

TAX COMPLIANCE AND ITS DETERMINANT THE CASE OF JIMMA ZONE, ETHIOPIA

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ABSTRACT

This study was conducted with the aim of investigating the determinants of tax compliance for the case of Jimma zone category 'A' taxpayers. By distributing total of 384 questionnaires to category A sample taxpayers, the study try to explore the main determinants of tax compliance. The findings show that age, sex, penalty, audit, simplicity, fairness and government perception were found to affect tax compliance. in general it is recommended that ERCA has to work on education the young generation about the tax system and the benefit it has to the society as a whole, try to make the whole tax system as fair as possible with regard to the benefit received for paying tax and the tax burden of paying it, to expand and make more regular and consistent auditing still putting in mind the cost associated with it, work on bringing a good reputation in providing public service and making the tax system simple in general and the law, the forms, the filling, the paying and appeal system in particular in order to increase the tax compliance in one hand and the tax revenue in general.

Key words: *tax compliance, determinants of tax compliance*

1. INTRODUCTION

Even though the two things certain in life are death and taxes, most individuals become reluctant when it comes to paying tax in the right amount, time, and, place. Individuals do not like paying taxes and they take a verity of action to reduce their tax liability.

Today the role of the government has increased and government has to collect more tax than ever to finance its operation. But governments are facing difficulty in collecting the tax they need for many reason. One of the main reasons is tax noncompliance. Tax compliance is the willingness of taxpayers to obey tax laws in order to obtain the economy equilibrium of a country (Andreoni, et al 1998). Compliance with the tax law typically means true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. In the contrary, tax noncompliance is individual failure to comply with their tax obligation. It can be: not reporting the tax bases, not timely filing and

payment, and incorrect calculation of liability. Tax payers are influenced by many factors from compiling their tax obligation, including, their distortion toward public institution, perceived fairness of taxes, prevailing social norm and chance of noncompliance being detected and punished.

Tax noncompliance is socially destructive, as it can reduce revenue, distort labor market and weaken state stability by feeding perception of cheating and fraud. Reducing noncompliance can be effective if the reason for noncompliance by tax payers is known. Understanding the motivations underlying taxpayers' attitudes and behaviors toward voluntary compliance is constructive to tax authority by providing them information that can help them which strategy is appropriate and effective to increase compliance. The main purpose of this research is to identify the major determinant of tax compliance and to see the relationship between the determinant and tax compliance.

Although the principal source of a government's revenue should be taxation, in many sub-Saharan African nations this is often not the case. These

nations with low economic growth, large population below the poverty line, and dependent on territory economy, finance most of their expenditure through non tax revenue. Increasing tax revenue in this region is hampered by large informal sector, under reporting of income by businesses, tax noncompliance, weak tax administration, considerable tax evasion and avoidance, corruption, lack of awareness and trust of government.

Studies in different countries show that 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 (Reza and et al ,2011). There are many factors that contribute for the low level of tax income in developing countries but tax noncompliance is one of the main factors in this respect. Ethiopia like many developing countries suffers from tax revenue loss due to tax noncompliance.

Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Tax noncompliance is one of the problem many developing country face when it comes to tax administration. Taxpayers' believe and attitude toward tax compliance has been important issues to researchers and tax authority almost everywhere and every time this days. Understanding why taxpayers do or don't comply with tax law is very important as; if possible, it will help to increase level of compliance more effectively. Many research both in developing and developed countries has been done on tax compliance, it is still difficult to define what exactly tax compliance means and to separate the words evasion, avoidance, mere error and intention (Long & Swingen, 1991). Beside this it is difficult to estimate the level of uncollected tax, which by its nature is not stated by taxpayers and tax authority.

The last three decades, tax compliance has been given a big emphasis by researchers because of increasing noncompliance especially tax evasion and its consequences on the capacity of government in raising public revenue. But most of these researches are done on developed

countries particularly on USA. Tax compliance papers on developing countries are few in number (Torgler, 2003).

There are few researches done on tax compliance in Ethiopia. For instant the research done by Lemessa ,2007 tried to investigate Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case Study of Dire Dawa City using descriptive method of research and finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government are the main determinant of voluntary compliance in the city. Another research done by Bisrat 2010 tries to see the link between tax administration and value added tax compliance in Ethiopia using quantitative and qualitative methods conclude that it is possible to increase the government revenue as well as reduce the noncompliance problem, existence of a problem in similarity of tax burden on similar incomes, fairness of the penalty, government spending of VAT money, incidence of VAT fraud and taxpayers are dissatisfied with the tax authority. So in this research attempt will be made to investigate the determinant of tax compliance in Jimma zone. This research is different from the previous researches as it try to study see the determinate of tax compliance of category A tax payers regarding their general tax compliance rather than their compliance on same specific tax type. In doing so the paper may fill the gap of literature about general tax compliance from the taxpayers' perspective. Specifically this research tries to answer the following questions:

1. What are the factors that affect compliance of category A taxpayers in jimma zone?
2. What is relationship between/among these factor and tax compliance?

The study is limited to jimma zone. The findings of the research would have been more satisfactory if it had covered many zones in the oromiya region and direct tax compliance data were available.

2. LITERATURE REVIEW

2.1. Tax Compliance

Tax compliance can be defined as the degree to which a taxpayer complies (or fails to comply)

with the tax rules of his country. Tax compliance is taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country (Andreoni, et al 1998). Compliance with the tax law typically means true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James and Alley (2004) pointed out that tax compliance is the willingness of individual and other taxable entities to act in accordance with tax law and administration without the application of enforcement activity.

Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. 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).

Mc Barnett (2003) classifies compliance into three forms; committed compliance, capitulative compliance and creative compliance. Committed compliance is the willingness to discharge tax liability by taxpayer without complaining. While capitulative compliance is the reluctant in discharging of tax obligations by taxpayer and creative compliance refers to engagement to reduce taxes by taking advantage of possibilities to redefine income and deduct expenditures within the confine of the law.

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

Tax compliance has also been isolate into two perspectives, namely compliance in terms of administration and compliance in terms technique .Administrative compliance is made

up of reporting compliance, procedural compliance and regulatory compliance and it is generally concerned with complying with the rule relating to lodging and payment of tax while technical compliance is concerned with meeting up technical requirement of tax laws in computation of tax liability (Alabede et al,2011).

Franzoni (2000) and Chatopadhyay and DasGupta (2002) stated that compliance with tax laws involves true reporting of the tax base; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount due as tax. Any behavior by the taxpayer contrary to the above constitutes noncompliance. Despite the arrangement put in place through tax system to ensure compliance with tax rules and regulations, human society is still confronting numerous cases of tax noncompliance (Kirchler et.al, 2007).

1.2 Determinant of tax compliance

In the following sections main determinant of tax compliance are listed as discussed in many public finance literatures. (For example; (Fischer et al., 1992), (Kirchler ,2007), (Loo 2006), Allingham and Sandmo (1972) and Jackson and Milliron ,1986).

The determinant of tax compliance has been classified differently by different researchers. But most of these classification overlap on one another. By considering the most relevant one for this study, we classified them in to four major groups: economic, tax system, demographic, social, and individual.

1.2.1 Economic

Tax rate

The effect of tax rate on tax compliance is mixed. According to (Whitte and Woodbury, 1985) raising marginal tax rates will be likely to encourage taxpayers to evade tax more. Park and Hyun, (2003) in their empirical study finds that the increase in tax rate strengthen the incentive to report less income to compensate the reduced income .In other word they find a negative relationship between tax compliance and tax rate. Another study in 1980 by Tanzi used an

econometric model to explain the relationship between marginal tax rates and noncompliance. By using aggregate data in the United States, he illustrated that tax rates were negatively correlated with tax compliance according to his data.

There are some researches that argue to find a positive association between tax rate and tax compliance. For example Yitzhaki (1974) found a positive relation between the tax compliance and high tax rate. In their experimental research Alm, Sanchez, and De Juan (1995) found respondents to be more compliance when the tax rate were increased. Porcano (1988) and Baldry (1987), in their study find no relationship between tax compliance and tax rate. From this it can be said that the relationship between tax rate and tax compliance from most empirical studies is negative. (Kirchler et.al ,2007)

Level of income

Regarding the relation between level of income and tax compliance the empirical findings are ambiguous. Even though wealthier citizens are more likely to evade tax, as risk aversion indirectly related with income level, it is not clear if severity of evasion is an increasing or a decreasing function of income (Kirchler et al, 2007).

Empirical researches done by different researchers on a relationship between income level and tax compliance find a negative relationship between income level and tax compliance. Some of these researches to mention are: Slemrod (1985), who analyzed archival data from the United States' Treasury tax file for 1977, and by Ali, Cecil and Knoblett (2001), who analyzed IRS data for the period between 1980 and 1995. Consistently, Weck-Hannemann and Pommerehne (1989) found lower compliance among high income earners in archival data on Swiss taxpayers. Jackson & Milliron, 1986 find that middle income taxpayers are generally compliant with tax laws, while low income level taxpayers and high income level taxpayers are relatively non-compliant with tax laws. In contrary the study done by (Kirchler, Hoelzl and Wahl, 2008) finds out that there is a positive relationship between tax rate and tax compliance.

Tax audit, Fines and penalties

Economic model assumes that taxpayers try to increase their benefit of complying by weighting the gain from non-compliance with that of the loss that can come with detection and punishment. According to Allingham and Sandmo (1972) non-compliance will depend on audit probability and fines. Studies have claimed that being audited has a positive impact on tax compliance. Studies by (Mohd 2010) and Park and Hyun (2003) conclude that tax compliance is positively influenced by tax audit.

Park and Hyun(2003) in their experimental study of determinant of tax compliance using data for Korea find out that charging taxpayers penalty when caught encouraged tax payers to report the actual income they earn. This shows that the relationship between tax compliance and penalty is positive.

1.2.2 Tax system

Tax simplification

One of the essential things affecting governments' ability in tax collection is the existence of proper tax laws and their correct performance. Having tax laws which are consistent and stable in enactment and performance will make the tax system to be less complex and can encourage tax compliance (Reza and et .al. ,2011) . According to (Richardson. 2006) simplicity is the most important determinant of tax compliance in his study. Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd . and Ahmad ,2011).

It is importance to have a simple tax return and system .Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as simple as possible. The tax authority may assume its tax return is simple and easy to

complete but it may not be from the taxpayers' point of view. Therefore, it is good practice, before the final version is delivered to taxpayers, to ensure that 'pilot' tests have taken place first so that the tax return is really as simple and easy as it can be. (Silvani and Baer,1997)

Probability of detection

According to Allingham & Sandmo, 1972 and Beck & Jung, 1989 taxpayers always work hard to increase their benefit by weighting up the risk of detection and punishment for non-compliance against the evading tax. Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Individuals normally would like to evade their tax liabilities entirely and the only reason they might not do so is that there is some non-zero probability of being caught.

The relationship between tax compliance and probability of detection has been the interest of many tax literatures. But researchers have been divided on the effect of probability of detection on compliance. For example in Allingham and Sandmo (1972) pioneer tax evasion research, the relationship between the two were found to be positive. That is taxpayers will always declare their income correctly if the probability of detection is high. Eisenhauer (2008) and (Chau and Leung, 2009) , have also found that a high probability of being audited or detected would encourage taxpayers to be more compliant (positive relationship).

For Young ,1994,a high probability of being audited would potentially decrease compliance creating a negative association .Here one thing it has to be seen is that most researches find a positive relationship between tax compliance and probability of detection.

Fairness of tax system

Both tax payers and tax authority believe that fairness of the tax system is one of the major determinants of tax compliance. Fairness can be seen from two angles: equity of trade, which is related with the benefit received from paid tax and the other is equity in relation to burden of

tax liability in comparison to other tax payers. Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from government and or in relation to what other taxpayers are paying. (Chau and Leung, 2009)

Perceived role of government

Government's legitimacy, the government's efficiency, and the government's credibility influence taxpayers' compliance and thus determine the tax revenue the government can raise. Taxpayers can estimate the "fair" terms of trade between their private consumption and government provision of public goods. Therefore, taxpayers will evade in order 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 (Shih-Ying and Mei-Jane. 2005).

Taxpayers are very sensitive about where there tax money go. If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade (Mohd . and Ahmad ,2011).

Park and Hyun (2003), in their research argue that the presence of public good discourage compliance. They explain this by this negative effect of public good on tax compliance can be a result of free-ride behavior of taxpayers.

2.2.3 Demographic

Age

According to (Jackson & Milliron, 1986) age of the tax payer is one of important factors affecting tax compliance. Researcher done by (Dubin &Wilde, 1988) showed that older taxpayers are generally more compliant then younger tax payers. In contrast Warneryd and Walerud (1982) and Wahlund (1992) find a negative association, which is older people are less compliant then their young counterpart. Still

there are other researches that has find no association between age and tax compliance. To mention some: Spicer and Lundstedt 1976; Spicer and Becker 1980 and Porcano, 1988 find no relationship between age and tax compliance (Mohd 2010).

Gender

Empirically the relationship between gender and tax compliance is toward the argument that female tax payers are more compliant than male counterpart. For example, the studied done by Vogel (1974), Mason and Calvin (1978) and (Jackson and Milliron ,1986) found that female tax payers were more compliant than their male counterpart. In contrary, (Jeyapalan. K and Hijattulah .A. J, 2006) finds out that compliance attitude between female and male are similar.

Education

Education attainment is another important determinant of tax compliance. It usually relates to a taxpayer's ability to comprehend and comply or not comply with tax laws. It is argued that education has two elements: the general degree of fiscal knowledge and the specific degree of knowledge regarding tax evasion opportunities. It is claimed that by enhancing the level of general fiscal knowledge, tax compliance can be improved as taxpayers will have more positive perceptions about taxation. Increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance. However, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education (Jackson & Milliron, 1986).

General knowledge on taxation has a big impact with compiling with the tax laws and procedures. Tax knowledge is positively related to tax compliance. It was found that agreement with governmental activities and fiscal policy was higher in highly educated groups and knowledge on taxation has significant effect on tax compliance. This shows that knowledgeable taxpayers are normally submit their tax return within the required time, compared to less knowledgeable tax payers (Mariziana et.al,2010). Empirical study by Chan *et. al.* (2000) found that there is a positive relation between educational

level and tax compliance. Kirchler et al., (2008) stated that higher knowledge concerning tax leads to higher compliance and poor knowledge concerning tax lead to higher noncompliance. In summery it can be said that general tax knowledge is very important to understand tax law and regulations and to comply with them

1.2.3 Social and Individual

Attitude towered tax

Attitudes are the positive and negative evaluation an individual have about objects, concepts or living things. It is assumed that attitudes encouraged people to act according to them. Like their view for other things, taxpayers can have a positive or negative attitude about tax in general and tax compliance in particular .Those taxpayers whit positive attitude towards tax noncompliance is expected to be less compliant then a taxpayers with a negative attitude about tax noncompliance. According to Kirchler et al., (2008) the association between tax compliance and tax attitude are significant but weak. This finding tells that there is complex relationship between tax compliance and tax attitude. In general it can be said that if tax attitude is negative, tax noncompliance will increase.

Personal social and natural norm

Norms are important determinants of tax compliance. Behavioral intentions are determined also by subjective norms (Ajzen, 1991). Norms are behavioral standards on three different levels: the individual level, the social level and the national level (Kirchler et al., 2008). On the individual level, norms define internalized standards on how to behave. Individual norms are related to moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency and values. There is considerable overlap between individual norms, values and tax ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary compliance (Trivedi et al., 2003). On the social level, norms are usually defined as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). Social norms are related to the behavior of reference groups, for example friends, acquaintances or vocational group. If taxpayers believe that non-compliance

is widespread and approved behavior in their reference group, they are likely to be non-compliant as well. The relationship between social norms and tax compliance is complex. Wenzel (2004) argues that social norms should elicit concurring behavior only when taxpayers identify with the group to whom the norms are ascribed. Taxpayers then internalize the social norms and act accordingly. On the level of national norms, norms become cultural standards, often mirrored in the actual law. Several authors suggest that trust in political leadership and administration will lead to voluntary tax compliance when favorable national norms are established (Fjeldstad, 2004). In general, if the norms held by taxpayers favor tax compliance, voluntary tax compliance will result. Thus, norms encompass both power and trust. First, national norms find their expression in tax laws and the role given to tax authorities, having a direct influence on their power. Second, social norms such as the belief that tax evasion is a petty crime and widespread hinder the work of tax authorities, in particular when there is no countervailing norm of community. A norm where all citizens are perceived as contributing their fair share would certainly help to increase trust in the authorities (Kirchler et al., 2008).

2. RESEARCH DESIGN AND METHODS

3.1 Research design

The research design used may vary from research to research. In this research quantitative research design will be followed.

3.2 Study area

of items in sample Jimma is one of the zones of the Ethiopian region of Oromia. Jimma is named for the former Kingdom of Jimma, which was absorbed into the former province of Kaffa in 1932. Jimma is bordered on the south by the Southern Nations, Nationalities and Peoples Region, the northwest by Illubabor, on the north by Misraq Welega, and on the northeast by Mirab Shewa; part of the boundary with Misraq Shewa is defined by the Gibe River. The highest point in this zone is Mount Maigudo (2,386 m). Towns and cities in Jimma include Agaro, Genet and Saqqa. The town of the maximum

of Jimma was separated from Jimma Zone and is a special zone now.

Jimma Zone is divided in to 13 weredas (hosting a total population of over 2.2 million) with an agro-ecological setting of highlands (15%), midlands (67%) and lowlands (18%). The zone is one of the major coffee growing areas of Oromia region well endowed with natural resources contributing significantly to the national economy of the country. Major crops grown, other than coffee, are maize, teff, sorghum, barley, pulses (beans and peas), root crops (enset-false banana and potato) and fruits. Teff and honey production are another sources of cash after coffee. Enset is a strategic crop substantially contributing to the food security of the zone and is especially important in Setema and Sigimo weredas (highlands).

3.3 Target population

Jimma zone consists of 13 woredas. From these 13 woredas three woredas will be selected purposefully by taking into account the number of total category A tax payers they have.

3.4 Sample size and sampling techniques

By using random sampling a total of 400 category A tax payers will be taken a sample from the selected woredas. The sample size will be determined according to the following formula:

$$n = \frac{Z^2 pq}{E^2}$$

Where;

n	=	Number of items in sample
Z²	=	Square of the confidence level in standard error units
p	=	Estimated proportion of successes
q	=	1 - p , or estimated proportion of failures
E²	=	Square of the maximum

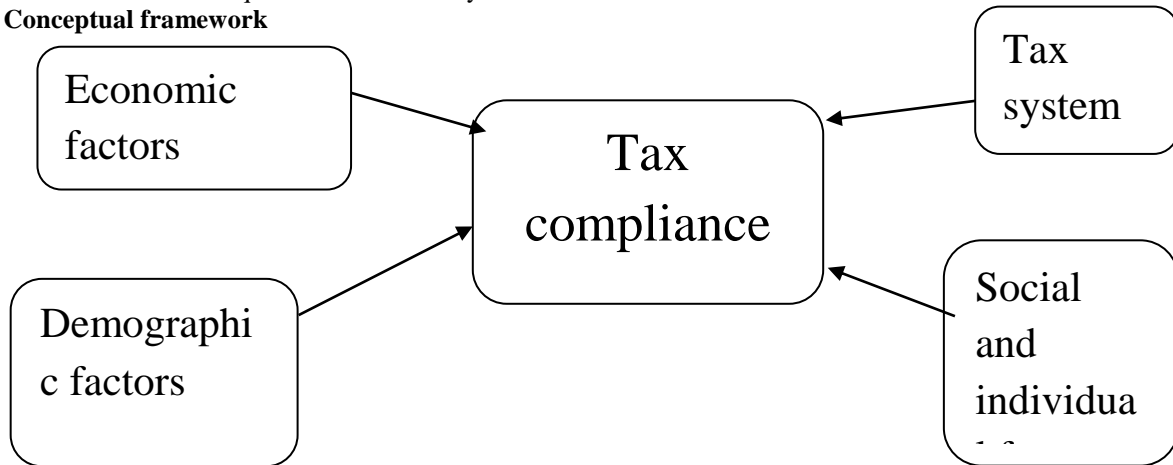
allowance for error between the true proportion and the sample proportion

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

3.5 Data type

In this research primary will be used predominantly. Primary data refers to data originated by the researcher for the specific purpose of addressing the research problem (Coper and Schindler, 2006). It is what the researcher originally collects from the sample or target population. In this research, the primary data will be collected questionnaire. Primary data

Conceptual framework



will be the major source of data for this research as there are almost no research works done on determinant of tax compliance in Jimma zone both empirically and theoretically. Secondary data will have their contribution as they were helpful to define the research problem, methods that were used in data collection and analyses.

3.6 Method of Data Collection

In this research self-administered questionnaires will be used to collect primary data. The self-administered questionnaires will be used to get detail information from sample taxpayers of Jimma zone. The questionnaires will have two parts. In the first part general characteristics of tax payers will be asked. In the next section containing ten subheadings, the main determinant of tax compliance with that of tax compliance attitude will be measured.

Taxpayers influenced by factors like economic, demographical, tax system and social and individual factors. Let us represent tax compliance by COMP. COMP is the dependents variable that will be explained by 9 explanatory denoted by x_i variables which are classified into 4 groups.

$$COMP_i = \alpha_0 + \beta_1 AGE + \beta_2 GEND + \beta_3 EDUC + \beta_4 MARSTA + \beta_5 TaxAUD + \beta_6 PEN + \beta_7 SIMP + \beta_8 FAIR + \beta_9 PRERGOV + \epsilon_i$$

Study variables			
Variable	Description	Unit	Source
COMP	Compliance	Continuous	Research Survey
Age	AGE	Continuous	Research Survey

GEN	Gender	Binary	Research Survey
EDUC	Education	Continuous	Research Survey
MARSTA	Marital States	Continuous	Research Survey
TaxAUD	Tax audit	Continuous	Research

			h Survey
PEN	Fines and penalties	Continuo us	Researc h Survey
SIMP	simplicity	Continuo us	Researc h Survey
FAIR	Fairness of tax system	Continuo us	Researc h Survey
PRERGO V	Perceived role of government	Continuo us	Researc h Survey

4. DATA ANALYSIS AND PRESENTATION

The second stage of research involves collection, analysis and presentation of data. To do so, questionnaire was distributed to sample taxpayers. A total of 400 questionnaires were distributed to Category A taxpayers of which 137 returned filled completely and properly. This made the return rate around 34.5%. After the data was collected, checked for errors and completeness, it was analyzed using descriptive research techniques and multiple regratio0n analysis.

4.1 Background of respondents

From 137 respondents 25.7 % we female and the reaming 74.2 were found to be male. When we look at the age distribution of the respondents 57.7 % are in the age group 31-50 ,22.6 % are in the age group less than 30 and the remaining were in the age group greater than 50.

Table 1: General Background Of Respondent's

Items	Frequency	Percent
Sex		
Female	35	25.7
Male	86	74.2
Total	137	100.0
Age		
Less than 30	31	22.6

31-50	79	57.7
Greater than 50	27	19.7
Total	137	100.0

Educational background

Can read and Write	9	6.6
1-8	44	32.1
9-12	44	32.1
First degree	27	19.7
Second degree	11	8.0
Total	137	100.0

Marital status

Married	110	80.3
Single	19	13.9
Divorced	8	5.8
Total	137	100.0

Taxpayers were asked the reason they pay tax. As putted in table 2 below, the majority 62.8 % stated the main reason they pay tax is there is no opportunity to evade tax where as 27.7% pay tax because it is obligatory to do so. The remaining 6.6 % and 2.2 % pay tax because to avoided disturbance and in the anticipation of the public service respectively.

Table 2: Reason for Paying Tax

Items	Freq uen cy	%
To avoid disturbances (penalties, sanctions)	9	6.6
In the anticipation of public services	3	2.2
There is no opportunity to evade	86	62.8
It is an obligation towards the government	38	27.7
Total	137	100

According to Allingham and Sandmo (1972) noncompliance will depend on audit probability and fines. Studies have claimed that being audited has a positive impact on tax compliance. Studies by (Mohd 2010) and Park and Hyun

(2003) conclude that tax compliance is positively influenced by tax audit. Park and Hyun(2003) in there experimental study of determinant of tax compliance using data for Korea find out that charging taxpayers penalty when caught encouraged tax payers to report the actual income they earn. This shows that the relationship between tax compliance and penalty is positive. Tax payers were asked the number of times they have been audited the last five years. As can be seen from the chart below more than half (56.2) of them said they have been audited only once in the last five years.20.4% of tax payers were audited twice in the last five years.17 % and 5.1 % of tax payers were never and three times audited in the last five years respectively.

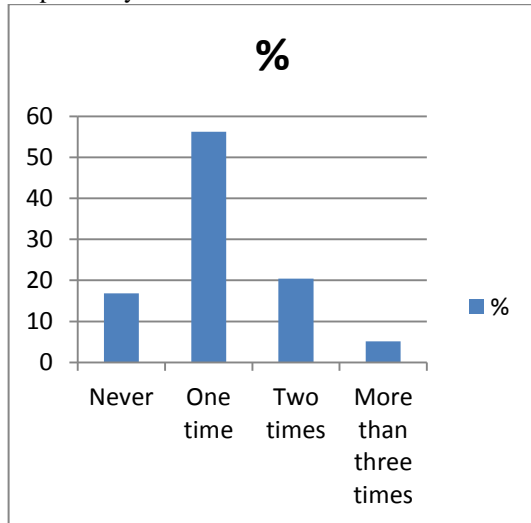


Chart 1: Audit

The other factor asked concerning audit was the impact of audit on compliance. In this research tax payers were asked if audit has positive impact on tax compliance. The majority which is around 83% of them believe audit has a great influence on tax compliance behavior of tax payers.

Table 3 : Audit

Level of agreement	Frequency	%
Strongly agree	35	25.5
agree	80	58.4
Neutral	1	.7

disagree	16	11.7
Strongly disagree	1	.7
Total	137	100.

Respondent were asked if penalty paid in the past has effect on amount of tax declared in the future. As can be seen from the bar chart below ,the majority of the tax payers believe that the amount of tax declared is affected the amount of penalty paid in the past.

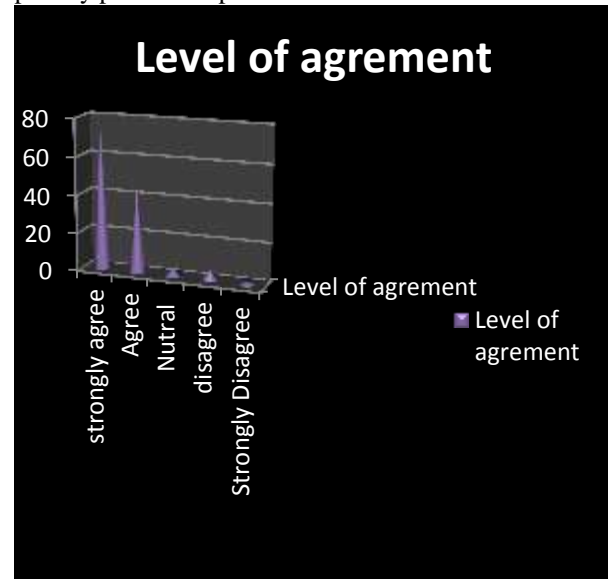


Chart 2: Audit

Different question were raised to tax payers regarding tax noncompliance. The overall result was that a mean of 4.23 showing their disagreement on non-compliance .specifically they disagree that tax compliance is high, probability of being detected is low and tax authorities have a limited capacity to investigate all tax payables.

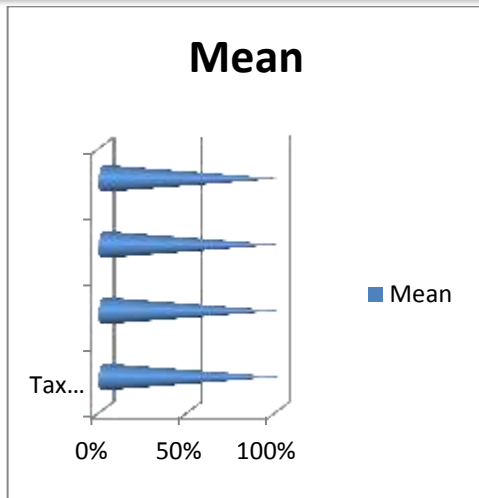


Chart 3: Tax Compliance

The other determinant of tax compliance is fairness. Theoretical the fairness of the tax system is one of the very important aspects of a tax system which determine the behavior of tax payers. If the tax payers perceive the tax system as a fair one, it will be easy for them to comply with it. In this respect respondents were asked if they perceive the general tax system as fair. The majority which is 80% of the respondents agree that the tax system is fair in general where as 5% and 15% were neutral and disagree with it.

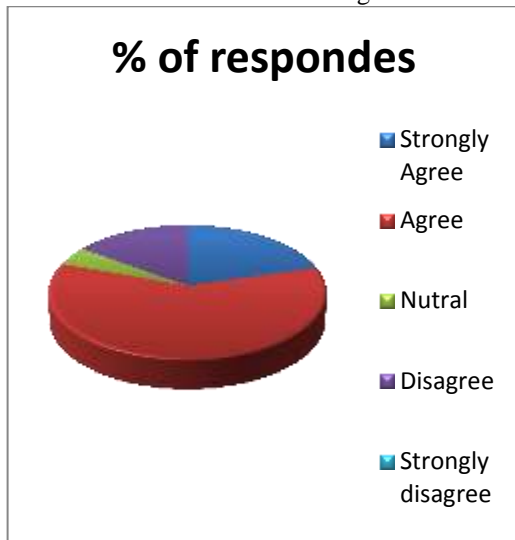


Chart 4: Fairness

Taxpayers are very sensitive about where there tax money goes. If the government is wisely spending the national revenue, for example for

basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade (Mohd . and Ahmad ,2011). Respondents were asked If they were satisfied by the number of government services, facilities and infrastructure .The majority of the respondents said they are dissatisfied by the provision of public service by the government.

Regression Analysis

The variables that are used in the study are government perception, education, penalty, and marital status, and gender, simplicity of the tax system, Age, Tax Audit and fairness of tax. The mentioned variables together have been used to look their impact to the tax compliance.

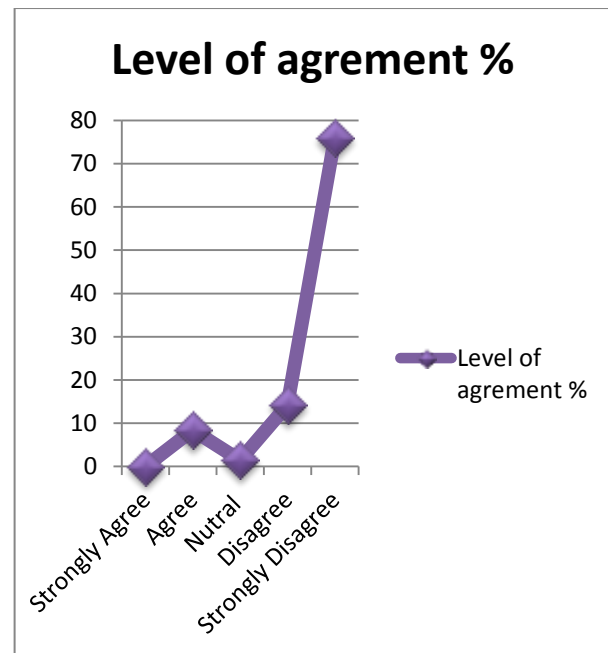


Chart 5: Government Perception

Respondents were asked about the simplicity

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1(Constant)	8.437	.621		13.595	.000					
Age	.032	.089	.031	.364	.085	.015	.034	.026	.724	1.380
sex	.008	.128	.005	.063	.005	-.028	.006	.005	.857	1.167
Educ	-.056	.057	-.081	-.991	.324	-.071	-.093	-.071	.754	1.326
Marital status	-.093	.090	-.079	-1.023	.308	-.041	-.096	-.073	.859	1.165
penalty	.482	.147	.300	3.273	.001	.499	.295	.233	.605	1.652
Audit	-.109	.093	-.116	-1.167	.003	-.480	-.110	-.083	.518	1.930
simplicity	.298	.061	.430	4.882	.075	.473	.419	.348	.655	1.527
Fairness	.108	.074	.180	1.468	.001	-.218	.137	.105	.339	2.949
PerGov	.341	.128	.334	2.667	.009	.157	.244	.190	.324	3.082

a. Dependent Variable:
TaxComp

of the tax laws in general .The majority which is 87% of them agree that the tax laws are general is simple to understand and comply. Whereas the remaining 14% believe that the tax law is not simple to understand and comply.

Table3: Simplicity

The adjusted R square indicates how well the model variance has been explained (Morgan et al., 2005). Above all the model summary states that the independent variables that are under used have an impact to the dependent variable tax compliance. As the adjusted R square state the independent variable has an impact about 48.5%. The rest will be determining by the variable that are not taken under our study. It is greatly recommended for other researchers to undergone through other variable that may have an impact and can be determining in the country context. The durbin Watson test shows as there is no a serial auto correlation problem between the independent variable.

The table indicates if there is a correlation between the dependent variable and the independent variable. A tolerance value less than 0.1 and VIF greater than 10 indicate there is

multicollinearity between the variable. The result indicates all the tolerance values are greater than 0.1 and the VIF value is less than 10. These indicate that there is no multicollinearity problem between the studies variable.

The coefficient of each independent variable to the tax compliance has been shows in the above table. Out of the nine independent variables seven were found to be determinant of tax compliance at 10% level of significant and the two were not at 10 % level of significant. Out of the seven four namely sex, penalty, audit and simplicity were significant at 5%.

As can be seen in the table above age positively affects tax compliance. This indicates that as the age of the tax payers' increase being compliant will also increase. Researcher done by (Dubin &Wilde, 1988) showed that older taxpayers are generally more compliant then younger tax payers. The relationship between compliance and

sex was found to be positive and significant in this research. Women are found to be more compliant than men. To be penalized by the tax authority also will decrease individual compliance to the tax law. Audit was also found to be determinant of tax compliance and it is related with tax compliance positively showing as when tax audit increase compliance increases and the vice versa. Fairness of the tax system and positive perception of the government was found to encourage tax payers to comply more. Different research agreed that to be audited by the tax authority will increase tax payers to be compliant and some research find that to be audited will decrease tax payers to be compliant. Upon this, this research shows that to be audited by the tax authority has a negative relationship with tax compliance. The non-compliance rate increase when the tax authority being audited.

3. CONCLUSION

According to (Jackson and Milliron, 1986) age of the taxpayer is one of the important factors affecting tax compliance. The researches done by (Dubin and Wilde, 1988) showed that the older tax payers are more generally more compliant than younger tax payers. In contrast Warneryd and Walerud (1983) and Wahlund (1992) find negative association, which is older people are less compliant than their young counterparts. Like that of (Dubin and Wilde, 1988), this study finds that there is a positive relationship between age and tax compliance.

Empirically the relationship between gender and tax compliance is toward the argument that female taxpayers are more compliant than male counterpart. For example the researches done by Vogel (1974), Mason and Calvin (1978) and Jackson and Milliron (1986) found that female taxpayers were more compliant than their male counterparts. In contrary Jeypalan, and Hijattullah.A.J, 2006 finds out that compliance attitude between female and male are similar. In this research female were found to be more compliant than their male counterparts.

Both taxpayers and tax authority believe that fairness of the tax system is one of the major determinants of tax compliance. Taxpayers can perceive the tax system as unfair if they believe

that they are paying more than they receive from government or in relation to what other taxpayers are paying (Chu and Leung, 2009). In this study tax compliance and fairness of the tax system was found to have a positive relationship implying as a fairness increase tax compliance will increase and vice versa.

Audit and compliance are found to have a positive relationship in Allingham and Sandmo (1972); Jackson and Jaoun (1989); Shanmugam (2003); Dubin (2004) studies. In this study tax audit and tax compliance has found to have a positive relationship. From this it can be concluded that a high possibility of being audited could encourage taxpayers to compliance.

The way taxpayers perceive the government has its own effect on the tax compliance behavior of taxpayers. The more the government spends the tax money on public goods the more people will be willing to pay tax voluntarily and regularly. What this research revealed is that taxpayers are not satisfied with the government spending.

According to (Richardson, 2006), simplicity is the most important determinant of tax compliance in his study. Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge.

4. RECOMMENDATION

Based on the finding of the study, it is recommended that ERCA (Ethiopian Revenue and Customs Authority) has to work on education the young generation about the tax system and the benefit it has to the society as a whole as the study shows older people comply more to the tax more than the younger one. It has to work also making the whole tax system as fair as possible with regard to the benefits received for paying the tax and the tax burden of paying it. The other area that ERCA should work is to expand and make more regular and consistent auditing still putting in mind the cost associated with it, work on bringing a good reputation in providing public service and making the tax system simple in general and the law, the forms, the filling, the paying and appeal system in particular in order to increase the tax compliance

in one hand and the tax revenue in general

should also be considered by ERCA.

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