

The Influence of Tax Education on Tax Compliance Attitude

A thesis submitted to the department of Accounting and Finance of Addis Ababa University for the partial fulfillment of the requirements for the degree of Masters of Science in Accounting and Finance

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Statement of Certification

This is to certify that Zelalem Berhane has carried out his research work on the topic entitled “The influence of tax education on tax compliance attitude” under my supervision. In my opinion this work is suitable for submission in partial fulfillment of the requirements for the award of the MSc Degree in Accounting and Finance.

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Statement of Declaration

I, the undersigned, declare that this study is my original work and has not been presented in any other university, and that all sources of materials used for the study have been accordingly acknowledged.

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Abstract

Tax non-compliance is an area of concern for all government and tax authorities, and it will continue to be an important issue that must be addressed. Regardless of time and place, the main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. The objective of this study is to examine the influence of tax education on the compliance attitude of tax payers. To achieve this objective, a quantitative research approach is used. Both experimental and survey methods of data collection are used in this study. As this study's objective is to explore how provision of tax education influences tax compliance attitude of tax payers, experimental data was collected through questionnaire twice. One at the beginning before respondents attend tax course and second at the completion of the experiment i.e. after attending the tax course. Survey data are collected using questionnaire distributed to real taxpayers. The results indicated that tax compliance is influenced by tax education. The results of this study can inform policymakers on the extent to which tax knowledge is important in voluntary compliance.

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List of abbreviations

UUM - University of Utara Malaysia

VAT - Value Added Tax

SAS - Self Assessment System

IRA – Inland Revenue Authority

IRS- Internal Revenue Service

USA- United States of America

Chapter one: Introduction

Studies on tax compliance have been carried out since the 60's. It has been studied thoroughly by academics, professionals and government agencies especially in the United States and other western countries (Siti Mariam, 1994). Research on tax compliance can be done in various fields such as accountancy, economics, criminal law, psychology, and sociology (Fischer, et al., 1992). As cited in Mohd, 2010, Alm, (1991) defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). Roth et al. (1989), as cited in Singh, 2003, explained that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the need of laws, regulations, and court judgments. Those who fail to adhere to taxation laws intentionally or otherwise shall be considered as having committed an offence. Jackson and Milliron (1986), as cited in Mohd (2010), listed 14 main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Various researchers have listed factors that influenced tax compliance such as demographic, income, compliance cost, and tax agents, in addition to moral or ethical factors (Singh, 2003; Kasipillai et al., 2003).

Other researchers (Sour, 2002; Keller, 1997; Trivedi, 1997; Hamm, 1995; Chang et al., 1987), as cited in Kasipillai, Norhani, and Noor, 2003, listed enforcement element factors (such as penalty,

audit, and tax rates) as having a great influence on tax compliance behaviors. Tax compliance behaviors of a taxpayer usually differ from the compliance behaviors estimated in economics models. Taxpayers are greatly influenced by other taxpayers. Besides, the rate and quality of audit will also influence tax compliance behaviors of a taxpayer (Kasipillai et al., 2003).

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

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010).

Therefore, the purpose of this study is to examine the influence of tax education on tax compliance attitude by conducting an experiment on second year undergraduate Accounting students of St. Marry University College. In addition to this, level of tax knowledge of tax payers and the relationship between tax education and tax knowledge is also examined.

This chapter is organized in eight sections. The first Section presents the study's statement of problem. The second section deals with stating the purpose of this quantitative study. Under section three, the two hypotheses which are tested in this study are presented. Following this section, the research methodology which is utilized in this study to achieve the research objective is presented. The fifth section briefs the significance of this study. The scope and limitation of

this study are presented under section six and seven respectively. Finally, the last section briefs about how this study is organized.

1.1. Statement of the problem

Tax compliance is growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue. Taxpayers will readily accept any new system introduced if they have ample knowledge to understand the system (Kasipillai, Norhani, and Noor, 2003). Thus, education programs organized by custom and duty authority or public education institutions are required to enhance taxpayers' ability to understand the importance of tax on country's economic development and to increase their confidence in fulfilling their responsibilities as taxpayers. It is clear that developing tax knowledge in taxpayers is an important element in operating a successful tax system. Achieving an appropriate voluntary compliance level could be achieved if taxpayers can complete the tax returns correctly and pay the right amount of taxes. Thus to realize the objectives of voluntary compliance, taxpayers need to be informed, well educated (particularly in tax matters), and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant. However, less attention has been directed toward understanding precisely how education will influence tax payer's attitude towards tax compliance in Ethiopia. Hence, the influence of education on tax compliance attitude must be investigated and the findings of this study can be used to inform sound public policymaking.

1.2. Objectives of the study (statement of purpose)

The purpose of this quantitative approach study is to observe the influence of tax education on tax compliance attitude of tax payers. This study considers existing literature in the field of education and ascertains whether education can influence the respondent's compliance behavior. In addition to this primary objective, the following is also sub-objective of this study.

- ▶ To obtain an overview of the level of tax knowledge of taxpayers, and

1.3. Hypotheses

There are two hypotheses tested in this study. The first one is related with tax knowledge and the second is related to tax education. These hypotheses are presented as follows.

1.3.1. Tax knowledge

Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996). Self assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003). Taxpayers will readily accept any new

system introduced, like the SAS, if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001). Based on this, regarding tax knowledge, it is hypothesized that:

H1: tax education improves tax knowledge of individual tax payers.

1.3.2. Tax Education

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

H2: tax education positively influences tax compliance attitude of tax payers.

1.4. Research Methodology

The objective of this study is to examine the influence of tax education on tax compliance attitude. In order to achieve this objective, this study utilized quantitative research approach. From the quantitative methods of data collection, both survey and experimental designs are used. The experimental design includes 35 undergraduate accounting university college students as participants in the experiment. The survey design includes 150 actual tax payers as respondents. Data are collected using questionnaires in both designs.

1.5. Significance of the study

The significance of this study is that, the findings can be used by policy makers in order to make a sound policy in relation to providing tax education as means of reducing tax non compliance attitude of tax payers. It will also serve as a future reference for researchers who need to further investigate in this area.

1.6. Scope of the study

The scope of this study, as its major objective is to evaluate the influence of tax education on tax compliance attitude, is limited to second year undergraduate Accounting students of St.Marry University College and actual tax payers in Addis Ababa city. 35 students are used as participants in the experimental design and 150 real tax payers as participants of the survey

design in this study. The reason for selecting only 35 second year undergraduate Accounting students is

1. Because they didn't take the taxation course in their formal study, the researcher assumes they don't have enough tax knowledge. Therefore, an education treatment is provided for them and the results before and after treatment is compared.
2. The sample size may be small but based on the consideration of major factors such as finance and time; the researcher believes this sample size is enough.

1.7. Limitation of the study

It is acknowledged that this study has a number of limitations. First, the tax knowledge questions and the scope of questions asked in the questionnaire were only limited to awareness on responsibilities and rights, types of income, and awareness of offences and penalties. These questions only cover some levels of tax knowledge. This study unable to determine detail levels of tax knowledge as it this would have been time consuming and made the questionnaire lengthy, hence low response rates would potentially occurred.

Secondly, similar to tax knowledge questions, few questions are asked to check the compliance attitude of respondents. The reason for not including more questions is also because it would have been time consuming and made the questionnaire lengthy so that respondents may not feel out the questionnaire.

Thirdly, this study used with-in subject design of experiment research i.e. only one group is used in the experiment and treatment is given for all participants of this study. There was no controlled group used in this study.

The fourth limitation is that, the subjects of the experiment were students which do not have any tax paying experience. Using these students as subjects of the experiment than the real tax payers may affect the representative of the experiment result. But to supplement the experiment results, survey method using real taxpayers is also used.

Lastly, the experiment was conducted by the researcher itself. The lecture for the course tax, which is the treatment, is given by the researcher. It could be better if the experiment was conducted by other person as it would improve the quality of the research.

1.8. Organization of the paper

The thesis is organized in five chapters. Chapter one presents the introduction part. The second chapter shows the critical review of the related literatures relevant to understand the topic of the study deeply. The third chapter deals with the research design, which includes the research approach used, methods adopted, population & samples, questionnaire design, research stages and data analysis techniques used. Chapter four contains results and analysis and the fifth chapter summarizes the main results of the study and gives some recommendations. The paper ends with annexed list of reference, and data collection instruments.

Chapter Two: Review of related Literature

The purpose of this chapter is to review the existing literatures regarding the relationship of tax compliance with different variables especially with demographic variables particularly education. The chapter has three sections and organized as follows. The first section presents the theoretical reviews tax compliance. Section two similarly reviews different empirical results regarding the impacts of different variables on tax compliance behavior. Finally, section three deals with conclusion of the chapter and the knowledge gaps that inspire this study.

2.1. Theoretical Review

This section of related literature review presents basic concept of tax compliance, briefs the three schools of thought from which different models and theories of tax compliance behavior are derived and the theoretical review of factors that influence tax compliance are presented.

2.1.1. Tax compliance

The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy. Taking the narrow end of the continuum first, one suggestion is that the degree of

non-compliance may be measured in terms of the 'tax gap'. This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance.

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-compliance only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to inordinate lengths to reduce their liability this could hardly be considered 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law.

Tax compliance is a complex behavioral issue and investigation requires the use of a variety of methods and data sources as each instrument has strength and weaknesses. Alm (1991) defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the

authority. Roth explained that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the needs of laws, regulations, and court judgments. Those who fail to adhere to taxation laws intentionally or otherwise shall be considered as having committed an offence. James and Alley considers tax compliance in terms of the tax gap, which is the difference between “true” individual income tax liability and that finally, collected on a voluntary basis or by enforcement action. In other words, ‘tax gap’ represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance. In this case, James and Alley (2004) state that ‘compliance’ refers to voluntary not compulsory behavior. Taxpayers’ compliance would not be considered voluntary compliance if they adhere merely for fear of threats and or harassment.

Tax compliance is important for many reasons. This is because non-compliance leads to a reduction in tax collections, which in turn affects public services received by the citizens, including compliant taxpayers. It also requires the government to expend resources to deter non-compliance, to detect its magnitude and to penalize its practitioners. According to Brand (1996), it is less expensive to collect taxes through voluntary compliance than through the use of enforcement. Tax compliance is a tenuous concept to define. Despite there is no standard all embracing definition of compliance adopted across all tax compliance studies, the meaning of compliance can be seen almost as a continuum of definitions (James and Alley, 2004). According to these authors, the range of definition extends from the narrow law enforcement approach through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax

policy. James and Alley (2004), considers tax compliance in terms of the tax gap, which is the difference between “true” individual income tax liability and that finally, collected on a voluntary basis or by enforcement action.

From the economic point of view, tax compliance has been defined as compliance with reporting requirements, meaning that the taxpayer files and pays all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the taxing system applicable at the time the return is filed (Devos, 2005). This definition holds an important extension from the previous definition, which is the timing issue. Late tax payments cannot be considered as proper compliance as cash today is worth more than cash tomorrow. The rationale behind this notion is that whenever a government does not collect tax payments on time, it would be forced to either cut public expenditure or increases the amount it has to raise elsewhere (James and Alley, 2004). It is further asserted that although late payments of tax fit many of the ‘tax gap’ measures, they do not represent full compliance.

Tax compliance behavior may be perceived as a rational economic decision making process; as a reaction to perceived fairness; as an ethical conduct or as an action due to ignorance. Each of these factors in isolation may not by itself contribute to particular compliance behavior. In fact, analysis of the findings of some empirical studies indicated that tax compliance behavior varies widely over individual circumstances and influenced by factors such as the desire to avoid sanction as well as being subjected to group influence. Taxpayers may under-declare their income and would be deterred only by the chances of detection and penalties imposed.

Tax non-compliance is of two types: intentional and unintentional. Intentional non-compliance is an offense against government in which the taxpayer understates the tax liability and subject to punishment. It could be emanated from seeking benefit from avoidance, taxpayers' personal attitude towards compliance, situational factors, complexity of tax structure, dissatisfaction on government service, and other. Tax evasion is one form of non-compliance, which Social scientists generally have considered it a typical "white-collar crime," defined by Sutherland (1939) as "a crime committed by a person of respectability and high social status in the course of his occupation". It is a serious challenge dealing with every nation's revenue authorities. It is further commented that unintentional understatement or overstatement of tax liability may arise because of, among others, lack of knowledge and failure to pay due care in the maintenance of book of accounts and the preparation of returns.

According to Hasseldine (1999), many tax agencies have used various techniques to measure the extent of non-compliance, but there will always be some compliance dependent on the social attitudes and behavioral aspects of taxpayers. Moreover, the extent of non-compliance among individual taxpayers not only depends on individual factors, but on a complex combination of circumstances.

Non-compliance represents the most inclusive conceptualization with respect to the failure to meet tax obligations whether intentional or unintentional (Kinsey, 1985), as cited in Kasipillai and Noor, 2003. Tax evasion however, involves some elements of fraudulent conduct accompanied by a real intention on the part of the taxpayer to willfully or deliberately mislead,

deceive or conceal from IRB to pay less tax than actually owed. In general, non-compliance may take several forms and they include:

- Failure to submit a tax return within the stipulated period or non submission;
- Understatement of income;
- Overstatement of deductions; and
- Failure to pay assessed taxes by the due date.

2.1.2. School of thought

Models and theories of compliance behaviour tend to reflect one of three schools of thought commonly referred to as economic deterrence, social psychology, and fiscal psychology (McKerchar and Evans, 2009).

2.1.2.1. Economic deterrence models

Economic deterrence models in general are based on the theory that behaviour, in a wide range of contexts including tax evasion, is responsive to punishment or sanctions. Economic deterrence models tend to have a narrow, theoretical view of behaviour, reducing its dimensions to numerical measures and assigned probabilities from which outcomes can be predicted using calculus. In order to determine behaviour in this manner, economic deterrence models tend to rely upon a wide range of fundamental assumptions that are generally unrealistic. For example, that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference. Although empirical testing has been limited, the theoretical principles of economic deterrence have been widely adopted by tax administrations in

developing enforcement strategies that rely principally on penalties and the fear of getting caught (McKerchar and Evans, 2009).

2.1.2.2. Social psychology models

Social psychology models are concerned with the prediction and understanding of human behaviour, or how people make decisions, using a range of methodological approaches including compositional modeling, attribution theory and equity theory (McKerchar and Evans, 2009).

Compositional modeling is characterized by the view that individuals undertake deliberate and reasoned action according to their personal preferences. This approach assumes that people consider the implications of their actions before they decide, or form an intention, to engage or not engage in a given behaviour. Further, this approach assumes that intention directly translates into behaviour, without any further influences. The model then seeks to explain how intention is formed (Ajzen and Fishbein, 1980).

Attribution theory is based on the assumption that individuals rationally interpret and analyze events in order to understand causal structures. People have internal (personal) and external (situational) attributes. In judging the behaviour of others, people will generally attribute the outcome as being caused by their own internal attributes. In judging their own behaviour, people tend to believe the cause is due to external attributes. Equity theory proposes that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable. Where there are perceived inequities, individuals will adjust their inputs to the exchange until equity is restored. Based on equity theory, addressing inequities in the exchange

relationship between government and taxpayers would result in improved compliance (McKerchar and Evans, 2009).

2.1.2.3. Fiscal psychology models

Fiscal psychology models draw on both the economic deterrence and the social psychology models and generally view tax enforcement as a behavioral problem, one that can be resolved by co-operation between taxpayers and tax collectors. To obtain this co-operation, the role of the tax system itself in providing the positive stimulus (such as decreasing penalties) is emphasized. This stimulus is then expected to generate a more positive attitude in taxpayers that will in turn impact on their compliance decisions (McKerchar and Evans, 2009).

It has been held that tax mentality; feelings of tax tension, and tax morale were the three psyches that together made up a taxpayer's attitude. The more positive the taxpayer's attitude towards paying tax the greater the level of co-operation with the tax authority and the greater the willingness to pay tax. However, fiscal ignorance may be a negative influence on a taxpayer's attitude (Lewis, 1979).

2.1.3. Tax compliance determinants

Jackson and Milliron (1986) listed 14 main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority, income sources, perceived fairness of the tax system, possibility of being

audited and tax rate. Other elements such as penalty, audit, and tax rates as also listed as factors having great influence on tax compliance behaviors (Mohani, 2001).

In this sub-section, determinant factors that influence tax compliance such as tax knowledge, ethics and attitudes towards tax compliance, awareness of offences and penalties, and tax education are discussed.

2.1.3.1. Tax knowledge

Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Eriksen & Fallan, 1996). Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. This exposure could be given through seminars, dialogue sessions, or collaboration with the Ministry of Education to introduce the subject of Taxation at secondary schools (Mohani, 2003).

2.1.3.2. Ethics and attitudes toward tax compliance

In a tax system which is based largely on voluntary compliance (such as a SAS), the taxpayers' standard of ethics is 'extremely important' (Song and Yarbrough, 1978). Ethics are a subjective continuum and the level of ethical behaviour is heavily reliant on how people perceive the behaviour being considered. It is assumed that ethics encourage individuals to act according to

them and a taxpayer with a negative attitude towards tax evasion tends to be less compliant. Based on Ajzen (1991) the theory of reasoned action or the intention to evade will encourage a taxpayer to behave negatively toward taxation and thus attempt to under-report income. On the other hand, attitudes towards the tax authority are also important as tax attitudes and ethics generally depend on perceived use of the money collected by the government (Song and Yarbrough, 1978).

2.1.3.3. Awareness of offences and penalties

From the tax administration viewpoint, researchers have concluded that compliance could be influenced by education taxpayers of their social responsibilities to pay and thus their intention would be to comply. As a behaviour problem, tax compliance depends on the cooperation of the public. There are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of no-compliers. Assisting tax payers by improving the flow and quality of information or education them (eg, TV campaigns) in to becoming more responsible citizens has the potential to yield greater revenue than if it were spent on enforcement activities. A theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater discouragement for potential tax evasion.

2.1.3.4. Education

Greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax

laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2003).

The next section will present the previous research results about tax compliance and the accompanied determinant factors for the existence of tax compliance.

2.2. Empirical studies

The previous section presents the theory of tax compliance focusing on the three theoretical tax compliance models. This section discusses about previous research results of tax knowledge and tax compliance in section 2.2.1, ethics and attitude towards tax compliance in section 2.2.2, awareness of offences and penalties in section 2.2.3, and education in section 2.2.4.

2.2.1. Tax knowledge and tax compliance

This sub-section discusses the importance and the role of tax knowledge, particularly in determining taxpayers' attitudes towards taxation.

The influence of knowledge on compliance behaviors has been assessed in various researches. Attitude towards tax compliance can be improved through the enhancement of taxation

knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996).

Harris (1989), divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation. Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003).

Eriksen and Fallan (1996) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. The research done by Eriksen and Fallan has illustrated the importance of tax knowledge in a tax system, especially in a SAS. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behaviour can be improved by a better understanding of tax laws. Eriksen and Fallan's study is divided into three main parts. Firstly, the investigation is focused on taxpayers' knowledge. Secondly, the research tries to reveal the overall impact of tax knowledge on tax compliance behaviour among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers' behaviour because in SAS, tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system.

Eriksen and Fallan (1996) attempt to determine the relationship between the level of tax knowledge and attitudes toward taxation; whether specific tax knowledge influences attitudes in general (not only tax attitudes) and investigates people's behaviour toward traditional crime. The study was conducted through quasi-experiment with pre-testing and post-testing of two student groups in Norway. The control group comprised of students who were going to take marketing as an elective subject in the second year of their BA education whereas the other group (experimental group) consisted of students who had selected tax laws as an elective. Tax knowledge was measured in the pre-test and post-test using a score calculated from 12 questions concerning tax allowances and tax liabilities. In the post-test, the researchers extended the questions to 28 in order to get a better picture of tax knowledge between the two groups. Erikson and Fallan used multiple choice questions in which in each question respondents had to choose either 'Yes', 'No' or 'Do not Know'. Tax knowledge was measured based on the answers. The result of the study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion. The result of the study supports the principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions as well as the fairness of progressive tax which was studied by Robert *et. al.* (1994). The students' perception of the fairness of the tax system increases as tax knowledge is improved. This result is in line with previous studies by Lewis (1982) where low tax knowledge correlates with negatives attitude toward taxation. 'Tax attitudes can be improved through better tax knowledge' (Eriksen and Fallan, 1996) and thus this will in turn increase compliance and reduce the inclination to evade taxes.

Furthermore, Eriksen and Fallan (1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others' tax evasion and thus suggesting that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system. It would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools.

Collins, Milliron and Toy (1992) on the other hand produced a contradict result in their study in the United States from a random mail survey of 700 households from telephone directories. Out of 220 usable responses, they found that tax knowledge and the level of education were negatively correlated with compliance behaviour. According to these researchers, knowledge about tax law is assumed to be of importance for preferences and attitudes towards taxation.

As self assessment system requires the full capability and competency of taxpayers' knowledge; some aspects of attitudes towards taxation, such as tax ethics and their perceptions of the fairness of the tax system also have an influence on the inclination towards tax evasion (Jackson and Milliron, 1986).

Lewis (1982), as cited in Mohamad *et. al.* 2011, attempted to determine whether there is a connection between specific tax knowledge and compliance attitudes during completing the tax return. His aim was to study any changes in the attitudes towards taxation that result from increased knowledge about taxation which might have a significant impact on tax compliance. Lewis argued that there is insufficient knowledge about tax regulations and this situation leads to

negative economic effects (an increase in the tax gap). Furthermore, there also seemed to be considerable differences in the level of knowledge although the level of education remains the same. Moreover, there are no comparable experiments focusing on how better specific tax knowledge affects attitudes towards taxation as mentioned by Alm (1991), who presents a survey of experiments in tax compliance research.

A study in Malaysia conducted by Loo and Ho (2005) examined salaried individual competency in SAS but limited their sample to individuals who pay taxes in and prior to 2003 and who are likely to pay taxes in and after the year of 2004. Tax knowledge was measured in terms of chargeable income, exemptions, reliefs, rebates and tax credits. By using a survey of 250 questionnaires, the study concluded that although the respondents have tertiary education, their tax knowledge in relation to personal taxation was considered to be relatively low thus making them 'incompetent and not ready to exercise appropriate compliance under self assessment regime' (Loo and Ho, 2005).

2.2.2. Ethics and attitudes toward tax compliance

According to Jackson and Milliron, (1986) tax ethics and attitudes towards tax compliance have an influence on the inclination towards tax evasion. Roth, Scholz, and Witte (1989) identified two primary factors in taxpayer compliance, namely financial self interest and moral commitment. Individuals comply with tax laws because it is in their own financial interests to minimize their tax bill, but also because of their perceived moral obligation to obey tax laws.

The results of Roth, Scholz, and Witte (1989), reveals that there is a consistently positive relationship between moral commitment and compliance behaviour. These researchers assume that ethics have a positive effect on compliance behaviour more than financial self interest. The best predictor of a person's behaviour is ethics, but this link can be disrupted by the passage of time, unforeseen events or new information.

Song and Yarbrough (1978) states that the average taxpayer's tax ethics is 60.3 on a scale of 100 and 21 per cent of taxpayers have a negative level of tax ethics. These researchers consider this overall level of tax ethics as "barely passing." Tax ethics at this level should be taken as symptomatic of a disease seriously threatening the moral fiber of society and the viability of the democratic system.

2.2.3. Awareness of offences and penalties

Since previous studies indicate that penalty rates impact upon tax compliance behaviour, the awareness of offences was presumed to have a significant influence as well. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non compliant taxpayers, they might reduce their tendency to evade tax. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus, educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure (Mohamad *et. al.* 2011).

2.2.4. Education

According to the Fischer Model, non compliance opportunities can affect tax compliance both directly and indirectly through attitudes and perceptions. Chan *et. al.* (2000), investigates the direct and indirect effects of two noncompliance opportunities, namely educational and income level. Previous literature supports the direct, negative relationship between educational level and taxpayer compliance but a direct relationship between income level and tax compliance is unclear. Chan *et. al.* (2000) also postulate that greater education is directly linked to a likelihood of compliance. They argue that educated taxpayers may be aware of non compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Chan *et. al.* also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. In contrast, the most recent study by Richardson (2008), cited in Mohd, 2010, also revealed that there is a negative association between education and compliance.

Hite and Hasseldine (2001), Mohamad *et. al.* 2011, investigate the current developments in the USA, highlighting that tax academics need to emphasize teaching and development. In other countries, tax education, as well as tax development is not as good as in the USA. Their study was expected to be able to help academics in other countries to adapt what has been done in the USA, especially in teaching methodology (in tax courses) so that other countries can learn how to educate taxpayers more effectively and efficiently.

The survey result of Demissie (2008) reveals that taxpayer's poor knowledge of tax rules and regulations is the most deterring factor of voluntary compliance. In addition, Kasipillai et al. (2003) states that tax knowledge has impact on tax compliance. The study specifically evaluates the influence of education on tax compliance among undergraduate students in Malaysia. A questionnaire was administered on undergraduate accounting students of University of Utara Malaysia (UUM) to determine whether education influences respondents' tax avoidance and tax evasion behavior. 560 questionnaires were distributed to UUM students who had yet to commence their taxation course. The statistical findings confirm the prevalence of a relationship between tax education and tax compliance, suggesting tax education positively contributes towards tax noncompliance. However, students' responses may not accurately reflect the taxpaying public as a whole and generalization on the change in attitude among the 'real' taxpayers may not be appropriate.

2.3. Conclusions and identification of knowledge gap

To conclude on this chapter, the results of various studies indicate that tax knowledge appears to be an important element in tax compliance. The study of Mohamad et al. (2011) reveals that educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure. Jackson and Milliron (1986) states that tax ethics and attitudes towards tax compliance have an influence on the inclination towards tax evasion. It is also suggest by Eriksen and Fallan (1996) that, successful means of preventing tax

evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system.

In opposite to this, Collins, Milliron and Toy (1992) on the other hand produced a contradict result in their study in the United States. They found that tax knowledge and the level of education were negatively correlated with compliance behaviour. In addition to this, the most recent study by Richardson (2008), cited in Mohd, 2010 also revealed that there is a negative association between education and compliance.

This indicates that there is a contradictory results of studies conducted on tax compliance determinants. Therefore, this difference in results motivates the researcher to carry out this study. In addition to this, even though there are studies on tax compliance conducted before, such as a study on the assessment of the status of voluntary tax compliance among taxpayers in the Ethiopian perspective by Demissie (2008) and, a quantitative research of the effect of peer influence and government services on income tax compliance by Ahbabu (2010) the influence of tax education on tax compliance attitude is not independently studied by other researchers previously. Therefore, this knowledge gap also motivates the researcher to explore how tax education will influence tax compliance attitude by using experiment on students of higher institution.

Chapter Three: Research Design

This chapter describes the research design involved in the study. There are two main sections in this chapter. The early section describes the different approaches of research and justifies the approach selected for this study in the light of the research questions. The second section discusses about the methods adopted. This section, there are two sub-section. The first one describes about experimental design, which is the study's principal method of data collection, including the experimental procedures, sampling frame, development of the questionnaire and hypotheses and data analysis techniques. The second part discusses about the survey method of data collection with its sampling frame, survey instrument and data analysis techniques.

3.1. Research approaches

According to Creswell (2003), there are three approaches available for researchers to design their research methodology. These are quantitative, qualitative, and mixed methods research approaches.

A quantitative approach is one in which the investigator primarily attempts to use post positivist claims for developing knowledge like cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories. It employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data.

Quantitative inquiries use numerical and statistical processes to answer specific questions. Statistics are used in a variety of ways to support inquiry or program assessment/evaluation. Descriptive statistics are numbers used to describe a group of items. Inferential statistics are computed from a sample drawn from a larger population with the intention of making generalizations from the sample about the whole population. The accuracy of inferences drawn from a sample is critically affected by the sampling procedures used. It is important to start planning the statistical analyses at the same time that planning for an inquiry begins. Decisions about analysis techniques to use and statistics to report are affected by levels of measurement of the variables in the study, the questions being addressed, and the type and level of information that you expect to include in reporting on your discoveries (Wholey et.al. 2004).

In quantitative research your aim is to determine the relationship between one thing (an independent variable) and another (a dependent or outcome variable) in a population. Quantitative research designs are either descriptive (subjects usually measured once) or experimental (subjects measured before and after a treatment). A descriptive study establishes only associations between variables. An experiment establishes causality (Patton, 2002).

On the other hand, a qualitative approach is one in which the investigator often makes knowledge claims based primarily on constructivist perspectives like the multiple meanings of individual experiences, meanings socially and historically constructed, with an intent of developing a theory or pattern, or advocacy/participatory perspectives like political, issue oriented, collaborative, or change oriented or both (Creswell, 2003). In this approach, the researcher collects open-ended, emerging data using strategies of inquiry such as narratives, phenomenology, ethnographies, grounded theory studies, or case studies.

Gall et.al. (1996) defined qualitative research as the inquiry that is grounded in the assumption that individuals construct social reality in the form of meanings and interpretations, and that these constructions tend to be transitory and situational.

Qualitative research typically involves qualitative data, i.e., data obtained through methods such interviews, on-site observations, and focus groups that is in narrative rather than numerical form. Such data are analyzed by looking for themes and patterns. It involves reading, rereading, and exploring the data. How the data are gathered will greatly affect the ease of analysis and utility of findings (Wholey et.al. 2004).

Finally, a mixed approach is the newest research approach one, which bases the inquirer's knowledge claims on pragmatic perspectives that are consequence-oriented, problem-centered, and pluralistic (Creswell, 2003). It tries to mix the best of qualitative and quantitative research approaches into research studies. Either it uses strategies of inquiry simultaneously or sequentially that involves collecting quantitative and qualitative data to best understand research problems.

The primary criterion that should be considered for selecting an approach is the research problem (Creswell, 2003). In view of that, quantitative approach is best if the problem is identifying factors that influence an outcome, the utility of intervention, or understanding the best predictors of outcomes. This approach is also best to test a theory or explanation. Conversely, a qualitative

approach is preferable if a concept or phenomenon needs to be understood because little research has been done on it. This approach is exploratory so that superior when the researcher does not know the essential variables to examine.

3.2. Methods adopted

As the objective of this study is to determine whether individual's tax compliance attitude is influenced by education, by looking the research problem this study favors a quantitative approach. Therefore, the quantitative research approach is adopted in this study. Both experiment and survey methods of data collection are used in this study.

The following sub-sections describes the data collection methods, sampling and data analysis techniques used in both experiment and survey design.

3.2.1. Experimental design

This part discusses about the experimental design that is the study's primary method of data collection. In this section, participants of the data collection, the procedures of the experiment, the data collection instruments and method of experimental data analysis are also described.

Experimental design is a quantitative approach designed to ascertain the effects of a treatment. The researcher introduced the treatment differently and observed the effects resulted from the treatment exposed. Experimental design is frequently utilized in both social sciences and

scientific research. Although both approaches differ, both have the same aim that is to identify the cause for a particular behaviour.

Experimental design is blueprint of the procedures that enables the researcher to test hypotheses by reaching valid conclusions about relationships between independent and dependent variables. It refers to the conceptual framework within which the experiment is conducted. Experimental studies are also referred to as interventions, because you do more than just observe the subjects. Experimental design is the process of planning a study to meet specified objectives. Planning an experiment properly is very important in order to ensure that the right type of data and a sufficient sample size and power are available to answer the research questions of interest as clearly and efficiently as possible. An experiment is a process or study that results in the collection of data. The results of experiments are not known in advance. Usually, statistical experiments are conducted in situations in which researchers can manipulate the conditions of the experiment and can control the factors that are irrelevant to the research objectives (Patton, 2002).

There are two different approaches in conducting experimental research. They are between-subjects design and within-subjects design. In the within-subjects design, all samples are exposed to the same treatment; while in the between-subjects design, samples are randomly exposed to different treatment. This study utilized within-subjects design.

Following these discussions, the experimental method of data collection, sampling design and the experimental procedures of the study are presented as follows.

3.2.1.1. Experimental Data collection

Primary data were collected through questionnaires. The questionnaires were divided into 3 sections with the intention of extracting information to test the hypotheses. The first section comprised questions pertaining to the samples' demographic information. The second section contained questions related to tax knowledge. The third section consisted of questions regarding tax compliance.

Experimental Data is collected twice. The first collection is conducted at the beginning before the students attend the taxation course. The second collection is conducted when the students completed their taxation course offered by the researcher. The tax course they took is the treatment exposed to all selected samples.

The advantages of using questionnaires as listed by Ahmad (1997), as cited in Mohamad et al. (2011) are as follows:

1. Each sample is given the same questions in the same sequence thus allowing the researcher to compare one respondent to another or one group of respondents to another.
2. Standardized questionnaires expedite data gathering process and ensure the quality of data gathered.
3. Allows easy data processing.

3.2.1.2. Experimental Sampling

The basic idea of sampling is that by selecting some of the elements in the population we may draw conclusions about the entire population. There are several compelling reasons for sampling, including: lower costs, greater accuracy of results, and greater speed of data collection, and availability of population elements (Cooper & Schinder, 2003).

In studying the influence of education on tax compliance attitude, it is more suited to use students as samples (Mohamad et al. 2011). In this study, the university students were used as samples akin to those used by previous researchers in their experimental research. This is because it is difficult to make intervention on actual tax payers as they may not provide exact response because of fear of being investigated by tax authority. Thus, 35 volunteer undergraduate second year accounting students of St.Marry university college are used as samples of the experiment design. The reason for selecting only 35 students as respondents is because of only the time limitation that the researcher had. The results obtained from these subjects will be used to make an inference on the general tax payers in Ethiopia.

3.2.1.3. Experimental procedure

The experiment was conducted for seven days from May 5 to May 11, 2010 E.C in St.Marry University College. At the beginning of the experiment, a set of questionnaires were distributed to 35 students (Appendix 1.). After that, a formal lecture was given for these students by the researcher itself on taxation course and Ethiopian tax accounting 3 hours per day for a total of seven days. Because these students didn't take the formal taxation course in their study, the researcher believes that the provision of the lecture will help the students to acquire a detail

understanding of taxation and the Ethiopian tax accounting. Therefore, up on the completion of the experiment, to check the influence of the education on the respondents' tax compliance attitude, the same set of questionnaires with one additional question were distributed to the 35 set of sample (Appendix 2). The additional question posed the following state of affairs to the respondents:

“My study of tax has influenced my attitude to my own income tax affairs in the following manner”

	<i>Disagree</i>	<i>N.C*</i>		<i>agree</i>	
<i>I am more eager to obey the tax laws</i>	1	2	3	4	5

** No Change*

3.2.1.4. Experimental questionnaire Design, Variables Development And Measurement

The questionnaire was prepared in English versions to facilitate respondents and was divided into three sections i.e. personal background, tax knowledge and tax compliance sections (Appendix 1 &2).

3.2.1.5. Experimental data analysis stages

To facilitate and structure the experimental data analysis process, this study was divided into four stages: Stage 1 examined the basic descriptive statistics in relation to tax knowledge; Stage 2 examined the relationship between tax knowledge and tax education; Stage 3 to determine the

tax compliance attitude of respondents who didn't take formal taxation course, and Stage 4 – to examine the association between tax education and tax compliance attitude.

3.2.1.5.1. Stage 1- The level of tax knowledge

In this study tax knowledge as stated in the above is divided into three elements of knowledge, namely taxpayers' responsibilities and rights, knowledge about type of income, and awareness on offences, penalties and compounds. The following table describes variables in stage 1.

Table 3.1, a description of the variables in Stage 1

Variables	Description
Tax knowledge about responsibilities and rights	Respondents need to know their responsibilities as a taxpayer in terms of informing and declaring actual income received from all sources to the tax authority, keeping records/documents pertaining to income and expenditure for a period of ten years after submission of the tax return, to pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period and to obtain a tax payer identification number
Knowledge about types of income	Respondents need to know about items included and excluded in employment income tax, categories of tax payers.
Knowledge about offences, penalty and compounds	Respondents need to know about penalty for late payment of income tax, understatement of income tax, failure to keep proper records and penalty in relation to VAT

3.2.1.5.2. Stage 2- Relationship between tax knowledge and tax education

In this section, how tax education affects tax knowledge of individual respondents is explained. Similar variables to stage 1 are used in this stage. But the variables are measured before and after the provision of the taxation course for the respondents. The hypothesis tested in this stage is:

H1: tax education improves tax knowledge of individual tax payers.

3.2.1.5.3. Stage 3- Tax compliance attitude

The objective of this stage is to examine the tax compliance attitude of respondents who didn't attend a tax course.

3.2.1.5.4. Stage 4- Relationship between tax education and tax compliance attitude

The objective of this stage is to examine the relationship between tax education and tax compliance attitude of respondents i.e. the influence of tax education on tax compliance attitude of respondents is examined in this stage. The hypothesis tested in this stage is:

H2: tax education positively influences tax compliance attitude of tax payers.

3.2.1.6. Experimental data analysis method

The collected experimental data are analyzed using descriptive techniques such as frequencies, mean score and proportions. Similar analysis methods are used in all stages of the experimental data analysis stages. Finally, the results are presented in tables or figures.

3.2.2. Survey design

This part discusses about the survey design method of data collection in which actual tax payers are used. In this section, the survey data collection, survey sampling and methods of survey data analysis are described.

The basic idea behind survey design is to measure variables by asking people questions and then to examine relationships among the variables. In most instances, surveys attempt to capture attitude or patterns of past behavior. About the only options are whether to ask people questions once or over time. The most commonly seen survey uses the cross-sectional design, which asks questions of people at one point in time (Babbie, 1990).

The reason why survey method of data collection is used as complementary method to the principal one i.e. experimental design is, because of that in order to check the level of tax knowledge of tax payers it is possible and better to use real tax payers as respondents rather than students. This is because the real tax payers have experience of paying tax but as the respondents of the experiment design are students who do not have any experience of paying tax; it is difficult to make generalization based on the results obtained from these respondents concerning the level of tax knowledge of tax payers.

3.2.2.1. Survey Sampling design

Sampling is the process of selecting some element from the entire population. The target population for the survey study is actual tax payers who are subject for business income tax. Only unincorporated business tax payers in Addis Ababa are used as participants in the survey study. The target total population is 286,963 business income tax payers as of July, 27 2011

which are categorized under A, B, & C. only 150 taxpayers were selected by using simple random sampling from two sub cities which are Arada and Lideta sub cities.

3.2.2.2. Survey data collection

The survey data are collected through self-administered questionnaires (appendix 3). The questionnaires are prepared in both English and Amharic version. The cross-sectional design is used in this study. Similar to the experimental questionnaires, the survey questionnaires are also divided in to three sections. The first section (section A) deals with the demographic information of the respondents. The second section (section B) comprised of questions related to tax knowledge and the last section (section C) consisted of questions concerning tax compliance attitude. There are a total of 38 questions asked to the respondents which are divided in to the above three sections. Section A consists of 4 questions, section B 25 questions and section C has 9 questions. The survey questionnaires are developed with the intention of extracting information about the level of tax knowledge of actual tax payers and their attitude towards tax compliance. The survey was conducted for around one month from September 19, 2011 to October 16, 2011.

3.2.2.3. Survey data analysis techniques

The collected data are analyzed using descriptive techniques such as frequencies, mean score and proportions. The survey data results and analysis section is divided in to three parts. Part one presents the background information of the respondents involved in the study. The second part describes the tax knowledge level of actual tax payers. The last part explains the tax compliance attitude of tax payers who are involved in the survey study. Finally, the results are presented in tables or figures.

Chapter Four: Results and Analysis

The objective of this chapter is to analyze the data obtained and explain the results of the study. This chapter is organized in three sections. The first section briefs the research objective and the hypotheses of the study. Following this section, results of both the experiment and survey method are presented. Finally, the third section demonstrates the analysis of the results.

4.1. Research objectives and hypotheses

The objective of this study as it is described in chapter one is to examine the influence of tax education on tax compliance attitude. To achieve this objective both experiment and survey methods of quantitative data collection are used. This study tests two hypotheses. The first hypothesis is related with tax knowledge i.e. whether tax knowledge of tax payers is improved because of the tax education. The second one is regarding tax education i.e. whether tax education positively influences the compliance attitude of the tax payers is also tested.

4.2. Results

There are two sub-sections in this part. Experiment results are presented first. Following this, the survey results are shown in the second sub - section of this part.

4.2.1. Experiment results

In this sub - section, the results of the experiment in which the respondents are students are presented. This starts with respondents' background information. Following this discussion, Stage 1 – which determines the level of taxpayers' knowledge of respondents who didn't take

formal taxation course, Stage 2 – which examines the association between tax knowledge and tax education, Stage 3 – that determines the tax compliance attitude of respondents who didn't take formal taxation course, and Stage 4 – that examines the association between tax education and tax compliance attitude are presented under sub titles of 4.2.1.2, 4.2.1.3, 4.2.1.4, and 4.2.1.5 respectively.

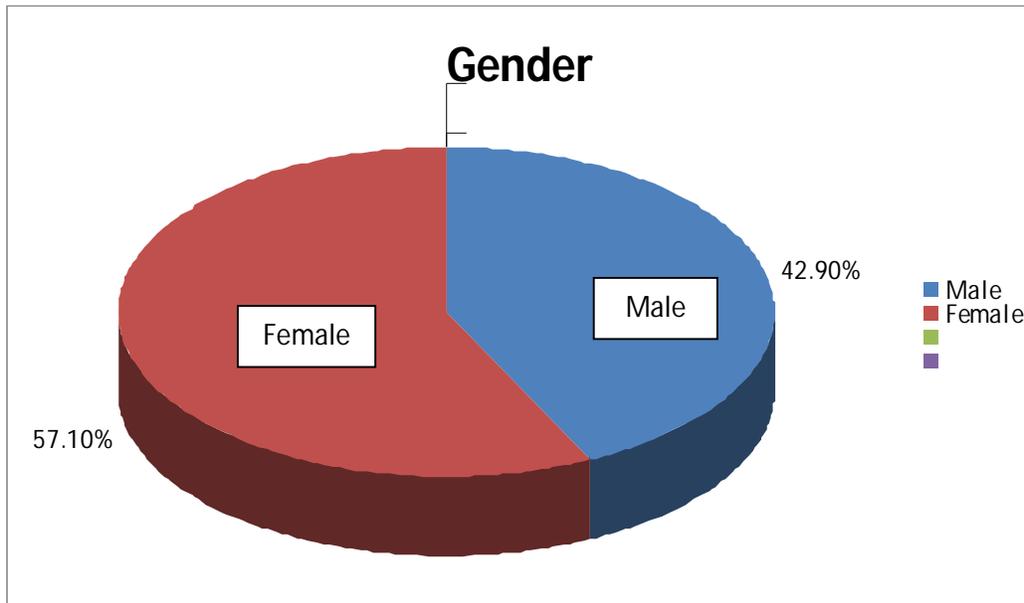
4.2.1.1. Backgrounds of respondents

This section describes respondents' demographic background including age, gender, educational levels and religion of respondents.

The respondents comprised of 20 (57.1%) females, 15 (42.9%) males as shown in figure 4.1. Figure 4.2 represents the age statistics. Since this study emphasized university students as respondents, the maximum age considered is 30 years. The largest group of the respondents (94.3%) aged below 25 and only two (5.7%) respondent aged 25 to 35.

There are 23 (65.7%), as figure 4.3 shows, respondents who are followers of Christianity, 4 (11.4%) respondents Islamic and 8 (22.9%) respondents other. All respondents, as it is described in chapter one, are second year Accounting department university students.

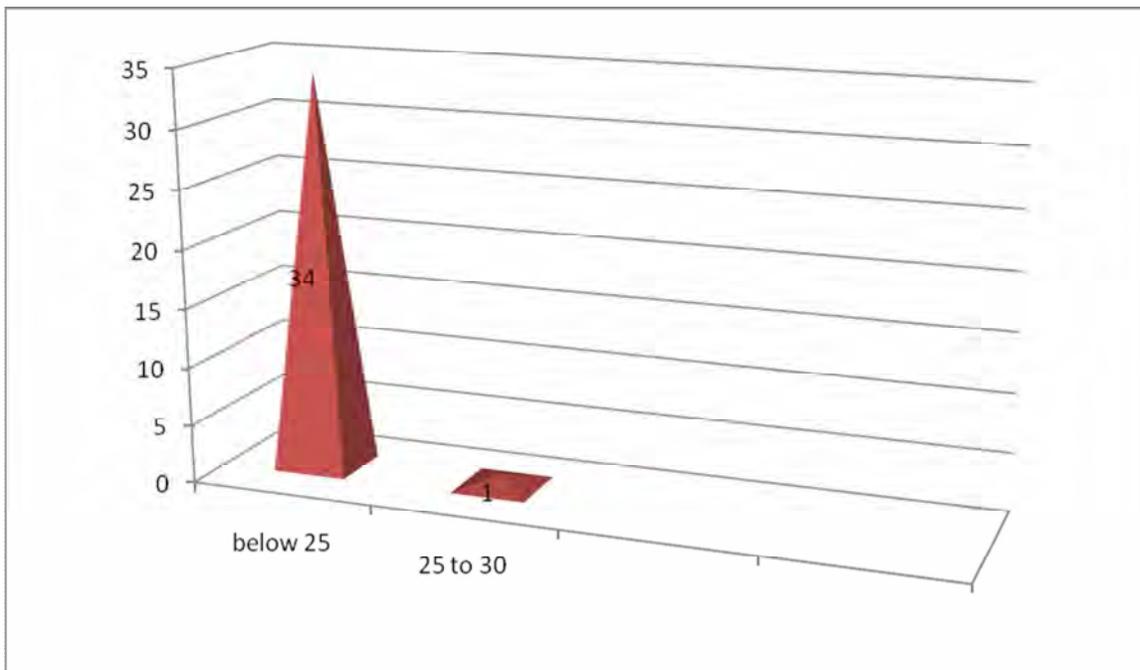
Figure 4.5 Gender of Experiment respondents



Source:

experiment responses and own computations

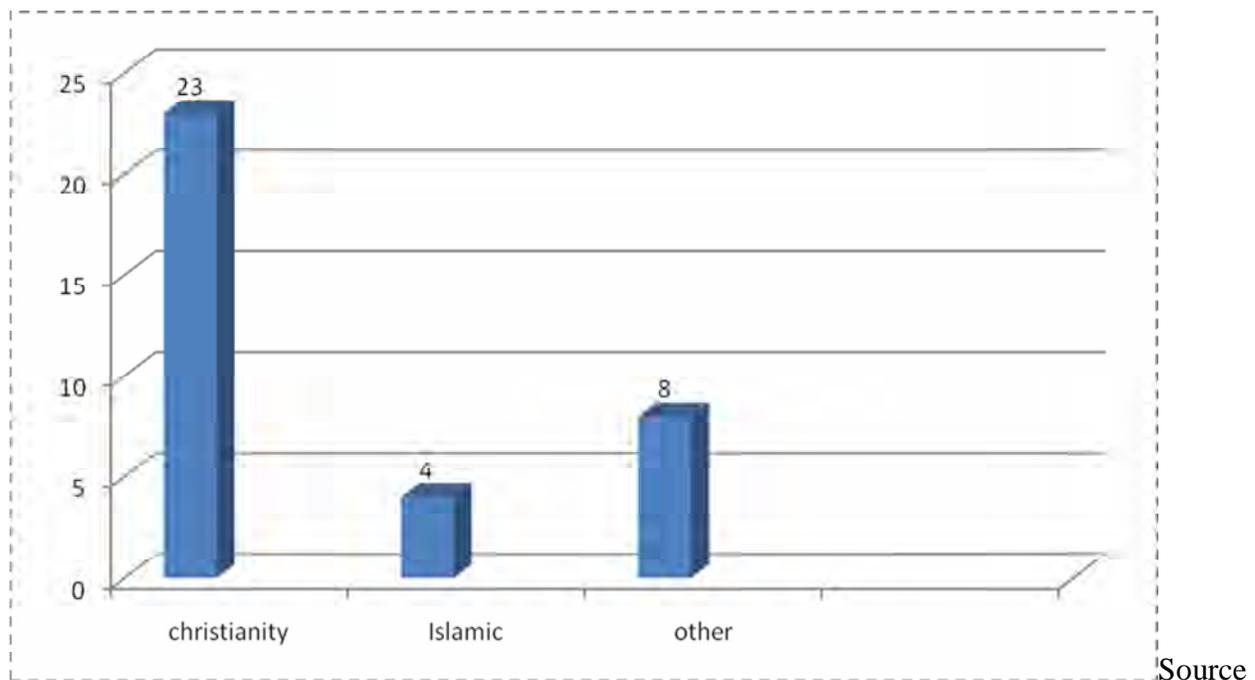
Figure 4.2 Age distribution of Experimental respondents



Source

: experiment responses and own computations

Figure 4.3 Religion of Experimental respondents



: experiment responses and own computations

4.2.1.2. Stage 1 – level of taxpayers' knowledge

This section explains taxpayers' knowledge who didn't take the formal taxation courses. At this point respondents of this study, before the provision of the taxation course, are considered as those tax payers who didn't attend formal tax course. In this study, tax knowledge as stated in chapter three is divided into three elements, namely knowledge about taxpayers' responsibilities and rights, knowledge about type of income, and awareness on offences, penalties and compounds. There are a total of 15 questions related to the respondent's level of tax knowledge.

4.2.1.2.1 General Knowledge about responsibilities and rights

In this part, four questions are asked by the researcher. These questions are asked both at the beginning before the tax education is provided and at the completion of the experiment that is after the provision of the taxation course. Therefore, the data used for analysis of this stage is only the results from the questionnaire distributed at the beginning.

The first question asked in relation to responsibilities and rights is; *whether they will inform and declare actual income received from all sources to the tax authority*. AS it is shown in table 4.1 below, 40% (14) of the respondents answers they will do. The remaining 60% (21) of the respondents' answers they will not do. One of the responsibilities of individual tax payers is to inform and declare the exact amount of income that they collect from different sources of income to the concerned body of the government i.e. tax authority. Therefore, tax payers must know this and try to carry out this responsibility. But, as the figures indicates that majority of the respondents will not, as a tax payer, inform and declare the exact amount of income that they collect from the different sources of income. The reason for this may be either because of lack of awareness on this responsibility or having an awareness but unwilling to accomplish this responsibility.

The second question in this part is about *whether they will keep records or documents pertaining to income and expenditure for a period of ten years after submission of the tax returns*. 11.4 % (4) of the respondents states they will do, and majority i.e. 80% (28) of the total respondents

chooses they will not keep the record or documents which may be required by the tax authority for the specified period of time i.e. ten years after the submission of returns. The remaining 8.6% (3) of the respondents are not sure to keep or not. Keeping records or documents pertaining to income and expenditure for a period of ten years after submission of the tax returns is also another responsibility of a tax payer. But still majority of the respondents are either unaware of this responsibility or reluctant to execute this responsibility.

The next question asked is *whether they will pay the assessed tax within the prescribed period*. For this question, 45.7% (16) of the total respondents choose that they will do, but the rest 54.3% (19) of the respondents states that they will not do. Still the intention of majority of the respondents is not to pay the assessed tax within the given period of time that they should have to pay for the concerned body of the government i.e. tax authority. The assessed tax must be paid within the stipulated period of time; if not there will be a penalty for late payment. Therefore, tax payers must be aware of the penalty amount for the late payment because this influences the tax payer to follow the rules.

The last question of this part is in relation to tax payer identification number (TIN). The respondents are asked *whether they will obtain a TIN as tax payers or not*. Every tax payer has the right to obtain TIN and the governmental body or the tax authority is responsible to give this number for the tax payers. As you can check from table 4.1 below, 57.1% (20) of the respondents agree with this right i.e. they will obtain the TIN number for the tax authority. Here, 1 respondent who accounts for about 2.9% of the total says she/he is not sure about obtaining or

not obtaining the TIN. The remaining 14 respondents (40 %) states they will not obtain TIN from the tax authority.

To summarize, as the figures shown us in table 4.1 below, which indicates the results of the four questions of part 1, majority of the respondents are not conscious of their responsibilities and rights as tax payers or disinclined to accomplish these responsibilities. This means that because the respondents are considered as actual tax payers who didn't attend a formal tax course, the inference will be those tax payers who haven't take a formal taxation course or training are not well informed of their responsibilities and rights or unresponsive to execute these responsibilities. Therefore, awareness building for these respondents to make them well informed and responsible is indispensable.

Table 4.1 responsibilities and rights of a tax payer

Statements	DEFINITELY DO	PROBABLY DO	NOT SURE	PROBABLY NOT DO	NEVER	
To inform and declare actual income received from all sources to the tax authority	7 (20%)	7 (20%)	0 (0%)	17 (48.6%)	4 (11.4%)	35(100%)
To keep records/documents pertaining to income and expenditure for a period of ten years after submission of the tax return	3 (8.6 %)	1 (2.9%)	3 (8.6%)	8 (22.9%)	20(57.1%)	35(100%)
To pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	10(28.6%)	6 (17.1%)	0 (0%)	14 (40%)	5 (14.3%)	35(100%)
To obtain a tax payer identification number (TIN)	18(51.4%)	2 (5.7%)	1 (2.9%)	8 (22.9%)	6 (17.1%)	35(100%)

Source: pre-experiment responses and own computations

The next section describes about the general knowledge of the type of incomes included in taxable income and items excluded from taxable income, and knowledge about categories of tax payers.

4.2.1.2.2. Knowledge about types of income

In order to check the tax knowledge level of tax payers who didn't take the formal taxation course, some questions in relation to incomes/items included/excluded in/from employment taxable income and categories of tax payers are also asked. In this part a total of 7 question are asked which are divided in to sub sections namely knowledge about employment income and business income.

In the employment income section, four types of income are listed and asked to the respondents whether they have to be included or excluded in/from taxable income. The first one is basic salary i.e. *basic salary is included in taxable income*. Respondents then will give their answer whether the statement is correct or wrong from the available five choices. Therefore, as we can see from table 4.2 below, almost all respondents i.e. 97.1% (34) states the statement is correct and only one (2.9%) respondent chooses the statement is not correct. It is obviously known that basic salary is a taxable income. The second question is in relation to commission that is whether *commission must be included in taxable income or not*. As a result, almost all of the respondents i.e. 94.3% (33), states that commission must not be included in the taxable income and the remaining 2 (5.7%) respondents says that commission must be included in the determination of the taxable income. This shows that the majority of the respondents do not have knowledge about the inclusion of commission to the amount which is required to calculate the actual tax to

be paid. Commission is remuneration to an employee for his/her additional activity required by the employee. Commission is a taxable income therefore we have to add to other taxable incomes to determine the total taxable income of an employee. The third income listed is *overtime earning*. Around 71.4% (25) of the respondents says that overtime earning must not be included in the taxable income and 28.6% (10) of respondents states that overtime earning must be included in income which is subject to tax. Overtime earning is the amount of money payable to an employee for overtime work performed during a specific payroll period. Therefore, this amount must be included in taxable income, but majority of the respondents didn't know that this amount is included in the amount of income which is considered as taxable income. This shows that, the knowledge of respondents in relation to this is insubstantial.

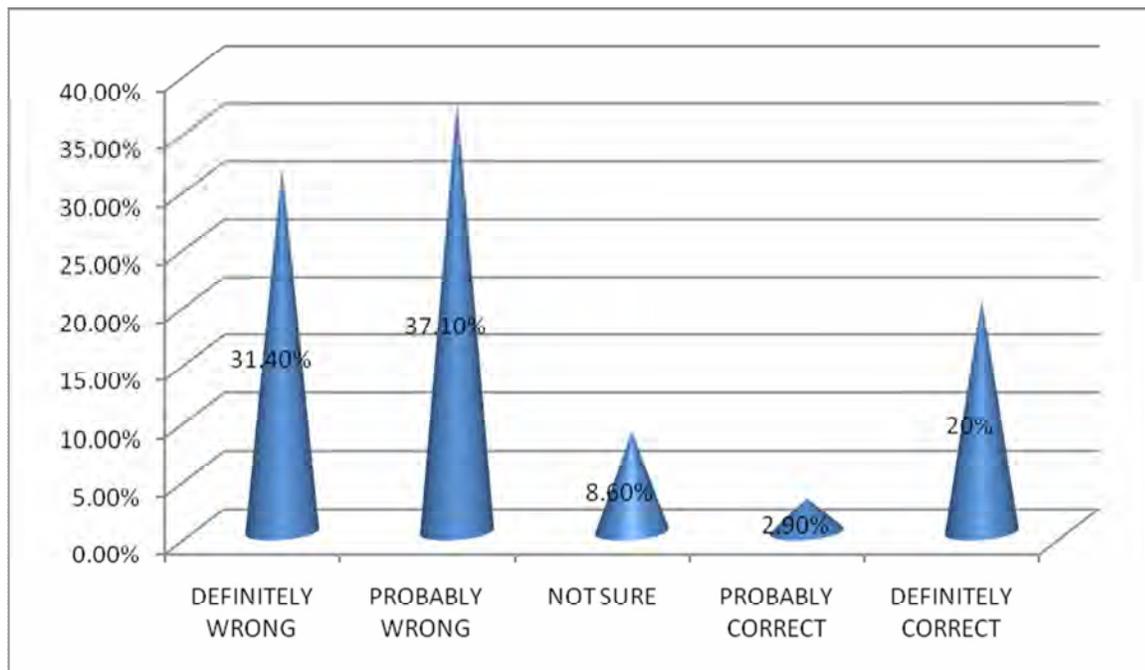
The last item listed in the employment income sub section is *hardship allowances*. That is, respondents are asked whether this item must be excluded or not. So, as you can see from figure 4.4 below, 68.6% (24) of the total respondents chooses that hardship allowance must be included in the taxable income but 22.9% (8) of the respondents chooses that hardship allowance must be excluded from the taxable income. Only 8.6% (3) of the respondents are not sure about excluding or including of hardship allowance. Hardship allowance is a sum of money given to an employee to compensate for an inconvenient circumstances caused by the employer. Hardship allowance is one of the fully exempted allowances. Therefore, this allowance must not be included in taxable income. But, majority of the respondents answers that this allowance must be included in taxable income. Summary of the figures can be seen from table 4.2 and figure 4.4 below.

Table 4.2 incomes that must be **included** in taxable income

Income	DEFINITEL Y WRONG	PROBABL Y WRONG	NOT SURE	PROBABLY CORRECT	DEFINITELY CORRECT	Total
Basic salary	1(2.9%)	0	0	5(14.3%)	29(82.9%)	35(100%)
Commission	15(42.9%)	18(51.4%)	0	1(2.9%)	1(2.9%)	35(100%)
Overtime earning	11(31.4%)	14(40%)	0	6(17.1%)	4(11.4%)	35(100%)

Source: pre-experiment responses and own computations

Figure 4.4 Hardship allowances



Source

: pre-experiment responses and own computations

Under business income section, three questions are asked to respondents. These questions are related with the category of tax payers. The first question is related with *category “A” taxpayers*. The question says that category “A” tax payers include businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue and other businesses having annual sales revenue of Br. 500,000 or more. Respondents are required to give their answer whether the statement is correct, wrong or not sure about the statement. Therefore, as you can see from table 4.3 below, 80% (28) of the respondents’ answers that the statement is wrong, 8.6% (3) of respondents are not sure about the statement and the remaining 11.4% (4) says the statement is definitely correct. The statement was the truthful statement. That is businesses that have legal personality or business having annual sales of Br. 500, 000 or more are categorized as category “A” tax payers. But, as it can be checked from table 4.3 majority of the respondents are not well informed about this information.

The second question regarding *category “B” tax payers*. Here also similar to the first question, the respondents are asked to choose whether the following statement is correct, wrong or not sure about the statement. The statement says, businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000 are categorized as category “B” tax payers. So, as you can refer table 4.3 below, 85.7% (30) of the respondents says the statement is wrong, 8.6% (3) of total respondents are not sure about this statement and the rest 5.7% (2) answers that the statement is definitely correct. This is also the correct statement but still majority of respondents are not well informed.

The third question is related to the third category, which is a *category “C” tax payer*. The statement says that businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000 are categorized as category “C” tax payers. As table 4.3 shows us, 91.4% (32) of the total respondents says that the statement is wrong, 2.9% (1) of respondents are not sure about this statement and the remaining 5.8% (2) responds that the statement is correct. Still the statement is correct but the majority didn’t answer the exact one. To sum up, the knowledge of the respondents regarding the business income is very weak.

To recap, that the general knowledge of the respondents in relation to the determination of taxable income and categories of tax payers is very pathetic.

Table 4.3 categories of tax payers

Categories	DEFINITE LY WRONG	PROBABY WRONG	NOT SURE	PROBABY CORRECT	DEFINITELY CORRECT	Total
Category “A” Businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue and other businesses having annual sales revenue of Br. 500,000 or more	11 (31.4%)	17(48.6%)	3(8.6%)	0	4 (11.4%)	35(100%)
Category “B” Businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000	12 (34.3%)	18 (51.4%)	3 (8.6%)	0	1 (2.9%)	35 (100%)
Category “C” Businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000	14 (40%)	18 (51.4%)	1 (2.9%)	1 (2.9%)	1 (2.9%)	35 (100%)

Source: pre-experiment responses and own computations

The following section describes the awareness of this study’s respondents regarding different offences, and their penalties and compounds.

4.2.1.2.3. Awareness on offences, penalty and compound

This part contains a total of four questions divided into four sub sections namely penalty for late payment of income tax, penalty for understatement of income tax, penalty for failure to keep proper records and penalty in relation to VAT. The first question respondents asked is whether they are aware enough about the penalty for tax payers *who fail to file a timely tax declaration* Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration, and Br. 1,500 for each 30 days thereafter until it is filed. Then, as it is shown in table 4.4 below, 32 (91.4%) respondents are not aware of this penalty and the rest 3 (8.6%) respondents are aware of this penalty. This is the exact penalty for failure to file a timely tax declaration. But almost all the respondents are not aware of this penalty that means this shows lack of knowledge in these respondents concerning penalty for failure to file a timely tax declaration.

The second question is regarding penalty for *understatement of income tax*, i.e. a tax payer is liable for a penalty in the amount of 10% of the understatement if the understated amount of tax is considered not substantial and 50% of the understatement if the understated amount of tax is considered substantial. As table 4.4 shows us, majority of respondents (i.e. 88.6% (31)) are unaware of this penalty, 1 (2.9%) respondent is not sure about this penalty and only 3 (8.6%) respondents are aware of this penalty. Here also largest part of respondents lacks knowledge of penalty for understatement of income.

The third question is related with penalty *for failure to keep proper records*. Category A and category B are required by the Ethiopian tax law to maintain books of accounts, records and other documents regarding a certain tax year. If tax payer of these categories fails to keep books

of accounts, records and other documents, the penalty will be 20% of the tax assessed(determined) by the tax authority and if the tax payer has failed for two consecutive tax years, the license of the tax payer will be suspended. Then, 94.3% (33) of the total respondents (as shown in table 4.4) are unaware of this penalty whereas 5.7% (2) of respondents are aware of this penalty.

The final question of this section is concerning *VAT related penalties*. If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration, and if any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction. To check the knowledge of respondents VAT related penalty, respondents are asked whether they are aware or not about the above two penalties for VAT related offences. Accordingly, as table 4.4 indicates us, all respondents are unaware of these penalties. This indicates that the respondents have poor knowledge of VAT related penalties.

To sum up, the awareness of respondents concerning the offences, penalties and compound is insubstantial. Therefore, awareness building programs must be prepared by the concerned body so that problems can be solved.

Table 4.4 awareness of offences and penalties

Statements	Defiantly unaware	Probably unaware	Not sure	Probably aware	Defiantly unaware	Total
Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration and Br. 1,500 for each 30 days thereafter until it is filed	18(51.4%)	14 (40%)	0	2(5.7%)	1 (2.9%)	35(100%)
A tax payer is liable for a penalty in the amount of 10% &50% of the understatement if the understated amount of tax is considered not substantial, substantial respectively	23(65.7%)	8(22.9%)	1(2.9%)	1 (2.9%)	2(5.7%)	35(100%)
Taxpayer who fails to maintain proper books of accounts, records and other documents regarding a certain tax year results in a penalty of 20% of the tax assessed (determined) by the tax authority.	26(74.3%)	7 (20%)	0	0	2(5.7%)	35(100%)
If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration,	16(45.7%)	19(54.3%)	0	0	0	35(100%)

Source: pre-experiment responses and own computations

4.2.1.2.4. Summary of results

Based on the analysis made, the following summary of results for this stage can be made.

- Majority of the respondents are unaware of their responsibilities and rights as a tax payers
- The general knowledge of the respondents concerning how to determine the taxable amount of income, and the categorization of tax payers is very narrow.
- Almost all respondents are unaware of the different offences and their penalties & compounds.

The next section describes the second stage of analysis i.e. the relationship between tax knowledge and tax education. How tax education influences the level of tax knowledge of the respondents is explained.

4.2.1.3. Stage 2 – Relationship between tax knowledge and tax education

This stage examines the relationship between tax knowledge of respondents and tax education that means the objective of this stage is to determine how provision of tax education influences the level of tax knowledge of respondents. To do this, the level of tax knowledge before the provision of the tax education is compared against the level of tax knowledge after the provision of the tax education to the respondents. The same sets of questions for the same set of respondents regarding level of tax knowledge are asked before and after attending tax course. Therefore, the impact of tax education on level of tax knowledge of respondents is determined by comparing the proportion score of respondents before and after attending the tax course. The

hypothesis to be checked in this stage is “*tax education improves tax knowledge of individual tax payers.*” It is obviously known that education enhances knowledge. But to what degree is improved must be checked.

4.2.1.3.1. General Knowledge about responsibilities and rights

As it is described in stage 1, there are a total of four questions in this part. The first one is whether respondents will inform and declare actual income received from all sources to the tax authority. Therefore, as it is shown in table 4.5 below, 85.7% (30) of the total respondents’ states that they will accomplish this responsibility as a tax payer but the remaining 4.3% (5) of the respondents’ states that they will not inform and declare the actual income to the tax authority. Before attending the tax course, the mean score of the results for this question was 3.11 and now it becomes 1.60. These figures indicate that majority of the respondents before attending the tax course didn’t show their willingness to accomplish this responsibility either because of unaware of the responsibility or having an awareness but unwilling to accomplish this responsibility. But, after attending the tax course, the majority of respondents show their willingness to execute this responsibility. Therefore, the provision of tax education for tax payers can enhance the awareness of responsibilities and intention of accomplishing these responsibilities.

As table 4.5 shows, 85.7% (30) of the total respondents will keep records/documents pertaining to income and expenditure for a period of ten years after submission of the tax return where as the rest 4.3% (5) of the respondents will not keep records/documents for the specified period of time. As table 4.6 below shows, before the provision of the tax education, the mean score was 4.17 but after the respondents attend the tax course this figure is changed to 1.68. According to

Ethiopian tax law, every individual tax payer is responsible to keep records/documents pertaining to income and expenditure for a period of ten years after submission of the tax return. Before taking the taxation course, majority (80% or 28) respondents of this study were not either informed of this or informed but not interested to do. But, after attending as the figure shows us, majority of the respondents states they will perform this responsibility as tax payers. This indicates that having attending tax course will increase the awareness about responsibility and tax knowledge of tax payers.

The respondents are asked whether they will pay taxes within the stipulated period or not. Subsequently, as table 4.5 shows, 77.1% (27) of the respondents says they will pay taxes due within the stipulated period where as 17.2% (6) of the respondents says they will not pay taxes due within the stipulated period. For this question before attending tax course, 45.7% (16) of the total respondents choose that they will do, but the rest 54.3% (19) of the total respondents states that they will not do. When we compare the mean score of results for this question before and after attending the tax course, it was 2.94 before attending and 1.88 after attending the course. Here also there is change in result.

As it is indicated in table 4.5, majority of the respondents (31 respondents or 88.6%) will obtain TIN where as the rest 4 (11.4%) respondents will not obtain TIN. When we compare these figures with the figures obtained before providing tax education which is 57.1% (20) of respondents will obtain, 14 respondents (40 %) will not and 1 respondent (2.9%), there is an increase in number of respondents who will obtain a tax identification number as a tax payer because they have the right to obtain. This can be checked also by comparing the mean score of the results before and after. Thus, the mean score of the respondents result before attending the course was 2.48 but after attending the course it is change to 1.68.

Table 4.5 responsibilities and rights of a tax payer

Statements	Definitely do	Probably do	Not sure	Probably not do	Never do	Total
To inform and declare actual income received from all sources to the tax authority	25 (71.4%)	5 (14.3%)	0	4 (11.4%)	1 (2.9%)	35 (100%)
To keep records/documents pertaining to income and expenditure for a period of ten years after submission of the tax return	24(68.6 %)	6 (17.1%)	0	2 (5.7%)	3 (8.6%)	35 (100%)
To pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	21(60%)	6 (17.1%)	2(5.7%)	3 (8.6%)	3 (8.6%)	35 (100%)
To obtain a tax payer identification number (TIN)	23(65.7%)	8 (22.9%)	0	1 (2.9%)	3(8.6%)	35 (100%)

Source: post-experiment responses and own computations

To summarize, as the figures indicates, the respondents' knowledge about general responsibilities and rights is better after attending tax course than before attending the tax course. Therefore, taxpayers' knowledge of responsibilities & rights, and intention of fulfilling these responsibilities can be enhanced by providing tax education.

Table 4.6. Mean scores comparison of responsibilities and rights

Questions	Before treatment	After treatment
To inform and declare actual income received from all sources to the tax authority	3.11	1.6
To keep records/documents pertaining to income and expenditure for a period of ten years after submission of the Tax Return	4.17	1.68
To pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	2.94	1.88
To obtain a tax payer identification number (TIN)	2.84	1.65

Source: pre & post-experiment responses and own computations, **1 represents definitely do, 2=probably do, 3=not sure, 4=probably not do, and 5=never do**

4.2.1.3.2. Knowledge about types of income

In this part, as it is described in stage 1, a total of 7 questions are asked which are divided in to sub sections namely knowledge about employment income and business income.

In the employment income section, four types of income and items are listed and asked to the respondents whether they are included or excluded in/from taxable income. All respondents say that basic salary must be included in the taxable income. This result is similar to result of respondents before the provision of the tax education. This is because, basic salary is obviously known that the amount that must be included while we determine the taxable income.

As table 4.7 shows, only 2 (5.7%) respondents state that commission must not be included in taxable income. But the majority 33 (94.3%) respondents state that commission must be included. There were only two respondents who said commission must be included to taxable income before the provision of taxation course. So, because of attending the taxation course, majority of the respondents become aware of the inclusion of commission in the taxable amount. This can be strengthening by seeing the mean score of the results. As it can be seen from table 4.9 below, this questions' result has mean score of 1.71 before the treatment is given for the participants but it is 4.25 after the treatment.

Majority of the respondents i.e. 31 (88.6%) state that overtime earning must be included in the amount which is subject to income tax where as the rest 4 (11.4%) respondents states that this must not be included in the taxable income. Before attending the tax course, the respondents who states overtime earning must be included were only 10 (28.6%) and the remaining 25 (71.4%) were in a position not to include overtime earning in the taxable income. Overtime earning is one of the types or forms of income that must be included in the amount that is subject to income tax. As you can see from the figures, there is an increase in number of respondents who says it must be included after providing the tax course. This is not only because the numbers are change. It is also better to check the change in the mean score of the results. As a result, the mean score was 2.37 and changed to 4.45 because of the tax education provided for the respondents. Therefore, by trying the tax payers to attend tax course, it is possible to enhance their level of tax knowledge about which type of income must be included in the determination of amount that is subject for the income tax.

Only 3 (8.6%) respondents state that hardship allowance must be included in the taxable income. Majority of respondents (i.e. 32 or 91.4%) states that hardship allowance must be excluded from

the taxable income. When we compare these figures with the figures obtained for this question before attending taxation course which are, 68.6% (24) of the total respondents states that hardship allowance must be included in the taxable income, it is possible to conclude that tax education positively influences the respondents to enhance their level of tax knowledge. Hardship allowance is one of the fully exempted allowances. Therefore, this allowance must not be included in taxable income. But majority of the respondents (before attending the course) says that hardship allowance must be included in the taxable income, now after provision of tax course the result becomes the reverse.

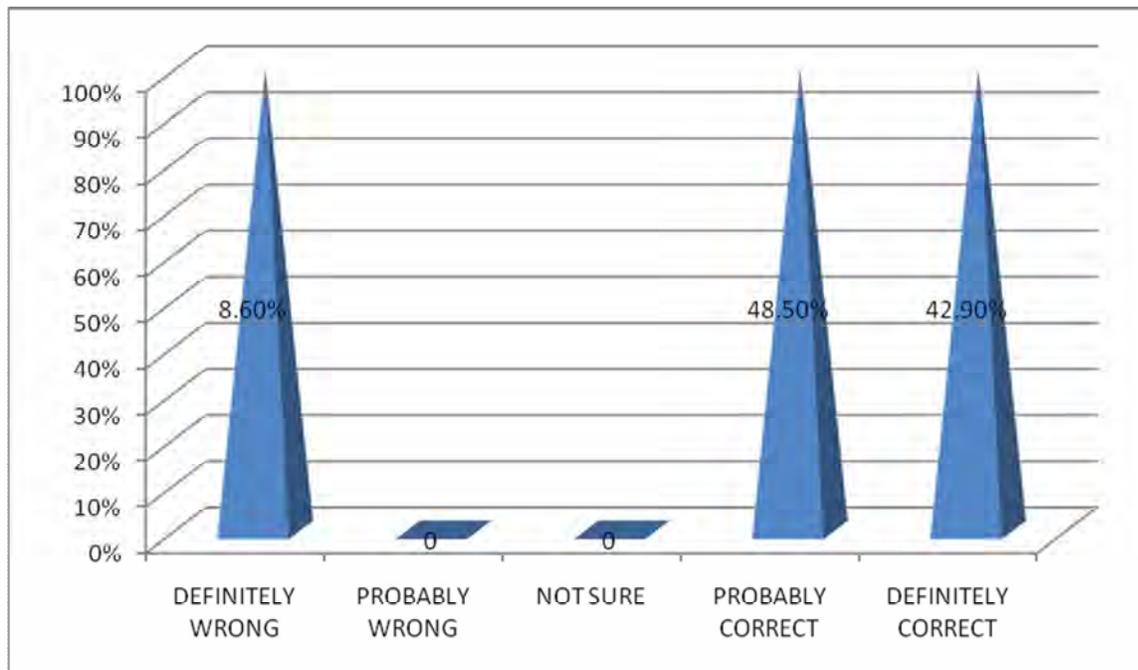
To summarize, because of the provision of taxation course for respondents of this study, majority of the respondents become aware of what types of income and items must be included and excluded in/from to the amount of income that is subject to the income tax.

Table 4.7 income that must be **included** in taxable income

Income	DEFINITELY WRONG	PROBABLY WRONG	NOT SURE	PROBABLY CORRECT	DEFINITELY CORRECT	Total
Basic salary	0	0	0	9(25.7%)	26(74.3%)	35(100%)
commission	2 (5.7%)	0	0	18 (51.4%)	15 (42.9%)	35(100%)
Overtime earning	2 (5.7%)	2 (5.7%)	0	5 (14.3%)	26 (74.3%)	35(100%)

Source: post-experiment responses and own computations

Figure 4.5 Hardship allowances



Source: post-experiment responses and own computations

Majority respondents (30 or 85.7%) states that businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue and other businesses having annual sales revenue of Br. 500,000 or more are included in category “A”. Before the respondents attend the tax course, there were only 4 (11.4%) respondents who correctly state this. But after attending the tax course, the majorities become well informed of this category. This can be verified by comparing the mean scores. Thus, the mean score after the treatment is 4.14 provided for this question is but it was 2.11 before the respondents attend the course. This change is the result of the provision of tax education for respondents.

As it can be referred from table 4.8 that, 31 (88.6%) respondents state that businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000

are categorized as category “B” tax payers. Here also majority, 85.7% , of the respondents were not well informed of this category but after attending the taxation course they become well informed. As mean score comparison table 4.9 below indicates, major portion of the respondents become informed of the business that must be categorized under this category after attending the tax course.

Except two respondents who account 5.7% of the total respondents, all respondents (34, or 94.3%) correctly state that businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000 are categorized as category “C”. Before attending the taxation course, majority of the respondents (91.4% or 32) wrongly state about this category. Hence, provision of tax course or awareness building program for the tax payers will help to enhance the level of tax knowledge.

To conclude, there is a great difference between knowledge of respondents before and after providing taxation course regarding knowledge of business income. Majority of the respondents were not well informed of the asked questions before attending the taxation course. But, after attending the course, the majority of respondents answer correctly for the asked questions. This shows that the provision of the taxation course have a positive influence on enhancing the level of knowledge about determination of the amount which is subject for tax and the category of tax payers.

Table 4.8 categories of tax payers

Categories	DEFINITE LY WRONG	PROBABY WRONG	NOT SURE	PROBABY CORRECT	DEFINITEL Y CORRECT	Total
Category “A” Businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue and other businesses having annual sales revenue of Br. 500,000 or more	3 (8.6%)	2 (5.7%)	0	12 (34.3%)	18(51.4%)	35 (100%)
Category “B” Businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000	2 (5.7%)	2 (5.7%)	0	11 (31.5%)	20(57.1%)	35(100%)
Category “C” Businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000	0	2 (5.7%)	0	13 (37.2%)	20(57.1%)	35(100%)

Source: post-experiment responses and own computations

Table 4.9 Mean score comparison types of income

Questions	Before treatment	After treatment
Commission	1.71	4.25
Overtime earning	2.37	4.45
Hardship allowance	2.42	4.25
Businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue, and Other businesses having annual sales revenue of Br. 500,000 or more	2.11	4.14
Businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000	1.91	4.28
Businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000	1.77	4.45

Source: pre & post-experiment responses and own computations, **1 represents definitely wrong, 2=probably wrong, 3=not sure, 4=probably correct, and 5=definitely correct**

4.2.1.3.3. Awareness on offences, penalty and compound

As table 4.10 shows, the majority i.e. 32 (91.4%) respondents are aware of the penalty that if a tax payer fails to file a timely tax declaration, the penalty is Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration and Br. 1,500 for each 30 days

thereafter until it is filed but before the provision of the taxation course, there were only 3 (8.6%) respondents which are aware of this penalty. Only 3 (8.6%) respondents are unaware after attending the course but 32 (91.4%) respondents before attending course. This shows that tax education can enhance awareness of tax payers about penalty for late payment. To support this, it is better to compare the mean scores. As a result, before the respondents attend the tax course, the mean score of results this question was 1.68 but now after attending the course this figure is changed to 4.37 (table 4.11). Then, after being aware of these penalties, the tax payers will try to comply with tax laws in order to be free of these penalties. Therefore, tax education can influence the tax compliance attitude of tax payers.

The second question is about penalty for understatement of income tax. The respondents are also checked whether they are aware of the penalty for understatement of income tax that a tax payer is liable in the amount of 10% of the understatement if the understated amount of tax is considered not substantial and 50% of the understatement if the understated amount of tax is considered substantial. As a result, as it shown in table 4.10 only 4 (11.4%) respondents are unaware of this penalty but the remaining 31 (88.6%) respondents are aware of this penalty. The respondents that were aware of this penalty before they attend the tax course were only 3 (8.6%) respondents and those unaware were 31 (88.6%) respondents. There is a great increase in the number of respondents who are aware of this penalty after attending tax course. The mean score of the results after the respondents are given the treatment is 4.28 but before they attend the course it was 1.6. This shows that tax payers' level of awareness can be improved if they are exposed to some awareness building programs or formal tax education.

As it is explained in the analysis of stage 1, category A and category B are required by the Ethiopian tax law to maintain books of accounts, records and other documents regarding a

certain tax year. Therefore, if taxpayers of these categories fails to do this, the penalty is 20% of the tax assessed (determined) by the tax authority and if the tax payer has failed for two consecutive tax years, the license of the tax payer will be suspended. Only 5 (14.3%) respondents are still unaware of this penalty but the rest 30 (85.7%) respondents are aware of this penalty. When we see the number of respondents who have awareness of this penalty before they attend the tax course, 94.3% (33) of the total respondents were unaware of this penalty whereas 5.7% (2) of respondents were aware of this penalty. This means that the provision of tax course helps the respondents to be aware of this penalty. This can be also verified by comparing the mean score of the results. Thus, the mean score was 1.42 before respondents are exposed to the treatment but after the treatment it is changed to 4.2.

The respondents are asked whether they are aware of that if any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration and if any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction. Hence, as table 4.10 shows us, except 6 (17.1%) respondents who are not still aware, the rest 29 (82.9%) respondents are aware of these penalties. All of the respondents were not aware of these penalties before they attend the tax course. The provision of the tax course for the respondents helps them to improve their level of awareness on the different penalties. Majority of the respondents become aware of the penalties after attending the tax course.

To conclude on this stage, as it is hypothesized before i.e. tax education improves tax knowledge of individual tax payers, tax knowledge of respondents after attending the tax course is better than before attending.

Table 4.10 awareness of offences and penalties

Statements	Definitely unaware	Probably unaware	Not sure	Probably aware	Definitely aware	Total
Penalty for late payment of income tax; Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration and Br. 1,500 for each 30 days thereafter until it is filed	1 (2.9%)	2 (5.7%)	0	12(34.3%)	20(57.1%)	35(100%)
A tax payer is liable for a penalty in the amount of 10% & 50% of the understatement if the understated amount of tax is considered not substantial & substantial respectively	3 (8.6%)	1 (2.9%)	0	10(28.6%)	21 (60%)	35(100%)
taxpayer who fails to maintain proper books of accounts, records and other documents regarding a certain tax year results in a penalty of 20% of the tax assessed(determined) by the tax authority	4(11.4%)	1 (2.9%)	0	9(25.7%)	21 (60%)	35(100%)
If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration,	5(14.3%)	1 (2.9%)	0	9(25.7%)	20 (57%)	35(100%)

Source: post-experiment responses and own computations

Table 4.11 Mean score comparison awareness of penalties

Questions	Before treatment	After treatment
Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration, and Br. 1,500 for each 30 days thereafter until it is filed	1.68	4.37
A tax payer is liable for a penalty in the amount of 10% of the understatement if the understated amount of tax is considered not substantial, and 50% of the understatement if the understated amount of tax is considered substantial	1.6	4.28
20% of the tax assessed(determined) by the tax authority and If the tax payer has failed for two consecutive tax years, the license of the tax payer will be suspended	1.42	4.2
If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration and if any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction	1.54	4.08

Source: pre & post-experiment responses and own computations, **1 represents definitely unaware, 2=probably aware, 3=not sure, 4=probably aware, and 5=definitely aware**

4.2.1.3.4. Summary of results

The following are summary of the results of this stage.

- ❖ Knowledge of majority of the respondents about tax payers' responsibilities and rights is improved after the provision of tax course. The level of knowledge in relation to this is better after attending the class than before.
- ❖ The provision of the tax course helps the respondents to correctly identify items included and excluded to determine the amount of income which is subject to income tax, and to categorize tax payers.
- ❖ Majority of the respondents become aware of the different penalties that a tax payer is liable for failure to obey the Ethiopian tax rules after attending the tax course.

The next section explains the descriptive statistics of respondents' tax compliance attitude before attending the class.

4.2.1.4. Stage 3 – Tax compliance attitude

The objective of this stage as it is explained in chapter 3 is to examine the tax compliance attitude of the respondents before attending the tax course. Therefore, there are 8 questions asked to check tax compliance attitude of the respondents. In this stage the proportion of the respondents for these questions is observed. The first four questions are regarding the reasons for complying with tax laws and regulations and the remaining four are concerning reasons for not complying with the laws and regulations. Respondents are asked whether they wish to comply with tax laws or not for the listed reasons. The score of the questions before attending the tax course by the respondents are used in this stage.

The total 8 questions are divided in to two parts. The first part includes the reasons for complying with tax laws. The respondents are required to state their answer whether they wish to comply with tax laws or not for the listed reasons. The first reason is *serious enforcement and penalty by the Inland Revenue Authority (IRA)* i.e. whether the respondents wish to comply with tax laws because of the serious enforcement and penalty by IRA that may result if they do not comply. As a result, as table 4.12 indicates that, majority of the respondents (33 or 94.3%) disagree with this statement. That is, these respondents did not agree with the existence of serious enforcement and penalty by IRA. Therefore, they wish not to comply because of the weak enforcement and penalty. The rest 2 (5.7%) respondents agree that there may result serious enforcement and penalty by IRA if they did not comply, so they wish to comply with tax laws in order to be free of these penalties for not complying. Here the majority of respondents believe that the Inland Revenue Authority will not have serious enforcement and penalty for not complying with tax laws. This reason may be because of lack of awareness. Therefore, there must be awareness building for the tax payers in order to solve this problem.

The second statement says that, *by paying right amount of income tax, I believe that other people especially the poor will get the benefit.* 11 respondents state that for this reason, I wish to comply with tax laws. But the rest 24 respondents show their disagreement with this reason and they wish not to comply. The majority are disagreeing with the reason of complying with the tax laws is because either they are not aware that the tax collected is utilized to finance the public expenditures so that the poor especially get benefited or they are aware but not interested to comply with the tax laws. Therefore, this problem must be solved. The other reason is; *I wish to comply with tax laws because I would not feel guilty if I excluded some of my income when completing my tax return.* Only 10 (28.5%) respondents agree with this statement. That means

these respondents wish to comply with tax laws because they feel not responsible for excluding some of their income while completing tax return. The remaining 25 (71.5%) respondents disagree with this statement i.e. they don't want to comply with tax laws and they wish to exclude some amount of income while completing the tax return. This question is related with ethics. Tax payers must be ethical enough. But here, the majority of the tax payers are not ethical to comply with the tax laws. It is not only by serious enforcement and penalty that tax payers can be compliant. Ethics also plays a great role on the compliance behaviour of these tax payers. Therefore, the ethics aspect of the tax payers must also be considered in relation to the tax compliance. The last question of the first part is *whether respondents wish to comply or not because they feel morally obliged to honestly declare all their tax liabilities*. Therefore, as it is shown in table 4.12 below, majority of the respondents (26 or 74.3%) disagree with this statement i.e. these respondents didn't feel morally obliged to honestly declare all tax liabilities that they have and they didn't wish to comply with tax laws. But, the rest 9 (25.7%) respondents feel morally obliged and wish to comply with tax laws. Still majority of the tax payers' attitude of tax compliance is negative.

To summarize, majority of the respondents show their willingness to not comply with the tax laws. This means that the tax compliance attitude of the respondents is not good. On average more than 70% of the total respondents disagree with the given reasons for complying with the tax law. Therefore, respondents before taking the tax course have negative attitude towards tax compliance i.e. the majority wish not to comply with tax laws.

Table 4.12 Reasons for complying with tax laws

Reasons	Strongly disagree	Disagree	Not certain	Agree	Strongly agree	Total
By paying right amount of income tax, I believe that other people especially the poor will get the benefit	10(28.6%)	14 (40%)	0	1 (2.9%)	10 (28.6%)	35 (100%)
Serious enforcement and penalty by the IRA may result if I do not comply	15(42.9%)	18 (51.4)	0	0	2 (5.7%)	35 (100%)
I would not feel guilty if I excluded some of my income when completing my tax return	8 (22.9%)	17(48.6%)	0	4 (11.4%)	6 (17.1%)	35 (100%)
I feel morally obliged to honestly declare all my tax liabilities	14 (40%)	12(34.3%)	0	0	9 (25.7%)	35 (100%)

Source: pre-experiment responses and own computations

The second part of this stage is concerning reasons because of which respondents didn't comply with tax laws. The first reason given is; *“because I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low, I wish not to comply with tax laws”*. Accordingly, as it is clearly shown in table 4.13 below, 29 (82.8%) respondents

agree with this statement whereas 5 (14.3%) respondents didn't agree with the reason for not complying with tax laws. There is only one respondent who account 2.9% of the total respondents that is not certain about the reason for not complying with the tax laws. These figures show that the majority of the respondents don't have willingness to comply with tax laws because they believe that there is low probability of being detected by the tax authority for not declaring. Therefore, the attitude of these respondents for complying with tax laws is not good.

The other reason given for the respondents for not complying with tax laws is; *"because I believe the tax authority has limited capability to investigate all income reported to them, so I have an opportunity to not report my exact income."* Only 5 (14.3%) respondents did not agree with this reason for not complying with the tax laws. The rest 30 (85.7%) respondents agree that because of the limited capability of the tax authority on investigating all income reported them, so they wish not to comply with the tax laws. This indicates that majority of the respondents believe that the tax authority have weak capacity in order to investigate the correct amount of income that must be reported to them. So, they wish not to comply with the tax laws.

The third reason which is used for not complying with tax laws is, *"because my relatives do not comply and they have never been penalized, I wish not to comply"*. As table 4.13 below shows that, only 9 (25.7%) respondents show their disagreement with this reason of not complying with tax laws. The rest 26 (74.3%) respondents agree with this reason of not complying tax laws. This means that majority of the respondents relatives didn't comply and they have never been penalized therefore because of their relatives who didn't comply and never been penalized, they wish not to comply. This indicates that tax payers can be influenced by their relative's action.

The last reason asked for checking the compliance attitude of the respondents is that, “*since the supporting documents do not need to be sent to the IRA, I can manipulate the figure in the tax return.*” As a result, only 4 (11.4%) respondents disagree with this reason for not reporting the correct amount of income which is subject for the income tax. But, the remaining 31 (88.6%) respondents agree with the reason that because documents do not need to be send to the tax authority, they have the possibility of manipulating the amounts in the determination tax return. This shows that majority of the respondents are not aware of presenting necessary documents and records to the tax authority so that their attitude towards complying with the tax laws is negative.

To sum up, still majority of the respondents are in a position to not comply with the tax laws. Therefore, the tax compliance attitude of these respondents (majority) is negative. This is before the provision of the tax course for these respondents. That means those respondents who didn't took the formal taxation course have negative attitude to tax compliance.

Table 4.13 Reasons for not complying with tax laws

Reasons	Strongly disagree	Disagree	Not certain	Agree	Strongly agree	Total
I believe the tax authority has limited capability to investigate all income reported to them, so I have an opportunity to not report my exact income	5(14.3%)	0	0	16(45.7%)	14 (40%)	35 (100%)
I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low	3 (8.6%)	2(5.7%)	1(2.9%)	15(42.8%)	14 (40%)	35 (100%)
My relatives do not comply and they have never been penalized	9(25.7%)	0	0	8 (22.9%)	18(51.4%)	35(100%)
Since the supporting documents do not need to be sent to the IRA, I can manipulate the figure in the tax return	4(11.4%)	0	0	22(62.9%)	9(25.7%)	35 (100%)

Source: pre-experiment responses and own computations

The next section describes the influence of tax education on tax compliance attitude of the respondents.

4.2.1.5. Stage 4 – Relationship between tax education and tax compliance attitude

This stage examines the relationship between tax education and tax compliance attitude of respondents. The objective of this stage is to determine how provision of tax education influences tax compliance attitude of respondents. To check this, the tax compliance attitude of respondents before the provision of the tax course is compared against the compliance attitude after the provision of the course. The same sets of questions for the same set of respondents regarding tax compliance attitude are asked before and after attending tax course. Therefore, the impact of tax education on tax compliance of respondents is determined by comparing the proportion score of respondents before and after attending the tax course. The hypothesis to be checked in this stage is *“Taxpayers who have attended tax course are more compliant than taxpayers who didn’t attend tax course.”*

As it is explained in the above stage 3, there are 8 questions which are related with the tax compliance asked to the respondents. Similar questions are asked also after the provision of the tax course for the same set of respondents. Then the score difference between before and after attending tax course is compared. These questions are divided in to two parts i.e. reasons for complying and reasons for not complying with tax laws. Let’s first see reasons for complying and then the second part.

As table 4.14 shows that, majority of the respondents (30 or 85.7%) wish to comply with tax laws because of the serious enforcement and penalty by IRA that may result if they do not comply. But the rest 5 (14.3%) respondents still show their disagreement with this reason of complying with tax laws. When we compare these figures with the figures obtained for this

question in the above stage 3 i.e. before attending tax course which is 33 (94.3%) respondents disagree and the rest 2 (5.7%) respondents agree with this reason for comply with tax laws, majority of the respondents become aware of the enforcements and penalties that may arise for not complying tax laws after attending the tax course and show their willingness to comply. As it is clearly shown in table 4.15 below, the mean score for this question was 2.62 before the respondents attend the tax course but after they attend the tax course the mean score becomes 4.51. Thus, as the figures indicate it is possible to change the compliance attitude of respondents by providing education.

Except 2 (5.7%) respondents, all respondents (33 or 94.3%) wish to comply with tax laws because by paying the right amount, other people especially the poor will get the benefit. Before attending the tax course, majority (24) of the respondents were not agree with this reason of complying but now after attending the course majority become aware that the tax collected by the government is used in order to finance the public expenditures so that the tax paid by those rich people is indirectly used by the general public especially people considered as poor. Therefore, the provision of the tax course for these respondents plays a great role on awareness building so that they wish to comply with the tax laws of the country.

The next question is concerning ethics i.e. whether respondents wish to comply with tax laws because they don't feel guilty if they excluded some of their income when completing tax return. Accordingly, 30 (85.7%) respondents agree with this reason of compliance. The rest 5 (14.3%) respondents didn't agree with this reason of complying with tax laws. Before attending the tax course majority of the respondents (25) did not agree with this reason. Now after attending the course, the result is the reverse. The majority of the respondents after attending the tax course

show their willingness to comply with the tax laws because excluding some amount of income when completing the tax return is not ethical as this act will cut the country's development. Therefore, here also the tax compliance attitude of these respondents (majority) is positive. This can also be supported by comparing the mean scores. After the respondents are provided the tax course, the mean score of this questions' result become 4.05 but it was 2.51 before they attend the course.

33 (94.3%) respondents wish to comply with tax laws because they feel morally obliged to honestly declare all their tax liabilities with this statement i.e. these respondents feel morally obliged to honestly declare all tax liabilities that they have and they wish to comply with tax laws. Before attending the tax course, only 9 (25.7%) respondents feel morally obliged and wish to comply with tax laws. Based on these figures it is possible to conclude that the influence of the tax education on the respondents' tax compliance attitude is very great and positive.

Table 4.14 Reasons for complying with tax laws

Reasons	Strongly disagree	Disagree	Not certain	Agree	Strongly agree	Total
By paying right amount of income tax, I believe that other people especially the poor will get the benefit	1 (2.9%)	1 (2.9%)	0	10 (28.6%)	23 (65.7%)	35 (100%)
Serious enforcement and penalty by the IRA may result if I do not comply	15(42.9%)	2 (5.7%)	0	10 (28.6%)	20 (57.1%)	35 (100%)
I would not feel guilty if I excluded some of my income when completing my tax return	3 (7.7%)	2 (5.7%)	0	15 (42.9%)	15 (42.9%)	35 (100%)
I feel morally obliged to honestly declare all my tax liabilities	1 (2.9%)	1 (2.9%)	0	9 (25.7%)	24 (68.6%)	35 (100%)

Source: post-experiment responses and own computations

Table 4.15 Mean score comparison reason for complying

Questions	Before treatment	After treatment
By paying right amount of income tax, I believe that other people especially the poor will get the benefit	2.62	4.51
Serious enforcement and penalty by the IRA may result if I do not comply	1.74	4.2
I feel morally obliged to honestly declare all my tax Liabilities	2.37	4.54
I would not feel guilty if I excluded some of my income when completing my tax return	2.51	4.05

Source: pre & post- experiment responses and own computations, **1 represents strongly**

disagree, 2= disagree, 3=not certain, 4=agree, & 5=strongly agree

The second part of this stage is concerning reasons because of which respondents didn't comply with tax laws. The first reason given is; "because I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low, I wish not to comply with tax laws." As a result, as it is clearly shown in table 4.16 below, 25 (71.4%) respondents disagree with this statement whereas 9 (15.7%) respondents agree with the reason for not complying with tax laws. The majority of the respondents didn't agree with believe that the probability of being detected by the tax authority for not declaring the exact income is low. But, before the provision of the tax course the majority of the respondents (29 or 82.9%) wish not to comply with tax laws because they believe that there is low probability of being detected for not declaring the exact amount. And the mean score was 4 but after the respondents attend the course it becomes 2.14 as

indicated in table 4.17. This shows that, the provision of the tax course helps the respondents to be aware of that there will be an audit by the tax authority for the declared amount to check its exactness and the tax authority can impose penalty for not declaring the exact amount. Therefore, the attitude of these respondents on tax compliance is influenced by the provision of tax course to be positive.

Only 4 (11.4%) respondents wish not to comply because they believe the tax authority has limited capability to investigate all income reported to them so that they have an opportunity to not report my exact income. with this reason for not complying with the tax laws. The rest 31 (88.6%) respondents didn't agree with this reason of not complying with tax laws. Majority of the respondents didn't agree with believe that the tax authority have limited capability on investigating all income reported them. Majority of the respondents (30 or 85.7%) before attending the tax course, they believe that the tax authority have a limited capability of investigating all income reported to them so they wish not to comply with the tax laws. Thus, the provision of tax education positively influences the tax compliance attitude of these respondents.

The next reason for not complying with the tax laws is related with the influence of relatives on tax compliance attitude i.e. "because my relatives do not comply and they have never been penalized, I wish not to comply." As a result, as it is clearly shown in table 4.12 below, 27 (77.1%) respondents disagree with this reason for not complying with tax laws. But still there are 7 (20%) respondents who agree with this reason. Only 1 (2.9%) respondent is not sure about this reason for not complying. Here also majority of the respondents didn't agree with the reason that "because my relatives did not comply and never been penalized I wish also not to comply." Before attending the tax course, majority of the respondents (26 or 74.3%) wish not to comply because their relatives did not comply and they have never been penalized. The mean score of

results before and after the treatment are 3.74 and 2.11 respectively. Therefore, because of attending the tax course, majority of the respondents are influenced to change their negative tax compliance attitude.

As table 4.16 below show, only 3 (8.6%) respondents agree that because documents do not need to be sent to the tax authority, they have the possibility of manipulating the amounts in the determination of tax return so that they wish not to comply with tax laws. But, the remaining 32 (91.4%) respondents disagree with this. The majority of the respondents (31 or 88.6%) before they attend the tax course agree that because the supporting documents do not need to be sent to the IRA, they can manipulate the amount reported in the tax return. But, after the provision of the taxation course, majority of the respondents become aware that necessary supporting documents must be sent to the tax authority so that the tax authority can audit for the reported amount which is subject to tax. Therefore, because of the provision of the tax course for these respondents, majority of them become aware that as a tax payer they have the responsibility to send the supporting documents to the tax authority. Thus, the tax compliance attitude of majority of the respondents is changed after attending the tax course.

Table 4.16 Reasons for not complying with tax laws

Reasons	Strongly disagree	Disagree	Not certain	Agree	Strongly agree	Total
I believe the tax authority has limited capability to investigate all income reported to them, so I have an opportunity to not report my exact income	25(71.4%)	6(17.1%)	0	1(2.9%)	3 (8.6%)	35(100%)
I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low	20(57.1%)	5(14.3%)	1(2.9%)	3(8.6%)	6(17.1%)	35(100%)
My relatives do not comply and they have never been penalized	17(48.6%)	10(28.6%)	1(2.9%)	1 (2.9%)	6(17.1%)	35(100%)
Since the supporting documents do not need to be sent to the IRA, I can manipulate the figure in the tax return	13(37.1%)	19(54.3%)	0	0	3 (8.6%)	35 (100%)

Source: post-experiment responses and own computations

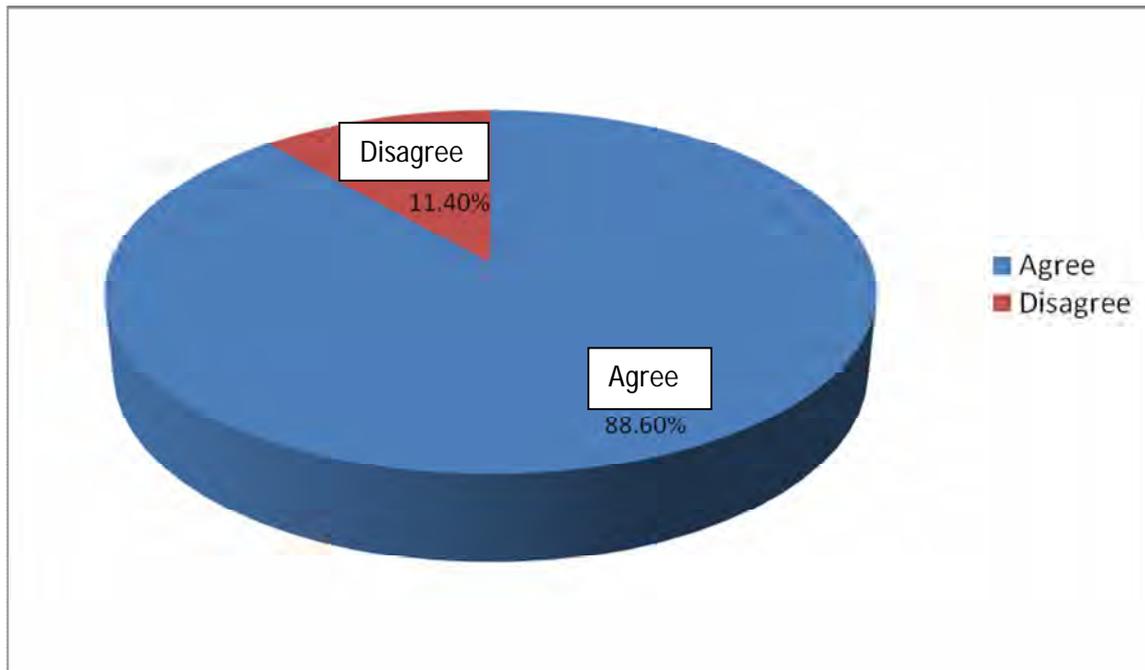
Table 4.17 Mean score comparison reason for not complying

Questions	Before treatment	After treatment
I believe the tax authority has limited capability to investigate all income reported to them, so I have an opportunity to not report my exact income	3.97	1.6
I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low	4	2.14
Since the supporting documents do not need to be sent to the IRA, I can manipulate the figure in the tax return	3.91	1.88
My relatives do not comply and they have never been penalized	3.74	2.11

Source: pre & post- experiment responses and own computations, **1 represents strongly disagree, 2= disagree, 3=not certain, 4=agree, & 5=strongly agree**

Finally, at the end of the experiment, one additional question is asked to the respondents in order to check whether they are influenced to obey the tax laws because of the tax education. As a result, except 4 (11.4%) respondent as shown in figure 4.6 below, the rest (31 or 88.6%) agree that they are influenced by the tax education to be more eager to obey the tax laws. This shows that the provision of tax education influenced the tax compliance attitude of these majorities of respondents

Figure 4.6 I am more eager to obey the tax laws



Source

: post-experiment responses and own computations

To conclude on this stage, it was hypothesized that; taxpayers who have attended tax course are more compliant than taxpayers who didn't attend tax course. Therefore, as it is expected the tax compliance attitude of respondents after attending the tax course is better than before attending the tax course.

4.2.2. Survey results

In this part, as it is stated above, the results of survey method which is the complementary method for the principal experimental method are presented. Here, real tax payers are used as participants. This is because; the experimental method of data collection used students as participants who don't have any experience in paying taxes. Therefore, in order to supplement the results of the experimental method, the survey method is used. Self administrated questionnaires are used as method of data collection. The response rate, background of respondents, results regarding tax knowledge, and results regarding tax compliance are discussed in the following sub – sections.

4.2.2.1. Response rate

150 questionnaires were distributed to business profit taxpayers who were found in Addis Ababa which are categorized as category A, B, & C. Out of these questionnaires, 123 are returned which accounts a response rate of 82%.

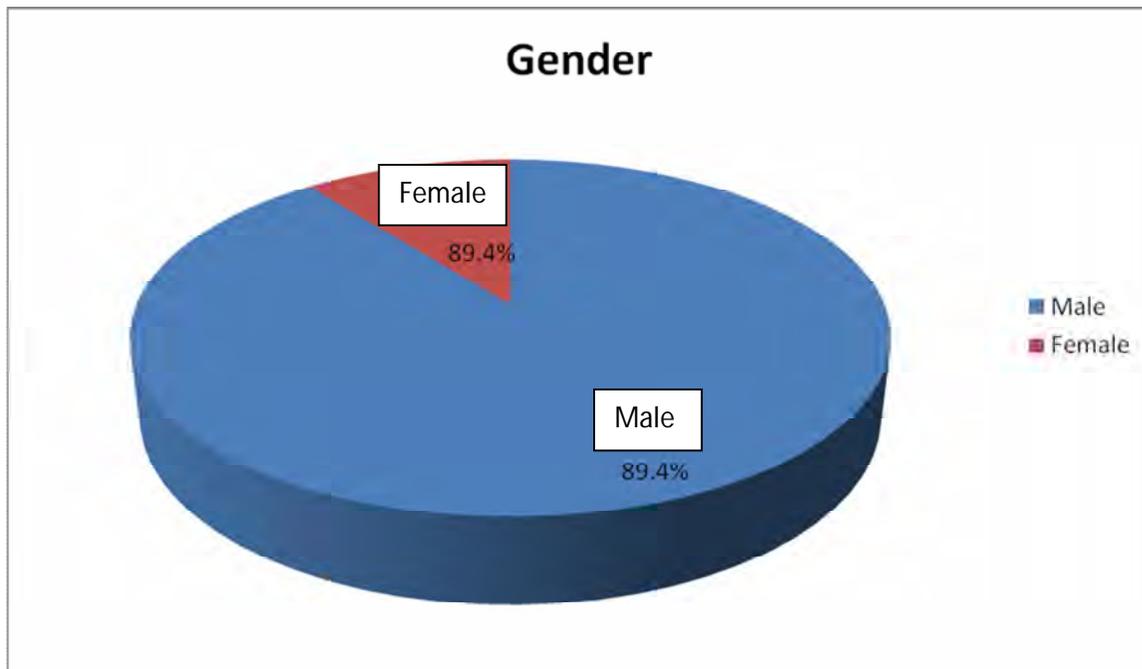
4.2.2.2. Background of the respondents

As figure 4.7 indicates, out of the 123 respondents, 110 (89.4%) respondents are male and the rest 13 (10.6%) are female. There were 54 (43.9%) and 45 (36.5%) respondents who are followers of Christianity and Islam respectively as Figure 4.9 below shows. The rest 24 (19.6%) respondents are other religion followers. The respondents are owners of the business organization.

There are 11(8.9%) respondents aged less than 35 years, 86 (69.9%) respondents from 36 to 50 years and 26 (21.2%) respondents above 50 years (Figure 4.8).

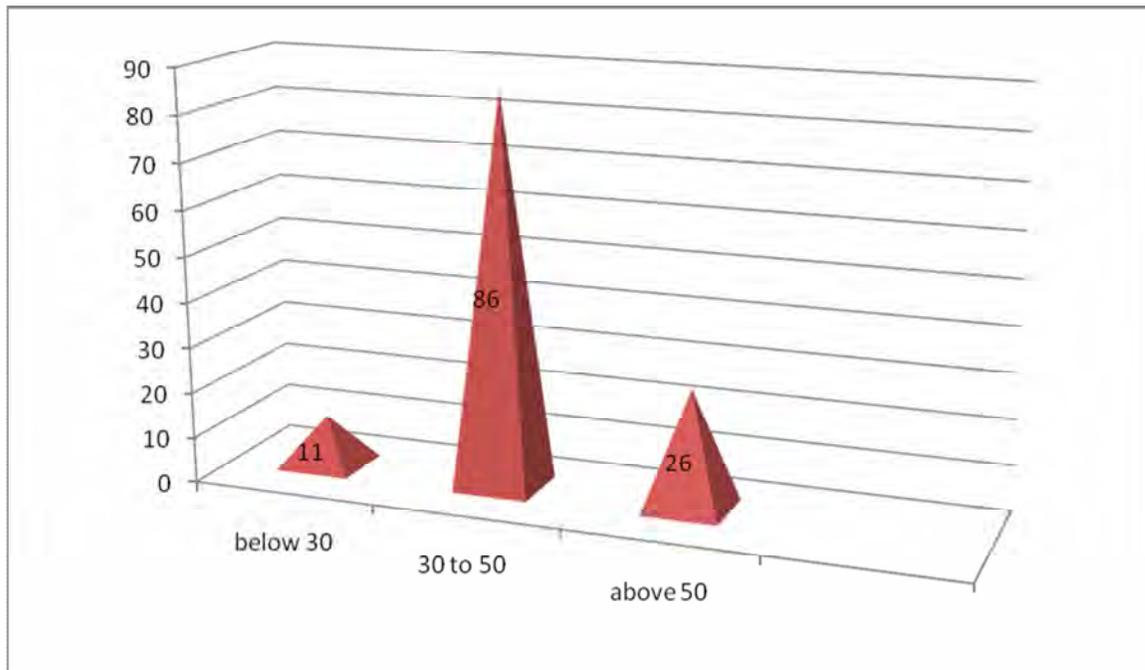
Figure 4.10 below clearly shows that the respondents are comprised of: 8 (6.5%) non educated, 37 (30.08%) who completed primary school, 44 (35.7%) who completed secondary school, 21 (17.07%) respondents who have certificate/diploma and 13 (10.65%) respondents who have BA/BSc degree.

Figure 4.7 Gender of Survey respondents



Source: survey responses and own computations

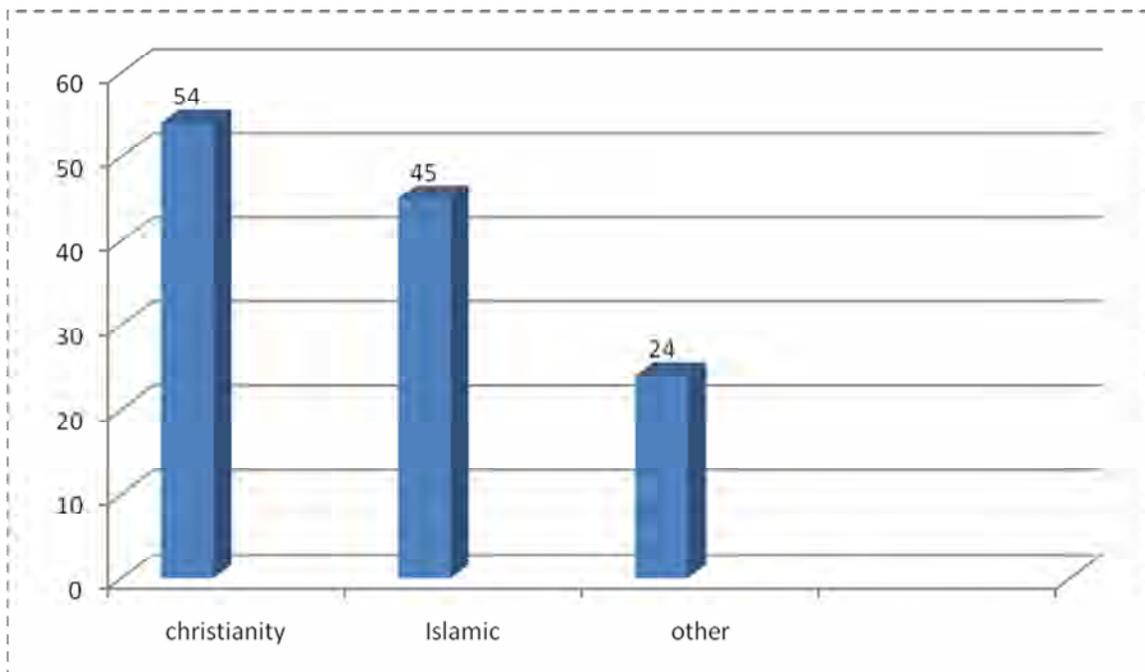
Figure 4.8 Age distribution of survey respondents



Source

: survey responses and own computations

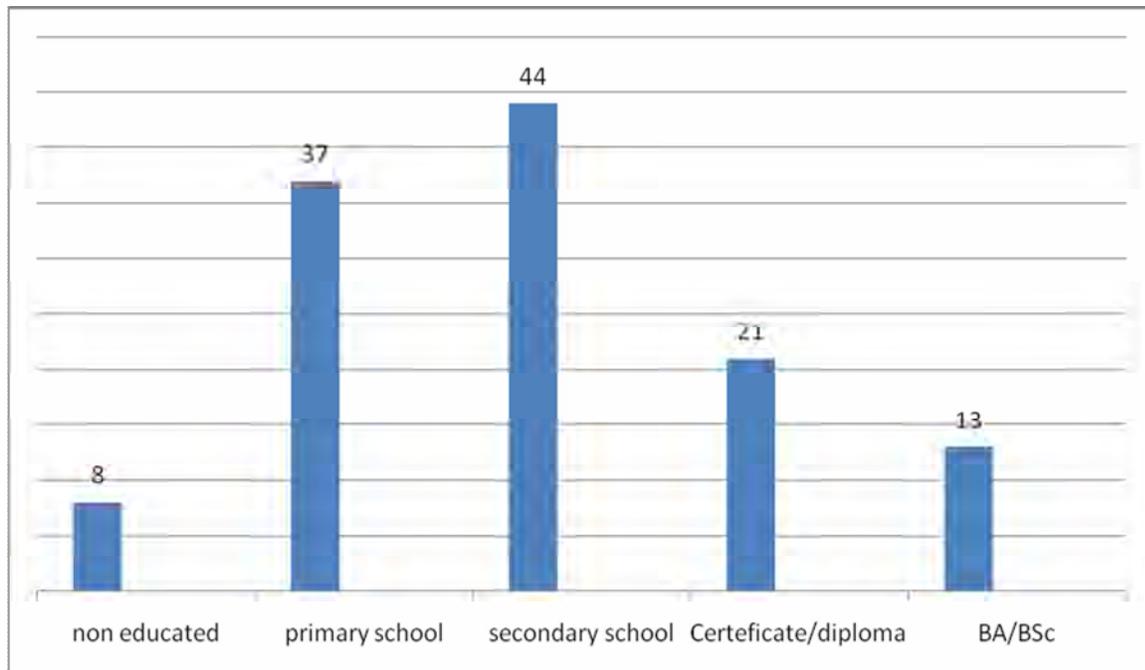
Figure 4.9 Religion of survey respondents



Source

: survey responses and own computations

Figure 4.10 Education levels of survey respondents



Source

: survey responses and own computations

4.2.2.3. Results regarding level of tax knowledge

As it is stated above, there are three parts in this section. The first one is regarding the general responsibilities of tax payers. Respondents are required to state whether they know, didn't know or not sure about the three listed responsibilities of tax payers. 89.4% (110) of the respondents know that informing and declaring actual income received from all sources to the tax authority is the responsibility of tax payers but the remaining 10.6% (13) of the respondents didn't know about this responsibility. One of the responsibilities that tax payers must fulfill is informing and declaring all incomes received from all sources to the concerned body which tax authority. Therefore as the figure indicates that, large portion of the tax payers have knowledge of this

responsibility. As table 4.18 below shows that 65 respondents which account 52.8% of the total know that tax payers are responsible to keep records/documents pertaining to income and expenditure for a period of ten years after submission of the tax return. Tax payers are responsible to keep necessary records or documents regarding to income and expenditure for a period of 10 years after submission of the tax return to the authority. The majority portion knows this as the responsibility of the tax payer. As it is clearly shown in table 4.18 below, only 3 (2.4%) respondents didn't know that tax payers are responsible to pay taxes due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period. Tax payers are also responsible to pay taxes due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period. Almost all respondents have knowledge about this responsibility. To summarize the results of this part, based on the figures obtained, taxpayers have good knowledge of general responsibilities of a tax payer. Being aware of such responsibilities may help a tax payer to comply with tax laws. But knowing these responsibilities doesn't mean that tax payers will always comply with tax laws. This is because there may be non compliant tax payers who have enough knowledge about responsibilities of tax years.

Table 4.18 tax payer responsibilities

Statements	Know	Not sure	Didn't know	Minimum	Maximum	Mean	Std. Deviation	Total
inform and declare actual income received from all sources to the tax authority	110(89.4%)	0	13(10.6%)	1.00	3.00	1.21	.61	123(100%)
Keep records/documents pertaining to income and expenditure for a period of ten years after submission of the Tax Return	65(52.8%)	24(19.6%)	34(27.6%)	1.00	3.00	2.25	.86	123(100%)
pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	120(97.6%)	0	3 (2.4%)	1.00	3.00	1.04	.30	123(100%)

Source: survey responses and own computations

The second part of this section is concerning types of income. Questions regarding employment income, business income, turn over tax, and excise and value added taxes are asked in this part. All (100%) respondents state that basic salary must be included in taxable income. It is obviously known that basic salary is a taxable income. As it is indicated in table 4.19, 98 (79.7%)

respondents state that hardship allowance must be included in the taxable income. But only 15 (12.2%) respondents says that this allowance must not be included in the calculation of the taxable income and the rest 10 (8.1%) respondents are not sure about the inclusion of this allowance. Hardship allowance is a sum of money which is given to an employee to compensate for an inconvenient circumstances caused by the employer, this allowance must be excluded in the taxable income. Majority (63.4%) of the respondents says that commission is an income that must be included in taxable income but 36 (29.2%) respondents' states that commission is an income that must be excluded from the taxable income. The remaining nine respondents are not sure about the inclusion of this type of income. Commission is remuneration to an employee for his/her additional activity required by the employee and this income must be included to the taxable income. As it can be seen from the table 4.19, large portion (77.2%) of the respondent's states that overtime earning must be included in the taxable income. As overtime earning is the amount of money payable to an employee for overtime work performed during a specific payroll period, this income must be included in calculating income which is subject to tax.

Table 4.19 income that must be included in taxable income

Income	wrong	Not sure	Correct	Maxi mum	Mini mum	Mean	Std. Deviation	Total
Basic salary	0	0	123(100%)	1	3	3.0	.00	123(100%)
Hardship allowance	15(12.2%)	10(8.1%)	98 (79.7%)	1	3	2.67	.68	123(100%)
Commission	36(29.2%)	9 (7.4%)	78 (63.4%)	1	3	1.65	.90	123(100%)
Overtime earning	23(18.7%)	5 (4.1%)	95 (77.2%)	1	3	2.58	.78	123(100%)

Source: survey responses and own computations

Respondents are also asked to state whether the direct cost of producing the income, such as the direct cost of manufacturing, purchasing and selling costs shall be deductible from gross income in calculating taxable business income. 74.8% (92) respondents agree with the deduction of direct cost of manufacturing from gross income in calculating taxable business income. Only 23 (18.7%) respondents didn't agree with the deduction of this cost from gross income and the rest 8 (6.5%) respondents are not sure about this deduction. Direct cost of producing the income is an expense incurred to earn the income therefore this amount must be deducted from the earned income to determine the taxable income. Thus, majority of the respondents agree with this deduction. As table 4.20 below shows that 89 (72.4%) respondent's state that commissions paid for services rendered to the business shall not be deducted from the amount of gross profit while determining taxable business income whereas 26 (21.1%) respondents state this amount must be deducted. The rest respondents are not sure about the deduction. In fact commission paid for services rendered to the business is one of the amounts that can be deducted to calculate taxable business income. But as the result shows that majority of the respondents do not have the knowledge of deducting this amount from the gross profit. Respondents are also asked to state whether general expenses connected with the personal activity of the business owner shall be deducted from gross income to determine taxable business income. As a result, 88 (71.5%) respondents didn't agree with the deduction, 8 (6.5%) respondents are not sure about the deduction and the remaining 27 (22%) respondents agree with the deduction of this amount from the gross profit to calculate taxable income. General expenses incurred in connection with the personal activity of the business owner must not be deducted from the gross profit to determine taxable income of a business. This is based on the business entity concept that states activities of the business must be separately recorded from the activities of the business owner. As a result,

almost 71.5 % of the respondents understood this concept and that is why they agree with the deduction of these expenses from gross profit.

Table 4.20 deductible expenses from gross income in calculating taxable business income:

Expenses	Wrong	Not sure	Correct	Mini mum	Maxi mum	Mean	Std. Deviation	Total
The direct cost of producing the income, such as the direct cost of manufacturing, purchasing and selling costs	23(18.7%)	8(6.5%)	92(74.8%)	1	3	2.56	.79	123(100%)
Commissions paid for services rendered to the business	89(72.4%)	8 (6.5%)	26 (21.1%)	1	3	1.48	.82	123(100%)
General expense connected with the personal activity of the business owner	88(71.5%)	8 (6.5%)	27 (22%)	1	3	2.00	.97	123(100%)

Source: survey responses and own computations

From the total respondents, 94.3% correctly states that turn over tax is payable on goods sold and services rendered by persons not registered for VAT and the rate is 2% on goods sold locally and 2% on contractors, grain mills, tractors & combine harvesters & 10% on other services rendered locally and 5 (4.1%) respondents are not sure about this type of tax. Only 2 (1.6%) respondents state that this is wrong statement. The same result is obtained regarding excise tax i.e. 116

(94.3%) respondents correctly state that excise tax is imposed on luxury goods, goods that are hazardous to health and basic goods such as vehicles, jewelers, perfumes, alcoholic products, tobacco products, salt, and textile products. When we see the mean score of the above two questions, it is 2.92 (table 4.21 below) which is near to three i.e. the value given for selecting if they agree the statement is correct. Therefore, from this value we can understand that the respondents have good knowledge in respect of these above two questions. 91.9% (113) of the total respondents agree that a VAT registered person is required to issue the VAT invoice to the purchaser of goods or services upon the supply or rendering, but not later than 5 days after the transaction, 8 (6.5%) respondents are not sure and the remaining 2 respondents which account 1.6% says that this is wrong statement. The mean score of results for this question is 2.90 to mean the majority of the respondents' state that this statement is a correct statement. Another question regarding maintaining of accounting records of a VAT registered person is also asked to respondents. As a result, 66.7% (table 4.21) of the total respondents agree that a VAT registered person shall maintain accounting records, original tax invoice received by the person and copy of all tax invoices issued by the person for 10 years. But 8 (6.5%) respondents didn't agree with this requirement of maintaining accounting records by the VAT registered person. Here also the mean score of result for this question is 2.60 which can be considered as the respondents have enough knowledge concerning this question. Generally, the tax payers' have good knowledge regarding employment income, business income, turnover, excise and value added taxes.

Table 4.21 Turnover, Excise and Value added Tax

Statements	wrong	Not sure	correct	Mini mum	Maxi mum	Mean	Std. Deviati on	Total
Turn over tax is payable on goods sold and services rendered by persons not registered for VAT.	2(1.6%)	5 (4.1%)	116(94.3%)	1	3	2.92	.31	123(100%)
Excise tax is imposed on luxury goods, goods that are hazardous to health and basic goods.	2 (1.6%)	5 (4.1%)	116(94.3%)	1	3	2.92	.31	123(100%)
A VAT registered person is required to issue the VAT invoice to the purchaser of goods or services	2 (1.6%)	8 (6.5%)	113(91.9%)	1	3	2.90	.34	123(100%)
A VAT registered person shall maintain accounting records, original tax invoice received	8 (6.5%)	33(26.8%)	82 (66.7%)	1	3	2.60	.61	123(100%)

Source: survey responses and own computations

The third part of this section is related with awareness of offences, penalty and compounds. In this part respondents are required to state whether they are aware, unaware or not sure about the

penalties and their compound about offences of different types of tax. The major portions of the respondents, 89.4%, are aware about the penalty of Br. 1,000 for the first 30 days of non declaration if a tax payer fails to file a timely tax declaration. Only 9 (7.3%), as shown in table 4.22 below, respondents are unaware about this penalty and the rest 4 (3.3%) respondents are not sure. When we see the mean score of this result, it is 1.17 (table 4.22 below) which is near to 1. Respondents are required to select 1 if they are aware, 2 if not sure, and 3 if unaware. Therefore, as the mean score of the result indicates that, almost all respondents are aware of this penalty. But only 10 (8.1%) respondents are aware of the penalties of Br. 2,000 for the next 30 days of non declaration and Br. 1,500 for each 30 days thereafter until it is filed. Majorities (56.9%) of the respondents are unaware. The mean score of these results is 2.48 which is near to 3. Thus, this indicates that the respondents' awareness regarding the above two penalties is not good. One of the responsibilities expected from tax payers is to inform and declare actual income received from different sources to the tax authority. If they fail to report the exact amount of income they earned there will be a penalty for understatement of income tax. If a tax payer understates amount of tax which is considered not substantial, the tax payer is liable for a penalty of 10% of the understatement but if the understated amount is considered as substantial, the penalty will be 50% of the understatement. 65% (80) of the respondents are unaware about these penalties for understatement of income tax. The mean score of the results is 2.49 which is near to 3. As it is explained above, the numbers 3 indicates that the respondents are unaware, 2 not sure and 1 aware. Therefore, it is possible to summarize that the respondents are unaware about the penalties and their compound for the understatement of income tax. Category "A" & category "B" tax payers are required to maintain proper books of accounts, records and other documents regarding a certain tax year. If they fail to do this, the penalty will be 20% of the tax assessed or

determined by the tax authority. Only 18 (14.6%) tax payers are aware about this penalty. If the above category tax payers fail to fulfill the requirement for two consecutive tax years, the license of the tax payer will be suspended. But only 16 (13%) respondents are aware, 54 (43.9%) are not sure and the rest 53 (43.1%) are unaware of this penalty. When we see the mean score for this result it is 2.30. Here also majority of the respondents are unaware of these above penalties regarding failure to maintain proper books of accounts, records and other documents regarding a certain tax year.

Table 4.22 penalties for late payment, understatement of income tax failure to keep proper record

Statements	Aware	Not sure	Un aware	mini mum	maxi mum	mean	Std. Deviati on	Total
A tax payer who fails to file a timely tax declaration is liable to pay a penalty of Br. 1,000 for the first 30 days of non declaration	110 (89.4%)	4 (3.3%)	9(7.3%)	1	3	1.17	.54	123 (100%)
A tax payer who fails to file a timely tax declaration is liable to pay a penalty of Br. 2,000 for the next 30 days of non declaration and Br. 1,500 for each 30 days thereafter until it is filed	10 (8.1%)	43 (35%)	70 (56.9%)	1	3	2.48	.64	123 (100%)
A tax payer is liable for a penalty in the amount of 10% and 50% of the understatement if the understated amount of tax is considered not substantial & substantial respectively.	19 (15.4%)	24 (19.5%)	80 (65%)	1	3	2.49	.75	123 (100%)
If category “A” or category “B” tax payer fail to maintain proper books of accounts, records and other documents regarding a certain tax year, the penalty is 20% of the tax assessed(determined) by the tax authority	18 (14.6%)	56 (45.5%)	49 (39.8%)	1	3	2.25	.69	123 (100%)
If category “A” or category “B” tax payer has failed to maintain proper books of accounts, records and other documents regarding a certain tax year for two consecutive tax years, the license of the tax payer will be suspended	16 (13%)	54 (43.9%)	53 (43.1%)	1	3	2.30	.68	123 (100%)

Source: survey responses and own computations

There are also penalties related with VAT. If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration. For this type of penalty, majority (81.3%), as shown in table 4.23, of the respondents are aware of this penalty. This may be because of the reason that VAT registration and the penalties for offences made is becoming a hot issue in our country especially in Addis Ababa. Therefore, tax payers may become somewhat aware of the registration process and the penalty that they are liable if they try to make some offences regarding VAT legislations. The other penalty in relation to VAT is, if any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction. Now also only 25 (20.3%) tax payers are unaware. But the large portion of the respondents, 58 (47.2%) tax payers, are aware and 40 (32.5%) tax payers are not sure of such penalty. The mean score of this result is 1.73 (table 4.23). Therefore, even though only two questions are asked regarding penalty in relation to VAT, the level of awareness of tax payers based on the results obtained is good. Only 10 (8.1%) respondents are aware that a turn over tax payer who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month, during which the failure continues, up to 25% of such amount. 88 (71.5%) respondents are unaware and 25 (20.3%) respondents are not sure of this penalty. When we see the mean score for this result it is 2.63. The same result is obtained regarding penalty related with excise tax i.e. 71.5% of the respondents are unaware of the penalty for a person who evades the declaration or payment of excise tax, commits an offence and in addition to any penalty may be prosecuted and be subject to a term of imprisonment of not less than five years but only 8.1% are aware of this penalty. Therefore, as the figures indicates that major portion of the respondents

are unaware of the above two penalties regarding turnover tax and excise tax. To sum up the results of this part, the tax payers are unaware of majority of the penalties and their compound.

Summary of results regarding level of tax knowledge of taxpayers are as follows;

- ❖ Taxpayers have good knowledge regarding general responsibilities of a tax payer and types of income.
- ❖ The tax payers are unaware of majority of the penalties and their compound.

Table 4.23 penalties in relation to VAT, turn over tax and excise tax

Statements	Aware	Not sure	Un aware	Min imum	Maxi mum	Mean	Std. Devia tion	Total
If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration	100 (81.3%)	11 (8.9%)	12 (9.8%)	1	3	1.28	.84	123 (100%)
If any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction	58 (47.2%)	40 (32.5%)	25 (20.3%)	1	3	1.73	.77	123 (100%)
A Turn over tax payer who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month, during which the failure continues, up to 25% of such amount	10 (8.1%)	25 (20.3%)	88 (71.5%)	1	3	2.63	.63	123 (100%)
A person who evades the declaration or payment of excise tax, commits an offence and in addition to any penalty may be prosecuted and be subject to a term of imprisonment of not less than five years	10 (8.1%)	25 (20.3%)	88 (71.5%)	1	3	2.63	.63	123 (100%)

Source: survey responses and own computation

4.2.2.4. Results regarding tax compliance

In this section there are a total of 9 questions asked for the real tax payers to determine their tax compliance attitude. Likert five scales are used in this section with 1 if strongly agree and 5 if strongly disagree. Respondents are asked if they would feel guilty when exclude some of their income in completing their tax return. As a result, as it is shown in table 4.24 below, 20 (16.2%) respondents strongly agree and 46 (37.4%) agree that they wouldn't feel guilty. 37 (30.1%) tax payers are not sure about their feeling. The rest 20 (16.2%) respondents disagree that they wouldn't feel guilty if they exclude some of their income when completing their tax return. When we see the mean score of this result, it is 2.54 (table 4.24) which is below three. The assumption used by the researcher in this section is that if the mean score is 3, it is considered as not sure, below 3 as agree and above 3 as disagree. Therefore, majority of the respondents don't feel guilty if they exclude some income while completing the tax return. A tax payer is required to submit supporting documents to the tax authority so that based on the submitted document and the reported statements the tax authority check for accuracy. 31 (26%) respondents agree that since the supporting documents do not need to be sent to the tax authority, they can manipulate the figure in the tax return. But the large portion of the respondents, 44 % disagree with this reason for manipulating the figures in the tax return. The mean score of this result is 3.32. Thus, the majority of the respondents disagree with this reason for manipulation of tax return figures. The respondents are also asked whether they think it is ethically wrong if they exclude small amount of income when they are completing the tax return. As it is shown in the table 4.24 below, 20 (16.2%) respondents agree that excluding small amount while filling the tax return is ethically wrong but the large portion, 58 or 47.2%, of respondents didn't agree that it is ethically wrong to exclude small amount when completing the tax return. This results' mean score is 3.51

which is greater than 3 to be considered as the respondents on average disagree that it is ethically wrong to exclude small amount while completing the tax return.

Table 4.24 tax compliance

Statements	strongly agree	agree	not sure	Disagree	strongly disagree	Minimum	Maximum	Mean	Std. Deviation	Total
I would not feel guilty if I excluded some of my income when completing my tax return	20 (16.3%)	46 (37.4%)	37 (30.1%)	10 (8.1%)	10 (8.1%)	1	3	2.54	1.11	123 (100%)
Since the supporting documents do not need to be sent to the tax authority, I can manipulate the figure in the tax return	9 (7.3%)	23 (18.7%)	37 (30.1%)	27 (22%)	27 (22%)	1	3	3.32	1.21	123 (100%)
I do not think it is ethically wrong if I excludes small amount of income when completing the tax return.	10 (8.1%)	10 (8.1%)	45 (36.6%)	23 (18%)	35 (28%)	1	3	3.51	1.21	123 (100%)

Source: survey responses and own computations

32.5% (table 4.25) of the respondents wish to comply with tax law because they believe that by paying the right amount of tax other people especially the poor will get the benefit. The mean score for this result is 3.5 (table 4.25). 43.9% respondents agree that if they don't comply with the tax laws, serious enforcement and penalty by the tax authority may result and because of this they wish to comply. Only 16.2% of the total respondents wish to comply with tax laws because they feel that the tax collected by the government is utilized properly. Here the mean score as it is shown in table 4.25 below is 2.89.

Table 4.25 Reason for compliance

Reasons	strongly agree	agree	not sure	disagree	strongly disagree	Minimum	Maximum	Mean	Std. Deviation	Total
By paying right amount of tax, I believe that other people especially the poor will get the benefit.	15 (12.2%)	25 (20.3%)	20 (16.3%)	31 (25.2%)	32 (26%)	1	3	3.51	1.21	123 (100%)
Serious enforcement and penalty by the tax authority may result if I do not comply	24 (19.5%)	30 (24.4%)	24 (19.5%)	25 (20.3%)	20 (16.3%)	1	3	3.32	1.37	123 (100%)
I feel that the tax collected by the government is utilized Properly.	9 (7.3%)	11 (8.9%)	34 (27.6%)	36 (29.3%)	33 (26.8%)	1	3	2.89	1.37	123 (100%)

Source: survey responses and own computations

35.7%, as shown in table 4.26 below, of the respondents wish not to comply with tax laws because there is very weak enforcement. The mean score of these results is 3.12 (table 4.26) Major portions of the respondents who account 54.5%; wish not to comply with the tax law because they believe that the probabilities of being detected by the tax authority for not declaring the exact income are low. 65.1% of the respondents wish not to comply with tax laws because they have friends who do not comply and never penalized. This shows that tax payers can be influenced for not complying with tax laws by the action of their friends and/or because they believe that there is low probability of being detected by the tax authority for not declaring the exact income.

Table 4.26 reason for not complying

Reasons	strongly agree	agree	not sure	disagree	Mini mum	Maxi mum	Mean	Std. Deviation	strongly disagree	Total
The enforcement is very weak	18 (14.6%)	26 (21.1%)	26 (21.1%)	29 (23.6%)			3.12	1.34	24 (19.5%)	123 (100%)
I believe that the probability of being detected by the tax authority for not declaring the exact income are low	46 (37.4%)	21 (17.1%)	32 (26%)	6 (4.9%)			2.42	1.40	18 (14.6%)	123 (100%)
My friends do not comply and they have never been penalized	60 (48.8%)	20 (16.3%)	29(23.6 %)	5 (4.1%)			2.04	1.24	9 (7.3%)	123 (100%)

Source: survey responses and own computations

4.2.2.5. Summary of major survey findings

The survey results can be summarized as follows;

- ❖ The taxpayers' level of knowledge concerning general responsibilities and types of income is good.
- ❖ Generally, the taxpayers are unaware of majority of the penalties and their compounds for offences made.
- ❖ Majority of the taxpayers wish not to comply with the tax law because they believe that the probabilities of being detected by the tax authority for not declaring the exact income are low and because they have friends who do not comply and never penalized.

4.3. Analysis of results

This section is organized in two sub sections. The first sub- section deals with the analysis of results regarding tax knowledge and the second sub-section presents the analysis of results regarding tax compliance. The results of both experiment and survey methods are analyzed under the following two sub-sections.

4.3.1. Analysis of results regarding tax knowledge

Results of experiment design indicate that, the respondents before attending the tax education are unaware of the general responsibilities and rights of taxpayers and their general knowledge regarding types of income is limited. In contradict to this, the survey result shows that, taxpayers have good knowledge about the general responsibilities and types of income. Being the taxpayers aware of such responsibilities may help them to comply with tax laws. But becoming aware of

these responsibilities doesn't mean that tax payers will always comply with tax laws. This is because there may be non compliant tax payers who have enough knowledge about responsibilities of tax years.

The same results are obtained concerning offences and penalties. According to experiment results, almost all respondents are unaware of offences and their penalties. Based on these results, it can be inferred that, those taxpayers who didn't took formal tax course or who didn't attend any tax awareness programs may have poor tax knowledge. The same results are obtained under survey design regarding offences, penalties and their compounds. The survey result reveals that, majority of taxpayers are unaware of the different type of penalties for offences made. This result is similar to the result obtained from the experiment design. Thus, taxpayers may enter in to offences because of lack of awareness of the penalties and their compounds for what they committing. As Mohamad et al. (2011) states that, taxpayers might reduce their tendency to evade tax if they are aware of the offences they are committing when evading tax and the consequences of being non compliant taxpayers. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus, awareness building programs for the taxpayers may be necessary to solve the lack of awareness that majority of the taxpayers are having.

After the respondents of the experiment design are exposed to the treatment i.e. tax education, there is better knowledge regarding the general responsibilities and rights of taxpayers. This indicates that, it is possible to improve the tax knowledge of taxpayers by letting them to attend some tax education. It is also indicated that the respondent's knowledge about types of income and the level of awareness on offences and penalties is better after tax education is provided to

the respondents than before they are exposed to the treatment. Thus, by educating and keeping taxpayers well informed, their knowledge can be positively influenced. Therefore, as the taxpayers are becoming well informed of their responsibilities and rights as well as the penalties they will bear if they commit some offences, they may have positive tax compliance attitude. According Kasipillai et al. (2003), greater education potentially increases compliance, as educated taxpayers may be more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. The survey result of Demissie (2008) reveals that tax payer's poor knowledge of tax rules and regulations is the most deterring factor of voluntary compliance. Therefore, improving taxpayer's poor knowledge about tax rules and regulations is important to have a better voluntary compliance by the taxpayers. Eriksen and Fallan (1996) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. Thus, in order to improve the tax knowledge it is important to educate taxpayers about the tax rules and tax regulation. Mohamad et al. (2011) states that educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure.

4.3.2. Analysis of results regarding tax compliance

It is revealed from the experimental design that, majority of the respondents don't have willingness to comply with tax laws because they believe that there is low probability of being detected by the tax authority for not declaring. In addition to this, majority of the respondents wish not to comply with the tax laws because they believe that the tax authority have weak capacity in order to investigate the correct amount of income that must be reported. This indicates that the respondents have negative attitude towards tax compliance. Thus, they have a tendency to evade tax. According to Jackson and Milliron (1986), tax ethics and attitudes

towards tax compliance have an influence on the inclination towards tax evasion. The result of the experiment also reveals that majority of the respondents before attending the tax course wish not to comply with tax laws because they have relatives who didn't comply and never been penalized. This shows that, there may be taxpayers who wish not to comply with tax laws because of the influence of their relative's action. Almost the same results are obtained from survey design. Majority of the taxpayers are wishing to not comply with tax laws because they believe that the probabilities of being detected by the tax authority for not declaring the exact income are low and because they have friends who do not comply and never penalized. Therefore, those taxpayers who are non compliant have poor awareness regarding the probability of being detected by the tax authority for the offences they are committing. Taxpayers can be influenced to become non compliant by actions of their relatives and/or friends who didn't comply and never been penalized.

The post test results of the experiment shows that, the respondents wish to comply with tax laws. This is because, as stated in the above discussion, the level of awareness regarding offences and their penalties and the possibility of being investigated by the tax authority's audit practice is improved after attending the tax course. In general, because the tax knowledge of the respondents becomes better than before the treatment, they show a tendency of complying with tax laws. Thus, as Eriksen & Fallan (1996) states, knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment. Hence, if improvement in taxation knowledge is important in enhancing the attitude of taxpayers towards tax compliance and if, as described above, providing

tax education helps to enhance taxation knowledge, it is possible to conclude that tax education positively influences tax compliance attitude of taxpayers.

To conclude on the analysis of both survey and experiment results, as it is hypothesized before, tax knowledge of individual taxpayers can be improved by educating and keeping them well informed of tax rules and regulations. This result is in line with results of Singh (2003) that states the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation. It is also evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them. It was also hypothesized that tax education positively influenced tax compliance attitude of tax payers. Thus, the results reveal that, tax compliance attitude of tax payers is positively influenced by tax education. This result is also in line with studies by Eriksen and Fallan (1996) who suggested that to improve perceptions of fairness, tax ethics and attitudes, a taxpayer should be given better tax knowledge. They also suggest that, successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system. According to them, it would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools.

Chapter Five: Summary of findings, Conclusions and Recommendations

This chapter summarizes the results of the study and forwards possible recommendations.

5.1. Summary of findings

The following are the summary of the findings.

- ❖ Majority of the experiment respondents are unaware of their responsibilities and rights as tax payers or disinclined to accomplish these responsibilities, unable to exactly identify taxable and non taxable types of income, and unaware of offences and their penalties & compounds before the tax course is provided. After the course is completed, majority of respondents improve their level of tax knowledge in general.
- ❖ The survey result on the other hand reveals that, the taxpayers have good knowledge of general responsibilities of a taxpayer and types of income but they have weak level of awareness on the majority of penalties and their compounds for offences made.
- ❖ The tax compliance attitude of the majority of the experiment respondents before attending the course was negative. But after the provision of the tax course, they show positive attitude to comply with tax laws.

5.2. Conclusions

The primary objective of this study is to examine whether tax education influences the tax compliance attitude of tax payers. In order to achieve this objective, the study used quantitative research approach. Among the methods of quantitative approach, experiment and survey method of data collection was adopted. From the two approaches of experimental research, within-subjects design is employed in this study.

Based on the results obtained, the following conclusions are made:

- Greater parts of respondents before attending the tax course were unaware of the responsibilities and rights as tax payers, they had weak knowledge about the types of income included and excluded in/ from taxable income and categorization of tax payers, and they were not also well informed of the different offences and their penalties & compounds. Therefore, the experiment respondents had very weak knowledge about tax before the treatment is provided to them.

- The tax compliance attitude of those respondents who didn't attend tax course is negative. The majority of such respondents show their attitude not to comply with the tax laws because of lack of awareness on the importance of paying the write amount of tax on countries development and the penalties that can be imposed for not complying with the tax laws of the country. Hence, tax non compliance attitude is associated with lack of tax knowledge.

- The tax knowledge of majority of the respondents is improved after the provision of tax course. Greater parts of respondents before attending the tax course had weak general tax knowledge. But, because of attending the tax course, majority of the respondents show improvement in their general knowledge about tax. Thus, providing tax course or tax awareness programs or workshops for actual tax payers can improve their general tax knowledge.

➤ Majority of the respondents after attending the tax course show a positive attitude to comply with the tax laws. There is great difference between the tax compliance attitude of these respondents before and after attending the tax course. Before attending the tax course, majority of respondents show plan of not complying with tax laws. But after attending the tax course, the largest part of the respondents proves their willingness to comply with tax laws. As it is explained in the above paragraph, the tax knowledge of respondents is improved after attending the tax course. The tax compliance attitude of majority of respondents is also improved after provision of tax course. Therefore, it can be conclude that the tax compliance attitude of tax payers can be improved by enhancing their tax knowledge and one of the mechanisms to enhance knowledge is providing tax education to the targeted group. Providing the tax education can take different forms.

5.3. Recommendations

The following possible recommendations can be used by policy makers in order to make a sound policy in relation to providing tax education as a means of reducing tax payers' non compliance attitude:

◆ If tax non compliance attitude is improved because of the provision of tax education, the ministry of education has to think this relationship and try to include the public finance and taxation course in the curriculum of all departments. This is because, tax is one of the major sources of revenue for a government which is used in general to finance public expenditures and if tax education influences tax compliance attitude of tax payers, the tax course (similar to civics and ethics) must be provided as a common course for all

students. The course public finance and taxation is provided only for business students in Ethiopian universities. As students of other departments will be also tax payers after completion of their study, the public finance and taxation course must be included in all these departments. Therefore, the ministry of education should have to give attention for this positive relationship between tax education and tax compliance.

❖ Because there is positive relationship between tax education and tax compliance attitude, the Ethiopian tax authority must frequently provide tax awareness programs for tax payers in order to reduce their tax non compliance attitude. This positive relationship could be considered as a key input for the authority in:

- Increasing taxpayers' awareness regarding tax matters
- Designing the best mechanism of delivering the latest information on tax regulations (i.e. advertisements in media, websites, brochures and customer services desks), and
- Communicating effectively and efficiently current changes in tax laws.

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Appendix 1- Pre- experiment questionnaire

Addis Ababa University
School of raduate Studies
Master of Accounting and Finance Program

The purpose of this study in general and this questionnaire in particular is to study on “**The influence of education on tax compliance**” as a partial requirement for the MSc degree in Accounting and Finance. The outcomes of this study will help policy makers and tax authorities, particularly Ethiopian Revenue and Customs Authority (ERCA), with a deeper understanding of the compliance behavior of their clients’ (i.e., taxpayers) and to identify strategies that help in fostering the level of voluntary compliance. This research is intended only for academic purpose authorized by the Addis Ababa University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised is of paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. You should choose the answer you think is correct according to your understanding. **There is no need to look up answers to make sure they are correct – I want to know what you know** - it is not a test. The quality and quantity of information you provide determines the ultimate reliability of the study.

To create a conducive environment for your free and genuine responses, you are not required to write your name.

Thank you in advance for your cooperation and prompt response!

Contact Address

If you have any questions or concerns about completing the questionnaire or about being in this study, you may contact me at the following address:

zelalem Berhane

Cell phone: 091-1-81-84-15

E-mail: zelalem.berhane@yahoo.com

SECTION A – PERSONAL BACKGROUND

1. Gender

- A. Male
- B. Female

2. Age

- A. Under 25
- B. 26 - 35
- C. Above 35

3. Highest level of education

- A. Certificate/diploma
- B. BA/BSc degree
- C. Postgraduate degree

4. Your religion?

- A. Christian
- B. Islam
- C. Other
- D. Non-believer

SECTION B – TAX KNOWLEDGE

This section consists of Part **B1 to Part B3**. Please read each statement carefully and answer **(circle)** according to your knowledge.

PART B1-(TAXPAYER GENERAL RESPONSIBILITIES AND RIGHTS)

For each question in this part, please circle:

- 1 If you think you will **DEFINITELY DO**
- 2 If you think you will **PROBABLY DO**
- 3 If you are **NOT SURE** either do or not to do
- 4 If you think you will **PROBABLY NOT DO**
- 5 If you think you will **NEVER DO**

The following are my responsibilities and rights as taxpayers:

		Will do			will not do	
5		1	2	3	4	5
5	To inform and declare actual income received from all sources to the tax authority					
6	To keep records/documents pertaining to income and expenditure for a period of ten years after submission of the Tax Return					
7	To pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period					
8	To obtain a tax payer identification number (TIN)					

PART B2. (TYPES OF INCOME)

For each question in Part B2 to Part B6, please circle:

- 1 If you think the statement is **DEFINITELY WRONG**
- 2 If you think the statement is **PROBABLY WRONG**
- 3 If you are **NOT SURE** about the statement.
- 4 If you think the statement is **PROBABLY CORRECT**
- 5 If you think the statement is **DEFINITELY CORRECT**

1. Employment income

The following income **MUST BE INCLUDED** in taxable income:

		Wrong			Correct	
9	Basic salaries	1	2	3	4	5
10	Commission	1	2	3	4	5
11	Overtime earning	1	2	3	4	5

The following item **MUST BE EXCLUDED** in taxable income:

		Wrong			Correct	
12	Hardship allowance	1	2	3	4	5

2. Business income

The following tax payers are included in **Category “A” tax payers**

		Wrong			Correct	
13	Businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue, and Other businesses having annual sales revenue of Br. 500,000 or more	1	2	3	4	5

The following tax payers are included in **Category “B” tax payers**

		Wrong			Correct	
14	Businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000	1	2	3	4	5

The following tax payers are included in **Category “C” tax payers**

		Wrong			Correct	
15	Businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000.	1	2	3	4	5

PART B 3 - (AWARENESS ON OFFENCES, PENALTY AND COMPOUND)

For the following questions, please circle according to the scale:

- 1 If you think you are **DEFINITELY UNAWARE**
- 2 If you think you are **PROBABLY UNAWARE**
- 3 If you are **NOT SURE** about the statement.
- 4 If you think you are **PROBABLY AWARE**
- 5 If you think you are **DEFINITELY AWARE**

Penalty for late payment of income tax:

A tax payer who **fails to file** a timely tax declaration is liable **to pay a penalty** of

		Unaware			Aware	
16	Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration, and Br. 1,500 for each 30 days thereafter until it is filed	1	2	3	4	5

Penalty for understatement of income tax:

		Unaware			Aware	
17	A tax payer is liable for a penalty in the amount of 10% of the understatement if the understated amount of tax is considered not substantial, and 50% of the understatement if the understated amount of tax is considered substantial	1	2	3	4	5

Penalty for failure to keep proper records:

Failure by category “A” or category “B” tax payer to maintain proper books of accounts, records and other documents regarding a certain tax year results in a penalty of

		Unaware			Aware	
18	20% of the tax assessed(determined) by the tax authority and If the tax payer has failed for two consecutive tax years, the license of the tax payer will be suspended	1	2	3	4	5

Penalty in relation to VAT

		Unaware			Aware	
19	If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration and if any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction	1	2	3	4	5

SECTION C (TAX COMPLIANCE)

Please state your opinion for each given statements using the following scales:

1 Strongly disagree

2 Disagree

3 Not certain

4 Agree

5 Strongly agree

I wish **TO COMPLY** with tax laws for the following reasons:

		Disagree			agree	
20	By paying right amount of income tax, I believe that other people especially the poor will get the benefit	1	2	3	4	5
21	Serious enforcement and penalty by the IRA may result if I do not comply	1	2	3	4	5
22	I feel morally obliged to honestly declare all my tax liabilities	1	2	3	4	5
23	I would not feel guilty if I excluded some of my income when completing my tax return	1	2	3	4	5

I wish **NOT TO COMPLY** with tax laws for the following reasons:

		Disagree			agree	
24	I believe the tax authority has limited capability to investigate all income reported to them, so I have an opportunity to not report my exact income	1	2	3	4	5

25	I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low.	1	2	3	4	5
26	Since the supporting documents do not need to be sent to the IRA, I can manipulate the figure in the tax return	1	2	3	4	5
27	My relatives do not comply and they have never been penalized	1	2	3	4	5

**- END OF QUESTIONNAIRE –
THANK YOU**

Appendix 2- post-experiment questionnaire

Addis Ababa University
School of Graduate Studies
Master of Accounting and Finance Program

The purpose of this study in general and this questionnaire in particular is to study on “**The influence of education on tax compliance**” as a partial requirement for the MSc degree in Accounting and Finance. The outcomes of this study will help policy makers and tax authorities, particularly Ethiopian Revenue and Customs Authority (ERCA), with a deeper understanding of the compliance behavior of their clients’ (i.e., taxpayers) and to identify strategies that help in fostering the level of voluntary compliance. This research is intended only for academic purpose authorized by the Addis Ababa University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised is of paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. You should choose the answer you think is correct according to your understanding. **There is no need to look up answers to make sure they are correct – I want to know what you know** - it is not a test. The quality and quantity of information you provide determines the ultimate reliability of the study.

To create a conducive environment for your free and genuine responses, you are not required to write your name.

Thank you in advance for your cooperation and prompt response!

Contact Address

If you have any questions or concerns about completing the questionnaire or about being in this study, you may contact me at the following address:

zelalem Berhane

Cell phone: 091-1-81-84-15

E-mail: zelalem.berhane@yahoo.com

SECTION A – PERSONAL BACKGROUND

1. Gender

- A. Male
- B. Female

2. Age

- A. Under 25
- B. 26 - 35
- C. Above 35

3. Highest level of education

- A. Certificate/diploma
- B. BA/BSc degree
- C. Postgraduate degree

4. Your religion?

- A. Christian
- B. Islam
- C. Other
- D. Non-believer

SECTION B – TAX KNOWLEDGE

This section consists of Part **B1 to Part B3**. Please read each statement carefully and answer **(circle)** according to your knowledge.

PART B1-(TAXPAYER GENERAL RESPONSIBILITIES AND RIGHTS)

For each question in this part, please circle:

- 1 If you think you will **DEFINITELY DO**
- 2 If you think you will **PROBABLY DO**
- 3 If you are **NOT SURE** either do or not to do
- 4 If you think you will **PROBABLY NOT DO**
- 5 If you think you will **NEVER DO**

The following are my responsibilities and rights as taxpayers:

		Will do			will not do	
5		1	2	3	4	5
5	To inform and declare actual income received from all sources to the tax authority					
6	To keep records/documents pertaining to income and expenditure for a period of ten years after submission of the Tax Return					
7	To pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period					
8	To obtain a tax payer identification number (TIN)					

PART B2. (TYPES OF INCOME)

For each question in Part B2 to Part B6, please circle:

- 1 If you think the statement is **DEFINITELY WRONG**
- 2 If you think the statement is **PROBABLY WRONG**
- 3 If you are **NOT SURE** about the statement.
- 4 If you think the statement is **PROBABLY CORRECT**
- 5 If you think the statement is **DEFINITELY CORRECT**

1. Employment income

The following income **MUST BE INCLUDED** in taxable income:

		Wrong			Correct	
9	Basic salaries	1	2	3	4	5
10	Commission	1	2	3	4	5
11	Overtime earning	1	2	3	4	5

The following item **MUST BE EXCLUDED** in taxable income:

		Wrong			Correct	
12	Hardship allowance	1	2	3	4	5

2. Business income

The following tax payers are included in **Category “A” tax payers**

		Wrong			Correct	
13	Businesses that have separate legal personality (like share company, PLC, public enterprises, public financial agency) regardless of their annual sales revenue, and Other businesses having annual sales revenue of Br. 500,000 or more	1	2	3	4	5

The following tax payers are included in **Category “B” tax payers**

		Wrong			Correct	
14	Businesses that have no separate legal personality and whose sales revenue is between Br. 100,000 and Br. 500,000	1	2	3	4	5

The following tax payers are included in **Category “C” tax payers**

		Wrong			Correct	
15	Businesses that have no separate legal personality and whose sales revenue is estimated up to Br. 100,000.	1	2	3	4	5

PART B 3 - (AWARENESS ON OFFENCES, PENALTY AND COMPOUND)

For the following questions, please circle according to the scale:

- 1 If you think you are **DEFINITELY UNAWARE**
- 2 If you think you are **PROBABLY UNAWARE**
- 3 If you are **NOT SURE** about the statement.
- 4 If you think you are **PROBABLY AWARE**
- 5 If you think you are **DEFINITELY AWARE**

Penalty for late payment of income tax:

A tax payer who **fails to file** a timely tax declaration is liable **to pay a penalty** of

		Unaware			Aware	
16	Br. 1,000 for the first 30 days of non declaration, Br. 2,000 for the next 30 days of non declaration, and Br. 1,500 for each 30 days thereafter until it is filed	1	2	3	4	5

Penalty for understatement of income tax:

		Unaware			Aware	
17	A tax payer is liable for a penalty in the amount of 10% of the understatement if the understated amount of tax is considered not substantial, and 50% of the understatement if the understated amount of tax is considered substantial	1	2	3	4	5

Penalty for failure to keep proper records:

Failure by category “A” or category “B” tax payer to maintain proper books of accounts, records and other documents regarding a certain tax year results in a penalty of

		Unaware			Aware	
18	20% of the tax assessed(determined) by the tax authority and If the tax payer has failed for two consecutive tax years, the license of the tax payer will be suspended	1	2	3	4	5

Penalty in relation to VAT

		Unaware			Aware	
19	If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration and if any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction	1	2	3	4	5

SECTION C (TAX COMPLIANCE)

Please state your opinion for each given statements using the following scales:

1 Strongly disagree

2 Disagree

3 Not certain

4 Agree

5 Strongly agree

I wish **TO COMPLY** with tax laws for the following reasons:

		Disagree			agree	
20	By paying right amount of income tax, I believe that other people especially the poor will get the benefit	1	2	3	4	5
21	Serious enforcement and penalty by the IRA may result if I do not comply	1	2	3	4	5
22	I feel morally obliged to honestly declare all my tax liabilities	1	2	3	4	5
23	I would not feel guilty if I excluded some of my income when completing my tax return	1	2	3	4	5

I wish **NOT TO COMPLY** with tax laws for the following reasons:

		Disagree			agree	
24	I believe the tax authority has limited capability to investigate all income reported to them, so I have an opportunity to not report my exact income	1	2	3	4	5

25	I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low.	1	2	3	4	5
26	Since the supporting documents do not need to be sent to the IRA, I can manipulate the figure in the tax return	1	2	3	4	5
27	My relatives do not comply and they have never been penalized	1	2	3	4	5

My study of tax has influenced my attitude to my own income tax affairs in the following manner:

		Disagree	N.C	agree		
28	I am more eager to obey the tax laws.	1	2	3	4	5

**- END OF QUESTIONNAIRE –
THANK YOU AGAIN**

Appendix 3- survey questionnaire (English version)

Addis Ababa University
School of Postgraduate Studies
Master of Accounting and Finance Program

The purpose of this study in general and this questionnaire in particular is to study on “**The influence of education on tax compliance attitude**” as a partial requirement for the MSc degree in Accounting and Finance. The outcomes of this study will help policy makers and tax authorities, particularly Ethiopian Revenue and Customs Authority (ERCA), with a deeper understanding of the compliance behavior of their clients’ (i.e., taxpayers) and to identify strategies that help in fostering the level of voluntary compliance. This research is intended only for academic purpose authorized by the Addis Ababa University. Thus, your ideas and comments are highly honored and kept confidential.

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Thank you in advance for your cooperation and prompt response!

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zelalem Berhane

Cell phone: 091-1-81-84-15

E-mail: zelalem.berhane@yahoo.com

SECTION A – PERSONAL BACKGROUND

1. Gender

1. Male

2. Female

2. Age

1. under 35 year

2. 36 – 50 year

3. above 50 year

3. Highest level of education

1. Non educated

2. Primary school

3. Secondary school

4. Certificate/diploma

5. BA/BSc degree

6. Postgraduate degree

4. Your religion

1. Christian

2. Islam

3. Other

SECTION B – TAX KNOWLEDGE

Please read each statement carefully and answer (**circle**) according to your knowledge.

PART B1-(TAXPAYER GENERAL RESPONSIBILITIES)

For each question in this part, please circle:

1 If you **KNOW**

2 If you are **NOT SURE** either know or didn't know

3 If you **DIDN'T KNOW**

A tax payer is responsible to:

5	inform and declare actual income received from all sources to the tax authority	1	2	3
6	keep records/documents pertaining to income and expenditure for a period of ten years after submission of the Tax Return	1	2	3
7	pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period	1	2	3

PART B2. (TYPES OF INCOME)

For each question in Part B2, please circle:

- 1 If you think the statement is **WRONG**
- 2 If you are **NOT SURE** about the statement.
- 3 If you think the statement is **CORRECT**

1. Employment income

The following income **MUST BE INCLUDED** in taxable income:

8	Basic salaries	1	2	3
9	Hardship allowance	1	2	3
10	Commission	1	2	3
11	Overtime earning	1	2	3

2. Business income

The following expenses shall be deductible from gross income in calculating taxable business income:

12	The direct cost of producing the income, such as the direct cost of manufacturing, purchasing and selling costs.	1	2	3
13	Commissions paid for services rendered to the business	1	2	3
14	General expenses connected with the personal activity of the business owner	1	2	3

3. Turn over, Excise and Value added Tax

15	Turn over tax is payable on goods sold and services rendered by persons not registered for VAT and the rate is 2% on goods sold locally and 2% on contractors, grain mills, tractors & combine harvesters & 10% on other services rendered locally	1	2	3
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16	Excise tax is imposed on luxury goods, goods that are hazardous to health and basic goods such as vehicles, jewelers, perfumes, alcoholic products, tobacco products, salt, and textile products.	1	2	3
17	A VAT registered person is required to issue the VAT invoice to the purchaser of goods or services upon the supply or rendering, but not later than 5 days after the transaction	1	2	3
18	A VAT registered person shall maintain accounting records, original tax invoice received by the person and copy of all tax invoices issued by the person for 10 years.	1	2	3

PART B 3 - (AWARENESS ON OFFENCES, PENALTY AND COMPOUND)

For the following questions, please circle:

- 1 If you think you are **AWARE**
- 2 If you are **NOT SURE** about the statement.
- 3 If you think you are **UNAWARE**

Penalty for late payment of income tax:

A tax payer who **fails to file** a timely tax declaration is liable **to pay a penalty** of:

19	Br. 1,000 for the first 30 days of non declaration	1	2	3
20	Br. 2,000 for the next 30 days of non declaration	1	2	3
21	Br. 1,500 for each 30 days thereafter until it is filed.	1	2	3

Penalty for understatement of income tax:

22	A tax payer is liable for a penalty in the amount of 10% of the understatement if the understated amount of tax is considered not substantial	1	2	3
23	A tax payer is liable for a penalty in the amount of 50% of the understatement if the understated amount of tax is considered substantial	1	2	3

Penalty for failure to keep proper records:

Failure by category “A” or category “B” tax payer to maintain proper books of accounts, records and other documents regarding a certain tax year results in a penalty of:

24	20% of the tax assessed(determined) by the tax authority	1	2	3
25	If the tax payer has failed for two consecutive tax years, the license of the tax payer will be suspended.	1	2	3

Penalty in relation to VAT

26	If any person engages in taxable transactions without VAT registration where VAT registration is required, the penalty is 100% of the amount of tax payable for the entire period of operation without VAT registration	1	2	3
27	If any person issued incorrect invoice resulting in a decrease in the amount of tax or in the event of failure to issue a tax invoice, the penalty is 100% of the amount of tax for the invoice or the transaction	1	2	3

Penalty in relation to Turn over and Excise tax

28	A Turn over tax payer who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month, during which the failure continues, up to 25% of such amount	1	2	3
29	A person who evades the declaration or payment of excise tax, commits an offence and in addition to any penalty may be prosecuted and be subject to a term of imprisonment of not less than five years	1	2	3

SECTION C (TAX COMPLIANCE)

For each of the following given statements Please circle:

- 1** if you **strongly agree** with the statement
- 2** if you **agree** with the statement
- 3** If you are **not sure** to agree or disagree with the statement
- 4** if you **disagree** with the statement
- 5** if you **strongly disagree** with the statement

30	I would not feel guilty if I excluded some of my income when completing my tax return	1	2	3	4	5
31	Since the supporting documents do not need to be sent to the tax authority, I can manipulate the figure in the tax return	1	2	3	4	5

32	I do not think it is ethically wrong if I excludes small amount of income when completing the tax return.	1	2	3	4	5
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I wish **TO COMPLY** with tax laws for the following reasons:

33	By paying right amount of tax, I believe that other people especially the poor will get the benefit.	1	2	3	4	5
34	Serious enforcement and penalty by the tax authority may result if I do not comply.	1	2	3	4	5
35	I feel that the tax collected by the government is utilized Properly.	1	2	3	4	5

I wish **NOT TO COMPLY** with tax laws for the following reasons:

36	The enforcement is very weak	1	2	3	4	5
37	I believe that the probabilities of being detected by the tax authority for not declaring the exact income are low.	1	2	3	4	5
38	My friends do not comply and they have never been penalized	1	2	3	4	5

**END OF QUESTIONNAIRE
THANK YOU**

Appendix 4: Survey Questionnaire (Amharic Version)

አዲስ አበባ ዩኒቨርሲቲ

የድህረ ምረቃ ትምህርት ቤት

በአካውንቲንግና ፋይናንስ የማስተርስ ፕሮግራም

የዚህ ጥናት እና በተለይም የዚህ መጠይቅ ዋና አላማ በ "ግብርን በአግባቡ ለመክፈል የታክስ ትምህርት ያለውን ግፊት" በሚል አርዕስት ለማከናወኑ ጥናት ግብአት የሚውል ሲሆን ይህም በአካውንቲንግና ፋይናንስና የማስተርስ ዲግሪ ማሟያ ተደርጎ ይወሰዳል። የዚህ ጥናት ውጤት ለህግ አውጪዎችና ለግብር ሰብሳቢ ባለስልጣን በተለይም ለኢትዮጵያ ገቢዎች እና ጉምሩክ ባለስልጣን ግብር ከፋይ ህብረተሰብ ያለበትን ግብር በአግባቡ እና ህግን በተከተለ መልኩ ለመክፈል የታክስ ትምህርት ያለውን ግፊት ለማወቅ ይጠቅማል።

ይህ ጥናት ትምህርታዊ ለሆነ አላማ ብቻ የሚያገለግል ሲሆን በአዲስ አበባ ዩኒቨርሲቲ በኩል የተፈቀደ ነው። ስለዚህም የእርስዎ ሃሳብና አስተያየት በጣም ከፍተኛ ያል ክብር የሚሰጠውና በሚስጢር የሚያዝ ይሆናል። ስለዚህ ይህንን አጠር ያለ መጠይቅ በጥንቃቄና የተቻለዎትን እውቀት በመጠቀም እንዲሞሉ በትህትና እና በላቀ አክብሮት እጠይቃለሁ። ጥራትና ብዛት ያለው መረጃ መስጠት ለጥናቱ ተአማኒነት የበኩሉን ሚና ይጫወታል። ነፃና ግልፅ የሆነ ሃሳብዎን እንዲሰጡን በማሰብ ስምዎትን አይጥቀሱ።

ለሚያደርጉት ትብብርና ፈጣን ምላሽ በቅድሚያ አመሰግናለሁ።

አድራሻ

ለማንኛውም ጥያቄ እባክዎ አቶ ዘላለምን ብለው በሚመለከተው አድራሻ ይጠይቁ።

ተንቀሳቃሽ ስልክ: 0911 81 84 15

ኢ-ሜይል: zeleboy@yahoo.com

ክፍል አንድ፡ የግል መረጃዎን በተመለከተ

1) ያታ

1 ወንድ

2 ሴት

2) ዕድሜ

1 ከ35 አመት በታች

2 ከ36 - 50 አመት

3 ከ50 አመት በላይ

3) የትምህርት ደረጃ

1 ያልተማረ

2 አንደኛ ደረጃ

3 ሁለተኛ ደረጃ

4 ሰርተፊኬት/ዲፕሎማ

5 ሁለተኛ ዲግሪ

4) ሀይማኖት

1 ክርስቲያን

2 ሙስሊም

3 ሌላ _____

ክፍል ሁለት፡ ግብር እውቀት

እባክዎ እያንዳንዱን ጥያቄ በጥንቃቄ ያንብቡና በእውቀትዎ መሰረት መልስዎን ያክብቡ።

ክፍል 2.1፡ የግብር ከፋይ ጠቅላላ ግዴታዎች

ለያንዳንዱ ጥያቄ በዚህ ክፍል፣ እባክዎ አንዱን ያክብቡ፡

- 1 የሚያውቁት ከሆነ
- 2 ለማወቅዎ ወይም ላለማወቅዎ እርግጠኛ ካልሆኑ
- 3 የማያውቁት ከሆነ

የግብር ከፋይ ግዴታዎች

5	ከሁሉም የገቢ ምንጭ የተገኘ ትክክለኛ ገቢ ለገቢዎች ባለስልጣን ማሳወቅ	1	2	3
6	የገቢና ወጭ መዝገብ/መረጃ ግብርን ካሳወቁ በኋላ ለ10 ዓመት መያዝ	1	2	3
7	ያለብዎትን ግብር በተሰጠው ጊዜ ከተነገርዎት ቀን ወይም በተፈቀደው ጊዜ መክፈል	1	2	3

ክፍል 2.2፡ የገቢ አይነቶች

ለያንዳንዱ ጥያቄ በዚህ ክፍል፣ እባክዎ አንዱን ያክብቡ።

- 1 ዐረፍተ ነገሩ ስህተት ነው ብለው ካሰቡ
- 2 በዐረፍተ ነገሩ እርግጠኛ ካልሆኑ
- 3 ዐረፍተ ነገሩ እውነት ነው ብለው ካሰቡ

1. የቅጥር ገቢ

የሚቀጥለው ገቢ ከግብር ተከፋይ ገቢ ውስጥ መግባት አለበት።

8	ዋና ደመወዝ	1	2	3
9	ሃርድ-ሺፕ (ምቹ ባልሆነ ሁኔታ) የሚከፈል አበል	1	2	3
10	ኮሚሽን	1	2	3
11	የትርፍ ሰዓት ገቢ	1	2	3

2. የንግድ ስራ ገቢ

የሚቀጥሉት ወጪዎች ግብር ከፋይ ገቢ ስናሰላ ከጠቅላላ ገቢ መቀነስ ይችላሉ፡፡

12	ገቢውን ለማግኘት ያወጣ ነው ቀጥታዊ ወጪ፣ አንዳንድ የማምረቻ ቀጥታዊ ወጪ፣ የመግዣና የመሸጫ ወጪዎች	1	2	3
13	ለቢዝነሱ የተሰጠ አገልግሎት የኮሚሽን ክፍያ	1	2	3
14	ጠቅላላ ወጪ ከባለ ቢዝነስ ግላዊ እንቅስቃሴ ጋር የተያያዘ	1	2	3

3. ተርን ኦቨር ታክስ፣ ኤክሳይዝ ታክስ እና ተጨማሪ እሴት ታክስ

15	ተርን ኦቨር ታክስ ተከፋይ የሚሆነው፣ ለተጨማሪ እሴት ታክስ ያልተመዘገቡ ሰዎች በአገር ውስጥ በሚሸጡዋቸው ዕቃዎች እና አገልግሎቶች ላይ እና መጠኑ ደግሞ በአገር ውስጥ የሚሸጡ እቃዎች 2% እና የስራ ተቋራጮች፣ የእህል ወፍጮ ቤቶች፣ የትራክተሮች እና የኮምባይን ሀርቨስተሮች አገልግሎት 2% እና 10% በአገር ውስጥ የተሰጡ አገልግሎቶች ናቸው፡፡	1	2	3
16	ኤክሳይዝ ታክስ የሚከፈለው ለውድ እቃዎች ላይ፣ ለጤና አስከፊ የሆኑ እቃዎች እና መሰረታዊ እቃዎች እንደ ተሽከርካሪዎች፣ ጌጣጌጦች፣ ሽቶዎች፣ አልኮል ያለባቸው ምርቶች፣ ጨው እና የጨርቃ ጨርቅ ምርቶች	1	2	3
17	ለተጨማሪ እሴት ታክስ የተመዘገበ ሰው ለእቃ ወይም አገልግሎት ገዢ ደረሰኝ የመስጠት ግዴታ አለበት ግን ግብይቱ ከተፈፀመ ከአምስት ቀን በላይ መሆን የለበትም፡፡	1	2	3

18	ለተጨማሪ እሴት ታክስ የተመዘገበ ሰው የሂሳብ መዝገብ፣ ኦርጂናል የታክስ ደረሰኝ የተቀበለው እና የታክስ ደረሰኝ ለሰጠው ኮፒ ለ10 ዓመት መያዝ አለበት።	1	2	3
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ክፍል 3: በጥፋት፣ ቅጣትና መጠኑ ግንዛቤ

ለሚቀጥሉት ጥያቄ፣ እባክዎ አንዱን ያክብቡ።

- 1 እገነዘበዋለሁ ብለው የሚያስቡ ከሆነ
- 2 በዐረፍተ ነገሩ እርግጠኛ ካልሆኑ
- 3 አልተገነዘብኩትም ብለው የሚያስቡ ከሆነ

የገቢ ግብር ዘግይቶ የመክፈል ቅጣት

አንድ ግብር ከፋይ ግብርን በግዜ ሳያሳውቅ ከቀረ፣ ለሚቀጥሉት ቅጣት ይደረጋል

19	ብር 1,000 ለመጀመሪያ 30 ቀናት ያላሳወቀበት	1	2	3
20	ብር 2,000 ለሚቀጥሉት 30 ቀናት ያላሳወቀበት	1	2	3
21	ብር 1,500 ለያንዳንዱ 30 ቀናት ከዚህ በኋላ እስከ ሚያሳውቅ	1	2	3

የገቢ ግብር መቀነስ ቅጣት

22	ግብር ከፋይ በገቢ ማስታወቂያ ላይ ሊከፈል የሚገባውን ግብር አሳንሶ ያስታወቀ እንደሆነ ያሳነሰውን ግብር መጠን 10% የተቀነሰው ግብር ከፍተኛ ካልሆነ ይቀጣል።	1	2	3
23	ግብር ከፋይ በገቢ ማስታወቂያ ላይ ሊከፈል የሚገባውን ግብር አሳንሶ ያስታወቀ እንደሆነ እና የተቀነሰው ግብር ከፍተኛ የሆነ እንደሆነ አሳንሶ ያስታወቀው ግብር 50% መቀጫ ይከፍላል።	1	2	3

ተገቢ መዝገብ ላለመያዝ ቅጣት

ደረጃ "ሀ" ወይም ደረጃ "ለ" ግብር ከፋይ ተገቢ የሂሳብ ሰነድ፣ የሂሳብ መዝገብ እና መረጃ ያልያዘ ለሚቀጥሉት መቀጨ ያደርጋል፡፡

24	የተወሰኑትን ግብር 20% ይከፍላል	1	2	3
25	ግብር ከፋይ ተገቢውን የሂሳብ መዝገብ ሰነድ እና ሌሎ መረጃዎች በሁለት ተከታታይ ዓመታት ሳይዝ ከቀረ፣ የንግድ ስራ ፈቃዱን ይታገዳል፡፡	1	2	3

ከተጨማሪ እሴት ታክስ ጋር የተያያዙ ቅጣቶች

26	ለተጨማሪ እሴት ታክስ መመዝገብ ያለበት ሆኖ ሳይመዘገብ ታክስ የሚከፈልበት ግብይት የሚያከናውን ማናቸውም ሰው ምዝገባ ሳያደርግ በቆየበት ጊዜ ሁሉ ላከናወነው የንግድ ስራ መክፈል ያለበትን ታክስ 100% እንዲከፍል ይጠየቃል፡፡	1	2	3
27	ማንኛውም ሰው ተከፋይ የሚሆነው ታክስ እንዲቀንስ ወይም የታክስ ደረሰኝ መስጠት ሲገባው ያልሰጠ በደረሰኙ ላይ የተመለከተው ወይም በግብይቱ ሊከፈል የሚገባውን ታክስ 100% እንዲከፍል ይጠየቃል፡፡	1	2	3

ከተርን አሸር ታክስና ኤክሳይስ ታክስ ጋር የተያያዙ ቅጣቶች

28	በተወሰነው ጊዜ ውስጥ የታክስ ማስታወቂያ ግዴታውን ያልተወጣ የተርን አሸር ታክስ ከፋይ ላዘዘበት ለእያንዳንዱ ወር ያልከፈለውን ታክስ 5% ጥፋቱ ከቀጠለ 25% እስኪሞላ ድረስ	1	2	3
29	የኤክሳይስ ታክስ ማሳወቂያ ወይም ክፍያ ያጭበረበረ፣ ጥፋት የፈፀመ ሰው ከሌሎች ቅጣቶች በተጨማሪ ከ5 ዓመት እስራት ያላነሰ ይጠብቀዋል፡፡	1	2	3

ክፍል ሶስት፡ ግብር በአግባቡ መክፈል

ለእያንዳንዱ የሚቀጥሉት የተሰጡ ዐረፍተ ነገሮች እባክዎ አንዱን ያክብቡ፡፡

- 1 በዐረፍተነገሩ በጣም ከተስማሙ
- 2 በዐረፍተነገሩ ከተስማሙ
- 3 በዐረፍተነገሩ ለመስማማት ወይም ላለመስማማት እርግጠኛ ካልሆኑ
- 4 ከዐረፍተ ነገሩ ካልተስማሙ
- 5 ከዐረፍተነገሩ በጣም ካልተስማሙ

30	ገቢ ማስታወቂያን ስሞላ የተወሰነ ገቢያን ከቀነሰኩ ሀላፊነት አይሰማኝም፡፡	1	2	3	4	5
31	አጋዥ መረጃዎች ለገቢ ባለስልጣን ስለማይለኩ በገቢ ማስታወቂያ ላይ ቁጥሮች ማዛባት እችላለሁ፡፡	1	2	3	4	5
32	ገቢ ማስታወቂያን ስሞላ ትንሽ ገቢያን ብቀንስ የስነ ምግባር ስህተት ነው ብዬ አላስብም፡፡	1	2	3	4	5

በሚቀጥሉት ምክንያቶች የግብር ህጎች መከተል እፈልጋለሁ፡፡

33	ትክክለኛ የግብር መጠን በመክፈል ሌላ ሰው በተለይ ድሃ ጥቅም ያገኛል ብዬ አምናለሁ፡፡	1	2	3	4	5
34	ግብርን በትክክል ካልከፈልኩ ጠንክር ያለ ቅጣት እና ማገፋፋት በግብር ባለስልጣን ሊያጋጥም ይችላል፡፡	1	2	3	4	5
35	በመንግስት የተሰበሰበው ግብር በትክክል ጥቅም ላይ እንደዋለ ይሰማኛል፡፡	1	2	3	4	5

በሚቀጥሉት ምክንያቶች የተነሳ የግብር ህጎች መከተል አልፏልግም፡፡

36	ግብርን ለመክፈል ያለው ግፊት በጣም ደካማ ነው	1	2	3	4	5
37	ትክክለኛ ገቢ ላለማሳወቅ በገቢ ባለስልጣኑ የመታወቅ ዕድሉ ትንሽ ነው ብዬ አምናለሁ	1	2	3	4	5
38	ጓደኞቼ ግብርን በትክክል አይከፍሉም እና ተቀጥታው አያውቁም	1	2	3	4	5

ጥያቄዎቹን ለመመለስ ስለተባበሩኝ አመሰግናለሁ፡፡