DETERMINANTS OF TAX COMPLIANCE: THE CASE OF JIMMA TOWN

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DETERMINANTS OF TAX COMPLIANCE: THE CASE OF JIMMA TOWN

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Declaration

I hereby declare that this thesis under the title of 'Determinants of Tax Compliance: The Case of Jimma Town' is my original work and has not been presented in any other university, and that all sources of materials used for the study have been duly acknowledged.

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Abstract

This study was conducted with the aim of identifying the determinants of tax compliance in Jimma town. The target population of the study was category B tax payers of Jimma town which were 1143in number. A sample of 288 category B tax payer was taken using stratified sampling followed by random sampling from each strata. The category B taxpayers were stratified into trade (retailer and wholesaler), service sector and manufacturing (process) according to their field of work. By distributing a total of 288 questionnaires to Category B sample taxpayers of the town, the study tried to explore the main determinants of tax compliance and how these determinants are related with tax compliance. Tables, graphs and charts were used to present the result of the analysis. Pearson correlation matrix and Logistic regression model was used to identify the main factors that determine tax compliance. The findings of the study shows that tax rate, probability of detection, penalty rate, reference group and tax knowledge are the determinants of tax compliance. When tax rate is perceived as higher and inequitable, tax compliance will decrease: the higher the probability of detection, the lower the compliance: when taxpayers perceived there is high penalty rate for any non-compliance, the level of compliance will decrease: negative perception on friends and relatives result in low compliance. Lastly, taxpayers with high tax knowledge will not comply. In general, it is recommended that the tax authority and other responsible bodies; to increase taxpayers' awareness, study about detection methods and try to be exhaustive in conducting detection and use trained and ethical personals, to remove misconception of taxpayers in which the amount of tax to be paid by the taxpayers is aimed at not harming them and is based on their ability to pay, should prevent the cause of penalty by making the taxpayers know what results in penalty and how can it be prevented, cultivate personal awareness of compliance and educating the whole society about benefit and importance of voluntary compliance and conduct scientific assessment of the taxation system to investigate any loopholes. This will help to enhance the level of compliance which helps taxpayers to comply voluntarily through all possible ways.

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Tax is a compulsory payment which is levied by an authorized body (government) on income, expenditure, or capital assets to finance its operation without expectation of any direct benefit by taxpayers, (Lymer and Oats, 2009). To provide different public services which are not provided by private investors government needs huge investment. This expenditure expected to be financed by tax revenue. But unfortunately, most taxpayers are reluctant to pay their tax liability (Ahangar, Bandpey and Rokny, 2011).

Government expenditure of developed countries are covered by the tax revenue collected, on the contrary, in less developed countries like Ethiopia, their expenditures are covered by sources other than tax revenue. As to Ahangar, Bandpey and Rokny (2011) in developed countries, about 90% of governmental expenses is provided with tax income and ratio of tax income to gross national production (GNP) is about 25-30%, while this ratio, in developing and specially undeveloped countries, is 28% and 5% respectively. That is, 28% of a country's expenses are covered by tax income. The loss in tax revenue especially in developing countries is resulted from tax non compliance of taxpayers.

Singh (2003) defined tax compliance as a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. The issue of tax compliance is a universal phenomenon regardless of their development stage. Understanding why taxpayers do or don't comply with tax law is essential. This helps to know what taxpayers' intention are and to work against it and at the same time to increase the level of compliance of taxpayers.

Thus, tax compliance is a growing international concern for tax authorities and public policy makers as tax evasion seriously threatens the capacity of governments to raise public revenue.

A determinant of tax compliance is studied in high concentration in developed countries like, US (James, Brian and Jonathan, 1998), Australia (Erich, Apolonia , and Alexander, 2006 and Ken Devos, 2008), Switzerland (Werner & Hannelore, 1996), Europe (Torgler, 2011), Malaysia (Mohd, 2010 and Jeff, 2008), Korea (Chang and Jin, 2003), India (Gupta, Ghosh And Mookherjee, 2004), Bulgaria (Georgi, 2008), Iran (Reza, Hadi and Hamid, 2011) and Switzerland (Werner and Hannelore, 1996). There are a little works done in Africa like Kenya (Lumumba, Migwi, and Peterson, 2010), Nigeria (James, Zaimah, and Kamil, 2011: M. N. Ogbonna, 1975), Egypt (Richard, 1976) and Ghana (Stephen, 2011).

In Ethiopia case the works done by Wubshet (2011) regarding "Taxpayers' Perception towards Fairness: Personal Business Profit Taxpayers in Addis Ababa", by applying a mixed approach finds that taxpayers did not perceive positively in respect of general, vertical, personal, exchange, and administration fairness except horizontal fairness on the prevailing business profit tax system. Lemessa (2007) with a topic "Determinants of Taxpayers' Voluntary Compliance with Taxation; The Case Study of Dire Dawa City", using descriptive method of research found out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government are the main determinant of voluntary compliance in the city. Bisrat (2010) with a title of "an examination of the link between tax administration and value added tax compliance in Ethiopia", using mixed method found that audit probabilities, the perceived fairness of VAT, and satisfactions with the service of the tax authority are the major determinants of tax compliance with VAT. Wollela (2009) conducted a study regarding "Value added tax in Ethiopia: A study of operating costs and compliance". By applying mixed method she concluded that though compliance costs seem to be low, their repressiveness is likely to impact on the equity of the tax system as a whole and another study done by Zelalem (2011) on "The Influence of Tax Education on Tax Compliance Attitude", using quantitative research approach concluded that the level of tax compliance is influenced by tax education.

While reviewing the researches done in the area, the vast majority of them are concerned with specific determinants of tax compliance; and so far no research appears to have been done in similar or related topics in Jimma town. Thus, the current research attempts to investigate the determinants of tax compliance in Jimma town by taking category B taxpayers. The current study is different from other researches as it tries to study the general determinants of tax compliance rather than their compliance on some specific type of tax or on the effect of some specific determinants on tax compliance. The reason for taking category B taxpayers is that these taxpayers are expected to prepare financial statements and have to keep proper books of account. This study, in addition to its benefit to different organs, will add value to the existing literature by filling the literature gap in our country case and a knowledge gap internationally.

1.2. Justification of the Study

This study aimed at investigating the determinants of tax compliance in Jimma town, specifically category B taxpayers as well as how these determinants relate with tax compliance. Category B taxpayers are required to prepare financial statements as well as to keep proper book of account: so if these taxpayers are voluntarily complied with tax they will prepare their financial statements appropriately as well as try to keep proper book of account. Therefore, investigating the factors that determine their compliance helps the tax authority to develop a strategy how to collect the tax revenue at comparatively low administration and collection cost. Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant tax payers.

If factors are duly investigated and laws are drafted accordingly, the compliance of taxpayers with taxation will increase which results in increment in the governments' revenue which in turn invested in availing public goods to the citizens. The increment in availability of enough public goods enable the citizens to have a good perception towards the government as well as enhance tax compliance (Lemessa, 2007).

1.3. Statement of the Problem

Tax compliance is defined as taxpayers' willingness to observe tax laws (Andreoni et al., 1998). Tax non-compliance, on the other hand, is the failure of taxpayer to register in the system, to timely file the required information, to report complete and accurate information and Payment of taxation obligations on time (Stephen, 2011).

Since the payment of tax is an obligatory duty of every citizen, it is expected that citizens will voluntarily comply with such an obligation but in reality some citizens are trying to escape from this liability by using different mechanisms (Alabede, et al., 2011). Currently, when compared to previous period, the burden of the government in providing public goods has increased which results in more resources to finance its activities. Among the sources of finance for government tax revenue should constitute the lion's share (Ahangar et al. 2011). As cited by Emerta (2010) the findings of Volkerink (2009) shows that "tax- to-GDP ratio in Ethiopia is one of the lowest in sub-Saharan Africa which is 9.7% (MoFED, 2010) as compared to over 18% for the rest of Africa. It is even much lower than good performers such as South Africa and Namibia where tax revenue reaches 25% and 30.1%, respectively".

The main objective of this research is to identify the main determinants of tax compliance as well as how these determinants are related with tax compliance which is expected to give a direction to the government and tax authority regarding the determinants and to work towards it to increase the compliance of taxpayers and to increase the revenues to be collected. Specifically the research tries to answer what are the major factors that determine the compliance level of category B taxpayers of Jimma town and how these determinants are related to tax compliance.

Tax non-compliance is a dishonest practice which leads to decrease the government revenue needed for the provision of public goods. To minimize tax non compliance, understanding the determinants in a clearly identified way helps appropriate policy conclusions to be drawn and government and Policy makers are then in a position to design and implement strategies to minimize the effects of non compliance. Even though it is expected that a lot of studies to be done in the area, in reality it is only studied in high concentration in developed countries, but in

Africa a little works have been done in the area. When we come to Ethiopia's case, especially in Jimma town, as to the researcher's knowledge, almost there is no research done in the area as it is expected. Therefore, investigating the determinants of tax compliance and how these determinants are related with tax compliance at the same time providing some suggestions is expected from the concerned body as well as from scholars. This research contributes to identify the factors affecting tax compliance in Jimma town specifically category B taxpayers which helps to increase the tax revenue by enhancing the taxpayers' compliance with taxation.

While reviewing the related literatures, the findings of different scholars with regard to the effect of a specific determinant on tax compliance is not conclusive. This drew the researcher's attention. Additionally, as to the researcher's knowledge the researches done by different scholars did not incorporate different determinants of tax compliance. This also initiates the researcher to investigate the main determinants of tax compliance. Because knowing what determines taxpayers' compliance, is half part of the solution towards increasing tax revenue and at the same time, fills in our country's case the literature gap and internationally the knowledge gap.

1.4. Hypothesess

In order to achieve the objectives of the study; the determinants of tax compliance and how these determinants relate with tax compliance, the following hypotheses have been tasted:

H1- Low tax rate encourages tax compliance.

H2- High probability of detection encourages tax compliance

H3- Penalty rate is positively correlated with tax compliance.

H4- Complexity of tax system affects tax compliance negatively.

H5- Trust in public officials affects tax compliance positively.

H6- Taxpayers' perception regarding the fairness of tax has a positive impact on tax compliance.

H7- Positive perception on government spending is positively correlated with tax compliance.

H8- The influence of reference group is positively correlated with tax compliance.

H9– Tax knowledge and tax compliance are positively correlated.

1.5. Objective of the Study

1.5.1. General Objective

The main objective of this research is to identify the main determinants of tax compliance of category B taxpayers in Jimma town.

1.5.2. Specific Oobjectives

This study on determinants of tax compliance in Jimma town assumes the following specific objectives:

- ✓ To analyze the effect of tax rate on tax compliance.
- ✓ To see the effect of probability of detection on tax compliance.
- ✓ To analyze the impact of penalty on tax compliance.
- ✓ To observe the effect of complexity of tax system on tax compliance.
- ✓ To see the effect of trust in public officials on tax compliance.
- ✓ To see the impact of taxpayers' perception regarding the fairness of tax on tax compliance.
- ✓ To analyze how perception on government spending and tax compliance related.
- ✓ To see the effect of friends and relatives on tax compliance.
- ✓ To analyze the impact of tax knowledge on tax compliance.

1.6. Significance of the Study

Currently, the government is expected to fulfill the needs of its citizens by availing different facilities to its citizens more than it was expected in previous periods. This results in huge expenditure to be incurred by the government. This expenditures need to be financed through different sources of financing.

Even though, it is obvious that taxes should be the main sources of finance for the government, unfortunately in less developed countries the case is to the reverse. Most of their expenditure is financed through other mechanisms other than tax revenue. Most of the time this is not because the tax is not levied by the governments of countries rather it is because taxpayers are not willing to pay their tax liability due to different reasons (Ahangar et al. 2011).

As it has already stated, there is almost no researches done, as to the researcher's knowledge, in the area especially in Jimma town and the findings of other studies conducted in other areas are not conclusive. Therefore, investigating the determinants of tax compliance and how these determinants are related with tax compliance at the same time providing some suggestions is expected from the concerned body as well as from scholars. This research will contribute to identify the factors affecting tax compliance in Jimma town specifically category B taxpayers. This will help to increase the tax revenue by enhancing the taxpayers' compliance with taxation. In addition to this, the research will act as a ground for researchers who are interested in the area.

1.7. Scope of the Study

The main objective of this study is to identify the main determinants of tax compliance in Jimma town and how these determinants relate with tax compliance. The study is delimited to Jimma town as well as to category B taxpayers of the town. However, it would have been much better and exhaustive for the study had there been a chance to incorporate other category of B tax payers found in other part of the country. Nevertheless, to make the study manageable and complete the research report on time, the researcher includes only category B taxpayers found in Jimma.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Introduction

In this study, the researcher focuses on determinants of taxpayers' compliance with taxation. The researcher studied relevant books, researches and journals in related areas which help to list out different determinants which are found by different scholars, to have a clear idea about the topic and help to find the gap. This chapter tries to incorporate both the theoretical and empirical literature in the area regarding the definition of tax compliance; analysis of determinants of tax compliance, conclusion and knowledge gap is included.

2.2. Theoretical Literatures

2.2.1. Overview of taxation

Tax is a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer expects no direct return in benefit (Lymer and Oats, 2009).The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Public goods are normally supplied by public agencies due to their nature of non-rivalry and non-excludability. Every citizen has the right to use the goods provided and the goods which are used by one citizen cannot prevent another person from using same good at the same time. Because of this characteristics of public goods, private investors are not only willing to provide it but also do not have the ability to avail it because it needs huge investment. This results in need of huge revenue to cover these expenditures. James (2000) as cited in Lemessa (2007), states that taxation is one way of reallocating resources from the private to the public sector. Taxes may be paid in kind or in cash. A good tax system should not affect the ability and willingness of the people to work, save and invest otherwise, it will hamper the development of the economy as a whole (Ramaswami, 2005).

Among the main reasons why the government imposes taxes is to generate income to administer the economy and reallocate resources (Mohd, 2010). Government levies tax for different objectives. Some of the objectives of taxation as listed by Ramaswami, (2005) include: to raise revenue, to remove inequalities in income and wealth among citizens, to insure economic stability, to minimize regional imbalances, to accumulate capital, to create employment opportunities, to prevent harmful consumption, to divert the usage of resources from luxury production into basic goods production, to encourage exportable products through tax exemption, to enhance the living standard of citizens. Currently when compared to previous periods, the burden of the government has increased which results in more resources to finance its activities. Among the sources of finance for government tax revenue constitutes the lion's share (Ahangar, et.al. 2011). Whatever its function and essence, tax is fundamentally important for the existence of a government and a nation.

Taxes may be imposed in the factor or product market. In addition to this they may also be imposed on the buyer's or seller's side of the market (Richard and Peggy, 1989)

According to Ramaswami, (2005), taxation has the following basic characteristics:

- ✓ It is a compulsory contribution
- ✓ Direct benefit is not expected
- ✓ It is imposed on the person who is liable to pay
- ✓ It is paid for common interest
- ✓ It can be levied only by government whether central or local government
- ✓ It involves element of sacrifice
- ✓ Regular and periodical payment
- ✓ No discrimination among taxpayers
- ✓ Taxes can be levied on different taxable items to enhance revenue.

Though, taxation is an essential instrument for the development of an economy, while framing the tax policy, the government should consider not only its financial needs but also taxable capacity of the community. Besides this the government has to consider some other principles which are cited in different literatures as canons of taxation which includes the following principles (Ramaswami, 2005).

1. ***Canon of Equality***: taxpayers should contribute to support their government in proportion to their ability. Tax burden should be more on the rich than on the poor. Which can be determined based on income, wealth or consumption

2. ***Canon of Certainty***: the time, amount and method of payment have to be clear and certain so that the taxpayer can adjust his income and expenditures accordingly. This results in removing uncertainties and help to ensure smooth functioning of the tax system.

3. ***Canon of Convenience***: when taxes are levied and collected they should be in such a way suitable to the taxpayer. So that taxpayers will be comfortable with the tax system.

4. ***Canon of Economy***: this canon reveals that out of the taxes collected the minimum possible amount should be spent on tax collection and the possible maximum amount collected should enter to the government treasury. This canon comprises that Taxation should be inexpensive in collection, and hinder as little as possible the growth of wealth.

5. ***Canon of Productivity***: as cited by Ramaswami, (2005), C.F. Bastable added to the canons of taxation the concept of productivity as, taxation should ensure adequate revenue to the Government and it should encourage productive activity by encouraging the people to work, save and invest.

6. ***Canon of Elasticity***: this principle also is advocated by Bastable which recommend the tax system to be as much flexible as possible to increase as well as to decrease the amount of taxes levied.

7. ***Canon of Diversity***: this canon recommends taxes not to be levied on narrow basis the whole society should contribute to the tax revenue. To achieve this government should widen its tax base and decentralize the burden among the large society

8. ***Canon of Simplicity***: the tax system should be easily understandable for ordinary lay man; how to calculate their tax liability and other necessary information should be put in a clear manner which does not need an expert's help.

9. ***Canon of Expediency***: while tax is levied we have to take in to consideration different favorable and unfavorable conditions from different angle.

10. ***Canon of Co-ordination***: taxes may be imposed by different organs of government during this time there should be a proper co-ordination between different taxes imposed by various authorities.

11. ***Canon of Neutrality***: the tax system should not have any adverse effect in the economy i.e. it shouldn't result in any deflationary or inflationary effects.

Since, the payment of tax is an obligatory duty of every citizen, it is expected that citizens will voluntarily comply with such obligation but in reality some citizens are trying to escape from this liability (Alabede, et.al, 2011). Moreover, Richard and Peggy (1989, pp 216) on their book try to list out the requirement for a good tax structure as a tax system which has adequate revenue yield, equitable distribution of tax burden-everyone should be made to pay his or her fair share, the final resting place of the tax revenue, taxes should be chosen so as to minimize interference with economic decisions in other wise efficient markets, it should facilitate the use of fiscal policy for stabilization and growth objectives, it should permit fair and non arbitrary administration and it should be understandable by the taxpayer and lastly administration and compliance costs should be as low as compatible with the other objectives. These and other requirements may be used as criteria to appraise the quality of tax structure. Most of the objectives may not necessarily in agreement, and when they conflict, tradeoffs between them may be needed.

As indicated by Bhatia, (1976) cited in Lemessa, (2007), a good tax system have to choose and adhere to certain principles , in order to achieve its various objectives. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles.

Because of its importance tax compliance has been studied starting from the beginning of tax system. Today, just as in the past, taxation is an important issue, and it can be expected to remain important in the future (Torgler, 2007).

Most people feel that tax is a burden and should be avoided. Tax non compliance is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries. Thus, tax compliance is a growing international concern for tax authorities and public policy makers as tax evasion seriously threatens the capacity of governments to raise public revenue.

2.2.2. Definition of Tax Compliance

The exact meaning of tax compliance has been given in various ways by different scholars at different times. Chang and Jin, (2003) define tax compliance as the ratio of declared income to actual income. Andreoni, et.al (1998) claimed that tax compliance should be defined as taxpayers' willingness to observe tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) tries to define tax compliance as the most neutral term to describe taxpayers' willingness to pay their taxes. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). As cited by Lemessa (2007), James (2000) tries to incorporate time dimension and define compliance not only paying the tax liability but also paying it timely.

Stephen (2011) tries to list out what the obligation of taxpayers are and concludes that whoever fails to meet the listed obligation is considered as tax non-compliant. The obligations are:

registration in the system, timely filing of required taxation information, reporting of complete and accurate information, and payment of taxation obligations on time.

As cited in Lemessa, (2007) this concept is also defined by (FIRA, 2000) as the difference between the real and the expected tax revenue and how that gap varies among the different sectors of the taxpaying population. As cited in Zelalem (2011) James and Alley (2004) state that, compliance as a voluntary not compulsory behavior. Taxpayers' compliance would not be considered voluntary compliance if they adhere merely for fear of penalty, fine and probability of being audited.

As cited by Reza, et.al (2011), (Mo, 2003) explains the way how tax payers escape from their tax liability as tax evasion and tax avoidance. And tries to explain tax evasion as an unlawful practice, which has the effect of reducing the government revenues needed for the provision of public services and public utilities. On the other hand tax avoidance as a legal means of reducing the tax liability which has the same effect. Mo (2003) pointed that both practices are motivated by different factors and involve a wide range of different mechanisms.

Taxpayers may avoid their actual tax via legal means that means by using different legal loopholes: Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law (Lemessa, 2007).

As cited by Lemessa (2007), the degree of tax non-compliance can be measured in terms of the 'tax gap'. This represents the difference between actual revenue and that which would be received if there were 100% compliance (James, 2000).

Tax noncompliance can be classified as intentional or unintentional. Intentional noncompliance occurs when taxpayers deliberately opt not to meet the requirements of the relevant tax regime. As cited by Wollela (2009), McKerchar (2002) noted, deliberate noncompliance could include tax evasion, which in turn would include all people or entities operating within the hidden economy, taxpayers that deliberately understate their income; over claim deductions, rebates or credits; take an aggressive stance in their tax affairs that cannot reasonably be supported; fail to lodge returns and pay; lodge returns and pay late; or do not keep the required records. Intentional noncompliance leads to under-compliance with the associated financial benefits (mainly reduction in tax liability) accruing to the noncompliant taxpayer.

unintentional noncompliance, on the other hand, emerges when taxpayers fail to fulfill the requirements of any aspect of the tax system without any deliberate action.
Unintentional noncompliance may result in either overstatement or understatement of the tax liability. Unintentional noncompliance may not necessarily motivated by financial benefits to the noncompliant taxpayer (Wollela, 2009).
While we see the definition for tax compliance by different scholars we can derive a conclusion that tax compliance is going in line with the tax rules and regulation and paying tax liabilities voluntarily and on time.

2.3. Empirical Literatures

2.3.1. Determinants of Tax Compliance

Regarding the research subject, the researcher wants to investigate determinants that affect tax compliance. To achieve this, the researcher reviews several researches and journals. While reviewing, different scholars try to list out different factors that affect tax compliance. To have a broad knowledge in the area and to list out the main determinants found by different researchers, the researcher tries to incorporate basically Fischer's Model of tax compliance and additional determinants found by other scholars.

As cited in Gerald and Patrick (2009) Fischer et al. (1992) categorized these key determinants into four group constructs and it became known as Fischer's Model of tax compliance. This model consists of (1) tax system structure which includes tax rate, penalty, probability of detection, and complexity of tax system; (2) attitude and perception which includes fairness, ethics, and peer influence; (3) noncompliance opportunity this includes income level, income sources and occupation and (4) demographic factors like age, gender and education. The determinants categorized as four groups by Fischer under these groups other related determinants found by other scholars were incorporated. Additionally, on the determinants listed by Fischer and other scholars, the findings of different scholars are included. By referring to different related literatures these determinants are explained below as follows:

2.3.1.1. Tax System Structure

Tax Rate

Regarding tax rate different scholars found different results. Some of them found a positive relationship between tax rate and tax compliance others found that negative relationship. Both findings have empirical support. To mention some of the findings:

Kirchler, Hoelzl, and Wahl (2008) claimed that the impact of the tax rate depends on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers. When trust is high, the same level of tax rate would be taken as contribution to the community. Yitzhaki (1974) theoretically proved that tax compliance increases with tax rate. As cited by krichler et.al. (2007), Feinstein (1991) by taking data from American taxpayers, concludes that compliance is higher when there is higher tax rate.

Allingham and Sandmo (1972) and Park and Hyun (2003), on the other hand found inverse relationship between tax rate and tax compliance. Tax compliance decreases with higher tax rate. Bismark (2011) on his paper aiming at identify ways of improving VAT compliance among traders in the Accra Metropolis concludes that if the traders perceive the rate to be on the high side, they tend to feel that they are paying too much of their money to the state. As cited by Reza, Hadi and Hamid (2011), Feinstein, (1991) and Alm et al. (1993) also find inverse relationship between marginal tax rates and tax evasion. As one can see from the findings of different scholars the effect of tax rates on compliance remains unclear. It surely deserves further investigation.

Penalty Rate

Concerning the effect of penalty scholars differ in their findings. For instance: Werner and Hannelore (1996) conclude that penalty will negatively affect underreporting of income. Similarly, Kirchler et.al (2007) by reviewing different scholars' findings regarding the effect of penalty on tax compliance concludes that, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid their taxes.

On the contrary, Allingham and Sandmo (1972), concluded that a rise in the penalty rate will lead to an increase in declared income. Chang and Jin (2003) concludes that both the tax audit and the penalty rate are important deterrence from tax evasion, although the penalty rate is more effective. Park and Hyun (2003) also concludes that Higher penalty rate along with higher audit rate is associated with higher compliance rate. The most effective policy tool to induce higher compliance is to levy heavy penalty on unreported income.

In summary, the findings reveal that there is no clear out demarcation between penalty and level of compliance this needs further investigation.

Probability of Detection

Most empirical studies found that the amount of income concealed is influenced by the probability of detection positively. The following researchers found a finding in line with this conclusion.

Bismark (2011) by taking data from three hundred and fifty-five (355) small and medium size enterprises taxpayers, in Accra Metropolis found that Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions where necessary to ascertain their tax liability. In line with this Allingham and Sandmo (1972) conclude that when the probability of detection increases the amount of income to be declared will increase. And Werner & Hannelore (1996) finds similar conclusion that means compliance increases with the probability of detection.

Viswanath, Mohamed and Bernadette (2003) found that taxpayers' compliance decision is strongly influenced by the presence of audits.

As one can see from the empirical findings, the effect of probability of detection is strongly related with tax compliance. In practice, auditing is very much costly to apply repetitively and needs several researches on how and when to apply audit. Random audits schemes, when the declaration falls below a certain threshold, retrospective audit scheme, prospective audit scheme and other alternative audit mechanisms lead to higher tax compliance even if the audit rules implicated fewer audits than random control systems (krichler et.al. (2007).

As cited by Krichler et.al. (2007), also the findings by Guala and Mittone (Guala & Mittone, 2005; Mittone, 2006) can be used to design an efficient audit-scheme. This recommends auditing particularly young and inexperienced taxpayers because this will probably help "learn" to be compliant if their very first tax file is checked by authorities.

Complexity of Tax System

Most of the time taxpayers not only find it difficult to file their own tax returns correctly but also perceive tax law complexity and ambiguity as causes of tax non compliance (Erich, et.al 2006). Grant (2006) by taking data from 45 countries and applying Ordinary Least Square (OLS) regression analysis concluded that complexity is the most important determinant of tax evasion.

Torgler and Schaffner (2007) argue that complexity may result in unintentional non-compliance if taxpayers have problems filing the tax form. Moreover, complexity can reduce the moral costs of non compliance.

Reza, et.al (2011) concludes that excess of tax laws and their continuous adjustments and volatility in performance and performance of laws make tax system more complex which make tax collection more difficult.

Trust in Public Officials

Torgler and Schaffner (2007) found that there is a significant positive correlation between trust in officials and tax compliance. An increase in the trust scale by one unit increases the share of subjects indicating the highest tax morale by 3.5 percentage points.

As to Torgler (2011), a more legitimate and responsive state appears to be an essential precondition in generating compliance.

2.3.1.2. Attitude and Perception

Ahmed (2004) by taking data from 30 countries concludes that: regardless of other factors affecting compliance, a taxpayer might chose to comply with taxes when individuals can exercise their economic rights in terms of economic freedom, important equity market and effective competition laws, in a safe environment that improves their quality of life. They are more prone to view tax compliance as less of a burden and more of a citizenship duty.

Viswanath, et.al (2003) suggests that to have a tax compliant population the government should encourage and maintain positive attitude towards the government. The government should minimize the sources of grievances which their citizens can raise against them if governments want to increase tax compliance among its citizens.

Fairness

Grant (2006) concludes that where taxpayers perceive that their country's tax policy is fair; this can reduce the level of tax evasion. Lemessa (2007), concludes that if the tax levied is not fair and equitable it will result in current as well as potential taxpayers' non compliance

Bordignon (1993) define "fair" as the perception of taxpayers by comparing the level their private consumption and what the government provides for them. And concludes taxpayers will evade in order to reestablishing fairness in their relationship with other agents of the fiscal system if the terms of trade offered by government through the tax system differ from their own "fair" terms of trade.

Viswanath, et.al (2003) conclude that taxpayers' perception about the tax (in) equity of the tax system affects the tax compliance significantly. And who suggests equitable treatment of taxpayers both in rate setting and enforcement is important for voluntary tax compliance. Smatrakalev (2008) concludes that tax evasion occur when the government is deemed to be corrupt or when the tax system is perceived to be unfair.

Efficiency of Government Expenditure

As cited by Lemessa (2007), Fjeldstad (2004) concludes that taxpayers' willingness to pay their tax liability depends on the government's ability to provide services and its demonstrated tendency to secure the compliance of the non-complaints.

Bordignon (1993) and Pommerehne et al. (1994) as cited by Reza, et.al (2011), by incorporating the expenditure side of government activity into the model of tax compliance they suggested that the efficiency of government expenditure affects compliance decisions. Ying and Teng (2005) conclude that the level of tax compliance increases significantly with efficiency of government expenditure.

Bismark (2011) by referring to its findings on the effect of perception of taxpayers on the efficiency of government expenditure advises the government to spend taxpayers' money wisely so that tax compliance to increase.

The Extent of Political Participation of Citizens

Werner & Hannelore (1996) concludes that the extent of political participation of taxpayers has a significant effect on increasing tax compliance, by enhancing the acceptance of government policies which results in taxpayers' adherence to tax laws.

As cited by Torgler (2011), Feld and Frey, (2002a) finds that the direct involvement of taxpayers in the political decision process through voting on fiscal issues, enhances their sense of civic duty and thus their tax morale.

Torgler (2011) cited the following scholars who found voting on tax issues have a positive effect on tax compliance. They are Alm, et.al (1999), Feld and Tyran (2002) and Torgler and Schaltegger (2005)

Ethics

Michael Wenzel (2005), by defining tax ethics as one's belief there is a moral imperative that one should be honest in one's tax dealings. Based on 2040 Australian respondents, he concludes that ethics and social norms affect tax compliance, and they are affected by tax compliance.

Peer Influence

Chung and Trivedi (2003) concludes that while friendly persuasion may positively influence women's tax ethics it may not have a similar influence on men's tax ethics.

Viswanath, et.al (2003) concludes by the type of information they receive about the reporting behavior of peers have a significant effect on taxpayers' compliance with tax.

Torgler (2011) concludes that citizens' perception on how compliant other citizens has a strong impact on their willingness to comply.

2.3.1.3. Noncompliance Opportunity

Level of Income

The effect of level of income on compliance cannot be concluded from the findings of different scholars. Some scholars found positive relationship between level of income and compliance; others found negative relationship between level of income and compliance still others found same level of compliance regardless of their level of income. This determinant needs further investigation.

Gyun and Hyun (2003) concludes that taxpayers have the same degree of compliance regardless of their income levels, which can be interpreted as an evidence of the utility function with constant relative risk aversion.

The finding of the following scholars on the other hand reveals that wealthier citizens are more likely to evade their taxes since the level of absolute risk aversion decreases with income.

As cited by krichler et.al. (2007), Baldry (1987) finds higher income levels to be less compliant. According to Yitzhaki (1974) when underreporting is measured by the absolute amount of income concealed, a risk-averse individual experiencing an increase in his or her true income will underreport more. As cited by Krichler et.al. (2007), Alingham and Sandmo (1927, p. 329) conclude that "when actual income varies, the fraction of income declared increases, stay constant or decreases according as relative risk aversion is an increasing, constant or decreasing function of income''. Werner & Hannelore (1996) also found lower compliance among high income earners in archival data on Swiss taxpayers.

On the other hand, some scholars as cited by Krichler et.al (2007) found that low income level to be less compliant. For example, Fishlow and Friedman (1994) found decreased compliance at low income-levels in archival-empirical data from Argentina, Brazil and Chile. Alm, Jackson, and McKee (1992) based on their experiment conclude that compliance significantly increased with income.

Income sources

Keith (1990) claimed that the self-employed have a much greater opportunity to hide income than persons whose income is subject to tax withholding. Evasion opportunities are also heightened for citizens who have multiple sources of income and use several tax reporting schedules. Grant (2006) finds that if a country income is subject to withholding compliance with tax will increase.

Inflation

Crane and Nourzad (1986) as cited in Shih and Mei (2005) contend that inflation leads to tax evasion by decreasing the purchasing power of the nominal income; this results in taxpayers' non compliance with tax. Werner & Hannelore (1996) conclude that noncompliance is positively related to inflation

Occupation

As cited by Torgler (2006), the findings of Westat (1980b) shows that "white-collar" taxpayers have a higher non-compliant level overstating deductions, but "blue-collar" workers more often understate their income.

Torgler (2006) finds that 'People who are employed part-time, at home or retired have a higher tax morale than people employed full-time'.

2.3.1.4. Demographic Factors

Gender

With regard to the effect of gender on tax compliance different researchers found different results. Some of them found female are more compliant than men, others found the reverse, still others found that there is no difference between men and women with respect to tax compliance i.e. they have the same compliance attitude.

The results of Janne and Viswanath (2003) shows that women reported significantly higher income compared to men. In addition to this finding, the result of Chung and Trivedi (2003) suggests that women have higher tax ethics than men do. As cited by John and Peggy (2002), Baldry (1987) found females to be more compliant than males in an experimental tax setting. Torgler (2006) concludes that women have significantly higher tax morale women than men. As cited by Robert and Galina (2008), Akaah & Riordan (1989), Baird (1980); Brown and Choong (2005), Sims et al. (1996), have found that women are more ethical than men.

On the other hand results opposite to the above findings were found. As cited by John and Peggy (2002), the findings of Kirchler and Maciejovsky (2001), even though they note that the sample taken was not representative, reveals that men are more compliant than women. As cited by Robert and Sheldon, Barnett & Karson (1987); Weeks, Moore, McKinney & Longenecker (1999) found that men are more ethical than women

The finding of Jeyapalan and Hijattulah (2006), on the other hand, indicates that males and females have similar compliant attitude. As cited by Robert and Silvia, Roxas & Stoneback

(2004), Sikula & Costa (1994); Swaidan, et.al. (2006) found that statistically no significant difference was observed between men and women with regard to ethics.

Education

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. The scholars listed hereunder support this idea.

Grant (2006) finds that education is most important determinant of tax compliance. Similarly, Bismark (2011) finds that education has a positive and significant relation with compliance. Eriksen and Fallan (1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others' tax evasion. Kirchler, Hoelzl and Wahl (2008) argue that higher knowledge concerning taxes leads to higher compliance and poor knowledge concerning taxes leads to higher non-compliance. Gyun Park and Kwon Hyun (2003) also concluded that education is one of the effective tools to induce taxpayers to comply more. The result of Zelalem (2011) reveals that tax compliance is influenced by tax education. Lemessa (2007) in his study concludes that lack of awareness is the major and leading reason for tax non compliance. As cited by Torgler (2006), Lewis (1982) concludes that more educated taxpayers are more compliant because they are expected to know more about tax law and fiscal connections. Viswanath, Mohamed and Bernadette (2003) based on their experimental result; suggest that education with an emphasis on ethics, ethics of taxation specifically may improve tax compliance.

On the other hand, as cited by Torgler (2006), Geeroms and Wilmots (1985) conclude that 'More educated people may be less compliant because they better understand the opportunities for evasion. Furthermore, fiscal knowledge may also positively influence the practice of avoidance'.

Religiosity

As cited by Torgler (2006), Anderson and Tollison (1992) 'states that religious organizations provide moral constitutions for a society. Religion provides a certain level of enforcement to act in the lines of accepted rules and acts as a "supernatural police".

Torgler (2006), by using data from the World Values Survey (WVS, 1995–1997) and taking sample from more than 40 societies around the world finds that religiosity affects strongly tax morale even after controlling for factors as corruption, trustworthiness, age, economic situation, education, gender, marital status and employment status.

Steven and Augustine (2006), by analyzing data on 45,728 individuals in 36 nations from the World Values Surveys conclude that the higher the individual's level of religiosity, the lower the tax fraud acceptability.

2.4. Conclusion and Knowledge Gap

A determinant of tax compliance is studied in high concentration in developed countries like, Australia (Erich, et.al 2006), Switzerland (Werner & Hannelore, 1996), Europe (Torgler, 2011), Korea (Chang and Jin, 2003), Bulgaria (Georgi, 2008), Iran (Reza, et.al 2011), Malaysia (Mohd, 2010) and Germany (Torgler, 2007). There are a little works done in Africa like Kenya (Lumumba, et.al 2010), Nigeria (James, et.al 2011) and Ghana (Stephen, 2011).

While reviewing Ethiopia's case, the works done by Wubshet (2011) regarding 'Taxpayers' Perception towards Fairness: Personal Business Profit Taxpayers in Addis Ababa', by applying a mixed approach finds that taxpayers did not perceive positively in respect of general, vertical, personal, exchange, and administration fairness except horizontal fairness on the prevailing business profit tax system. Lemessa (2007) with a topic 'A Research Project on Determinants of Taxpayers' Voluntary Compliance With Taxation; The Case Study Of Dire Dawa City, by using descriptive method of research finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government are the main determinant of voluntary compliance in the city. Bisrat (2010) with the title 'an examination of the link between tax administration and value added tax compliance in Ethiopia' by using mixed method found that audit probabilities, the perceived fairness of VAT, and satisfactions with the service of the tax authority are the major determinants of tax compliance with VAT. Wollela (2009) her thesis was regarding 'Value added tax in Ethiopia: A study of operating costs and compliance'. By applying mixed method concludes that though compliance costs seem to be low, their repressiveness is likely to impact on the equity of the tax system as a whole. And the research done by Zelalem (2011) on 'The Influence of Tax Education on Tax Compliance Attitude', by using quantitative research approach concludes that the level of tax compliance is influenced by tax education.

While reviewing the related literatures, the findings of different scholars with regard to the effect of a specific determinant on tax compliance is not conclusive. This drew the researcher's attention. Additionally, as to the researcher knowledge, the researches done by different scholars did not incorporate different determinants of tax compliance. This also initiates the researcher to investigate the main determinants and how these determinants relate to tax compliance. Because knowing what determines taxpayers' compliance, is half part of the solution towards increasing tax revenue and at the same time, fills in our countries case the literature gap and internationally the knowledge gap.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

To obtain the advantages of both the qualitative and quantitative research approaches and at the same time to overcome their limitations, the mixed approach has been applied. As cited by Wollela 2009, Creswell (2003, p.15) noted that through a mixed methods approach, biases and weaknesses inherent in any single method could neutralize or cancel those of other methods.

As cited by Wollela 2009, mixed methods approach is one in which a researcher tends to base knowledge claims on pragmatic grounds employing strategies of inquiry that involve collecting both quantitative and qualitative data either concurrently or sequentially to best understand research problems (Creswell 2003, pp. 18-20).

3.2 Study Area

Jimma was founded by Aba Jifar, who was the descendant of one of the five kings in the former Gibe Kingdom. It is believed that Aba Megal, the ancestor of Aba Jifar, was elected by the other four Gibe kings to be their spokesman when dealing with the central government. No one really knows how the Aba Megal family became the 'representative' of the Gibe kings rather than only their spokesman. This gradually diminished the importance of the other four kings. (www.dinkneshethiopiatour.com, 2008)

Jimma is the largest town in southwestern Ethiopia. Located in the Jimma Zone of the Oromia Region, this town has a latitude and longitude of 7°40′N 36°50′E / 7.667°N 36.833°E / 7.667; 36.833. It was the capital of Kaffa Province until the province was dissolved.

Based on figures from the Central Statistical Agency in 2005, this town has an estimated total population of 159,009 of whom 80,897 were males and 78,112 were females. According to the 1994 national census, it had a population of 88,867 people. The 1994 census reported this town had a total population of 88,867 of whom 43,874 were males and 44,993 were females. Herbert S. Lewis states that in the early 1960s it was "the greatest market in all of southwestern Ethiopia. On a good day in the dry season it attracts up to thirty thousand people." Its northern suburb of Jiren was the capital of a large Oromo kingdom until the late nineteenth century. Originally named Hirmata, the city owed its importance in the 19th century to being located on the caravan route between Shewa and the Kingdom of Kaffa, as well as being only six miles from the palace of the king of Jimma. According to Donald Levine, in the early 1800s the market attracted thousands of people from neighboring regions. The present town was developed on the Awetu River by Italian colonialists in the 1930s (www.skyscrapercity.com, 2009).

3.3 Data Type and Source

In this study both primary and secondary data have been used. Primary data were the major source of data for the research as there are no research works done on determinants of taxpayers' compliance with taxation in Jimma town both empirically and theoretically. Secondary data also have their own contribution as they are helpful to define the research problem, methods that were used in data collection and analyses. Secondary data were collected from the town's tax authority data base and from other unpublished sources. These data include number of category 'B' taxpayers in each Kebele and their respective activities engaged in.

3.4 Sample, Sample Size and Sampling Techniques

The target population of the study is the category B taxpayers of Jimma town which are 1143 in number (source: Jimma town revenue bureau as to Nehasse 2003 E.C assessment). With alpha level of .05 which indicates the level of risk the researcher is willing to take that the true margin of error may exceed the acceptable margin of error, the following formula was used to determine the sample size.

$$n = \frac{t2 * p * q}{d2}$$

Where, t = value for selected alpha level of .025 in each tail = 1.96.

d = acceptable margin of error for proportion being estimated = .05

(p)(q) = estimate of variance = .25 (Taking p 0.5 gives the maximum sample size)

$$n = \frac{(1.96)2 * 0.5 * 0.5}{(0.05)2} = 384$$

However, since this sample size exceeds 5% of the population (1143*.05=58), Cochran's (1977) correction formula should be used to calculate the final sample size.

$$n1 = \frac{n}{1 + {}^{n}\!/_{population}} \qquad n1 = \frac{384}{1 + \frac{384}{1143}} = 288$$

Where, population size = 1143

n = required return sample size according to Cochran's formula= 384

n 1 = required return sample size because sample > 5% of population

Assuming response rate of 80%, a minimum drawn sample size of 360 will be used which is calculated as follows:

n 2 = 288/.80 = 360.

Where anticipated return rate = 80%.

Where n 2 = sample size adjusted for response rate.

Where minimum sample size (corrected) = 288.

The sampling method that has been used by the researcher is proportional stratified sampling which helps the sample size determination more representative, followed by random sampling from each strata. The category B taxpayers are stratified into trade (retailer and wholesaler), service sector and manufacturing (process) according to their field of work. Accordingly there are 756 traders, 266 service providers and 116 who are engaged in processing and manufacturing. Weight has been done to distribute the sample size determined to the three sectors based on the population of each activity. The calculation presented in the following table:

Table 3.1 Sample size distribution table

activity	No. of taxpayers	Weight	Strata (weight *sample size)
traders	756	66%	190
Service providers	266	*24%*	69
Manufacturing and process	116	10%	29
Total traders +service providers+ mfg= (target population)	756+266+116=1143	66%+24%+10%=100%	190+69+29=288 (sample size)

Source: Jimma town revenue bureau and researcher's computation

After the sample size is stratified in the activities of taxpayers engaged in, respondents were selected randomly from each strata as the strata consists of homogeneous respondents this technique is appropriate and representative to conclude the findings to the population.

Based on the above weight the questionnaires were distributed to the respondents: returned and not returned have been presented in the following table:

Table 3.2 Sample size, returned Questionnaires and non-returned Questionnaires

activity	Sample	Returned	Non returned
traders	190	168	22
Service providers	69	51	18
Manufacturing and process	29	21	8
Total	288	240	48

Source: Jimma town revenue bureau and researcher's computation

3.5 Method of Data Collection

In this research self-administered questionnaires were used to collect primary data. The self-administered questionnaires were used to get detail information from sample taxpayers of Jimma town. The questionnaire has two parts. In the first section regarding the general characteristics of taxpayers were asked. In the next section questions which can help to measure the compliance level of taxpayers and which can help to identify and analyze the main determinants of tax compliance and the relationship between these determinants and tax compliance were included. The questionnaire was translated into Amharic by taking into consideration the fact that English is not the language of the respondents. Secondary data were collected from the city's tax authority database or unpublished sources. This data includes number of category 'B' taxpayers in each Kebele and their respective activities engaged which helps for stratification of taxpayers with respect to their activities.

3.6 Description of Variables

To test the hypotheses, the data was analyzed using Binary Logistic Regression and Pearson Correlation Matrix. Equation 1 was used as the base regression models to test the hypotheses and establish the tax compliance determinants. The model is adopted from Mohd and Ahmad, 2011 with modification in a manner that can incorporate the determinants which are analyzed by the study. Without using this model by using the average prevalence the level of compliance can be correctly predicted 61%: after using this regression model the prediction improves the performance of prediction in to 80%. Binary logistic regression is used because the result of dependent variable (compliance) is dichotomous (comply or otherwise). Pearson correlation depicts that there is no multi-colinearity among the variables.

$$COMP\ i = \alpha 0 + \beta 1\ TAXR + \beta 2\ PRODET + \beta 3\ PENR + \beta 4\ TAXCOMPLX + \beta 5\ TRUSTOFFI + \beta 6\ FAIR + \beta 7\ PREGOVS + \beta 8\ REFGR + \beta 9\ EDUC + \varepsilon i \ldots \qquad (Equation\ 1)$$

Where,

COMP = Compliance (Dependent variable)

TAXR= Tax rate

PRODET= Probability of detection

PENR = Penalty rate

TAXCOMPLX= Complexity of tax system

TRUSTOFFI = Trust in public officials

FAIR = Fairness of tax system

PREGOVS = Perception to government spending

REFGR = Reference group

EDUC= Education/ tax knowledge

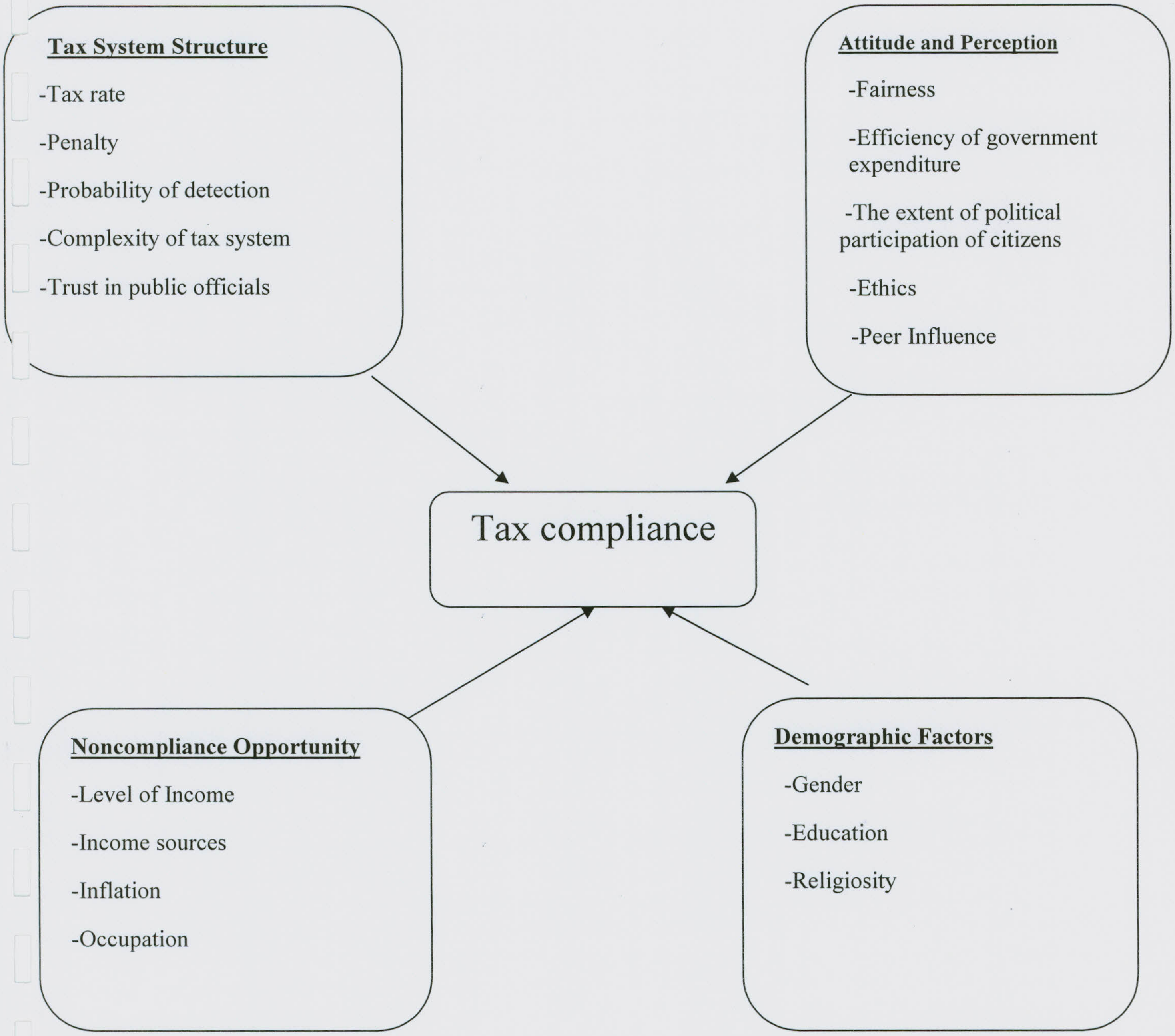
Table 3.3 Description of Variables

		Study variables		
Symbol	***variable***	***Unit***	***Expected sign***	***Source***
COMP	Compliance (Dependent variable)	Total score was derived through a set of 3 questions. Maximum total score for each respondent is 21 (7 mark times 3 questions) and Minimum total score is 3 (1 times 3 questions). A score less than or equal to 9 was categorized as comply and coded as 1.	1-comply 0-otherwise	Survey data, 2013
TAXR	Tax rate	Tax rate (high score heavy tax)	negative	Allingham and Sandmo (1972); Bismark (2011); Feinstein, (1991) and Alm et al. (1993)
PRODET	Probability	Probability of detection is high	positive	Bismark (2011); Allingham and

	of detection			Sandmo (1972); Werner & Hannelore (1996);
PENR	Penalty rate	penalty rate heavy/severe	positive	Park and Hyun (2003); Chang and Jin (2003); Allingham and Sandmo (1972)
TAXCOMPLX	Complexity of tax system	Tax system is easy to understand	negative	Torgler and Schaffner 2007; Erich, et.al (2006); Grant (2006); Reza, et.al (2011)
TRUSTOFFI	Trust in public officials	Trust in public officials high	positive	Torgler (2011); Torgler and Schaffner (2007)
FAIR	Fairness of tax system	Taxpayers' perception on the fairness of the tax system. Tax system is fair high	positive	Grant (2006); Lemessa (2007); Bordignon (1993); Viswanath, et.al (2003); Smatrakalev (2008)
PREGOVS	perception to government spending	Taxpayers' perception of how the government spends taxpayers' money or redistributes the tax collection. Perception on government spending is positive	positive	Ying and Teng(2005); Fjeldstad (2004); Bordignon (1993); Pommerehne et al. (1994)
REFGR	Reference group	The role of referral group, for example, family members and closed friends in determining taxpayers' decision either to comply or not to comply. If there is negative perception towards others i.e. others are not comply with the tax rules	negative	Chung and Trivedi (2003); Viswanath, et.al (2003); Torgler (2011)
EDUC	Education	Tax knowledge is high	positive	Bismark (2011); Grant (2006); Eriksen and Fallan (1996); Kirchler, Hoelzl and Wahl (2008) ; Gyun and Kwon (2003); Zelalem (2011); Lemessa (2007)

The model was adopted from Mohd and Ahmad (2011), with modification in a manner that can help to include the different determinants and their respective descriptions of the variables.

3.7 Conceptual Framework



Source: Adopted from Fischer's Model of tax compliance with modification

3.8 Method of Analysis and Presentation

To analyze the determinants of taxpayers' compliance with taxation in Jimma town, specifically category B taxpayers', descriptive statistics and multiple regression analysis were used. Three questions were asked in the questionnaire to measure the compliance level of the respondents which have a seven likert scale starting from one (strongly disagree) up to seven (strongly agree). In order to implement the answers given by the respondents, from one up to three were regarded compliant (coded as 1), respondents who respond from four up to seven otherwise (coded as 0).

After having collected the relevant data from primary sources, the data were edited, coded and finally entered into a computer and were processed using Statistical Package for Social Scientists (SPSS) version 16.0 software for windows.

Finally, descriptive statistical tools like tables, figures, charts and graphs were used to classify and present the major findings of the study.

CHAPTER FOUR

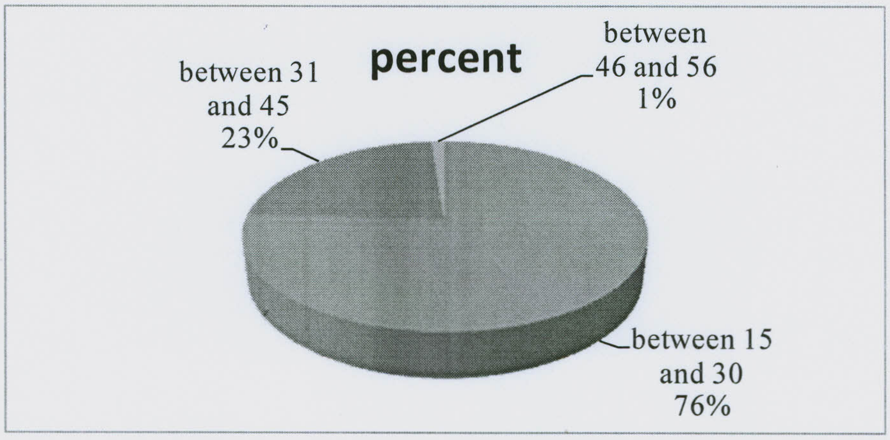
4. DATA ANALYSIS AND PRESENTATION

The next stage involves data analysis and presentation. To achieve the objectives of the study which were discussed in the introduction part (that is, to identify the determinants of tax compliance and how these determinants relate with tax compliance) a questionnaire was prepared to category B tax payers of Jimma town. By considering 80% return rate a total of 360 questionnaires were distributed to these taxpayers out of whom 240 were returned filled completely and properly. This constitutes 83.3% (240/288) response rate which is enough to represent the population as well as to generalize the findings to the entire population (category B taxpayers).

The data collection instrument used in this study is attached under Appendix 1 of this paper.

4.1 General Attribute of Respondents

Figure 1: Age of Respondents



Source: Research survey, 2013

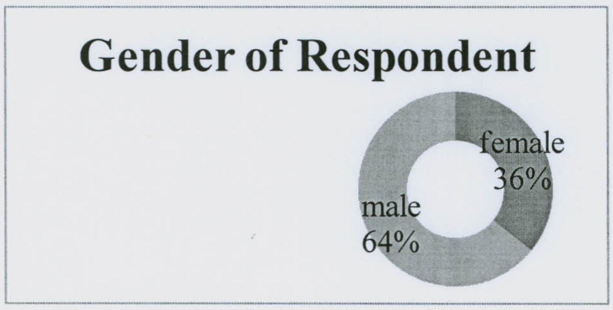
The age composition, as depicted in figure 1 above, shows that majority (76%) of the respondents were under the age group between 15 and 30 years, 23% of the respondents were between 31 and 45 years and the remaining 1% were under the age between 46 and 56 years. When analyzing the age relationship with tax compliance as displayed in table 4.1.1, those taxpayers in the age bracket from 31 to 45 years were found to be more compliant (89%) than the other age brackets (51%).

Table 4.1.1: Age of respondents and level of compliance

		Tax Compliance Category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
Age of respondent	Between 15 and 30	88	48.4	94	51.6	182	100.0
	Between 31 and 45	6	10.9	49	89.1	55	100.0
	Between 46 and 56	-	-	3	100.0	3	100.0
	Total	94	39.2	146	60.8	240	100.0

Source: *research survey, 2013*

Figure 2: Gender of Respondents



***Source**: Research survey, 2013*

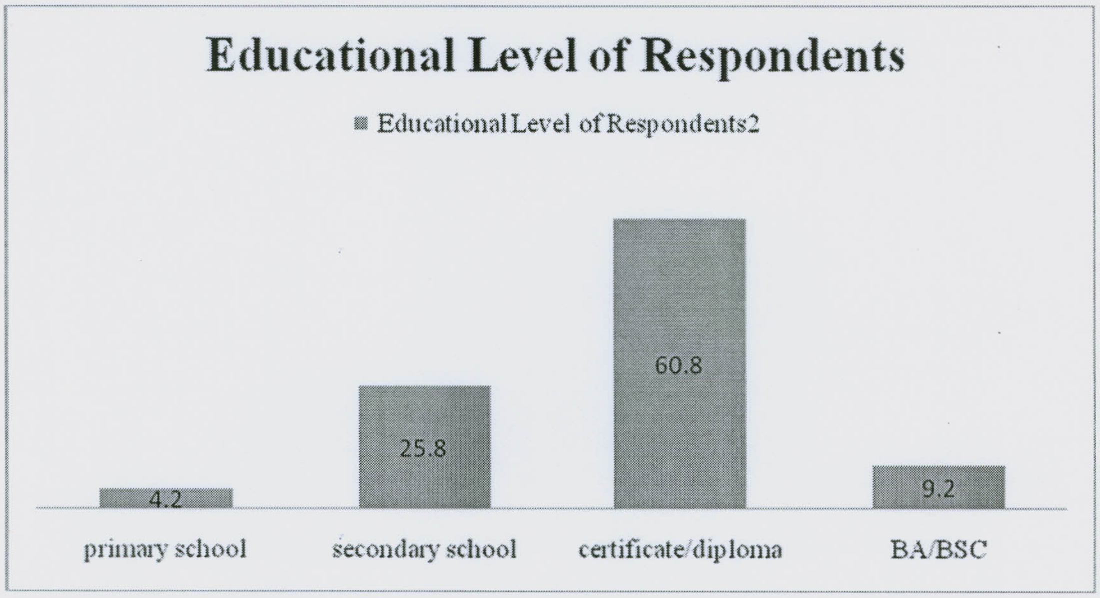
Above half of the respondents were found to be male constituting 64% and the remaining 36% were female respondents. Gender wise compliance level (see table 4.1.2) shows that male respondents were slightly more compliant than female (62% male Vs 58% female) when compared to the average (60.8%).

Table 4.1.2 Gender of respondents and level of compliance

		tax compliance category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
gender of respondent	female	36	41.9	50	58.1	86	100.0
	male	58	37.7	96	62.3	154	100.0
	Total	94	39.2	146	60.8	240	100.0

***Source**: Research survey, 2013*

Figure 3: Educational Level of Respondents



***Source**: Research survey, 2013*

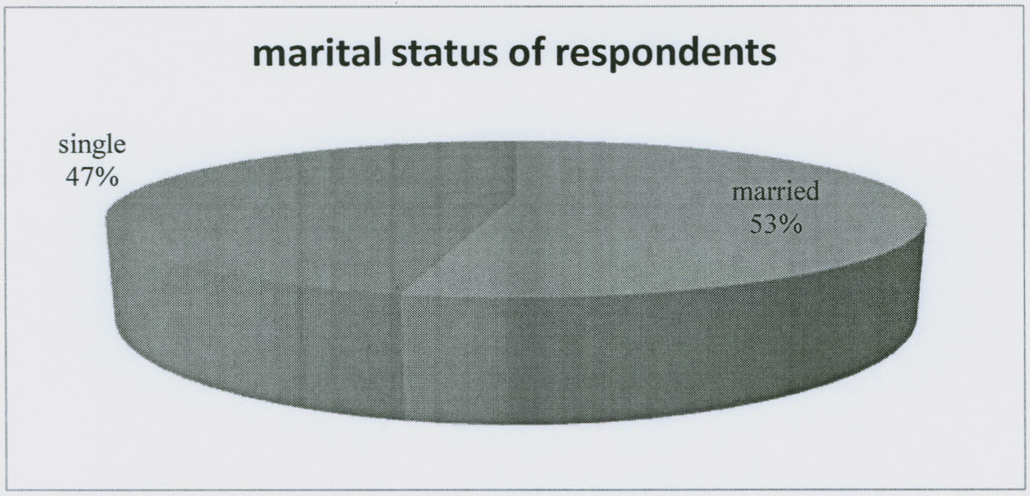
With respect to the education level of respondents', great majority (91%) of the respondents were certificate and/or diploma holders, and only 9% were BA/BSc holders. The level of Compliance education wise as displayed in table 4.1.3 shows primary school holders and BA/BSc holders were found 100% compliant, followed by secondary school holders who were found compliant (77% which is above the average compliance level 60.8%), certificate/diploma holders on the other hand, were found to be less compliant 45% which is below the average level (60.8%)

Table 4.1.3 Educational level and level of compliance

		tax compliance category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
educational level	primary school	-	-	10	100.0	10	100.0
	secondary school	14	22.6	48	77.4	62	100.0
	certificate/diploma	80	54.8	66	45.2	146	100.0
	BA/BSc	-	-	22	100.0	22	100.0
	Total	94	39.2	146	60.8	240	100.0

Source: *Research survey, 2013*

Figure 4: Marital Status of Respondents



***Source**: Research survey, 2013*

The marital status of respondents shows that 53% were married and the rest 47% were found to be single. Single respondents were found more compliant than married respondents from the sample (married 65%, single 57%) as compared to the average (60.8%)

Table 4.1.4: Marital status and level of compliance

		Tax Compliance Category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
marital status	Married	55	43.0	73	57.0	128	100.0
	Single	39	34.8	73	65.2	112	100.0
	Total	94	39.2	146	60.8	240	100.0

***Source**: Research survey, 2013*

Table 4.1.5: Reasons for Paying Taxes

		No.	%
Valid	To avoid disturbances	19	8.1
	Anticipating of public services	174	74.4
	It is an obligation towards the gov't	41	17.5
	Total	234	100.0

Source: *Research survey, 2013*

To analyze the reason of paying tax, respondents were asked: accordingly 74% responded that they pay tax in the anticipation of public service, 17% of the respondents, on the other hand, confirmed that they pay tax because it is an obligation imposed by the government; and the rest 8% indicated that they pay taxes to avoid disturbance. Those taxpayers paying their tax liability anticipating public service were found to be more compliant (87%) than those paying because it is an obligation towards the government (11%).

Table 4.1.6: Reasons for paying tax and compliance level

		tax compliance category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
Why do you pay taxes?	To avoid disturbances	19	20.2	-	-	19	8.1
	Anticipating of public services	50	53.2	124	88.6	174	74.4
	It is an obligation towards the gov't	25	26.6	16	11.4	41	17.5
	Total	94	100.0	140	100.0	234	100.0

Source: *Research survey, 2013*

Table 4.1.7: Frequency of Attending Education Session

		Frequency	%
How often you are attending education sessions about taxation?	Once a year	46	19.2
	Twice a year	46	19.2
	Three times per year	11	4.6
	Above three times per year	55	22.9
	Not at all	82	34.2
	Total	240	100.0

***Source**: Research survey, 2013*

Respondents were asked how often they attend education sessions about taxation. Accordingly, the majority of the taxpayers (34%) were responded that they did not attend at all, 23% of the respondents indicate that they attend above three times a year, 19.2%, 19.2% and 4.6 % of the respondents confirmed that they attended the training session once a year, twice a year and three times a year respectively. As one can see from table 4.1.8 below, those taxpayers who were attending the tax education session above three times were found to be more compliant (34%). This might be due to the reason that those who know more about tax comply may be due to awareness.

Table 4.1.8: Frequency of attending education on taxation and level of compliance

		tax compliance category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
How often you are attending education sessions about taxation?	Once a year	25	26.6	21	14.4	46	19.2
	Twice a year	27	28.7	19	13.0	46	19.2
	Three times a year	-	-	11	7.5	11	4.6
	Above three times a year	6	6.4	49	33.6	55	22.9
	Not at all	36	38.3	46	31.5	82	34.2
	Total	94	100.0	146	100.0	240	100.0

Source: *Research survey, 2013*

Table 4.1.9: Frequency of audits conducted by the tax authority

		Frequency	Valid %
Valid	One time	94	40.2
	Two times	21	9.0
	Three times	20	8.5
	More than three times	18	7.7
	Not still	81	34.6
	Total	234	100.0

Source: *Research survey, 2013*

Respondents were asked about how often they were audited by the tax authority, as shown in table 4.1.9 above, the majority of the taxpayers responded that they were audited one time (40%) followed by 35% of the respondents who indicated that they were not at all inspected or audited by the tax authority. This is a clear indication of the weakness of tax authority which should be given an emphasis. To analyze the compliance level (from Table 4.1.10 below) of those were audited and those who were not audited; those who were not audited were found to be more compliant and this is evidenced by 37% of the respondents followed by those who were audited once a year which represents 32%. However, those who were audited more than one time a year were found to be less compliant.

Table 4.1.10: Frequency of Audits by Tax Authority and Level of Compliance

		Tax Compliance Category					
		Otherwise		Comply		Total	
		No	%	No	%	No	%
How many times in a particular year you have been audited or investigated by tax authority?	One time	49	52.1	45	32.1	94	40.2
	Two times	16	17.0	5	3.6	21	9.0
	Three times	-	-	20	14.3	20	8.5
	More than three times	-	-	18	12.9	18	7.7
	Not still	29	30.9	52	37.1	81	34.6
	Total	94	100.0	140	100.0	234	100.0

***Source**: Research survey, 2013*

Tax rate

Table 4.1.11: Heavy tax rate

	Frequency	Percent	Cumulative Percent
Strongly Disagree	59	24.6	24.6
Disagree	113	47.1	71.7
Moderately disagree	13	5.4	77.1
Neutral	14	5.8	82.9
Moderately agree	16	6.7	89.6
Agree	19	7.9	97.5

***Source**: Research survey, 2013*

Respondents were asked whether they believe that the existing tax rate is heavy. Accordingly, great majority of the respondents (77%) were disagreed, around 6% neutral and the remaining 17% agreed that the existing tax rate is heavy and unaffordable by the taxpayers. This implies that the existing tax system of the town perceived by the taxpayers which is good news for the tax authority because this perception may help to increase the level of compliance of taxpayers which in turn helps to increase the revenue collected from taxpayers by decreasing the collection cost.

Table 4.1.12: Tax rate is not fair and equitable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	40	16.7	17.2	17.2
	Disagree	46	19.2	19.8	37.1
	Moderately disagree	17	7.1	7.3	44.4
	Neutral	12	5.0	5.2	49.6
	Moderately agree	9	3.8	3.9	53.4
	Agree	22	9.2	9.5	62.9
	Strongly agree	86	35.8	37.1	100.0

Source: *Research survey, 2013*

With regard to the fairness and equitability of the tax rate 44% of the respondents agree that there is fair and equitable tax rate, 5% neutral and the remaining 50% reply that the existing tax rate is not fair and equitable.

Probability of detection

Table 4.1.13: If the probability of detection is high, compliance will increase

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	52	21.7	22.5	22.5
	Disagree	56	23.3	24.2	46.8
	Moderately disagree	26	10.8	11.3	58.0
	Neutral	10	4.2	4.3	62.3
	Moderately agree	22	9.2	9.5	71.9
	Agree	56	23.3	24.2	96.1
	Strongly agree	9	3.8	3.9	100.0
Total		240	100.0		

***Source**: Research survey, 2013*

Respondents were asked whether the probability of detection influences the level of compliance. Hence, above half (58%) of the respondents disagreed with the concept that, the level of compliance increases if there is high probability of detection. 4% of the respondents were neutral to this concept and the remaining 38% of the respondents agreed with the concept that if the probability of detection is high compliance will increase.

Table 4.1.14: There is high degree of being detected for nonpayment of tax that is why I pay my tax obligation.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	54	22.5	23.3	23.3
	Disagree	35	14.6	15.1	38.4
	Moderately disagree	42	17.5	18.1	56.5
	Neutral	22	9.2	9.5	65.9
	Moderately agree	11	4.6	4.7	70.7
	Agree	56	23.3	24.1	94.8
	Strongly agree	12	5.0	5.2	100.0
Total		240	100.0		

Source: *Research survey, 2013*

With regard to the probability of detection; most of the respondents (57%) indicated that even though there might be high probability of detection for nonpayment of tax, they did not comply with the tax rules and regulation in fear of detection. They believe that taxpayers should comply voluntarily rather than in fear of probability of detection. This implies that tax authority and other responsible bodies should work to enhance voluntary compliance by using different awareness creation programs. On the other hand, 35% of the respondents agreed that they pay their tax obligation because there is high degree of being detected for nonpayment of tax.

Penalty rate

Table 4.1.15: As the penalty on tax evasion is severe compliance will increase.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	26	10.8	11.1	11.1
	Disagree	30	12.5	12.8	23.8
	Moderately disagree	10	4.2	4.3	28.1
	Neutral	18	7.5	7.7	35.7
	Moderately agree	47	19.6	20.0	55.7
	Agree	81	33.8	34.5	90.2
	Strongly agree	23	9.6	9.8	100.0
Total		240	100.0		

Source: *Research survey, 2013*

To see whether severe penalty rate for tax evasion results in high compliance, respondents were asked; 65% of them were agreed that if the penalties imposed when an evasion is detected are so severe, compliance will increase. 8% of them were neutral and the remaining 28% believe that if the penalty imposed when an evasion is detected is so severe compliance will decrease. This gives a direction for the tax authority that the severity of penalty imposed on any tax evasion has a positive impact on the level of compliance.

Table 4.1.16: The penalty that taxpayers have paid in the past affect the amount of tax that they are reporting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	12	5.0	5.3	5.3
	Disagree	23	9.6	10.1	15.4
	Moderately disagree	29	12.1	12.7	28.1
	Neutral	31	12.9	13.6	41.7
	Moderately agree	47	19.6	20.6	62.3
	Agree	86	35.8	37.7	100.0
Total		240	100.0		

Source: *Research survey, 2013*

Respondents were asked if the penalty paid by taxpayers in the past has any impact on the amount of income they are reporting in the current year. Accordingly, 60% of the respondents agreed that the penalty that taxpayers have paid in the past affect the amount of tax that they are reporting. 14% of them were neutral and the remaining 28% disagree with this concept. This shows that that if one taxpayer is penalized severely for any non compliance in the past, this increases the amount of income reported in the current year that means the level of compliance will increase.

Table 4.1.17: The penalty rate and enforcement undertaken by the tax authority is high which results in high compliance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	32	13.3	13.7	13.7
	Disagree	17	7.1	7.3	20.9
	Moderately disagree	34	14.2	14.5	35.5
	Neutral	18	7.5	7.7	43.2
	Moderately agree	53	22.1	22.6	65.8
	Agree	75	31.2	32.1	97.9
	Strongly agree	5	2.1	2.1	100.0
Total		240	100.0		

Respondents were asked whether the penalty rate and enforcement undertaken by the tax authority is high and whether this results in high compliance. Hence, 57% of the respondents agreed that the penalty rate and enforcement undertaken by the tax authority is high and this results in high compliance; 35% of them disagreed with this and the remaining 8% of them were neutral.

Complexity of tax system

Table 4.1.18: Ease and understandability of tax laws enhance tax compliance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	7	2.9	2.9	2.9
	Moderately disagree	10	4.2	4.2	7.1
	neutral	24	10.0	10.0	17.1
	moderately agree	48	20.0	20.0	37.1
	agree	135	56.2	56.2	93.3
	strongly agree	16	6.7	6.7	100.0
	Total	240	100.0	100.0	

Source: *Research survey, 2013*

Respondents were asked whether the tax laws are easy to understand and whether this results in high compliance. Accordingly, great majority (83%) of them agreed that the tax rules and regulations are easy to understand and this enhances compliance. 10% of them remain neutral and the rest 7% of the respondents disagreed with the idea of easy understanding of the tax laws.

Table 4.1.19: I know all what is required from me in respect of my tax obligations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	24	10	10.3	10.3
	disagree	12	5	5.1	15.4
	moderately disagree	12	5	5.1	20.5
	moderately agree	30	12.5	12.8	33.3
	agree	103	42.9	44	77.4
	strongly agree	53	22.1	22.6	100
Total		240	100		

Source: *Research survey, 2013*

Respondents were asked whether they know what is required from them in respect of tax obligation. Thus, 80% of them agreed that they know all the obligations which is required from them, 20% of the respondents reply that they did not know all what is required from them in respect of tax obligation.

Table 4.1.20: The procedure is less tedious to maintain the relevant record for the whole year for tax purpose.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	27	11.2	11.5	11.5
	disagree	102	42.5	43.4	54.9
	moderately disagree	25	10.4	10.6	65.5
	neutral	20	8.3	8.5	74.0
	moderately agree	4	1.7	1.7	75.7
	agree	39	16.2	16.6	92.3
	strongly agree	18	7.5	7.7	100.0
Total		240	100.0		

Source: *Research survey, 2013*

With regard to the procedures to maintain all relevant records for tax purpose, above half (65%) of the respondents agreed that they found tedious the procedures and to maintain all relevant records for tax purpose. 9% of the respondents were neutral and the remaining 26% of the respondents agreed that the procedures and maintenance of relevant records are less tedious.

Trust in public officials

Table 4.1.21: The integrity of employees in the tax authority enhances tax payers' compliance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	43	17.9	17.9	17.9
	disagree	84	35.0	35.0	52.9
	moderately disagree	39	16.2	16.2	69.2
	neutral	33	13.8	13.8	82.9
	moderately agree	23	9.6	9.6	92.5
	agree	18	7.5	7.5	100.0
	Total	240	100.0	100.0	

Source: *Research survey, 2013*

To analyze the effect of trust in public officials on the level of compliance respondents were asked but unfortunately around 70% of the respondents replied that they do not have confidence on the employees of tax authority which in turn affects the compliance level of taxpayers, 14% were neutral and the remaining 16% of the respondents have a confidence on the employees of tax authority of the town. This implies that having a confidence on the officials has a great impact on the level of compliance, so the tax authority and any other responsible parties should give an emphasis to this area by preparing different programs which can divert the perception of the taxpayers and increase the confidence on them.

Table 4.1.22: Compliance is heightened by the perception that personnel of the service are not enriching themselves at the expense of the service and the traders.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	11	4.6	4.7	4.7
	disagree	32	13.3	13.7	18.4
	moderately disagree	3	1.2	1.3	19.7
	neutral	55	22.9	23.5	43.2
	moderately agree	14	5.8	6.0	49.1
	agree	75	31.2	32.1	81.2
	strongly agree	44	18.3	18.8	100.0
Total		240	100.0		

Source: *Research survey, 2013*

Above half of the respondents believe that compliance increases when taxpayers perceive that the personnel of tax authority are not enriching themselves at the expense of the service and traders. 24% remain neutral with regard to this concept and the remaining 20% disagreed with this concept.

Table 4.1.23: I can depend on the employees of tax authority to keep accurate tax records.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	25	10.4	10.8	10.8
	disagree	49	20.4	21.2	32.0
	moderately disagree	15	6.2	6.5	38.5
	neutral	18	7.5	7.8	46.3
	moderately agree	45	18.8	19.5	65.8
	agree	45	18.8	19.5	85.3
	strongly agree	34	14.2	14.7	100.0
Total		240	100.0		

Source: *Research survey, 2013*

Whether they can depend on the employees of tax authority to keep accurate tax records; 54% of the respondents responded positively, that means they depend on the employees of the tax authority, 39% of the respondents on the other hand responded that they did not depend on the employees of the tax authority and the remaining 7% preferred to be neutral in this regard.

Table 4.1.24: Employees of the tax authority are just as knowledgeable as any private tax expert.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	38	15.8	16.2	16.2
	disagree	84	35.0	35.7	51.9
	moderately disagree	21	8.8	8.9	60.9
	neutral	30	12.5	12.8	73.6
	moderately agree	45	18.8	19.1	92.8
	agree	11	4.6	4.7	97.4
	strongly agree	6	2.5	2.6	100.0
Total		240	100.0		

Source: *Research survey, 2013*

As table 4.1.24 shows, 61% of the respondents believed that the employees of the tax authority are just as knowledgeable as private tax expert; this may help to increase the confidence as well as the compliance level of taxpayers. On the other hand, 26% of them did not believe on this and the remaining 13% of them are neutral.

Fairness

Table 4.1.25: The present tax system benefits all and is fair to the ordinary working man or woman, this encourages tax compliance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	68	28.3	28.9	28.9
	disagree	58	24.2	24.7	53.6
	moderately disagree	11	4.6	4.7	58.3
	neutral	16	6.7	6.8	65.1
	moderately agree	13	5.4	5.5	70.6
	agree	42	17.5	17.9	88.5
	strongly agree	27	11.2	11.5	100.0
Total		240	100.0		

Source: *Research survey, 2013*

Regarding the fairness of the present tax system respondents were asked. Accordingly, around 60% of the respondents believed that the existing tax system is not fair and benefits only the rich and this discourages tax compliance. This implies that majority of the taxpayers perceived that the tax system is not fair which discourages the level of compliance. On the other hand, 35% of them agreed that the existing tax system is fair and benefits all and this encourages tax compliance. The remaining 5% of the respondents neither agreed nor disagreed with the fairness of taxation system of the town.

Table 4.1.26: The existing tax system is fair and just.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	60	25.0	25.4	25.4
	disagree	76	31.7	32.2	57.6
	moderately disagree	14	5.8	5.9	63.6
	neutral	18	7.5	7.6	71.2
	moderately agree	27	11.2	11.4	82.6
	agree	25	10.4	10.6	93.2
	strongly agree	16	6.7	6.8	100.0
Total		240	100.0		

Source: *Research survey, 2013*

Respondents were asked if they feel justice with the existing tax system accordingly 64% of them did not feel that the existing tax system is fair, 29% of them agree that they feel justice with the existing tax system and the remaining 7% were neutral in this regard.

Efficiency of Government Expenditure

Table 4.1.27: The composition of public spending provides necessary goods and services that the market does not provide this encourages tax compliance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	40	16.7	16.7	16.7
	disagree	59	24.6	24.6	41.2
	moderately disagree	34	14.2	14.2	55.4
	neutral	18	7.5	7.5	62.9
	moderately agree	54	22.5	22.5	85.4
	agree	25	10.4	10.4	95.8
	strongly agree	10	4.2	4.2	100.0
	Total	240	100.0	100.0	

Source: *Research survey, 2013*

To see the effect of efficiency of public spending on the level of compliance respondents were asked. Accordingly, 56% of the respondents believed that since the government does not spend money on providing public goods which cannot be availed in the market, the compliance level of taxpayers will decrease. 37% of them agreed that the government is spending on providing public goods and this enhances compliance.

Table 4.1.28: It's so much wrong to hold back a little bit of taxes since the government is not spending too much anyway.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	9	3.8	3.8	3.8
	moderately disagree	6	2.5	2.5	6.2
	neutral	16	6.7	6.7	12.9
	moderately agree	15	6.2	6.2	19.2
	agree	98	40.8	40.8	60.0
	strongly agree	96	40.0	40.0	100.0

Table 4.1.28: It's so much wrong to hold back a little bit of taxes since the government is not spending too much anyway.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	9	3.8	3.8	3.8
	moderately disagree	6	2.5	2.5	6.2
	neutral	16	6.7	6.7	12.9
	moderately agree	15	6.2	6.2	19.2
	agree	98	40.8	40.8	60.0
	strongly agree	96	40.0	40.0	100.0
	Total	240	100.0	100.0	

Source: *Research survey, 2013*

With regard to the spending level of government, 81% of respondents believed that taxpayers should comply with the tax rules and regulations if the government is not spending too much money anyway, 6% of them did not agree and the rest 7% of them remain neutral.

Table 4.1.29: Tax non compliance is unethical even if most of the money collected is not spent wisely.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	3	1.2	1.3	1.3
	neutral	31	12.9	13.1	14.4
	moderately agree	15	6.2	6.4	20.8
	agree	86	35.8	36.4	57.2
	strongly agree	101	42.1	42.8	100.0
Total		240	100.0		

Source: Research survey, 2013

Respondents were asked what if the government spends the collected money unwisely, majority of the respondents (86%) reply that tax evasion is unethical even if most of the money collected is not spent wisely by the government.

Peer influence

Table 4.1.30: Tax evasion is not immoral if everyone is doing it.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	123	51.2	52.6	52.6
	disagree	80	33.3	34.2	86.8
	neutral	19	7.9	8.1	94.9
	agree	6	2.5	2.6	97.4
	strongly agree	6	2.5	2.6	100.0
Total		240	100.0		

Source: *Research survey, 2013*

To investigate the effect of families and close friends' on compliance level respondents were asked. Hence 87% of them believed that tax evasion is immoral even if everyone is doing it; 5% of them believed that tax evasion is not immoral if everyone is evading tax.

Table 4.1.31: I believe that my neighbors are not reporting and paying tax honestly so that I do not comply.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	9	3.8	3.9	3.9
	disagree	35	14.6	15.2	19.1
	moderately disagree	9	3.8	3.9	23.0
	neutral	26	10.8	11.3	34.3
	moderately agree	24	10.0	10.4	44.8
	agree	59	24.6	25.7	70.4
	strongly agree	68	28.3	29.6	100.0
Total		240	100.0		

Source: *Research survey, 2013*

Most of the respondents (66%) believed that taxpayers did not comply because they believe that their neighbors are not reporting and paying tax honestly; 23% on the other hand did not believe on this. The remaining 11% were neutral.

Table 4.1.32: Friends and family will affect taxpayers' decision to comply or not.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	44	18.3	18.7	18.7
	disagree	57	23.8	24.3	43.0
	moderately disagree	3	1.2	1.3	44.3
	neutral	26	10.8	11.1	55.3
	moderately agree	24	10.0	10.2	65.5
	agree	47	19.6	20.0	85.5
	strongly agree	34	14.2	14.5	100.0
Total		240	100.0		

Source: Research survey, 2013

45% of the respondents believed that friends and families have an effect on the decision to comply or not, where as 44% of the respondents replied that family and friends have no effect on taxpayers decision to comply or not and the remaining 11% of the respondents were neutral.

Tax knowledge

Table 4.1.33: It is so wrong to underreport certain income since it does really hurt everyone

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	8	3.3	3.4	3.4
	moderately disagree	11	4.6	4.6	8.0
	neutral	10	4.2	4.2	12.2
	moderately agree	10	4.2	4.2	16.5
	agree	109	45.4	46.0	62.4
	strongly agree	89	37.1	37.6	100.0
Total		240	100.0		

Source: *Research survey, 2013*

To investigate the knowledge of taxpayers, respondents were asked; accordingly 88% of the respondents believed that underreporting of certain income really hearts everyone, 5% of them disagreed with this and the rest 12% remain neutral.

Table 4.1.34: I have fairly a good knowledge of what cause a penalty and fines this helps me to comply

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	15	6.2	6.5	6.5
	disagree	27	11.2	11.7	18.2
	moderately disagree	20	8.3	8.7	26.8
	neutral	16	6.7	6.9	33.8
	moderately agree	22	9.2	9.5	43.3
	agree	82	34.2	35.5	78.8
	strongly agree	49	20.4	21.2	100.0
Total		240	100.0		

Source: *Research survey, 2013*

To see the effect of tax knowledge on tax compliance, respondents were asked. Accordingly, 66% of them agreed that they have fairly a good knowledge of what cause a penalty and fines and this helps them to comply with the tax rules and regulations, whereas 27% of them disagreed that tax knowledge helps to increase tax compliance and the rest 7% were neutral to this question.

Lastly, respondents were asked to list out any determinant which they think affects the compliance level of taxpayer. Generally the following were forwarded:

The government should spend the collected money on the development of the country, let the society get these advantages which are provided by the government equally and sense the fruit of their payment on their country and own self.

Officials of the tax authority are not ready to serve the taxpayers properly, when they asses they are biased by different factors: so, there must be a system which help to asses as well as the employees should be given training and should be free from corruption.

There must be an awareness creation programs through use of different mechanisms like Medias, training sessions and panel discussions in order to enhance the awareness of tax payers which will in turn increase voluntary compliance.

Respondents are complaining that the taxation system is not fair and is not based on the ability of the taxpayer and they suggested that the system should be fair and based on the ability to pay of the taxpayer.

The tax authority is imposing a higher penalty for any non compliance, as the respondents' suggestion, this discourages taxpayers to pay their obligation voluntarily and opens the road to find loopholes to evade if there is any possibility to do so. The tax authority should work to make the taxpayer comply voluntarily by different mechanisms.

Many taxpayers are not satisfied with the current taxation system which is based on assessment; they recommend the tax authority to introduce modern and effective collection system which saves the time of the taxpayer as well as the tax authority.

4.2 Econometrics Analysis

Table 4.2.1: Pearson correlation matrix for dependent (COMP) and independent variables

		1	2	3	4	5	6	7	8	9	10
1	tax compliance	1									
2	tax rate	-0.23**	1								
3	probability of detection	-0.25**	-0.058	1							
4	penalty rate	-0.43**	0.114	.132*	1						
5	complexity of tax system	-0.02	-.193**	.200**	-0.005	1	.				
6	trust in public officials	-0.019	.179**	-0.015	.207**	.140*	1				
7	fairness	.216**	-.333**	.260**	-0.035	0.005	0.007	1			
8	perception on gov't spending	-0.109	-.518**	0.068	0.06	.157*	-0.04	.291**	1		
9	reference group	-.503**	.274**	0.106	.357**	0.017	0.084	-.558**	-0.11	1	
10	tax knowledge	-.233**	-.465**	-0.08	-0.033	.403**	0.063	-0.11	.375**	0.01	1

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

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.2.1 above illustrates the Pearson correlation matrix for dependent and independent variables. Based on Table 4.2.1, which provides results of tax compliance determinants in which tax rate, probability of detection, penalty rate, fairness, reference group, and tax knowledge were found to be significantly correlated with COMP ($p < 0.01$). The highest correlation occurred between compliance and reference group ($r = -.503$) followed by penalty rate ($r=-.43$), probability of detection(r=-.25), tax knowledge (r=-.233), tax rate (r=-.23), and fairness (r=.216). According to Pearson correlation matrix results in Table 4.2.1, the results suggested that reference group, penalty rate, probability of detection, tax knowledge, tax rate, and fairness have a significant correlation with tax compliance.

Table 4.2.2: Parameter estimates of determinants of tax compliance from binary logistic regression (BLR)

	Sig.	Crude OR	95% C.I. for Crude OR		Sig.	beta	Adjusted OR	95% C.I. for Adjusted OR	
			Lower	Upper				Lower	Upper
Tax rate	0.001	0.723	0.601	0.87	0	-0.783	0.457	0.324	0.644
Probability of detection	0	0.598	0.457	0.783	0.001	-0.675	0.509	0.345	0.753
Penalty rate	0	0.516	0.417	0.639	0	-0.591	0.554	0.413	0.742
Complexity of tax system	0.748	0.954	0.718	1.269					
Trust in public officials	0.772	0.963	0.746	1.243					
Fairness	0.001	1.382	1.14	1.675	0.449	-0.14	0.87	0.606	1.248
Perception on government spending	0.094	0.752	0.539	1.05					
Reference group	0	0.371	0.281	0.488	0	-0.803	0.448	0.298	0.674
Tax knowledge	0.001	0.615	0.467	0.81	0	-1.128	0.324	0.209	0.503

Source: *research survey 2013*

Based on the findings of the binary logistic regression; individually regressing each independent variables on the dependent variable (COMP), tax rate, probability of detection, penalty rate, fairness, reference group and tax knowledge were found to be the determinants of tax compliance. While after controlling the effect of other factors, the effect of fairness becomes insignificant.

Tax rate with beta of -.783 found to be a significant determinant of tax compliance and have a negative relationship with tax compliance. This implies that a tax rate which is perceived as heavy, unfair, and inequitable discourages taxpayers to comply with the tax rules and regulation. Holding the effect of all other factors constant, the likelihood of tax compliance will decrease by 54% (0.46-1) for a unit change in tax rate score. This finding is in line with the findings of Allingham and Sandmo (1972), Bismark (2011), Feinstein (1991) and Alm et al. (1993) who found a high tax rate discourages tax compliance. Yitzhaki (1974) and Feinstein (1991) found that tax compliance increases with tax rate.

The finding with regard to the probability of detection implies that, probability of detection is a significant determinant of tax compliance and negatively correlated with compliance with beta of -.675. Implying that if there is high probability of detection, taxpayers will go further to conceal their exact income, which results in low compliance. This finding is in reverse with the finding of Bismark (2011), Allingham and Sandmo (1972), Werner & Hannelore (1996) who found a positive relationship between probability of detection and compliance which means when taxpayers expect that the tax authority will detect any misreporting of income they will not underreport their income that means they will comply with the tax rules. On the other hand, the finding of the current study (high probability of detection, low compliance) is the same with the findings of Young (1994), Slemrod et.al (2001), and Braithwaite et.al (2009) who found an inverse relationship between a high probability of detection and tax compliance. Holding the effect of all other factors constant, the likelihood of tax compliance will decrease by 49% (0.51-1) for a unit change in the probability of detection score.

In the current study Penalty rate is found to be a determinant of tax compliance at the same time the sign of relationship is negative with a beta of-.591, this shows that compliance decreases as the penalty rate is perceived by taxpayers as higher and severe. That is when taxpayers conclude that they are paying a high amount of penalty for any non compliant behavior (it can be due to dalliance of payment, or any other reason beyond their control) their compliance level dramatically decreases. Holding the effect of all other factors constant, the likelihood of tax compliance will decrease by 45% (0.55-1) for a unit change in the penalty rate score. This finding is concurrent with the findings of Werner & Hannelore (1996) and Kirchler et.al (2007) but in opposite with the findings of Park and Hyun (2003), Chang and Jin (2003), Allingham and Sandmo (1972) who were found a positive relationship between penalty rate and tax compliance which implies if taxpayers know that severe penalty will follow for their non compliant behavior they will comply with the tax rules and regulations in fear of this penalty.

With regard to reference group which is found to be a significant determinant of tax compliance, a negative relationship was found between reference group and tax compliance with beta of -.803. This implies that when taxpayers perceive that others are not paying their tax obligation properly they also will not comply with the tax rules and regulations. If taxpayer's friends and relatives are not paying their tax liability and are not detected or penalized even after detection, other taxpayers will follow their system of not complying, even if they were complying before. This finding is in line with the finding of Chung and Trivedi (2003), Viswanath, et.al (2003), Torgler (2011) who found friend and relatives of a taxpayer have a significant influence on the taxpayer's decision to comply with the tax rules and regulations or not.

Tax knowledge with beta (-1.128) found to have a negative effect on compliance. This implies that those who have high tax knowledge found to be less compliant. Holding the effect of all other factors constant, the likelihood of tax compliance will decrease by 68% (0.32-1) for a unit change in the tax knowledge score. This finding is concurrent with the finding of Geeroms and Wilmots (1985) who found as taxpayers get enough tax knowledge, they will use this knowledge to find a loopholes which can help escape from paying their tax liability that means high tax knowledge, low compliance. On the other hand, this finding is in reverse with the findings of Bismark (2011), Grant (2006), Eriksen and Fallan (1996), Kirchler, Hoelzl and Wahl (2008), Gyun and Kwon (2003), Zelalem (2011) and Lemessa (2007) who found a positive relationship between tax knowledge. This implies that as taxpayers get enough knowledge with regard to the reasons why they are paying tax, on what things are invested the collected revenue, if they didn't comply what will follow and any related tax knowledge they become more compliant as compared with those who have no or little tax knowledge.

Table 4.2.3 illustrates the determinants of tax compliance suggested by the current study analysis by using the Pearson Correlation Matrix and Binary Logistic Regression. Accordingly hypothesis 1,2,3,8, and 9 were accepted that means tax rate, probability of detection, penalty rate, reference group and tax knowledge are found to be a significant determinants of tax compliance; hypothesis 4,5,6,7 were rejected these are complexity of tax system, trust in public officials, fairness of tax system and perception on government spending (even though it is significant determinant at 10%).

Table 4.2.3: Tax compliance determinants

Determinants	Expected signs/hypotheses	Results
tax rate	low tax rate, high compliance	high tax rate, low compliance(H1)
probability of detection	high probability of detection, high compliance	High probability of detection, low compliance (-H2)
penalty rate	High Penalty rate, high compliance.	high penalty rate, low compliance (-H3)
reference group	Positive perception on reference group, high compliance	negative perception, low compliance (H8)
tax knowledge	High tax knowledge, high compliance	high tax knowledge, low compliance (-H9)

Source: research survey 2013

CHAPTER FIVE

SUMMRY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings and Conclusion

In the current study nine determinants were analyzed whether they are significant determinants of tax compliance in Jimma town specifically category B taxpayers or not, which are tax rate, probability of detection, Penalty rate, complexity of tax system, trust in public officials, fairness of tax system, perception on government spending, reference group and tax knowledge.

According to Pearson correlation matrix the results suggested that reference group, penalty rate, probability of detection, tax knowledge, tax rate, and fairness have significant correlation with tax compliance.

Results of the binary logistic regression analysis suggested that compliance is significantly influenced by tax rate, probability of detection, penalty rate, reference group, and tax knowledge. The findings of the study reveal that a negative relationship between high tax rate and compliance, negative relationship between high probability of detection and compliance, negative relationship between high penalty rate and compliance, with regard to peer influence also a negative relationship between negative perception of relatives and friends and tax compliance, lastly with regard to tax knowledge a negative relationship between high tax knowledge and tax compliance.

While the remaining variables i.e. complexity of tax system, trust in public officials, fairness of tax system, perception on government spending were not found to be significantly correlated with tax compliance decisions during the period of the study, Even though, previous studies in other countries found significant associations.

For example complexity of tax system negatively correlated with tax compliance as to the findings of Torgler and Schaffner (2007), Erich, et.al (2006), Grant (2006), and Reza, et.al (2011) which implies if the tax system is difficult to understand taxpayers will reluctant to adhere to the tax rules and regulations i.e. discourages tax compliance.

Trust in public officials is found to be the main determinant of tax compliance i.e. if taxpayers have a high trust in the public officials, compliance will increase: by Torgler (2011) and Torgler and Schaffner (2007).

With regard to fairness of tax system there are different studies with a finding a strong relationship between fairness of tax system and tax compliance for instance Grant (2006), Lemessa (2007), Bordignon (1993), Viswanath, et.al (2003) and Smatrakalev (2008) found a positive relationship between fairness of tax system and compliance.

Ying and Teng (2005), Fjeldstad (2004), Bordignon (1993) and Pommerehne et al. (1994) found a positive relationship between positive perception on government spending and tax compliance. This implies if taxpayers perceived that the money collected from them is distributed wisely in providing public goods, this will increase their compliance level. At a general level, however, this study did not find similar results to those found in this prior work.

5.2. Recommendations

Tax rate which is perceived as high and unfair discourages the level of compliance of taxpayers. So, the tax authority should play its role to solve this misconception of taxpayers in which the amount of tax to be paid by the taxpayers is aimed at not harming them and is based on their ability to pay. At the same time it is also the responsibility of the tax authority to create awareness with the purpose of tax collection, how it is computed and on what things it is invested. If taxpayers understand this all and other related concepts by awareness creation programs the negative perception will be removed which means tax compliance will increase.

The finding revile that the higher the probability of detection, the lower the compliance. This can be as a result of many things among these; the method of detection used and the perception of tax payers about detection and the knowledge they have about detection. The detection method used may me subjective, not exhaustive and with untrained and unethical personals. So it is recommended that the tax authority of the town to revise and evaluate its detection system based on scientific study about detection methods and try to be exhaustive in conducting detection and use trained and ethical personals. This will help to enhance the level of compliance.

Taxpayers perceive that the penalty rate is high and severe which results in low compliance. So, the tax authority should prevent the cause of penalty by making the taxpayers know what results in penalty and how can it be prevented. This can be achieved by preparing different programs; it can be via TV, radio and any other Medias which can help the taxpayers what causes penalty and the level of penalty for each default. If taxpayers have enough information with these all their decision to comply or not will be by calculating the penalty which will follow and it is their opportunity cost complying or not, this is expected to result in low grievance to the penalty imposed for any non compliance hence, compliance will increase.

The influence of reference groups that means friends and family members tends to be important in the town, as taxpayers are keen to refer their tax matters to their immediate family members or friends rather than tax experts, in order to minimize their compliance costs. If a taxpayer refers to a compliant taxpayer, then the tendency to commit tax evasion is lower, but if a taxpayer refers to a non-compliant taxpayer, they might become a non-compliant taxpayer as well. Therefore, cultivating personal awareness of compliance and educating the whole society about benefit and importance of voluntary compliance will help to minimize the negative effect of families and friends which in turn will enhance individual compliance.

The results of the study show that the highest the tax knowledge of taxpayers, the lowest the compliance this gives a direction for the tax authority as well as other responsible bodies to analyze the taxation system. Based on a scientific study the areas with loopholes should be identified and work towards it and at the same time identifying the factors which can help taxpayers to comply with the tax rules and regulations voluntarily.

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Appendix A

Jimma University

Business and Economics College

Department of Accounting

Questionnaire prepared for category B taxpayers of Jimma town

The purpose of this study in general and this questionnaire in particular is to study on "determinant of tax compliance in Jimaa town." as a partial fulfillment for the MSc. degree
in Accounting and Finance. This research is intended only for academic purpose authorized by Jimma University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised is of paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. You should choose the answer you think is correct according to your understanding. The quality and quantity of information you provide determines the ultimate reliability of the study. Thank you very much in advance for your cooperation and for sacrificing your invaluable time.

Part one: socio demographic characteristics

1. To which age group do you belong?
   1. 20 -30 years ☐
   2. 31 - 45 years ☐
   3. 45 – 55 years ☐
   4. Above 56 ☐

2. Gender
   1. Female ☐
   2. Male ☐

3. Educational level
   1. Non educated

2. Write and read
3. Primary school
4. Secondary school
5. Certificate/diploma
6. BA/BSc degree
7. Postgraduate degree

4. Marital status

1. married [ ]

2. Single [ ]

3. Divorced [ ]

4. Separated [ ]

5. Widowed [ ]

5. Why do you pay taxes?

1. To avoid disturbances (penalties, sanctions) ☐
2. Anticipating of public services ☐
3. There is no opportunity to evade ☐
4. It is an obligation towards the government ☐
5. Do not know. ☐
6. Others, Please specify……………………………………………………

6. How often you are attending education sessions about taxation?

1. Once a year ☐
2. Twice a year ☐
3. Three times per year ☐
4. Above three times per year ☐
5. Not at all ☐

7. How many times in a particular year you have been audited or investigated by tax authority?

- One time [ ]
- Two times [ ]
- Three times [ ]
- More than three times [ ]

- Not still

Part Two

Notice: Please use the following scales for responding Questions in the tables:

Strongly Disagree (1)	Disagree (2)	Moderately disagree (3)	Neutral (4)	Moderately agree (5)	Agree (6)	Strongly agree (7)

No	Items							
	Tax compliance							
8.	Since the amount of taxable amount and profit is declared by the taxpayer so, it is not wrong to omit or understate the taxable income and the profits declared.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
9.	If one is paid in cash for a job and then not reporting it in the tax return	(1)	(2)	(3)	(4)	(5)	(6)	(7)
10.	If the tax authority has limited capability to investigate all income reported to them, so people have an opportunity to not report their exact income.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Tax rate							
11.	Tax rates are so heavy that tax evasion is an economic necessity for many to survive.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
12.	The tax rate is fair and equitable which enhances tax compliance.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Probability of detection							
13.	If the probability of detection is high, compliance will	(1)	(2)	(3)	(4)	(5)	(6)	(7)

	increase							
14.	There is high degree of being detected for nonpayment of tax that is why I pay my tax obligation.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
15.	Tax evasion is ethical if the probability of getting caught is low.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	Penalty rate							
16.	If the Penalties imposed when an evasion is detected are so severe, compliance will increase	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
17.	The penalty that taxpayers have paid in the past affect the amountof tax that they are reporting.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
18.	The penalty rate and enforcement undertaken by the tax authority is high which results in high compliance.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	Complexity of tax system							
19.	Tax laws are easy to understand i.e. calculation of tax filing and paying dates , this encourages tax compliance	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
20.	I know all what is required from me in respect of my tax obligations	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
21.	I find tedious the procedural complications and to maintain all my relevant records for the whole year for tax purposes. This leads me not to comply with the tax laws.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	Trust in public officials							
22.	I am confident that the employees of tax authority would never try to take more money from me than they should; this encourages me to comply with the tax laws.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
23.	Non compliance is heightened by the perception that personnel of the service are enriching themselves at the expense of the service and the traders.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
24.	I can depend on the employees of tax authority to keep accurate tax records.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**

25.	Employees of the tax authority are just as knowledgeable as any private tax expert.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	Fairness of tax system							
26.	The present tax system benefits the rich and is unfair to the ordinary working man or woman, this discourages tax compliance.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
27.	I feel justice with the existing tax system i.e. I'm paying a fair share of tax.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	perception to government spending							
28.	The composition of public spending provides necessary goods and services that the market does not provide this encourages tax compliance	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
29.	It's not so much wrong to hold back a little bit of taxes since the government spends too much anyway.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
30.	Tax non compliance is ethical even if most of the money collected is spent wisely.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	reference group							
31.	Tax evasion is not immoral if everyone is doing it.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
32.	I believe that my neighbors are reporting and paying tax honestly so that I comply.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
33.	Most traders evade the tax because other traders do the same.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
34.	Friends and family will affect taxpayers' decision to comply or not.	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
	Education							
35.	It is not so wrong to underreport certain income since it does not really hurt anyone	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**

36.	I have fairly a good knowledge of what cause a penalty and fines this helps me to comply	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
37.	having good tax knowledge encourages tax compliance	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**

38. If there is any additional determinants which do you think affect tax compliance please list here.____

____.

Thank you!

Appendix B

ጅማ ዩኒቨርስቲ

ቢዝነስና ኢኮኖሚክስ ኮሌጅ

አካውንቲንግ እና ፋይናንስ ት/ክፍል

የጅማ ከተማ ደረጃ 'ለ' ግብር ከፋዮች የተዘጋጀ መጠይቅ

የዚህ ጥናት እና በተለይም የዚህ መጠይቅ ዋና አላማ በ "የግብር ሥራዓትን ለመከተል የሚወስኑ ሁኔታዎች" በሚል አርዕስት ለማከናውነው ጥናት ግብአት የሚውል ሲሆን ይህም በአካውንቲንግና ፋይናንስ የማስተርስ ዲግሪ ማሟያ ተደርጎ ይወሰዳል፡፡ ይህ ጥናት ትምህርታዊ ለሆነ አላማ ብቻ የሚያገለግል ሲሆን በጅማ ዩኒቨርስቲ በኩል የተፈቀደ ነው፡፡ ስለዚህም የእርስዎ ሃሳብና አስተያየት በጣም ከፍ ያለ ክብር የሚሰጠውና በሚስጢር የሚያዝ ይሆናል፡፡ ስለዚህ ይህንን አጠር ያለ መጠይቅ በጥንቃቄና የተቻለዎትን እውቀት በመጠቀም እንዲሞሉ በትህትና እና በላቀ አክብሮት እጠይቃለሁ፡፡ ጥራትና ብዛት ያለው መረጃ መስጠትዎ ለጥናቱ ተአማኒነት የበኩሉን ሚና ይጫወታል፡፡ ለሚያደርጉት ትብብርና ፈጣን ምላሽ በቅድሚያ አመሰግናለሁ፡፡

<u>ክፍል አንድ፡- የግል መረጃዎን በተመለከተ</u>

1. ዕድሜ 1. ከ15-30 ዓመት ☐ 3. ከ 46-55 ዓመት ☐

2. ከ31-45 ዓመት ☐ 4. ከ56 ዓመት በላይ ☐

2. ፆታ ሴት ☐ ወንድ ☐

3. የትምህርት ደረጃ

1. የማይፅፍና የማያነብ (ያልተማረ) ☐ 4. ሁለተኛ ደረጃ ☐

2. መፃፍና ማንበብ ☐ 5. ሰርተፊኬት/ዲፕሎማ ☐

3. አንደኛ ደረጃ ☐ 6. ሁለተኛ ዲግሪ ☐

4. የትዳር ሁኔታ

1. ያገባ/ች ☐ 2. ያላገባ/ች ☐ 3. የፈታ/ች ☐

5. ግብር ለምን ይከፈላሉ?

1. ከቅጣት ለማምለጥ ☐ 4. የመንግስት ግዴታ ስለሆነ ☐

2. ህዝባዊ አገልግሎ ለማግኘት ☐ 5. አለውቅም ☐

3. ለማምለጥ ምንም አማራጭ ስለሌለ ☐ 6. ሌላ ከሆነ (እባክዎን)

ይግለጹልን----------

6. ለስንት ጊዜ ስለግብር ክፍያ ትምህርት ተካፍለዋል/ተሳትፌዋል

1. አንድ ግዜ☐ 2. ሁለት ጊዜ ☐ 3. ሶስት ጊዜ ☐

4. ከሶስት ግዜ በላይ☐ ☐ ምንም

7. በዓመት ለምን ያህል ግዜ በገቢ.ዎች ባለስልጣን ኦዲት ተደረገዋል?

1. አንዴ☐ 2. ሁለቴ ☐ 3. ሶስቴ ☐

4. ከሶስት ግዜ በላይ ☐ 5. እስከ አሁን ምንም ☐

ክፍል ሁለት ፡ በሠንጠረዡ ላይ ያሉ ጥያቄዎች በሚከተለው መሰረት ይሙሉ

በጣም አልስማማም (1)	አልስማማም (2)	በመጠኑ አልስማም (3)	ገለልተኛ (4)	በመጠኑ እስማማለሁ (5)	እስማ ማለሁ (6)	በጣም እስማማለሁ (7)

ተ.ቁ	ዝርዝር							
	Tax compliance							
8.	የገቢ. መጠንና ትርፍ በግብር ከፋይ የሚገለጹ ከሆነ የገቢ. መጠን ማሳነስና የትርፍ መጠን ቀንሶ ማሳወቅ ምንምን አይደለም፡፡.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
9.	ክፍያ በጥሬ ገንዘብ ከተከፈለ ይህንን ክፍያ አለማሳወቅ ምንም አይደለም፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
10.	የግብር ባለሥልጣን የገቢ. መጠንን የማወቅ እድሉ አነስተኛ ከሆነ ግብር ከፋዬች ትክክለኛ ገቢ.ያቸውን ላያሳውቁ ይችላሉ፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	የግብር መጠን							
1.	የግብር መጠኑ በጣም ከፍተኛና ከባድ ከመሆኑ የተነሳ ግብርን ማጭበርበር ለመኖር ሲ.ባል ግዴታ ነው	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2.	የግብር መጠኑ ፍትሃዊ እና ተመጣጣኝ ስለሆነ ግብር መክፈል ያበረታታል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	የመጋለጥ እድል							
3	ግብርን አለመክፈል የመታወቅ እድሉ ከፍተኛ ከሆነ ግብር መክፈል ያበረታታል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
4	ግብር ካልከፈልኩ የመታወቅ እድሌ ከፍተኛ ስለሆነ የግብር ግዴታዬን	(1)	(2)	(3)	(4)	(5)	(6)	(7)

	በስርዓቱ እወጣለሁ							
5	የመያዝ እድሌ አነስተኛ ከሆነ ግብርን ማጭበርበር ምንም አይደለም	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	የቅጣት መጠን							
16	ግብር ሳይከፈል ሲቀር የሚጣለው ቅጣት በጣም ከባድ ከሆነ ግብርን መክፈል ያበረታታል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
17	ግብር ከፋዩ ባለፈው የከፈለው የቅጣት መጠን አሁን የሚያቀርበውን ሪፖርት ሁኔታ ይወስናል፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
18	የግብር ባለስልጣኑ የቅጣት መጠንና የማስፈፀም አቅሙ ከፍተኛ በመሆኑ ግብርን መክፈል ያበረታታል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	የግብር ሥርዓት ውስብስብነት							
19	የግብር ህጎች ለመረዳ ቀላል ናቸው (የግብር መጠን ስሌቱን, የክፍያ ቀናት…) ይህ ግብር መክፈልን ያበረታታል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
20	በግብር በኩል እኔ የሚጠበቅብኝን ግዴታ በደንብ አውቃለሁ	(1)	(2)	(3)	(4)	(5)	(6)	(7)
21	የአከፋፈል ሂደቱንና አስፈላጊ የሆኑ መዝገቦች ማቆየቱ ሁኔታ አድካሚ ነው፡፡ይህ የግብር ግዴታዬን እንዳልወጣ እንቅፋት ሆኖኛል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	በሠራተኞች ላይ ያለን እምነት							
2	የግብር ባለስልጣኑ ሰራተኞች እኔ ከሚጠበቅብኝ በላይ ግብር እንደማይወሰዱብኝ እተማመናለሁ ይህ የግብር ግዴታዬን እንድወጣ ረድቶኛል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
3	ግብር ያለመክፈል የተባባሰው, የድርጅቱ ሰራተኞች በድርጅቱ እና በነጋዴዎች ኪሳራ የራሳቸውን ኪስ እያደለቡ እንደሆነ በመታሰቡ ነው	(1)	(2)	(3)	(4)	(5)	(6)	(7)
4	የግብር ባለስልጣን ሰራተኞች ትክለኛውን መዝገብ ይይዝልኛል ብዬ አተማመናለሁ	(1)	(2)	(3)	(4)	(5)	(6)	(7)
25	የግብር ባልስልጣን ሰራተኞች ልክ እንደ ግል የግብር ባለሙያ በቂ እውቀት አላቸው	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	የግብር ሥርዓት ፍትሀዊነት							
6	አሁን ያለው የግብር አሰባሰብ ሂደት ለሃብታሞች/ከፍተኛ ገቢ ላላቸው/ ምቹ ሲሆን ለመካከለኛ እና ዝቅተኛ ገቢ ላላቸው ግን ፍትሃዊ አይደለም፣ ይህ ሰዎች ግብር በሥርዓቱ እንዳይከፍሉ ያረጋል፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
7	አሁን ያለው የግብር አከፋፈል ስርዓት ፍትሃዊ ነው ብዬ አምናለሁኝ	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	ሰዎች በመንግስት ወጪዎች ያላቸው አስተያየት							
8	በመንግስት የሚቀርቡት እቃዎችና እና አገልግሎቶች በሌሎች /በግል ነጋዴዎች/ ሊቀርቡ የማይችሉ ናቸው	(1)	(2)	(3)	(4)	(5)	(6)	(7)
29	መንግስት አስፈላጊ በሆነ መንገድ ብሩን ስለማያወጣ በተወሰነ መልኩ ግብርን ማጭበርበር ጥፋት አይደለም፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
30	ምንም እንኳ የሚሰበሰበው ግብር መንግስት አስፈላጊ በሆነ ጉዳይ ላይ እያዋለው ቢሆንም፣ ግብርን ማጭበርበር ምንም አይደለም	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	ጓደኞችና ቤተሰብ ያላቸው ተጽእኖ							
31	ሁሉም ሰው ግብርን የሚያጭበረብር ከሆነ ማጭበርበር ምንም አይደለም	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2	ጎረቤቶቼ ትክክለኛወን የገቢ መጠናቸው እያሳወቁ እና ትክክለኛ መጠን	(1)	(2)	(3)	(4)	(5)	(6)	(7)

	እየከፈሉ ነው ብዬ አምናለሁ ስለዚህ እኔም እከፍላለሁ							
3	አብዛኛች ነጋዴዎች ግብር የሚያጭበረብሩት ሌሎች ነጋዴዎች ስለሚያጭበረብሩ ነው፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
4	ግብር በአግባቡ ለመክፈል እና ላለመክፈል ጓደኞችና ቤተሰቦች በግብር ከፋዩ ውሳኔ ላይ ተፅዕኖ አላቸው፡፡	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	ትምህርት / እውቀት /							
5	በመጠኑ ገቢን ቀንሶ መናገር ምንም አይደለም ምክንያቱም ማንንም አይጎዳምና	(1)	(2)	(3)	(4)	(5)	(6)	(7)
6	እነማን ቅጣት እንደሚያስከትሉ በቂ እውቀት ስላለኝ የግብር ግዴታዬን እንደወጣ ረድቶኛል	(1)	(2)	(3)	(4)	(5)	(6)	(7)
37	ስለግብር ጥሩ/ በቂ እውቀት መኖር ግብር መክፈልን ያበረታታል	(1)	(2)	(3)	(4)	(5)	(6)	(7)

38. ግብር ከፋዩች የግብር ሥርዓት እንዲያከብሩ ይረዳሉ የሚሉአቸውን ካሉ ይጥቀሱ-

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አመሰግናለሁ!!