St. Mary's University
School of Graduates Studies

Key factors determining tax compliance in federal small tax payers: Evidence from Ministry of Revenue's west Addis Ababa federal small tax payer's branch office

Thesis summated in partial fulfillment of the requirements for the MBA

degree in Accounting and finance

By

Kassu Meressa

(ID No. SGS/0072/2011b)

Addis Ababa, Ethiopia
June 14/2021

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ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

ASSESSMENT OF RISK MANAGEMENT PRACTICE IN PRIVTE COMMERICAL BANKS OF ETHIOPIA AT THE LEVEL OF ERM FRAMWORK COSO (2004)

BY

KASSU MERESSA

APPROVED BY BOARD OF EXAMINERS

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Dean, Graduate Studies   **Signature**

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Advisor   **Signature**

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External Examiner   **Signature**

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Internal Examiner   **Signature**

DECLARATION

4

The undersigned, declare that this study is my original work and has not been present for academic achievement (any degree program)

_____   _____

St. Mary's University Addis Ababa   **Signature   July 2021**

ENDORSEMENT

This thesis has been submitted to St. Mary's University School of Graduate

Studies for examination with my approval as a university advisor

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Advisor   Signature

St. Mary's University Addis Ababa   **July 2021**

ACKNOWLEDGMENT

Abstract

The aim of this study is to assess key factors determining tax compliance behavior of small tax payers at the federal level by focusing on the Ministry of Revenue West Addis Ababa Small tax payer's branch office. For making a good analysis which gives a sound result both descriptive and explanatory research design were used. In order to best achieve the objectives of the study, the study was employed both purposive and convenience sampling techniques to collect data from the tax payers. From unit 613 taxpayers that are identified as high risk tax payers were taken as a population and 237 respondents were selected by using sample size determination formula. To analyze the data both descriptive and inferential statistics were employed to analyze and interpret the data. From the descriptive analysis result most of the determining factors (Tax administration and tax fairness, knowledge of the tax law, penalty and strength and service delivery of the authority) were poorly implemented. The regression analysis should that tax compliance behavior has significant as well as positive relationship with perception of Tax administration, tax fairness, knowledge of the tax law, strength and service delivery of the authority, However penalty has insignificant and positive relationship with tax compliance.

The study was recommended improving taxpayers' tax knowledge and altering taxpayers' attitudes through long-term tax education initiatives.

Keywords: Tax compliance, Tax law and regulations, tax knowledge

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List of Acronyms

LDCs…………………………………………Least developed countries

GDP……………….………………….Gross domestic product

SME …………………………………..Small and medium-sized enterprises

MSEs …………………………………Micro and Small Enterprises

ACCA…………………………………Association of Chartered Certified Accountants

GoE)………………………………...Government of Ethiopia

KII………………………………..Key informant interview

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The basic obligation of any country government includes protecting the basic human right, peace and security, managing the overall economic conditions, ensures fair distribution of income etc. In order to fulfill this obligation and managing its responsibility the government needs finance. This finance will be primarily obtained either from tax and non-tax revenue. The main purpose of taxation is to generate sufficient revenue to finance public sector activities in a non-inflationary way.

Tax is simply defined as a mandatory financial charge or some other type of levy imposed upon a taxpayer whether an individual or other legal entity by a governmental organization on product, income, or service in order to fund various public expenditure (Ghimire, 2019). It is a source of revenue for government for the implementation of various socio-economic development projects such as the construction of roads and bridges, schools, health facilities and provision of social services like national security, provision of salaries for civil servants. It also broadly classified as a direct tax and indirect tax i.e. a direct tax is a tax that directly to be paid to the authority imposing the tax while an indirect tax there is generally an intermediary for collecting indirect taxes from the end consumer.

Taxes are enforced in a manner that facilitates voluntary compliance from individuals and organizations to the maximum extent possible, but also taxes must equally burden all individuals or entities in similar economic circumstances. However, due to lack efficient and fair tax system the amount tax collected in least developed countries (LDCs) is low as compared to developing and developed countries. According Ponoricia & Al-saedi (2015), non-compliance undermines the tax system's equity and efficiency and impedes sustained economic development. It contributes to the low amount of tax collection in those countries.

Tax compliance in general is tax payer's decision to pay his/her tax duty timely and accurately. According Marziana et al, (2010), tax compliance can be defined as the degree to which taxpayer adhere with tax laws and regulations in their own country. However, the state of complying with the tax rules in most LCDs is current at lower stage. LDCs are still featuring a

low level of tax compliance due to many obstacles prevailing for voluntary tax compliance. Despite several administrative and legal reforms taken, gaps in tax audits and other enforcement measures contributes for low level of compliance by tax payers (Alabede, et al, 2011). As a result the amount of tax collected has remained quite low due to low level of tax compliance. As per the World Bank data, tax covers only 19% of the GDP of countries in Sub-Saharan Africa (excluding high income) in 2017.

Similarly, though the level is relatively low, there are also gaps in being tax compliant i.e. paying tax duty timely and accurately among small business in most LDCs including Ethiopia. According to Wadesango et al (2018), low level of education of taxpayers, frequent revision or introduction of tax legislations as well as their complexity, speculations of corruption on tax authority, the lack of transparency on public sector funds raises a negative attitude towards tax, lack of tax incentive grant are major factors contributing for low tax compliance among small enterprises.

To fulfill its obligation and managing its responsibility the government needs finance. This finance will be primarily obtained through imposing tax on individuals or entities. However, the amount of tax collected in LDCs is low due to lack of efficient and fair tax system as well as obstacles prevailing for voluntary tax compliance. In Ethiopia due to many factors, the level of non-compliance among business remains high.

1.2 Statement of the problem

Small tax payers play an important role in most economies, particularly in developing countries as a key contributor to national income (GDP). They account majority of businesses worldwide and are important contributors to job creation and national economic growth. Besides their positive contribution to job creation, these businesses have important contribution for broader economic growth, diversification of economic base and as a source of innovation that is exhibited by some of the start-ups (Kumar, 2017).

On the other hand however, their contribution to the economy through paying tax is mostly not at the expected level in many least developed countries due to their low level of tax compliance. This is mainly related to fact that small business are tend to operate informally. According to IFC (2017), smaller businesses are more likely to engage in tax evasion practices and either operate completely outside the tax net or hide a certain part of their business transactions from the tax inspector.

There are many reasons why it is hard for small business being taxes compliant. The non-compliance or tax evasion is motivated by the perception that the tax to be paid is high and they pay the same amount as large enterprises, the revenue obtained is small and it is easy not comply (due to cash based business, low audit probability, low cost to evade tax, fewer tax handles). Similarly, imposing higher compliance comes at a cost to taxpayers and tax administrations, poor tax education and poor tax morale (Ponoricia & Al-saedi, 2015).

Small tax payers (i.e. SMEs) recognized by the government as a driver for economic growth and job creation. To that end, the government has designed and implemented a National Strategy which facilitates the growth those businesses. However, many of them unable to fulfill their full potential to contribute for the national economy including paying tax.

In Ethiopia, as indicated in the recently introduced ten years national perspective plan (2013-2022) by the FDRE Planning and Development Commissionn, the tax revenue cover only 9.2% of the country's GDP in 2017/18. This is mainly related among other to, a low utilization technology for in tax administration, weakness to include inform economy in to the tax net, low tax education, weak culture to pay tax through voluntarily reviling income, high tax evasion and fraud and most importantly related to the state of low tax compliance among businesses.

Most of the previously conducted studies in Ethiopia focusing on small taxpayer's categories C taxpayer. Categories C tax payers tax payment method on estimated based but federal small taxpayers is based on financial statement. However, to the best of the author's knowledge, there are no studies conducted to assess factors influencing tax compliance behavior among federal small taxpayers. Thus, it is important to examine and providing a solution to enhance the tax compliance level of small taxpayers at the federal level through address the challenges they encounter.

This study, therefore, attempted to identify key factors influencing tax compliance in federal small taxpayer's evidence from the Ministry of Revenue's west Addis Ababa small taxpayer's branch office.

1.3 Objectives of the study

The general objective of this study is to assess key factors influencing tax compliance behavior of small tax payers at the federal level by focusing on the Ministry of Revenue West Addis Ababa Small tax payer's branch office. The specific objectives will be

- To determine perceived fairness tax rate on tax compliance level;

- To examine the effect of tax knowledge on tax compliance level;
- To assess the effect of fines and penalties on tax compliance level;
- To assess the effect of strength of the tax office and tax service quality on tax compliance level and
- To examine the effect of social factors (Age, gender and level of education) on compliance level.

1.4 Research questions

The core research question is "what factor affects tax compliance behavior of small scale tax in Ethiopia. Precisely, this study has tried to answer the following six major research questions.

- How is perceived fairness for tax rate affecting tax compliance behavior?

- How is tax knowledge and education influencing tax compliance behavior?

- How are fines and penalties deterring compliance behavior?

- How tax office and tax service quality affect tax compliance behavior?

- How demographic factors (Age, gender and level of education) are matter for tax compliance behavior?

1.1.1

1.5 Significance of the study

Based on its general objective, the study tried to identifying and analyses key factors influencing tax compliance behavior of small tax payers. The amount of tax required by small tax payers is determined based on financial statement. However, they mostly not support by professional accountant and government due to their capacity. This will lead them less compliant with the tax laws. This is a clear indication that the unique nature and capacity of small taxpayers will matter for their tax compliance.

Thus, the finding of this study could be important inputs for the tax authority to take necessary actions to enhance tax compliance of small tax payers by taking into account their unique nature and challenges. This study intends to fill up the knowledge gap by signifying factors that should be considered to improve tax compliance and collection from these businesses. Furthermore, the finding of this study could be a reference point for further studies in similar areas.

1.6 Scope of the study

The main objective of this study is assessing key factors determining tax compliance behavior of small tax payers in West Addis Ababa small tax payer's branch office by focusing on federal

small tax payers. There are a many factors that can determine tax compliance of business in general and small taxpayers in particular. However, the author of this study only focused on factors such as perceived fairness of the tax rate, fines and penalties, tax knowledge and education, organizational efficiency of the tax office, tax service quality and demographic factors (Age, gender and level of education). Similarly, the, study focused only on small tax payers at the Ministry of Revenue, west Addis Ababa small taxpayer's branch office. The author prefers to focus small tax payers in Addis Ababa, since the largest numbers of small tax payers in Ethiopian are located in Addis Ababa. Furthermore, the data for the study was obtained through employing key informant interview of officials and staffs of the branch office, survey of randomly selected federal small tax payers at the branch office using self-administered questionnaire as well as refereeing secondary source of data.

1.7 Limitation of the Study

2   There are problems encounters in the process of conducting this study. The first limitation is related to be the difficultly of gathering the necessary data and information need for the study. Primary and secondary data obtained from private businesses and the branch office tax office through employing different tools. However, it was difficult or restricted to accesses some data due to their sensitive nature. Furthermore, staffs and businesses selected for interview or survey in some cases reluctant to share their view. Besides there was a time constraint to finalize and submit the research project as per the schedule.

To deal with this problem, the author thoroughly explained the aim of the study for the tax authority's staff and selected private business that participated in the survey. Furthermore, those that are unwilling and reluctant to provide their view and participate in the study were replaced by others. On the other hand, regarding the time constraint, the author tried to complete each part of the study as per the work plan attached to this proposal document.

2.1 Organization of the Study

The study is organized in five main parts. The first chapter is an introduction of the study that includes objective, significance and scope of the study. Review of literature is presented in the second part of the study. In this section theoretical issues and empirical studies conducted in similar area were discussed. Besides this, the conceptual framework for the study was also incorporated in this part of the study. In the third part of the document, methodology of the

study in which the data, type, source, collection tools as well as analysis technical applied was discussed. Result and discussion of the study is presented in the fourth part the document. In this part summary, analysis and findings of the study was presented. At the end conclusion and recommendation part of the study was presented.

2   CHAPTER TWO

2.1   REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature

2.1.1 Tax and its purpose:

Governments need sustainable funding in order to uphold the social contract with citizens, as well as provide the public goods that can foster growth and development. In this case, levying of taxes has increasingly become the main source of government revenue used to fund its expenditure in most countries (World Bank, 2019). Tax is a compulsory monetary contribution levied by the government or regional entity on personal income and business profits or added to the cost of some goods, services and transactions to finance its expenditure.

Taxes are most broadly classified in tow either direct or indirect. As explained in Encyclopedia Britannica, direct taxes are primarily taxes on natural persons (e.g., individuals), and they are typically based on the taxpayer's ability to pay as measured by income, consumption, or net wealth. Indirect taxes on the other hand are taxes are levied on the production or consumption of goods and services or on transactions, including imports and exports. A direct tax is a type of tax a person/organization pays directly to the entity that imposed it. On the other hand, an indirect tax is a type of tax is collected by one entity in the supply chain (usually a producer or retailer) and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service. More specifically tax can be divided into three based on what is earned, bought and owned. As explained by Tax Foundation (2021), a tax on what is earned consist of individual income taxes, corporate income taxes, payroll taxes, capital gains while a tax on what is bought contains sales taxes, gross receipts taxes, value-added tax (VAT), excise taxes. Whereas tax on property owned could include property tax, tangible personal property taxes.

Tax has a key role in a modern economy. Governments can use tax to raise revenues to fund its activity, provide public goods and services to its people, protect people from harm, maintain equality among citizens, redistribute wealth, and promote economic stability and to protect its industries from foreign competition. According to J.P.Owens (1985) though tax can be paid voluntarily, is a compulsory payment imposed on by authoritative institutions by the people (with no expectation of a direct return of payment) to the government. It is levied and collected for the benefit of the general public and for the maximum welfare of the entire community.

Similarly, as stated by (Nicolaides, 2014), private income from citizens is collected, managed and returned back to the public in the form of public goods, which benefit that society and increase its welfare in cases where private provision of the good fails through taxes, citizens essentially fund their own public goods. As explained by Pistone et al. (2019), governments levy tax with the purposes to properly function its activities such building infrastructure and maintain peace and security, to provide public goods and services to its people, creating greater equality among its people through redistribute income and wealth and guiding behavior in society or protection of the society from harm/danger. The other purposes of taxation could be protection of new industries and local producers.

2.1.2 Principles/canons of taxation

In order to raise sufficient revenue, there is need to have an effective tax system which should be developed by taking into account core principles of taxation. Those principles are formal guidelines which are widely accepted and/or discussed and should be considered whenever specific laws are proposed, discussed and implemented (Kabinga, 2016).

A modern day principle of taxation is stems from a view provided by Adam Smith, in his famous book "An Inquiry into the Nature and Causes of the Wealth of Nations" in 1776. He developed four principles of taxation namely equity, certainty, convenience and efficiency ACCA (2011). These initial building blocks have been subdivided and expanded into a more modern list of principles of taxation in line with the changes in the economy and globalization. However, as per adam smith's explanation there are four basic principles/canons of a tax system. These are equity, certainty, convenience and efficiency.

The first canon of taxation is the principle of equity. According to (Kabinga, 2016; Pistone et al., 2019) equity in taxation expresses the idea that taxes should be fair i.e. the tax system should be such that the citizens are liable to pay taxes as per individual capacity to pay. It is a fluid concept that depends on many other non-tax factors, such as culture, political influence and the importance of redistribution. Equity can be either, vertical or horizontal. Horizontal equity addresses questions of whether or not a tax system makes arbitrary distinctions among taxpayers, or distinctions based on irrelevant criteria while the vertical equity addressees differently situated taxpayers should be treated differently.

The other principle of taxation is certainty which described taxpayer should know exactly what is being taxed, how much he has to pay and how, when and where he/she has to pay should be

clear and unambiguous. This canon is meant to protect the taxpayers from unnecessary harassment by the 'tax officials' the tax which each individual is bound to by pay, ought to be certain and not arbitrary. It predictable tax system is, among other reasons, essential for business planning (Kabinga, 2016). The third basic principle of taxation is canon of convenience. It refers a tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. In other words, mode and timing of tax payments should be convenient to taxpayers and unnecessary trouble to the taxpayer should be avoided to avoid various ill-effects may result.

The fourth canon of taxation is the principle of efficiency. It states that every tax ought to be contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state (ACCA, 2011). According to this principle, the tax system considered efficient if it distorts market processes as little as possible since economic agents attempt to limit, avoid and evade tax liability as much as possible. Efficiency in a tax system concerns the concepts of neutrality of the tax system, the stability of the tax system, the simplicity of the tax system, the appropriate use of resources (productivity) and the sufficiency of the taxes collected to fund the state's activities. Neutrality is related to no advantage or disadvantage with regard to any transaction or investment while stability in the tax system generates certainty for taxpayers and prevents unnecessary increases in compliance costs. Moreover, stability in the tax system generates certainty for taxpayers and prevents unnecessary increases in compliance costs. Whereas simplicity denotes uncomplicatedness of the taxes applied and easiness to comply with the law (Pistone et al.,2019).

Thus, designing and execution of proper tax administration is very vital. As explained by Kabinga (2016), in order to raise sufficient revenue, there is need to have an effective tax system which should be developed by taking into account the discussed principles.

2.1.3 Theories of tax compliance

Tax revenue is one kind of fiscal policy that enables governments to finance public programs. According to Youde and Lim (2019), ideally tax revenue is an authentic source of government spending. As tax payments enable the government to redistribute wealth among citizens by offering better public goods and services, applicable approaches for enhancing tax collection and tax compliance should be considered. However, tax revenue in many countries remains well

below the levels needed to finance the achievement of the sustainable development goals due to low level of compliance of tax payers.

Tax compliance refers to taxpayers' decision to comply with tax laws and regulations by paying tax timely and accurately. It is the degree to which a taxpayer complies necessary fails to comply with the tax rules of a country, for example by declaring income, filing a return, and paying the tax due in a timely manner. Overall, tax compliance involves being aware of and observing the tax laws and requirements set forth by government officials and other taxing authorities (Northeastern University, 2020). Thus according to (Pistone et al., 2019), in the design and development of tax policy (i.e. only the revenue-raising side of fiscal policy), there are certain universal factors that should be present in order to levy taxes and achieve efficient collection of taxes (irrespective of the quantum desired or the specific goals to be achieved).

Scholars tried to explain tax compliance behavior of tax payers. The main widely accepted theories of tax payers' compliance behavior are economic, social factors, psychological and cultural theories.

- *Economic based theory:*

This theory explains economic factors that influence tax payer's compliance with the tax rule. It refers to actions which are associated with the costs and benefits of performing the actions and assumed that taxpayers are rational economic evaders who likely would assess the costs and/or benefits of evasion. According the theory tax payers influence by economic motive such as profit maximization and probabilities of detection. The likelihood of being detects and result repercussion and then select the alternative that maximize their expected after tax return adjustment for risk (Trvedi and Sheata 2005). Taxes rates, tax audits and perceptions of government spending are explored in are some of factors included in this theory.

- *Social factors theory*

This theory relates to taxpayers' willingness to comply with tax laws in response to other people's behavior and their social environment (i.e. the government, friends and family members). Furthermore, as tax payer's compliance behavior influenced by fairness of tax system and effect of referrals. Fairness of tax system means equitable tax system that tax payers and tax authority significant determinants of comply decisions (Amina and Saniya 2015). The concept of referrals individual tax payers do not live alone they have family and other parents. The perception of peers not to comply with tax law resulted in the tax payer's non-compliance

Acton (Hai T 2011). Some of the factors included in this theory are perceptions of equity and fairness, changes to current government policy and referent groups.

- *Psychological theory*

As per to the psychological theory concept tax payer's compliance behavior influenced by tax payers moral and ethics. Abdulsulam (2019), this theory focuses on penalties and audit as a solution for tax payers to non-tax compliance behavior. Social psychology model indicates examine the attitude and beliefs of tax payers in order to understand and predict human behavior

- *Cultural theory*

Carne & Matten (2007) explain that ethical decision making is asocial process which is transferred generation to generation and thus different culture embraces different value and behavior. The important of culture in the context of tax compliance has been supported in various studies.

2.1.4 Factors determining tax compliance

An extensive literature was conducted on the determinants of tax compliance. As in all individual choice situations, there are two essential elements which determine the final outcome of tax compliance choice by individuals: that is to say, what choices are feasible and what choices are considered desirable by individuals. According to Das-Gupta (2004), as in much of neo-classical analysis, amoral individuals are assumed to desire more income but to be risk averse. From this assumption it follows that individuals will not comply with taxes unless non-compliance either lowers their real income (decreasing the quantity of publicly provided goods) or increases its riskiness.

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade tax payers to comply with tax requirement even though tax laws are not always precise. As most of scholars concluded tax compliance behavior of tax payers generally affected by economic, social, psychological, cultural and demographic factors (Shafi, 2019). As stated by Pistone et al (2019), lack of equity within the tax system, economic efficiency of the tax system, administrability of the tax system and coherence of the tax system (both domestically and globally) are among the commonly recognized factors detrmining tax compliance of indvidual tax payer. Similarly social and physicological factors such as lack of knowledge, poor framing (what exactly do i need to do), perception o f consequences of non compliance, perceived social

norms (do others pay), low salience of reciprocity (what does the government do with my money), bandwidth overload (how do i pay?), process complexity (how much do I owe?), information overload (where do I pay?), liquidity constraints (can I afford to pay my tax burden today?, (can i delay my payment?), choice overload i.e which is the best paying option (World Bank, 2019).

In general factors infleuncing tax compliance behviour of tax payers can be broadly catgorized in to economic and non-economic factors. Accordingly the selected key factors detrmining tax compliance behaviour group under these two catagories are discussed below.

Economic factors

Penalties and fines:

A self-assessment tax system assumes that taxpayers can and should be trusted to make correct assessments and reports to the government. However, mostly taxpayer will not always comply with an obligation to pay a tax by meeting the rules. In this case a tax authority imposes penalty and fine on those tax payers violating the rule. Tax penalties and fines support tax compliance. Tax penalties determine the standards of conduct that the law imposes on taxpayers to distinguish compliant taxpayers from non-compliant taxpayers. The idea of tax compliance in self-assessment system can consist only in the taxpayer making her best efforts to assess and report her correct tax liabilities (Doran, 2009).

Non-economic factors

Tax knowledge:

Tax knowledge can be defined as the ability of the taxpayer to easily understand the tax laws and regulations in order to fulfill their tax statutory obligations. It is the ability of the taxpayer to fully understand the tax law and compute his / her tax liability. It is an essential element in a voluntary compliance tax system. It can be acquired through common or formal education received. 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 (Ahmad Farhan et al, 2020, Saad, 2014). There is now solid evidence that lack of taxpayer knowledge leads to low levels of tax compliance. When taxpayers don't understand the tax system, they are likely to get confused, spend more time figuring out their obligations, and make mistakes that could lead to sanctions. The costs of compliance

(taxpayer's cognitive, time and financial costs as they grapple to understand and comply with the system) are proven to be large and highly regressive. Small taxpayers bear the largest burden. Sometimes compliance costs mean that taxpayers actually end up paying more tax than they should. This creates frustration and perceptions of unfairness, which in turn negatively affect compliance (Mascagni, 2020). Mostly small business taxpayers mostly have weak knowledge on tax related legislation and other related issues and this may lead to them to unintentional non-compliance behavior.

Perceived fairness of the tax system and tax rate:

Tax fairness is one of main factors of a good tax system. It is taxpayer' belief that the tax imposed is a fair tax. It is considered as one of main determinants of tax compliance. It is widely believed by tax authorities and the taxpayers that growing dissatisfaction with the fairness of tax system is the major causes behind increased tax non-compliance. Tax fairness appears to consist of two dimensions i.e. fairness of the exchange & the interest received for tax given and the justice of the taxpayers' burden in relation to that of other taxpayers (Siahaan, 2005; Alshira'h & Hijattulah Abdul-Jabbar, 2019). Mostly tax evasion (being tax compliant) decreases if the tax system is perceived as fair by the taxpayers. Conversely, taxpayers may evade because the tax system is unfair and the more they received social information on the extent of tax evasion by others the less they felt guilty to do so and evasion increased. Thus, an individual will comply as long as she or he believes that compliance is the social norm. Conversely, if non-compliance becomes pervasive, then the social norm of compliance disappears (Greila et al, 2018).

Demographic factors (Sex, gender and level of education):

The relationship between demographic factors such as gender, sex and level of education and tax compliance behavior of tax payers capture the attention of many authors. Age is demographic factor that impacts the level of tax compliance or tax non-compliance behavior of individual tax payers. It has a positive connection with tax compliance of tax payer. People of the younger age are more ready to take risk of not being tax compliant and careless about possible sanctions as consequence. Similarly, gender also affects the state of tax compliance. Some studies found that males are more compliant though other studies revealed contradictory results or no significant difference at all. As indicated in several studies, female are more tax compliant than the male counterparts. Mostly, females have been identified with conforming roles, moral restraints and conservative life pattern than their male counterpart. Widely held

studies establish that the level of compliance between female and male varies such that male had high level of noncompliance than females. Furthermore, the level of education is also another factors affecting compliance behavior of tax payers. It refers to the tax payers' ability to understand and to either comply or not comply with taxation rules. It plays a very important role towards influencing tax decision to comply with tax laws or not. As indicated in most studies, the impact of education on tax compliance has mixed results result. There may be a positive correlation between tax compliance and education level since increasing level of educational improved tax fairness perceptions when taxpayers are better educated and with a capacity to deal with complex tax laws. On the contrary however, highly educated taxpayers also have the capacity to exploit loopholes in tax laws to reduce their tax liabilities (lawan & Salisu, 2017, Engida & Baisa, 2014).

Tax service quality and organizational efficiency of the tax office:

The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is very important. In this case the quality of services provided by the tax authority will have an influence not only on the amount of tax revenue to be collected but also the compliance levels of tax payers. It is therefore important for tax offices to maintain excellent service in order to guarantee voluntary compliance. Thus, client satisfaction needs to be their priority and thus they should aim to offer an excellent service for taxpayers with passion and purpose to improve their compliance. Tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion (Engida & Baisa, 2014, lawan & Salisu, 2017).

The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. Exemplified that tax compliance place the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to decrease tax evasion. The tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law. (Deyganto, 2018)

In addition to these, factors such people attitude towards tax, rate of tax and tax reward & incentives are issues that can be mentioned as economic factors inflencing tax compliance. Similarly, equity of the tax system, tax law enforcement, simplicity of the tax system can be mentioned as non-economic influencing tax compliance.

In general, as can be understood from various literatures a number of economic and non economic (social, institutional and physiological) factors are key factors for compliance behavior of tax payers.

2.1.5 Small tax payers and their role on the economy

Small tax payers are critical to promoting inclusive economic development and poverty reduction. They considered as one of the important mechanisms that provides a main share in increasing employment opporbity and economic development of any country. (Employment generating capacity of small tax payers is much more than that of big business. This since those business is mostly labour-intensive by their nature and cretae a lot of employment oportunity than big businesses which are highly capital-intensive. Similarly, they promotes self-employment among educated and professional class people. Furthermore, such buseness even create employment opportunity to farmers who remain idle during a part of the year (Sai, 2012 and Elimam, 2017).

These business tends to promote a more equal distribution of income and wealth in society; because through small tax payers a part of the national income gets shifted to small entrepreneurs and working class employed in small tax payers.Similarly, they helps in achieving balanced regional development of the economy. In fact, big businesses are located in a few big cities; whereas small tax payers are spread throughout the nation especially in rural and backward areas. As such, small tax payers lead to development of backward areas and raise the standard of living of people of those areas. Moreover, small tax payers support big corporations in many ways such producing and supplying manufacture tools, accessories, spare parts, components needed by large business (Sai, 2012).

In many countries particularly in most developing countries such business constitute a vast number of businesses and employ a large number of people. Mostly they enaged in producing light consumer goods such as food, clothes and wood products to meet household demand. Nevertheless there are many factors hindering their growth. Some of the principal challenges hampering their growth include lack of to acess adequate fiance and raw material, inadequat business premise, inadequate/uncertain market, tough to complay with the tax law, gaps in enterprenerial and managerial skill and lack of business development services.

For these business regulatory environment is particularly important for small tax payers since they tend to have fewer resources and staff to handle regulatory matters related to being

compliant with the tax laws. Tax policies must be progressive in taxing more heavily those actors who have the greater ability to pay and also representative in terms of bringing voices of all sizes and shapes of individuals and companies when policies are set (Christian Aid, 2016). This clearly indicates the importance of designing a tax system that take in to account the unqie nature of small tax payers, enahnce their tax compliance and ensure their growth.

2.1.6 Small tax payers in Ethiopia

Small and Medium-sized Enterprises (SMEs) have been the subject of increasing attention by policymakers in national governments and international institutions in both developed and developing countries (Tewari et al.,2013). Likewise in Ethiopia, small tax payers generally considered as the engine of economic growth and equitable development.

In Ethiopia these business expected not only crucial role in providing employment opportunities but also contribute to the socio-economic development of the country as catalysts for the transition to an industrial society. They viewed as seedbeds for the development of medium and large enterprises. As stated by ADA and First Consult (2017), by acknowledging their role, the government of Ethiopia (GoE) extends its supports direct to these businesses through its various agencies. The support includes access to working space (sheds constructed by the government), access to markets (linkages), access to finance (guarantee provision), access to industrial extension (various business development services such as market linkages and technical support) and access to training & advanced technology (ADA and First Consult, 2017).

Despite all the challenges facing Small tax payers enterprise plays key role in the country's economic growth through creating employement opportunity and source of enterpreneship and innvoation. As discussed by Getahun (2016), they provides employment opportunities, encourages and sustains self-reliance, provides technical inventions and innovations promotes competition in the market which acts as a check in the activities of monopolists, utilize waste product from big firm for further production. Small scale business has emerged as a powerful tool in providing relatively large employment base for given unit of investment, equitable wealth distribution and removal of regional economic disparities. However, despute encouraging developments in the past years, their contribution of small scale business to the economy is not at the expected level dut to the challenges they encounter.

There are a number of challnges hindering the growth of small tax payers in Ethiopia. As discussed by Getahun (2016), nadequate credit assistance, problem of skilled man power,

infrastructural problems, inadequate managerial skill, lack of access to modern technology, policy inconsistency and government bureaucracy, marketing factors and politic-legal factors and multiple tax and levis imposed are they key challanges for their growth.

Small tax payers in Ethiopia are subject to different taxes including to business income tax, windfall income tax, other income tax, turnover tax and excise tax. However, the current tax laws and practices on small tax pyers have many drawbacks (Woldekidan, 2020). Such legal and practice related drawbacks infleunce the degree of tax compliance of these   business together with to other factors.

2.2 Empirical literature

A number of studies have been conducted previously with the aim to identify and assess factors detrming compliance of tax payers in genral and small and medium business in partcicular both in carious countries. Below some of the selected studies are discussed.

YONG (2011) conduct a study on tax compliance small and medium enterprise operators of New Zealand through employing quantitative methodology approach. He found out that culture, and perception found to be a key factor tax compliance behavior clearly evident among ethnic SME operators. This is since culture controls the tax payer's action behaviors, and interpretation of the world. Furthermore, intangible resource such as values, tradition, informal community network, knowledge and culture are vital issues affecting tax compliance behavior of business.

Ojeeka (2012), investigates factors that affect tax compliance among small & medium in north Nigeria. He found out that high tax rate is problem for SME tax payers to be tax compliant. This pushes those businesses to go informal or be non-tax compliant. Similarly, Fany (2015) tried to signify tax compliance of small & midium entreprise evidence of indonesia. Accordingly, the author the perception of tax rate, the referral group,the prbabilities of audting and tax knowledge infleuce tax complince of business. Similarly, probabilties of benig audited, referral group and tax knowledge are posetive correlated with tax compliance behviour of business. Moreover, Magiya (2016) conducted a study on factors that determine tax payer's compliance small and medium enterprise in Kenya,Nairobi east district using linear regression probable model. He found out that, increasing of small and medium enterprise tax law, tax system and increasing government accountabilities of the budget administration is affected tax compliance. Adhiambo (2019) conducted a study entiltled to investigate the factors affecting tax compliance among the small scale traders by determination of the effect of tax awareness and education,

effect of cost of compliance, effect of perception on opportunity for tax evasion, and effect of online technology on tax compliance in the small scale traders within Nakuru town. The findings revealed that tax awareness and education, technology especially the filing of returns online the cost of compliance has significant effect on the level of tax compliance. On the contrary, perception on opportunity for tax evasion found to be insignificant effecting tax compliance of small scale business in the town.

Similarly, there are studies conducted to examin/dentify factors inflenecing business tax payers tax compliance in Ethiopia. Engida & Baisa (2014) attempted to reveal determinants of taxpayers' compliance with the tax system by focusing on category C tax payers in Mekelle city, Ethiopia through employing cross-sectional survey method. The study examin nine tax compliance determinants and found out probability of being audited, financial constraints, and changes in government policy are key factors influencing tax compliance of the stated tax payers.

Moreover, Derar (2016), investigate the factor effect of small and medium enterprise business profit tax payers in Addis Ababa through employing descriptive research method. The study signifies that salary and fees of tax of accountant and tax consultant, cost of stationary and lack of tax knowledge and rules and tax authority professional service deferent tax knowledge are the key factors makes those business not being compliant. Biru (2020) also conducted a study aimed at to assess factors that affect tax compliance behavior of small and medium enterprises taxpayer in nekemte city administration. The author employ descriptive and explanatory research design. Accordiingly the finding of the study revealed that the level of income, fine and penalty, Rewarding and incentives, simplicity of tax system, perceptions of government spending, tax audit, Attitude toward tax and tax knowledge and awareness were statistically, significantly and positively associated with tax compliance behavior of small and medium enterprises tax payers. On the contrary, tax rate have statistically significant negative effect on tax compliance behavior those enterprises.

Similarly, Tessema (2020) to identify the determinant of tax compliance in Ethiopia by focusing on MSEs operating in Gurage zone through employing descriptive and explanatory research design. Accordingly the author found out that tax rate, tax knowledge, tax compliance cost, attitude of the enterprises and tax system significant determine tax compliance of taxpayers. On the contrary tax payers' knowledge, tax payers' attitude found to be insignificant relationship with tax compliance of MSE taxpayers. A similar study was condcuted by Weldegiorgis (2010)

aimed at to assess taxpayers' voluntary compliance with taxation in Mekelle through applaying an econometric technique (Factor analysis, correlation and multiple regressions). The study shown that, equity or fairness, organizational strength of tax authority, awareness level of tax payers, social factors, cultural factors and tax payers' attitude towards the government were found to be the determinant factors affecting taxpayers' voluntary compliance.

Mehari & Pasha (2017) also conducted a study to assess tax payers' attitude on factors that affect voluntary complianceof category 'C' taxpayers' in Arba Minch City, SNNPR, Ethiopia using survey method. The authors found out that lack of awareness as major and leading reason for non-compliance of category 'C' tax payers while efficiency and effectiveness of the authority in improving the tax assessment and collection procedures, creating awareness, enforcing the tax law positively affect voluntary tax compliance of tax payers. On the contrary socio-cultural factors affect attitude of taxpayers to be compliant both positively and negatively. On the other hand, political related factors were found insignificant in affecting their tax compliance behviour. Similarly, Jemberie (2020) conducted a study to nvestigate the determinants of tax compliance in a case of category "C" business profit taxpayers in Nekemte town through employing quantitative research approach. The finding of the study denoted that family size and length of tax payment period has a significant negative influence while tax knowledge and awareness and tax penalty and fines has a significant positive influence over the level of tax compliance. On the other hand, amount of tax, probability of auditing and attitudes towards equity and fairness found to be insignificant factors in determining the compliance behavior of taxpayer. Tulu (2009) also conducted a study to elicit the factors that affect the tax payers' voluntary compliance behavior both positively and negatively using descriptive in nature research method. Accordingly, the finding of the study revealed that factors such as tax fairness and equity,organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government found to be factors detrmining tax complaince of the businesess at Dire dawa city. Similarly, Abegaz (2019) also conducted a similarl study with the objective of to identify determinants of business taxpayers' compliance with tax system with a special reference to category "C" tax payers in Debre Birhan city, Ethiopia through employing survey research design. As understood from the finding of the study, awareness level, fairness, influences of peer groups, income level, detection and punishment have significant positive influence on tax compliance. Whereas the study indicated that there is an inverse relationship between attitude of taxpayers towards the government and tax compliance behavior. The result of the study also reveals that fairness followed by detection

and punishment is found to be the most important determinant factors influencing category "C" business tax payers' compliance with tax system in the city administration.

2.3 Summary of Literature and Research Gap

Tax compliance refers to taxpayers' decision to comply with tax laws and regulations by paying tax timely and accurately. The widely accepted theories of tax payers' compliance behavior are economic, social factors, psychological and cultural theories. Generally, there are factors categorized under economic and non-economic that influence compliance behavior of tax payers. Some of the non-economic factor for tax compliance includes tax knowledge, perceived fairness of the tax rate, demographic factors (level of education), tax service quality and organizational efficiency of the tax office. On the other hand, penalties and fines and probability of detection can be mentioned as economic factors influencing compliance behavior of tax payers.

In Ethiopia small and medium emterprises has crucial role in providing employment opportunities but also contributing to the socio-economic development of the country as catalysts for the transition to an industrial society. They viewed as seedbeds for the development of medium and large enterprises. However, currently they face various challenges that unanable to plays their expected role in the economy.Despute their growth, their contribution to the economy is not at the expected level dut to the challenges they encounter. One of their key challnge is related to tax and tax administration.The current tax laws and practices on small business taxation have many drawbacks and infleuncing the degree of their tax compliance.

Studies were conducted both in ethiopia and other countries with the objective of identifying key factors inflencing tax compliance behviour of MSE, SME and catory "C" tax payers. As can be understood from the review studies conducted in various cities of Ethiopia,tax knowledge and awareness probability of being audited, financial constraints, fine and penalty, tax reward and incentives, simplicity of tax system, perceptions on government spending, attitude toward tax, tax compliance cost, efficiency and effectiveness of the authority, social and cultural are factors mentioned to inflencing tax compliance behviour for small and medium enterprises and for catagor "C" tax payers in Ethiopia.

On the other hand most of the reviewed studies focusing on tax compliance in Ethiopia are mostly focused on either medium, medium and small, micro and small or category "C" tax

payers of regional tax payers. However, non of these studies try to examin factors influencing tax compliance of small tax payers at the federal level who are required to keep book of account and prepare fianciance stament for their tax payement.

2.4 Conceptual framework

This study conceptualizes that tax compliance could be affected by compliance behavior of small federal tax payers is affected by factors such as demographic (level of education) perceived fairness of the tax rate, fines and penalties, tax knowledge , tax office efficiency and tax service quality.

Independent variables

Dependent variable

Economic Factors

Fines and penalties

Perceived fairness of the tax system and tax rate

Tax knowledge and education

Tax compliance level

Tax office efficiency and tax service quality

Non-Economic Factors *(Social, physiological and institutional)*

Level of education
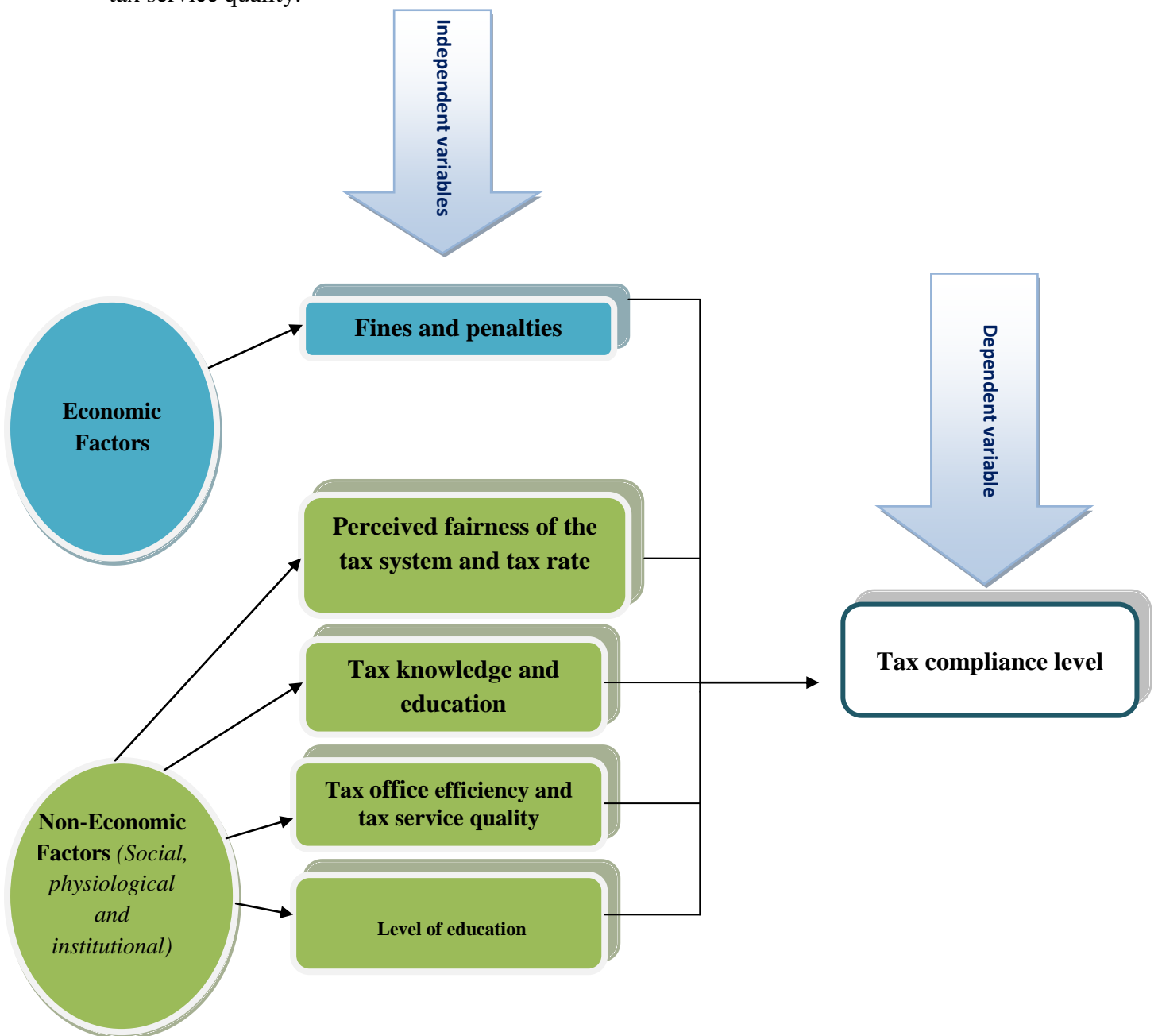
Figure 2.1 Conceptual framework
Source: Author's own construct (2021)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Description of the study area and target population

The target population of the study is small tax payers at the federal level reside in Addis Ababa and particularly registered at Ministry of Revenue West Addis Ababa Small tax payer's branch office. Furthermore, officials and staffs at the stated branch office were also be included in the study. The study tried to assess key selected factors and their influence on tax compliance behavior of those tax payers.

3.2 Research Design

The objective of the study is assessing key factors determining tax compliance behavior of small tax payers at the federal level by focusing on the Ministry of Revenue West Addis Ababa Small tax payer's branch office. Accordingly, both descriptive and explanatory research design were applicable for this study.

3.3 Data type, source and collection technique

In order to achive the objective of the study, the study used both primary and secondary data. The prinmary data was data collected from small tax payers as well as officials and senior staffs at Ministry of Revenue at West Addis Ababa small tax payer's branch. Furthermore, secondary data is obtained from various reports, studies, articles and other sources.

In order to collect the data, different data collection techniques was be employeed. Accordingly, in order to collect primary data for the study survey, key informant interview (KII) and desk review techniques were utilized. On the other hand, primary data was collected from small tax payers and officilals and officers of the branch office through employeeing distributing self-adminstred questionnaire (both open and closed ended question) and KII respectively.

3.4   Sampling

There are small tax payers identified by the Ministry of Revenue at West Addis Ababa small tax payer's branch ofifce as based on their level of risk for their state of compliant to tax laws. Thus, in order to best achieve the objective the study, the author of the study employed both purposive and convenience sampling technique employed for collecting data from tax payers. Thus, the author decided to select those small tax payers with Birr 2 million and above capital as well as those label

"high risk" by the branch office risk assessment unit. Based on this framework, based on the information obtained from unit 613 tax payers that are identified as high risk tax payers were taken as a population for the study.

Accordingly, the following formula a formula obtained from Yamane (1967) was utilized to calculate sample sizes for the study.

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

Where n is Sample, N is population size and e is an error (assumed 5 percent).

Thus, using the above formula the sample sizes for the study is as follows:

n = 613/ (1+613(0.05^2*) = 237

3.5 Method of data analysis

The analysis methods of this study was fully based on the information extracted from survey data collected using questionnaire, interview and desk review. In order to address the objective of the study both a qualitative and quantitative methods were be applied. After the necessary data collected from the primary and secondary sources, then, these data was grouped, coded and tabulated. Response collected through questionnaires from respondents was be quantitatively analyzed using SPSS software and the result summarize and presented using various simple statistical tools including graph, charts etc. Inferential statistics was employed to focus strictly on regression just to analyze which and how much the hypothesized regressor was related to determinant of level of tax compliance. The multiple regression technique was used to identify the determining factors of level of tax compliance. Below is the detailed model for specifying the model which is an important step in this research.

3.6   Model Specification

Given economic theory and existing literature, the study used the level of tax compliance (dependent variable) and the factors that are considered as independent variables. The functional form of the regression equation is presented as:

Therefore, the general model:

Regression model: $Y = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + \beta_5 (X_5) + + e$

X1:level of education, X2:knowledge of tax law, X3:tax administration and tax fairness, X4:penalty of tax compliance, X5: service delivered

$\beta 0$ = the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

$\beta 1$, $\beta 2$, $\beta 3$, and $\beta 4$ are the coefficients associated with each independent (on the First, Second, Third and Fourth predictor) variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

e= error term, for calculation purpose.

F-Test for the overall significance of the model also had undertaken to test if there was a linear relationship between all of the independent variables and the dependent variable. From the ANOVA output if the p value is less than 0.05, concluded that there is evidence that at least one independent variable affects the dependent variable.

3.7 Operational Definitons of the variables and Working Hypothesis

Level of Tax compliance:- defined as tax compliance involves being aware of and observing the state, federal, and international tax laws and requirements set forth by government officials and other taxing authorities Girma, (2009). Tax compliance refers to taxpayers' decision to comply with tax laws and regulations by paying tax timely and accurately. These variables were focused on those taxpayers who have made any complaints to the office of the tax authority. The variable is qualitative in nature and measured by likert scale.

Level of education: -There may be a positive correlation between tax compliance and education level since increasing level of educational improved tax fairness perceptions when taxpayers are better educated and with a capacity to deal with complex tax laws. On the contrary however, highly educated taxpayers also have the capacity to exploit loopholes in tax laws to reduce their tax liabilities (lawan & Salisu, 2017, Engida & Baisa, 2014).

H1: **Level of education** *factor has a significant and positive effect on the level of tax compliance*

Tax Administration: - Tax administration is a complex phenomenon which is embedded in a country's legal system and forms part of the country's public administration. It is institutionalized by various sets of rules which vest the powers of administration in the tax authority, establish 'checks and balances' for the execution of these powers, and formalize the

relationship between taxpayer and tax authority Hans (2018). This variable was measured by using ordinal likert scale questions.

H2: Tax administration has significant and positive effects on the level of tax compliance

Tax Knowledge: Explained as the taxpayer understanding toward the tax laws and regulations. It is the ability of the taxpayer to fully understand the tax law and compute his / her tax liability. It is an essential element in a voluntary compliance tax system (Ahmad Farhan et al, 2020, Saad, 2014).

H3: Tax knowledge has a significant and positive effect on the level of tax compliance

Penalty and Fairness: - Tax penalties and fairness determine the standards of conduct that the law imposes on taxpayers to distinguish compliant taxpayers from non-compliant taxpayers. The idea of tax compliance in self-assessment system can consist only in the taxpayer making her best efforts to assess and report her correct tax liabilities (Doran, 2009).

H4: Penalty and fairness has a significant and positive effects on the level of tax compliance

Service delivery:- it implies that the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. Exemplified that tax compliance place the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to decrease tax evasion. The tax authority having a simple tax return and system from the taxpayers' point of view encourages the taxpayers to comply with tax law. (Deyganto, 2018). This variable was measured by using likert questions.

H5: Service Delivery has a significant and positive effect on the level of tax compliance.

3.8 Validity and Reliability of the study

It involves the degree to which you are measuring what you are supposed to, more simply, the accuracy of your measurement. Validity is determining whether the findings are accurate from the standpoint of the researcher, the participant, or the readers of an account (John, W.C. 2009). However, items in the Questionnaire were prepared using a five-point Likert-scale close ended multiple questions. In order to ensure validity of the instrument some SPSS lecturers, Research Methods lecturer and they had assured the validity.

In statistics, Crobach's (alpha) is a coefficient of internal consistency. It is commonly used as an estimate of the reliability of a psychometric test for a sample of examinees. Crobach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Crobach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale Gliem, (2003). The Crobach's Alpha will be used to test the reliability of the responses from the respondents. Reliability is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study. A study is reliable if the results of a study can be reproduced under a similar methodology.

According to George and Mallery (2003), Cronbach's alpha is the most common reliability coefficient which estimates internal consistency by determining how all items on a test relate to all other items and to the total test - internal coherence of data, where "_ > .9 – Excellent, _ > .8 – Good, _ > .7 – Acceptable, _ > .6 – Questionable, _ > .5 – Poor, and < .5 – Unacceptable". In this study, the Cronbach's alpha reliability coefficient expressed as a coefficient between 0 and 1. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. According to the rules of thumb, the value of alpha of > 0.7 is acceptable.

Table 3.2 Reliability test result

	Cronbach's Alpha	Items
Level of education	0.857	4
Tax Administration	0.862	4
Tax Knowledge	0.984	4
Penalty and Fairness	0.745	4
Service delivery	0.856	6

CHAPTER FOUR

RESULT AND DISCUSSION

The finding of the study was presented by the instruments, such as questionnaires and comparing the findings to empirical investigations. To achieve the research objectives and answer the research questions the study was employed descriptive statistics and inferential or econometrics analysis using correlation and regression model. The first section of the study discussed the demographic characteristics of the respondents; the second segment discussed the descriptive analysis of the research question focused on determining factors of tax compliance: the last section of the study was discussed the Pearson correlation result and multiple regression model to shows the degree of association and their cause and effect relationship with the dependent variables of the study.

4.1 Response Rate
Here below the study clearly shows the rate of the questionnaire that has been returned for the analysis purpose.

Table 4.1 Response rate

	Number
Selected sample for the study	237
Filled and returned valid questionnaire	230
Rate of Response	97.04 %

Source: Own survey, 2021

A total of 230 replies were obtained out of 237 questionnaires given, resulting in an acceptable response rate of 97.04 percent. All questionnaires were modified and validated for completeness before being used for thorough data analysis. This response rate was outstanding since it symbolizes and complies with Mugenda and Mugenda, (2003), who stated that a response rate of 50% is sufficient for a survey.

3.1 General Information about Research participants
Here below the study clearly shows the characteristics of the respondents or small and medium tax payers.

Table 4.2 Background Information of participants

Variables	Category	Frequency	Percentage
Sex	Male	112	48.7%
	Female	118	51.3%
	Total	**230**	**100%**
Education level	below 8th grade	1	.4%
	Completed 10th / 12th grade	24	10.4%
	Diploma	38	16.5%
	Bachelor's degree	144	62.6%
	Second degree and above	23	10.0%
	Total	**230**	**100%**
Age	Under 20	7	3.0%
	From 21 to 30	121	52.6%
	31 to 40	72	31.3%
	Over 40 years	30	13.0%
	Total	**230**	**100%**
years have you been in the business you are in	0 to 5 years	125	54.3
	6 to 10 years	63	27.4
	11 to 15 years	17	7.4
	16 to 20 years	21	9.1
	Over 21 years	4	1.7
	Total	**230**	**100.0**

Source: own survey (2021)

As the above table 4.2 shows that 118(51.3%) of the respondents were Female and the rest 112 (48.7%) of them were females. From the sex distribution result majority of the taxpayers who participated in this study was dominated by females and male are less in number.

Regarding the education level of the respondents shown in table 4.2 indicated that majority of the respondents are degree holders which accounts for 144(62.6%) and followed by 38(16.5%) respondents who hold diploma. furthermore the result shows 24(10.4%), 23(10.0%) and 1(.4%) of the respondents education level is 10 or 12 completed, second degree and above and below 8th grade respectively. this result implies that majority of the customer of the organizations or federal small taxpayers has degree and diploma in different field of studies and this helps to answer the questions with knowledge and proper response and it helps the organization to create good awareness about tax payment and related process to gain remarkable achievements in tax compliance.

From the Age category of the respondents, most of the respondent's 121 (52.6%) was found between 21-30 years, Followed from this 72(31.3%) of the respondent found in the age group of 31-40 years. while 30 (13.0%) and 7 (3.0%), of the respondents found under the age range of above 40 years, and under 20 respectively. As the above result table clearly shows majority respondents are in the age category of 21- 30 years. Referring the data, the majority of the federal small taxpayers are young and in the middle age groups. Young and middle aged dominated the participants of this study and this has indeed contributed to the quality of work and gives the hope to change the awareness and perception of the taxpayers regarding tax payment system.

As The table above shows 125 (54.3%) of the taxpayers are work in the organization up to five years, 63 (27.4%) of the respondents were the employee of the organizations for 6-10 years and 17(7.4%) of respondents has been the working for the organizations for 11- 15 years while 21 (9.1%) of the respondents stay with the organizations for 16 to 20 years and 4(1.7%) work with organizations for over 21 years. From result we can conclude that most of the employees (Taxpayers) have been working there for 1-5 years, this implies significant years which show they are well experienced and have adequate knowledge and skill about tax collection system and related things.

Table 4.3 Responsibilities in the organization

	Frequency	Percent	Valid Percent
Owner	27	11.7	11.7
Manager	35	15.2	15.2
Employee	152	66.1	66.1
Other	16	7.0	7.0
Total	**230**	**100.0**	**100.0**

Source: own survey (2021)

The above table 4.3 was tried to clearly show the responsibilities of the research participants in their organizations. From the listed responsibilities majority of the research participants 152(66.1%) were an employee of the organizations, following that 35(15.2%) of the taxpayers are the managers of the organizations or business firms. Based on the result table 27(11.7) and 16(7.0%) of the respondents are owners of the business organizations and other or their responsibilities which was not mentioned in the survey.

Overall most of the federal small taxpayers have the responsibilities in the organizations was being an employee of the business firm or institutions. This enables the concerned bodies or Ministry of Revenue's to create a smooth relationship with prospective organizations and it helps to enhance the tax compliance of small taxpayers at the federal level by giving immediate solution.
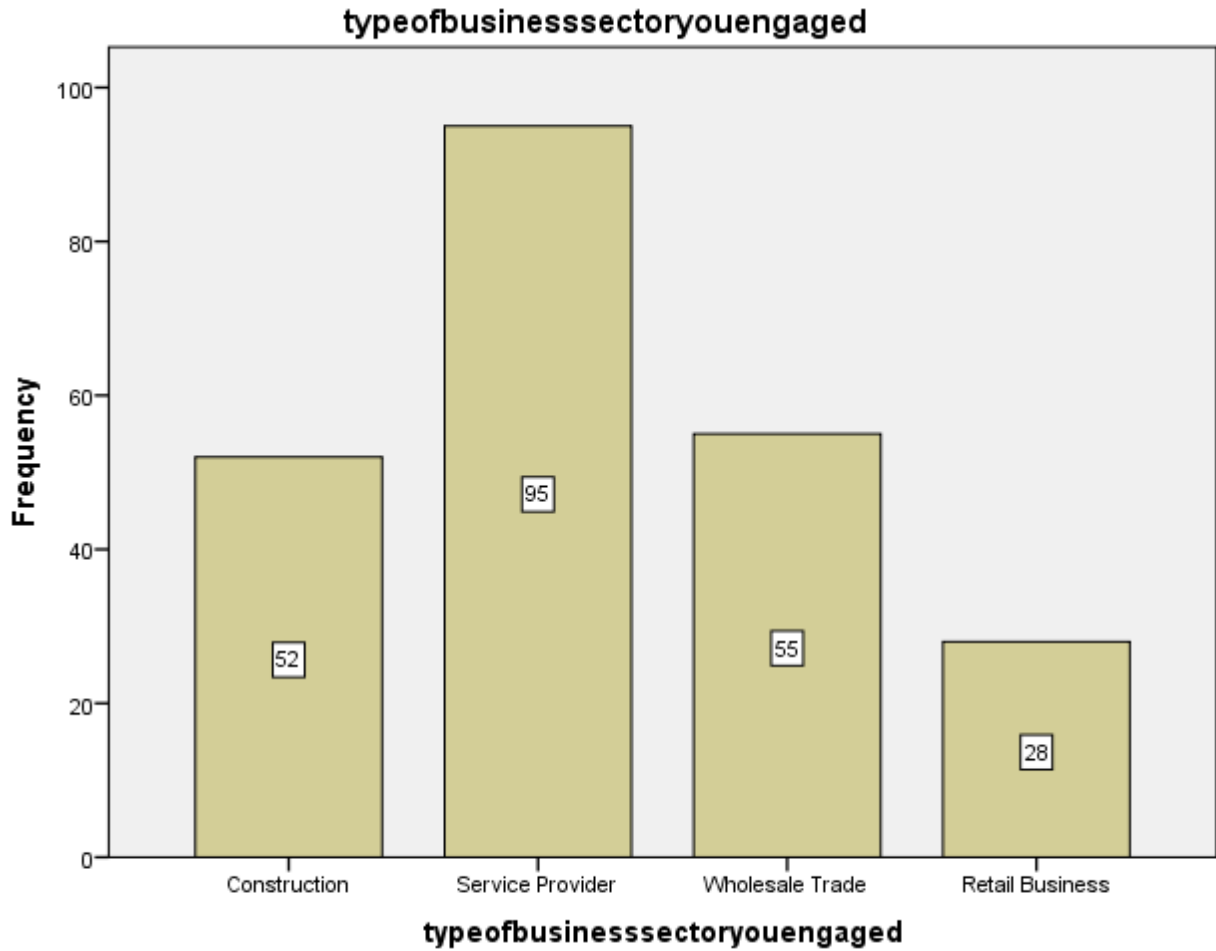
Figure 4.1: Types business sector the taxpayers engaged

Source: own survey (2021)

As the above bar chart depicted majority of the respondents 95 (41.3%) of the federal taxpayers are engaged in service sector, 55 (23.9%) of the respondents were involved in the whole sale trade and 52 (22.6%) of respondents has been engaged in construction sectors while 28 (12.2%) of the respondents were engaged retail business of different products.

From the bar chart result we can conclude that most of the federal small taxpayers were engaged in providing service to their ultimate customers, this implies knowing the business sector they are involving enables the organizations to give more emphasis and to make Large efforts to improve taxpayer compliance.
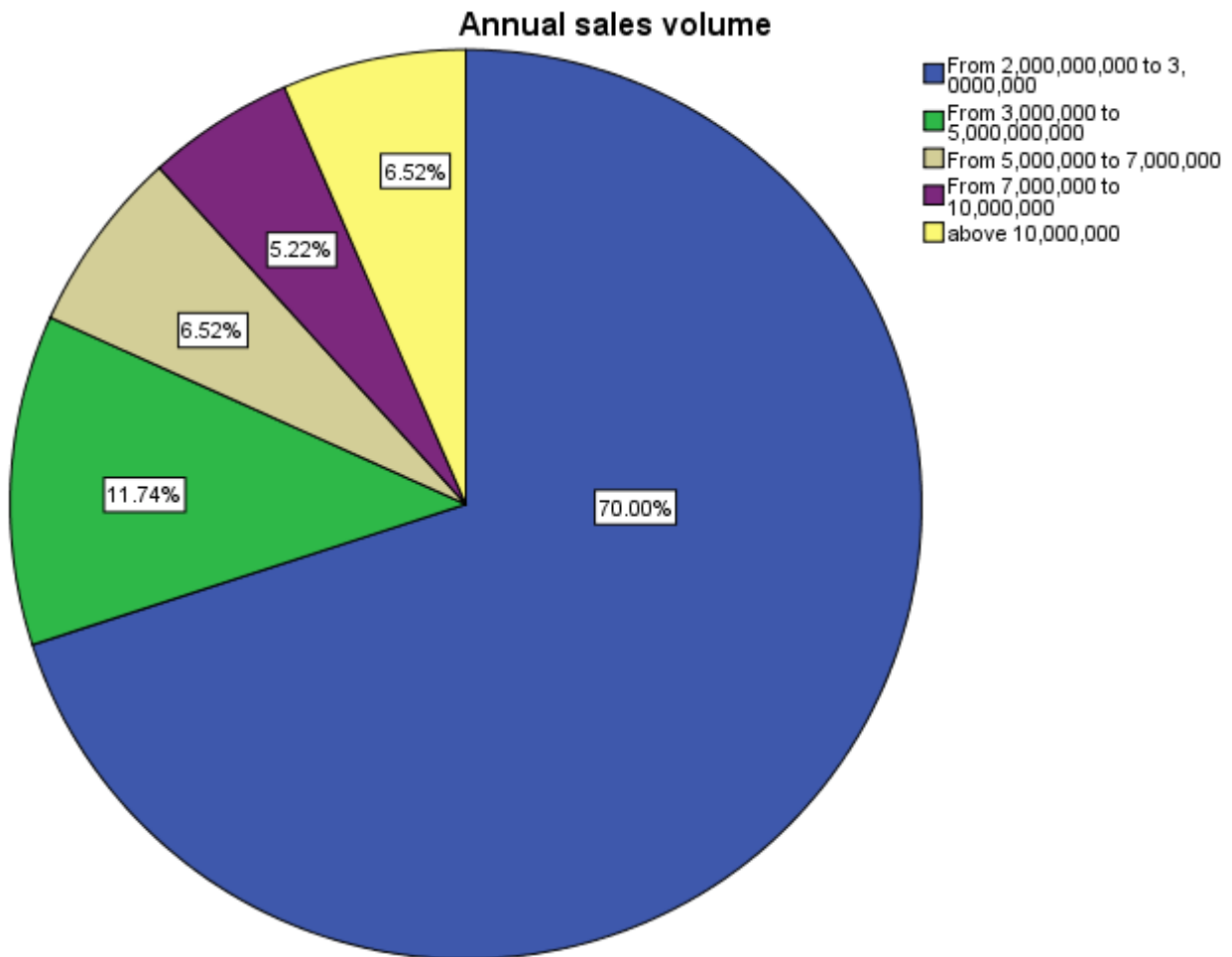
Figure 4.1: Annual Sales volumes of the research participants
Source: own survey (2021)

As can be seen in pie chart 4.1, shows the annual sales value of the selected federal small taxpayers. As it shows in the chart the big share of the circle 161(70%) was those business firms whose sales volume was from 2 million up to 3 million, 27(11.7%) of the business there sales volume was from 3 million to 5 millions, as it indicated the chart 15(6.5%) was from 5 million up to 7 million birr, while the rest 12(5.2%) and 15(6.5%) shows those business firms whose sales volume was from 7 million up to 10 million and above 10 million respectively. the result shows that majority of the respondents or the organizations sales volume is in between 2 and 3 million. This result implies that knowing the exact sales of the company it encourages taxpayers and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high.

4.2 Discussion on Level of Tax compliance

Under this section the study was discussed about level of tax compliance and related questions.

Table 4.4 Tax paid during the schedule period

Do you pay your taxes permanently during the scheduled period?			
	Frequency	Percent	Valid Percent
yes i pay permanently	59	25.7	25.7
I pay occasionally	171	74.3	74.3
Total	**230**	**100.0**	**100.0**

Source: own survey (2021)

The above table shows taxpayers perception about meeting the deadline or the schedule to pay their tax. From the listed answers most of the respondents or taxpayers 171(74.3%) of them are not paying their tax during the schedule, the remaining respondents 59(25.7%) of them were paying their tax in a regular base.

From the finding of the study majority of the federal taxpayers are paying their tax infrequently. This implies most of the respondents were not obey the time schedule that has been set by the concerned organizations. As a result of main factors (both internal and external) taxpayers are not declaring all taxable income accurately and disbursing all due taxes within the time frame set by the authority without having to wait for follow-up actions from the authority.

The finding was supported by Akalu (2016) indicated that the taxpayers would have improper perception towards tax, lack of knowledge about mandatory and obligatory nature of tax, inadequate education about the criminality nature and its consequences of tax. The researcher with the tax compliance has concluded that there is lower level of compliance level in their conclusion.

Table 4.5 Situation after Audit

What is the situation after audit?			
	Frequency	Percent	Valid Percent
I was not asked to pay extra	74	32.2	32.2

I have been asked to pay an additional fee	156	67.8	67.8
Total	**230**	**100.0**	**100.0**

Source: own survey (2021)

The above table was indicated the exact situation of the taxpayers after being audited by the concerned bodies. This result shows that majority of the respondents 156(67.8%) were asked to pay an additional fees based on the audit result, while the rest of the respondents 74(32.2%) of them were not asked to extra. The result clearly shows that most of these taxpayers were paying extra after audit has made. Similarly, during a discussion with officials and experts (KII) it was understood that, despite improvements in recent years, there is still gaps in regularly conduct tax audit.

This result indicates that overall there is low compliance level (many of the taxpayers are not reporting their income accurately), inefficient and ineffective tax administration. As a result of poor knowledge about the benefit of tax most of the federal small taxpayers were not in the position of paying their tax timely.

Table 4.6 Rate the payment after audit

If you asked to pay more after audit how you rate it?				
	Frequency	Percent	Mean	Standard deviation
It is very low	1	.4		
It is low	8	3.5		
It is reasonable	13	5.7	4.28	.871
It is high	58	25.2		
It is very high	76	33.0		
Total	**156**	**67.8**		

Source: own survey (2021)

Based on the question asked about the situation after audit, 156 of the respondents was paid extra money. Under table 4.6 respondents were rated the payment they asked after audit. Most

of the respondents 76(33.0%) of them were given a very high rate. Following that 58(25.2%) of the research participants rated as high, 13(5.7%) of them perceived that the payment they asked after audit was reasonable. The remaining respondents 8(3.5%) and 1(.4%) of them were rated low and its very low respectively.

Overall the respondents (Federal small taxpayers) were asked to pay high after their transaction was audited. As the mean value 4.28 and standard deviation .871 indicated that the scale falls on very high. The result implies that as a result of under report of their daily and monthly income, after audit has been undertaken the payment made was high.

The result was supported by Ashenafi (2018) tax officials, it was observed that taxpayers" attitude towards taxation in the sub-city is negative because many taxpayers do not like to pay taxes, negative attitudes towards taxation, and low level voluntary compliances in the city and the rate that the taxpayers paid is high after audit was conducted.

4.3 Tax administration and tax fairness
Table 4.7 Proportion of taxes to the income of the taxpayers

How do you see the proportion of taxes you pay in relation to your income				
	Frequency	Percent	Mean	Standard deviation
It is very low	3	1.3	4.03	.980
It is low	14	6.1		
It is reasonable	47	20.4		
It is high	76	33.0		
It is very high	90	39.1		
Total	**230**	**100.0**		

Source: own survey (2021)

The above table shows proportion of the tax paid in relation with the income of the respondents. As the table clearly indicated 90(39.1%) of the respondents was answered as it is very high proportion to the income, 76(33.0%) of them were responded as the tax is high when it compares with their income, 47(20.4%) were said that the tax paid is reasonable, 14(6.1%) of

the respondents answered as the tax paid is low when it compared with their income and 3(1.3%) were said it is very low.

As the mean value (4.03) and Standard deviation value (.980) shows the tax that has been paid by the organization is very high when it compared with their income. The result implies that the tax that imposed to the customer is quite high and not considered the revenue of the business firms. From the finding of the study it was possible to make conclusion that as a result of inefficient tax system, this leads to tax evasion and tax avoidance. The finding was supported by MCHarmonious (2016) Tax system is type of official governmental system connected to governmental policy created to administer, collect, integrate, improve, change and manage methodically tax law and tax legislation. A fair, transparent, accurate and effective tax system is vital for a government to administer, collect, change and manage tax within a country or state.

Table 4.8 Reason for high Tax rate

What is the reason for high tax rate?			
	Frequency	**Percent**	**Valid Percent**
Due to the high tax rate	119	51.7	71.7
Tax system and collection gap	41	17.8	24.7
Other	6	2.6	3.6
Total	**166**	**72.2**	**100.0**

Source: own survey (2021)

The above table depicted that 119(51.7%) of the respondents answered high tax rate was one of the reason for paying high tax that not proportion with the revenue of the business firm. In the result table 41(17.8%) of them were said that tax system and collection gap as one of the reason or the cause for high tax paid by the organizations. the remaining 6(2.6) were answered as there are other factors which causes an inflated tax.

Based on the result indicated the system was concluded that there is a high rate of tax which not consider the situation of the business firm. It needs a good administration and appropriate tax determination methods.

Table 4.9 Level of tax used by the government

How you rate the level of tax used by the government?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
Very high	2	.9	4.19	.910
High	10	4.3		
Reasonable	35	15.2		
It is low	78	33.9		
It is very low	105	45.7		
Total	**230**	**100.0**		

Source: own survey (2021)

Based on the result shown above 105(45.7%) of the respondents rated the level of tax use by the government is very low, 78(33.9) of them gives as it is low, 35(15.2%) of the research participants perceived that the government used the collected tax reasonably. While the remaining 10(4.3%) and 2(.9%) of them gives high and very high rates respectively.

Overall the result shows that majority of the respondents (Mean 4.19 and SD .910) were not believed or feel that the government is not using the tax collected properly and for the right purpose. So taxpayer has a doubt on as it collected for the welfare of the whole people who lives in the country.

Table 4.10 rating tax law and directives

How you rate tax law and directives attention to small federal taxpayers				
	Frequency	**Percent**	**Mean**	**Standard deviation**
It is very low	46	20.0	2.28	.998
It is low	114	49.6		
Reasonable	35	15.2		
High	30	13.0		
Very high	5	2.2		
Total	**230**	**100.0**		

Source: own survey (2021)

The result clearly shows tax law and directives roles and contribution to federal small taxpayers that 46(20.0%) of the respondents were given very low rate, 114(49.6%) of the respondents were rated as it is low, 35(15.2%) of them rated as it is reasonable. The remaining items 30(13.0%) and 5(2.2%) of the research participants were rated high and very high respectively.

Based on the result shows above (Mean 2.28 and SD .998) the study was concluded that the concerned organization or government bodies has given little attention in formulating and executing laws and directives which related with federal small taxpayers.

Table 4.11 the profit tax rate being used for high and low taxpayers

How do you see the profit tax rate being equal to 30% for high and low taxpayers?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
I don't think it's appropriate at all	59	25.7	2.25	1.052
I do not think it is appropriate	95	41.3		
I believe it is reasonable	40	17.4		
I believe it is appropriate	31	13.5		
I believe it is very appropriate	5	2.2		
Total	**230**	**100.0**		

Source: own survey (2021)

As the table above shows that the profit tax rate being used for both high and low taxpayers. Based on the likert scale 59(25.7%) of the respondents were not perceived as it is appropriate at all, 95(41.3%) of them were answered as they don't think as it's appropriate and 40(17.4%) of the research participants were perceived as the rate used is reasonable. The rest of the scale shows that 31(13.5%) of the taxpayers who involved in this study was believe that the profit rate is appropriate and 5(2.2 %) of them were answered as the rate is very appropriate.

Overall the study concluded that majority of the respondents were not think as the profit tax rate is appropriate for different category of taxpayers. The Proportional of tax which imposed by taxing authority was the same rate of tax from each taxpayer, irrespective of income. This means that lower class, or middle class, or upper class people pay the same amount of tax. The

finding of the study was similar with Yohannes & Sisay (2009), stated that on Tax Law despite, the series of reforms and increase in revenue, the overall taxpayers are not satisfied with the profit tax rate.

Table 4.12 Penalty & fine and tax compliance

Do you believe that Penalty & fine tax levy contributes for improving tax compliance				
	Frequency	**Percent**	**Mean**	**Standard deviation**
I do not believe at all	58	25.2	2.34	1.031
I do not believe	69	30.0		
I believe in some way	75	32.6		
I believe	23	10.0		
I believe so much	5	2.2		
Total	**230**	**100.0**		

Source: own survey (2021)

The result shows how disputed tax contributed to tax compliance. The result shows respondents 58(25.2%) were not believe at all, 69(30.0%) of the respondents were not believe as the tax dispute contribute to tax compliance, 75(32.6%) of them believe in some way. The rest of the result clearly shows 23(10.0%) of the respondents were believe and 5(2.2%) of them perceived as dispute tax has a contribution for tax compliance.

Generally the based on the mean value 2.34 and Standard deviation 1.031 shows respondents were disagreed as the dispute tax contribute for tax compliance. The result implies that disagreement or dispute that has been raised between the taxpayers and the tax administrators over different decisions can't make the taxpayers to obey the rule and pay on time.

4.4 Taxpayers difference in tax compliance

Table 4.13 Non-receipt transactions and noncompliance of tax law

How do you evaluate the branch office's effort to detect business that conducts transaction without issuing receipt?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
It is very low	50	21.7		
It is low	77	33.5		
It is reasonable	72	31.3	2.39	1.025

it is high	25	10.9		
it is very high	6	2.6		
Total	**230**	**100.0**		

Source: own survey (2021)

The above table clearly shows the view of the taxpayers regarding the branch office effort to detect business engaged in non-receipts transaction.

The result shows that 50(21.7%) of the respondents were said as it was very low, 77(33.5%) of the participants or taxpayers were answered low while 72(31.3%) of the respondents were said as it is reasonable. The rest 25(10.9%) and 6(2.6%) of the respondents replied that the effort is high and very high respectively.

Overall the finding indicates the branch office's effort to detect business that conducts transaction without issuing receipt is very low since the mean value is 2.39. This result implies that ineffectiveness effort of the branch offices contributes for a noncompliance of the business for tax law.

Table 4.14 the contribution of branch audit to identify who don't comply with the tax law

How do you view the contribution of the branch audit to identify taxpayers who do not comply with the tax law?				
	Frequency	**Percent**	**Mean**	**St. deviation**
very low	2	.9	4.08	1.021
low	23	10.0		
Reasonable	30	13.0		
High	75	32.6		
Very high	100	43.5		
Total	**230**	**100.0**		

Source: own survey (2021)

Based on the data collected from respondents by using survey, majority of the respondents 100 (43.5%) were perceived that the tax administration office has very high role in differentiating taxpayers who are not obeying and paying on time, 75(32.6%) of them were said high and 30

(13.0%) of the respondents were believe that the branch has a reasonable or acceptable roles in identifying who don't comply with law. As the result depicted in the table above 23(10.0%) of the research participants were believe the revenue office or branch has low role and 2(.9%) of them were said very low.

The mean value 4.08 and standard deviation 1.021 shows respondents overall gives a high value and agreed on the revenue branch office has undeniable roles in identifying those taxpayers who are not willing to pay on time and refuse to be governed by the tax laws. From the result the research was concluded that the branch has in the right position of auditing the transactions of traders or the taxpayers.

Table 4.15 complaints made by the branch affect taxpayers

How do complaints made by the branch affect the taxpayers who do not comply with the tax law?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
It is very weak	77	33.5	2.12	1.006
It is weak	74	32.2		
Reasonable	56	24.3		
Strong	21	9.1		
Very strong	2	.9		
Total	**230**	**100.0**		

Source: own survey (2021)

As the result shown above majority of the respondents 77(33.5%) were perceived that the complaints made by the concern bodies has a very weak impact on taxpayers who don't comply with the tax law. From the listed responses 74(32.2%) of them were said it is weak and 56(24.3%) of the participants were believes as it has acceptable or reasonable impacts on those taxpayers who are lagging behind. From the result shown above 21(9.1%) of the respondents were believe as it has a strong impact and 2(.9) were believed to have a very strong impacts on the taxpayers who are not paying their tax at the right time or who are not obeying the tax law.

Based on the mean value 2.12 and Standard deviation 1.006 shows overall respondents the complaints or intensive investigation made by the branch office has a very weak effects on

those people who don't pay their tax on time and who are not willing to obey the tax rule and regulations.

4.5 Knowledge of tax law

Table 4.16 knows how much tax they are paying

Do you already know how much tax you pay on a regular basis?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
I never know	35	15.2	2.63	1.031
I don't know	71	30.9		
I know a certain level	72	31.3		
I know well	48	20.9		
I know very well	4	1.7		
Total	**230**	**100.0**		

Source: own survey (2021)

From the table shown above majority of the respondents 72(31.3%) of them were know a certain level how much the tax they are paying in a regular basis, 71(30.9%) of the research participants didn't know about the tax they are paying and 48(20.9%) of the respondents or taxpayers were know very well. The rest of the respondents 35(15.2) and 4(1.7%) shows they never know how much they have been paying and some of the respondents were know very well respectively. As the mean value 2.63 and standard deviation 1.031 indicated that respondents were know certain level of the tax they are paying in a regular basis.

Similarly, as understood from a discussion (KII) with officials and officers of the branch office, many tax payers lack adequate knowledge on tax related laws and procedures. As a result this gap has an implication on their level of tax compliance. The result implies that do to different factors the federal small taxpayers were not aware of how much they will pay since the law and regulations has been changed frequently. The finding of the study was similar with Mohd (2010) Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is states that tax knowledge reveal that there is a

relationship with taxpayers" ability to understand the laws and regulation of taxation and their ability to comply. 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.

Table 4.17 training received

How does the training you receive from the branch regarding tax laws and regulations contribute to your knowledge of the tax law?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
very low	66	28.7	2.17	1.079
low	99	43.0		
reasonable	36	15.7		
high	18	7.8		
very high	11	4.8		
Total	230	100.0		

Source: own survey (2021)

Based the data gathered through survey, majority of the respondents 99(43.0%) of them were said that the training that has been given by the Revenue authority was low in changing the knowledge of the taxpayers regarding the tax laws and regulations, 66(28.7%) of participants gives the very low and 36(15.7%) of the respondents (taxpayers) were reasonable or the training given has a contribution to some extent. As the result shown above indicated 18(7.8%) and 11(4.8%) of the respondents were believe that training that has been given by the revenue authority has a high and very high contribution toward tax law and regulations accordingly.

Generally from the Mean value 2.17 and standard deviation 1.079 shows respondents were not believed as the training given can contribute to fill the knowledge gap of the taxpayers regarding tax law and regulations. The training program that has been organized by the revenue authority is not enhancing the knowledge and skill of the taxpayers. As Eriksen & Fallan (1996) discussed that 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).

Source: survey, 2021

The above table clearly shows does the business organization have a professional accountant who manages the overall transactions of the business firm. Based on the result indicated above majority of the respondents 200(87.0%) of them were not having a professional accountant who is responsible to manage and follow up the transactions. The result shows that 30(13.0%) of the respondents answered as they have an accountant who are responsible for assessing the financial performance of the business firm.

From the result indicated most of the federal small taxpayers in the branch didn't have a permanent accountant to manage their overall transactions. The firms had a part timer accountant when the tax payment time approaches they recruited professionals, as a result it is difficult to pay properly and have a smooth relationship with concerned authority.

Table 4.19 criteria used

Do you know the criteria by which the branch determines the level of risk of taxpayers?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
I never know	56	24.3		
I don't know	95	41.3		
I know certain level	52	22.6	2.23	.988
I know	23	10.0		
I know well	4	1.7		
Total	**230**	**100.0**		

Source: own survey (2021)

This result shows how the revenue office determines the level of risk of taxpayers. From the result 56(24.3%) of the respondents were never know about the criteria that has been used by the branch, 95(41.3%) of them were didn't know about the criteria and 52(22.6%) of the participants were knows to certain level. As the result of the study indicated out of the total respondents 23(10.0%) of them were know about those criteria and 4(1.7%) of them were knows very.

Based on the mean value (2.23) and SD (.988) indicated most of the research participants were not properly knows the criteria that has been used to determine the level of risk of taxpayers. Risk assessments of taxpayers have a major consequence on tax revenue if it is not addressed properly. Managing risks requires strategies appropriate to the particular characteristics and

compliance behavior of these taxpayers. So the federal small taxpayers were not well informed on criteria used to determine the risk levels. Effective risk assessment is therefore an essential component of any overall compliance strategy for taxpayers.

4.6 Penalty & fines and tax compliance
Table 4.20 Punishment

Do you believe that severe punishment is a way of law enforcement?				
	Frequency	Percent	Mean	Standard deviation
I do not believe at all	74	32.2	1.96	.905
I do not believe	115	50.0		
I believe some degree	20	8.7		
I believe	19	8.3		
strongly believe	2	.9		
Total	**230**	**100.0**		

Source: own survey (2021)

The above table shows how the respondents (taxpayers) perceive about punishment as a way of law enforcement. From the total participants 115 (50.0%) of them were not believe on severe punishment as means of encouragement, 74(32.2%) of the respondents were not believe at all and from the result shown above 20(8.7%) of the research participants were believe to some degree. Out of the total respondents 19(8.3%) of them believes as punishment has a role in enforcing a law and 2(.9%) of the respondents strongly believe as severe punishment is one of the way which insist the taxpayers to obey and follow the tax laws and regulations.

Overall as the mean value 1.96 and standard deviation .905 shows sever and frequent punishment was not been a best and advisable ways to encourage the federal taxpayers to obey and work accordingly. Since punishment has not the attitude of correcting the taxpayers to learn from their mistakes, rather it discourages the taxpayers to give up and close out their business.

Table 4.21 tax violations

Do you believe that businesses who commit tax violations will be punished accordingly?				
	Frequency	Percent	Mean	Standard deviation
I do not believes at all	60	26.1		
I do not believes	114	49.6		
I believes some degree	34	14.8	2.12	.989
I believe	13	5.7		
I strongly believes	9	3.9		
Total	**230**	**100.0**		

Source: own survey (2021)

As the table shows most of the respondents 114(49.6%) indicated that they were not believe as the auditors are actively and efficiently working on data collections, 60(26.1%) of the respondents were not believe at all and 34(14.8%) of the research participants have the believe to some extent on the branch as they able to punish those taxpayers who commit tax violation.

Based on the survey data presented above 13 (5.7%) and 9(3.9%) of the participants were believe and strongly believes on the revenue authority can detect those taxpayers who refuse to obey the rules and regulations and they punish based on the extent of their violation accordingly.

As the mean value 2.12 and standard deviation .989 shows overall the indicated that most of the respondents were not believed branch of revenue office as they able to identify and punish those taxpayers who needs to be punished. As a result of poor administration and auditing capacity majority of the taxpayers were not assumed as the concerned bodies capable of differentiating those business organizations that persistently disobey the tax rules and regulations.

Table 4.22 Reason for not believing

If you do not believe on the above question, what do you believe is the reason?				
	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Poor control of the branch	97	42.2	55.7	55.7
Existence of discriminatory practices	70	30.4	40.2	96.0
if others	7	3.0	4.0	100.0
Total	**174**	**75.7**	**100.0**	

Source: own survey (2021)

Based on the result shown above majority of the respondents 97(42.2%) of them were believed that poor control system is one of the reason for not properly following up and punish those taxpayers who disobey the tax rules and regulations, 70(30.4%) of the research participants were said Existence of discriminatory practices or partiality among the taxpayers.

The result of the respondents 7(3.0%) of them were believed that there are different reasons or causes are there, leads to poor performance of tax administrations.

Table 4.23 Penalties for failing to conduct timely audits

Will the branch be subjected to repeated penalties for failing to conduct timely audits?				
	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Yes I have been punished repeatedly	93	40.4	40.4	40.4
I have been fine a certain amount	81	35.2	35.2	100.0
I have never been punished	56	24.3	24.3	64.8
Total	**230**	**100.0**	**100.0**	

Source: own survey (2021)

As the table shown majority of the research participants 93(40.4%) of them has been punished repeatedly for not conducting audit timely, 81(35.2%) of the research participants I have been forced to pay a certain amount of money as a result of not conducting audit timely.

The result of the respondents 56(24.3%) were never been punished. Overall the study shows that most of the federal small taxpayers were not giving due emphasis to make timely audit and

paying their tax with appointed time interval. Increased penalties can have undesirable effect and result in more tax avoidance.

Table 4.24 appropriateness of the punishment

If your answer to above question is you have been punished repeatedly, how do you feel about the appropriateness of the punishment?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
Not very appropriate	31	13.5	1.96	.943
Not appropriate	44	19.1		
Moderately appropriate	12	5.2		
Appropriate	3	1.3		
very Appropriate	3	1.3		
Total	**93**	**40.4**		

Source: survey, 2021

The table was shown the research participants who have repeatedly punished as a result of disobeying the rule and regulation of tax. In this table the study was indicated the level of appropriateness of the punishment using the likert scale. Out of the total respondents 31(13.5%) were said as the punishment is not very appropriate at all, 44(19.1) shows the level of the punishment is not appropriate and 12(5.2%) of the taxpayers or research participants were believe that punishment is moderately appropriate to encourage the taxpayers to pay their tax timely. From the result table 3(1.3%) and 3(1.3%) were believe as it is appropriate and very appropriate respectively.

From the mean value of 1.96 and standard deviation .943, it shows that respondents were not perceived as the punishment is appropriate. The appropriateness of the punishment made by the revenue authority was on doubt since the purpose of punishment is to correct the taxpayers rather to discourage and complain about the system that the revenue authority used.

4.7 Service delivery of the authority

Table 4.25 established procedures

Do you believe that the staff of the branch will implement the tax laws and regulations in accordance with the established procedures?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
I do not believes at all	80	34.8		
I do not believes	94	40.9		
to some extent	42	18.3	1.97	.905
I believe	12	5.2		
I strongly believe	2	.9		
Total	**230**	**100.0**		

Source: own survey (2021)

The above table clearly shows the respondents believe on the employee of the branch and their role in implementing tax law and regulations in accordance with the procedure developed. From the total respondents 80(34.8%) of them were not believes at all, 94(40.9%) of the research participants didn't believe as the employee are patient and willing to follow the rules and regulations of the revenue authority and 42(18.3%) of the research participants believes to some extent. As the result depicted 12(5.2%) and 2(.9%) of the research participants were believed and strongly believed respectively.

Based on the result shown above the federal small taxpayers who involved in this study were not believed as the employee of the revenue office work according to the rules and regulations of the tax. As the mean (1.97) and standard deviation (.905) shows overall respondents were not believe at all on the staff's willingness to implement the tax rules and regulations.

Table 4.26 timely payment of taxes

How do you assess the support you get from the branch for timely payment of taxes?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
very low	48	20.9		
it is low	78	33.9		

reasonable	57	24.8		
high	33	14.3	2.51	1.151
very high	14	6.1		
Total	**230**	**100.0**		

Source: own survey (2021)

As the result shows 48(20.9%) of the respondents were gives very low for the support they are getting from the branch, 78(33.9%) of them were gives low and 57(24.8%) of the research participants were said reasonable, it mean that employee were trying to give support but still not as such very helpful. Based on the result indicated above 33(14.3%) and 14(6.1%) of them were gives a high value and very high value for the support they have been given from the branch.

Based on the mean value (2.51) and Standard deviation 1.151 shows overall the respondents were unable to give the neither high value nor lower value. The result shows the support was given to taxpayers a reasonable ranges but it needs further improvement to satisfy their customers.

Table 4.27 service delivery of the Authority is efficient and coordinated

Do you believe the service delivery of the Authority is efficient and coordinated?				
	Frequency	**Percent**	**Mean**	**Standard deviation**
I do not believes at all	54	23.5		
I do not believes	88	38.3		
to some extent	63	27.4	2.27	.959
I believe	23	10.0		
I strongly believe	2	.9		
Total	**230**	**100.0**		

Source: own survey (2021)

As the result shows respondents was evaluated the extent of service delivered to the taxpayers. From the result table majority of the respondents 88(38.3%) of the taxpayers were not believe as the branch gives a good and efficient service to the taxpayers, 54(23.5%) of them evaluated as the service given is not believed at all as it is efficient and coordinated to satisfy their customers and 63(27.4%) of the respondents believes that the branch gives good service to some extent. From the result described above 23(10.0%) and 2(.9) of the respondents were believe and strongly believe as the service provide by the concerned body is quite efficient and coordinated.

Based on the mean value 2.27 and standard deviation .959 shows research participants were not satisfied on the service provided by the revenue authority. From the result was concluded that the revenue office or branch was not being effective to meet the ever increasing number of taxpayers and they are not well organized and coordinated to answer the need of their customers.

Table 4.28 efficient response to tax complaints

How do you see the branch's quick and efficient response to tax complaints?				
	Frequency	Percent	Mean	Standard deviation
very low	51	22.2	2.18	.920
low	110	47.8		
reasonable	52	22.6		
high	11	4.8		
very high	6	2.6		
Total	**230**	**100.0**		

Source: own survey (2021)

The result shows that majority of the respondents 110(47.8%) of them were gives the lowest rate for quick and efficient response toward tax complaints, 52(22.6%) of the respondents were believes as reasonable and 51(22.2%) of participants were believes as the branch service toward tax compliance is very low. As the result shows 11(4.8%) and 6(2.6%)of the respondents were given high and very high response for the service provided to tax complaints.

Based on the result shows above (Mean 2.18 and SD .920), the researchers were concluded that the branch has failed to quickly and efficiency address toward tax compliance. It has been clearly stated that efforts not made towards promoting compliance and equipping tax collection institutions with adequate enforcement.

4.8 Level of education factors and tax compliance

These since there are tax payers how have high level of educational and have a good reputation on being tax compliant. Meanwhile, there are many occasions in which many tax payers with high level of education but found to be no-compliant. This since highly educated tax payers may look for how to avoid punishment while engaged in illegal activities. On the other hand, there are many tax payers with relatively low level of education but have good reputation in in being tax compliant.

4.9 Econometrics Analysis

Under this section the study will discuss about correlation and multiple regression analysis to determine the cause and effect relationship with dependent and independent variables.

4.9.1 Pearson Correlation

Correlation will measure the linear relationship between two variables. The level of association as measured by Pearson's co- efficient falls between -1.0 and +1.0, which indicates the strength and direction of association between the two variables. The interpretation of the result a correlation result between 0 to 1 implies positive relationship, 0 (zero) for no relationship, 1 for perfect positive relationship, -1 for perfect negative relationship and between -1 to 0 indicate the existence of negative relationship Berndt (2005). Though it indicates the existence of a positive or negative relationship, the strength of such a relationship is not high when the results fall below ±0.61 (Oogarah-Hanuman, 2011).

Table 4. 29 correlation result

Correlations		Depend	Demo	admi	knowled	penality	service
Depend	Pearson Correlation	1	.428**	.054	.039	.176**	.305**
	Sig. (2-tailed)		.000	.418	.557	.007	.000
	N	230	230	230	230	230	229
Level of education	Pearson Correlation	.428**	1	-.186**	-.169*	.175**	-.092
	Sig. (2-tailed)	.000		.005	.010	.008	.166
	N	230	230	230	230	230	229
admi	Pearson Correlation	.054	-.186**	1	.043	-.009	-.001
	Sig. (2-tailed)	.418	.005		.517	.894	.993
	N	230	230	230	230	230	229
knowle	Pearson Correlation	.039	-.169*	.043	1	.117	.089
	Sig. (2-tailed)	.557	.010	.517		.076	.179
	N	230	230	230	230	230	229
penality	Pearson Correlation	.176**	.175**	-.009	.117	1	-.124
	Sig. (2-tailed)	.007	.008	.894	.076		.062
	N	230	230	230	230	230	229

Service	Pearson Correlation	.305**	.092	.001	.089	.124	1
	Sig. (2-tailed)	.000	.166	.993	.179	.062	
	N	229	229	229	229	229	229
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Source: Own estimation (2021)

The correlation matrix between different factors was shown in the above Table. By looking at the correlation matrix between the factors it can be understood that level of education factors was, the most correlated element with level of compliance. In other words, this matrix does not show the causation of the variables rather showing the magnitude of their association.

Overall the result shows that level of tax compliance and level of education factor has the value of R .428 and p. 0.00, this result shows level of tax compliance and level of education factors has a positive and statistically significant relationship since the p value is less than 0.05. the result shows whenever the social factors like level of education increased the person or the taxpayers become non complaint or pay their tax on time.

As the result shows the level of tax compliance and service delivered has positive and strong association with one another since the p value is less than 0.05. When the revenue office increased the service provided in terms of efficient and coordination, the taxpayers will become loyal and non complaint. The other variables (Tax administration, tax knowledge and penalty of tax compliance) have no evidence supported to say they have an association since the p value is greater 0.05.

4.9.2 Multiple Regression Analysis

This study were used multiple regression analysis to examine the cause and effect relationship among strategy management practice and performance efficiency. In order to analyze the clear effect of strategy management practice or process on performance efficiency the study organized by including the explanatory variables (strategy formulation, strategy implementation and strategy evaluation). Before the study discuss about regression analysis, it is mandatory to see the performances of the model it is mandatory to check the Assumptions of regressions.

Multicollinearity (Checking the co linearity of the explanatory variables)

According to Gujarati, (2003) explained the data were subjected to the analysis of tolerance and variance inflation factor (VIF) following to examine if the presence of multicollinearity inflates the variance of an estimator. The results of the test where shows in the appendix part and it indicate the model performed with no high degree of correlation problem among the explanatory variables.

Normality Test

Multiple regressions require the independent variables to be normally distributed. The normal distribution of the data can be described by the skewness and kurtosis statistics so the data was normal distributed. The result was attached in the appendix part.

Linearity Test

This result was shown the linear relationships between dependent and the independent variables. As depicted in the scatter plot, figure, the visual inspections of the scatter plot shows there exists a linear relationship between the predictors (explanatory variables) and the predicted variable (performance efficiency). This means that, a unit increase of the one or all predictors causes respective

Table 4.30 Model summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.501[a]	.251	.235	.23212

a. Predictors: (Constant), newservice, vari2, vari3, vari4, social
b. Dependent Variable: Depend
Source: Own estimation (2021)

The explanatory variables account for 25% of the variance in the dependent variables. This result demonstrates that the model is capable of accurately predicting the dependent variables in general (level of tax compliance). From the model summary result the explanatory variables 25 % explain the dependent variables. This result shows the model is overall good to predict the dependent variables (level of tax compliance). But the R square is low since there are different factors which affect level of tax compliance, since there other variables which is not incorporated in the model. From the result explanatory variables collectively explain project tax compliance by 25 percent in the study organizations.

Table 4. 31 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.051	5	.810	15.037	.000[b]
	Residual	12.069	224	.054		
	Total	16.120	229			

a. Dependent Variable: Depend

b. Predictors: (Constant), newservice, vari2, vari3, vari4, social

Source: Own estimation (2021)

The F value is 15.037 and is statistically significant because the significance level is = .000 which is less than P 0.05. This implies that over all regression models is statistically significant, valid and fit. This regression model implies that all independent variables are explaining that there is a positive and significant relationship with dependent variable.

Table 4.32 Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.058	.315		9.708	.000
	Level of edu.	.346	.046	.459	7.533	.000
	Tax admin	.101	.044	.136	2.308	.022
	Tax knowlde	.127	.061	.125	2.093	.038
	penalty	.034	.041	.050	.823	.411
	Service deliv	.214	.071	.179	3.015	.003

a. Dependent Variable: Depend

From the variable that has been incorporated in the regression models knowledge of tax law and penalty of tax compliance are statistically insignificant or it doesn't have a cause and effect relationship with level of tax compliance.

$$Y= \beta0 + \beta1 + X1 + \beta2 + X2 + \beta3 + X3 + \dots \beta n + Xn + \varepsilon$$

From the regression result level of education factors has statistically significant relationship with level of tax compliance since the p value is 0.000 which is less than the cut point. By keeping other variables constant a unit increases in factors related to social factors level of education, tax compliance will increase by .346. This result implies that level of education factors are a determining factor for being a complaint, it means when the level of the education

of the taxpayers increased it has a positive contribution toward understanding the rules and regulations that has used in the country.

H1: Demographic (level of education) factors have a significant and positive effect on the level of tax compliance.

From the regression analysis the alternative hypothesis was accepted since the p value is less than 0.05.

Eriksen & Fallan, 1996 stated that the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially with respect to the laws and regulations of taxation. They made an attempt to determine the relationship between levels of tax knowledge and attitudes toward taxation. The authors further stated that tax knowledge has a positive correlation with taxpayer's attitudes towards taxation. Their finding was also confirmed by Harris (1989) and Lewis (1982), where low level of knowledge about tax correlates with negatives attitude toward taxation.

For the tax administration and tax fairness, its coefficient indicated a positive impact on the level of tax compliance. Thus, for a one-point increase in the tax administration and fairness, the probabilities of being complaint taxpayers are increased by .101 while the other variables in the model are held constant. As the result clearly shows when there is a good tax administration and tax fairness in the revenue office, it has undeniable impacts on making the taxpayers loyal and initiate to obey the tax laws.

H2: Tax Administration and tax fairness have a significant and positive effect on the level of tax compliance

The result implies that the alternative hypothesis was accepted, which means tax administration and tax fairness has an impact on the tax compliance.

The fining of the study was similar with begaz (2019) from the finding of the study administration and fairness significant positive influence on tax compliance.

From the research finding knowledge of the tax law was found to be statistically significant at 95% confidence interval and it has a positive effect level of tax compliance. From the regression model analysis keeping all other explanatory variables constant, a unit increase in the understanding and knowledge of the taxpayers of the probability of becoming tax complaint increased by to.127. This result shows when the taxpayers knowledge regarding tax rules and procedures increased the tendency of being loyal and paying their tax on time increased.

H3: Knowledge of the tax has a significant and positive effect on level of tax compliance

The finding of the study was similar with Tulu (2009) the finding of the study revealed that factors such as awareness level of the taxpayers found to be factors detrmining tax complaince of the businesess at Dire dawa city.

As the regression result shows service delivery found to be statsitcally siginficant since the p value is less than 0.05. From the regression model analysis keeping all other explanatory variables constant, a unit increase in service that has been provided by the concerned bodies, in the same way the taxpayers become initiated and will encourage to pay their tax will be increased by .214.

H5: Service delivery has a significant and positive effect on the level of tax compliance

Based on the multiple regression analysis, it was possible to accept the alternative hypothesis since it has a positive and significant effect on the tax compliance.

the finding was supported by (Kirchler,2007) stated that a "service and client" approach by the tax authority is more likely to encourage trust than a "cops and robbers" approach based on sanction and this in turn showed that how tax authorities behave towards their clients does matter.

Table 4.33 Summary of Hypothesis

	Statement	Result
H1	*Level of education factor has a significant and positive effect on the level of tax compliance*	*Accepted*
H2	*Tax administration has significant and positive effects on the level of tax compliance*	*Accepted*
H3	*Tax knowledge has a significant and positive effect on the level of tax compliance*	*Accepted*
H4	*Penalty and fairness has a significant and positive effects on the level of tax compliance*	*Rejected*
H5	*Service Delivery has a significant and positive effect on the level of tax compliance.*	*Accepted*

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter aimed to summarize the key findings, conclusion and recommendations of the study based on the research questions.

5.1 Summary of major Findings

The main finding of the study was:

- ✓ From the sex distribution result majority of the taxpayers who participated in this study was dominated by females and male are less in number. from the education level of the respondents Majority of the customer of the organizations or federal small taxpayers has degree and diploma in different field of studies and this helps to answer the questions with knowledge and proper response and it helps the organization to create good awareness about tax payment and related process to gain remarkable achievements in tax compliance.

- ✓ Majority of the federal small taxpayers are young and in the middle age groups. Young and middle aged dominated the participants of this study and this has indeed contributed to the quality of work and gives the hope to change the awareness and perception of the taxpayers regarding tax payment system.

- ✓ From result we can conclude that most of the employees (Taxpayers) have been working there for 1-5 years, this implies significant years which show they are well experienced and have adequate knowledge and skill about tax collection system and related things.

- ✓ Most of the federal small taxpayers have the responsibilities in the organizations was being an employee of the business firm or institutions. This enables the concerned bodies or Ministry of Revenue's to create a smooth relationship with prospective organizations and it helps to enhance the tax compliance of small taxpayers at the federal level by giving immediate solution.

- ✓ From the bar chart result we can conclude that most of the federal small taxpayers were engaged in providing service to their ultimate customers, this implies knowing the business sector they are involving enables the organizations to give more emphasis and to make large efforts to improve taxpayer compliance.

- ✓ From the finding of the study majority of the federal taxpayers are paying their tax infrequently. This implies most of the respondents were not obey the time schedule that has been set by the concerned organizations. As a result of main factors (both internal and external) taxpayers are not Declaring all taxable income accurately and disbursing all due taxes within the time frame set by the authority without having to wait for follow-up actions from the authority.

- ✓ Most of the federal small taxpayers were paying extra after audit has made. This result implies overall there is low compliance level (many of the taxpayers are not reporting their income accurately), inefficient and ineffective tax administration. As the mean value (4.03) and Standard deviation value (.980) shows the tax that has been paid by the organization is very high when it compared with their income. The result implies that the tax that imposed to the customer is quite high and not considered the revenue of the business firms.

- ✓ Based on the result indicated that there is a high rate of tax which not consider the situation of the business firm. It needs a good administration and appropriate tax determination methods. The result shows above (Mean 2.28 and SD .998) the study was concluded that the concerned organization or government bodies has given little attention in formulating laws and directives which related with federal small taxpayers.

- ✓ From the descriptive analysis result most of the all determining factors (Tax administration and tax fairness, knowledge of the tax law, penalty and strength and service delivery of the authority) has poorly implemented. As a result of multi dimensional factors the level of taxpayers in federal small is quite poor.

- ✓ Overall the result shows that level of tax compliance and social factors (sex, education level and age) has the value of R .428 and p. 0.00, this result shows level of tax compliance and social factors has a positive and statistically significant relationship since the p value is less than 0.05. The result shows whenever the social factors like level of education increased the person or the taxpayers become non complaint or pay their tax on time.

- ✓ From the variable that has been incorporated in the regression models knowledge of tax law and penalty of tax compliance are statistically insignificant or it doesn't have a cause and effect relationship with level of tax compliance

5.2 Conclusion

This study sought to answer the following research questions: to determine perceived fairness for tax system on tax compliance level; to examine the rate of tax on tax compliance level, to examine the effect of tax knowledge on tax compliance level, to assess the effect of fines and penalties on tax compliance level, to examine fairness for tax system and tax rate on tax compliance level, to assess effect of strength of the tax office and tax service quality on tax compliance level, to evaluate a trust on tax authority on tax compliance level, to examine the effect of social factors (Age, gender and level of education) on compliance level and to examine tax the service quality on tax compliance level.

Based on the research objectives of tax compliance level, taxpayers are not accurately declaring all taxable income and disbursing all due taxes within the time frame set by the concerned bodies before the deadline time. Most of the federal small taxpayers were paying extra after audit has made as a result of low compliance level (many of the taxpayers are not reporting their income accurately), inefficient and ineffective tax administration.

Depending on the tax administration and tax fairness the study was concluded that tax that imposed to the customer is quite high and not considered the revenue of the business firms. This was happened because of not giving emphasis and properly considers the situation of the business firm. It needs a good administration and appropriate tax determination methods. From the result indicated in the analysis part most of the taxpayers feel that the government is not properly allocating for the right purpose, so taxpayer has a doubt on collected tax as it spend for the welfare of the whole people who lives in the country.

From the result the study was concluded that the revenue branch has a role in identifying those taxpayers who are not willing to pay on time and refuse to be governed by the tax laws. Complaints or intensive investigation made by the branch office has very weak effects on those people who don't pay their tax on time and who are not willing to obey the tax rule and regulations. From the result the research was concluded that the branch has to work more in improving the overall service the office to satisfy the ever growing of the their customers.

From the result shown on knowledge of tax law due many factors (knowledge gap) the federal small taxpayers were not aware of how much they will pay since the law and regulations has been changed frequently. The knowledge gaps regarding tax law happens as a result of training given can without making a need assessment to fill the knowledge gap of the taxpayers

regarding tax law and regulations. The training program that has been organized by the revenue authority is not enhancing the knowledge and skill of the taxpayers.

Based on the objectives of the study regarding penalty of tax compliance punishment has not the attitude of correcting the taxpayers to learn from their mistakes, rather it discourages the taxpayers to give up and close out their business. Based on the result founded the study concluded that as a result of poor administration and auditing capacity the concerned bodies not capable of differentiating those business organizations who persistently disobey the tax rules and regulations.

The conclusion was made on the service that has been delivered the employee of the revenue authority were not in the position of implementing the tax rules and regulations properly. From the support dimensions taxpayers still not satisfied and it needs further improvement. The researchers were concluded that the branch has failed to quickly and efficiency address toward tax compliance. Efforts not made towards promoting compliance and equipping tax collection institutions with adequate enforcement.

For the social factor, tax administration and tax fairness, knowledge on tax law and service delivery has a positive impact on the level of tax compliance. Thus, for a one-point increase on each dimension, the probabilities of being complaint taxpayers are increased by the coefficient amount, while the other variables in the model are held constant. The result shows that except penalty and the other variable has a cause and effect relationship.

5.3 Recommendations

Based on the research finding the following recommendations were forwarded:

✓ As the result clearly shows the tax compliance level in federal small taxpayers is low and peoples are unaware of the tax rules and regulations so it advisable to create voluntary tax compliance includes improving taxpayers' tax knowledge and altering taxpayers' attitudes through long-term tax education initiatives. To make the improvement multidimensional the concerned body should encourage voluntary compliance through social recognition may provide a more feasible and cost-effective way to improve revenue collection.

✓ Employee of the Revenue office lack service mentality. Thus the branch office should give them a training regarding customer handling and encourage them to work

effectively and efficiently by using different incentives and reward system. Besides this attention to enhance employees of the tax offices to have the same level of understanding and interpretation of concepts and provisions stated in the tax policies and legislations.

✓ The issue of fairness is one of the problems which mentioned repetitively. The organization should give a service for all regardless of their financial status and race etc. The revenue office should prevent room for partiality in many aspects.

✓ To improve the problems of tax administrations the organization should latest technology or electronic system. In this way, technology both improved efficiency and reduced opportunities for corruption.

✓ To clearly identify taxpayers who are not in comply with the tax law and regulations the organizations needs to give a continuous on job and off training to increase their skills and strengthen the inspection and auditing the transactions.

✓ The branch office must ensure the capacity building trainings to be provide to the tax payers are effective and provided regularly,

✓ On the other hand, the business community must be ready to enhance to be complying with the tax laws. In this case, Chamber of commerce must engage in efforts to enhance the business community through arranging capacity building trainings and awareness creation programs in collaboration with the government.

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Annexs

Questionnaire

Dear study participant:

My name is Kassu Merssa and I am a graduate student in the Department of Accounting and Finance at St. Mary's University. This questionnaire is designed to gather additional information on the completion of my dissertation on compliance with federal micro-taxpayers' tax law. The purpose of the study is to identify key factors affecting the taxpayers' compliance at the federal level and to recommend that the government address them.

Therefore, I respectfully ask for your cooperation in completing this questionnaire.

I assure you that the information that you are going to provide in the questionnaire will be kept confidential and will not be passed on to any third party other than as a source of information for this study.

You can call me on 0921-58-56-62 if you need clarification or questions while you fill out the questionnaire.

Thank you in advance for your valuable time and cooperation.

Part I: General information of the participants

I. Gender

1. Male ☐   2. Female ☐

II. Education level

1. below 8th grade ☐   2. 10th/12th grade complete ☐   3. Diploma ☐

4. Bachelor's degree ☐   5. Master's degree and above ☐

III. Age

1. Under 20 ☐   2. Between 21 and 30 ☐

3. Between 31 and 40 ☐   4. Over 40 years ☐

IV. Your responsibilities in the organization

1. Owner ☐   2. Manager ☐   3. Employee ☐

4. Other _____

V. The business sector that your company engaged in?

1. Construction ☐   2. Service Provider ☐   3. Wholesale Trade ☐

4. Retail Business ☐   5. Other, specify _____

VI. How many years have you been in the business you are in?

1. 0 to 5 years ☐   2. 6 to 10 years ☐   3.11 to 15 years ☐

4. 16 to 20 years ☐   5. Over 21 years ☐

VII. Annual sales volume

1. From 2,000,000,000 to 3, 0000,000 ☐   2. From 3,000,000 to 5,000,000,000 ☐

3. From 5,000,000 to 7,000,000 ☐   4. From 7,000,000 to 10,000,000 ☐

5. Over 10,000,000 ☐

Part Two: Level of tax compliance

VIII. Do you pay your taxes permanently during the scheduled payment period?

1. Yes I pay permanently ☐   2.   I pay occasionally ☐

IX. If the answer of above question number is yes I will and occasionally paid, why can't you pay your taxes regularly on time? List the reasons

_____

_____

X.   Is there a difference between that tax you paid and the amount you required to pay after tax audit?

1. I was not asked to pay additional amount   ☐

2.I have been asked to pay additional amount   ☐

XI. If the answer of above question is asked to pay more/ pay additional amount, how would you rate it?

1. It is very low ☐   2. It is low ☐   3. It is reasonable ☐

4. It is high ☐   5. It is very high ☐

PART-III: fairness of tax system and tax rate

XII. How do you see the proportion of taxes you pay in relation to your income?

1. It is very low ☐   2. It is low ☐   3. It is reasonable ☐

4. It is high ☐   5. It is very high ☐

XIII. If your answer on the above is question over whelming, what do you think is the reason?

1. Due to the high tax rate ☐   2. Tax system and collection gap ☐

3. Other, please specify _____

XIV. Do you believe that the tax you pay will be used by the government for the right purpose?

XV.   1. It is very low ☐   2. It is low ☐   3. It is reasonable ☐

XVI.   4. It is high ☐   5. It is very high ☐

XVII. How do you evaluate the tax law and directives paying attention to small federal taxpayers?

1. it is Very low ☐   2. It is low ☐   3. Reasonable ☐

4. It is high ☐   5. It is very high ☐

XVIII.   How do you see the profit tax rate being equal to 30% for high and low federal taxpayers?

1. I don't think it's appropriate at all ☐   2. I do not think it is appropriate ☐

3. I believe it is reasonable ☐   4. I believe it is appropriate ☐

5. I believe it is very appropriate ☐

XIX.   Do you believe that penalties levy contributes for improving tax compliance?

1. I do not believe at all ☐   2. I do not believe ☐   3. I believe in some way ☐

4. I believe ☐   5. . I strongly believe ☐

PART: IV: How taxpayers differ in tax compliance

I.   How do you evaluate the branch office effort to detect business that conducts transaction without issuing receipt?

1. Very low ☐   2. Low ☐   3. Average ☐

4. It is low ☐   5. It is very low ☐

II.   How do you evaluate the contribution of the tax audit to identify tax payers who are non-compliant of the tax law?

1. Very low ☐   2. Low ☐   3. Reasonable ☐

4. It is high ☐   5. It is very high ☐

III.   How do complaints made by the branch affect the taxpayers who do not comply with the tax law?

1. It is very weak ☐   **2. It is weak** ☐   **3. It is   reasonable** ☐
4. It is strong ☐   **5. It is very strong** ☐

PART V: Knowledge on the tax law

IV.   Do you know how much tax you pay advance basis?

1. I never know ☐   2. I don't know ☐   3. I know a certain level ☐

4. I know ☐   5. I know will ☐

V.   Do you receive regular training support from the branch office regarding tax laws and regulations?

1. It is very low ☐   **2. It is low** ☐   **3. It is   reasonable** ☐
4. It is high ☐   **5. It is very high** ☐

VI.   Do you know the criteria by which the branch determines the level of risk of taxpayers?

1. I never know ☐   2. I don't know ☐   3. I know a certain level ☐

4. I know ☐   5. I know will ☐

PART VI: Penalty and fines for non-compliance

VII.   Do you believe that severe punishment and fine is a way of law enforcement and tax compliant?

1. I do not believe at all ☐   2. I do not believe ☐   3. I believe to some degree ☐

4. I believe ☐   5. I strongly believe ☐

VIII.   Do you believe that businesses that violate tax laws punished accordingly?

1. I do not believe at all ☐   2. I do not believe ☐   3. I believe to some degree ☐

4. I believe ☐   5. I strongly believe ☐

IX.   If the answers of the above question are I do not, what do you believe is the reason?

1. Poor control of the branch ☐   2 Existence of discriminatory practices ☐

3. Tell us if there is another reason _____

X.   Will the branch office subjected to repeated penalties for failing to conduct timely audit?

1. Yes I have been punished repeat ☐   2. I have been fine certain amount ☐

3. I have never been punished ☐

XI.   If the above have been punished repeatedly and occasionally, how do you feel about the appropriateness of the punishment?

1. Not Very appropriate ☐   2.not Appropriate ☐   3. Moderately appropriate ☐

4. It is appropriate ☐   5. Very appropriate ☐

PART VII: Strength and service delivery of the authority

XII.   Do you believe that the staff of the branch will implement the tax laws and regulations in accordance with the established procedures?

1. I do not believe at all ☐   2. I do not believe ☐   3. To some extent ☐

4. I believe ☐   5. I strongly believe ☐

XIII.   How do you assess the supports you get from the branch for timely pay?

1. It is very low ☐   **2. It is low** ☐   **3. It is   reasonable** ☐
4. It is high ☐   **5. It is very high** ☐

XIV.   Do you believe the service delivery of the Authority is efficient and coordinated?

1. I do not believe at all ☐   2. I do not believe ☐   3. To some extent ☐

4. I believe ☐   5. I strongly believe ☐

XV. How do you evaluate the branch's quick and efficient response to tax complaints?

1. It is very low ☐   **2. It is low** ☐   **3. It is reasonable** ☐
4. It is high ☐   **5. It is very high** ☐

PART VII- Demographic Factor and Tax Compliance

PART VIII: THREE DETAILS ADVICE AND RESOLUTION

XVI. What steps do you believe the branch and the government should take to increase compliance with the tax law?

_____

_____

_____

XVII. What do you believe should be done by the business community to comply with the tax law?

_____

_____

_____

Appendix Two

Coefficients[a]
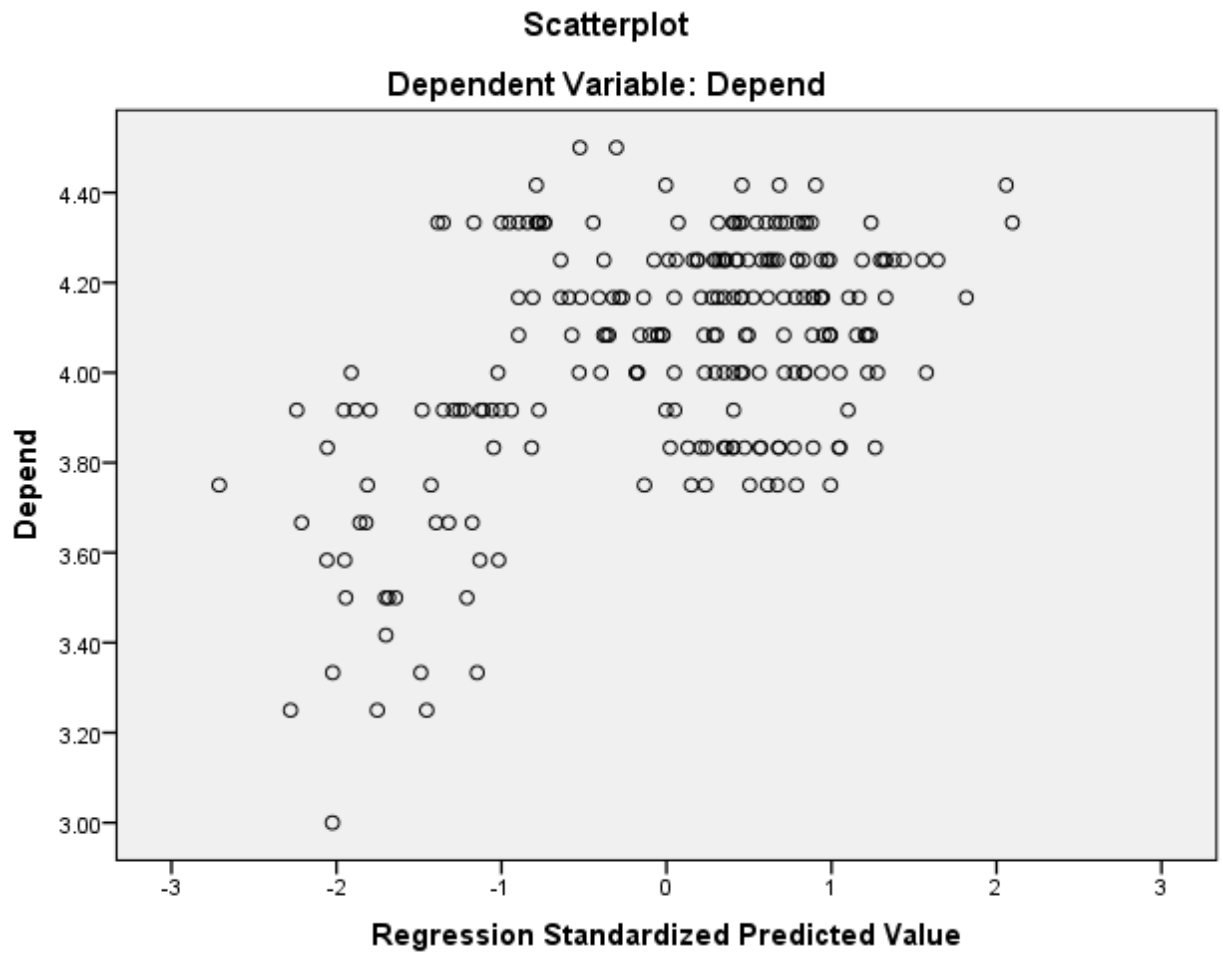
Model		Collinearity Statistics	
		Tolerance	VIF
1	social	.901	1.109
	vari2	.965	1.037
	vari3	.930	1.075
	vari4	.909	1.100
	newservice	.947	1.055

a. Dependent Variable: Depend

Histogram

Dependent Variable: Depend

Mean = -4.52E-15
Std. Dev. = 0.989
N = 230

Scatterplot

Dependent Variable: Depend
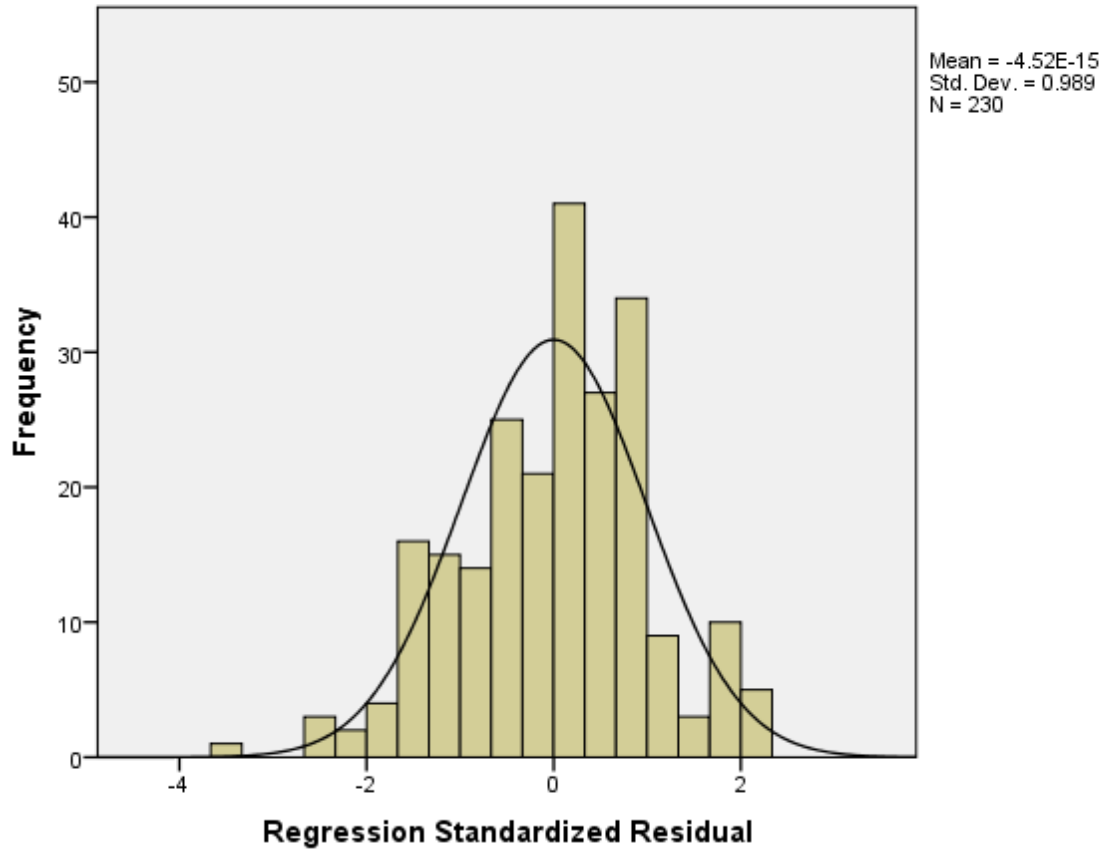
Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Depend