact presented in previous chapter. In addition to primary data the researcher included points from literature when necessary to support the primary data. There is statistically significant positive relationship between tax knowledge and compliance behavior.

As the data indicates the r value is ($r = .946$) it shows the availability of strong relationship between influencing of tax education and compliant attitude. The total contribution of r value to the compliant attitude can be calculated as $r^2 = .946 * .946$ is equals to 0.894916. To convert this to percentage of variance multiplying the result by 100 it gives 89.4916 % shared variance. We can say that tax education influencing factors helps to increase compliance attitude by 51.84%.

Tax payer's motivation has statistically significant positive relationship with the compliance behavior. The study reveals that individual motivation has higher value ($r = .753^{**}$) compared with other factor. In addition to statistically significant positive relationship, it has 75.3% unique contribution to the explanation of variance in bringing compliance attitude.

Ministry of revenue of Ethiopia effort in creating tax knowledge has statistically significant positive relationship to the compliance behavior. Ministry of revenue of Ethiopia effort has considerable role in predicting compliance behavior ($.753^{**}$) unique contribution to the explanation of variance in bringing compliance behavior. There is statistically significant positive relationship between social contribution and compliance behavior. System simplicity has statistically significant positive relationship with compliance behavior. System simplicity also has 20.4% contribution to the prediction of

the dependent variable and relatively small (3.48%) unique contribution to bringing compliance behavior. An independent-samples t-test was conducted to compare the tax compliant behavior scores for males and females, between married and unmarried tax payer's. The result reveals that there is statistically significant difference in scores between males and females. The magnitude of the differences is large (eta squared=0.232). That means 23.2 % of compliant behavior explained by gender. On the other hand, There was no statistically significant difference in scores between married and unmarried tax payer's compliance behavior. The magnitude of the differences is very small. (eta squared=0.0296). One way between groups ANOVA with post-hoc test conducted in order to examine the relationship between different age groups, with different educational level and with different business experience level group with their compliance behavior. However, the study reveals that there is no statistically significant relationship to explain tax compliance behavior based on their group.

5.2 RECOMMENDATIONS

The result of this research exposed different factors that affecting tax knowledge creation and at the same time scientifically tested their potential for bringing compliance attitude. As indicated in the model individual motivation, organizational effort, social contribution and system simplicity together makes more than half .946 (94.6%) of compliant attitude. however, the authority doesn't pay much attention to knowledge creation. To fill this gap all stakeholders should be actively participate in knowledge creation process. Compliance behavior can't be achieved unless otherwise, knowledge creation process given priority. To create knowledge individual tax payer's should be actively seek knowledge, the organization should be continuously and meaningfully exert his effort in challenging societies 'culture and creating simple and accessible system.

Individual motivation and social contribution are the two factors out of ERCA's control to create knowledge and then to affect their compliance behavior. To bring change in this dimension ERCA should change their method of information delivery mechanism. To affect individual knowledge should apply customized information delivery system based

on their specific needs. On the other hand social contribution has significant role in creating tax knowledge. Social contribution factor also have significant role in bringing compliant behavior. So that, ministry of revenue of Ethiopia should use a social networks and information delivery mechanism like word of mouth and electronic word of mouth method should be use creatively.

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St. Mary's University, Ethiopia

Annex 1.

Questionnaire

Dear Participants,

This questionnaire is intended to collect primary data that will be used for thesis entitled “The influence of tax education on tax compliance attitude a case study in ministry of revenue of Ethiopia merkato number 2 branch office” in partial fulfillment for Masters of Arts Degree in business administration.

Therefore, your participation in giving reliable information has very much contribution for the success of this study. So, I respectfully request your kind cooperation in answering the question as clearly and frankly as possible. Finally I would like to assure you that the information you provide would be used for academic research purpose only.

Thank you very much, in advance, for your sincere Bezawit Solomon

If you have any questions or comments please contact by the following Address:
0924114876

Part I Demographic Information

Please tick the most appropriate answer for each of the following questions.

1. Gender

1. Male 2. Female

2. Age

20-25 26-30 31-35 36-40 41-45 46-50 over 50

3. Work Experience

1. year 2 – 3 years 3- 4 years 4 -5 years

5- 6 years 6 -7 years 7 – 8 years >9 years

4. Educational qualification

Diploma Degree Masters PhD

PART B: Case study related questions

Note: Based on your knowledge and experience, please indicate your views about the motivational goal setting.

Scale: Strongly disagree (1) Disagree (2) Neutral (3) Agree (4) Strongly Agree (5)

A. ERCA's role for tax payer's knowledge

Descriptive Statistics						
NO	Parameters	Strongly agree	Agree	Uncertain	disagree	Strongly disagree
1	ERCA creates awareness using social medias					
2	ERCA teaches different tax education for tax payers using different audiovisual media					
3	ERCA informs tax payment schedule in tax payers personal phone using SMS					
4	ERCA introduce simple tax calculation method Using print media such as brochure.					
5	Employee of ERCA are eager to cooperate with tax payers when difficulty occurs					
6	ERCA meaningfully present information how effective they are in creating social welfare.					

B. The social role in creating tax payer's knowledge

	Descriptive Statistics	Strongly agree	Agree	Uncertain	disagree	Strongly disagree
	Parameter					
7	Most tax payers are compliant to the tax system					
8	Being compliant increases social acceptance					
9	There is high opportunity to be Caught those who involved in tax evasion.					
10	It is difficult to survive on business without adhering tax law					
11	Our society has tendency to make transaction with receipt					
12	Your family encourages you to be compliant.					

C. The role of system simplicity in knowledge creation

NO	Parameter	Strongly agree	Agree	Uncertain	disagree	Strongly disagree
13	It is difficult to get taxation document in an organized way					
14	There is flexible time schedule to pay tax					
15	calculation method is					

	complex					
16	There is subjective judgment or (ambiguous) reason to be penalized (there is no subjective judgment)					
17	It is difficult to understand some technical terms on taxation simple terms					
18	Forms designed for self-assessment are difficult to understand					

D. Tax payer's motivation

Descriptive Statistics

NO	Parameters	strongly agree	agree	uncertain	disagree	Strongly disagree
19	You makes considerable effort to know tax related rules					
20	you have experience to join meetings that organized by ERCAaims awareness creation					
21	You have tendency to visit ERCA office in order to update your knowledge related with taxation					

22	You have tendency to share ideas with tax compliant business owners					
23	you have received continuous trainings on taxation					

E. Tax payer's compliant behavior

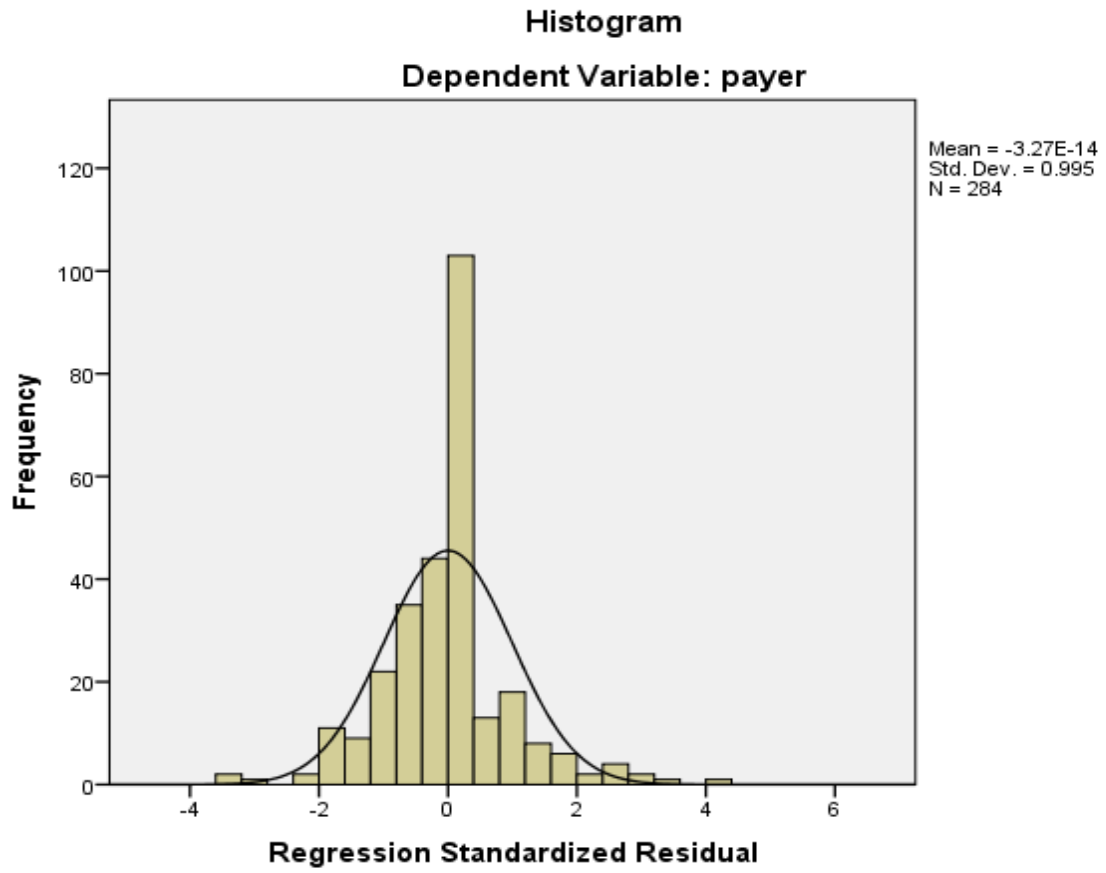
Descriptive Statistics						
	Parameter	Strongly agree	agree	uncertain	disagree	Strongly disagree
24	Paying tax is manifestation of responsible citizenship					
25	It is mandatory to obey with taxation rule in order to build sustainable business					
26	You believes that paying tax improves social development					
27	You were punished due to failure on sticking taxation rules					
28	Paying tax provides you mental satisfaction					
29	Most non-tax compliant business person has opportunity to be grown on their business.					
30	Grand mean of tax compliant behavior					

Any additional comments relevant to the study.

Thank You!

Annex 3.

Histogram



Annex 4.

normal p-p plot

