

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE



**DETERMINANTS OF TAX COMPLIANCE BEHAVIOR OF LARGE
CORPORATE TAXPAYERS IN ETHIOPIA**

BY
Akalu Kibret

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Finance In Partial Fulfilment Of The Requirements For The Degree Of Master's Of
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DECLARATION

I declare that:

- I. This project is based on a study undertaken by me, Akalu Kibret Hailu of the department of Accounting and finance, school of Business And Economics, Addis Ababa University, Ethiopia
- II. The research work is based on my desire to investigate the factors that determine tax compliance in Ethiopia particularly large tax payers
- III. This research work is my original work and to the best of my knowledge, it has not been submitted elsewhere for academic achievement (any degree or diploma)
- IV. The ideas and views of other researchers, authors and scholars expressed in the work are duly acknowledged.

Declared by:

Name _____

Sign _____

Date _____

Confirmed by:

Name _____

Sign _____

Date _____

CERTIFICATION

We certify that this research work titled “Determinants of tax compliance behavior of large corporate taxpayers in Ethiopia” was undertaken and completed by Mr. Akalu Kibret Hailu and that the research work was supervised by us and submitted to the department of accounting and finance, school of Business And Economics, Addis Ababa University, Ethiopia

Approved by:

Advisor

Internal Examiner

External Examiner

Signature

Signature

Signature

DEDICATION

This work is dedicated to the almighty God, the source of all good things, for making this work a reality. I do not forget my lovely wife Seble Moges and upcoming daughter Maryamawit Akalu.

LIST OF TABLES AND FIGURES

LIST OF TABLES

Table 1: Operationalization of variables.....	35
Table 2: Perceptions and opinions	42
Table 3: KMO and Bartlett's Test	42
Table 4: Tax non compliance behavior.....	43
Table 5: Estimates of coefficient results summary of multiple regressions	45
Table 6: Estimates of coefficient results summary of multiple regressions	48
Table 7: Estimates of coefficient results summary of multiple regressions	51

LIST OF FIGURES

Figure 1: Tax compliance model	16
Figure 2: Conceptual framework	29
Figure 3: Population of study by business sectors	31
Figure 4: Business Sector.....	38
Figure 5: Business Size.....	38
Figure 6: Business length.....	39
Figure 7: Tax liability	40
Figure 8: Source of income tax work.....	40

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ABSTRACT

Taxation is one of the important elements in managing national income. However, as most of the developing countries Ethiopia was highly dependent on external financial resources to finance its development activities. The tax contribution to GDP remained consistently low and is relatively shrinking due to low tax compliance. The main objective of this study is to gain insight into the influence of some possible causes that affect the compliance behavior of large corporate tax payers in Ethiopia. What factors motivate them to comply or what factors discourage them not to comply with the income tax reporting requirements. The study allows policy makers to gain a better understanding of the factors and enable them to implement suitable strategies to minimize voluntary compliance problems so as to improve tax collections. Moreover, it may also serve as a basis for those who are interested to conduct further study on related topics. The data required for this research was collected from both primary and secondary sources. Primary data were collected directly from tax payers through researcher-administered questionnaire survey method and focus group (1 to 5) discussion. Secondary data collected from relevant legislation enacted in connection with the topic, tax journals, as well as published articles. In addition, the researcher also applied his personal knowledge he gained from working in ERCA. The results revealed that business size, business age and tax psychological cost consistently influence the likelihood of tax non-compliance behaviour in the areas of under-reporting income, over-claiming expenses and overall non-compliance. Nonetheless, business sector, tax complexity, fairness in the tax rate/ tax system and tax deterrence sanctions have an insignificant relationship with the non-compliance behaviour of corporate taxpayers. Tax liability, compliance cost and tax rate structure are significant determinants in at least one type of non-compliance behaviour.

TABLE OF CONTENTS.....	PAGE
DECLARATION	i
CERTIFICATION	ii
DEDICATION	iii
LIST OF TABLES AND FIGURES.....	iv
LIST OF TABLES	iv
LIST OF FIGURES	iv
ACKNOWLEDGMENTS	v
ABSTRACT.....	vi
CHAPTER ONE	1
1.1. BACKGROUND TO THE STUDY	1
1.2. PROBLEM STATEMENT	2
1.3. RESEARCH QUESTIONS.....	3
1.4. OBJECTIVES	3
1.4.1. General objective	3
1.4.2. Specific objectives	4
1.5. SIGNIFICANCE OF STUDY	4
1.6. SCOPE AND LIMITATION OF THE STUDY	4
1.7. ORGANIZATION OF THE PAPER.....	5
CHAPTER TWO	6
2. LITERATURE REVIEW	6
2.1. HISTORY OF TAXATION IN ETHIOPIA	6
2.1.1. OBJECTIVE OF AUTHORITY	8
2.1.2. ORGANIZATION OF THE AUTHORITY	8
2.1.3. AUTHORITY'S CUSTOMERS.....	9
2.2. ETHIOPIAN BASIC TAX PROVISIONS.....	10
2.2.1. SCHEDULES OF INCOME.....	10
2.2.2. TAX RATE.....	10
2.2.3. DECLARATION, ASSESSMENT AND MAINTENANCE OF ACCOUNTS	11
2.2.4. INTEREST.....	12
2.2.5. PENALTIES	12
2.3. TAX EVASION IN ETHIOPAN CONTEXT	13
2.4. DEFINATION OF TAX COMPLIANCE	14

2.5.	DETERMINANTS OF TAX COMPLIANCE	15
2.6.	CONCEPTUAL FRAMEWORK	29
CHAPTER THREE		30
3.	RESEARCH METHODOLOGY	30
3.1.	RESEARCH METHOD	30
3.2.	POPULATION OF STUDY	30
3.3.	SAMPLE SIZE AND SAMPLING TECHNIQUE	31
3.4.	SOURCES OF DATA	31
3.5.	RESEARCH INSTRUMENTS	32
3.6.	METHODS OF DATA ANALYSIS	32
3.7.	OPERATIONALIZATION OF VARIABLES	33
CHAPTER FOUR		36
4.	DATA PRESENTATION, ANALYSIS AND DISCUSSION	36
4.1.	SURVEY DISTRIBUTION AND RESPONSE RATES	36
4.2.	RESPONDENTS' PROFILE	36
4.3.	DESCRIPTIVE ANALYSIS OF THE VARIABLES	41
4.3.1.	Tax compliance costs	41
4.3.2.	Perceptions and opinions	41
4.3.3.	Tax non compliance behavior	43
4.4.	DETERMINANTS OF TAX COMPLIANCE BEHAVIOR	43
4.4.1.	Under-reporting of income	44
4.4.2.	Over-claiming of expenses	46
4.4.3.	Overall non-compliance behaviour	49
4.5.	CONTENT ANALYSIS OF OPEN-ENDED QUESTIONS	51
CHAPTER FIVE		54
5.	CONCLUSION AND RECOMMENDATIONS	54
5.1.	CONCLUSION	54
5.2.	RECOMMENDATIONS	56
REFERENCES: - CITATIONS AND BIBLIOGRAPHY		59
APPENDECIES:		67

CHAPTER ONE

1.1. BACKGROUND TO THE STUDY

The subject of taxation has received considerable intellectual and theoretical attention in the literature. According to (Bhatia, 1996), “a tax is a liability imposed up on the tax assesses who may be individuals, groups of individuals, or other legal entities. It is a liability to pay an amount on account of the fact that the tax assesses have income of a minimum amount and from certain tangible or intangible property, or that they carry on certain economic activities which have been for taxation. In other words, a tax is an imposed levy by the government against the income, profits, property, wealth and consumption of individuals and corporate organizations to enable government obtain the required revenue to provide basic facilities, security and well-being of the citizens.

Furthermore, questions about tax compliance are as old as taxes themselves and will remain an area of discovery as long as taxes exist. Most people feel that tax is a burden and should be avoided. These taxpayers feel that they are being treated harshly and the punitive provisions in the tax laws are applied heartlessly against them. Hence, they choose to far-off from the tax authority and the number of non-filers of tax returns is increasing (Coetzee, 1996). Compliance’ will essentially relate to the extent to which a taxpayer meets the following broad categories of obligations: Registration in the system, timely filing of requisite taxation information, reporting of complete and accurate information, and payment of taxation obligations on time. If a taxpayer fails to meet any of the above obligations then they may be considered to be non-compliant.

Tax non-compliance become a serious challenge slackening tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries. (Lemessa, 2005) As reported in a tax administration workshop¹, the contribution of taxes to the government’s total revenue (Tax-to-GDP) remained consistently low and even lower than sub-Saharan African countries. Normally, taxes are fundamental to the existence of governments, it is a way for governments’ to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence.

¹ Kenya November 3-7, 2008

Ethiopia begins the succeeding five year growth and transformation plan and has been working hard to achieve a lower middle income status. As tax non-compliance affects revenue collection and the ability of the government to achieve its fiscal and social goals, the Ethiopian government, through its revenue collection agency (Ethiopian revenue and custom authority) clearly stated that efforts will be geared towards promoting voluntary compliance (ERCA, annual report, 2011). Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers (Casnagra, 1992)

The question here is how tax compliance improved and attains at least the minimum required level. Under self-assessment, the taxpayers' attitude on compliance may be influenced by many factors, which eventually influence their behavior. To date, however, to the best of the researchers' knowledge the factors influencing tax compliance is not well understood and studies have not been carried out especially on large corporate tax payers in Ethiopia. Therefore, the objective of the study is to identify determinants of large corporate taxpayer's compliance behavior with respect to income tax reporting requirements in Ethiopia. The output of this study helps the tax authority to incorporate measures that address these pitfalls while designing a tax system or tax policy.

1.2. PROBLEM STATEMENT

Most developing countries are currently dependent more on external financial resources to fund their development activities. Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. (Shina, June,2014) To address this problem, the government introduced a number of rules, systems and methods aiming tax collection as a major source of public revenue. However, this all efforts couldn't still bring the required result due to a number of reasons. (ERCA, Customer Charter, 2015)

Non-compliance may take the lion share on the poor revenue performance. (ERCA L. , 2014) A number of taxpayers including large tax payers which are important source of revenue for

Ethiopian government fail to fulfill income tax requirements and a number of them face prosecution for failing to pay taxes on time. (ERCA L. , 2014). Even if the government advocates voluntary compliance, the tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning. (Proclamation, 286/2002). According to the information obtained from large tax payer's office, number of non filers, null-declarants and amount of tax collected from enforcement activity showed continual increment.

This clearly shows that using traditional policies such as audits and fines (stick approach) may not work always and forever. Hence, there is a clear need for more empirical research on the factors that affect tax compliance, since a better understanding of these factors can yield strategies that improve compliance. However, to the best of the researchers' knowledge the factors influencing tax compliance is not well understood and studies have not been carried out especially on large corporate tax payers in Ethiopia. It is therefore, the focus of this study is to identify determinants of large corporate taxpayer's compliance behavior with respect to income tax reporting requirements in Ethiopia.

1.3. RESEARCH QUESTIONS

The main research question is what determines compliance behavior of large corporate taxpayer's in Ethiopia. Specifically, this study has tried to answer the following three major research questions.

- How compliance cost relate with non-compliance behaviour?
- How corporate characteristics relate with non-compliance behaviour?
- How tax attitudinal aspects relate with non-compliance behaviour?

1.4. OBJECTIVES

1.4.1. General objective

In line with the aforementioned problems and along with the basic questions, the overriding objective of the study is to identify factors that affect compliance behavior of taxpayers and ultimately to recommend better ways for further improvement.

1.4.2. Specific objectives

The following are the specific objectives of the study:

1. To assess the general compliance level of large tax payers
2. To identify effect of tax compliance cost on non compliance behaviour
3. To identify effect of corporate characteristics on non compliance behaviour
4. To identify effect of tax attitudinal aspects on non compliance behaviour

1.5. SIGNIFICANCE OF STUDY

Tax payer's compliance behavior towards taxation is the major factor that determines the success of any tax system. Each taxpayer especially, 'higher tax' taxpayers non-compliant behavior exceedingly shrinks countries tax to GDP ratio. Hence, unless these compliance determinants are pointed out and addressed properly, it may be difficult to design an efficient and effective tax system.

Hence, studies like this is significant, as it is capable of providing specific insights and allows policy makers, particularly the tax authorities, to gain a better understanding of the factors that determine tax compliance and enable them to implement suitable strategies to minimize voluntary compliance problems so as to improve tax collections. Moreover, it may also serve as a stepping stone for future research that might be conducted on related areas.

1.6. SCOPE AND LIMITATION OF THE STUDY

There are many factors that affect tax compliance behavior; this study has been to investigate those factors which are likely to influence the tax non-compliance of large corporate taxpayers in Ethiopia. Therefore the study is limited to large corporate tax payers in Ethiopia. These corporate taxpayers selected because about 70 percent of the country's tax revenue originates from them (they constitute only five percent of the total tax payers). Determinants of corporate non-compliance behavior, namely, tax compliance costs, corporate characteristics and tax attitudinal aspects were analyzed.

The limitation of this study, however, is due to the small sample size used for this study; results may not be generalized beyond the specific population from which the sample was drawn. Another limitation is the use of hypothetical tax scenarios and the respective monetary amount in determining taxpayers' compliance behavior. Results based on such opinions might not accurately reflect the opinions of all members of the included population.

1.7. ORGANIZATION OF THE PAPER

The remainder of this paper is organized as follows: The next section reviews prior literatures examining compliance, its determining factors from the perspective of different professionals and Ethiopian taxation history. Following the relevant literature, there is a discussion of research methodology including population, sampling techniques, methods of data collection and the research instruments employed. After a discussion of methods procedures and techniques followed, the survey findings are analyzed and summarized. The fifth chapter covers conclusion and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

A tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government. Taxation is used for many other purposes than raising revenue. As an instrument of economic and social policy, its purpose is often to influence behavior. Higher taxes on alcoholic drinks and tobacco would reduce the consumption of these products and lead to improvements in the health of the people (Viscusi, 1994).

This chapter reviews previous pronouncements and literature in tax compliance. Specifically, the chapter begins with a general discussion on history of taxation in Ethiopia and the current tendency, followed by tax compliance concepts, and finally, a review of prior literature on possible determinants of tax compliance.

2.1. HISTORY OF TAXATION IN ETHIOPIA

For a long period of time, tax administration in Ethiopia was an appendage of ministries that did not have administrative specialization over the assessment and collection of taxes i.e. the ministry of trade and industry before the Italian occupation (1936) and the ministry of finance after the Italian occupation (1941). Administrative units within these ministries were charged with tax administration. The preferred mode of organization was the organization of administrative units around the types of taxes rather than the functions of tax administration. (Lemessa, 2005)

One mode of organization that prevailed for a long time was an organization of tax administration units for assessment and collection of taxes on international trade and another one for inland revenues. The administrative units for assessment and collection of international trade taxes were organized under “customs authorities” while those for the administration of domestic taxes were organized under “inland revenue authorities.” There were also times when specific taxes had their own tax administration units within the ministries (e.g., income tax departments, excise tax departments). (Lemessa, 2005)

The separation of tax administration for domestic and international transactions had the effect of parallel tax administrations for those taxes that were levied on both domestic and international transactions. For example, customs administrations assessed and collected sales taxes on imports and Inland Revenue departments assessed and collected sales taxes on domestic transactions. With the establishment of the Federal Government Revenue Board in 1995, Ethiopian Tax Administration was for the first time organized as a separate and autonomous government body (Lemessa, 2005). Again, on July 14, 2008, Ministry of Revenue, Federal Inland Revenue and Ethiopian Customs Authority merged to establish the Ethiopian revenue and customs authority /ERCA/. Reasons for the merge of the foregoing administrations into a single autonomous Authority are varied and complex. Some of those reasons include:

- To provide the basis for modern tax and customs administrations
- To cut through the red tape or avoid unnecessary and redundant procedures that results delay and are considered cost-inefficient etc.
- To be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery
- To transform the efficiency of the revenue sector to a high level.

The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The countries tax policy is based on tax payers' voluntary compliance i.e. self assessment. It is geared towards promoting investment, supporting industrial development; and broadening the tax base and decreasing the tax rate, at least maintaining the current reduced tax rates compared to most other countries, in view of financing the ever-growing needs of the government expenditure. ERCA has the mission for accomplishment of these policy objectives.

2.1.1. OBJECTIVE OF AUTHORITY

The Ethiopian Revenues and Customs Authority have the following objectives:

- To establish modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service
- To cause taxpayers voluntarily discharge their tax obligations
- To enforce tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion
- To collect timely and effectively tax revenues generated by the economy
- To provide the necessary support to regions with a view to harmonizing federal and regional tax administration systems

2.1.2. ORGANIZATION OF THE AUTHORITY

The Authority has its headquarters in Addis Ababa around Megenagna square. The authority is led by a director general who reports to the prime minister and is assisted by five deputy director generals, namely d/director general for program designing of operation and development Businesses; d/director general for branch offices' coordination and support; d/director general of enforcement division; d/director general, corporate functions division; change management and support sector; and enforcement sector. Each deputy director general oversees at least four directorates. Both the director general and the deputies are appointed by the prime minister.

The Authority, at the headquarters level, has 23 directorates. The directorate report to the deputy director generals and a director heads each of them. Law enforcement directorate is just one of the directorates ERCA has. To carry out its duties, the directorate is entrusted with broad powers. It investigates customs and tax offences, institute and follow up criminal proceedings in courts and this has resulted in the arrest and trials of hundreds of offenders and smugglers. The directorate works in close collaboration with the federal police to prevent criminal offences committed in violation of customs and tax laws. Besides, the headquarters has the office of the director general which is led by a director and comprises three positions, namely tax and customs affairs, strategic intelligence affairs, and communication and human resource development affairs.

Apart from the foregoing directorates, ERCA has 32 field offices, of which two of them are coordination offices located outside of Ethiopia at the port of Djibouti and at the port of Burbera. The primary function of the foregoing coordination offices are providing transit service for the goods imported into or exported from the country. However, the latter coordination office is presently not operational. The 30 branch offices in Ethiopia comprise 22 customs control stations, 50 checkpoints and 153 tax centers. Tax center means a tax collection station administered under a branch office and located in the vicinity of taxpayers while customs control station means a station administered under a branch office where customs formalities are complied with and collection of taxes and duties take place on imported and exported goods; checkpoint is a place where customs examination is conducted by machine and/or manually for the purpose of ascertaining that there is no variation between the goods to be imported-exported and the goods specified in the customs declaration.

Each branch office is directed by a manager who is accountable to the d/director general for branch offices' coordination and support sector. Hence for strategic management and support purpose the authority has divided its 153 tax centers under the following four major groups; the large taxpayer's office (LTO), medium taxpayer's office (MTO), small taxpayer's office (STO) and micro taxpayer's offices.

2.1.3. AUTHORITY'S CUSTOMERS

- Individual tax payers and others: individual traders, cost sharing payers, investors, Ethiopians living abroad and tourists
- Body's and other enterprise: private limited companies, share companies, partnerships, joint venture, micro and small business enterprise
- Governmental organizations: nongovernmental and international organizations, charity and nonprofit organizations, embassy, religious groups
- Governmental bodies: representatives/controlling bodies such as prime ministers secretary, house of peoples representatives, Ethiopian audit, national bank and others, regional and city administrations, higher educational institutions and others
- Stakeholders: transistors, cooperators, chamber of commerce and other associations, citizens, federal auditors and authorized accountants associations

2.2. ETHIOPIAN BASIC TAX PROVISIONS

2.2.1. SCHEDULES OF INCOME

According to income tax proclamation no.286/2002 all taxable incomes are categorized under four schedules for taxation purpose; 1) schedule 'A,' income from employment; 2) schedule 'B,' income from rental of buildings; 3) schedule 'C,' income from business; 4) schedule 'D', other income including income from: royalties, dividends, interest, games of chance, payment for services rendered outside of Ethiopia, casual rental of property, capital gains.

2.2.2. TAX RATE

Taxable business income of bodies is taxable at the rate of 30%. Taxable business income of other taxpayers shall be taxed in accordance with stated schedule similar with schedule A. Other major taxes have the following rate:

- Value added tax, at the rate of 15 percent of the value of- (a) every taxable transaction by a registered person; and (b) every import of goods, other than an exempt import; and (c) an import of services.
- Withholding tax, at the rate of 2 percent on the gross amount of the payment and 3 percent on import of goods
- Turnover Tax, at the rate of 2 percent on goods sold locally and 10 percent for services rendered locally except for contractors, grain mills, tractors and combine-harvesters.
- Excise tax, at the rate prescribed in the schedule that range from 10 to 100 percent on goods mentioned (both imported and locally produced).
- Royalties, at a flat rate of five percent.
- Income from rendering of technical services, at a flat rate of ten percent on all payments made in consideration of any kind of technical services rendered outside Ethiopia to resident persons in any form.
- Income from games of chance, at the rate of fifteen percent on every person deriving income from winning at games of chance. For example, lotteries, tombola's, and other similar activities except for winnings of less than 100 Birr.

- Dividends, at the rate of ten percent (10%) on every person deriving income from dividends from a share company or withdrawals of profits from a private limited company.
- Income from rental of property, at the rate of fifteen percent on every person deriving income from the casual rental of property (including any land, building, or moveable asset) not related to a business activity taxable under article 17.
- Interest income on deposits, at the rate of five percent on every person deriving income from interest on deposits.
- Gain on transfer of certain investment property, at the rate of 15 percent for building held for business, factory, office and 30 percent for shares of companies when gains obtained from the transfer (sale or gift) of property.

2.2.3. DECLARATION, ASSESSMENT AND MAINTENANCE OF ACCOUNTS

Taxable business income determined per tax period on the basis of the profit and loss account or income statement, which are drawn under compliance with the generally accepted accounting standards, subject to the provisions of the proclamation and the directives issued by the tax authority. In the determination of business income subject to tax, deductions are allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer and subject to the limitations specified by the proclamation.

Unless otherwise provided, the period for tax assessment "tax year" will be the fiscal year, that is the one-year period from July 8 to July 7. The tax year of a person is: in the case of an individual or an association of individuals, the fiscal year in the case of a body, the accounting year of the body. A body shall not change its accounting year unless it obtains prior approval, in writing, from the tax authority and complies with any condition that may be attached to the approval.

Every taxpayer who has schedule B or schedule C income is expected to prepare a declaration of his income in a form prescribed by the tax authority. Taxpayers submit the tax declaration to the tax authority at the time of submitting the balance sheet and the profit and loss account for that tax year within the time prescribed below:

- Category A taxpayers within 4 months from the end of the taxpayer's tax year

- Category B taxpayers within 2 months from the taxpayers tax year.

Any tax (including withheld or collected tax) that is to be paid to the tax authority by a stated date shall be payable on that date. Failure to make a timely payment shall result in the imposition of interest and the late payment penalty (income tax proclamation no. 286/2002)

2.2.4. INTEREST

- If any amount of tax is not paid by the due date, the taxpayer is obliged to pay interest on such amount for the period from the date the tax is due to the date it is paid.
- The interest rate is set at 25% (twenty five percent) over and above the highest commercial lending interest rate that prevailed during the preceding quarter.
- Interests are collected in the same manner as the tax to which it relates.

2.2.5. PENALTIES

A. Penalty for late filing or non-filing

A taxpayer who fails to file a timely tax declaration is liable for a penalty equal to:

- 1,000 birr for the first thirty days or part thereof the declaration remains unfiled
- 2,000 birr for the next thirty days or part thereof the declaration remains unfiled
- 1,500 birr for each thirty days or part thereof thereafter that the declaration remains unfiled

B. Penalty for under settlement of tax

- If the amount of tax shown on a declaration understates the amount of tax required to be shown, the taxpayer is liable for a penalty in the amount of ten per cent of the understatement or fifty percent if the understatement is considered substantial.
- The understatement is considered substantial if it exceeds the smaller of the following two amounts:
 - a. Twenty-five percent of the tax required to be shown on the return or
 - b. 20,000 birr

- The penalty shall continue to apply until, the appeal commission or a court, as the case may be, has rendered its final decision.

C. Penalty for late payment

A taxpayer who fails to pay tax liability on the due date is subject to a penalty of five percent of the amount of unpaid tax on the first day after the due date has passed and an additional two percent of the amount of unpaid tax that remains unpaid on the first day of each month thereafter.

D. Penalty for failure to keep proper records

- The taxpayer shall be liable for a penalty of twenty percent of the tax assessed if he failed to keep proper books of account, records, and other documents regarding a certain tax year.
- If the tax authority finds that a tax payer has failed for two consecutive tax years to keep proper books of account, records, and other documents:
 - a. The licensing authority suspend the taxpayer's license on notification by tax authority.
 - b. If in subsequent year the tax authority again finds that tax payer has failed to keep proper books, records, and documents, the licensing authority revoke the taxpayer's license on notification by the tax authority.

2.3. TAX EVASION IN ETHIOPAN CONTEXT

A taxpayer who evades the declaration or payment of tax commits an offense and in addition to the penalty for the understatement of income may be prosecuted and on conviction be subject to imprisonment for a term of not less than five years. A tax payer who makes a statement to an officer of the tax authority, that is false or misleading in a material particular or omits from a statement made to an officer of the tax authority any matter or thing without which the statement is misleading in a material particular commits an offence and is liable on conviction.

Where the statement or omission is made without reasonable excuse and if the inaccuracy of the statement undetected may result in the underpayment of tax by an amount not exceeding 1,000 birr, the tax payer will be liable to a fine of not less than 10,000 birr and not more than 20,000 birr and imprisonment for a term of not less than one year and not more than three years. If the

underpayment of tax is in an amount exceeding birr 1,000, the tax payer will be liable to a fine of not less than 20,000 birr and not more than 100,000 birr and imprisonment for a term of not less than three years and not more than five years.

Where the statement or omission is made knowingly, and if the inaccuracy of the statement undetected may result in an underpayment of tax by an amount not exceeding 1,000 birr, to a fine of not less than 50,000 birr and not more than 100,000 birr or imprisonment for a term of not less than five years and not more than ten years and if the underpayment of tax is in an amount exceeding birr 1,000, to a fine of not less than 75,000 birr and not more than 200,000 birr or imprisonment for a term of not less than ten years and not more than fifteen years.

2.4. DEFINATION OF TAX COMPLIANCE

Tax compliance has been defined in various authors. For example, (Kircher, 2007) stated that compliance might be voluntary or enforced compliance. Voluntary compliance is made possible by the trust and cooperation between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations. However, in the presence of distrust and lack of cooperation between authority and taxpayer, which creates tax hostile climate, authorities can enforce compliance through the threat and application of audit and fine. (Alm J. B., 1992) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments.

Tax compliance is multi-faceted measure. The organization for economic cooperation and development (2001) advocates that "compliance" is divided into categories, considering the definition of tax compliance. These categories are administrative compliance and technical compliance. Administrative compliance refers to complying with administrative rules of lodging and paying, otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refers to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax.

If taxpayers 'comply' only because of dire threats or harassment or both, this would not appear to be proper compliance even if 100 % of the tax were raised in line with the 'tax gap' concept of noncompliance. Instead, it might be argued that successful tax administration requires taxpayers

to comply willingly, without the need for enquiries, obtrusive investigations, reminders or the threat or application of legal or administrative sanctions.

Therefore, a more appropriate definition of compliance might therefore be: the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without having to wait for follow-up actions from the authority enforcement activity (Singh, 2003). Similarly, according to (Franzoni, 2000), tax compliance is taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions and exemptions, and pay all taxes on time. Any behavior by the taxpayer contrary to the above constitutes noncompliance.

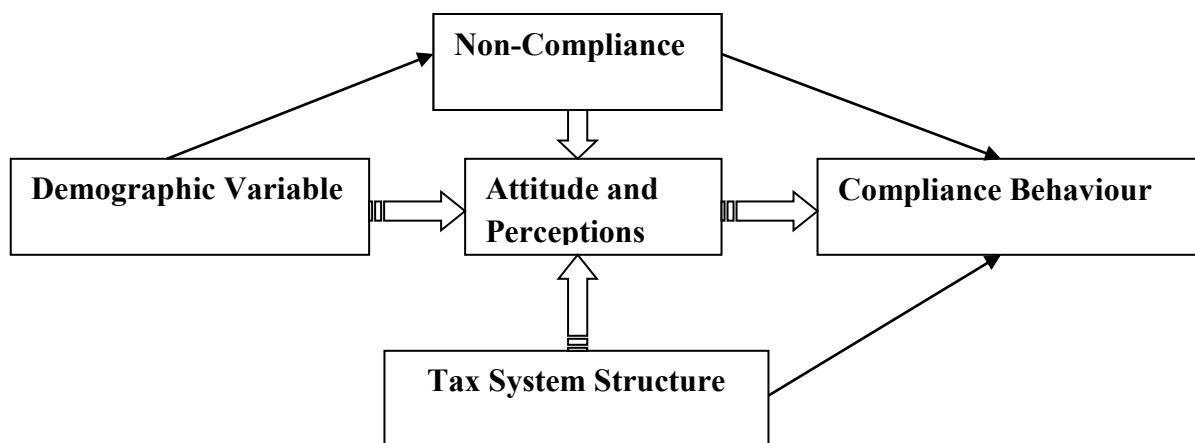
2.5. DETERMINANTS OF TAX COMPLIANCE

Any strategy to prevent tax evasion should begin with a theory of why people cheat on their taxes. Revenue Institutions and a variety of academic disciplines suggest that there are two main approaches to understand tax compliance issues. One is to analyze compliance in terms of economic decisions based on the likely economic incentives and costs of complying or not (economic approach). The second one is to analyze compliance in terms of psychological upshot (behavioral approach).

The basic theoretical model applied in the economic approach is built on the work of (GS, 1968) who analyzed criminal behavior using an economic framework known as the economics of crime model. (Allingham, 1972) first employed this model in the context of tax compliance study. The model is based on an expected utility theory and a deterrence theory. The expected utility theory views taxpayers as perfectly amoral utility maximisers, who choose to evade taxes whenever the expected gain exceeds the cost of evasion. The deterrence theory is concerned with the effects of sanctions and sanction threats where an increase in the severity of penalties and the certainty of their imposition will discourage undesirable behavior (Allingham, 1972). Their theoretical analysis suggested that punishment and/or sanctions determined taxpayer compliance behavior and that an increase in the penalty rate and a greater probability of detection would result in lower non-compliance.

In contrast, the behavioral approach assumes that individuals are not simply independent, selfish, utility maximizers but that they interact according to differing attitudes, beliefs, norms and roles (Elffers H, 1992). The behavioral perspective incorporates sociological and psychological factors, such as age, gender, ethnicity, education, culture, institutional influence, peer influence, ethics and tax morale, as factors that may affect taxpayer compliance behavior. This model is significant as it predicts that demographic variables indirectly influence tax compliance behavior through their effects on non-compliance opportunities and attitudes.

Figure 1: Tax compliance model



Source: (Fischer, 1992)

In general, assessing these two theories help to know why people comply with the tax law from which an interested tax administration could deduce a comprehensive compliance strategy. In other words, the determinant factors of tax compliance behavior emanate from these theories in one way or the other so that the theories always serve as a baseline in understanding tax compliance behavior.

Empirical literature on tax compliance has been concerned mainly with individual taxpayers while the analysis of corporate tax compliance has been rather neglected. Despite evidence that corporations have accounted for an increasingly larger portion of total tax evasion as compared to individual taxpayers, the finding has not attracted scholarly analysis. (Rice, 1992). (Rice, 1992), suggested that the difficulty in capturing analytically the non-compliance decisions of corporate taxpayers was a possible explanation for the lack of research on corporate tax evasion.

However, Findings from limited studies using the compliance data of large corporate taxpayers have provided some evidence of the determinants of the compliance behaviour of corporate taxpayers. For example, (Rice, 1992), found that profit performance influenced tax compliance but did not observe a relationship between firm size and tax compliance. Tax compliance was positively associated with public disclosure and negatively associated with the marginal tax rate.

Also, a study by (Kamadar), discovered that audit rates and profit performance had a positive and significant impact on tax compliance. No significant relationships were found between tax compliance and true income, marginal tax rates, probability of detection, penalties and other socio-economic factors. The author suggested that greater audit coverage could act as an effective deterrent to corporate non-compliance, resulting in a substantial rise in tax revenues. Another study by (Hanlon) reviles those corporate characteristics, size, industry, multi-nationality, being publicly traded, the presence of intangible assets and executive compensation determined corporate compliance behaviour. Two other corporate characteristics, effective tax rates and the quality of governance, had no effect on the compliance behaviour of corporate taxpayers.

Given the limitations and confidentiality issues associated with using government data in Malaysia, (Noor Sharoja Sapiei, 2014), examined the corporate tax non-compliance using a survey approach. They conclude that corporate characteristics such as business size, sector, length, and tax liability and tax attitudinal aspects such as tax complexity, tax deterrence, fairness in the tax rate/ tax system and perceived level of psychological costs consistently influence the likelihood of tax non-compliance behavior, while the reverse was true for tax compliance costs.

2.5.1. TAX COMPLIANCE COSTS

There are many definitions of tax compliance costs and most of them are similar. Tax compliance costs can be defined as all the costs borne by businesses and individuals for complying with tax regulation, excluding the costs of the taxes themselves. As tax system implementation is largely concerned with information processing, the bulk of costs of tax compliance are caused by information obligations, for instance, record keeping, filing in tax

returns with data etc (OECD, 2004) The term ‘corporate tax compliance costs’ refers to the value of resources expended by corporate taxpayers in complying with tax regulations. (Tran-Nam B and Glover J, 2002) Some of the theoretical literature has suggested tax compliance costs as a possible determinant of tax compliance behaviour. (Slemrod J. , 1985)

(Slemrod J. B., 2001) defined tax compliance costs as costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. These costs would disappear if the tax was abolished. He segregated compliance costs of corporate taxpayers into main components, specifically: (1) internal costs; (2) external costs and (3) psychological costs.

The internal costs component comprises of time costs of employing internal staff such as tax manager, accountant, account clerks and programmers to handle the company’s tax affairs. Incidental tax compliance costs are other expenses incurred in the completion of tax activities such as the costs of postage, travelling and stationeries. The external costs component includes payments made to tax professionals from outside a company and any incidental costs incurred in relation to the tax work. These payments include the financial costs of professional fees paid to tax agents, accountants, legal advisers and any other external consultants in relation to the corporate income tax (CIT).

Tax practitioners provide services and information and might be “guardians against unequivocal breaches of legal code and, on the other hand, exploiters of legally ambiguous features of tax code to the advantage of taxpayers” (Beck, 1994). There are many reasons why taxpayers choose to use a tax agent. These reasons range from taxpayer wanting to file an accurate return, not having the knowledge to complete a complex return, wanting to minimize the tax they are required to pay, or simply not having enough time to complete their own return. Whatever the reason, taxpayer demand for tax agents increased substantially over the past few decades.

The tax agents do have the knowledge and expertise to exploit the gray areas of tax laws, a number of studies have examined whether professionally prepared returns are more non-compliant in nature than self prepared returns. For example, (Erard, 1993) found that paid tax

preparer exhibited greater non-compliance. Thus the potential loss of tax revenue due to non-compliant reporting poses a serious problem for the tax authorities. The question of who instigates this non-compliant reporting, whether the tax agent or taxpayer, is therefore, an important one. To this end, (Klepper, 1991) suggest that tax agents can be both exploiters and enforcers of the law. When a tax agent is faced with an ambiguous situation, they tend to be exploiters of the law, in that they encourage tax avoidance.

2.5.2. CORPORATE CHARACTERISTICS

A review of past literature identified some corporate characteristics as determinants of corporate taxpayer compliance decisions. Even though there are mixed results from the limited study of corporate taxpayer compliance behaviour, the empirical findings identified some characteristics that influence taxpayer compliance levels. (Slemrod J. , 1985)

A. BUSINESS SIZE

(Jackson B. R., 1986), found that income level has a mixed and unclear impact on compliance, and some later research agrees with that statement. Although (Jackson B. R., 1986) did not clearly mention the reason, it is presumed that endogenous tax regulations among countries might contribute to inconsistent findings. For example, progressive tax rates might encourage the higher income group to evade rather than the lower income group because their (higher income group) tax rates and taxable income are high, thus, making the tax liabilities much higher than lower income group. In a country where income redistribution is not satisfying, the higher income group tends to evade more (Mohani A. , 2001) because the high income earner might feel betrayed and unfairly treated.

Some studies (Joulfaian, 2000) found that firm size and income level determined corporate non-compliance behavior. The non-compliance rate for corporations, relative to their size, was U-shaped: larger companies were observed to be more-non compliant than their smaller counterparts, but medium sized companies had the lowest non-compliance rate. (Noor Sharoja Sapiei, 2014), also found that non-compliance behaviours were positively related to company size. Companies with a higher annual sales turnover were found more non-compliant. However some other studies revealed contradictory results or no significant relation. (Abdul-Jabbar H,

2009), conclude that business size did not influence non-compliance behavior. (Rice E., 1992), did not observe any relationship.

B. BUSINESS SECTOR

The study of (Noor Sharoja Sapiei, 2014), provides evidence of the significant influence of business sector. According to the study, business sector characteristic was only a significant determinant of overall non-compliance, while PLCs in the manufacturing sector were more compliant than those in the services sector.

C. BUSINESS AGE

Demographic factors like business length have long been researched by many researchers and findings are different along the way. For example (Tittle, 1980), (Wärneryd, 1982) and (Wahlund, 1992) posit negative association older companies are less compliant. In contrast, (Dubin J. A., 1986) and (Beron, 1992) argued that age was positively related with compliance. However, there have been a significant number of studies that have found no relationship (Spicer M. a., 1976); (Spicer M. W., 1980) and (Porcano, 1988). (Chan, 2000), also concentrated on age and compliance behavior and further suggested that age has a direct, positive effect on income and a direct, positive (negative) effect on education in the US (Hong Kong).

D. TAX LIABILITY

A study of (Noor Sharoja Sapiei, 2014) confirmed that non-compliance behaviour was negatively related to tax liability. Companies with a lower tax liability were more non-compliant. Companies with higher tax liability try to make the tax due as much as possible.

2.5.3. TAX ATTITUDINAL ASPECTS

There are propositions in the literature suggesting that the compliance behaviour of taxpayers is also influenced by their attitudes and perceptions. (Ajzen, 1980) In order to address the research problem comprehensively, this study attempted to validate a number of propositions that were tested in earlier tax compliance behaviour studies. The propositions are grouped into tax attitudinal aspect variables consisting of perceptions on tax law complexity, fairness in the tax

rate structure, tax deterrence sanctions, tax law fairness and tax psychological costs (Noor Sharoja Sapiei, 2014)

A. COMPLEXITY

The main feature of self assessment system is self-completed tax returns which require at least a reasonable level of simplicity because taxpayers come from various backgrounds, with differing levels of education, income and most importantly levels of tax knowledge. Complexity may result in unintentional non-compliance if taxpayers have problems with filling the tax form. In addition, complexity can reduce the moral costs of evading taxes. Such noncompliance differs from other crimes, because it can be argued that the errors occurred unintentionally due to misrepresentation of the rules. (Adams, 1921) , state that one of the factors that contribute to the dishonesty of the taxpayers is complexity of the tax system. A tax system that is complex and poorly understood by both tax administrators and taxpayers creates numerous opportunities for corrupt behavior (Anna, 2008).

Complexity inevitably puts compliance at risk as some proportion of taxpayers will not fully understand their obligations and make errors while others may simply ignore what is expected of them. In addition, the possibilities to avoid or evade taxes normally also increase with the complexity of the tax system which may encourage taxpayers to spend even more resources on reducing their tax bill and which increase the amount of resources needed in the tax administration to prevent and detect tax fraud. (Krause, 2000), state that when rules are complex, compliance and enforcement will be imperfect. It imposes costs on the taxpayers and the tax administration and undermines the effectiveness of the tax policies. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records.

(Silvani, 1997) discuss the importance of the tax authority having a simple tax return and system from the taxpayers' point of view. Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as simple as possible. The tax authority may assume its tax return is simple and easy to complete but it may not be from the

taxpayers' point of view. Therefore, it is good practice, before the final version is delivered to taxpayers, to ensure that 'pilot' tests have taken place first so that the tax return is really as simple and easy as it can be. In addition, (Silvani, 1997) added that simplifying the tax return will encourage taxpayers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs. From another point of view, previous studies have evidenced that complexity of reporting requirements has a high association with errors detected by audits (Long, 1987). This finding (by Long) of course is perhaps to be logically expected by tax authorities. If many errors are detected in tax returns and the same errors happen every year by different taxpayers, it means that the wordings or the sentences of the format in tax return may be at least partly to blame.

B. FAIRNESS IN THE TAX RATE STRUCTURE

(Kircher, 2007), claimed that "reducing tax rates is not the only policy that has the potential to discourage tax evasion but the tax rate is an important factor in determining tax compliance behavior although the exact impact is still unclear and debatable (Clotfelter, 1983) and (Slemrod J. , 1985), also found that the marginal tax rate has a significant effect on underreporting. In a previous attempt by (Allingham, 1972) to find a relationship between actual income, tax rates, penalty and investigation and tax evasion using the statistical modeling, they concluded that taxpayers may choose either to fully report income or report less, regardless of tax rates. Tax rates appeared to be insignificant in determining tax evasion.

In contrast with (Allingham, 1972), various studies found that raising marginal tax rates will be likely to encourage taxpayers to evade tax more (Torgler, 2007) while lowering tax rates does not necessarily increase tax compliance (Kircher, 2007). This uncertainty and conflicting issue for example reducing tax rate to increase compliance has attracted the attention of tax researchers aiming to come up with more certain and concrete evidence of the impact of tax rates on evasion. Laboratory experiments with varying tax rates frequently found that tax rate increases leading to higher tax evasion (Alm J. G., 1992). Other economic models of rational compliance decisions however, perceived that tax rates have a mixed impact on tax compliance or predict that increasing tax rates will increase compliance behavior (Kirchler, 2008).

Since the impact of tax rates was debatable (positive, negative or no impact on evasion), (Kirchler, 2008) and (McKerchar, 2009) suggested that the degree of trust between taxpayers and the government has a major role in ascertaining the impact of tax rates on compliance. When trust is low, a high tax rate could be perceived as an unfair treatment of taxpayers and when trust is high, the same level of tax rate could be interpreted as contribution to the community, which in turn again profits each individual.

C. TAX DETERRENCE SANCTIONS

The probability of being audited

Tax audit is one of the most effective policies to protect the behavior of tax evasion. (Dubin J. , 2004), claimed that audits have a positive impact on tax evasion. These findings suggest that in self assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

According to (Hyun, 2005), the level of tax audit can be determined by two elements: one is how many tax payers are chosen for audit and the second is how much intensive the audit is. The first element is easily measured by the number of audited taxpayers divided by the total number of taxpayers. However, the later element is so difficult to measure due to no published information about the process of tax audit. It is commonly measured by the first element to indicate the level of tax audit for practical comparison. Tax audit generates administrative cost. As a constraint of the fixed administration cost, an increase in the level of tax audit is required to decrease the level of other administrative functions, like tax payers service, tax collection etc.

Fines and penalty

Studies on the impact of fines and tax compliance did not find the clear picture and provide inconsistent results. However, some studies showed that fines are slightly higher related to tax compliance than tax audit. Keeping constant the expected value of a tax but changing audit

probabilities and fines for non compliance, it showed that compliance increased significantly with higher fines, but not with higher audit probabilities (Friedland, 1978). According to (Kirchler, 2008) fines are connected to trust and power. Fines that are too low could be perceived as indicator that the authorities are weak and unable to control the tax evaders, undermining trust among honest taxpayers.

Different countries may have different penalty structure and penalty rate. Thus, penalty rates have been separately applied by the different tax subjects like the individual income tax, Value added tax etc. The penalty rates for each tax subject are differentiated by the different types of evasion, like non filing of tax return, late filing of tax return, late payments of tax, failure to keep proper records, failure to meet similar requirement or the penalty are differently applied to the types of taxpayers, depending upon their evaded behaviors. (Hyun, 2005)

D. TAX LAW FAIRNESS

Ethics and tax attitude

Taxpayers' standard of ethics and attitudes towards tax is extremely important in a tax system which is based largely on voluntary compliance (Song, 1978). Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes towards tax evasion is expected to be less compliant than a taxpayer with negative attitude. Attitude towards tax evasion are often found to be quite positive (Kirchler, 2008)

As suggested by many studies attitude and ethics remain important for both the power and trust dimension. On the one hand, favorable attitudes will contribute to trust in authorities and consequently will enhance voluntary tax compliance. On the other hand, attitude towards tax authorities are also important as tax attitudes and ethics generally depend on perceived use of the money collected by the government. (Kirchler, 2008)

Perceived equity and fairness of the tax system

Fairness is another factor that can affect tax compliance. An unfair tax system could enhance the incentives to rationalize cheating. A number of survey research studies have reported positive correlations between perceptions of fiscal inequity and tax evasion (Spicer M. W., 1974). Lack of equity in an exchange relationship creates a sense of distress, especially for the victim. (Homes, 1961), argued that disadvantage is followed by anger, advantage by guilt. Tax evasion may be seen as a reaction to restore equity.

(Spicer M. W., 1980), in experimental research found that the amount of tax evaded increases when people are told that their tax burden is higher than that of the rest of the group. Nevertheless, there is no agreement regarding the empirical evidence on fairness. (Webley, 1991), found that there is no relation between perceived inequalities and compliance of the taxpayer. (Bordignon, 1993), introduced fairness as an additional motivation to the evasion decision. He rationalizes ethical norms by making them dependent on the tax structure, the supply of public goods, and the perceived behavior of other taxpayers, The taxpayer's perception about the fairness of the system determines willingness to pay taxes; the more the tax burden and the provision of public goods differ from an individual's moral idea, the less willing will he be to pay his taxes.

(Alm J. G., 1992), suggest that compliance occurs because some individuals value the public goods their tax finance. If there is an increase in the amount individuals receive from a given tax payment, their compliance rate increases. Individuals then pay taxes to receive government services even when there is no chance to be detected or punished when evading. (Cowell, 1992), shows that taxpayer will reduce tax evasion when perceiving equity. (Falkinger, 1995), has pointed out concrete economic situations in which individuals reduce evasion if the socio-economic system is considered to be relatively equal and fair. The fairness of a system in which a person lives may result in bad reputation for evaders if people consider evasion to be blameworthy, so that risk aversion will increase with perceived equity.

Equity or fairness can be perceived via two dimensional views –horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity

(taxes paid increase with the amount of the tax base). The driving principle behind vertical equity is the notion that those who are more able to pay taxes should contribute more than those who are not. (Wenzel, 2003), suggested three areas of fairness from the taxpayers' point of view (social psychology): namely distributive justice which refers to the exchange of resources, i.e. benefit and cost; procedural justice which refers to the process of resource distribution; and retributive justice which refers to the appropriateness of sanctions when norm-breaking, occurs.

Similarly, (Spicer M. W., 1980) examined the relationship between fiscal inequity and tax evasion. The study revealed that high income groups ("high-tax group") had the highest percentage of tax evasion cases compared to other groups ("low tax and medium tax group"). They suggested that tax evasion increases when taxpayers perceive fiscal inequity (equity) because they feel to be victimized by an imbalance of income redistributions. The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Richardson, 2008).

Strength of tax authority/government

The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. (Hasseldine J. a., 1999), illustrated this, placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to minimize tax evasion. The government plays a central role through designing the tax systems itself, and the specific enforcement and collection mechanisms.

Furthermore, (Roth, 1989) suggested that in order to increase compliance, maximize tax revenue and be respected by taxpayers, a government must first have an economical tax system, which is practicable; they must discourage tax evasion and not induce dishonesty; they must avoid the tendency to dry up the source of the tax and should avoid provoking conflict and raising political difficulties; they should also have a good relationship with the international tax regime. Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study, encompassing aspects such

as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave, 2005).

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

Perceptions of government spending

There are limited studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion. Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will refuse to pay their taxes if they feel that the government is wasting their money. Similarly, (Alm J. B., 1992) find that when individuals perceive that they receive benefits from a public good funded by the taxes collected, they show higher responses to comply.

(Lewis, 1982), suggests that attitudes should be examined for the degree to which they are a product of myth and misperception. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation will occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged. He also claimed that misperception probably plays a major role shaping fairness evaluations. Meanwhile, (Roberts, 1994), suggest that attitude to one's own tax evasion (tax ethics), and attitude to other people's tax evasion are important. If the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is

spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade.

E. TAX PSYCHOLOGICAL COSTS

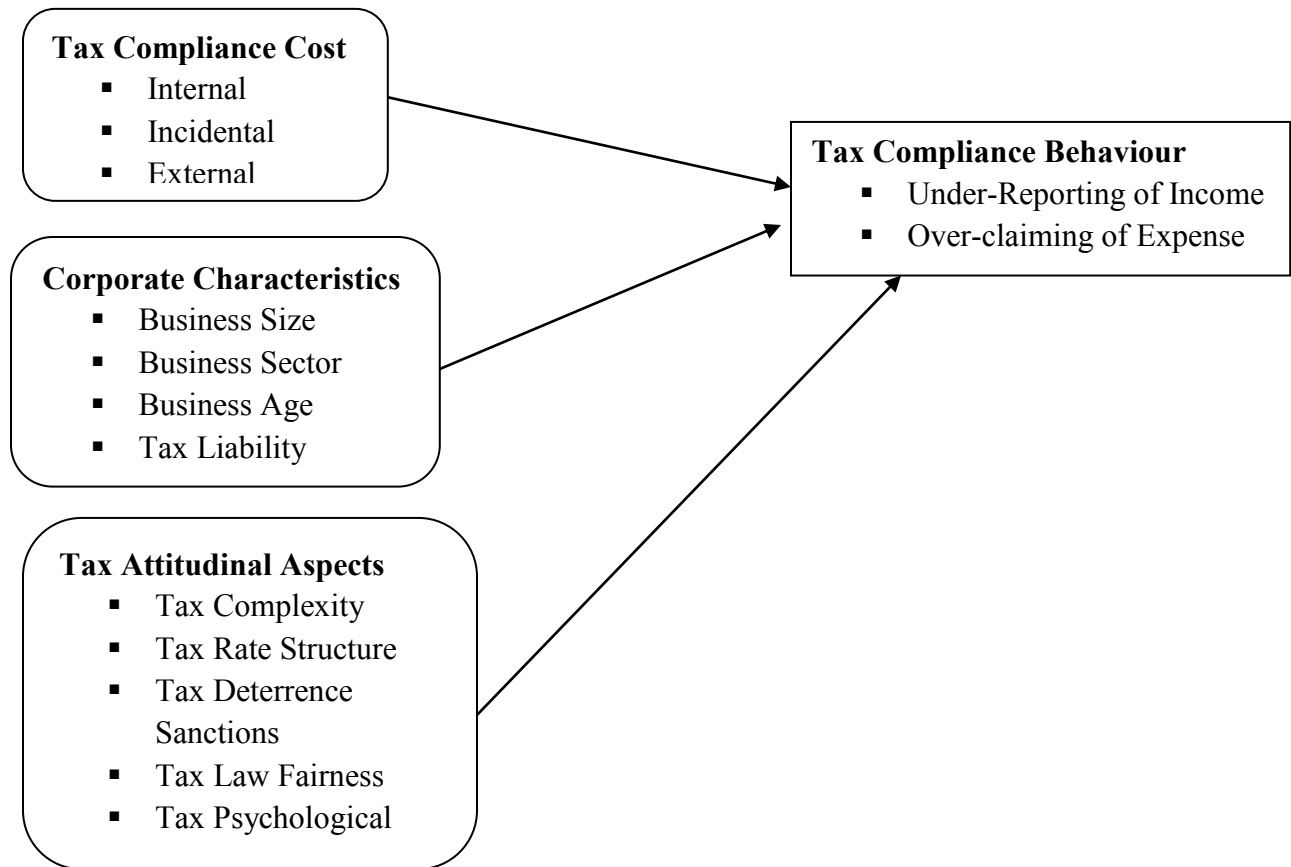
(Slemrod J. B., 2001), comprise tax psychological cost as major component in the definition of compliance cost. Psychological costs are negative experiences of taxpayers in dealing with the requirements of tax rules and legislations. The complexity of the tax system and the uncertainty in tax law may increase compliance costs for taxpayers, as well as some anxiety in the process of paying taxes. Therefore, as a result of tax complexity, psychological costs have increased. It is thus quite important to include them in the estimative of compliance costs. However, they are difficult to put a price on. Some taxpayers use the services of a tax advisor to reduce their level of concern, and then the psychological costs are transformed into monetary costs.

Psychological costs are intangible and not a monetary cost. In addition, there is no generally accepted definition or a common method to evaluate them. From one taxpayer to another, psychological costs are difficult if not impossible to quantify. Therefore, the psychological costs are not subject to evaluation in many studies. However, they should not be neglected (Woellner, 2007)

2.6. CONCEPTUAL FRAMEWORK

This study assumes that the factors under discussion have a direct influence on tax compliance among large corporate tax payers in Ethiopia. The relationship between the dependent and the independent variables is illustrated in the conceptual framework presented in figure.

Figure 2: Conceptual framework



CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter presents the methodological concerns used in conducting this research, and provides a justification for each step taken. It involves the general research design, population of study, Sample size and sampling technique, Sources of data, research instrument and methods of data analysis.

3.1. RESEARCH METHOD

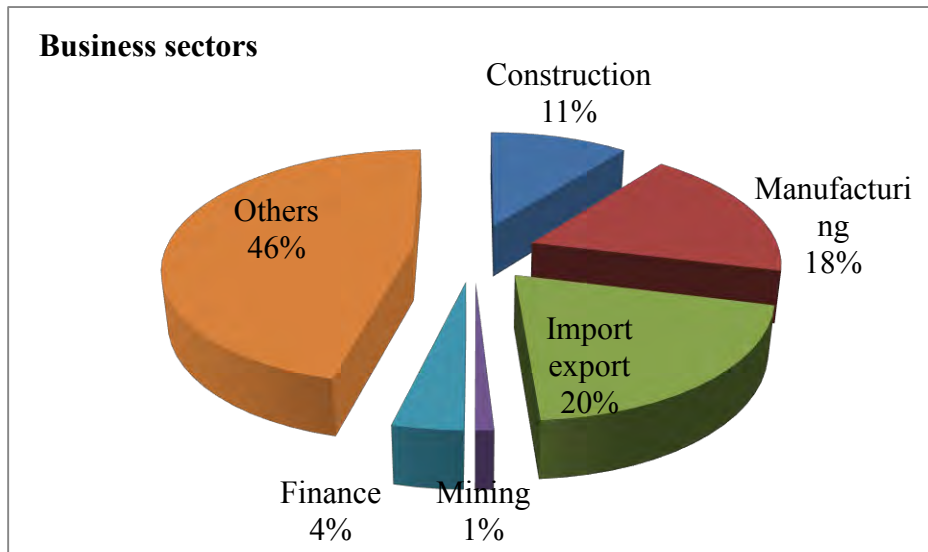
Three main approaches have been employed in tax compliance research: experimental, survey and tax audit approaches. Each of these approaches has been employed in tax research with its own merits and limitations. (Noor Sharoja Sapiei, 2014) An experimental approach was unsuitable for this study because such approaches are only appropriate for studies related to individual taxpayers.

A tax audit approach was not possible, given the confidentiality requirements surrounding corporate tax returns and the limitation in utilizing SIGTAS data. Surveys are used when researcher want to gather data from a large number of people and when it is impractical to meet them all face to face. Therefore, a survey approach which has been used in prior studies to measure tax compliance behavior of corporate taxpayers was deemed most appropriate for this study. (Noor Sharoja Sapiei, 2014)

3.2. POPULATION OF STUDY

The target population for this study was large corporate taxpayers registered in Ethiopia. The population of large corporate taxpayers as at July 7/2015 totaled 999 under six business sector namely Construction (106), manufacturing (182), import export (202), mining (10), finance (38), and Others (government institution, Service, wholesale trade and other) (461). Therefore, the population size of approximately 1,000 was relevant.

Figure 3: Population of study by business sectors



3.3. SAMPLE SIZE AND SAMPLING TECHNIQUE

In view of the researcher's inability to reach out to the entire population, and in order to gain the advantage of an in-depth study and effective coverage, samples are drawn using judgmental sampling from the total population. In selecting judgmental sampling, the following consideration have been taken in to account: Companies which have a tax holiday advantage and governmental organizations were excluded from the main sample due to their higher tax compliance tendency prearranged under the tax authority.

Taxpayers who registered or transfer to large tax payer's office within three or less than three years are also excluded due to low level of experience and representation. After excluding these organizations and companies, the final sample numbered 139 companies. A total of 139 questionnaires were administered randomly to these respondents. At the end of the fieldwork, total of 105 of usable questionnaires were retrieved representing approximately 77% response rate and all were used in the analysis.

3.4. SOURCES OF DATA

Primary data collection is necessary when a researcher cannot find the data needed from secondary sources, especially when the researcher is interested in primary data about demographic characteristics, attitude/opinion/interest, awareness/knowledge, intentions,

motivation and behavior. Therefore the data required for this research was collected mainly from primary sources through self-administered questionnaire. Questioners used in this study were validity-tested in previous studies. (Noor Sharoja Sapiei, 2014)

Other tax compliance related issues and concepts were collected from secondary data sources. From relevant legislation enacted in connection with the topic, tax journals, as well as articles published in the media.

3.5. RESEARCH INSTRUMENTS

In designing the research instrument, the available tools on tax compliance behavior were considered first. (Noor Sharoja Sapiei, 2014) The questions, with some innovations and modifications made to them to account for the specific characteristics of the Ethiopian corporate tax system, focused on factors that were considered relevant to this study of large corporate taxpayers. The questionnaire comprised of four parts, referred to as section A to D. The first Section (Section A) contained questions about the costs of complying with corporate income tax law. Section B generally elicited information on respondents' perceptions and opinions on a number of tax attitudinal aspects and Section C sought information on compliance behaviours of corporate taxpayers. The last Section, which is Section D focused on economic and demographic characteristics of companies.

3.6. METHODS OF DATA ANALYSIS

As indicated on the above questionnaire description, four groups of questions were posed to the respondent's (business owners, tax manager, general/non-Financial manager, accountants, professional auditors and tax agents) to measure their view about each pre provided and assumed compliance factor. The data was analyzed by coding according to variables in the study. After completion of coding, the data was classified on the basis of common characteristics and attributes. The raw data was then assembled and tabulated in form of statistical tables to allow for further analysis. The Statistical Package for Social Sciences (SPSS) was used to aid in the statistical analysis of the data.

3.7. OPERATIONALIZATION OF VARIABLES

The measurement of variables in the study and relationship between the variables and the survey questions are illustrated as follows.

A. Tax compliance costs

In this study, the measurement of estimated tax compliance costs applied most of the techniques employed by established researchers who have carried out studies in this field. (Noor Sharoja Sapiei, 2014) Consistent with these studies, computations of compliance costs for corporate taxpayers included all measurable components, namely, the internal, external and incidental costs of tax compliance activities

- a. Internal cost:* computed by multiplying annual time spent on tax activities to their respective hourly wage rate.
- b. Incidental:* computed by adding costs incurred within companies and by external tax professionals.
- c. External:* money cost charged by external tax professionals solely on tax activities

B. Tax attitudinal aspects

Measurement of tax attitudinal aspects refers to the measurement of the managerial attitudes of respondents towards some features of taxation. The description of each aspect and the sources referred to in the development of questions regarding attitudinal aspects were based on a number of earlier tax compliance studies (Noor Sharoja Sapiei, 2014).

Respondents were requested to indicate their agreement or disagreement with each statement using a five-point Likert scale, (Strongly agree, Agree, Neutral, Disagree, and Strongly disagree). Therefore the manner of data analysis was such that frequencies of the first two response categories were added and taken to mean that the factor in question was agreeable. On the other hand, the frequencies of the last two categories were added to mean that the factor under consideration was questionable. The third response category was taken as undecided.

C. Tax compliance behaviour

In this study, tax compliance behaviour was measured by gathering responses from hypothetical tax scenarios. These scenarios were introduced to mitigate the sensitive nature of the questions involved so that respondents would be more likely to provide truthful responses. (Noor Sharoja Sapiei, 2014) As most corporations would have strong incentives to avoid revealing their non-compliance decisions, any direct measures would invariably suffer from substantial measurement errors.

In this study, a modified version of the non-compliance scenarios developed by (Chan, 2000) for individuals was utilized to gather data on the hypothetical non-compliance behaviour of corporate taxpayers. The respondents were requested to read two tax non-compliance scenarios about the under-reporting of income and the over-claiming of expenses. The extent of agreement with the under-reporting of income and the over-claiming of expenses was measured via a five-point Likert scale and then the overall-non compliance computed from each average. Higher scores would indicate likely non-compliance behaviour and vice-versa.

Table 1: Operationalization of variables

Objective	Variable	Indicator	Assumption of the model
To assess the general compliance level of large tax payers	Dependent	Under-Reporting of Income Over-Claiming of Expense Over-All non compliance	As most corporations would incentives to avoid revealing their decisions, any direct measures suffer from substantial measurement
To identify effect of tax compliance cost on non compliance behaviour	Independent	Internal Incidental External	A reduction in tax compliance cost level of non-compliance among taxpayers.
To identify effect of corporate characteristics on non compliance behaviour	Independent	Business Size Business Sector Business Age Tax Liability	There is a relationship between characteristics and non-compliance taxpayers.
To identify effect of tax attitudinal aspects on non compliance behaviour	Independent	Tax Complexity Tax Rate Structure Tax Deterrence Sanctions Tax Law Fairness Tax Psychological cost	There is a relationship between aspects and non-compliance taxpayers.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

This chapter describes the results of the field study starting with summary of the survey, response rates and respondents' profile. The remainder of this chapter will then be divided into the following three sections: The first section covers descriptive analysis of the variables. The second section covers determinants of tax compliance behavior. In the final section content analysis of open ended survey questions will be presented.

4.1. SURVEY DISTRIBUTION AND RESPONSE RATES

The study is based on a survey of 139 respondents. The sample constitutes around 14% of the target population. A total of 139 questionnaires were administered randomly to these respondents. At the end of the fieldwork, total of 105 of usable questionnaires were retrieved representing approximately 77% response rate and all were used in the analysis.

According to (Mugenda, 1999) a 50% response rate is adequate, 60% good and above 70% is rated very well. This also concurs with (Kothari, 2004) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on these assertions; the response rate for this study, 77% is very good.

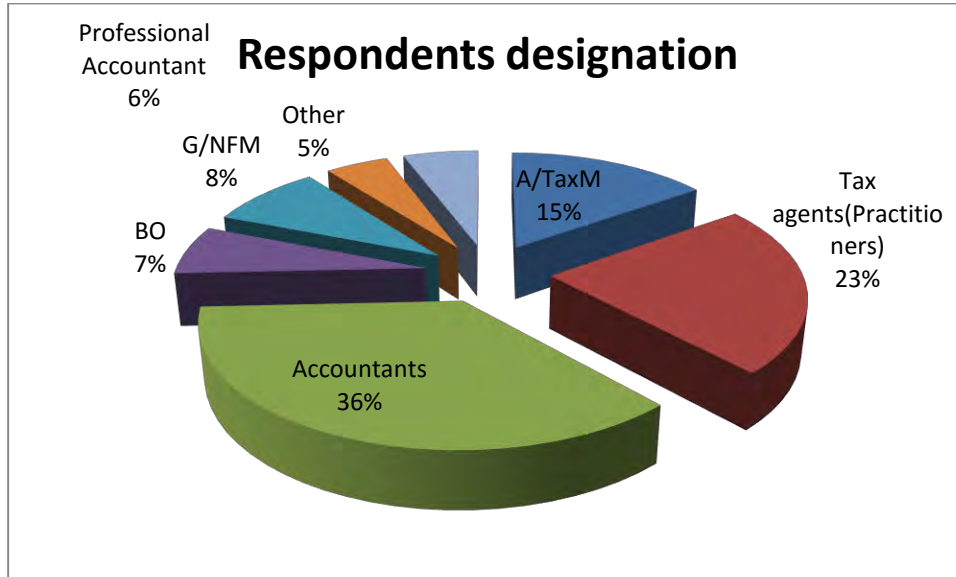
4.2. RESPONDENTS' PROFILE

Attributes that were within the purview of demographic background characteristics of respondents were discussed in this section of data presentation. Demographic background attributes such as respondents designation, business sector, sales turnover, business length, tax liability, professionals' designation and source of income tax work of respondents were discussed under different sub-headings.

4.2.1. Position of respondent in the organization

Out of the 105 respondents 5.71% were Professional Accountant, 6.67% were Business Owners, 8.75% were General/non-financial managers, 15.24 % Finance/tax managers, 22.86% Tax

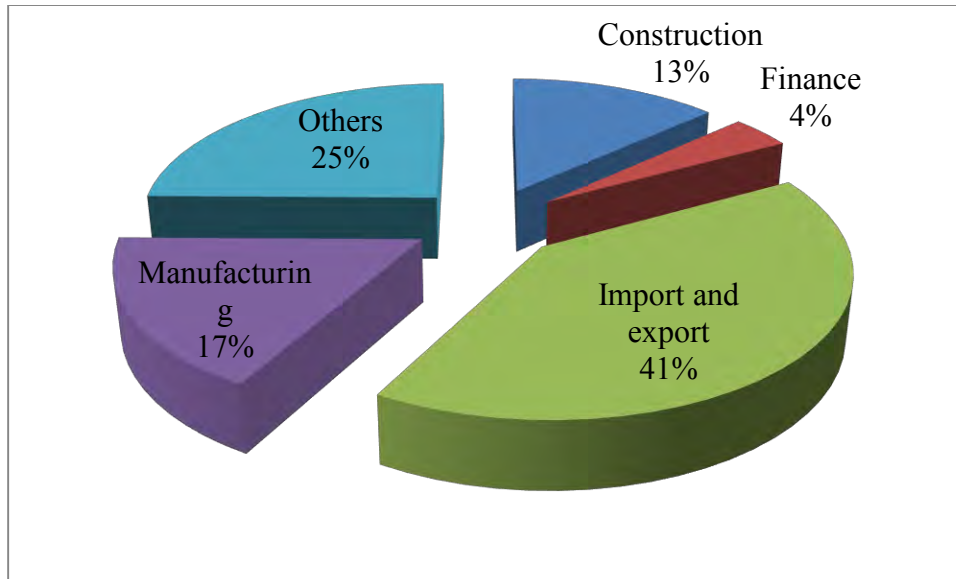
agents, 36.19% Accountants and the remaining 4.76% were other employees in the organization. This confirmed the reliability of the data sources as they emanated from key and responsible people in the organizations.



4.2.2. Business sector

For the purpose of effective and strategic management, the large tax payer's branch office (LTO) classifies its tax payers on six major sectors. Construction (106), manufacturing (182), import export (202), mining (10), finance (38), and Others (government institution, Service, wholesale trade and other) (461). Therefore from the total sample taken, (13%) were construction companies, (17%) were from manufacturing, (41%) were import and export companies, (4%) financial institution and the remaining (25%) were from other companies. Those that indicated 'other' was identified as companies that operated as whole sale trade, hotels and other similar service. The Ethiopian government wants manufacturing to have a "dominant role" in the economy over the next decade. However, the result indicated that enormous number of investors take part mainly on international trade which suffering a negative trade balance (import more goods than exports)

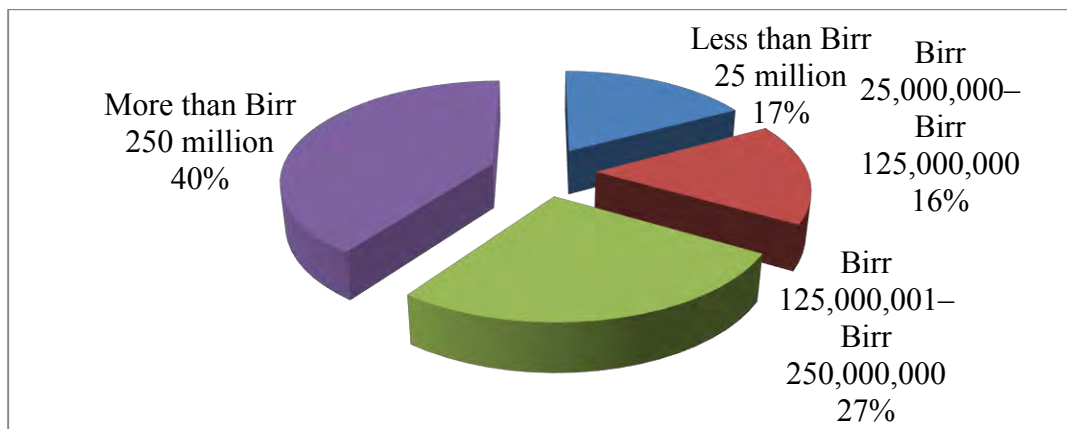
Figure 4: Business Sector



4.2.3. Sales turnover

As for the size of business, the highest response rate was from respondents in companies with an annual sales turnover level of more than 250 million birr, followed by those from companies with an annual sales turnover level between 125 million birr and 250 million birr. The remaining respondents were from companies in the minimum two levels of annual sales turnover, with almost equal representation in each category (17% and 16%, respectively). This signifies that Ethiopian large corporate taxpayers are currently making their hand strong through achieving elevated annual sales (income).

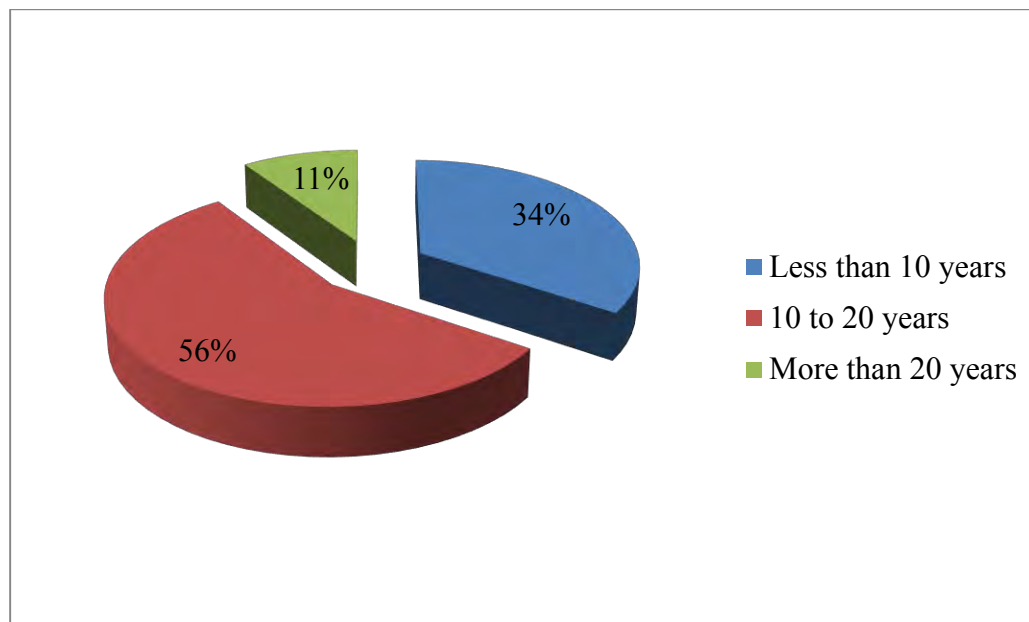
Figure 5: Business Size



4.2.4. Business length

Figure 4.3 represent the age statistics. There were three age groups involved in this study with a 10-year range in each group except for ‘more than 20 years’ category. The majority of companies (56%) had been in operation for 10 up to 20 years, while 34% had been in operation for more than 20 years. Only 10% of companies were in the ‘Less than 10 years’ category. This signifies that the sample companies had adequate experience in dealing with tax related issues.

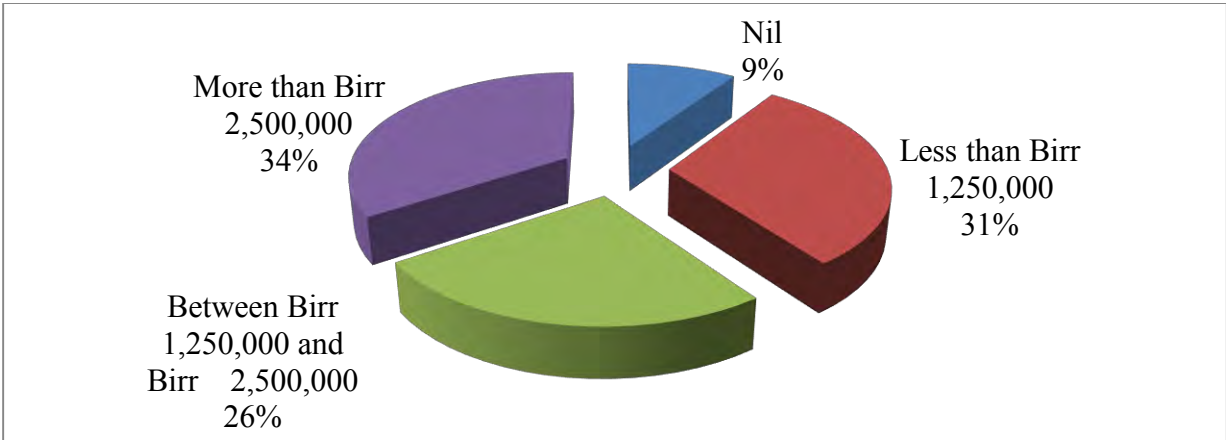
Figure 6: Business length



4.2.5. Tax liability

Respondents were requested to indicate how much tax liability their company had for the year of assessment 2014. The majority of companies (34%) had a tax liability of more than 2,500,000 birr, while 31% of companies indicated their tax liability to be less than 1,250,000 birr and 26% of companies had a tax liability between 1,250,000 and 2,500,000 birr. The remaining 9% of companies had a nil tax liability for the year of assessment 2014. Conceptually higher numbers of corporate tax payers involve themselves in to top taxpayers list. However, for countries like Ethiopia which expects 70 percent of its annual tax revenue from only 1000 taxpayers, zero tax announcements of 90 taxpayers has a meaning.

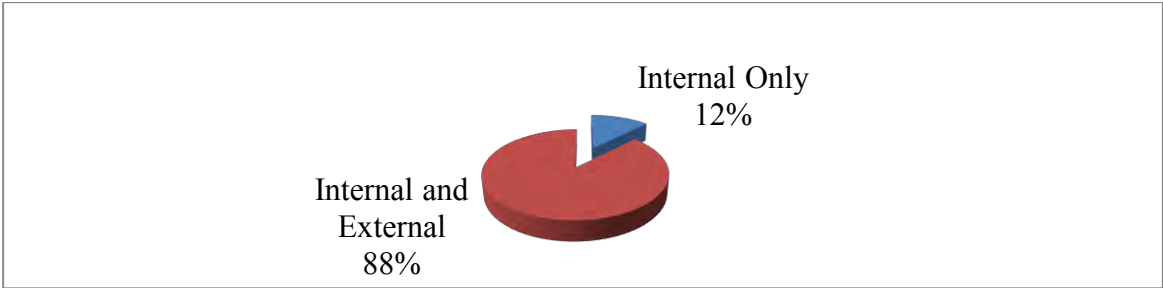
Figure 7: Tax liability

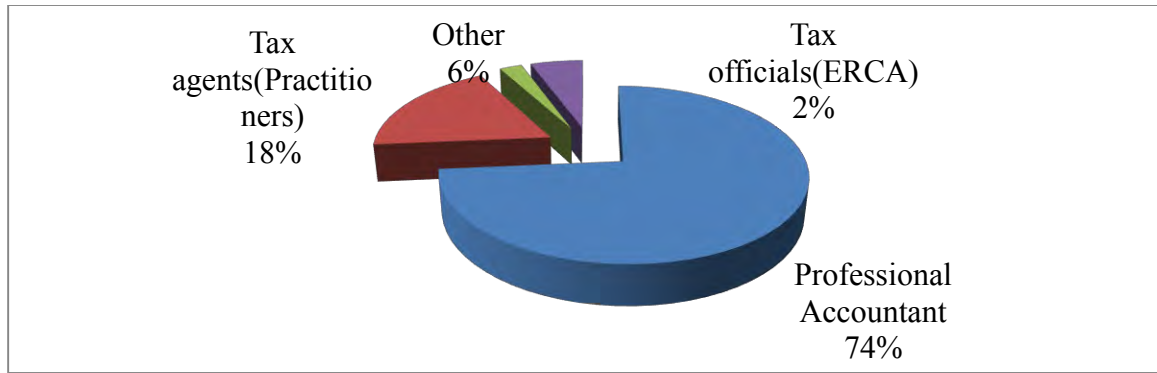


4.2.6. Source of income tax work

With respect to sources of income tax work, some companies handled their tax affairs internally and a large proportion of corporate taxpayers made use of both sources. Almost 88% of the respondent companies employed external tax professionals (professional accountant 74%, tax agents 18%, tax officials 2% and other practitioners 6%) to deal with their income tax matters. Only 12% of companies were very dependent on their internal tax expertise. Most companies employed external tax professionals to handle tax matters on their behalf. External tax professionals with their superior knowledge and expertise may have the ability to influence their clients’ compliance behaviour. This signify, the emerging reliance on professionals, will provide investors to focus on new investment idea rather than complicated tax issues and they have not fallen foul of the law.

Figure 8: Source of income tax work





4.3. DESCRIPTIVE ANALYSIS OF THE VARIABLES

This section provides descriptive analysis of the variables of this study, namely tax compliance costs, tax attitudinal aspects and tax compliance behaviour.

4.3.1. Tax compliance costs

The estimation of tax compliance costs for each company was the summation of its measurable internal, external and incidental cost components. The estimates of tax compliance costs at the company level ranged widely, from a low of 5,400 birr to a high of 345,600 birr, with a mean of 128,587.04 birr. The largest share of estimated mean compliance costs by cost component was related to external costs (74.57%), followed by internal costs (12.93%). The remaining (12.5%) was related to incidental costs in complying with tax laws. This result indicate that the emerging reliance on professionals, cost business owners huge amount of many. Taxpayers use the services of a tax advisor to reduce their level of concern.

4.3.2. Perceptions and opinions

Concerning the tax attitudinal variable, each aspect was analyzed using the mean, median and standard deviation scores. Perceptions of tax psychological costs yielded the highest mean (3.57), followed by tax law fairness (2.87), tax rate structure (2.77), tax deterrence sanctions (2.75), and lastly, tax complexity (2.42). Considering the average mean of (2.5), Tax deterrence sanctions were perceived to be marginally fair, while tax complexity were perceived to be a little bit low.

Although psychological cost are difficult to put a price on, the highest mean result of tax psychological costs indicate that psychological cost of tax issues (tax compliance requirement) have caused stress and anxiety to taxpayers. Mean result for tax law fairness signifies that the move to self assessment system made income tax burden fair among taxpayers. Similarly mean result of tax rate structure illustrates large taxpayer's agreement of the current applying tax rate fairness. A Cronbach's alpha value indicates that the measurements employed in this study are reliable and consistent.

Table 2: Perceptions and opinions

		Complexity	Tax Rate Structure	Tax Deterrence Sanctions	Tax Law Fairness	Tax Psychological Cost
N	Valid	105	105	105	105	105
	Missing	0	0	0	0	0
Mean		2.42	2.77	2.75	2.87	3.57
Median		2.67	2.67	2.75	3.00	4.00
Std. Deviation		0.56	0.44	0.66	0.55	1.23

In assessing construct validity, a factor analysis conducted using a rotated component matrix supported the four subscales of tax attitudinal aspects: tax complexity, tax rate structure, tax deterrence sanctions and tax law fairness. The Kaiser-Meyer- Olkin (KMO) Statistic was 0.566, suggesting that sampling in the current study was adequate. Bartlett's Test of Sphericity was highly significant ($p=0.00$), indicating that factor analysis was appropriate for these survey data. A KMO value of greater than 0.5 and the significant result indicated that the construct validity of each statement and the related components within each construct were significantly correlated. This is required for results of factor analysis to be acceptable.

Table 3: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.566
Bartlett's Test of Sphericity	Approx. Chi-Square	198.285
	df	66
	Sig.	.000

4.3.3. Tax non compliance behavior

The views of respondents on the full and partial non-compliance behaviour of corporate taxpayers are provided in Table. The extent of agreement on full and partial under-reporting of income and over-claiming of expenses was measured via a five-point likert scale. Regarding the under-reporting of income, a mean score of 3.09 indicated the strong agreement of respondents with this non-compliance behaviour. In other word, most tax payers will not feel guilty when they exclude some earnings unless they are captured. Comparatively, for the over-claiming of expenses, the mean score was slightly lower (2.64). Nevertheless, an overall mean of 2.86 for the under-reporting of income and over-claiming of expenses is an indication of marginally non-compliant behaviour among corporate taxpayers. The mean score of the respondents' views towards partial non-compliance behaviour for both scenarios was lower, compared to the findings of full compliance behaviour. An overall mean score of 2.13 provided some indication of marginally compliant behaviour.

Table 4: Tax non compliance behavior

Tax non-compliance behaviour	Full			Partial		
	Mean	Median	Std. Deviation	Mean	Median	Std. Deviation
Under-Reporting of Income	3.09	4.00	1.14	1.96	2.00	0.81
Over-Claiming of Expense	2.64	2.00	1.33	2.30	2.00	0.62
Overall-Non Compliance	2.86	3.00	1.18	2.13	2.00	0.53

4.4. DETERMINANTS OF TAX COMPLIANCE BEHAVIOR

Multiple regression analysis was utilized to identify the determinants of the tax non-compliance behaviour of corporate taxpayers. The predictor variables for the regression analyses were corporate characteristics (business size, business sector, business length, and tax liability), tax compliance costs, and tax attitudinal aspects (tax complexity, tax rate structure, tax deterrence sanctions, tax law fairness and tax psychological costs). (Noor Sharoja Sapiei, 2014)

Assessments of the four assumptions underlying the regression analysis, namely, normality, linearity, homoscedasticity and multicollinearity, revealed that no assumptions for multiple regressions were violated. Three regression analyses were carried out separately to identify the likely tax non-compliance behaviour of corporate taxpayers. All regressions were found to be statistically significant at five per cent level:

4.4.1. Under-reporting of income

The predictor variables explained 59.5% of the variability in the non-compliance behaviour of corporate taxpayers ($F=16.252$, $p<0.05$). Only three variables were found to be significant determinants of tax non-compliance behaviour in terms of the under-reporting of income. The predictors include business size ($t=5.209$, $p<0.05$), Business age ($t=-6.335$, $p<0.05$), tax psychological costs ($t=-3.789$, $p<0.05$). Companies with a higher annual sales turnover, shorter business age and those companies with lower psychological costs tended to be more non-compliant. With other variables held constant, non-compliance behaviours were positively related to company size while negatively related to business age and tax psychological cost .

With other variables held constant, non-compliance behaviours were positively related to business size. This implies non-compliance was greater for companies with a higher annual sales turnover. This is due to the fact that larger company's frequent and huge amount of transaction sometimes become unmanageable. It is also identified that deliberate misrepresentation is done for the intent of minimizing tax liability.

Regarding business age, companies with a shorter business age tended to be more non-compliant. This due to the level of tax knowledge gaind and another possible explanation may be due to and working experience. This findings support previous studies of (Tittle, 1980); (Wärneryd, 1982) and (Wahlund, 1992), which evidenced that age could have a negative effects on compliance. However some other studies (Clotfelter, 1983), (Dubin J. A., 1986) and (Beron, 1992) argued on a positive or no effect relationship at all between age and compliance (Spicer M. a., 1976); (Spicer M. W., 1980) and (Porcano, 1988).

Regarding tax psychological cost, Non-compliance behaviour was negatively related to tax psychological costs. Companies with lower psychological costs tended to be more non-compliant

with respect to non-compliance behaviour. This finding support the work of (Noor Sharoja Sapiei, 2014), in that the tax compliance requirement cause some anxiety in the process of paying taxes, Therefore, as such frustrations increase, taxpayers show compliance behavior so as to reduce their cost of mental and emotional costs

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.796 ^a	.634	.595	.55033

a. Predictors: (Constant), Tax psychological cost, business size, tax compliance cost, business sector, tax law fairness, tax deterrence sanctions, tax rate structure, tax liability, complexity, business length

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.221	10	4.922	16.252	.000 ^b
	Residual	28.469	94	.303		
	Total	77.690	104			

a. Dependent Variable: Under Reporting Income

b. Predictors: (Constant), Tax psychological cost, business size, tax compliance cost, business sector, tax law fairness, tax deterrence sanctions, tax rate structure, tax liability, complexity, business length

Table 5: Estimates of coefficient results summary of multiple regressions

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.909	.623		7.884	.000		
	Sector	.025	.045	.036	.541	.590	.870	1.150
	Size	.292	.056	.377	5.209	.000	.744	1.344
	Taxliability	.040	.057	.046	.693	.490	.868	1.152
	BusinessLength_R	-.767	.121	-.547	-6.335	.000	.523	1.913
	TaxComplianceCost	-2.623E-07	.000	-.027	-.412	.681	.922	1.084
	Complexity	-.163	.110	-.106	-1.477	.143	.758	1.318
	TaxRateStructure	-.190	.130	-.097	-1.459	.148	.875	1.143
	TaxDeterrenceSanctions	-.011	.086	-.008	-.125	.901	.906	1.104
	TaxLawFairness	-.088	.105	-.056	-.833	.407	.872	1.147
	TaxPsychologicalCost	-.237	.063	-.338	-3.789	.000	.491	2.037

a. Dependent Variable: Under Reporting Income

4.4.2. Over-claiming of expenses

When it came to the over-claiming of expenses, the regression was a rather poor fit. The predictor variables explained 54.8% of the variability in the non-compliance behaviour of corporate taxpayers and overall relationship was significant ($F=13.611$, $p<0.05$). Six variables were found to be significant determinants of the non-compliance behaviour of corporate taxpayers. The predictors were business size ($t=4.743$, $p<0.05$), tax liability ($t=-2.632$, $p<0.05$), Business age ($t=-5.552$, $p<0.05$), tax compliance cost ($t=-1.969$, $p<0.05$), tax rate structure ($t=-2.359$, $p<0.05$), and tax psychological costs ($t=-2.559$, $p<0.05$).

With other variables held constant, non-compliance behaviour was negatively related to tax liability, business age, tax compliance cost, tax rate structure and tax psychological costs. Companies with a higher annual sales turnover, a lower tax liability and those with shorter business age were more non-compliant. The result also signified that non-compliance was greater for companies with a higher compliance cost, lower psychological costs and lower perception of fairness in the tax rate structure. It can therefore be deduced that for the majority of companies, the costs they incurred in tax compliance affects their compliance levels.

With other variables held constant, non-compliance behaviours were positively related to business size. This implies non-compliance was greater for companies with a higher annual sales turnover. This is due to the fact that larger company's frequent and huge amount of transaction sometimes become unmanageable. It is also identified that deliberate misrepresentation is done for the intent of minimizing tax liability.

With regard to tax liability, Non-compliance behaviour was negatively related to tax liability. Companies with a lower tax liability were more non-compliant. Companies with higher tax liability try to make the tax due as much as possible. According to the income tax proclamation 286/02 all applicable penalties and interest are computed based on unpaid tax liability.

Regarding business age, companies with a shorter business age tended to be more non-compliant. This due to the level of tax knowledge gained and another possible explanation may be due to and working experience. This findings support previous studies of (Tittle, 1980); (Wärneryd, 1982) and (Wahlund, 1992), which evidenced that age could have a negative effects

on compliance. However some other studies (Clotfelter, 1983), (Dubin J. A., 1986) and (Beron, 1992) argued on a positive or no effect relationship at all between age and compliance (Spicer M. a., 1976); (Spicer M. W., 1980) and (Porcano, 1988).

With regard to compliance cost, non-compliance behaviour was negatively related to tax compliance costs. The result also signified that non-compliance was greater for companies with a higher compliance cost. This support theoretical literature of (Slemrod J. , 1985) If tax payers thought that transportation was an additional cost, he might think of lowering his tax to offset such inconveniences. The survey result also show that the use of tax practitioners and reliance on them increase time to time. Most of tax payers had tax consultant hiring experience to process their tax matter.

With tax rate structure, non-compliance behaviour was negatively related to tax rate structure. With other variables held constant, non-compliance was greater for companies with lower perception of fairness in the tax rate structure. This was supported by the study by (Wenzel, 2003) which claimed that if a specific group perceived their tax liability was higher than other groups, then tax evasion might occur among the group members. (Cowell, 1992), shows that taxpayer will reduce tax evasion when perceiving equity. (Falkinger, 1995), has pointed out concrete economic situations in which individuals reduce evasion if the socio-economic system is considered to be relatively equal and fair. The fairness of a system in which a person lives may result in bad reputation for evaders if people consider evasion to be blame-worthy, so that risk aversion will increase with perceived equity.

Regarding tax psychological cost, Non-compliance behaviour was negatively related to tax psychological costs. Companies with lower psychological costs tended to be more non-compliant with respect to non-compliance behaviour. This finding support the work of (Noor Sharoja Sapiei, 2014), in that the tax compliance requirement cause some anxiety in the process of paying taxes, Therefore, as such frustrations increase, taxpayers show compliance behavior so as to reduce their cost of mental and emotional costs

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.769 ^a	.592	.548	.53113

a. Predictors: (Constant), Tax psychological cost, business size, tax compliance cost, business sector, tax law fairness, tax deterrence sanctions, tax rate structure, tax liability, complexity, business length

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.397	10	3.840	13.611	.000 ^b
	Residual	26.517	94	.282		
	Total	64.914	104			

a. Dependent Variable: Over Claiming Expense

b. Predictors: (Constant), Tax psychological cost, business size, tax compliance cost, business sector, tax law fairness, tax deterrence sanctions, tax rate structure, tax liability, complexity, business length

Table 6: Estimates of coefficient results summary of multiple regressions

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	5.047	.601		8.399	.000		
	Sector	.026	.044	.042	.599	.550	.870	1.150
	Size	.256	.054	.362	4.743	.000	.744	1.344
	Taxliability	-.145	.055	-.186	-2.632	.010	.868	1.152
	BusinessLength_R	-.648	.117	-.506	-5.552	.000	.523	1.913
	TaxComplianceCost	-1.209E-06	.000	-.135	-1.969	.050	.922	1.084
	Complexity	-.047	.107	-.034	-0.444	.658	.758	1.318
	TaxRateStructure	-.297	.126	-.166	-2.359	.020	.875	1.143
	TaxDeterrenceSanctions	.005	.083	.004	.056	.955	.906	1.104
	TaxLawFairness	-.076	.102	-.053	-.751	.455	.872	1.147
	TaxPsychologicalCost	-.154	.060	-.241	-2.559	.012	.491	2.037

a. Dependent Variable: Over Claiming Expense

4.4.3. Overall non-compliance behaviour

The predictor variables explained almost 68.1% of the variability in the overall non-compliance behaviour of corporate taxpayers. Business size ($t=6.316$, $p<0.05$), business age ($t=-7.547$, $p<0.05$), tax rate structure ($t=-2.411$, $p<0.05$), and tax psychological costs ($t=-4.039$, $p<0.05$) were found to be significant determinants of corporate non-compliance behaviour.

Non-compliance behaviour was negatively related to business age, tax rate structure and tax psychological costs. Companies with a higher annual sales turnover, a lower tax liability and those with shorter business age were more non-compliant. The result also signified that Companies with lower psychological costs tended to be more non-compliant with respect to overall non-compliance behaviour.

With other variables held constant, non-compliance behaviours were positively related to business size. This implies non-compliance was greater for companies with a higher annual sales turnover. This is due to the fact that larger company's frequent and huge amount of transaction sometimes become unmanageable. It is also identified that deliberate misrepresentation is done for the intent of minimizing tax liability.

Regarding business age, companies with a shorter business age tended to be more non-compliant. This due to the level of tax knowledge gained and another possible explanation may be due to and working experience. This findings support previous studies of (Tittle, 1980); (Wärneryd, 1982) and (Wahlund, 1992), which evidenced that age could have a negative effects on compliance. However some other studies (Clotfelter, 1983), (Dubin J. A., 1986) and (Beron, 1992) argued on a positive or no effect relationship at all between age and compliance (Spicer M. a., 1976); (Spicer M. W., 1980) and (Porcano, 1988).

With tax rate structure, non-compliance behaviour was negatively related to tax rate structure. With other variables held constant, non-compliance was greater for companies with lower perception of fairness in the tax rate structure. This was supported by the study by (Wenzel, 2003) which claimed that if a specific group perceived their tax liability was higher than other groups, then tax evasion might occur among the group members. (Cowell, 1992), shows that taxpayer will reduce tax evasion when perceiving equity. (Falkinger, 1995), has pointed out

concrete economic situations in which individuals reduce evasion if the socio-economic system is considered to be relatively equal and fair. The fairness of a system in which a person lives may result in bad reputation for evaders if people consider evasion to be blame-worthy, so that risk aversion will increase with perceived equity.

Regarding tax psychological cost, Non-compliance behaviour was negatively related to tax psychological costs. Companies with lower psychological costs tended to be more non-compliant with respect to non-compliance behaviour. This finding support the work of (Noor Sharoja Sapiei, 2014), in that the tax compliance requirement cause some anxiety in the process of paying taxes, Therefore, as such frustrations increase, taxpayers show compliance behavior so as to reduce their cost of mental and emotional costs

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.844 ^a	.712	.681	.42633

a. Predictors: (Constant), Tax psychological cost, business size, tax compliance cost, business sector, tax law fairness, tax deterrence sanctions, tax rate structure, tax liability, complexity, business length

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.227	10	4.223	23.232	.000 ^b
	Residual	17.085	94	.182		
	Total	59.312	104			

a. Dependent Variable: Over All Noncompliance

b. Predictors: (Constant), Tax psychological cost, business size, tax compliance cost, business sector, tax law fairness, tax deterrence sanctions, tax rate structure, tax liability, complexity, business length

Table 7: Estimates of coefficient results summary of multiple regressions

		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	4.978	.482		10.320	.000		
	Sector	.025	.035	.043	.723	.472	.870	1.150
	Size	.274	.043	.405	6.316	.000	.744	1.344
	Taxliability	-.053	.044	-.071	-1.192	.236	.868	1.152
	BusinessLength_R	-.707	.094	-.578	-7.547	.000	.523	1.913
	TaxComplianceCost	-7.357E-07	.000	-.086	-1.493	.139	.922	1.084
	Complexity	-.105	.086	-.078	-1.230	.222	.758	1.318
	TaxRateStructure	-.243	.101	-.143	-2.411	.018	.875	1.143
	TaxDeterrenceSanctions	-.003	.066	-.003	-.046	.963	.906	1.104
	TaxLawFairness	-.082	.082	-.060	-1.005	.317	.872	1.147
	TaxPsychologicalCost	-.196	.048	-.319	-4.039	.000	.491	2.037

a. Dependent Variable: Over All Noncompliance

4.5. CONTENT ANALYSIS OF OPEN-ENDED QUESTIONS

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

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

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

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

- Most of respondents believed that equally penalize all tax payers who do not obey the law give a lesson for those who wish to evade tax and re-firen them from such activity. This was supported by the study by (Wenzel, 2003) which claimed that if a specific group perceived their tax liability was higher than other groups, then tax evasion might occur among the group members.
- Most respondents expressed that lack of working capital (cash on hand) moderate their tax compliance decision. This argument lends support to the study of (Mohani A. , 2001), which reported that taxpayers who faced financial problems were more prone to evading tax in comparison with those in less financial distress.
- Lack of tax knowledge was cited as the chief reason for tax evasion (non compliance) and the respondents strongly commented that great effort has to be employed in this area. Several respondents firmly commented that tax authority does not provide sufficient education which focus on awareness creation and enhance the smooth relationships with tax payers.
- Respondents also suggested that resistance from other tax payers or obligated to pay tax make compliance decision difficult. A number of traders refuse to supply legal receipt and sometimes refuse to accept withholding agents.
- In addition to the above points, Finally A number of respondents expressed that publication of non compliant companies in daily gazettes, can make light of tax evasion (indemnify compliance).

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1. CONCLUSION

While tax compliance has been an academic research topic in Ethiopia, there has not been detailed consideration of the major determinants of tax compliance in large corporate taxpayers. The primary objective of this study was to gain insight into the influence of some possible causes that affect the compliance behavior of large corporate tax payer's in Ethiopia. Based on an objective analysis of data and discussion of findings, the following are the summary of major findings and conclusions of this study.

Ten potential determinants of tax non-compliance were examined in this study, namely tax compliance cost, business sector, business size, tax liability, business age, sector, length, and tax attitudinal aspects such as tax complexity, tax rate structure, tax deterrence sanctions, fairness in the tax rate/ tax system and perceived level of psychological costs.

The results revealed that business size, business age and tax psychological cost consistently influence the likelihood of tax non-compliance behaviour in the areas of under-reporting income, over-claiming expenses and overall non-compliance. Nonetheless, business sector, tax complexity, fairness in the tax rate/ tax system and tax deterrence sanctions have an insignificant relationship with the non-compliance behaviour of corporate taxpayers. Tax liability, compliance cost and tax rate structure are significant determinants in at least one type of non-compliance behaviour.

- With regard to business size, companies with a higher annual sales turnover tended to be more non-compliant. With other variables held constant, non-compliance behaviours were positively related to business size. This implies non-compliance was greater for companies with a higher annual sales turnover.
- With regard to business age, companies with a shorter business age tended to be more non-compliant. With other variables held constant, non-compliance behaviours were negatively related to business age. This findings support previous studies of (Tittle, 1980); (Wärneryd,

1982) and (Wahlund, 1992), which evidenced that age could have a negative effects on compliance. However some other studies (Clotfelter, 1983), (Dubin J. A., 1986) and (Beron, 1992) argued on a positive or no effect relationship at all between age and compliance (Spicer M. a., 1976); (Spicer M. W., 1980) and (Porcano, 1988).

- With regard to tax psychological cost, Non-compliance behaviour was negatively related to tax psychological costs. Companies with lower psychological costs tended to be more non-compliant with respect to non-compliance behaviour.
- With regard to tax liability, Non-compliance behaviour was negatively related to tax liability. Companies with a lower tax liability were more non-compliant. Companies who face financial problems are likely to be more prone to evade tax when compared to companies in less financial distress (Mohani A. a., 2004) (Mohani A. , 2001). (Fjeldstad O. a., 2003), argue that in African countries like Namibia and South Africa, the non payment is due to poverty or inability to pay. This issue holds true in Ethiopia also where several business operators are accumulating their annual tax obligations due to lack of ability to pay. Generally when taxpayers owned large amount of tax liability, they used to consume the return from sales, it is clear that tax evasion is inevitable and leads to tax arrears.
- With regard to compliance cost, non-compliance behaviour was negatively related to tax compliance costs. The result also signified that non-compliance was greater for companies with a higher compliance cost. This support theoretical literature of (Slemrod J. , 1985) If tax payers thought that transportation was an additional cost, he might think of lowering his tax to offset such inconveniences. The survey result also show that the use of tax practitioners and reliance on them increase time to time. Most of tax payers had tax consultant hiring experience to process their tax matter.
- With tax rate structure, non-compliance behaviour was negatively related to tax rate structure. With other variables held constant, non-compliance was greater for companies with lower perception of fairness in the tax rate structure. This was supported by the study by (Wenzel, 2003) which claimed that if a specific group perceived their tax liability was higher than other groups, then tax evasion might occur among the group members. (Cowell, 1992), shows that taxpayer will reduce tax evasion when perceiving equity. (Falkinger, 1995), has

pointed out concrete economic situations in which individuals reduce evasion if the socio-economic system is considered to be relatively equal and fair. The fairness of a system in which a person lives may result in bad reputation for evaders if people consider evasion to be blame-worthy, so that risk aversion will increase with perceived equity.

- Regarding open ended question, inconvenient location, government spending, audit likelihood, detection likelihood, penalty, dilatory refund system, negative attitude and weak performance of the staff, underprivileged information system, lack of tax knowledge, lack of working capital, complex tax return procedure, and bureaucratic tax operation canon affect their tax compliance decision negatively.
- In general, other factors such as business sector, tax complexity, fairness in the tax rate/ tax system and tax deterrence sanctions have found to have little or no significant impact on tax compliance at the time of this study. There for it is advisable to capitalize on the above factors to bolster taxpayers' voluntary compliance.

5.2. RECOMMENDATIONS

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

- Even if the applying tax rate on different income types appears reasonable it has to be reduced as much as possible
- Taking appropriate measure for a new happenings and fastest feedback
- The tax payers always expect fair answers to their queries. This does not only mean simply giving an answer to their questions but also this need to be done without discrimination and bias. Similarly tax payers who engage in tax evasion need to be penalized equally so as to

fairly implement the tax system. Therefore the branch office should treat/serve equal tax payers in equal circumstances in an equal way.

- In order to attain developmental goal and to boost voluntary compliance, the authority must involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly. The current preliminary application of customer charter can be considered as a good start.
- In order to implement the tax law effectively and efficiently, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers. Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. Capability to detect fraud or evasion is crucial to tax compliance for instance as it would not be practical to audit all cases, the fear of being caught would be sufficient to act as a deterrent. Therefore the branch office should perform its operation effectively and efficiently. In addition to the above the authority should undertake criminal prosecution in respect of cases involving fraud or evasion, and where appropriate publish the names of tax evaders.
- Complexity of reporting requirements has a high association with errors detected by tax officials. Voluntary compliance is enhanced when the tax authority administers the law fairly. There for the authority should make the tax law and procedures clear, simple, understandable, transparent and user friendly administrative system.
- Training in any area is important. The authority needs to strengthen itself by educating and training its employees both at home and abroad. Better understanding of the recent domestic and international tax issues facilitate successful formulation of tax compliance strategies. The working conditions of tax officials also need to be improved in order to motivate them to carry out their duties in a more efficient and professional manner.
- If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair. Taxpayers' attitude toward taxation is changed only through sustainable awareness creation programs. Awareness creation should go beyond simply giving tax education to taxpayers. The tax authority should maintain close relationship with the elderly, religious leaders, prominent personalities in the society and

explore such relationship to bring more people into the tax net and also increase the level of taxpayer's compliance. Timely meeting should be encouraged and through this, the general public can more fully understand taxation issues, changes in the law, filing obligations and so on. It is also very important to educate the young citizens/students early on the significance and role of taxes.

- Tax resistance is likely to continue if service provision does not improve. Improvement in service delivery for the majority of citizens is therefore a necessary condition to improve tax compliance. Thus, ERCA should provide strong taxpayer's services particularly during the tax filing stage. The taxpayer's service can be improved by: providing proper guidance on how the tax return forms are to be completed correctly,
- Improving living condition of citizens, avoiding meaningless expenditure and provides enough information about how government utilizes the taxpayer's money enhance voluntary compliance. Therefore, the government should spend taxpayers' money wisely so that tax compliance will increase, thus the tax collection will also increase. In addition government has to inform the taxpayers that those public services are provided by their money. Inability by government to communicate this most important area, will lead to possible speculation and resistance.
- Tax compliance will be developed only with the voluntary participation of the society. Merely relying on stick approach has no far reaching outcome. Hence, the tax authority have to cause taxpayers voluntarily discharge their tax obligations as much as possible. Tax evasion and non-compliance is inevitable in every society or nation. Therefore, it is worthwhile to recommend that the above approach has to be backed by legal enforcement and the efforts must complement each other.

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

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APPENDECIES:

Addis Ababa University

School of Business and Economics

Department of Accounting & Finance

Dear Respondents,

This study is entitled “**Determinants of Tax Compliance Behavior of Large Corporate Taxpayers in Ethiopia**” and conducted in partial fulfilment of the requirements for the master’s degree in Accounting & Finance at Addis Ababa University. Its main objective is to identify and understand the determinants of tax compliance behaviour of large corporate taxpayers in Ethiopia. The research is going to be carried out on your responses and other relevant data that could support it.

The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of taxation. The findings of the research will be submitted to the concerned government bodies so that they can make use of the recommendations made. Hence, the information you will give enable me to critically analyze why large taxpayers comply and/or why not they comply with reporting requirements.

Your cooperation to respond is very important to this study because it represents a number of others who are not included in the sample. The information provided is purely for academic purpose and I would promise that all information you provide would be strictly confidential. In order to accomplish this study, you are kindly request to answer every question; your kind cooperation is highly appreciated.

I thank you very much in advance for your cooperation

Researcher’s Name: Akalu Kibret

Position: MSC student at AUU and tax auditor at ERCA

Phone number 09130745438

E-mail address: habeshanhero@g-mail.com

Determinants of Tax Compliance Behavior of Large Corporate Taxpayers in Ethiopia

SECTION A: TAX COMPLIANCE COSTS

Kindly fill in an approximate estimated time, monetary amount and/or breakdown of the following internal costs of complying with corporate income tax:

1. How much **time** within the company was spent entirely on additional or exclusive work for company income tax purposes for 2014?

	No. of Staff	Total hours/ month	Hourly rate
Business Owners	<input type="text"/>	<input type="text"/>	<input type="text"/>
Accountant / Tax Manager	<input type="text"/>	<input type="text"/>	<input type="text"/>
General / Non-Financial Manager	<input type="text"/>	<input type="text"/>	<input type="text"/>
Accounting Staff	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other (please state) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>

2. Does your company incur any other **additional non-staff costs** in meeting the income tax requirements for the year of assessment 2014? (*For example: Stationery, postage and travelling*)

No, continue to Question 3 Yes, please respond to the following question:

Please estimate the additional costs involved in 2014:

3. Does your company employ **external tax professionals** to handle income tax matters in 2014?

Yes, please continue to Question 8 No, please go to Question 6 (Section B)

4. The source of external advice was: (*Please tick: if more than one, please rank in order of importance using 1 as most important*).

	Tick	Rank
Professional Accountants.....	<input type="checkbox"/>	<input type="checkbox"/>
Tax agents (Practitioners).....	<input type="checkbox"/>	<input type="checkbox"/>
Tax officials (ERCA).....	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state) _____		

5. Please provide or estimate the external tax fees incurred by your company for the corporate income tax activities in the financial year 2014:

SECTION B: PERCEPTIONS AND OPINIONS

6. Kindly respond to the following statements to indicate your opinion to each of the statements. There are no right and wrong answers. (Please tick one box on a 5 point scale for each statement.)

		LEVEL OF IMPORTANCE				
No		Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	Personally, I consider that the preparation of corporate income tax return is difficult.					
2	Corporate income tax law is relatively simple to understand.					
3	Complexity in tax law is necessary so that companies are treated fairly.					
4	A 'fair' tax rate should be the same for every company regardless of their size (small, medium or large).					
5	Large companies have a greater ability to pay income tax, so it is fair that they should pay a higher rate of tax than small and medium companies.					
6	It is fair that high profit companies should pay a higher rate of tax than low profit companies.					
No		Very likely	Likely	Neutral	Unlikely	Very unlikely
7	If there was a discrepancy in the annual tax return, how likely is that it would be audited?					
8	If your company was to be chosen for compulsory comprehensive audit, how likely would a discrepancy be identified?					
No		Very severe	Severe	Neutral	unsevere	Not very severe
9	If discrepancies were discovered during an audit, how severe are the penalties?					
No		Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
10	The chances of being audited (tax audit) are so low that it is worthwhile trying to economize a little on corporate income taxes for various reasons.					
11	I believe that each company's officers have a moral obligation to report all of their company's income and pay the correct amount of corporate income tax.					
No		Much more fair	Fair	Neutral	Unfair	Much less fair
12	Do you believe that the move to self-assessment made corporate tax laws more or less fair?					
13	Overall, has the move to self-assessment made the distribution of the corporate income tax burden among small, medium and large companies more or less fair?					
No		Much more taxes	more	Neutral	Fewer	Much fewer taxes
14	Do you believe that as a result of changes in corporate income tax during the past six years, large companies are paying more or fewer taxes?					
No		Very stressful	Stressful	Neutral	Unstressful	Not very stressful
15	The tax compliance requirement may have caused stress and anxiety to taxpayers. Indicate your position with respect to the psychological costs causes by the income tax system.					

SECTION C: COMPLIANCE BEHAVIOUR

7. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

Mr A, a self-employed businessman is considering not disclosing a cash sale of Birr 100,000 as his business income in his 2014 tax return. Legally, the cash receipts of Birr 100,000 should be included as a business income. However, he is almost certain that the tax authority will not audit him and would not know if the amount is not disclosed.

- a) Taking into account all known and likely business circumstances, to what extent do you agree with Mr A's possible action of not reporting that cash sale of Birr 100,000 as his business income?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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- b) Would he be likely to report only part of the Birr 100,000 as business income?

Very Likely	Likely	Neutral	Unlikely	Very Unlikely
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8. Read the following and kindly indicate your opinion (by way of a tick) to the following scenario based on your experience:

Mr B, a self-employed businessman, had incurred Birr 10,000 to repair his personal car. In preparing his 2014 tax return, he is thinking about claiming the costs of repair as if the car was used in his business. Legally, such claim is not allowable, but he is almost certain that he will not be audited and that the tax authority would not be able to detect the deduction.

- a) Taking into account all known and likely business circumstances, to what extent do you agree with Mr B's possible action of claiming Birr 10,000 as his business deduction?

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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- b) Would he be likely to deduct only part of the Birr 10,000 as a business deduction?

Very Likely	Likely	Neutral	Unlikely	Very Unlikely
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SECTION D: GENERAL INFORMATION AND SUGGESTIONS

Kindly tick the most appropriate responses or fill in the appropriate details in the space provided.

9. What is your company main business activity?

<input type="checkbox"/>	Construction	<input type="checkbox"/>	Manufacturing	<input type="checkbox"/>	Import and export
<input type="checkbox"/>	Mining	<input type="checkbox"/>	Finance	Others (please state) _____	

10. What was the turnover of the company in 2014:

<input type="checkbox"/>	Less than Birr 25 million	<input type="checkbox"/>	Birr 125,000,001–Birr 250,000,000
<input type="checkbox"/>	Birr 25,000,000–Birr 125,000,000	<input type="checkbox"/>	More than Birr 250 million

11. How much company income tax in total, in relation to the 2014 year of income did the company remit to the Ethiopian Revenue and Customes authority?

<input type="checkbox"/>	Nil (no tax liability)	<input type="checkbox"/>	Between Birr 1,250,000 and Birr 2,500,000
<input type="checkbox"/>	Less than Birr 1,250,000	<input type="checkbox"/>	More than Birr 2,500,000

12. The period your company has been in business is: _____ years.

13. Give your general comment on the overall attitude of the public towards taxation and how positive attitude towards taxation can be developed:

14. Would the probability of being audited affect your decision to comply?

15. Would the current location of the branch office appropriate?

16. What the refund systems looks like? Are you refunded timely?

17. How do you evaluate the strength of the tax authority with respect to its own objective?

18. Can you list out the reason why tax payers do not able to fulfil their tax liability?

THANK YOU FOR TAKING TIME TO PARTICIPATE IN THIS SURVEY.

CONFIDENTIALITY

The views expressed in the completed questionnaire will be treated in the strictest confidence. Any information identifying the respondents will not be disclosed.

