

TAX AWARENESS AND PERCEPTION OF TAX PAYERS AND THEIR VOLUNTARY TAX COMPLIANCE DECISION: EVIDENCE FROM INDIVIDUAL TAX PAYERS IN SNNPR, ETHIOPIA

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Abstract-*The objective of this study was to examine tax awareness and perception of tax payer's and their influence on voluntary tax compliance decision. The study used descriptive research design. Category A tax payers were the target population of this study. A sample of 377 individual Category A tax payers were randomly taken from selected cities. The study used primary and secondary data sources. Primary data were collected through questionnaire and secondary data were collected from reports and manuals of Ethiopian Revenue and Customs Authority (ERCA) branches. Descriptive statistics such as tables and percentages have been used for data analysis. The result of this study revealed that tax awareness was the major problem for voluntary tax compliance attitude and most tax payers viewed the current tax rate and penalty rate is high and they also believed that existing tax system is unfair. Besides, this study shows that tax payer's positive perception towards the tax system and government spending also encourages voluntarily tax compliance.*

Key words: Tax awareness, Perception, Voluntary tax compliance, SNNPR, Ethiopia

1. Introduction

According to Kirchler (2007) definition, tax compliance is taxpayers' willingness to pay their tax liability as per tax laws and regulations. In general, complying with the tax laws and regulations means reporting of the correct tax bases, timely filing of tax returns and payment of the amount payable to concerned tax authority and correct determination of the tax burden (Andreoni, Erard & Feinstein, 1998). In both developed and developing countries achieving high levels of voluntary tax compliance is the area of concern. It is not as such easy to convince all taxpayers to comply with the tax laws. Hence, the amount of tax noncompliance is still a challenge for all governments but it's more serious in developing countries (Loo &McKerchar, 2010; Kim, 2008; Cobham, 2005). In Ethiopia, the tax revenue to GDP ratio is 13.4% in 2014/15 which is lower than the sub-Saharan Africa average of 18% and developed countries 25-35% (OECD, 2016). This is due to tax non compliant behavior of tax payers and inefficiency of the tax authority. This can be taken as evidence that the tax laws are not enforced properly due poor tax administration or due to non compliance of tax payers. Tax payer's voluntary tax compliance attitude may depend on various factors such as tax fairness, tax rate, probability of being audited, perception of tax payer's towards the government and taxation, tax penalty, culture, personal and social norms (Kirchler, 2007). Similar previous empirical studies found mixed results on the relationship between determinant factors and tax compliance behavior. This mixed find indicates that tax compliance determinants operate differently under different conditions and environment.

In self assessment tax system, mutual trust and cooperation among tax payers and the tax authorities is very important. If there is a mutual trust, tax payers have positive attitude towards the tax systems and tax authorities and cooperate accordingly. In the environment which is characterized by mutual trust, audits and fines would show authoritarianism and distrust, and thus, rather than increasing voluntary tax compliance. Accordingly, Kirchler, Hölzl and Wahl (2008) suggested that tax audits and fines are pertinent under the condition of low trust in tax authorities and government. Similarly, if there is no mutual trust between tax payers and tax collecting authorities, tax payers can be forced to comply using tax enforcement mechanisms such as penalties and fines. This measurement might be ineffective or even unproductive in long run. Related to voluntary compliance, tax knowledge, tax payer's positive attitudes, personal and social norms of cooperation, tax fairness perception of the tax system are important as a basis of a motivational trend to cooperate and mutual trust. The issue of tax payers' tax knowledge is critical in self assessment system. Tax payer's tax knowledge and awareness is imperative for the tax authority to get better the tax system and for voluntary compliance.

Previous studies such as Palil (2010) recommended tax knowledge and awareness were the significant factors that were influence taxpayers' voluntary compliance attitude. Besides tax payer's positive perception towards the tax system and tax authorities enhance the voluntary compliance behavior of tax payers.

In addition, the tax system should be fair and equitable and everyone should pay its own share fairly to assure sustainable voluntary tax compliance tendency (Eriksen & Fallan, 1996). In other words, the tax payer should believe each tax payer is paying its own share fairly. Besides, the tax authority should require tax payers to collaborate in the function of a tax system rather than to be forced to do their tax duty. In general, tax payers should perceive that the tax system is fair and the government is spending the tax revenue properly to be voluntary tax compliant.

Thus, in the environment of self assessment system developing tax knowledge and awareness of taxpayers is the critical issues to administer tax system successfully and enhance voluntary tax compliance. However, tax payer's tax awareness level and perception and the extent of their influence on voluntary tax compliance decision was not well investigated and similar studies in this topic have not been carried out particularly in SNNPR, Ethiopia. Therefore, this study investigates tax payer's awareness about the taxation, tax payer's perception towards the tax system and their tax compliance decision and the outcome of this study may used as an input for tax policy makers to design appropriate strategies related to voluntary tax compliance.

2. Objectives of the study

The main objective of this study was to study individual tax payer's tax awareness, perception and their tax compliance decision in selected cities in SNNPR, Ethiopia.

The specific objectives of this study were;

- To find out the general tax awareness of tax payers about tax.
- To understand tax payer's perception on tax authorities and the government.
- To study the influence of tax awareness on voluntary tax compliance decision of tax payers.
- To know how tax payer's perception influences their voluntary tax compliance decision.

3. Review of related literature

Tax is defined as a compulsory contribution by tax payers irrespective of any corresponding return of services or goods by the government (James & Nobes, 2000). Governments levy and raise tax revenue to finance various public expenditures (Palil, 2010). Tax compliance defined as the reporting of all incomes from different sources and payment of all tax liability by satisfying the requirements of tax laws and regulations (Alm, 1991). Conversely, tax non-compliance is taxpayer's failure to pay a correct amount tax liability (Kasipillai & Jabbar, 2003). Different factors might affect tax compliance attitude such as economical, institutional, social, individual factors. Previous empirical studies in Ethiopia (Lemessa, 2007; Wubshet, 2011; Beza, 2014; Tilahun & Yidersal, 2014; Suresh, 2014; Amina & Saniya, 2015; Redae & Sekhon, 2016) also found the following factors as determinant factor for tax compliance (tax knowledge, perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group such as friends, relatives).

Tax non compliance might be intentional or unintentional. Tax payers may fail to comply with tax laws and regulations unintentionally due to lack of tax knowledge and poor tax awareness. Eriksen and Fallan (1996) also argue that a taxpayer should be given better tax knowledge to improve perceptions of fairness. They also recommended that tax education should be included in the education curriculum as a compulsory subject. Under the self assessment tax system, one of the objectives of the taxing authority is to achieve voluntary tax compliance by the majority of the taxpayers (Kasipillai et al., 2003). But, it is common that a large proportion of taxpayers may be unable to complete their own tax returns due to lack of knowledge and understanding of tax laws and regulations. It was also found that there was a strong positive relationship between tax knowledge and the level of voluntary tax compliance (Kasipillai, Mustafa, Noraza, & Munusamy, 1999).

With regard to the relationship between tax rate and tax compliance, Hai and See (2011) and Clotfelter, (1983) found that the high tax rate results in high tax noncompliance. Spicer & Becker (1980) also argue that those taxpayers who are aware that their tax rate is higher than average tax rate paid by other have higher tendency of tax evasion and tax non compliance. By the same token, those tax payers who perceive that paying tax rate can overshadow their high tax rate payment through tax evasion. They also claimed that decreasing tax rates is not the only policy that has the potential to encourage tax compliance and discourage tax evasion. Nevertheless, the tax rate is an important factor in influencing tax compliance attitude even if the exact impact is still controversial and unsolved.

Tax audits, frequency of audit and prior audit experience have been ambiguously discussed in relation to tax compliance. Some studies found out that audits have a positive relationship with tax evasion (Tadesse & Goitom, 2014). These findings recommended that tax audits can play an important role in tax compliance. Frequency of audits and the carefulness of tax audits could encourage taxpayers to become more careful computing and submitting their tax returns. Conversely, taxpayers who have never been audited might be trying understating their income and over stating their deductions (Palil, 2010). A study by Beron, Tauchen and Witte, (1988) and Tilahun and Yidersal (2014) argue that audits did not significantly relate with tax compliance. Hence, it shows that previous studies have found controversial results about the association between tax audit and tax compliance.

With regard to the association of tax payer's perception towards government spending and tax compliance, if tax payers perceive that the government is wisely spending the tax revenue for public goods and services, it is expected that voluntary tax compliance will enhance. But, if taxpayers believe that the government is spending tax revenue unwisely on unnecessary things then taxpayers will feel be unfaithful to and attempt to avoid taxes (Palil & Mustapha, 2011). (Fjeldstad & Ranker, 2003) also argue that, tax payers voluntary tax compliance behavior rests on the government's capability to provide public goods and services. Therefore, the government at all levels should wisely spend taxpayers' money to provide them (taxpayers) greatest benefits for their contribution as a citizen and to distribute resources.

According to previous studies such as Palil (2010), simplicity of tax system has one of an imperative factor that determines tax compliance behavior of tax payers. Specifically, under SAS, tax payers are required to complete their tax returns by themselves which require at least a logical level of simplicity because taxpayers may have different tax knowledge and backgrounds, with differing educational and income levels. Therefore, to help tax payers to fill their tax returns correctly, the tax authority should provide simple and sufficient tax return forms. In this regard, Slemrod (1989) argue that in self assessment system a simple tax return forms and simpler tax laws and regulations will increase voluntary tax compliance because taxpayers do not have to spend much time in checking the accuracy of the returns and determining their tax burden.

As far as the fairness of tax system concerned, a good tax system should satisfy certain principles which become its characteristics such as equality or fairness and certainty (Bhatia, 1976). As it's stated by Jackson & Milliron, (1986), tax payer's perception towards fairness of the tax system also has an influence on the tendency towards tax non compliance. That means when taxpayers perceive that the tax system is unfair they will tend to not paying taxes. This also confirmed by the study of Etzioni (1986) that states that that if taxpaying people feels that taxes are unfairly levied on them, it will be most likely to not paying and underreporting taxes. The finding of the study by Bradley (1994) also shows that the probability of tax evasion will increase, when taxpayers consider the tax system is unfair. Due and Friedlaender (1981) also recommended that tax payers will not pay taxes if they feel the current tax system treat them unfairly and allow other tax payers to escape a tax burden. Hence, it is important that a good tax system should become fair and equitable to tax payers regardless of the type of tax payers. According to Palil (2010), tax payers decisions whichever to pay or not to pay tax are also influenced by referral groups such as family members, friends who engaged in the same business activities. for this reason, previous tax compliance studies have evidenced that the influence of friends and family members in making tax compliance decisions may be essential and it should be to be examined in more tax compliance researches. Besides, tax authorities efficient and effectiveness can play significant role in encouraging tax compliance.

4. Research Methodology

Research Design

In order to achieve the objective of the study, descriptive research design was employed. This design helps to describe the data at hand.

Data sources and Method of Collection

Both primary and secondary sources of data were used. Primary data were collected through close and open ended questionnaires. Close ended questionnaires were prepared in the form of Likert-Scale in the form of "Agree" and "Disagree" and "Yes" and "No" form. The questionnaire was also translated from English language to Amharic language to make it easy for respondents.

Sample Size and Sampling Method

The target population of this study was Category A individual tax payers in selected cities in SNNPR, Ethiopia. According to Income tax proclamation number 979/2008 Category A tax payer is a business having an annual turnover of Birr 1000,000 (One Million Birr) or more.

The study used Purposive and random sampling techniques for collecting data from tax payers. Purposive sampling was employed to select five cities in SNNPR (Hawassa, Wolita Sodo, Dilla, Arba Minch, and Hosahina). These cities were selected by taking in to account the number of total Category A tax payers they have and based on their relative business transaction. Individual tax payers were randomly selected equally in each cities using random sampling technique. The number of tax payers and their addresses were obtained from Ethiopian Revenue and Customs Authority branch offices in each city. In year 2015 there were about 6,530 Category A tax payers in all selected cities. The sample size was determined using (Yemane, 1967) formula. Hence, samples of 377 individual tax payers were selected and equal numbers of tax payers were taken from each selected city.

5. Data analysis and presentation

This chapter presents the results of the field survey study that was conducted in Category A tax payers found in SNNPR, Ethiopia. Accordingly, a total of 377 questionnaires were distributed to Category A taxpayers, of which 310 filled completely and returned. This made the return rate around 82 %, indicating good response rate. After the data were collected, checked for errors and completeness, it was analyzed using descriptive research techniques.

5.1. Demographic characteristics of respondents:

Table 5.1 Frequency distribution of gender characteristics of respondents in the sample

Variables	Frequency	Percent
Male	239	77
Female	71	23
Total	310	100

Source: Questionnaire, 2016

As indicated from the above table 5.1, 77% of respondents were males and 23 % of respondents were females. Therefore, we can conclude that during the study period most of respondents were males and females’ participation in business activity was low during the study period.

Figure 5.1.2: Frequency distribution of age of respondents

Variables	Frequency	Percent
15-25	65	21
26-35	152	49
>35	93	30
Total	310	100

Source: Questionnaire, 2016

Table 5.1.2 above also shows that the age of the respondent’s profile. Accordingly, 21 % of respondents were aged between 15and 25, 49 % of respondents were aged between 26 and 35; and 30 % was aged above 35. Hence, as it is shown in the above figure, the majority of the tax payers fall in the working age group of 26 and 35 that accounts to 49%, almost half of the total respondents.

Table 5.1.3: Frequency distribution of educational level of respondents

Variables	Frequency	Percent
Illiterate	9	3
Primary Education	25	8
Secondary Education	127	41
Degree/ Diploma holders	130	42
Masters degree holders	16	5
Above masters degree	3	1
Total	310	100

Source: Questionnaire, 2016

When we see the educational background of respondents as presented above in table 5.1.3, 3% of respondents were illiterate, 8% of respondents were completed primary education, 41% of respondents were completed secondary education, 42% of respondents were Degree/Diploma holders, 5% of respondents were Masters Degree holders, and 1% of respondents are above master’s degree. Based on the above data, the educational level of most tax payers is primary education and Degree/ Diploma.

5.2. Taxpayers’ general tax awareness about Taxation

Tax knowledge and awareness are an important aspects in a voluntary compliance with the tax system particularly in determining an accurate tax liability and understanding the tax laws (Kasippilai , 2000). Eriksen and Fallan (1996) also argue that ‘knowledge about tax law is assumed to be important for tax compliance and attitudes towards taxation. They suggested that tax knowledge correlates with attitudes towards taxation and tax compliance behavior can be improved by a better understanding of tax laws. Hence, in order to know the general knowledge of the respondents about taxation in the study area, different questions were forwarded to them on different issues. The responses of the respondents are briefly summarized below;

Table 5.2.1: Frequency distribution of reasons why tax payers pay taxes

Variables	Frequency	Percent
To avoid punishment	16	5
To get public facilities	161	52
It’s an obligation	130	42
I don’t know the reason	3	1
Total	310	100

Source: Questionnaire, 2016

Table 5.2.1 above shows responses of respondents why they pay tax. Accordingly, respondents were asked why they pay taxes, 52 % of the respondents said that they pay taxes in expectation of public facilities from the government and 42% of tax payers responded that because it is a duty to the government, 5% of tax payers replied that they pay tax to avoid punishment, and 1% of respondents were responded that they don’t know why they pay tax to the government. This indicates there is a positive understanding by most tax

payers as to why people pay taxes and if successive works are done probably better results can be registered. However, the response of others who said they don't know why they pay tax to the government and those who said to avoid penalties indicates that they may have the intention not to pay if they have the opportunity to do so or their compliance behavior is uncertain.

Table 5.2.2: Tax education and tax training

Statements	Frequency		Percentage			
	Yes	No	Total	Yes	No	Total
I have attended formal education and tax training about taxation	183	127	310	59	41	100
Trainings arranged and given by ERCA was relevant and practical to know about tax	96	214	310	31	69	100
I will comply with the tax law if I have adequate tax knowledge	298	12	310	96	4	100

Source: Questionnaire, 2016

As indicated in the above table 5.2.2, for the question raised to know whether tax payers have attended formal tax education and training about taxation or not 59% of the respondents' replied that they have got the chance to attend tax training/education and 41% of respondents were responded that they did not get tax related training/education. The reason why 41% of respondents did not yet have attended tax training/education was due to the limited capacity of the tax authority in giving tax training and the training schedules were not convenient for tax payers to attend.

The respondents were also asked whether trainings arranged and given by ERCA was relevant and practical to know about tax laws. Accordingly, majority of tax payers (69%) responded that the tax training which was given by ERCA was not relevant and practical and 31% of respondents said that the training is relevant and practical.

Respondents were also asked whether tax knowledge is important to comply with tax laws and regulations. Hence, majority of tax payers (96%) agreed that they will comply with tax laws if they have adequate tax knowledge and 4% of respondents were responded that tax knowledge is not relevant to comply with tax laws. Tax knowledge also increases the tax awareness of tax payers and to have positive attitude towards the tax system.

Table 5.2.1: Tax payer's response for the reasons why tax payers are not willing to pay tax

Possible Answers	Frequency	Percentage
Because of lack of awareness	127	41
Because of lack of ability to pay	22	7
Intentional	36	12
Negligence	48	15
Poor and tiresome collection system	77	25
Total	310	100

Source: Questionnaire, 2016

As it's shown from the above table 5.2.1, tax payers were asked to express their view about the reasons why tax payers are not willing to pay tax voluntarily. Consequently, 41% of tax payers were replied that most tax payers do not pay taxes because of lack of awareness about taxation, 25 % of tax payers were responded because of existence of poor and tiresome tax collection system, 15% of tax payers were answered because of negligence of tax payers, 12 % of tax payers were replied that because of intentional non compliance of tax payers and 7 % of tax payers responded that because of lack of capacity to pay by tax payers. Therefore, from the this finding, we can conclude that the main reason for tax non compliance by most tax payers is lack of awareness about taxation followed by existence of poor and tiresome collection system, negligence, intentional and lack of ability to pay respectively.

5.3. Tax Audit and its contribution for tax voluntary compliance

Respondents were asked whether they are audited by tax authority to know the coverage of tax audit in the study area. As it's pointed out in table 5.3.1 below, 30% of tax payers had been audited while the majority or 70% of tax payers had never been audited by the tax authority for tax purpose. This result suggested that majority of tax payers have never been audited by the tax authority for tax audit.

Respondents were also asked whether the probability of audit affects the level of tax compliance. Accordingly, 86% of tax payers agreed that the level of compliance increase if probability of auditing increases.8% of respondents were neutral and the remaining 6 % of respondents were disagreed with the concept that probability of auditing has positive contribution to tax compliance. This finding suggested that in SAS tax system, tax audits can play a significant role and their fundamental role is to increase tax compliance level. Because if there is tax audit, the probability of detection is high that results in penalty. Rate of Audits and the carefulness of the

audits could encourage taxpayers to be more cautious in completing and submitting their tax returns on time due to fear of detection. Conversely, taxpayers who have never been audited might participate in not reporting or under report their tax liability accordingly. Nevertheless, tax payers were said that though the existence of tax audit is vital for tax compliance and collection due to fear of detection and any tax enforcement consequences, it may also discourage voluntary compliance by tax payers and creates distrust among tax payers and the tax authority. In this regard, Kirchler (2007) argue that, in the situation of mutual distrust, tax payers may be enforced to comply with tax laws. However, if the environment is exemplify by mutual trust between tax authorities and citizens tax enforcements such as tax audits and tax fines would indicate authoritarianism and distrust, and thus, rather than increasing voluntary compliance, its result could be ineffective or even unproductive in the long run. Because, in the climate of mutual trust, tax payers will have positive towards the tax systems and tax authorities and work together spontaneously. For this reason, this finding indicates that tax authority and other responsible bodies should work to enhance voluntary tax compliance by using different awareness creation strategies and the tax authority can conduct tax audit visit for assisting and consulting tax payers rather than penalizing and enforcing tax payers to comply with tax laws.

Table 5.3.1: Tax payers’ response about tax audit and its contribution for tax compliance

Item	Response	Frequency	Percentage
Does your organization audited for tax purpose?	Yes	93	30
	No	217	70
	Total	310	100
Probability of being audited has positive contribution for tax collection	Agreed	266	86
	Disagreed	44	14
	Total	310	100
Probability of being audited has positive contribution for voluntarily complying with tax laws and regulations	Agreed	58	19
	Disagreed	252	81
	Total	310	100

Source: Questionnaire, 2016

5.4. Tax payers’ attitude and perception

Tax payer’s perception about the tax rate, the penalty rate, the government spending and tax system fairness and simplicity may differ from one tax payer to the other. Hence, this perception influences tax payers’ tax compliance behavior negatively or positively. Therefore, under this section we will see the perception of tax payers towards tax rate, the penalty rate, the government spending and tax system fairness and simplicity as follows;

Table 5.4.1: Tax payers’ perception and their voluntary tax compliance behavior

Item	Response	Frequency	Percentage
The current tax rate is high	Agreed	174	56
	Disagreed	136	44
	Total	310	100
Tax rate doesn` t matter to comply with the tax law	Agreed	226	73
	Disagreed	84	27
	Total	310	100
The current tax laws and regulations are complex	Agreed	158	51
	Disagreed	152	49
	Total	310	100
If the tax laws and regulations are simple to understand, I will comply with the tax law	Agreed	242	78
	Disagreed	68	22
	Total	310	100
The current tax system is fair	Agreed	140	45
	Disagreed	170	55
	Total	310	100
Fair tax system encourage voluntary compliance	Agreed	260	84
	Disagreed	50	16
	Total	310	100

The current penalty rate is high	Agreed	130	42
	Disagreed	180	58
	Total	310	100
If the penalty is high everyone will comply voluntarily with the tax law	Agreed	180	58
	Disagreed	130	42
	Total	310	100
I believe that government spend tax money properly	Agreed	105	34
	Disagreed	205	66
	Total	310	100
If government spend money on basic needs wisely I will voluntarily comply with tax law	Agreed	257	83
	Disagreed	53	17
	Total	310	100

Source: Questionnaire, 2016

Respondents were asked a question to express their view about the tax rate. Majority of the respondents (56%) agreed that the rate was high, where as 44 % were disagreed that the current tax rate is high. In addition respondents were also asked to express their perception towards the change in tax rate and their compliance attitude, 73 % of respondents agreed that tax rate has no impact on tax compliance behavior of tax payers while 27% tax payers disagreed that the tax rate has no influence on tax compliance behavior of tax payers. If tax payers perceive the tax rate is high, hence their tax compliance level will decrease and vice versa. However, as per this study finding majority of tax payers agreed that the change in tax rate has no influence in their compliance decision.

With regard to tax simplicity, respondents were asked about their view regarding simplicity of tax system. The questionnaire seeks to find from tax payers how easy it was to understand the current tax system, calculate and file tax returns. As it's shown in table 5.4.1 above, Majority of the respondents (51%) agreed that the existing tax system is complex; where as 49 % of tax payers believe that the current tax system is complex. Besides, 78 % of tax payers agreed that simplifying tax system encourages tax payers to comply with tax laws and regulations voluntarily while 22% of tax payers disagreed that simplifying tax system enhances voluntary tax compliance.

Related to tax payer's perception on tax fairness, if taxpayers perceive that the tax system is unfair, tax evasion is more likely to occur while if tax payers perceive that the tax system is fair they are more likely to comply with the tax system (Palil, 2010). Consequently, respondents were asked regarding the fairness of the present tax system to know their perception about tax fairness. Moreover, a belief in the authenticity of the tax authority and trust in it, with a sense of procedural fairness also increase compliance with its norms and procedures. Although a belief in the legitimacy of the tax system is ultimately tied to the greater issue of legitimacy of the government which the taxes support, individuals' direct contacts with the tax authority greatly influence their perception of whether an authority is legitimate and procedurally fair (Stephen, 2011). Hence, according to tax payer's response result in table 5.4.1 above, 55% of the respondents believed that the existing tax system is not fair, 45% of tax payers agreed that the tax system is fair. This implies that majority of the taxpayers perceived that the tax system is not fair which discourages the level of compliance. As well 84% respondents agreed that fair tax system encourages voluntary tax compliance while 16% of respondents disagreed that tax fairness encourage voluntary tax compliance.

Regarding to penalty rate, respondents were asked about the existing penalty rate. Hence, as it is shown in table 5.4.1 above, 42% of respondents agreed that the existing penalty rate is high, majority (58%) of respondents said that the existing penalty rate is not high. Moreover, tax payers were asked to express their view towards high penalty encourage tax compliance, 58% of taxpayers disagreed that high penalty encourage tax payers tax compliance whereas 42% of respondents agreed that high tax penalty encourage tax compliance. Hence, from this finding we can high penalty adversely affects tax payer's voluntary compliance. This gives a direction for the tax authority that the severity of penalty imposed on any tax evasion has negative impact on the level of voluntary tax compliance.

With regard to perception on government spending, it is expected that if the government spends taxpayers' money wisely, for example on basic facilities like education, health and safety and public transportation, it is assumed that voluntary compliance will increase. In contrast, if taxpayers perceive that the government spends too much on something else, taxpayers might feel betrayed and attempt to evade (Stephen, 2011; Palil, 2010). Therefore, to see the perception of tax payers on government spending and its influence on the level of compliance respondents were asked. Therefore, as it is shown in table 5.4.1 above, only 34 % of tax payers were believed that the government is spending tax revenue properly, conversely, 30 % of tax payers do not believe that the government spending tax revenue properly for public goods and services while 36 % of tax payers were not sure about whether the government spending tax revenue properly or not. Further, 83 % of respondents said proper spending of tax revenue for productive activities will encourage their tax compliance level whereas 17% disagreed that proper spending of tax revenue by the government encourages tax compliance.

5.4.1 Efficiency and Effectiveness of tax authority

Table 5.4.2: Evaluation of the tax authority by tax payers

Parameters	Percentages			
	Excellent	Good	Poor	Total
Creating awareness	22	24	54	100
Enforcing the tax law	20	54	26	100
Giving feedback on issues	20	47	33	100
Customer handling	24	29	47	100
Detecting tax evasions	23	49	28	100
Encouraging tax payers	18	23	59	100
Adopting modern tax system	22	47	31	100
Transparency	18	30	52	100

Source: Questionnaire, 2016

From the above table it's observed that, respondents rated the tax authority's awareness creation performance as Excellent (22 %), good (24%), and poor (54%). Respondents also evaluated the authority with respect to law enforcement activity as an excellent (20%), good (54%), and poor (26%). Similarly, respondents rated the performance of the authority related to giving feedbacks on issues as follows; excellent (20%), good (47%), Poor (33). With regard to customer handling performance of the tax authority, respondents rated the authority's performance as excellent (24%), good (29%), and poor (47%) respectively.

On the other hand, concerning to its tax detection ability, they rated the authority as excellent (18%), good (49%), poor (28%). In terms of tax payers encouragement, the performance of the tax authority was evaluated by tax payers as follows; excellent (18%), good (23%), poor (59%).

With regard to adopting modern tax system the performance of the tax authority rated by tax payers as follows excellent (22%), good (27%), and poor (31%). With regard to tax authorities' transparency the performance of the tax authority was rated as follows excellent (18%), good (30%), and poor (52%). In addition, as we have seen from the above finding, in all the parameters significant number of respondents rated the authority's effort as good and below that. Specifically, majority of tax payers give poor performance result for tax authority's tax awareness, tax authority's effort in encouraging tax payers and transparency performance.

Hence, this result signals that the tax authority is not that much effective in providing satisfactory service for taxpayers with regard to the above parameters especially in terms of awareness creation, in encouraging tax payers, in transparency and customer handling.

6. Conclusions and Recommendations

Conclusions

Based on the results of the analysis and findings of this study conclude the followings. According to tax payer's response, the major reason of tax non compliance is lack of awareness by tax payers followed by lack of capacity to pay, intentional non compliant tax payers, negligence, existence of poor and tiresome collection system, and expectation amnesty of tax penalty respectively. Most of tax payers were said that the current tax penalty is high and this also discourages them to voluntarily comply with the tax system though it may force them to comply just because of fear of the penalty. Hence, according to their response high tax penalty discourages voluntary compliance,

Tax payers also said the current tax rate is high and beyond their capacity. However, according to majorities' response, even if the current tax rate is high, the rate did not influence on their tax compliance attitude. Regarding to the probability of auditing, tax payers were responded that probability of audit can enhance tax compliance but it's because of fear of detection and penalty. Hence it may discourage voluntary compliance and it may create distrust between tax payers and tax authority. Tax payers were also asked about the simplicity of tax returns and administration and more than half of tax payers replied that, the existing tax system is complex and if the tax system becomes easy it encourages them to voluntary comply with tax laws.

Tax payers were also asked about their perception on tax fairness and equity. Most of tax payers believed that the current Ethiopian tax system is not fair. Therefore, fair and equitable tax system can encourage them to voluntarily comply with the tax system. They were also asked about their awareness about their perception on government spending and significant number of tax payers believed that the government is spending tax money unwisely and other have no idea whether the government is spending tax money properly or not. And tax payers also said that if the government spends tax money properly for necessary things, this encourages them to voluntarily comply with tax laws.

Recommendations

This study forwarded the following recommendations;

- The role of tax awareness and perception of tax payers towards the tax system is pivotal for voluntary tax compliance decision; hence, the Ethiopian Revenue and Customs authority should continuously work on tax payer's awareness creation and tax knowledge by giving adequate tax training and education to tax payers. The ERCA shall provide continuous and problem solving

and practical trainings to tax payers by using Medias such as Television, Radio, and Newspaper etc and by arranging training sessions through integration with universities or its is also recommendable to incorporate tax course in educational curriculums as a common course just to create tax awareness to citizens sustainably.

- In addition, it's important to create awareness about taxation, how the government spends tax revenue by disclosing the government budget and expenditure and the total amount collected from the tax to citizens transparently.
- Voluntary taxpayers may be discouraged if they believed that the current tax system is unfair and inequitable or if they perceive others escaping tax burden. This can be done by encouraging and caring truthful and loyal taxpayers by adopting fair competition and fair treatment. Hence, Ethiopian Revenue and Customs Authority should maintain tax fairness through treating all tax payers fairly at the time of levying tax, registration, collection and so on. In addition, bringing non taxpayers to tax system has to be considered as a measure of ensuring tax equity and this can also protect honest and loyal tax payers. In general, the tax authority should try to ensure tax fairness and equity so as to encourage voluntary compliance behavior.
- ERCA should also try to make the tax system as simples as possible for calculating and filing tax returns such as by providing simple tax return forms and by revising complex tax laws and regulations, or by adopting economical modern technologies that facilitate tax collations.
- ERCA should also encourage loyal tax payers through different mechanisms such as by giving recognition for them; this will ultimately encourage voluntary tax compliance.

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