Volume 18 Issue 34
Originally issued as D3

Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 18 Issue 3 Version 1.0 Year 2018
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case of Wolaita Sodo and Tercha Town in Dawuro Zone

By Mesele Kebede Manaye
Wolaita Sodo University

Abstract- While tax compliance has been an academic research topic in Ethiopia, there has not been detailed consideration of the major determinants of tax compliance in relation to taxpayers. The primary objective of this study was to identify the major determinants which affects the voluntary compliance behavior of tax payer's in wolaita sodo town and Tercha Town in Dawuro zone. The study used an explanatory method of research design. Given the scaled ranking information of the dependent variable (tax compliance), a multiple linear regression model was applied to examine determinants of tax compliance in Wolaita Sodo and Tercha Town, Ethiopia. The study results from the survey conducted in study area using 290 respondents, indicate that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy among thirteen potential determinants of tax non-compliance were examined in this study. The tax payers should always be treated equally, involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers and voluntary compliance is enhanced when the tax authority administers the law fairly and the authority needs to strengthen itself by educating and training its employees both at home and abroad were few of the recommendations and implications forwarded to the tax authority in the study area in particular and the country in general based the findings and discussions.

Keywords: *tax compliance, tax payers, wolaita sodo town, tercha town, tax revenue authorities.*

GJMBR-D Classification: *JEL Code: H20*



Strictly as per the compliance and regulations of:

© 2018. Mesele Kebede Manaye. This is a research/review paper, distributed under the terms of the Creative Commons Attribution-Noncommercial 3.0 Unported License http://creativecommons.org/licenses/by-nc/3.0/), permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case of Wolaita Sodo and Tercha Town in Dawuro Zone

Mesele Kebede Manaye

Abstract- While tax compliance has been an academic research topic in Ethiopia, there has not been detailed consideration of the major determinants of tax compliance in relation to taxpayers. The primary objective of this study was to identify the major determinants which affects the voluntary compliance behavior of tax payer's in wolaita sodo town and Tercha Town in Dawuro zone. The study used an explanatory method of research design. Given the scaled ranking information of the dependent variable (tax compliance), a multiple linear regression model was applied to examine determinants of tax compliance in Wolaita Sodo and Tercha Town, Ethiopia. The study results from the survey conducted in study area using 290 respondents, indicate that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy among thirteen potential determinants of tax non-compliance were examined in this study. The tax payers should always be treated equally, involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers and voluntary compliance is enhanced when the tax authority administers the law fairly and the authority needs to strengthen itself by educating and training its employees both at home and abroad were few of the recommendations and implications forwarded to the tax authority in the study area in particular and the country in general based the findings and discussions.

Keywords: tax compliance, tax payers, wolaita sodo town, tercha town, tax revenue authorities.

Chapter One

I. Introduction

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.

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009: 1).

For voluntary system to work successfully, the people must be confident that the taxes are levied fairly and that everyone pays his share. If the feeling becomes widespread that the tax system is a collection of loopholes and evasions, if people see their equally prosperous neighbors paying substantially less or enjoying tax- free expense account living, taxpayer morale declines. Once this attitude prevailed in the public it is difficult to rectify it and costs the authorities a huge compliance and collection costs.

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

a) *Statements of the Problem*

Tax non-compliance is a serious challenge slackening income tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries.

Like other developing countries, Ethiopia faces hurdles in raising revenue to the required level in order to scale up the development endeavors. Ethiopia has experienced an unswerving surplus expenditure over revenue for a sufficiently long period of time. To address this problem, the government introduced direct and indirect taxes to improve public revenue although prior statistical evidence proves that the contribution of income taxes to the government's total revenue remained consistently low.

Author: Assistant Professor, Department of Accounting and Finance, Wolaita Sodo University, Ethiopia. e-mails: mesiyek2002@yahoo.com, 1781107@ksom.ac.in

© 2018 Global Journals

The tax compliance literature has provided evidence suggesting that compliance is influenced by numerous factors (Brook, 2001). Scholars identified these factors as economic, social and psychological (Brook, 2001; Devos, 2008; Kirchler, 2007). To mitigate the challenge of tax non-compliance, it is necessary to understand factors influencing an individual's decision to comply with tax laws.

As stated by Scholz (1998; 137) in Fjeldstad (2004), without trust there is little basis for social co-operation and voluntary compliance with laws and regulations that could potentially benefit everyone. The temptation not to comply even if others do comply defines the free riding problem that is endemic in collective action situations in private as well as public institutions.

According to Kirchler (2007) and Loo (2006), tax compliance determinants are classified in four categories based on an interdisciplinary perspective representing a wider perspective of tax compliance determinants compared to other researchers. The four categories are 1) economic factors (tax rates, tax audits and perceptions of government spending); 2) institutional factors (the role of the tax authority, simplicity of the tax returns and administration and probability of detection); 3) social factors (ethics and attitude, perceptions of equity and fairness, political affiliation and changes on current government policy, referent groups); and 4) individual factors (personal financial constraints, awareness of offences and of penalties).

Even though Ethiopian modern tax administration is not older than half a century, it has undergone several legal amendments during this time. But the improvement is not as big as its age as far as citizen's voluntary compliance is concerned. The tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning. For example, the current income tax proclamation (no. 286/2002) has increased the amount of penalties and strengthened the means of enforcement while it states nothing about how to create and increase the awareness of the taxpayers. It gave the tax authorities the right to sell the property of evaders without going to courts in order to collect the outstanding tax liability.

Most of the reform efforts basically targeted institutional capacity building and putting enforcing legal frameworks in place while only insignificant effort, if any was deployed to make the public aware of the benefits of paying tax to the nation. The taxpayers education program that is being carried on very occasionally, stresses more about teaching the contents of the tax laws and penalties rather than promoting citizens' sense of responsibility toward taxation and devising ways to reward compliant behavior.

The extent of the effect of the factors influencing tax compliance is not well understood and studies have not been carried out in wolaita soddo city, Ethiopia to the best of the authors' knowledge. Therefore, examining economic, institutional, social, individual and selected demographic factors that influence tax compliance behavior in wolaita soddo city and Tercha town in Dawuro zone, Ethiopia was the primary purpose of this study.

b) Objectives of the Study

The main objective of this study is to investigate determinants of taxpayers' voluntary compliance with taxation in wolaita soddo and Tercha town in Dawuro Zones.

c) Specific Objectives

In order to accomplish the above major objective, the specific research objectives of this study are as follows:-

1. To determine what are the factors that affect compliance of taxpayers in wolaita soddo and Tercha town in Dawuro Zones.
2. To examine what is relationship between/among these factor and tax compliance.

d) Significance of the Study

This study is significant in that it may help the policy makers of the town administration each zone and at national level to make use of the outputs of the study in addressing the voluntary compliance problems. Moreover,

- ✓ It may provide significant knowledge (awareness) about the benefit of tax in economic development of the country.
- ✓ It may serve as additional sources of information for further investigation in the area of taxation.
- ✓ It will help to create responsible citizens in the country.
- ✓ It provides information about the drawback of the system to the concerned government body and forwards some possible solution.

Chapter Two

II. Review of Literature

The exact meaning of tax compliance has been defined in various ways. Andreoni, Erard, and Feinstein (1998) defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) is defined as taxpayers' willingness to pay their taxes. In 1978 by Song and Yarbrough be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place.

© 2018 Global Journals

a) Economic Factors

Economic factors in relation to tax compliance refer to actions which are associated with the costs and benefits of performing the actions (Loo, 2006). Hasseldine (1993), and Song and Yarbrough (1978) assumed that taxpayers are rational economic evaders who likely would assess the costs and/or benefits of evasion. The tax compliance determinants associated with economic factors such as tax rates, tax audits and perceptions of government spending are explored in more detail.

i *Tax Audits*

Some studies claimed that audits have a positive impact on tax evasions (Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). These findings suggest that in self assessment systems, tax audits can play an indispensable role and their essential role is to increase voluntary compliance. Frequencies and meticulousness of audits could encourage taxpayers to be more prudent in completing their tax returns, reporting all income and claiming the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

ii *Perceptions of government spending*

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

b) Institutional Factors

While taxpayers are influenced by their pure economic concerns either to evade or not to evade taxes, evidence suggests that institutional factors also play vital role in their compliance decisions.

c) Role (efficiency) of the tax authority/government

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

d) Social Factors

Tax compliance determinants from a social perspective relates to taxpayers' willingness to comply with tax laws in response to other people's behavior and their social environment (i.e. the government, friends and family members) (Torgler, 2007). On the other hand, Kirchler (2007) suggested that social factors should be viewed in a broader sense than Torgler's perspective; this includes the psychology of the taxpayers. The factors discussed in this section are therefore perceptions of equity and fairness, changes to current government policy and referent groups.

e) Perceptions of equity or fairness

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

f) Changes to current government policies

Political stability and the ruling party in a country might play a significant role in determining tax evasion behavior. For instance, if an individual favors the ruling party, he might choose to be compliant because he believes that the government is trusted, efficient and equitable. Conversely, a taxpayer from the opposition party might be more non-compliant because he perceives that the government is not on his side. Studies have disclosed that the government decisions and changes to policies in accordance with the economic and political situation have a significant impact on compliance. For example, a positive move made by the government such as an increase in tax rebate (Hasseldine and Hite, 2003) is likely to increase taxpayers' compliance.

g) Referent groups (family and friends)

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

© 2018 Global Journals

h) Individual Factors

Decisions either to evade or not to evade taxes are heavily reliant on taxpayers' personal judgment (Mohani, 2001). Personal circumstantial factors like personal financial constraints and awareness of penalties and offences are therefore likely to have a significant impact on taxpayer compliance behavior.

i *Personal financial constraints*

Personal financial constraints are believed to have an impact on tax evasion as financial distress faced by an individual and may encourage him to priorities what has to be paid first as basic survival needs (foods, clothing, housing etc.) or where immediate demand on limited income is enforced (for example, perceived threat of action from money lenders etc.) rather than tax liabilities.

People who face personal financial problems are likely to be more prone to evade tax when compared to people in less financial distress (Mohani and Sheehan, 2004; Mohani, 2001).

ii *Awareness of offences and penalties*

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

i) Tax Knowledge

The influence of tax knowledge on compliance behavior has been described in various researches. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and Fallan, 1996).

Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply (Singh and Bhupalan, 2001).

j) Demographics and other control variables

i *Gender*

Some studies found that males are more compliant though other studies revealed contradictory results or no significant difference at all. As agreements on the findings still maintain, the need to explore current results is relevant. Hasseldine and Hite (2003) found that female taxpayers were more compliant than males. However, the study reported that males were more compliant compared to females when a negatively framed message was used, and females were more compliant than males when a positively framed message was used.

In contrast, Richardson (2006) suggested that gender has no significant impact on compliance across a study of 45 countries.

ii *Income*

Jackson and Milliron (1986) found that income level has a mixed and unclear impact on compliance, and some later research agrees with that statement (see Christian and Gupta, 1993: Hite, 1997). Although Jackson and Milliron (1986) did not clearly mention the reason, it is presumed that endogenous tax regulations among countries might contribute to inconsistent findings. For example, progressive tax rates might encourage the higher income group to evade rather than the lower income group because their (higher income group) tax rates and taxable income are high, thus, making the tax liabilities much higher than lower income group. In a country where income redistribution is not satisfying, the higher income group tends to evade more (Mohani, 2001) because the high income earner might feel betrayed and unfairly treated. Loo (2006) found that high income earners in Malaysia are prone to evading tax while Torgler (2007) reported that lower income earners in Western Germany were less compliant.

iii *Age*

Demographic factors like age have long been researched by many researchers and findings are different along the way. For example Tittle (1980), Warneryd and Walerud (1982) and Wahlund (1992) posit negative association - older people are less compliant.

In contrast, Dubin, Graetz and Wilde (1987), Chung and Trivedi (2003) and Beron, Tuachen and Witte (1992) argued that age was positively related with compliance. However, there have been a significant number of studies which found no relationship between age and compliance (Spicer and Becker 1980 and Porcano, 1988). Mohani 2001 also found that older people are more compliant.

iv *Education*

Previous literature supports the direct, positive relationship between educational level and taxpayer compliance (Jackson and Miliron 1986). Chan, Troutman, and O'Bryan (2000) also postulate that education level is directly linked to a likelihood of compliance. Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and higher level of moral development promote a more favorable taxpayer attitude and greater compliance.

k) Research Gap

Why do some people pay taxes levied upon them while others do not? This is the broad question which this study seeks to answer. In more specific terms, this paper aims at providing a review of the factors that determine taxpayer compliance and conceptualization of those factors into a meaningful

© 2018 Global Journals

whole. There is already a considerable literature on the subject of tax compliance; however, it appears that so far no study has assessed the collective adequacy of the factors employed in the studies and in the particular study area.

And as to the best of researchers' knowledge, factors that determine tax compliance behavior is not well understood and studies have not been carried out in particular study area, Ethiopia and some of related studies also did not incorporate different determinants of tax compliance. In addition, while reviewing the above related literatures, they found inconclusive results on tax compliance determinants. Hence, the above research gap motivated researchers to examine the factors that influence voluntary compliance behavior of tax payers by taking evidence from wolaita sodo town and tercha in Dawuro zone, Ethiopia.

l) Hypothesis of the Study

H1: Probability of being audited is positively correlated with tax compliance

H2: Positive perception of government spending is positively correlated with tax compliance.

H3: The role (efficiency) of the tax authority is positively correlated with tax compliance.

H4: Positive perception of equity in the tax system is positively correlated with tax compliance.

H5: Unfavorably perceived changes to current government policies are negatively correlated with tax compliance.

H6: The influence of referent group is positively correlated with tax compliance.

H7: Personal financial constraint is negatively correlated with tax compliance.

H8: Awareness of penalty is positively correlated with tax compliance.

H9: Tax knowledge is positively correlated with tax compliance.

H10: Male tax payers are more tax compliant

H11: Higher income level is positively associated with better tax compliance.

H12: Older tax payers are tax compliant.

H13: Educational level has direct relationship with tax compliance.

Chapter Three

III. Materials and Methods

a) Description of the Study Area

Sodo or Wolaita Sodo is a town and separate woreda in south - central Ethiopia. The administrative center of the Wolaita Zone of the Southern Nations, Nationalities, and Peoples Region, it has a latitude and longitude of 6°54′N 37°45′E with an elevation between Template: Convert above sea level. It was part of the former Sodo woreda which included Sodo Zuria which completely surrounds it.

Located in the tropics at high altitude, Sodo possesses well - moderated Subtropical highland climate (Koppen *Cwb*), with a pronounced pattern of wet summers and dry winters. Despite being located in the Northern Hemisphere, Sodo is actually cooler in the "summer" than the "winter" due to much higher rainfall in the high-sun season, a phenomenon common to Sodo's region.

Based on the 2007 Census conducted by the CSA, this town has a total population of 76,050, of whom 40,140 are men and 35,910 women. The majority of the inhabitants were Protestants, with 54.61% of the population reporting that belief, 38.43% practiced Ethiopian Orthodox Christianity, 4.76% were Muslim, and 1.28% were Catholic.

Terch is a town and an administrative seat of Dawro zone in southern Ethiopia. The town is located in Marika woreda (district) about 530km (329 miles) south of the capital, Addis Ababa.

b) Research Design

(Saundra, Lewis and Thornhill 2007) Suggest an explanatory study type of research design for researches that study "…a situation or a problem in order to explain the relationships between variables." So, since this study has the objective to investigate determinants of taxpayers' voluntary compliance with taxation in wolaita soddo and Tercha town in Dawuro Zones, by evaluating the relationship among different variables, (which will be explained latter in this part,) the researchers would have choose to use an explanatory study as suggested by the above scholars.

c) Data Source and Type

To attain the stated research objectives, the researchers used both primary and secondary sources of data. Secondary sources include published and unpublished materials. These materials were collected from the federal Inland Revenue, as well as regional and local branches. To gather relevant primary data a survey method with self-structured questionnaire was used. The questionnaires were adopted and developed with some modification from previous similar studies. Close ended questionnaires were prepared in the form of five Likeret-Scale, Where; Strongly Agree (SA) = 5; Agree (A) = 4; Neutral (N) =3, Disagree (D) = 2; and Strongly Disagree (SD) = 1; the use of Likert scale is to make it easier for respondents to answer question in a simple way. And also Primary data was obtained by direct interview with the respondents. The respondents were tax payers and tax officials of revenue authorities. The questionnaire would have include both closed and open ended questions. The closed-ended questions were used to collect background information about the respondents. The questionnaire would pre-tested before

© 2018 Global Journals

conducting interview for the whole sample. Besides, discussions was made with selected tax officers in each zones and general manger and relevant documents were reviewed.

i *Sampling Techniques*

Tax payers were sampled from stratified sectors and market places which included exporters; importers; Construction, Garage and Taylor's associations; and small traders operating in the wolaita soddo and Tercha town of Dawuro zones. For methodological simplicity, tax payers were first re-grouped/stratified into two groups: Group 1 (Category "C" tax payers) and Group 2 (Category 'A' and 'B' Tax payers). Then, a proportional random sampling method was employed to select the sample tax payers from each stratum. According to 2007 E.C record of wolaita zone revenue authority office, there are a total of 6072 tax payers in soddo town out of which 785 under category of tax payer A, 610 under category taxpayer B and 4677 under category taxpayers C.

The sample size was determined based on precision rate and confidence level for all categories of tax payers as follows:

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

Where: n=sample size, p= the maximum population proportion, q=p-1, N= number of population size, Z= standardized normal variable and its value that corresponds to 95 % confidence interval equals 1.96p = 0.5 and e = allowable error (0.05).

Therefore, n = 340 of which 785/6072x340=44 was taken as a sample from tax payer A, 610/6072x340=34 was taken as a sample from tax payer B and 4677/6072x340=262 was taken as a sample from tax payer C.

Even if the actual sample size was three hundred and forty (340), the researchers were urged to reduce the number of respondents to 300 by taking in to consideration the budget constraint by the funding institution i.e the university has allowed budget only for three hundred respondents and total number of three hundred (300) questionnaires were administered to individual taxpayers. The distribution per town i,e Wolaita sodo and Tercha was linked to the number of tax payers in each zone. Since the Tercha town in Dawuro zone had fewer tax payers in terms of Wolaita sodo, sixty (60) questionnaires were administered there. Two hundred and fourty (240) questionnaires were administered in the wolaita sodo since it had the highest number of tax payers. In addition to these, heads of various sections in each town tax authority officials were interviewed on the strategies that the units were using to enhance voluntary compliance among the tax payers.

Simple Random Sampling Technique was used to select the respondents from each town and Purposive Sampling Technique was used to select the heads of the various tax officials responsible in the tax authorities of both towns.

A total of 300 questionnaires were administered randomly to these respondents. At the end of the fieldwork, total of 290 of usable questionnaires were retrieved representing approximately 97% response rate and all were used in the analysis.

d) Methods of Data Analysis

The data analysis were based on both descriptive and econometrics approaches. The empirical model is described below.

i *Model Specification*

A statistical tool that allows you to examine how multiple independent variables are related to a dependent variable. Once you have identified how these multiple variables relate to your dependent variable, you can take information about all of the independent variables and use it to make much more powerful and accurate predictions about why things are the way they are.

A multiple linear regression model is a probabilistic model that includes more than one independent variable. The general multiple linear regression model is of the form,

$$yi = \beta 0 + \beta 1 xi1 + \beta 2 xi2 + \ldots\ldots \beta k xik + \square i;\ \square i \sim N(0, \square 2) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where, β0, β1, β2,.....βk are the regression coefficients of predictors xi1, xi2,..xik; i = 1, 2,…n and i is the error term.

Thus, we have n observations on y and the associated x variables in equation (1).

The regression coefficient of a predictor quantifies the amount of linear trend in y. It gives the amount of change in y corresponding to one unit change in a predictor while all other predictors are held fixed at some specified levels.

The multiple linear regression model as given in equation 1 has got two components: the deterministic component and the probabilistic component.

$yi = \beta 0 + \beta 1 xi1 + \beta 2 xi2 + \ldots\ldots \beta k xik$ is the deterministic component of the model, and, $\square i$ is the probabilistic component.

In the multiple linear regression model, the predictors are strictly assumed to be fixed i.e. x1, x2,...xk are fixed variables (either discrete or continuous) that are controlled by the experimenter while y is a continuous random variable.

Writing equation 1 for each of the n observations, we have

$$y1 = \beta 0 + \beta 1 x11 + \beta 2 x12 + \ldots\ldots \beta k x1k + \square 1$$

$$y2 = \beta 0 + \beta 1 x21 + \beta 2 x22 + \ldots\ldots \beta k x2k + \square 2$$

© 2018 Global Journals

$$yn = \beta 0 + \beta 1xn1 + \beta 2xn2 + \ldots\ldots.\beta kxnk + \square n$$

The n equations can be written in matrix notation as;

$$\begin{pmatrix} y_1 \\ y_2 \\ . \\ . \\ . \\ y_n \end{pmatrix} = \begin{pmatrix} 1 & x_{11} & x_{12}\ldots\ldots & x_{1k} \\ 1 & x_{21} & x_{22}\ldots\ldots & x_{2k} \\ . & . & \ldots\ldots & . \\ . & . & \ldots\ldots & . \\ . & . & . & . \\ 1 & x_{n1} & x_{n2}\ldots\ldots & x_{nk} \end{pmatrix} \begin{pmatrix} \beta_0 \\ \beta_1 \\ . \\ . \\ . \\ \beta_k \end{pmatrix} + \begin{pmatrix} \varepsilon_1 \\ \varepsilon_2 \\ . \\ . \\ . \\ \varepsilon_3 \end{pmatrix}$$

Or

$$y = X\beta + \square \ldots\ldots\ldots\

b) Respondents Profile

This section presents information about the demographic characteristics of the respondents in line to their gender, age, formal education, respondents working experience, business type, size of business, business length of operation. Some descriptive statistics are also illustrated in this section. A total of 300 questionnaires were administered to these taxpayers and at the end of the field work, a total of 300 usable questionnaires were retrieved representing 100% response rate. This shows that the response rate considered as excellent. (Dillman, 2007).

i *Demographic Information*

Demographic information shows the characteristics of the elements in the sample size: As such the researchers sought to establish the general information of the respondents, which forms the basis under which the interpretations are made. Demographic factor one analyzed the gender of the respondents. This information was necessary to enable the researchers to obtain information on whether the respondents were either male or female. Seventy two (72%) of the respondents were male whereas twenty eight percent (28%) were female.

Demographic factor 2 shows the age brackets of respondents, the age distribution of the respondent who participated in the study is provided in table 4.1 below. The sample age categories were divided with a range of 10 years except age category above 60. (5.2%) of the respondents are between 20-30 years of age, (7.4%) are between 30-40 years, (24.7%) are in the 40-50 age bracket. Respondents between 50-60 years are (47.6%) and those above 60 years of age are fifteen point one percent (15.1%). This result illustrates that most of the tax payer's in wolaita sodo town and Tercha are generally above 40 years. This is an indication that most taxpayers in the sample are at their matured ages and information given to this study is free from emotional (Table 4.1). Demographic factor 3 examines the academic qualifications of the respondents. It is believed to be that the ability to read and write influences one's ability to understand and interpret the tax laws. The information is necessary to enable the researchers to know whether the respondents are educated or illiterate. Information on the academic qualifications of the respondents is statistically shown in table 4.1 below. It reflects the academic qualifications of the respondents. Sixteen point six percent (16.6%) have a high school certificate; Thirty two point eight percent (32.8%) have a Degree/Professional, forty two point four percent (42.4%) hold a Certificate/diploma and eight point two percent (8.2%) have a post graduate /masters and above degree qualification. Cumulatively, all of the respondents were in possession of at least reading and writing and none of the respondents had no schooling. Therefore, the implication to these findings indicates that the majority of business taxpayers were well educated to know the need for taxation and they can understand and interpret the tax law as well (table 4.1).

Table 4.1: Demographic Information

Gender	Frequency	Percentage
Male	209	72
Female	81	28
Total	290	100
Age		
20-30 years	16	5.2
31-40 years	21	7.4
41-50 years	72	24.7
50-60 years	138	47.6
Above 60 years	44	15.1
	290	100
Level of Education		
Below 12 grade	0	0
12 grade complete	48	16.6
Diploma	123	42.4
1st degree	95	32.8
Masters and above	24	8.2
Others	0	0
	290	100

Source: Field Survey, 2015/2016

c) Information about Age of the Business and the Annual Turnover

Research findings on information about the age of the business in the study area revealed that majority of the businesses have been in operation for between 1-5 years (47.6%) followed by those that have been in operation for 6-10years (24.7%), and business who have been in operation for less than a year (15.1%) and business that have been in operation for over 10years (12.5%). Findings on the annual turnover affirmed that the turnover below birr 100,000.00 was sixty one point six percent 61.6% whereas turnover between 100,000-500,000.00 birr was twenty four point four percent 24.4% .Annual turnover above 500,000 birr was one point fourteen percent 14% .The results reveal that most of the business owners in the study area have their annual turnover below 100,000 birr.

Table 4.2: Information about age of the business and annual turnover of the business

Years of Operation	Frequency	Percentage
Less than a year	44	15.1
1-5 years	138	47.6
6-10 years	72	24.7
Above 10 years	36	12.5
Total	290	100
Annual turnover		
Less Than BIRR 100,000	179	61.6
BIRR 100,000 to BIRR 500,000	71	24.4
BIRR 500,000 and Above	41	14
Total	290	100

Source: Field Survey, 2015/2016

© 2018 Global Journals

The number of years one has been in business has an influence on his/her taxpayers' experience and level of paying taxes. For those who have done business for long implies they are used with the routine practices of paying taxes to tax authority. Accordingly, the respondents were required to indicate their working experience related tax issue and findings of the survey shows that more than half of the respondents (56.1%) indicated that they had 6 to 10 years of experiences in business, 22.4 % of the survey respondents indicated that they had 1 to 5 years of work experience, while 11.5 % had 5 to 10 years of experience, the rest had less than 1 year of experience in the business. Therefore, it can be said that the business taxpayers had relatively average experience on tax related issue which indicates that almost half of them are well experienced which can able them measure the old tax system and the new one. In other words, it can be conclude that the information provided in this study was given by experienced respondent and informants (Table 4.3).

Table 4.3

Respondents working experience as tax related issues	Frequency	Parentage
Less than 1 year	29	10.1
1-5 years	65	22.3
6-10 years	163	56.1
More than 10 years	33.35	11.5
Total	290	100

Source: Field Survey, 2015/2016

According to Income Tax Regulation No. 78/2002, there are 69 categories of business sectors and for the purpose of this study only the major ones were surveyed and their distribution is presented in the table below.

Table 4.4: Distribution of Business Sectors Included In the Sample

Respondents working experience as tax related issues	Frequency	Parentage
Manufacturing	54	18.6
General Trade/Whole Sale	68	23.6
Service	167	57.6
Others	1	0.2
Total	290	100

Source: Field Survey, 2015/2016

i *Position in the Sector*

Respondents were asked to state who would lead their sector and whether they belong to as owner, employer and manager of the sector. Of the three categories owner of the sector had contributed 70.2% followed by 24.8% and 4.8% who had worked as an employer and manager in the sector correspondingly. Here we can conclude that, most of the business in the study area managed by owners instead by professional managers.

Table 4.5: Frequency distribution of position in the sector characteristics of respondents

	Frequency	Parentage
Owner	203	69.9
Employer	72	24.8
Manager	14	4.8
Total	290	100

Source: Field Survey, 2015/2016

ii *Taxpayers' knowledge about taxation*

Regarding this aspect 99% of the respondents responded that they knew why they pay taxes. On the other hand the following table shows the response of the respondents regarding their reason of paying taxes

Table 4.6

Reason of Paying Taxes	Frequency	Percentage
1. To avoid disturbances	15	5
2. In the anticipation of public services	90	31
3. There is no opportunity to evade	17.4	6
4. It is an obligation towards the government	168	58
Total	290	100

Source: Field Survey, 2015/2016

From the above table when tax payers asked why they pay taxes, 58% of the respondents said that they pay taxes because it is an obligation to the government or state and in the anticipation of public services from the government (31%). This indicates there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be achieved. On the other hand, some of

© 2018 Global Journals

them (6%) said that they have no opportunity to evade, and the remaining 5% of the respondents said that they pay taxes to avoid disturbances. Particularly with respect to those 5% who said they pay taxes to avoid disturbances, the response indicates that the revenue collection regime is not considered by majority of taxpayers (at least 95%) to be harsh and unpleasant. In other words, only 5% of the respondents think that way. The response of the other 6% who said there is no opportunity to evade indicates they have the intention not to pay if they have the opportunity to do so or their compliance behavior is questionable.

iii *Tax Equity or Fairness*

When people asked whether the tax they are paying is based on their ability-to pay or not, 71% of them responded that the tax is not fair and not based on their ability-to pay.

Table 4.7: Table that depicts overstatement/understatement of tax

Questions	Frequency	Percentage
Is your tax liability overstated or understated?		
Overstated	206	71
Understated	23	8
Normal	61	21
Total	290	100

Source: Field Survey, 2015/2016

According to the above table, from those respondents who have said the tax they are paying is not based on their ability- to pay, only 29% said that the tax they paid is fair and equitable Or even understated whereas the majority (71%) of those who said the tax they pay is not fair Responded that it is overstated. On other question in support of this issue, the respondents were asked to rank the major problems in the tax system and they responded accordingly.

From the list of five most probable options the majority of the respondents (60%) felt that the tax rates are too high, 17% said tax revenues are not spent on public services, and also 15% said taxpayers are not willing to pay. From this response it is clear that the tax rate is not based on the ability-to-pay principle or it is perceived to be unfair by taxpayers. This can be either really true or human beings are benefit maximizers so that it may be difficult to Please taxpayers. Even though the principle says the tax should be based on the ability-to pay, the problem here is in determining this 'ability' for each taxpayer. Actually the tax rate May not be as such high but the communication gap between the tax authority and taxpayers Might have created this perception and it continues to be the issue as far as the Understanding of the taxpayers regarding tax rates, assessment, calculation etc is low.

On the other hand, significant number of respondents (17%) said that tax revenues are not spent on public services. Theoretically tax revenue is used to finance services provided by the government. This might be practically true, but the public must be made aware of these Social services which are being financed by the taxpayers' money. As long there is a gap in communicating these facts to the public the above attitude problem will not be changed. The Other issue which was raised as a problem thirdly is that taxpayers are not willing to pay Taxes (15%). This problem is the central problem as far as tax compliance is concerned and it is related with variety of factors.

d) Organizational Effectiveness of the Tax Authority

The respondents evaluated the Tax Authority with respect to certain parameters. The Following table shows their response to these questions in percentages.

Table 6: Evaluation of the tax authority by respondents

Parameters	Excellent	Good	Fair	Poor
Service delivery	15%	25%	38%	23%
Tax collection efficiency	9%	26%	35%	29%
Law enforcement	12%	17%	43%	28%
Awareness creation	6%	14%	23%	59%

Source: Field Survey, 2015/2016

From the table it is observed that the respondents rated service delivery by the tax authority as excellent (15%), good (25%), fair (38%), and poor (23%). Regarding tax collection Efficiency, they responded excellent (9%), good (26%), fair (35%), and poor (29%).

Similarly, they rated the authority with respect to law enforcement activity as an excellent (12%), good (17%), fair (43%) and poor (28%). On the other hand, concerning awareness Creation, they said excellent (6%), good (14%), fair (23%) and poor (59%).

From the table it is tangible that the majority of the respondents rated the tax authority from Excellent to fair except for awareness creation where 59% of them said poor. In all the Parameters most of the respondents rated the authority's effort as fair and below that. This

© 2018 Global Journals

clearly shows the tax authority is not effective and not providing satisfying service for Taxpayers. On the other hand, the effort of the authority in creating awareness was rated poor (59%). This can be cited as the root cause for all the problems as far as voluntary Compliance is concerned. On other question 83% of the respondents said that the tax authority and the zonal Administration are jointly responsible for poor tax compliance and only 6% of the Respondents said taxpayers are responsible. This can be directly related to the authority's Strength and effectiveness in providing services, information, and creating awareness. The respondents additionally commented on this issue and they reasoned out that both the tax Authority and the city government didn't play their role well in improving the tax Administration, creating awareness, providing social services, and other information Regarding taxes and other activities of the city government.

Hence the poor effort of both the tax authority and the city government in these area can be Cited as the major factor that has contributed to the underlying problem and so that both are Responsible for poor tax compliance. On the other hand, even though the above comment Given by the respondents cannot be undermined, the fact that people always externalize Certain problems and make others responsible for the problem, might be taken into Consideration while analyzing this response.

e) Factors that Influence Tax Compliance among Sample Tax Payers

Table 8: Spearman correlation matrix for dependent, independent variables and control variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.TCOMP	1													
2.TAXK	0.38(***)	0.07	1											
3.SIMPL	0.03	-0.19(*)	-0.15	1										
4.PROBAU	0.30(***)	-0.13	.5314(***)	-0.16	1									
5.GOVSPE	-0.19(*)	0.10	0.20(**)	-0.16	0.03	1								
6. EQUITY	-0.21(**)	0.01	0.16	0.01	0.15	0.23(**)	1							
7.RATES	-0.20(**)	0.03	0.15	0	-	0.14	0.22(**)	1						
8.ROLE	-0.23(**)	0.14	0.36(***)	0.20(**)	0.33(***)	0.04	0.1	0.16	1					
9.PEN	0.31(***)	0.15	0.48(***)	-0.15	0.32(***)	0.30(***)	0.04	0.13	1					
10.FINCON	-0.14	0.03	0.11	0.02	0.03	0.31(***)	0.24(**)	-0.13	0.24(**)	1				
11. REFGP	-0.25(**)	--0.18(*)	0.05	-0.06	0.16	0.08	0	-0.01	0.05	0.03	1			
12.SEX	-0.23(***)	-0.13	-0.03	0	0.13	0.08	0.21(**)	0.03	-0.07	0.17(**)	0.16	1		
13.AGE	-0.25(**)	-0.01	0.04	0.03	0.07	-0.08	0.15	0.08	-0.14	0.09	0.05	0.20(**)	1	
14.EDU	-0.01	-0.08	-0.08	-0.1	-0.04	0.18(**)	-0.04	-0.12	0.11	0.04	0.18(*)	0.05	0.26(**)	1

*Notes: ***p<0.01, **p<0.05, *p<0.1*

Note: The diagonal elements represents the square root of average variance extracted (AVE) between the constructs and their measures. The off-diagonal elements highlighted above are correlations between constructs. For discriminant validity, diagonal elements should be larger than off-diagonal elements in the corresponding row and column.

Table 8 illustrates the Spearman correlation matrix for dependent and independent variables. Based on Table 8, all independent variables Tax knowledge, PROB AUD, PEN and SEX were significantly correlated with Compliance Stat. The highest correlation occurred between compliance stat and SEX (rs = -.23) followed Equity Fair, Ref Gro. Govspen FinaCons and Age. According to univariate results in Table 4, it was suggested that Tax knowledge, PROB AUD, PEN and SEX were the most significant determinants.

f) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.383[a]	.147	0128	.73962

a. *Predictors: (Constant), tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints reference group sex, age and education.*

© 2018 Global Journals

g) Model Summary

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.349	12	4.235	7.742	.000[b]
	Residual	139.492	278	.547		
	Total	181.841	290			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints, reference group sex, age and education.

The study found that the model only explains 15 percent of the variation in tax compliance thus the model is not well fit since $R2$ is less than 50 percent. The Anova results presented indicated that the variables jointly had a statistically significance with p-value of 0.00 and an F statistic of 7.74.

The main objective of the study was to identify the determinants of tax payer's voluntary compliance with taxation the case of Wolaita Sodo and Tercha Town in Dawuro Zone. Thirteen possible factors of tax compliance were examined in this research namely, tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints reference group sex, age and education.

Table 9: Determinants of tax compliance - multiple linear logistic regression result with control variables

Variables	Coeff.	SE	Z
TaxK	0.50(***)	0.49	1.01
PrORBAUD	0.32 (***)	0.18	-1.80
SIMPL	-0.09	0.16	-0.60
EQUITY	0.01	0.18	0.04
PEN	-0.14(***)	0.18	-0.78
FINCON	-0.24(*)	0.15	-1.56
RATES	-0.25(**)	0.16	-1.59
RefFRROUP	-0.38	0.18	-2.11
ROLE	-0.04	0.14	-0.26
Sex	-1.08 (***)	0.52	-2.07
GOV SPE	-0.09	0.12	-0.78
Age	-0.51	0.18	-2.82
Educ	-0.13	0.16	-0.77
Log likelihood	-67.138657		
LR chi2(23)	42.71		
Number of obs	290		

*Notes: ***p <0.01, **p <0.05, *p <0.1*

Table 9 summarizes the results of the supplementary regression model which incorporated several control variables. The Multiple linear regression model analysis indicates probability of auditing, tax knowledge, penalty, amount of tax and sex are determinants of tax compliance. This supplementary regression model also suggested that Probability of Auditing, and tax knowledge, remain the most important determinants of tax compliance. In relation to the significance of the control variables, results show that Gender is also appear to be significantly correlated with tax compliance behavior. Specifically, the association between gender (male=1) and compliance status was negative and significant ($p<0.01$), rejecting the hypothesis that male taxpayers are significantly less compliant. The association between age and compliance status was negative and significant ($p<0.01$), consequently, the hypothesis that older people are significantly more compliant is not accepted. Finally, other control variables like income and education had no significant association with compliance status. Again, analogous to results in Table 5, these results verified that control variables had a significant impact on increasing tax compliance behavior. Furthermore, results demonstrated that the supplementary regression model remains robust.

With regard to the probability of being audited, previous studies (for example, Allingham and Sandmo (1972); Jackson and Jaouen (1989); Wickerson (1994); Shanmugam (2003); Dubin (2004); Riahi-Belkaoui (2004); Richardson (2006).; Andreoni, Erard and Feinstein (1998); Verboon, and van Dijke (2007); Eisenhauer (2008)) have found that a high probability of being audited or detected would encourage taxpayers to be more compliant (positive relationship) but some other studies found contradicting results, such as a high probability of being audited would potentially decrease compliance creating a negative association (for example Slemrod, Blumenthal, and Christian, (2001): Braithwaite, Reinhart, and Smart, (2009). As far as high probability of audit could encourage tax compliance, it is advocated that the tax authority should increase their number of audit samples with the aim of increasing tax compliance, decreasing the tax gap and achieving the missions of RCA.

The influence of knowledge on compliance behaviors has been assessed in various researches. Regarding the tax knowledge various researchers found that knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003). Taxation

© 2018 Global Journals

knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996). Self-assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003). Taxpayers will readily accept any new system introduced, like the SAS, if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self - assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001).

Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et. al. 2000). Chan *et. al*. also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2001). Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2010). Hite and Hasseldine (2001) highlighted that tax authority need to emphasize teaching tax courses because of impact of education on compliance.

h) Content Analysis of Open-Ended Questions

Besides to the above close ended questions, respondents were also given opportunities to indicate their comments on some open ended question and state whatever they think is important and what were not incorporated by the researcher. Accordingly they issued several comments and mainly regarding problems and measures that has to be undertaken. These important points were categorized and listed as below:

- Even if the regression analysis result insignificant relationship of complexity and non-compliance decision, a number of respondents expressed that inconvenient location, complex tax return procedure and bureaucratic tax operation canon affect their tax compliance decision negatively. This finding of course, is perhaps to be logically expected by tax authorities. If many errors are detected in tax returns and the same errors happen every year by different taxpayers, it means that the wordings or the sentences of the format in tax return may be, at least, partly to blame. Previous studies have also evidenced that complexity of reporting requirements has a high association with errors detected by audits (Long, 1987).

Likewise simplicity in filing returns will encourage taxpayers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs. (Silvani, 1997)

- Similarly, even if the regression analysis show the significant relationship between noncompliance behavior and tax deterrence sanctions such as the likelihood of penalty severity and probability of audit most of tax payers admitted and stressed that low probability of being detected by the tax authority, serious enforcement, for example sever penalty/ interest makes evasion more difficult and impel to bring about voluntary compliance. This indicates, in self-assessment systems, tax audits can play an important role in increase voluntary compliance. 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 contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.
- Respondents state that dilatory refund system, negative attitude and weak performance of the staff adversely affect their compliance decision. On the other hand, employees who work in accordance with the law, well qualified and friendly approach motivate them to comply. This implies that weaker level of tax administration and rent seeker employees inside the tax office plays a major role in non-compliant decision.
- Respondents were put the branch's information system as underprivileged and hence affect willingness to comply. In addition respondents locate factors which robust tax compliance. Specifically, devote significant time in promoting a tax issue, and educating tax payers, discloses all necessary information and update them for each new happenings.
- Respondents locate that they are getting equivalent benefit from government for their tax payments. This tends to positively affect their willingness to comply. Therefore, improving living condition of citizens, avoiding meaningless expenditure and

© 2018 Global Journals

provides enough information about how government utilizes the taxpayer's money enhance voluntary payment.

- Most of respondents believed that equally penalize all tax payers who do not obey the law give a lesson for those who wish to evade tax and refrain them from such activity. This was supported by the study by (Wenzel, 2005) which claimed that if a specific group perceived their tax liability was higher than other groups, then tax evasion might occur among the group members.

Most respondents expressed that lack of working capital (cash on hand) moderate their tax compliance decision. This argument lends support to the study of (Mohani A , 2001), which reported that taxpayers who faced financial problems were more prone to evading tax in comparison with those in less financial distress.

- Lack of tax knowledge was cited as the chief reason for tax evasion (noncompliance) and the respondents strongly commented that great effort has to be employed in this area. Several respondents firmly commented that tax authority does not provide sufficient education which focus on awareness creation and enhance the smooth relationships with tax payers.
- Respondents also suggested that resistance from other tax payers or obligated to pay tax make compliance decision difficult. A number of traders refuse to supply legal receipt and sometimes refuse to accept withholding agents. In addition to the above points, Finally A number of respondents expressed that publication of non-compliant companies in daily gazettes, can make light of tax evasion (indemnify compliance).

Chapter Five

V. Conclusion and Recommendations

a) Conclusion

While tax compliance has been an academic research topic in Ethiopia, there has not been detailed consideration of the major determinants of tax compliance in relation to taxpayers. The primary objective of this study was to the major determinants which affects the voluntary compliance behavior of tax payer's in wolaita sodo town and Tercha Town in Dawuro zone. Based on an objective analysis of data and discussion of findings, the following are the summary of major findings and conclusions of this study.

Thirteen potential determinants of tax non-compliance were examined in this study, namely tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints reference group sex, age and education. The results revealed that Tax knowledge, probability of audit, Penalty and Sex were the most significant determinants consistently influence the likelihood of tax non-compliance behavior in the areas of under-reporting income, over-claiming expenses and overall non-compliance. Nonetheless, simplicity of tax procedures, perception of government spending, equity and fairness, tax rates, role played by tax authorities, personal financial constraints, reference group, age and education have an insignificant relationship with the non-compliance behavior of taxpayers. Therefore, it is advisable to capitalize on the above factors to boost taxpayers' voluntary compliance.

b) Recommendations

Ethiopian tax policy is based on tax payers' voluntary compliance. As expected from self-assessed tax system, the authority's allotment is to cause taxpayers voluntarily discharge their tax obligations. However, tax non-compliance become a serious challenge and court issue and slackening tax revenue performance in Ethiopia. Thus, based on the study conducted determinants of taxpayers' voluntary compliance were identified and possible recommendations will be forwarded so that it may help the tax authority and other policy makers to approach the issue accordingly.

- The tax payers always expect fair answers to their queries. This does not only mean simply giving an answer to their questions but also this need to be done without discrimination and bias. Similarly tax payers who engage in tax evasion need to be penalized equally so as to fairly implement the tax system. Therefore the branch office should treat/serve equal tax payers in equal circumstances in an equal way.
- In order to attain developmental goal and to boost voluntary compliance, the authority must involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly. The current preliminary application of customer charter can be considered as a good start.
- In order to implement the tax law effectively and efficiently, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers. Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. Capability to detect fraud or evasion is crucial to tax compliance for instance as it would not be practical to audit all cases, the fear of being caught would be sufficient to act as a deterrent. Therefore the branch office should perform its operation effectively and efficiently. In addition to the above the authority should undertake

© 2018 Global Journals

criminal prosecution in respect of cases involving fraud or evasion, and where appropriate publish the names of tax evaders.

- Complexity of reporting requirements has a high association with errors detected by tax officials. Voluntary compliance is enhanced when the tax authority administers the law fairly. There for the authority should make the tax law and procedures clear, simple, understandable, transparent and user friendly administrative system.
- Training in any area is important. The authority needs to strengthen itself by educating and training its employees both at home and abroad. Better understanding of the recent domestic and international tax issues facilitate successful formulation of tax compliance strategies. The working conditions of tax officials also need to be improved in order to motivate them to carry out their duties in a more efficient and professional manner.
- If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair. Taxpayers' attitude toward taxation is changed only through sustainable awareness creation programs. Awareness creation should go beyond simply giving tax education to taxpayers. The tax authority should maintain close relationship with the elderly, religious leaders, prominent personalities in the society and explore such relationship to bring more people into the tax net and also increase the level of taxpayer's compliance. Timely meeting should be encouraged and through this, the general public can more fully understand taxation issues, changes in the law, filing obligations and so on. It is also very important to educate the young citizens/students early on the significance and role of taxes.
- Tax resistance is likely to continue if service provision does not improve. Improvement in service delivery for the majority of citizens is therefore a necessary condition to improve tax compliance. Thus, ERCA should provide strong taxpayer's services particularly during the tax filing stage. The taxpayer's service can be improved by: providing proper guidance on how the tax return forms are to be completed correctly,

Improving living condition of citizens, avoiding meaningless expenditure and provides enough information about how government utilizes the taxpayer's money enhance voluntary compliance. Therefore, the government should spend taxpayers' money wisely so that tax compliance will increase, thus the tax collection will also increase. In addition government has to inform the taxpayers that those public services are provided by their money. Inability by government to communicate this most important area, will lead to possible speculation and resistance.

- Tax compliance will be developed only with the voluntary participation of the society. Merely relying on stick approach has no far reaching outcome. Hence, the tax authority have to cause taxpayers voluntarily discharge their tax obligations as much as possible. Tax evasion and non-compliance is inevitable in every society or nation. Therefore, it is worthwhile to recommend that the above approach has to be backed by legal enforcement and the efforts must complement each other.

Finally such programme may portray tax evaders as saboteurs of the national economic, social and cultural development who deserve to be ridicule by society and punished.

The paper concludes by recommending that the recommendations stated above can be applied to address the age old problem of low compliance. The findings could be an important input, particularly to the ERCA in designing various policies in order to enhance compliance and achieve the missions of self-assessed tax system. It also serve as a stepping stone for future research that might be conducted on related areas.

Acknowledgment

We are very honorable to appreciate the sponsor of this study, Wolaita Sodo University, which is one of the 2nd generation universities in Ethiopia that striving to serve the community and supporting problem solving researches diligently. Our cordial thanks also goes to the tax authority managers and officers in Wolaita Sodo Town and Tercha Town in Dawuro Zone.

References Références Referencias

1. Adams, J. S. (1963). Towards an Understanding of Inequity. Journal of Abnormal and Social Psychology, 67, 422-436.
2. Adams, T. S. (1921). Fundamental problems of Federal Income Taxation. Quarterly Journal of Economics 35(4), 527-557.
3. Administration Review, Vol. 38, No. 5, pp. 442-452. American Society for Public Administration.
4. Ajzen, I. (1991). The Theory of Planned Behavior. Organizational Behavior and Human Decision Processes, 50(2), 179-211.
5. Allingham, M. G. and Sandmo, A. (1972). Income Tax Evasion: A Theoretical Analysis.
6. Alm, J. (2012). Measuring, Explaining, and Controlling Tax Evasion: Lessons from Theory, Experiments, and Field Studies. International Tax Public Finance, 19, 54-77.
7. Alm, J., & Torgler, B. (2006). Culture Differences and Tax Morale in the United States and Europe. Journal of Economic Psychology, 27, 224-246.
8. Andreoni, J. and et al (1998). Tax Compliance. Journal of Economic Literature, Vol. 36.

© 2018 Global Journals

9. Andreoni, J., Erard, B., & Feinstein, J. (1998). Tax Compliance. Journal of Economic Literature, 36(2), 818-860.
10. Becker, G. (1968). Crime and Punishment: An Economic Approach. Journal of Political Economy, 76(2), 169-217.
11. Beron, K. H. (1992). The Effect of Audits and Socioeconomic Variables on Compliance, in Why People Pay Taxes: Tax Compliance and Enforcement. The University of Michigan Press.
12. Bhatia, H. L. (1976). Public Finance, 19th edition. New Delhi, India: Vikas Publishing House
13. Bird, R. M. and Oldman, O. (1967). Readings on Taxation in Developing Countries,
14. Brooks, N. (2001). Key Issues in Income Tax: Challenges of tax administration and Clotfelter, C. (1983). Tax Evasion and Tax Rates, Review of Economics and Statistics. Compliance. Asian Development Bank Tax Conference.
15. Conner, M., & Norman, P. (2001). Can the Theory of Planned Behavior Explain Patterns of Health Behavior Change? Health Psychology, 20(1), 12-19.
16. Conner, M., Lawton, R., Parker, D., Chorlton, K., Manstead, A. S. R., & Stradling, S. G. (2007). Application of the Theory of Planned Behaviour to the Prediction of Objectively Assessed Breaking of Posted Speed Limits. British Journal of Psychology, 98(3), 429-453.
17. Cowell, F. A. (1990). Cheating the Government. Cambridge, MA: MIT Press.
18. Cowell, F. A. (1992). Tax evasion and inequity. Journal of Economic Psychology.
19. Cuccia, A. D. (1994). The Economics of Tax Compliance: What Do We Know & Where Do We Go? Journal of Accounting Literature, 13, 81-116.
20. Cullis, J. G., & Lewis, A. (1997). Why People Pay Taxes: From a Conventional Economic Model to a Model of Social Convention. Journal of Economic Psychology, 18, 305-321.
21. Devos, K. (2007). Measuring and Analysing Deterrence in Taxpayer Compliance Research. Journal of Australian Taxation, 10(2), 182-219.
22. Dubin, J. A. (1986). An empirical anaysis of federal income tax auditing and compliance. National Tax Journal.
23. Due, J. F. and Friedlaender, A. F. (1981). Government Finance: economics of the Public.
24. Eckstein, Otto. (1979). Public Finance 4th edition. Englewood Cliffs, USA: Prentice-Hall,
25. Edlund, J. (2003). Attitude towards Taxation: Ignorant and Incoherent? Scandinavian Employment and Business Income Taxes, Unpublished Msc. Thesis, AAU.
26. Falkinger, J. (1995). Tax Evasion, Consumption of Public Goods and Fairness. Journal of Economic Psychology.
27. Federal Inland Revenue Authority (2000). Components of Tax Administration. Tax, Vol. 1,
28. Fishbein, M., & Ajzen, I. (1975). Belief, Attitude, Intention and Behavior: An Introduction to Theory and Research. Reading, MA: Addison-Wesley.
29. Fjeldstad, O. (2004). To Pay or Not to Pay? Citizens' Views on taxation in local authorities in Tanzania. Working paper, Bergen, Norway: Chr. Michelsen Institute.
30. Fjeldstad, O. and Ranker, L. (2003). Taxation and Tax Reforms in Developing Countries: Illustration from sub-Saharan Africa. Bergen, Norway: Chr. Michelsen Institute. Hall, INC.
31. James, S. and Nobes, C. (2000). The Economics of Taxation: Principles, Policy and Practice.
32. James, S. et al (2003). Tax Compliance Policy: An International Comparison and New Evidence on Normative Appeals and Auditing: Unpublished manuscript. Journal of Public Economics 1.
33. Kaplan, S. E., & Reckers, P. M. J. (1985). A Study of Tax Evasion Judgements. National Tax Journal, 38(1), 97-102.
34. Kaplan, S. E., Reckers, P. M. J., West, S. G., & Boyd, J. C. (1988). An Examination of Tax Reporting Recommendations of Professional Tax Preparers. Journal of Economic Psychology, 9, 427-443.
35. Kelley, H. H. (1972). Causal Schemata and the Attribution Process. In E. E. Jones (Ed.), Attribution: Perceiving the Causes of Behavior (pp. 151-174). Morristown, NJ: General Learning Press.
36. Levi, M. (1988). Of Rule and Revenue. Los Angeles, USA: University of California Press.
37. Long, J. E. (1987). Income tax avoidance: Evidence from individual tax return. National Tax Journal.
38. Long, S. B. and Swingen, J. A. (1991). Taxpayer Compliance: Setting New Agenda for Research. Law and Society Review, Vol. 25, No. 3, PP. 637-684. Law and Society Association.
39. Marcoux, B. C., & Shope, J. T. (1997). Application of the Theory of Planned Behavior to Adolescent Use and Misuse of Alcohol. Health Education Research, 12(3), 323-331.
40. Mayhew, M. J., Hubbard, S. M., Cynthia, J. F., Harding, T. S., & Carpenter, D. D. (2009). Using Structural Equation Modeling to Validate the Theory of Planned Behavior as a Model for Predicting Student Cheating. The Review of Higher Education, 32(4), 441-468.
41. McKerchar, M. (2001). Why Do Taxpayers Comply? Past Lessons and Future Directions in Developing a Model of Compliance Behaviour. In M. Walpole & C. Evans (Eds.), Tax Administration in the 21st Century. St Leonards, NSW: Prospect Media.
42. McKerchar, M. (2003a). The Impact of Complexity Upon Tax Compliance: A Study of Australian Personal Taxpayers. Australian Tax Research Foundation, Research Study No. 39, Sydney.

© 2018 Global Journals

43. Messick, D. M., & Cook, K. (1983). Equity Theory: Psychological and Sociological Perspectives. Connecticut: Praeger Publishers.
44. Mohani, A. (2001). Personal income tax non-compliance in Malaysia. Ph.D thesis. Victoria University: Melbourne, Australia.
45. Mohani, A. a. (2004). Estimating the extent of income tax non-compliance in Malaysia and Australia using the gap approach (part II). Tax Nasional, 1st quarter.
46. Negarit Gazette, (2002).Income tax proclamation 286/2002, FDRE: Addis Ababa, BSPE. (2002). Income Tax Regulation 78/2002, FDRE: Addis Ababa, BSPE. Peacock, A. and Forte, F. (1981). The Political Economy of Taxation. New York, USA: St. Martin's Press no 3, FIRA, Addis Ababa. No. 2. American Economic Association.
47. Political Studies, Vol. 26, No. 2. Nordic Political Science Association.
48. Porcano, T. (1988). Correlates of tax evasion. . Journal of Economic Psychology. Revised. Edition. Baltimore, USA: The John Hopkins Press.
49. Sandmo, A. (2005). The Theory of Tax Evasion: A Retrospective View. National Tax Journal, 54(4), 643-663.
50. Shultz and Harriss (1949). American Public Finance 4th edition. New York, USA: Prentice.
51. Silvani, C. a. (1997). Designing a tax administration reform strategy: Experiences and guidelines. Working paper. Washington DC: International Monetary Funds.
52. Slemrod, J. (1985). An empirical test for tax evasion. The Review of Economics and Statistics.
53. Slemrod, J. (2007). Cheating Ourselves: The Economics of Tax Evasion. Journal of Economic Perspectives, 21(1), 25-48.
54. Slemrod, J., & Yitzhaki, S. (2002). Tax Avoidance, Evasion and Administration. In A. J. Auerbach & M. S. Feldstein (Eds.), Handbook of Public Economics (Vol. 3, pp. 1423-1470). New York: Elsevier.
55. Slemrod, J., Blumenthal, M., & Christian, C. (2001). Taxpayer Response to an Increased Probability of Audit: Evidence from a Controlled Experiment in Minnesota. Journal of Public Economics, 79(3), 455-483.
56. Smith, K. W. and Kinsey, K. A. (1987). Understanding Tax Paying Behavior: A conceptual framework with implications for research. Law and Society Review, Vol. 21, No. 4. Law and Society Association.
57. Song, Y. and Yarbrough, T. E. (1978). Tax Ethics and Taxpayer Attitudes: A survey. Public
58. Spicer, M. a. (1976). Understanding tax evasion. Public Finance.
59. Spicer, M. W. (1974). A behavioral model of income tax evasion. Ohio: Ohio State University.
60. Spicer, M. W. (1980). Fiscal inequity and tax evasion: An experimental approach. National Tax Journal.
61. Thibaut, J., Friedland, N., & Walker, L. (1974). Compliance with Rules: Some Social Determinants. Journal of Personality and Social Psychology, 30(6), 792-801.
62. Tittle, C. (1980). Sanctions and Social Deviance: The Questions of Deterrence. Connecticut: Praeger.
63. Torgler, B. (2007). Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis. Cheltenham, UK: Edward Elgar.
64. Troutman, C. S. (1993). Moral Commitment to Tax Compliance as Measured by the Development of Moral Reasoning and Attitudes towards the Fairness of the Tax Laws. Unpublished Doctoral Dissertation, Oklahoma State University, Oklahoma.
65. Wahlund, R. (1992). Tax changes and economic behavior: The case of tax evasion. Journal of Economic Psychology.
66. Wärneryd, K. a. (1982). Taxes and economic behavior: Some interview data on tax evasion in Sweden. Journal of Economic Psychology.
67. Wenzel, M. (2002a). The Impact of Outcome Orientation and Justice Concerns on Tax Compliance: The Role of Taxpayers' Identity. Journal of Applied Psychology, 87(4), 629-645.
68. Wenzel, M. (2002b). Principles of Procedural Fairness in Reminder Letters: A Field Experiment. Centre for Tax System Integrity (Working Paper No. 42). Canberra: The Australian National University.
69. Wenzel, M. (2003). The social side of sanctions: Personal and social norms as moderators of deterrence. . Law and Human Behavior.
70. Wenzel, M. (2005a). Motivation or Rationalization? Causal Relations between Ethics, Norms and Tax Compliance. Journal of Economic Psychology, 24(4), 491-510.
71. Wenzel, M. (2005b). Misperceptions of Social Norms about Tax Compliance: From Theory to Intervention. Journal of Economic Psychology, 26, 862-883.
72. Yitzhaki, S. (1974). A Note on Income Tax Evasion: A Theoretical Analysis. Journal of Public Economics, 3(2), 201-202.
73. Yong, S. (2009). A Critical Evaluation of the Economic Deterrence Model on Tax Compliance. The New Zealand Journal of Taxation Law and Policy, 12(2), 95-116.

© 2018 Global Journals