

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

Mesele Kebede Manaye¹

¹ Wolaita Soddo University, Ethiopia

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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.

Index terms— tax compliance, tax payers, wolaita sodo town, tercha town, tax revenue authorities.

1 Chapter One

I. Introduction oday 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).

5 C) SPECIFIC OBJECTIVES

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

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

51 2 a) Statements of the Problem

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

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

59 3 T

60 The tax compliance literature has provided evidence suggesting that compliance is influenced by numerous factors
61 (Brook, 2001). Scholars identified these factors as economic, social and psychological (Brook, 2001; Evos,
62 2008; Irchler, 2007). To mitigate the challenge of tax non-compliance, it is necessary to understand factors
63 influencing an individual's decision to comply with tax laws.

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

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

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

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

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

91 4 b) Objectives of the Study

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

94 5 c) Specific Objectives

95 In order to accomplish the above major objective, the specific research objectives of this study are as follows:-1.
96 To determine what are the factors that affect compliance of taxpayers in wolaita soddo and Tercha town in
97 Dawuro Zones. 2. To examine what is relationship between/among these factor and tax compliance.

6 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.

7 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.

8 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 ??aouen, 1989; ??hanmugam, 2003; ??ubin, 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.

9 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.

10 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.

11 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.

12 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

152 ??Wallschultzky 1984; ??Richardson, 2006). The perceived fairness of the tax system also has an influence on the
153 inclination towards tax evasion ??Jackson and Milliron, 1986; ??Richardson, 2008).

154 **13 f) Changes to current government policies**

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

162 **14 g) Referent groups (family and friends)**

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

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172 **16 D h) Individual Factors**

173 Decisions either to evade or not to evade taxes are heavily reliant on taxpayers' personal judgment (Mohani,
174 2001). Personal circumstantial factors like personal financial constraints and awareness of penalties and offences
175 are therefore likely to have a significant impact on taxpayer compliance behavior.

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

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

182 ii

183 **17 Awareness of offences and penalties**

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

189 **18 i) Tax Knowledge**

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

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

195 **19 j) Demographics and other control variables**

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

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

203 ii Income Jackson and Milliron (1986) found that income level has a mixed and unclear impact on compliance,
204 and some later research agrees with that statement (see Christian and ??Upta, 1993; Hite, 1997). Although

205 Jackson and Milliron (1986) did not clearly mention the reason, it is presumed that endogenous tax regulations
206 among countries might contribute to inconsistent findings. For example, progressive tax rates might encourage
207 the higher income group to evade rather than the lower income group because their (higher income group) tax
208 rates and taxable income are high, thus, making the tax liabilities much higher than lower income group. In a
209 country where income redistribution is not satisfying, the higher income group tends to evade more (Mohani,
210 2001) because the high income earner might feel betrayed and unfairly treated. Loo (2006) found that high
211 income earners in Malaysia are prone to evading tax while Torgler (2007) reported that lower income earners in
212 Western Germany were less compliant.

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

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

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

225 20 k) Research Gap

226 Why do some people pay taxes levied upon them while others do not? This is the broad question which
227 this study seeks to answer. In more specific terms, this paper aims at providing a review of the factors that
228 determine taxpayer compliance and conceptualization of those factors into a meaningful whole. There is already
229 a considerable literature on the subject of tax compliance; however, it appears that so far no study has assessed
230 the collective adequacy of the factors employed in the studies and in the particular study area.

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

237 21 Chapter Three

238 22 III. Materials and Methods

239 23 a) Description of the Study Area

240 Sodo or Wolaita Sodo is a town and separate woreda in south -central Ethiopia. The administrative center of
241 the Wolaita Zone of the Southern Nations, Nationalities, and Peoples Region, it has a latitude and longitude of
242 6°54'N 37°45'E with an elevation between Template: Convert above sea level. It was part of the former Sodo
243 woreda which included Sodo Zuria which completely surrounds it.

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

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

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

254 24 b) Research Design

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

25 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 Likert-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

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Volume XVIII Issue III Version I Year 2018 () D 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 soddoo 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 soddoo 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: $n = \frac{Z^2 p q}{e^2}$ 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 $785/6072 \times 340 = 44$ was taken as a sample from tax payer A, $610/6072 \times 340 = 34$ was taken as a sample from tax payer B and $4677/6072 \times 340 = 262$ 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.

27 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, $y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_k x_{ik} + \epsilon_i$; $\epsilon_i \sim N(0, \sigma^2)$ (1) Where, $\beta_0, \beta_1, \beta_2, \dots, \beta_k$ are the regression coefficients of predictors $x_{i1}, x_{i2}, \dots, x_{ik}$; $i = 1, 2, \dots, n$ and ϵ_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.

321 The multiple linear regression model as given in equation 1 has got two components: the deterministic
322 component and the probabilistic component. $y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_k x_{ik}$ is the deterministic component
323 of the model, and, ϵ_i is the probabilistic component.

324 In the multiple linear regression model, the predictors are strictly assumed to be fixed i.e. x_1, x_2, \dots, x_k are fixed
325 variables (either discrete or continuous) that are controlled by the experimenter while y is a continuous random
326 variable.

327 Writing equation 1 for each of the n observations, we have The i th row of X is defined by the symbol x_i , which
328 is a $(k + 1) \times 1$ vector for mean functions that include an intercept. Even though x_i is a row of X , the convention
329 that all vectors are column vectors is used and therefore need to write x_i to represent a row. An equation for the
330 mean function evaluated at x_i is This section presents information about the demographic characteristics of the
331 respondents in line to their gender, age, formal education, respondents working experience, business type, size of
332 business, business length of operation. Some descriptive statistics are also illustrated in this section. A total of
333 300 questionnaires were administered to these taxpayers and at the end of the field work, a total of 300 usable
334 questionnaires were retrieved representing 100% response rate. This shows that the response rate considered
335 as excellent. (Dillman, 2007). $E(Y|X = x_i) = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_k x_{ik}$ (3)
336 $TCOMP_i = \beta_0 + \beta_1 PROBAUDIT_i + \beta_2 GOVSPEND_i + \beta_3 EQUITY_i + \beta_4 PENALTY_i + \beta_5 FINCONS_i +$
337 $\beta_6 CHANGES_i + \beta_7 GROUP_i + \beta_8 ROLE_i + \beta_9 GENDER_i + \beta_{10} AGE_i + \beta_{11} EDUC_i + \beta_{12} AUDITED_i$

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

344 Demographic factor 2 shows the age brackets of respondents, the age distribution of the respondent who
345 participated in the study is provided in table 4.1 below. The sample age categories were divided with a range
346 of 10 years except age category above 60. (5.2%) of the respondents are between 20-30 years of age, (7.4%) are
347 between 30-40 years, (24.7%) are in the 40-50 age bracket. Respondents between 50-60 years are (47.6%) and
348 those above 60 years of age are fifteen point one percent (15.1%). This result illustrates that most of the tax
349 payer's in wolaita sodo town and Tercha are generally above 40 years. This is an indication that most taxpayers
350 in the sample are at their matured ages and information given to this study is free from emotional (Table 4.1).

351 Demographic factor 3 examines the academic qualifications of the respondents. It is believed to be that the ability
352 to read and write influences one's ability to understand and interpret the tax laws. The information is necessary
353 to enable the researchers to know whether the respondents are educated or illiterate. Information on the academic
354 qualifications of the respondents is statistically shown in table 4.1 below. It reflects the academic qualifications of
355 the respondents. Sixteen point six percent (16.6%) have a high school certificate; Thirty two point eight percent
356 (32.8%) have a Degree/Professional, forty two point four percent (42.4%) hold a Certificate/diploma and eight
357 point two percent (8.2%) have a post graduate /masters and above degree qualification. Cumulatively, all of the
358 respondents were in possession of at least reading and writing and none of the respondents had no schooling.
359 Therefore, the implication to these findings indicates that the majority of business taxpayers were well educated
360 to know the need for taxation and they can understand and interpret the tax law as well (table 4.1). Research
361 findings on information about the age of the business in the study area revealed that majority of the businesses
362 have been in operation for between 1-5 years (47.6%) followed by those that have been in operation for 6-10years
363 (24.7%), and business who have been in operation for less than a year (15.1%) and business that have been
364 in operation for over 10years (12.5%). Findings on the annual turnover affirmed that the turnover below birr
365 100,000.00 was sixty one point six percent 61.6% whereas turnover between 100,000-500,000.00 birr was twenty
366 four point four percent 24.4% .Annual turnover above 500,000 birr was one point fourteen percent 14% .The
367 results reveal that most of the business owners in the study area have their annual turnover below 100,000 birr.
368 The number of years one has been in business has an influence on his/her taxpayers' experience and level of
369 paying taxes. For those who have done business for long implies they are used with the routine practices of
370 paying taxes to tax authority. Accordingly, the respondents were required to indicate their working experience
371 related tax issue and findings of the survey shows that more than half of the respondents (56.1%) indicated that
372 they had 6 to 10 years of experiences in business, 22.4 % of the survey respondents indicated that they had 1 to 5
373 years of work experience, while 11.5 % had 5 to 10 years of experience, the rest had less than 1 year of experience
374 in the business. Therefore, it can be said that the business taxpayers had relatively average experience on tax
375 related issue which indicates that almost half of them are well experienced which can able them measure the old
376 tax system and the new one.

377 In other words, it can be concluded that the information provided in this study was given by experienced
378 respondent and informants (Table 4 Respondents were asked to state who would lead their sector and whether
379 they belong to as owner, employer and manager of the sector. Of the three categories owner of the sector had
380 contributed 70.2% followed by 24.8% and 4.8% who had worked as an employer and manager in the sector
381 correspondingly.

382 Here we can conclude that, most of the business in the study area managed by owners instead by professional
383 managers. From the above table when tax payers asked why they pay taxes, 58% of the respondents said that

384 they pay taxes because it is an obligation to the government or state and in the anticipation of public services
385 from the government (31%). This indicates there is a positive understanding as to why people pay taxes and if
386 successive works are done probably better results can be achieved. On the other hand, some of

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388 Volume XVIII Issue III Version I Year 2018 () D them (6%) said that they have no opportunity to evade, and
389 the remaining 5% of the respondents said that they pay taxes to avoid disturbances. Particularly with respect
390 to those 5% who said they pay taxes to avoid disturbances, the response indicates that the revenue collection
391 regime is not considered by majority of taxpayers (at least 95%) to be harsh and unpleasant. In other words,
392 only 5% of the respondents think that way. The response of the other 6% who said there is no opportunity to
393 evade indicates they have the intention not to pay if they have the opportunity to do so or their compliance
394 behavior is questionable.

395 **iii Tax Equity or Fairness**

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

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

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

418 **29 d) Organizational Effectiveness of the Tax Authority**

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

421 **30 Table 6: Evaluation of the tax authority by respondents**

422 **31 Source: Field Survey, 2015/2016**

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

426 Similarly, they rated the authority with respect to law enforcement activity as an excellent (12%), good (17%),
427 fair (43%) and poor (28%). On the other hand, concerning awareness Creation, they said excellent (6%), good
428 (14%), fair (23%) and poor (59%).

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

432 **32 Parameters**

433 **D**

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

441 well in improving the tax Administration, creating awareness, providing social services, and other information
442 Regarding taxes and other activities of the city government. Hence the poor effort of both the tax authority and
443 the city government in these area can be Cited as the major factor that has contributed to the underlying problem
444 and so that both are Responsible for poor tax compliance. On the other hand, even though the above comment
445 Given by the respondents cannot be undermined, the fact that people always externalize Certain problems and
446 make others responsible for the problem, might be taken into Consideration while analyzing this response. Note:
447 The diagonal elements represents the square root of average variance extracted (AVE) between the constructs and
448 their measures. The off-diagonal elements highlighted above are correlations between constructs. For discriminant
449 validity, diagonal elements should be larger than off-diagonal elements in the corresponding row and column. The
450 study found that the model only explains 15 percent of the variation in tax compliance thus the model is not
451 well fit since R^2 is less than 50 percent. The Anova results presented indicated that the variables jointly had a
452 statistically significance with p-value of 0.00 and an F statistic of 7.74.

453 The main objective of the study was to identify the determinants of tax payer's voluntary compliance
454 with taxation the case of Wolaita Sodo and Tercha Town in Dawuro Zone. Thirteen possible factors of tax
455 compliance were examined in this research namely, tax knowledge, simplicity of tax procedures, probability
456 of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities,
457 penalties and fines, personal financial constraints reference group sex, age and education. Table 9 summarizes
458 the results of the supplementary regression model which incorporated several control variables. The Multiple
459 linear regression model analysis indicates probability of auditing, tax knowledge, penalty, amount of tax and
460 sex are determinants of tax compliance. This supplementary regression model also suggested that Probability
461 of Auditing, and tax knowledge, remain the most important determinants of tax compliance. In relation to
462 the significance of the control variables, results show that Gender is also appear to be significantly correlated
463 with tax compliance behavior. Specifically, the association between gender (male=1) and compliance status was
464 negative and significant ($p < 0.01$), rejecting the hypothesis that male taxpayers are significantly less compliant.
465 The association between age and compliance status was negative and significant ($p < 0.01$), consequently, the
466 hypothesis that older people are significantly more compliant is not accepted. Finally, other control variables like
467 income and education had no significant association with compliance status. Again, analogous to results in Table
468 ??, these results verified that control variables had a significant impact on increasing tax compliance behavior.
469 Furthermore, results demonstrated that the supplementary regression model remains robust.

470 With regard to the probability of being audited, previous studies (for example, Allingham and Sandmo
471 (1972); Jackson and Jaouen (1989); Wickerson (1994); Shanmugam (2003); ??ubin (2004); Riahi-Belkaoui (2004);
472 ??ichardson (2006).; Andreoni, Erard and Feinstein (1998); Verboon, and van Dijke (2007); Eisenhauer ??2008))
473 have found that a high probability of being audited or detected would encourage taxpayers to be more compliant
474 (positive relationship) but some other studies found contradicting results, such as a high probability of being
475 audited would potentially decrease compliance creating a negative association (for example Slemrod, Blumenthal,
476 and Christian, (2001): Braithwaite, Reinhart, and Smart, (2009). As far as high probability of audit could
477 encourage tax compliance, it is advocated that the tax authority should increase their number of audit samples
478 with the aim of increasing tax compliance, decreasing the tax gap and achieving the missions of RCA.

479 The influence of knowledge on compliance behaviors has been assessed in various researches. Regarding the
480 tax knowledge various researchers found that knowledge as one of the factors in compliance is related to the
481 taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that
482 relates to compliance is the general understanding about taxation regulations and information pertaining to the
483 opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003). Taxation knowledge is necessary to increase
484 public awareness especially in areas concerning taxation laws, the role of tax in national development, and
485 especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude
486 towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has
487 a positive attitude towards tax, this will reduce his or her inclination to evade tax payment ??Eriksen & Fallan,
488 1996). Selfassessment system (SAS) requires taxpayers to understand all the laws and regulations that govern
489 taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to
490 pay and make the payment ??Kasipillai, 2003). Taxpayers will readily accept any new system introduced, like
491 the SAS, if they have ample knowledge to understand the system. Thus, education programs organized by the
492 tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self
493 -assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001).

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

504 **33 h) Content Analysis of Open-Ended Questions**

505 Besides to the above close ended questions, respondents were also given opportunities to indicate their comments
506 on some open ended question and state whatever they think is important and what were not incorporated by the
507 researcher. Accordingly they issued several comments and mainly regarding problems and measures that has to
508 be undertaken. These important points were categorized and listed as below: ? Even if the regression analysis
509 result insignificant relationship of complexity and non-compliance decision, a number of respondents expressed
510 that inconvenient location, complex tax return procedure and bureaucratic tax operation canon affect their tax
511 compliance decision negatively. This finding of course, is perhaps to be logically expected by tax authorities. If
512 many errors are detected in tax returns and the same errors happen every year by different taxpayers, it means
513 that the wordings or the sentences of the format in tax return may be, at least, partly to blame. Previous studies
514 have also evidenced that complexity of reporting requirements has a high association with errors detected by
515 audits (Long, 1987).

516 Likewise simplicity in filing returns will encourage taxpayers to complete the tax return on their own rather
517 than employing a tax agent and thus reducing compliance costs. (Silvani, 1997) ? Similarly, even if the regression
518 analysis show the significant relationship between noncompliance behavior and tax deterrence sanctions such as
519 the likelihood of penalty severity and probability of audit most of tax payers admitted and stressed that low
520 probability of being detected by the tax authority, serious enforcement, for example sever penalty/ interest makes
521 evasion more difficult and impel to bring about voluntary compliance. This indicates, in self-assessment systems,
522 tax audits can play an important role in increase voluntary compliance. Audits rates and the thoroughness of the
523 audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim
524 the correct deductions where necessary to ascertain their tax liability. In contrast, taxpayers who have never been
525 audited might be tempted to under report their actual income and claim false deductions. ? Respondents state
526 that dilatory refund system, negative attitude and weak performance of the staff adversely affect their compliance
527 decision. On the other hand, employees who work in accordance with the law, well qualified and friendly approach
528 motivate them to comply. This implies that weaker level of tax administration and rent seeker employees inside
529 the tax office plays a major role in non-compliant decision. ? Respondents were put the branch's information
530 system as underprivileged and hence affect willingness to comply. In addition respondents locate factors which
531 robust tax compliance. Specifically, devote significant time in promoting a tax issue, and educating tax payers,
532 discloses all necessary information and update them for each new happenings. ? Respondents locate that they
533 are getting equivalent benefit from government for their tax payments. This tends to positively affect their
534 willingness to comply. Therefore, improving living condition of citizens, avoiding meaningless expenditure and
535 all tax payers who do not obey the law give a lesson for those who wish to evade tax and refrain them from such
536 activity. This was supported by the study by ??Wenzel, 2005) which claimed that if a specific group perceived
537 their tax liability was higher than other groups, then tax evasion might occur among the group members.

538 Most respondents expressed that lack of working capital (cash on hand) moderate their tax compliance decision.
539 This argument lends support to the study of (Mohani A , 2001), which reported that taxpayers who faced financial
540 problems were more prone to evading tax in comparison with those in less financial distress. ? Lack of tax
541 knowledge was cited as the chief reason for tax evasion (noncompliance) and the respondents strongly commented
542 that great effort has to be employed in this area. Several respondents firmly commented that tax authority does
543 not provide sufficient education which focus on awareness creation and enhance the smooth relationships with
544 tax payers. ? Respondents also suggested that resistance from other tax payers or obligated to pay tax make
545 compliance decision difficult. A number of traders refuse to supply legal receipt and sometimes refuse to accept
546 withholding agents. In addition to the above points, Finally A number of respondents expressed that publication
547 of non-compliant companies in daily gazettes, can make light of tax evasion (indemnify compliance).

548 **34 Chapter Five V. Conclusion and Recommendations a) Con-**
549 **clusion**

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

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

35 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 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.

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²()D

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

Figure 1:

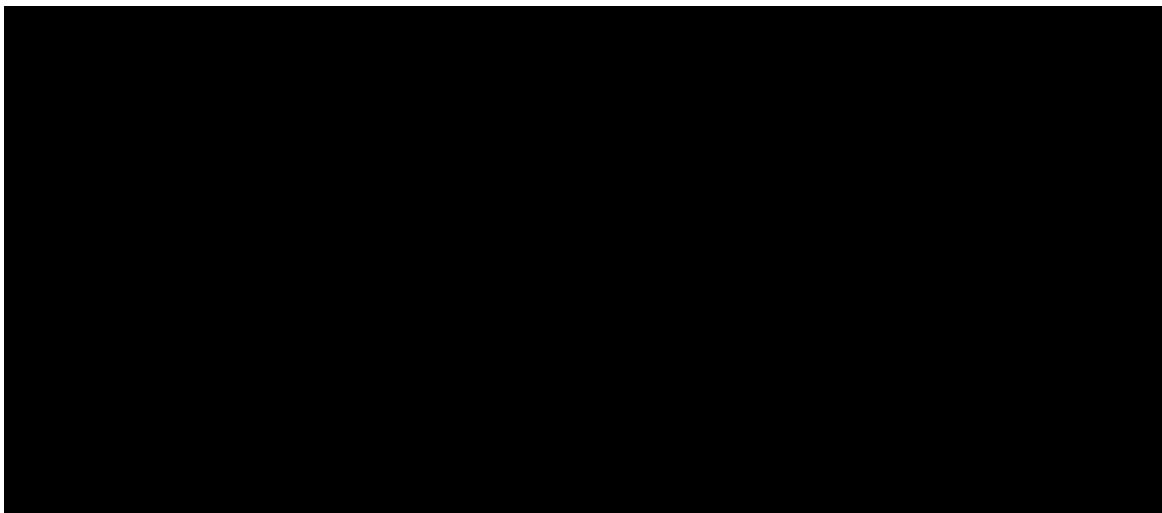


Figure 2:

4

1: Demographic Information

	Frequency	Percentage
Gender		
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
1 st 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

Figure 3: Table 4 .

42

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

[Note: Source: Field Survey, 2015/2016]

Figure 4: Table 4 . 2 :

44

Table 4.3

Respondents working experience as tax related issues	Frequency	Parentage
Less than 1 year	29	10
1-5 years	65	22
6-10 years	163	56
More than 10 years	33.35	11
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.

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

Figure 5: Table 4 . 4 :

45

	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

other hand the following table shows the response

Regarding this aspect 99% of the respondents responded that they knew why they pay taxes. On the

the respondents regarding their reason of paying ta

Figure 6: Table 4 . 5 :

46

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

Figure 7: Table 4 . 6

47

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

Figure 8: Table 4 . 7 :

8

f) Model Summary	R	R Square	Adjusted Square	R	Std. Error of the Estimate
Model 1	.383 a	.147	.0128		.73962

[Note: 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]

Figure 9: Table 8

9

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

Figure 10: Table 9 :

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35 B) RECOMMENDATIONS

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