



FACTORS AFFECTING BUSINESS INCOME TAX EVASION AMONG CATEGORY 'A' TAXPAYERS: THE CASE OF GONDAR CITY, AMHARA REGIONAL STATE

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Abstract:

Tax evasion is a worldwide phenomenon and it is by nature an exceedingly difficult phenomenon to observe and research. The problem is especially acute in developing economies, like our country Ethiopia. Tax evasion undermines the ability of a government to raise revenue in an equitable and efficient manner. However, research on the tax evasions in Ethiopia is still scanty. Hence, this paper intends to identify the determinant factors of business income tax evasion by category 'A' taxpayers in Gondar city thereby bridging the literature gap and assisting policy makers in designing appropriate public policy by revealing the magnitude of the sector. The study adopted a mixed method research approach to test the hypotheses and answer research question. The questionnaires dispatched to the sample of 206 business income taxpayers of which 163 were responded self-administered questionnaires and the remaining 30 through in-depth-interview. The latest statistical package for social science software (SPSS Version 16.), chi-square test analyses were used to analyse the survey and thematic analysis was applied to in-depth interviews. According to the response of the respondents, certain factors were found to be the determinants of causes of business income tax evasion. These are, demographic variables (gender, age, education level), socio-economic variables (working type, business activities and year of the business), tax fairness and equity, high tax rates, unreasonable estimation of tax liability, complexity of tax structure, organizational efficiency level of the tax authority, low awareness level of the taxpayers, social norms, and insufficient provision of social services by the government. Finally, based on the findings possible recommendations were given. These include, the tax authority should educate taxpayer and conducting extensive awareness creation programs, maintaining tax fairness and equity, estimate tax liability based on reasonable data, develop communication with tax payers and reduce tensions, building capacity of the tax authority, and providing social services to the general public and finally the government check the tax law or tax structure of the country.

Keywords: Business, Income, Tax, Evasion and Taxpayers.

1. INTRODUCTION

In Ethiopia tax evasion has a great implication on reducing the government revenue that would have been used to improve public services of broader advantage. According to Feige (1990), the size and growth of unreported income and the implied tax gap affect the size of government deficits, government debt and tax reform policies. In addition to, it can have implications for economic planning as the official data will be misleading. There are also implications on international comparisons, standards and responsibilities. For instance, College (2002) considered its special significance when: i) monetary contributions made or received by a country depend on its GDP; ii) relative poverty is measured by per capita GDP; iii) environmental standards are measured by CO2 emission per unit of GDP; and iv) tax burdens are computed as ratios of taxes paid to GDP. By Emerta Asaminew (October 2010). The Underground Economy and Tax Evasion in Ethiopia. Currently, in Ethiopia the prevalence of underground economy is associated with the coverage of national accounts and nature of some activities. National accounts cover only limited economic activities in their premise since complete coverage is challenging as there are a wide range of economic activities in reality. Some of these activities are deliberately concealed by businesses to avoid taxes while others are missed because survey frames exclude small businesses or very new ones. Hence some will remain actually unrecorded. Tax evasion through trade mispricing is serious drain on resources. Ethiopia is estimated to have lost US\$17bn in 2004 to capital



flight. The government imposes strict and serious penalties for tax evasion. In an effort to boost tax collection, the government has recently overhauled the system by creating a new agency, paying staff better, bringing in new taxes, making greater use of technology, and introducing a taxpayer identification number.(Summer 2010 Domestic Resource Mobilization in Africa, Ethiopia). In this section efforts have been made to evaluate the Factors of Business Income Tax Evasion among Category 'A' Taxpayers, The Case Study of Gondar city, Ethiopia.

2. METHODOLOGY

2.1 Research Design

The type of research design that employed under this study was both descriptive and inferential research design (chi-square test). Then, this study describes and critically finds out the potential causes of business income tax evasion by category "A" tax payers. Besides, the study was also used cross-sectional research design in the sense that all relevant data were collected at a single point in time.

2.2 Source of Data

In conducting the research the data were used both primary and secondary data. The primary data sources which were employed in this study were survey data which were based on questioner, key informant interview and observation. This study were used mainly structured questioner responded by category "A" taxpayers to both open and closed ended questions, the key informants where used to issues of which adequate information were not acquire from the other. Secondary data sources include books, magazines, Journals, articles, quarter and annual reports, websites, newsletters, publications of various government agencies, occasional papers and organizational documents, official meeting & various standards/such as FASB, GAAP&GAAS would be reviewed to make the study fruitful.

2.3 Sampling Technique

In this study stratified random sampling would be used to get responses from different sectors of category 'A' taxpayers in Gondar town. The strata's were including: General Merchandise and retailer trade, construction, manufacturing and service giving sectors. According to Gondar town tax administration office (2005E.C), there are 953 categories 'A' tax payers found in various sectors. The following formula has been used for the calculation of the sample size since it was relevant to studies where a probability sampling method was employed (Watson, 2005:5).

$$n = \frac{\left[\frac{P(1-P)}{\frac{E^2}{Z^2} + \frac{P(1-P)}{N}} \right]}{R}$$

Where

n=sample size required

N=number of population studied

P=estimated variance in the population

E=margin of error

Z= standard normal=1.96 for 95% confidence level

R=estimated response rate

2.4 Method of Data Analysis

This is for further transformation of the processed data to look for patterns and relationship between and/ or among data groups by using descriptive and inferential (statistical) analysis. The data were analyzed using mixed methods. Quantitative data would be collected using structured questionnaire and qualitative data would also gather through focus group discussion and key informant interview. The Statistical Package for Social Science (SPSS Version 16.) was used to analyze the data obtained from primary sources. Specially, descriptive statistics (tables) and inferential statistics (chi square test) were taken as basic tools.

3. METHODOLOGY

3.1 Research Design

1. Gender: Out of the total sample of the received responses, the male gender had (79.8%) while the female gender had (20.2%). It must, however, be emphasized that the reason for larger number of male respondents in the sample was not exaggerated from the fact that not until recently the main duty of the female gender was to keep the home front. See table 2. In this study there is a significant association between gender and tax evasion. It is one of the sociological factors that influence the non compliance (tax evasion) behavior of taxpayers (Schuetze, 2002). Jackson and Mill iron (1986) found that gender is one significant factor that affects the tax compliance attitude and behavior of taxpayers. Spicer and Becker (1980) found that gender appears to have a significant impact on tax non-compliance and noted that male had greater percentage than female in terms of tax non-compliances. But, according to the study by Houston and Tran (2001) indicates that a higher proportion of tax evasion occurred by women than men. This study indicates that both males and females (72.7%, 43.8%), (20%,12.1%), (6.2%,6.1%), (17.7%,9.1%), (12.3%,0%) of respondents were evaded tax due to lack of knowledge, lack of ability to pay, negligence, intentionally and poor and tiresome tax collection respectively from each gender respondents. From this result we observed that, lack of knowledge has a great impact on female to evade tax than male, secondly and thirdly male respondents highly influenced by lack of ability and intentionally respectively to evade tax than females.

2. Age: The age category 18-29 was (39.3%) this was followed by age category 30-39 with (30.1%). Respondents who fell between age 40 and 49 years accounted for (18.4%), 50-59 age category was (6.7%) while (5.5%) was for age categories 60 and above. One would observe from the table2 most of our respondents were in age bracket of 18 and 49 years. This trend might suggest that those who are at their physical best would be found in paid job or be self employed. In this study there is a significant association between age and tax evasion. In USA studies indicate that age is an important factor to explain the level of tax non-compliance. For example, Clotfelter (1983) reports that there is a close relationship between age and tax non compliance. Christian and Gupta (1992) found that older taxpayers are less likely to be at the top of the table brackets, less knowledgeable about tax or may be more conservative and hence less likely to search for additional deductions to lower their taxable income i.e. older people are less likely to be tax non compliance as compared with younger taxpayer. Here, this study indicates that the age between 18-29 were highly influenced by lack of knowledge, lack of ability to pay and intentionally evade tax ,age between 30-39 evade tax due to lack of ability to pay than other age groups, age between 40-49 evade tax intentionally than other age groups and the age between 50-59 and above highly influenced by lack of knowledge and poor and tiresome tax collection system than other age groups and they were totally not evade taxes by negligence and intentionally. So, the degree of evasion depends up on different factors in different age groups.

3. Marital status: The respondents responses shows that (46%) of the respondents were married, (49.7%) were single while the other category, which encompassed the divorced and the widowed had (4.3%), the observation shows that majority of the respondents were married. Considering the age of our respondents, it is not surprising that most of them were married, as 61.7% of the respondents were above 30 years of age. See table 2. Prior researchers like (Clotfelter 1993, Young 1994) argued that single taxpayers evade more than married taxpayers. But in this study there is no a significant association between marital status and tax evasion. So, according to this study, marital status doesn't causes tax evasion in Gondar town.

4. Religion: There were five categories in which religious affiliation was delineated; Orthodox, Catholic, Protestant, Islam and Traditional. The pattern of response was as follows; Orthodox (50.3%), Muslim (40.5%), Catholic and Protestant (9.2%) and Traditional had no followers. See table 2, A number of studies have been done from different religious perspectives about tax evasion, including Christianity (Gronbacher 1998; Pennock 1998), Judaism (Cohn1998; McGee and Cohn 2006; Tamari 1998), Islam (McGee 1998b; Murtuzaand Ghazanfar 1998), Baha'i (DeMotive 1998) and Mormon (McGee and Smith 2006; Smith and Kimball 1998). If one were to summarize these studies in a single sentence it would be that Jews, Baha'is and Mormons are strongly opposed to tax evasion, whereas Christians and Muslims are more flexible on tax evasion. However, this study doesn't show a significant association between religion and tax evasion, this shows that religion doesn't causes tax evasion in Gondar tow.

5. Education: Likely responses on the level of education of respondents were in six categories; below 12 grade, 12 grade completed, certificate, diploma, bachelor degree, and masters and above. About 38.7%of the respondents were below 12 grade, 31.9% 12 grade completed, 4.9% certificate, 12.9% diploma and 11.7% both bachelor degree& masters and above. See table 2. The highest number of below 12 grades indicates that the majority of taxpayers were under primary education level.

This indicates that they don't understand clearly tax policy, tax proclamation, tax rules and procedures. Also they do not make a lot of effort to understand the explanations given in Ethiopian Revenue and Custom Authority guidebooks and other similar explanatory materials. So, Most of the time, they need to refer to others (professionals) for assistance in dealing with the tax matters. In this study there is a significant association between education and tax evasion. This study indicates that the education level below 12 grade, 12 grade and certificate respondents were highly influenced by lack of knowledge than other education level, also certificate, diploma and degree holders were evade tax intentionally whereas, degree, masters and above were evade taxes due to poor and tiresome tax collection system. Allan(1996) also find that specific tax knowledge was positively linked to tax payer attitude. So, this study indicates that there is a significant association between education level and tax evasion. So, education level has an impact on tax evasion.

6. Working Type: Likely responses on the work of respondents were in three categories; working for government, working for private organization and self employed. About 84.7% of the respondents work for private organization (that is, the organized sector), 13.5% of the respondents are self employed (that is, informal sector), which is unregistered income comes from self-employment in our Tax treatment and from black labor supplementing some unemployment compensation in our Welfare treatment. While 1.8% works for government (that is, the public sector).see table 3.Non-compliance is significant and varies with source of income (Fledman&Slemrod, 2005).Self-employment or business income would be more subject to lower compliance as compared to those who have incomes from salaries (Madeo, Schepanski and Uecker, 1987).Tax payers vary in terms of the opportunities available to them to over-claiming expenses and under-reporting incomes. Highest number of tax noncompliance is generally resulted from self-employment and income sources not subject to withholding taxes. A significantly higher proportion of tax evasion among taxpayers who are self-employed (Houston & Tran, 2001). According to Vogel (1974) 39% of Swedish taxpayers who acknowledged receiving additional income that was not taxable at the source also committed evading taxes in comparison with 21% of those acknowledging no such additional income. In this study there is a significant association between working type and tax evasion.

7. Income Level: Respondents were asked to state whether they belong to the upper, middle and lower level of the income. Of the three categories, respondents belonging to the middle income constituted 55.2%. This was followed by respondents in the lower level with 30.7% while upper level had 14.1%. The middle income level of the respondents in the study placed the higher share of business operation in the town. See table 3.Taxpayers in the lower income group tend to have a lower proportion of tax compliance by understating income and by overstating expenditures than their counterparts in the higher income group (Houston & Tran, 2001). By investigating taxpayers in the 1997 Arkansas Tax penalty amnestyprogram, Ritsema et al. (2003) also find that income level is positively related to the tax owed. Taxpayers who are a thigh income bracket tend to be tax non-compliant when compared to those in the lower income bracket (Harwood, Larkins & Vazques, 1993). According to Worsham(1996) different level of distribution of income may also affect tax non compliance among the individual taxpayers. This may be because taxpayers may feel that it is acceptable to Under-report small amount of income. On the contrary, Spicer &Becker (1980) argued that income appears to have no significant relation to tax non-compliance. In this study there is no a significant association between income level and tax evasion.

8. Business Activities: The total sample of the received responses, about 63.8% of the business activity categorized under General merchandise and retailer, 23.9% were service giving sector, constructions business activity was 9.8% and lastly 2.5% were categorized under manufacturing business activities. The highest numbers of the General merchandise and retailer business activities indicate that, most taxpayers in the town were run General merchandise and retailer business activities which difficult to control returns of taxpayers because they sold a number of items with in a time receipt. See table 3.In this study there is a significant association between business activities and tax evasion.

9. Legal form of Business: The participant's responses on legal form of business were in four categories, A proprietorship, A private limited company, A partnership and A share company. About 79.1% owned by a sole proprietorship, 11% of the businesses were PLC, 6.7% were owned by a partnership and share companies were 3.1%. The 79.1% of the business activity owned by a single person in which both an owner and manger was a single person. So, these businesses simply overstate expenditure and understate income due to no external supervisory body controlling their account. See table 3.Tax evasion is considered as a white-collar crime, committed by an individual of respectability and high social status in the course of performing his employment, Sutherland (1949). According to (Andreoni et al., 1998) TCMP indicate that "among all sole

proprietors those who engaged in sales from fixed locations (car dealerships, stores, restaurants etc) understated taxes by the greatest percentage". In this study there is a significant association between legal form and tax evasion.

10. Business Operation Period: The number of years one has been in business has an influence on his/her taxpayers' experience and level of paying taxes. For those who done business for long it implies they are used with the routine practices of paying taxes to Gondar town tax administration. It also determines whether their attitude to enjoy the duty service their taxes is positive or not. From research data, there were four categories of business operation period of the respondents, less than one year experience, 1-5 years ago, 5-10 years ago and more than 10 years ago. About 33.7% were belongs to 1-5 years business experience, 22.7% were less than one year's business experience which followed by 22.1% years experience belong to 5-10 years while 21.5% indicates that they have more than 10 years ago business experience. From the observation the highest ratio of 22.7% shares belongs to less than year shows that taxpayers were frequently changes their operation type and shifts to another type of business and take new license. On the other hand, 21.5% more than 10 years business experience is an indication of that most taxpayers in Gondar town have very little business experience, considering there moteness. See table 3.

11. Position in the Sector: Respondents were asked to state their position in the business operation. Their response indicates that about 67.5% were owner in the business, 17.8% were employee, 12.3 % were manger while about 2.5% the respondents were work as public relation. As explained above in legal form of business 79.1% of the business owned by single person. So, it is not a surprising to the highest number (67.5%) of position in the sector shared by the owner. From this we observe that owners need tax professional consultant to prepare their tax liability as they need, this is highly exposed to evade tax from tax authority. See table 3.

3.2. General Knowledge of Taxpayers about Taxation: When people asked why they pay taxes, 63.8% of the respondents said that they pay taxes because it is an obligation to the government or state and in the anticipation of public services from the government (28.2%). This indicates there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be registered. Here we observe that majority of the respondents responded that tax payment is an obligation towards government and in the second rank they responded that they pay tax in anticipation of public service. About 4.3% of the respondents said that they pay taxes to avoid disturbances The response of the other 2.5% who said there is no opportunity to evade taxes, it indicates they have the intention not to pay if they have the opportunity to do so or their compliance behavior is questionable and finally the remaining 1.2% of taxpayers they don't know why pay taxes. See table 5.

Taxpayers understand that tax evasion is one of the most serious crime and as it can be observed from the table 6, 44.8% of the respondents ranked bribery as the most serious crime and 20.9 % of the respondents said tax evasion is a serious crime while the remaining respondents, 14.7 % of responses shows kidnapping ranked third, Hit and run and drunken driving ranked fourth and fifth respectively. From this response one can understand that taxpayers perceive tax evasion as a crime, even though it is ranked second, and this indicates that there is awareness towards taxation. But the problem here is there is poor compliance even though tax evasion is considered as crime by the taxpayers. Perceiving tax evasion as crime is a normal and desired behavior that has to prevail in the society to build a positive attitude towards taxation and to discourage the problem of non-compliance.

3.3 Awareness: With respect to awareness of taxpayers , about 33.75% of the respondents said they have not attended taxpayers 'education session,22.1% of the respondents said they have attended taxpayers 'education session twice a year in a year, 21.5% attended once in a year, 19.6% attended thrice in a year and 3.1% said above thrice a year from different sources. From the table 7, about 92% of the participants agreed that the tax law should be respected and 4.3% of the respondents should not be agreed to respect the tax law and the remaining of respondents are not volunteer to response their feeling about tax law. With respect to taxpayers recording, completing & filing tax return form: about 62.6% of the respondents agreed that they don't have a problem regarding completing & filing tax return form and 35% of the respondents agreed that they do have a problem regarding completing & filing tax return form. From this we observe that even if 62.6% of the respondents have no problem regarding completing & filing tax return form, 35% of the respondents needs tax training and additional help from professionals, this consulting activities pave the to evade tax.

From the same table, we observe that taxpayers awareness on requirement of business income tax, in which 60.7% of the respondents indicates that they know about the requirement of business income tax and 28.9% of respondents indicates that

they don't know about the requirement of business income tax and the remaining of the respondents are indifferent in this issues. This data shows that there is a positive attitude towards taxation. The respondents about 85.9% assured that Paying tax at deadline does not result in penalties and the remaining respondents doesn't assured that Paying tax at deadline does not result in penalties. Finally , we observe from the data 61.1% of the participants agreed that they have a Little idea about deduction of tax liability and 36.4% of the respondents have a good idea about computation of tax liability and the remaining are indifferent respondents.

According to (Levi, 1988), attitudes towards the government may affect the taxpayer's normative Commitment to comply with law. Due and Friedlaender (1981), also argue that, attitudes toward the general level of taxation and tax increases are dependent, of course, on attitudes about the desirability of governmental programs and on attitudes toward the government itself. This research indicates that the degrees of taxpayers about the tax system were affect tax compliance.

3.4 Attitudes towards Non-Compliant Behavior of Category "A" Tax Payers

Respondents Attitudes towards Fairness of Business Income Tax

Respondents were asked to state their responses whether the tax they are paying is based on their ability-to pay or not. These questions were managed based on business income tax were fair or not, tax liability were overstated or understated and finally using 5 likert scale responses namely, strongly agree, agree, neutral/indifferent, disagree and strongly disagree. According to the table 8, the analyses of results were discussed based on these 5 point Likert scale responses.

3.5 Analysis and Discussion of Open-Ended Questions

The participants were also given opportunities to indicate their comments on some open-ended questions and to give general comment on causes or determinant factors of tax evasion. Accordingly they issued several comments on causes of tax evasion that has been occurred in the town. These comments were: Unreasonable tax estimation: In respect of tax estimation most of the time experts from the tax authority levy tax burdens at the spot without considering the capacity of individual taxpayers (levy beyond the actual capacity of taxpayers), also the tax officers were unreasonably levy tax obligation whether the taxpayers is category "A" taxpayers or category 'B" taxpayers. This contradicts the concepts of business income tax fairness.

1. No legal coverage: numerous respondents were commented that, there is no legal coverage in the tax legal system to accountable those tax officers who were unreasonably estimate different tax liability on the same category of taxpayers.
2. Unfairness of tax system: Several respondents firmly commented that the tax system lacks fairness and equity. They further elaborated their comment that individuals having equal income are not Paying equal tax and this highly affects the taxpayers' motivation to be compliant and remaining compliant. In other words, as long as the tax system lacks horizontal equity (individuals with equal income pay equal tax) it is difficult to improve taxpayers' attitude in order to bring about voluntary compliance or in other words it leads the taxpayers to evade their tax from the tax authority.
3. No sufficient tax education/lack of awareness: The other comment given by the respondents is that the tax authority does not provide sufficient education to taxpayers to increase awareness. According to the respondents the fundamental problems in the overall tax system is lack of awareness which is contributed to poor tax education practice and lack of consultation sessions between taxpayers and the authority.
4. Poor communication between taxpayers and tax authority or the government: The other point strongly raised by the respondents is there is no strong communication between taxpayers and tax authority, they seen as enemy like cat and mice. The taxpayers accountable the tax authority and in reverse the tax authority accountable the taxpayers

5. No adequate provision of social service: several participants strongly commented that there is no social provision for the tax they paid
6. Poor and tiresome tax collection system: other comment from the participant is they said current tax collection system very poor and tiresome while giving the service to the taxpayers. Lack of skilled man force, lack of technology, and they don't completely collect all tax revenue from taxpayers.
7. Lack of transparency: numerous respondents were commented that there is no transparency while utilizing tax revenue, i.e. no announcement of information to the public.
8. Low capacity of tax officers: Several respondents firmly commented that tax officers have no enough knowledge to educate the taxpayers and have no capacity to investigate the evaded tax from the taxpayers. This is also due to high turnover of experienced tax officers from government organization to private organization.
9. Lack of trust or honesty: The comment raised from the participants is that the tax officers and tax administration were not trusted or honesty while serving the taxpayers. For example they biased in estimating the tax obligation/liability and they work well for their relatives.
10. Absence of clear-cut objectives, programs, procedures, rules and regulations: many respondents commented that their no clear-cut objectives, programs, procedures, rules and regulations which have, direct intact with the taxpayers knowledge and awareness intern brought about complex tax system.
11. No administration consistency: the other comment given by the respondents is that there is no consistency administration across a year and taxpayers, frequently changing of tax rules and regulation.
12. Lack of communication between the regional and federal government: many taxpayers commented that the town government doesn't kept us from the risk which we exposed to the general merchandiser in Addis Ababa, those who follow with VAT or without VAT to sold any item. So, many times they informed to the tax authority they were not taken decisive measure by communicating with federal government.
13. Increasing of illegal trades: Several respondents firmly commented that there are so many individuals who are engaged in illegal (contraband) trades and according to the views of the respondents, all these abnormal acts are hampering their business activities and as a result unfair competition has prevailed in the city.
14. Frequently changing type of business operation: several comments from the tax officers are that the taxpayers were frequently changing type of business operation and changing their license.

4. CONCLUSION AND RECOMMENDATIONS

Tax evasion is a widespread, always has been, and probably always will be. There appears to be a substantial tax gap between the tax that is theoretically assumed to be collected from economically active individuals in the Gondar town and the tax is actually being collected. The main reason for the tax gap is tax evasion of tax payers. Five potential determinants of tax noncompliance/tax evasion were identified in this study, namely: demographic variables, socio-economic variables, attitudes and perception towards non-compliance behavior, social norms and tax system/structure.

One of the causes of tax evasion has been demonstrated to demographic variables. The finding of this study indicates that demographic variables such as gender, age and education level have a significant effect on tax evasion than marital status and religions. Socio-economic variables such as working type, business activity and age of the business have a significant effect on tax evasion than income level and legal form of business. Attitudes and perception towards non-compliance behavior (fairness of business income tax evasion), social norms and tax system/structure (tax rates and complexity of tax law) also have a significant effect on tax evasion

Conclusion based on comments given by the respondents on open –ended questions;

Unreasonable tax estimation: In respect of tax estimation most of the time experts from the tax authority levy tax burdens at the spot without considering the capacity of individual taxpayers (levy beyond the actual capacity of taxpayers), also the tax officers were unreasonably levy of tax obligation whether the taxpayers is category “A” taxpayers or category ‘B” taxpayers. This contradicts the concepts of business income tax fairness.

No legal coverage: numerous respondents were commented that, there is no legal coverage in the tax legal system to accountable those tax officers who were unreasonably estimate different tax liability on the same category of taxpayers.

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No sufficient tax education/lack of awareness: The other comment given by the respondents is that the tax authority does not provide sufficient education to taxpayers to increase awareness. According to the respondents the fundamental problems in the overall tax system is lack of awareness which is contributed to poor tax education practice and lack of consultation sessions between taxpayers and the authority.

Poor communication between taxpayers and tax authority or the government: The other point strongly raised by the respondents is there is no strong communication between taxpayers and tax authority, they seen as enemy like cat and mice. The taxpayers accountable the tax authority and in reverse the tax authority accountable the taxpayers.

No adequate provision of social service: several participants strongly commented that there is no social provision for the tax they paid

Poor and tiresome tax collection system: other comment from the participant is they said current tax collection system very poor and tiresome while giving the service to the taxpayers. Lack of skilled man force, lack of technology, and they don’t completely collect all tax revenue from taxpayers.

Lack of transparency: numerous respondents were commented that there is no transparency while utilizing tax revenue, i.e. no announcement of information to the public.

Low capacity of tax officers: Several respondents firmly commented that tax officers have no enough knowledge to educate the taxpayers and have no capacity to investigate the evaded tax from the taxpayers. This is also due to high turnover of experienced tax officers from government organization to private organization.

Lack of trust or honesty: The comment raised from the participants is that the tax officers and tax administration were not trusted or honesty while serving the taxpayers. For example they biased in estimating the tax obligation/liability and they work well for their relatives.

Absence of clear-cut objectives, programs, procedures, rules and regulations: many respondents commented that their no clear-cut objectives, programs, procedures, rules and regulations which have, direct intact with the taxpayers knowledge and awareness intern brought about complex tax system.

No administration consistency: the other comment given by the respondents is that there is no consistency administration across a year and taxpayers, frequently changing of tax rules and regulation.

Lack of communication between the regional and federal government: many taxpayers commented that the town government doesn’t kept us from the risk which we exposed to the general merchandiser in Addis Ababa, those who follow with VAT or without VAT to sold any item. So, many times they informed to the tax authority they were not taken decisive measure by communicating with federal government.

Increasing of illegal trades: Several respondents firmly commented that there are so many individuals who are engaged in illegal (contraband) trades and according to the views of the respondents, all these abnormal acts are hampering their business activities and as a result unfair competition has prevailed in the city.

Frequently changing type of business operation: several comments from the tax officers are that the taxpayers were frequently changing type of business operation and changing their license.

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6. Tables

Table 1: Frequency distribution by socio-demographic and background attributes

		Count	Column N %	Chi-square	p-value
Gender	Male	130	79.8%	10.588	0.32
	Female	33	20.2%		
Age of the respondent	18 – 29	64	39.3%	31.036	0.13
	30 – 39	49	30.1%		
	40 -49	30	18.4%		
	50 – 59	11	6.7%		
	60 and Above	9	5.5%		
Marital status	Single	75	46.0%	9.287	.678
	Married	81	49.7%		
	Divorced	2	1.2%		
	Widow	5	3.1%		

Religion	Orthodox	82	50.3%	17.624	.128
	Catholic	9	5.5%		
	Protestant	6	3.7%		
	Muslim	66	40.5%		
	Traditional	0	.0%		
Educational level	Below12 grade	63	38.7%	35.793	0.16
	12grade completed	52	31.9%		
	Certificate	8	4.9%		
	Diploma	21	12.9%		
	Bachelor degree	15	9.2%		
	Masters and above	4	2.5%		

Source: taxpayers survey (2013)

Table 2: Background information of the organization

Variables	Responses	Count	Column N %	Chi-square	p-value
Working type	public organization	3	1.8%	16.077	.041
	Private organization	138	84.7%		
	Self-employed	22	13.5%		
Income level	Higher income level	23	14.1%	7.669	.466
	Middle income level	90	55.2%		
	Lower income level	50	30.7%		
Business activities	Manufacturing	4	2.5%	28.532	.005
	Construction	16	9.8%		
	Service	39	23.9%		
	Gen.Merdse& retailer	104	63.8%		
Legal form of business	A proprietorship	129	79.1%	15.332	.224
	A private limited company	18	11.0%		
	A partnership	11	6.7%		
	A share company	5	3.1%		

beginning of the business	Less than one year	37	22.7%	30.170	.003
	1-5 years ago	55	33.7%		
	5-10 years ago	36	22.1%		
	More than 10 years ago	35	21.5%		
Value of sales in 2004 E.C	Birr 500,000	63	38.7%	19.343	.251
	Birr 500,000- birr1000,000	44	27.0%		
	Birr 1000,000- birr 5000000	41	25.2%		
	Birr 5000000-birr 10,000,000	9	5.5%		
	More than birr 10,000,000	6	3.7%		
Position in the sector	Owner	110	67.5%	16.248	.180
	Employee	29	17.8%		
	Manager	20	12.3%		
	Public relation	4	2.5%		
Other than owners experience	Less than one year	15	25.4%	13.466	.336
	1-5 years ago	35	59.3%		
	5-10 years ago	6	10.2%		
	More than 10 years ago	3	5.1%		

Source: taxpayers survey (2013)

Table 3: income level in Us-dollar

No	Income level	Us-dollar
1	Lower income level	\$1,025 or less;
2	Lower middle income level	\$1,026 - \$4,035;
3	Upper middle income level	\$4,036 - \$12,475;
4	High income level	\$12,476 or more.

Source: [World Bank Atlas method](#); 2011 GNI per capita.

Table 4: Reasons why taxpayers pay taxes

No	Responses	Count	Column N %
1	To avoid disturbances(penalties,sanction)	7	4.3%
2	In anticipation of public service	46	28.2%
3	No opportunity to evade tax	4	2.5%
4	An obligation towards government	104	63.8%
5	Do not know	2	1.2%
	Total	163	100

*Source: taxpayers survey (2013)***Table 5: the rank of tax evasion with respect to other crimes**

No	Responses on type of crime	Count	Column N %
1	Kidnapping	24	14.7%
2	Drunken driving	14	8.6%
3	Hit and run	18	11.0%
4	Tax evasion/fraud	34	20.9%
5	Bribery	73	44.8%

*Source: taxpayers survey (2013)***Table 6: Awareness's of taxpayers**

N o	Variables	Once a year	twice a year	Thrice a year	Above thrice a year	Not at all
1	Attendance on training of taxation	21.5%	22.1%	19.6%	3.1%	33.75
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
2	The Tax law should be Respect	58.9%	33.1%	3.7%	1.7%	2.5%
3	No problem completing & filing tax return form	19%	16%	2.5%	52.8%	9.8%
4	Enough awareness about the requirement of business income tax	30.7%	30.1%	10.4%	25.8%	3.1%
5	Paying tax at deadline does not result in penalties	42.3%	43.6%	0%	11%	3.1%
6	A Little idea about deduction of your tax liability	20.4%	40.7%	2.5%	27.8%	8.6%

Source: taxpayers survey (2013)

Table 8: Depicts different issues of taxpayers attitudes towards Fairness of business income tax

No	Variables	Strongly Agree	Agree	Neutral/ indifferent	Disagree	Strongly agree
1	Everyone in the country should pay tax	39.9%	39.9%	.0%	17.2%	3%
2	Business income taxes are not fair in general	25.8%	52.8%	3.7%	16%	1.8%
3	Business Income tax is a legitimate way for government to collect revenue	35%	59.5%	2.5%	1.2%	1.2%
4	Government utilizes tax revenue to achieve social goals	28.8%	53.4%	8%	6.7%	3.1%
5	High income earners should subject to higher tax rates	33.3%	53.1%	1.9%	8%	3.7%
6	Comparable benefit received from government to the payment of tax	30.2%	37.7%	11.1%	18.5%	2.5%
7	Income tax systems were consisted across a year	8.7%	9.3%	3.1%	60.9%	18%
8	Equal share of business income tax payment by Category "A" taxpayers	16%	19.6%	4.3%	46.6%	13.5%
9	High income earners pay too much tax	9.8%	14.7%	11%	52.8%	11.7%
10	Everyone pays their fair share of income tax under the current tax system	6.1%	19.6%	6.1%	49.1%	19%
11	Business income tax is Fair and based on ability to pay	Yes		No		
		24.5%		75.5%		
12	Tax liability	Overstated		Understated		
		79.1%		20.9%		

Source: taxpayers survey (2013)