

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

FACTORS AFFECTING TAX COMPLIANCE IN THE CASE OF BOLE SUB CITY CATEGORY 'C' TAXPAYERS

BY

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A Thesis Submitted to the Department of Accounting and Finance for the partial fulfillment of the requirements of Master of Science in Accounting and Finance of Addis Ababa University

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ADDIS ABABA, ETHIOPIA

January 2026

DECLARATION

I hereby declare that the academic study report on the title: **Factors affecting tax Compliance in case of Bole Sub City Category 'C' taxpayers** is my original work and has not been presented in any other University or College for examination purposes. All sources that I have used or quoted in this research report have been indicated and acknowledged by means of complete references.

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Fitsum Asrat



APPROVAL SHEET

This is to certify that the thesis prepared by **Fitsum Asrat** entitled **Factors affecting tax Compliance in case of Bole Sub City Category 'C' Tax Payers** submitted in partial fulfillment for the Degree of Masters of Department of Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to the originality and quality.

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ACRONYMS

OLS	Ordinary Least Square
MOR	Ethiopian Ministry of Revenue
FDI	Foreign Direct Investment
ERCA	Ethiopian Revenue and Customs Authority
OECD	Organization for Economic Co-operation and Development
VAT	Value Add Tax
TIN	Tax Identification Number
UNDP	United Nations Development Program
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
ANOVA	ANALYSIS OF VARAITION
SSA	SUB SAHARA AFRICA
VIF	Variance Inflation Factor

ABSTRACT

This study examines the factors affecting tax compliance among Category C taxpayers in Bole Sub-City, Addis Ababa-Ethiopia. A quantitative research approach and descriptive, and explanatory research design was used. Data collected through a structured Likert-type questionnaire administered to 250 respondents, of which 233 completed questionnaires were collected and analyzed using SPSS software. Descriptive statistics, correlation analysis, and multiple linear regression were applied to investigate how taxpayer awareness, technology, tax office staff knowledge and competence, customer service, and staff ethics and integrity influence tax compliance collection. The results show that taxpayer awareness, staff competence, and customer service have a significant effect on the amount of tax compliance collected. Staff competence and customer service had a positive and statistically significant relationship, while taxpayer awareness showed a negative but significant relationship with tax compliance. Technology and staff ethics were not statistically significant factors. The multiple linear regression model had an F-value of 5.363 ($p < 0.01$) and an R^2 of 0.106, indicating that the factors studied explain approximately 10.6% of the variation in tax compliance. The findings suggest that improving the quality of service, communication, and capacity of tax office staff is essential to enhance tax compliance and revenue collection.

CHAPTER ONE
INTRODUCTION

1.1. Background of Study

Tax compliance is defined as the revenues collected by government from society on income and other basis of tax. Taxes are mandatory payments collected by the government. Tax Payers are required to pay tax without questioning the proportional benefit from the Government (OECD, 2023).

Ethiopian Government has made different reforms in the structure if tax administration until it established the current Ethiopian Revenue and Customs Authority (ERCA). The Ethiopian Revenue and Customs Authority (ERCA) was established by merging Ministry of Revenue, the Ethiopian Customs Authority and the Federal Inland Revenue Authority in July 2008. This organization was merged and brought to be under a single administration. (Proclamation No. 587/2008). The reform again continued and two separate institutions namely Ministry of Revenues (MOR) and the Customs Commission was established.(Proclamation No 1097/2018). The MOR is stablished to be mandated to supervise and control the Customs Commission. (OECD Report on Ethiopian National Medium-Term Revenue Strategy-FY 2024/25 to FY 2027/28)

Government collects taxes from the society to cover government expenditures and to the betterment of the society in fulfilling infrastructures and other government investments. The MOR is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the MOR is responsible to protect the society from effects of illegal businesses and smugglers. It is mandated to takes legal action on the people involved in the act of illegal business and it encourages legitimate business.

Based on Ethiopian government tax collection system, taxpayers are categorized in to three categories namely category “A”, “B” and “C”. (Federal Income Tax Proclamation No 979/2016) Businesses are categorized under these category based on their annual revenue. Tax from category " A " and " B " taxpayers is collected through the eleven of Addis

Ababa's sub cities[1]. Taxes collected from category C taxpayers are done by Woredas in each sub cities. Standard assessment is used to calculate Category "C" taxpayers' income tax obligations/ daily income. Due to the assessment committee's estimation of their daily income and the taxpayers' limited ability/ access to voice their opinions, there is much complaint in this area.

In many developing countries, including Ethiopia, mobilizing sufficient domestic revenue remains to be a challenge. Based on Government reports related to tax collection, even though different reforms and policy improvements has been made, low tax collection is still the issue.

Current research on tax compliance shows that there is a complex relationship between macroeconomic situations, institutional factors, and tax administration strategies in influencing revenue outcomes. A time-series analysis conducted in Ethiopia indicated that inflation, urbanization, and foreign direct investment positively correlated with tax compliance, whereas unemployment has a notable adverse long-term effect, and the exchange rate demonstrated variable impacts on compliance (Teshome, 2017). Similarly, another study in Ethiopia highlighted macroeconomic variables, including inflation, foreign direct investment, per capita income, and sectoral GDP distribution, as major determinants of tax compliance (Alemayehu, 2015). Most empirical research across developing nations reinforces the significance of macroeconomic indicators, such as GDP growth, price levels, trade openness, and exchange rate fluctuations, in explaining the discrepancies in tax compliance.

Beyond macroeconomic influences, investigations into tax compliance and enforcement stress the crucial role of audit intensity and enforcement actions in shaping taxpayer behavior. Empirical and experimental researchshows that an increased likelihood of audits and penalties lead to sharp compliance rates, which in turn enhancing revenue collection (e.g., Kleven et al., 2011). Theoretical frameworks indicates how the probability of detection and penalty negatively affects taxpayers' decisions regarding evasion, which then impacting revenue. (Allingham & Sandmo, 1972).

[1]Addis Ketema, Akaki Kaliti, Arada, Bole, Gullele, Kirkos, Kolfe Keranio, Ledeta, Nifas Silk Lafto, Yeka and Lemi Kura

Despite these valuable findings, a significant portion of the existing literature centers on broad macroeconomic or enforcement-related factors, failing to adequately explore how specific taxpayer perceptions and service experiences, such as awareness of tax responsibilities, the integration of technology in service provision, staff competence, service quality, and ethical practices affect tax compliance behavior and revenue outcomes within a localized administrative framework. This study aims to fill this gap by investigating taxpayer-related perceptions regarding their awareness levels, the use of technology in service delivery, the competency of tax office staff, customer service quality, and ethical standards in Bole Sub City, specifically focusing on Category C taxpayers. The objective is to determine how these factors influence tax compliance results.

At the time of this research, taxpayers in Ethiopia were categorized into Categories A, B, and C according to the Income Tax Proclamation. This study specifically targeted Category C taxpayers. With the implementation of Amendment 1395/2025, Category C subsequently merged into Category B; however, this change took place after data collection was completed and does not impact on the findings presented in this study.

1.2. Statement of the Problem

Small business taxpayers classified as Category C represent the largest segment of registered taxpayers within Bole Sub City. As indicated in the May 2025 Customer Service Report for Bole Sub City, the quantities of registered taxpayers for Categories A, B, and C were 7,584, 4,368, and 37,554, respectively. Despite being the most populous group, the revenue generation from these taxpayers is falling short of expectations, implying the existence of compliance and administrative issues.

Previous research on tax compliance primarily concentrated on macroeconomic and institutional factors, such as the effectiveness of audits, the intensity of enforcement, and macroeconomic variables like GDP growth, urbanization, and the economic framework (Allingham & Sandmo, 1972; Alm & McClellan, 2012; Bird, Martinez-Vazquez, & Torgler, 2014). These investigations consistently demonstrate that enhanced enforcement strategies and favorable macroeconomic conditions lead to improved tax collection. However, these studies tend to perceive taxpayers merely as passive subjects affected by policies and enforcement

strategies, disregarding their roles as active decision-makers influenced by their perceptions and experiences regarding compliance.

In contrast, the literature on behavioral tax compliance reveals that factors such as taxpayer attitudes, trust in taxation authorities, perceptions of equity, and social norms play crucial roles in advancing voluntary compliance (Torgler, 2007; Kirchler, Hoelzl, & Wahl, 2008; Ali, Fjeldstad, & Sjursen, 2014). Research concentrating on small and medium enterprises emphasizes that aspects like inadequate tax knowledge, elevated compliance costs, ineffective communication, and unfavorable interactions with tax officials detrimentally impact compliance behavior (OECD, 2015; Joshi, Prichard, & Heady, 2014). Nonetheless, a majority of these studies investigate compliance behavior in broad strokes without establishing a direct relationship between taxpayer service experiences and compliance outcomes, particularly within localized administrative settings.

Moreover, there is a scarcity of empirical research at the sub-city or local tax administration level in Ethiopia that investigates how taxpayer awareness, perceptions of service quality, staff proficiency, ethical practices, and the integration of technology in tax service delivery affect tax compliance among Category C taxpayers. Existing literature seldom emphasizes the real experiences of small business taxpayers, who frequently grapple with administrative intricacies, limited tax understanding, and regular interactions with tax officials on the ground. Consequently, proposed policy and administrative reforms may neglect vital behavioral and service-related factors that significantly influence voluntary compliance and revenue enhancement.

A comprehensive understanding of taxpayers' perceptions and responses to the local tax system is essential; otherwise, initiatives aimed at improving tax compliance might depend purely on enforcement and macroeconomic advancements, overlooking the service-oriented and behavioral aspects that inform everyday compliance decisions. Hence, this study aims to address this gap by investigating how taxpayer-related factors such as awareness, the application of technology in service delivery, staff competence, the quality of customer service, and ethical conduct affect tax compliance in Bole Sub City, focusing specifically on Category C taxpayers. By correlating taxpayer perceptions with revenue outcomes, the study offers insights to advocate for more equitable and taxpayer-focused tax administration approaches.

1.3. Objective of the Study

General Objective:

To assess the factors influencing tax Compliance from the perspective of Category C taxpayers in Bole Sub-City.

Specific Objectives:

1. To measure the level of awareness of tax laws among Category C taxpayers.
2. To assess the adequacy of technological infrastructure in the tax office.
3. To determine how the adequacy of technological infrastructure affects tax compliance among Category C taxpayers.
4. To evaluate taxpayers' perceptions of the professional knowledge and competency of tax office staff.
5. To examine taxpayers' perceptions of customer service quality at the tax office.
6. To assess taxpayers' perceptions of the ethical behavior and integrity of tax office staff.
7. To analyze the relationship between each taxpayer-related factor (awareness, technology, staff competency, customer service, and ethics) and tax Compliance.

1.4. Research Questions

1. What is the level of awareness of tax laws, obligations, and procedures among Category C taxpayers in Bole Sub-City?
2. How adequate is the technological infrastructure of the tax office in Bole Sub-City?
3. How does the adequacy of technological infrastructure affect tax compliance among Category C taxpayers?
4. How do taxpayers perceive the professional knowledge and competency of tax office staff?
5. How do taxpayers perceive the quality of customer service provided by the tax office?
6. How do taxpayers perceive the ethical behavior and integrity of tax office staff?
7. What is the relationship between taxpayer-related factors (awareness, technology, staff competency, customer service, and ethics) and tax Compliance?

1.4. Significance of Study

This research adopts a taxpayer-centric viewpoint to investigate elements influencing tax compliance, with particular emphasis on Category C small business taxpayers in Bole Sub-City an often neglected demographic in past studies. It analyzes factors such as taxpayer awareness, attitudes towards technology application, staff capabilities, service quality, and ethical standards, thereby offering actionable insights that tax authorities can utilize to identify compliance obstacles and formulate strategies to enhance revenue collection. For example, the results can guide policy modifications, focused taxpayer education efforts, improvements in service delivery, and training programs for staff aimed at cultivating a more accountable and transparent tax administration framework. From an academic standpoint, this work enriches the tax compliance literature by implementing a taxpayer-centered framework at the local administrative level, addressing a notable gap in current research, which primarily emphasizes macroeconomic variables or enforcement strategies. The findings showcase the impact of behavioral and service-oriented variables on compliance choices and revenue results, especially among small taxpayers who frequently engage with frontline tax personnel. For the sub-city revenue offices, the findings lay the groundwork for establishing people-oriented and contextually relevant service delivery models, ensuring that reforms and initiatives resonate with the actual experiences and requirements of Category C taxpayers. Ultimately, the study underscores the necessity of incorporating taxpayer perceptions into revenue management strategies to bolster compliance, operational efficacy, and trust in the tax system.

1.5. Scope and Limitation of the Study

Scope of the Study

This research presents a taxpayer-centric analysis of the elements influencing tax compliance, with a particular emphasis on Category C small business taxpayers in Bole Sub-City an often neglected demographic in prior studies. By exploring various factors such as taxpayer awareness, perceptions of technological integration, staff skill levels, the quality of customer service, and ethical standards, this study offers actionable insights for tax administrations aimed at recognizing compliance impediments and formulating strategies to bolster revenue collection. The outcomes of this investigation could guide adjustments to policy, develop targeted educational initiatives for taxpayers, enhance service provisions, and implement staff training programs intended to cultivate a more accountable and transparent tax administration framework. From an academic standpoint, the study enriches tax compliance literature by

employing a taxpayer-focused methodology at the local government level, thus addressing a notable gap in existing research which predominantly examines macroeconomic variables or enforcement tactics. It underscores the influence of behavioral and service-related elements on compliance choices and fiscal outcomes, especially among small taxpayers who engage directly with tax officials. For revenue offices at the sub-city level, the findings lay the groundwork for crafting services that are centered on people and tailored to specific local contexts, ensuring that reforms and interventions resonate with the lived experiences and requirements of Category C taxpayers. Ultimately, the research underscores the necessity of incorporating taxpayer perceptions into revenue management strategies to improve compliance, operational efficiency, and public trust in the tax system. This investigation is confined to Category C small business taxpayers within Bole Sub-City, Addis Ababa, focusing exclusively on taxpayer insights related to five key dimensions: awareness of tax responsibilities, the presence of technological resources, the competency of tax office personnel, customer service effectiveness, and the ethical conduct of tax office employees. Category C taxpayers were chosen due to their heightened susceptibility to compliance risks and discretionary administrative decisions compared to other groups, making their views and experiences essential for a comprehensive understanding of tax compliance. The scope of the study does not extend to macroeconomic influences (such as GDP, inflation, money supply, or foreign direct investments), and it intentionally excludes taxpayers classified under Categories A and B. Furthermore, the evaluation of tax compliance is based on taxpayer perceptions rather than direct access to official revenue collection statistics.

Limitations of the Study

The research is based on self-reported information obtained via questionnaires, which can introduce response bias. Moreover, subsequent to the data collection phase, the Ethiopian Income Tax Proclamation Amendment 1395/2025 redefined the classification of taxpayers, moving those formerly in Category C to Category B. While the study's conclusions are applicable to the time frame examined and the initial taxpayer classification, it is important to be cautious when extrapolating these results to the updated classification system. Furthermore, this research emphasizes specific institutional and behavioral influences on tax compliance. Other significant factors that may affect compliance — including taxpayers' income levels, views on tax equity, trust in government institutions, the complexity of tax regulations, the

structures of enforcement and penalties, as well as overarching economic conditions — were not addressed in this study. Consequently, the results should be viewed in light of the variables that were included, and subsequent studies might integrate these additional elements for a more holistic understanding of tax compliance behavior.

1.6. Organization of the Study

The paper was divided into five chapters. Chapter one covers the study's background, statement of the problem, research questions, purpose of the investigation, significance of the study, scope of the study, and limitation of the study. The review of theoretical and Empirical literature related to the study topic, Conceptual framework and research gap are presented the second chapter. Research design, Population and sample size, Sampling techniques, Data collection methods, Instruments/tools used, Data analysis methods and Ethical considerations are covered in the third chapter. The fourth chapter covers presentation of data (tables, charts, figures), analysis and interpretation of results. Finally, summary of key findings, Conclusion based on objectives and Recommendations were discussed in the fifth chapter.

CHAPTER TWO
LITERATURE REVIEW

This chapter presents the results of a review of related literature, which includes both theoretical and empirical literature relevant to this study. The theoretical review covers theories, principles, and conceptual frameworks that is relevant to this study and can be considered as the foundation of the study. The empirical review examines previous studies and research findings related to the topic, that helps to see gaps, and used to explain how the current study contributes to existing knowledge.

2.1. Theoretical Review

Tax compliance and the performance of revenue collection can be analyzed through various traditional theories that elucidate the reasons behind taxpayers' fulfillment of their duties. These theoretical frameworks also facilitate the selection of independent variables for the current research.

2.1.1. Ability-to-Pay Theory

The Ability-to-Pay Theory asserts that taxpayers ought to contribute to governmental revenue in proportion to their income or economic capability. Individuals with higher incomes are anticipated to contribute more, whereas those with lower incomes are expected to pay less. This theory is particularly significant to the research because Category C taxpayers are evaluated based on standard or presumptive assessment methods, which may not accurately reflect their genuine ability to pay. Factors such as awareness of tax responsibilities, taxpayer education, and equitable assessment practices are intricately linked to this theory.

2.1.2. Benefit Theory

According to the Benefit Theory, tax compliance is likely to improve when taxpayers recognize that the public services and benefits delivered by the government warrant their tax payments. Taxpayers are more inclined to comply voluntarily when they acknowledge how their taxes support critical services. In the context of this study, factors such as the quality of customer service, ethical behavior exhibited by tax office personnel, and

transparency in service provision are associated with perceptions of benefits and fairness, which in turn influence compliance behavior.

2.1.3. Deterrence Theory

The Deterrence Theory highlights that tax compliance is enhanced when taxpayers perceive a significant risk of audits and effective enforcement, alongside stringent penalties for non-compliance. In this research, the capabilities of technological infrastructure and the competency of staff are connected to the effectiveness of enforcement, as they influence the tax office's ability to effectively monitor, assess, and manage taxpayer compliance. By anchoring the research in these theories, the study not only identifies behavioral and administrative factors that affect compliance but also offers a theoretical rationale for emphasizing awareness, technological advancements, staff expertise, service quality, and ethical practices as pivotal determinants of tax compliance.

2.1.4. **Taxation**:

Taxes revenue collection by the government from the society which is mandatory and collected based on different sources of income which is considered as tas bases.(Musgrave & Musgrave, 1989; OECD, 2018). It is a primarily source of income for all countries of the world which is used to cover government expenditures (IMF, 2011). Taxes are referred as the most important and stable source of government revenue, which enables government to provide essential public goods and services to support overall economic development (World Bank, 2020).

Taxes are not paid in exchange for a specific or direct benefit to the individual taxpayer, such as a particular public service, asset sale, or debt instrument, but tax compliances are collected for the general welfare of society. Tax payers are required to pay taxes with out comparing the proportional benefit they get from the government(Musgrave & Musgrave, 1989; Rosen & Gayer, 2014)

2.1.5. **Kinds of taxes**

Direct Taxes and Indirect Taxes

This defines taxes in terms of or considering who pays them, who bears their ultimate burden, the extent to which the burden may be shifted burden, and various other criteria. These are direct taxes such as income tax or indirect taxes such sales tax.

Proportional taxes, progressive taxes, and regressive taxes

This classifies taxes according to their effect on the distribution of income and wealth.

Taxes has relatively the same burden to all tax payers as it is determined with the level of income. A progressive tax is mostly characterized by the tax amount increase with the income and a regressive tax is when a lower income society pays more tax than a higher income society.

2.1.6. **Principles and Distribution of Tax Burdens.**

Horizontal equity- In this one it is believed that people with the same or similar income should pay the same tax.

The ability to bring the burden principle- In this one tax are levied based on the person's ability to bear the tax.

The benefit principle – This principle states that the person or taxpayer should pay tax based on the benefit received from the government. The person with higher privilege should pay more.

Economic efficiency – Taxes should not make people or businesses to make inefficient decision which affects the economy ultimately.

Ease of administration and compliance: Taxes should be administered in a reliable transparent way with responsible administration. Good administration considers clarity, stability, cost effectiveness, and convenience. This will be very important specially in developing countries where illiteracy, lack of commercial markets, absence of books of account, and inadequate administration resources affects both compliance and administration. (Cox, Neumark, & McLure, 2024)

Tax Administration Challenges

Tax system efficacy is mainly rely on how well track and honest the tax administration is. When amount of taxes are small specially in developing countries, the reason is mostly explained as either the tax administrations' failure to perform its responsibilities or the tax payers behavior.

Tax regulations cannot fully avoid disagreement between tax administration authority and the society or taxpayers. The state's "tax potential" can only be true if effective and ethical tax administration is emplaced. (Kaldor, 1980).

Coming into fare line to adjust the disagreement between tax administration and taxpayers is a challenge for all countries. It is very important and vital to improve tax administration to ensure economic stability. Having a system which balances the demand of the economy and the taxpayers growth is vital. This highly depends on human resources.

Most countries, specially developing countries face these challenges due to lack of competent and trained human resources. (Kaldor, 1980).

Efficiency of Tax Administration

Effective work structure, which eliminates differences in the tax treatment of various economic sectors is very important in effective tax administration. (Hesse, 1993).

The tax administration is was made difficult as it was poorly planned or has too complex tax structures. When simple and transparent tax system is emplaced it has the opposite or favorable impact. So tax system simplification will result or give a great impact for better and efficient tax administration. This might need changes to laws that would improve tax structure or make the laws easy to comply. (Mansfield, 1990).

Improve Tax Administration

Tax management and tax system are related so the improvement should be made for both simultaneously, (World Bank, 1991).

The tax system must include additional people and additional systems and needs to be implemented successfully. This might take time to fully be implemented, but having just the system and not successfully implemented means nothing or useless.

The way the tax system is implemented affects its result and effectiveness. Due to this the administration must provide impartial and, professional service and they should keep their confidentiality in maintaining tax payers information. (Asian Development Bank, 2001).

Taxpayers should be trained to make them aware and UpToDate regarding tax topics. This makes them open to disclose their tax situation on time and without incurring penalties.(Asian Development Bank, 2001

2.1.7. Tax in Ethiopia History

Ethiopia has long history of taxation, However the tax system has not been significantly changed or reformed until early 1990s the time when economic reform , restructuring and public mobilization started. During this reform the government emplaced tax laws which align with the economy, broadening the tax base and modernizing tax structures, including revisions to income, goods, and trade taxes. (Geda & Shimeles, 2005; *Taxation in Ethiopia*, Wikipedia, 2025). These reforms were part of Ethiopia's tax policy which changed market economy and revenue collection.

To further meet its development goals and respond to emerging economic changes, Ethiopia released tax Federal Tax Administration Proclamation(Federal Tax Administration Proclamation No. 983/2016). This proclamation resulted in a more

systematic and efficient tax administration. and improved taxpayer services. The law also involved institutional restructuring, such as restructuring the Ethiopian Revenues and Customs Authority.

Structure of taxation- In Ethiopian tax system structure, taxation powers are divided between the federal government and regional states. The federal government has authority over customs duties on imports and exports, federal employees' income taxes, and certain indirect taxes, while regional states have have the powers on taxes such as agricultural income, regional trade income, and property rentals within their territories (*Taxation in Ethiopia*, Wikipedia, 2025; *Taxation in Ethiopia*, Grokipedia). This decentralized restructure resulted in aligning revenue responsibilities. In this system the federal government collects the majority of total tax compliances.

Identification and registration of taxpayers. The tax authority is responsible for issuing a Taxpayer Identification Number (TIN) to each taxpayer. This helps to uniquely identify each tax payer from other. In the proclamation all tax payers were required to have a TIN and not more than one TIN.

Process of income tax assessment. This involves identifying taxpayers, filing tax returns, processing, and conducting audits where necessary. The Federal Tax Administration Proclamation outlines procedures for tax declaration, assessment, and enforcement, including estimated assessments when returns are not filed, ensuring systematic compliance and collection across taxpayer categories (FDRE, 2002). The returns generally must present information adequate to enable the amount from or to the taxpayer to be calculated. These detail the taxpayer's expenditure and income, and allowable deductions and net tax payable balance.

The tax payer should evidently have kept proper financial records up to this point of the tax assessment process, but the legislation can call for standard or estimate-based assessment in their lack (FDRE, 2002).

Tax Administration: Management and Core Functions

Beyond the collection of taxes and enforcement of penalties for non-compliance, the primary functions of a tax administration involve information acquisition and processing. These functions include taxpayer identification, registration, and the issuance of Taxpayers registration and issuance od Identification Numbers (TINs) is also the most important activity the tax administration office must be effective apart from collecting tax, penalties and following up tax compliances. (IMF, 2015; OECD, 2017).

Effective tax collection covers effectiveness in collection tax and sometimes non tax fees and also taxes for other government agencies. (IMF, 2015). Tax laws are only effective when they are properly implemented, so tax administration offices should focus on their main role and duties rather than being burdened with other extra activities (Baer & Le Borgne, 2008). Another important function of modern tax administrations is international tax cooperation, which is through information exchange agreements with the purpose of tackling forign tax evasion and profit shifting (OECD, 2013).

Overall, efficient and effective tax administration depends on workable management systems, sufficient legal frameworks, and supportive tax payers. (Bird & Zolt, 2008; IMF, 2015). The key determinants include political commitment, adequate staff training, sufficient funding, appropriate motivational and incentive structures for taxpayers and administrators, simplified procedures, decentralization of operations, and the development of strong accounting and internal control systems (Tanzi & Zee, 2001; OECD, 2017).

Tax Policy and Legislation

In order to promote investment the Government of Ethiopia developed different tax system, which includes tax incentives for investors. According to the *Ethiopia Investment Incentive Regulation No. 517/2022*, investors who involve in eligible investment sectors are provided with income tax exemptions and reductions, exemptions on customs duties for capital goods, and other benefits to encourage domestic and foreign investment (Investment Incentive Regulation No. 517/2022). These incentives are emplaced to lower the investors cost of doing business.

However, Policymakers still need to scarify gains when offering tax incentives for investors, which affects economic growth (Investment Incentive Regulation No. 517/2022; see also FAQs, Ethiopian Investment Commission). Government also strengthened systems to ensure fairness and equity in tax payment.

Categories of tax payers

According to Ethiopian Government sources of revenue are distributed between the national government and its regional states. Regional governments are required to make their tax laws to align with the federal government at least on major areas. Based on income proclamation no. 979/2016, taxpayers are classified into three . These are category "A," category "B," and category "C," depending on their volume of revenue and type of business.

Any business organized with a yearly revenue of Birr 1,000,000 or more, fall under category "A" which are required to maintain the relevant records and accounts in order to prepare a balance sheet and profit and loss account which contains supporting vouchers and shows the gross profit, general and administrative expenses, depreciation, provisions, and reserves. (Article 18, Sub article 2, Council of Ministers Regulation No. 78/2002).
Those businesses that earn between 500,000 and 1,000,000 Birr annually fall under category "B." and these are required to provide a profit and loss statement at the conclusion of the tax year.. (Article 18, Sub article 2, Council of Ministers Regulation No. 78/2002).
Taxpayers who fall under category "C" are those whose annual is Birr 500,000 or less, Standard assessment is used to determine the income tax liability of Category "C" taxpayers. In this type of assessment, the tax is determined as a fixed sum in accordance with the Schedules specified by Government regulation. This particular category of taxpayers is regarded as the most hard and difficult to tax.
This is due to the fact that these individuals pay fixed rates of tax on the income that the income tax authority calculates for them, not that they report their income and tax liability.

2.2. Empirical Reviews

2.2.1. Determinants of Tax Compliance

In addition to perceptions of fairness and equity, tax administration effectiveness is affected by factors such as the effectiveness of tax authorities, awareness, cultural and social norms, and attitudes toward government (Daba, 2017). In addition to that tax equity, penalty structures, tax rates, evaluation of government spending, and compliance costs significantly affects tax payers compliance.

The other finding related to tax compliance is that there are major five categories of factors for non compliance these are demographic characteristics (age, gender, family size, education), socio-cultural variables, perceived fairness of the tax system, financial constraints, and monetary factors such as tax rates, income levels, audits, and perceptions of government expenditure. Research by Loo (2006), Pail (2010), and Kichler (2007)

The other major finding in this regard was also trade openness, higher per-capita GDP, the introduction of value-added tax (VAT), and political stability were positively associated

with higher tax-to-GDP ratios Formalizing the economy, ensuring political stability, and implementing VAT systems can improve tax compliance (Levin 2008).

The role of tax administration has also been considered as the major factor by different studies. Ineffective tax administration fails to consider government policy objectives such as macroeconomic stabilization, resource allocation, and income redistribution Tanzi and Pellechio (1995), cited in Mikesell (2007). note that unlike developed countries, emerging and transitional economies face divided structures, large informal sectors, low compliance rates, and poor communication taxpayers and authorities. (Bird and Gendron (2005).

Factors Contributing to Effective Tax Administration

Effective tax administration covers identification and registration of taxpayers, audit and enforcement, and quality of service delivery (Bird & Casanegra de Jantscher, 1992). The OECD (2009) also point out that taxpayer registration systems are basic and important for filing, assessment, and collection processes. Audit and enforcement strategies are equally important.

Perceived fairness, quality service delivery, and transparent communication by tax authorities encourage voluntary compliance, whereas unfairness reduces it. (Kirchler & Hoelzl, 2006; Siahaan, 2012). Dissatisfaction with tax authorities is a major factorfor tax avoidance. (Elffers (1991) and Wallschutzky (1984)). Effective tax administration requires political will, clear planning, simplicity, client-oriented service, corruption control, and appropriate use of technology. (Bird (2008))

2.2.2. Empirical Evidence in Ethiopia

In Ethiopia, several studies have examined determinants of tax Compliance and compliance. Belay Zewudu (2015) identifies GDP, foreign direct investment (FDI), trade openness, external debt, and inflation as positive factors of tax compliance, whereas foreign aid negatively affects domestic revenue mobilization. Similarly, According to Zewidu Tariku (2021) tax evasion, corruption, political instability reduce revenue collection and recommended stronger enforcement, improved technology, taxpayer education, and political stability.Wudinesh Sahele (2019) also finds that disposable

income and interest rates positively affect tax compliance, whereas exports, unemployment, government expenditure, and inflation negatively related. Araya (2011)

Studies on voluntary compliance indicate that taxpayer behaviour is caused by tax awareness, perceived fairness, audit risk, and institutional effectiveness. Daba (2017) finds that financial constraints, tax knowledge, perception of fairness, and audit practices affect compliance of taxpayers.) . Audit risk, financial constraints, and policy changes also considered as factors for non compliance. (Dinku and Alamirew (2018)). Taxpayer knowledge, system simplicity, attitudes toward taxes, and incentives for compliance positively influence compliance. Other findings also showed similar results, pointing out the importance of fairness, institutional capacity, tax knowledge, simplified systems, and public education in promoting compliance. . (2018Abdu Mohammed and Wondimu (2019) Abera (2019) and Netsanet & Biniam (2020)

In summary, both international and Ethiopian empirical evidence demonstrate that tax compliance and revenue performance are determined by a combination of institutional quality, taxpayer characteristics, audit and enforcement strategies, fairness, and effective administration. The efficiency of tax assessment, collection, and enforcement is critical for national revenue mobilization, particularly in developing countries where administrative challenges are prevalent.

2.3. **Summary of empirical literature gap**

The review of existing theoretical and empirical literature reveals that tax Compliance is influenced by a range of institutional, policy, and macroeconomic factors. Classical tax compliance theories, such as the economic deterrence model, emphasize enforcement, penalties, and audits, while behavioral models highlight the role of trust, fairness, and education in enhancing voluntary compliance. In line with these theories, empirical studies, have identified factors such as taxpayer identification and registration, audit intensity, availability of tax policies and procedures, as significant contributors to improved tax collection.

Most of these studies place strong emphasis on systemic and structural aspects of the tax system, especially in the context of large taxpayers or macroeconomic conditions. For example, factors such as money supply, exchange rate, and import contribution to GDP,

foreign remittance, urbanization, and unemployment have been used to explain fluctuations in tax compliance at the national or regional level. Similarly, studies focused on Categories A and B taxpayers have largely prioritized audit enforcement and compliance monitoring. While valuable, these studies tend to underemphasize the role of individual taxpayer behavior and experience, particularly among small business taxpayers in Category C.

As small taxpayers form the majority of the taxpayer base in Ethiopia including in Bole Sub City , understanding their perceptions and experiences is vital. Yet, limited empirical research has explored how taxpayer awareness, perceptions of staff competence and ethics, the quality of communication, and accessibility of tax services impact tax Compliance in this segment. This gap indicates the need for a more bottom-up, taxpayer-centered analysis that considers compliance not just as a function of enforcement, but also of service quality and institutional trust.

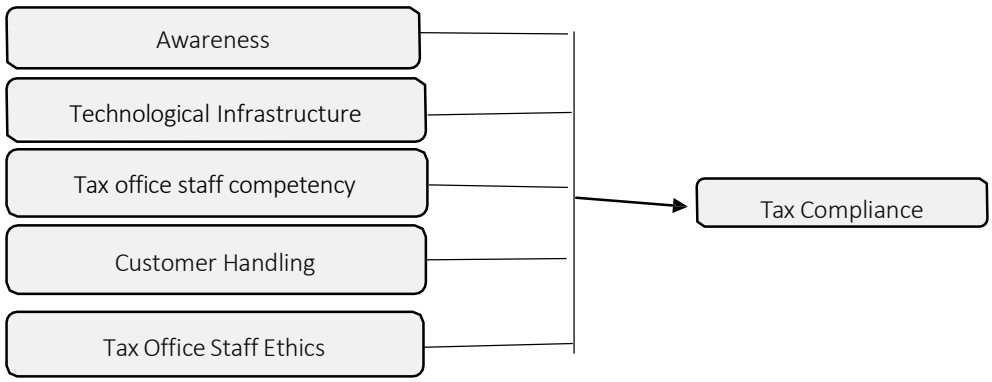
Therefore, this study aims to fill this gap by investigating how these five dimensions influence tax compliance collection from the perspective of Category C taxpayers in Bole Sub City. This approach offers a new lens to understanding tax compliance one that is grounded in service delivery, human interaction, and public trust, rather than enforcement alone.

2.4. Conceptual Framework of the study

The research examines the key determinants influencing tax Compliance from the perspective of Category C taxpayers in Bole Sub City. Drawing from tax compliance theories and relevant empirical studies, five independent variables were identified as having the potential to influence tax compliance collection effectiveness. These are taxpayer awareness, technological infrastructure, tax office staff competency, customer handling and Tax staff ethics. These are likely to influence taxpayers' behavior and attitudes towards the performance of the tax system regarding income declaration, registration compliance, fairness, and adequacy of collected revenue.

The theoretical model presented in Figure 1 reflects the hypothesized relationship among these variables. All independent variables are assumed to have a direct positive relationship with tax compliance collection effectiveness.

Figure 1- Conceptual Framework of the study



Left side: Independent Variables
Right side : Dependent Variable

Source: Developed by the researcher (2026)

2.5 Research Hypotheses

Based on the theoretical review (Ability-to-Pay, Benefit, and Deterrence Theories) and previous empirical studies, the following hypotheses are formulated for this study;

H1- Taxpayers' level of awareness of tax laws, obligations, and procedures has a positive effect on tax Compliance.

H2 -Adequacy of technological infrastructure in the tax office positively influences tax Compliance.

H3- Taxpayers' perceptions of the knowledge and professional competence of tax office staff have a positive effect on tax Compliance.

H4-Taxpayers' perceptions of customer service quality at the tax office positively affect tax Compliance.

H5 -Taxpayers' perceptions of the ethical behavior and integrity of tax office staff positively influence tax Compliance.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

This chapter explains process of data collection and analysis to fulfill the objective of the study. It presents the research design, the population and sample, the data source and instruments, Variable and measurement, Data collection and analysis techniques.

3.2. Research Approach

This study employed a quantitative research approach. The quantitative approach was considered appropriate because the study aims to measure taxpayers' perceptions, attitudes, and experiences in numerical form and to examine the relationships between variables using statistical techniques. The approach allows for objective measurement and generalization of findings to the larger population of Category C taxpayers in Bole Sub City.

3.3. Research Design

The study adopted descriptive and explanatory research design.

The descriptive design was used to describe the current level of taxpayer awareness, perceptions of tax office staff competency, technological infrastructure, customer handling service quality, and ethics and integrity of tax office staff.

The explanatory design was employed to examine the relationship between these independent variables and the dependent variable, which is the perceived performance of tax compliance collection.

The study was conducted using a cross-sectional survey design, where data were collected from respondents at a single point in time.

3.4. Population, Sampling and sample size

The population of this study was small level business tax payers which are categorized under Category C tax payers registered in Bole Sub city. According to the data obtained from Bole sib city, the number of Category "C" taxpayers represent the largest part of the taxpayer population in the sub-city. Based on February 2025 Customer Service Report of

Bole Sub City, there were 7,584 Category A, 4,368 Category B, and 37,554 Category C tax payers registered and administered by the sub city. This indicates that Category "C" taxpayers comprise the majority in number of registered taxpayers. In addition to this Category C tax payers reported as less compliant in tax administration process. We as a society of the country also have formal and informal information and understand that the complain and dissatisfaction of tax payers is high in this category. Therefore, it was considered relevant group for this study .

This study used simple random sampling technique participants to select study participants from the whole population of 37,554 taxpayers. Qualtrics Online Sample Size Calculator and a general statistical formula were used for the analysis. The parameters used were

Confidence Level: 95%

Margin of Error: ±5%

Response Distribution: 80%

In order to conduct the study and to draw conclusion required sample size was determined to be 246 category C taxpayers.

The sample size for this study was determined using Cochran's (1977) sample size formula for proportions, which is appropriate for large populations.

$$n_0 = \frac{Z^2 \cdot p(1-p)}{e^2}$$

Where:

n_0 = initial sample size

Z = Z–value at 95% confidence level = **1.96**

p = estimated population proportion (response distribution) = **0.80**

e = margin of error = **0.05**

However, there were 233 responses collected, and resulted the response rate to be 94.7%. Due to this response rate the margin of error increased from 5% to around 5.1%. Therefor with this response rate the result will be valid and reliable.

3.5. Data Sources and Instruments

The primary source of data was a structured questionnaire distributed to selected taxpayers. The questionnaire had two sections which the first was about background and dempgraphic information of the respondents (gender, age group, education level, taxpaying experience) and the other section contains questions that can answer tax payers perception regarding the variables of this study (Taxpayer awareness ,Technological infrastructure, Staff competency, Customer handling ,Ethics of tax staff and Tax Compliance

The scale used to rate the response had five tier of response choices and rated based on that. These are,

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.

The question were organized based on the findings from other literature and the other formal and informal information obtained to answer the factors affection tax compliance.

3.6. Model Specification

To examine the effect of taxpayer-related factors on tax Compliance, the study employed a multiple linear regression model. The model explains the relationship between the dependent variable and the selected independent variables.

The functional form of the model is:

$$Y=\beta0+\beta1(X1) +\beta2(X2) +\beta3(X3) +\beta4(X4) +\beta5(X5) +e$$

Where,

Y is the dependent variable which is Tax Compliance

X1= Taxpayer Awareness

X2= Technological Infrastructure

X3= Tax Office Staff Competency

X4= Customer Handling

X5= Ethics of Tax Office Staff

e = error term

whereas, β0 is the intercept or constant which would be equal to the mean if all slope coefficients are 0. β1, β2, β3, β4 andβ5 are the coefficients associated with each independent variable which measures the change in the mean value of Y, for a unit change in the related independent variables.

Multiple linear regression model were used to analyze the relationship between independent and dependent variables.

3.7. Variables and Measurement

Table 1- Variables and Measurement

Variable	Type	Measurement
Taxpayer Awareness	Independent	4 Likert-scale questions (mean score)
Technological Infrastructure	Independent	4 Likert-scale questions (mean score)
Tax Office Staff Competency	Independent	4 Likert-scale questions (mean score)
Customer Handling	Independent	4 Likert-scale questions (mean score)
Ethics of Tax Office Staff	Independent	4 Likert-scale questions (mean score)
Tax Compliance	Dependent	4 Likert-scale questions (mean score)

The internal consistency of each variables were tasted using **Cronbach's alpha**.

3.8. Data Collection

Data collection was conducted from February to April 2025. Respondents were approached at their business premises, and questionnaires were administered through face-to-face distribution.

The questionnaire was originally prepared in English and translated into Amharic, which was the primary language used during data collection. Amharic was selected because it is

the official working language in Addis Ababa and the dominant language used in business transactions and communication with government offices, including tax administration. Most Category C taxpayers in Bole Sub City use Amharic in their daily business operations and interactions with the tax office.

Although other local languages spoken by some taxpayers, it was not feasible to prepare the questionnaire in all local languages due to time and resource constraints.

While the use of Amharic helped ensure clarity for the majority of respondents, the study acknowledges that relying on a single primary local language may limit full inclusiveness. This is therefore recognized as a minor methodological limitation, though it is not expected to significantly affect the overall validity of the findings.

Prior to participation, respondents were informed about the purpose of the study, the voluntary nature of participation, and the confidentiality of their responses. They were assured that the information collected would be used solely for academic purposes. Before questionnaire preparation, discussions with bole sub city tax office officials were conducted to get the general overview about the tax collection system, the taxpayers structure, the challenges and opportunities. In addition to Bole sub city, Addis Ababa medium tax payers office compliance department was also contacted. Secondary data from both published and unpublished data sources were also gathered to well organize and compile the data and information for this study.

3.9. Data Analysis Techniques

3.9 Data Analysis Techniques

Data were analyzed using SPSS statistical software. The following procedures were applied:

1. Descriptive Statistics
   Descriptive statistics were used to summarize respondents' demographic characteristics and the overall perception of each study variable.
2. Correlation Analysis
   Pearson correlation analysis was conducted to examine the strength and direction of

the relationship between independent variables and the dependent variable (tax Compliance).

3. Multiple Linear Regression Analysis
   Multiple linear regression was employed to determine which taxpayer-related factors significantly predict tax Compliance.
4. Assumption Testing for Regression
   To ensure the validity of regression results, the following assumptions were assessed:

   - Normality: Checked using histogram plots and skewness/kurtosis values to confirm that residuals were approximately normally distributed.
   - Linearity: Examined the linear relationship between independent variables and the dependent variable through scatter plots.
   - Homoscedasticity: Tested to ensure that the variance of residuals is constant across levels of predicted values.
   - Multicollinearity: Assessed using Variance Inflation Factor (VIF) and tolerance statistics to confirm that independent variables are not highly correlated.

3.10. Instrument Reliability and Validity

To ensure that the questionnaire was both reliable and valid, the following procedures were undertaken:

Reliability

The internal consistency of the items for each variable (Taxpayer Awareness, Technological Infrastructure, Staff Competency, Customer Handling, Ethics, and Tax Compliance) was assessed using Cronbach's Alpha coefficient.

A Cronbach's Alpha value of 0.70 or above was considered acceptable for reliability. (Nunnally, 1978).

This test ensured that the items in each construct consistently measure the same underlying concept.

Validity

Content validity was ensured by designing the questionnaire based on existing literature, the conceptual framework, and discussions with subject matter experts.

A pilot test was conducted with a small group of Category C taxpayers to check for clarity, appropriateness, and comprehensibility of the items. Feedback from the pilot test was used to refine the questionnaire.

These steps ensured that the instrument accurately measures the intended variables and is understandable to respondents.

3.11. Ethical Issues

This research presented all relevant information about the study to the questionnaire participants to get their consent. In addition to that, they were told that whenever they want to, they can stop participating or responding. Respondents, sensitive personal information or identity were not requested to be filled in the questionnaire. Only relevant information that will be required to conduct the research analysis was requested and collected.

CHAPTER FOUR

DATA PRESENTATION ANDANALYSIS

4.1. Introduction

This chapter presents the results of the data analysis conducted to assess and examine the factors affecting tax compliance collection focusing on category 'C' tax payers in Addis Ababa bole sub city. The analysis was done using Descriptive statistics, reliability testing, Correlation, multiple regression, and assumptions in relation to the study's research objectives and questions.

4.2. Response Rate

A total of 244 questionnaires were distributed to randomly selected sample Category C tax payers of Bole Sub City. From the distributed questionnaires, 233 were completed and returned . This provided a response rate of 83.2% which is considered good for this study and statistical analysis in general.

4.3. Respondents Demographic Profile (Frequency)

This summarizes the general characteristics of respondents in terms of frequency counts and percentages such as sex , age, educational level, tax paying experience.

Sex of Respondents

From of 233 total respondents 126 (54.1%) were male and 107 (45.9%) were female. While gender was not a variable in the main analysis, reporting the distribution provides a general overview of the respondent profile.

Table 2- Sex of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	126	54.1	54.1	54.1
	Female	107	45.9	45.9	100.0
	Total	233	100.0	100.0	

Age Group of Respondents

Respondents' ages were categorized into four catagories

- 20–30 years: 14 respondents (6.0%)
- 31–40 years: 105 respondents (45.1%)
- 41–50 years: 85 respondents (36.5%)
- Above 50 years: 29 respondents (12.4%)

Most respondents (45.1%) were between the ages of 31 and 40 and (36.5%) were in the age rage of 41-50. This indicates that most of the participants were within their active working age group. From this we can imply that most of the data were obtained from taxpayers who are active in business operations and tax obligations. This makes the information obtained were from the relevant group which in turn makes it very relevant to the study's objective.

Table 3- Age group of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	14	6.0	6.0	6.0
	31-40	105	45.1	45.1	51.1
	41-50	85	36.5	36.5	87.6
	Above 50	29	12.4	12.4	100.0
	Total	233	100.0	100.0	

Level of Education

Related to respondents' level of education, the categories developed were

- High school: 89 respondents (38.2%)
- College/University: 144 respondents (61.8%)

This shows that majority of respondents attended higher education, which implies that the majority of responses were obtained from relatively well educated tax payers. The implication of this for the study is that, an educated taxpayers better understand tax system, policy and regulations, evaluate service quality, evaluate system gaps and provide knowledgeable responses about the effectiveness of the tax system.

Table 4- Level of Education of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High school	89	38.2	38.2	38.2
	College/University	144	61.8	61.8	100.0
	Total	233	100.0	100.0	

Years of tax paying experience

Respondants years of tax paying experiences were categorized as below

- 1–3 years: 9 respondents (3.9%)
- 4–6 years: 56 respondents (24.0%)
- Above 6 years: 168 respondents (72.1%)

Most respondents (72.1%) have more than 6 years of experience, which indicates that the response obtained were rom respondants with sufficient experience to assess the tax administration system.

Table 5- Years of tax paying experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3 years	9	3.9	3.9	3.9
	4-6 years	56	24.0	24.0	27.9

	above 6 years	168	72.1	72.1	100.0
	Total	233	100.0	100.0	

4.4. Reliability of the Instrument (Cronbach's Alpha)

Reliability of the instrument measures how reliable the instrument (Questionnaire) measured the studies assumptions/ questions which were expressed through the dependent and independent variables.

Cronbach's Alpha (α) was used to assess this reliability of the data collected. It also evaluates the regularity of questions in the questionnaire or how they are closely related.

Alpha values range from 0 to 1**,** with higher values indicating better reliability.

- $\alpha \geq 0.9$ = Excellent
- $0.8 \leq \alpha < 0.9$ = Good
- $0.7 \leq \alpha < 0.8$ = Acceptable
- $0.6 \leq \alpha < 0.7$ = Questionable
- $0.5 \leq \alpha < 0.6$ = Poor
- $\alpha < 0.5$ = Unacceptable

Table 6- Reliability Analysis (Cronbach's Alpha)

Construct	Number of Items	Cronbach's Alpha	Interpretation
Taxpayer Awareness	4	0.709	Acceptable
Technological Infrst.	4	0.924	Excellent
Tax Office Staff Compe.	4	0.922	Excellent
Customer Handling	4	0.832	Good
Ethics of Tax Office Staff	4	0.905	Excellent
Tax compliance Collection (DV)	4	0.653	Questionable, but usable

As seen in the above table, all constructs had good to excellent levels of consistency that ranged between 0.653 and 0.924.

The measures Technological Infrastructure (α = 0.924), Tax Office Staff Competency (α = 0.922), and Ethics of Tax Office Staff (α = 0.905) were highly reliable, and Customer Handling (α = 0.832) had good reliability. Taxpayer Awareness (α = 0.709) was in the acceptable range.

Dependent variable, Tax compliance Collection, also resulted a Cronbach's Alpha of 0.653, was also within the acceptable level.

4.5. Descriptive statistics (Mean and Standard Deviation)

These are quantitative measures which summarize and describes the main structures of a data. Mean and Standard Deviation were considered in this study.

- Mean or the average is the total sum of all values divided by the number of values.
- Standard Deviation (SD) measures the spread of the values from the mean/average. When SD is low it indicates that the values are close to the average and vise versa.

Table 7- Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax payersawareness	233	1.00	4.00	2.5740	.60675
Technological infrastructure	233	1.00	5.00	3.1459	.94096
Tax office staff competency	233	1.00	5.00	3.0891	.66146
Customer handling	233	1.00	5.00	3.0676	.75963
Tax office staff ethics	233	1.00	5.00	3.5408	.74889
Tax compliance collection	233	2.00	3.75	2.8959	.52692
Valid N (listwise)	233				

Taxpayer Awareness

Mean = 2.57, SD = 0.61

Slightly above 2 (Disagree) but below 3 (Neutral), indicating that respondents generally perceive their awareness of tax laws, obligations, and procedures as low. This suggests that lack of awareness may be a barrier to tax compliance among Category C taxpayers.

Technological Infrastructure

Mean = 3.15, SD = 0.94

Slightly above 3 (Neutral), suggesting that respondents perceive the technological infrastructure at the tax office as somewhat adequate. While not strongly positive, this indicates that technology is moderately available and may support compliance, but there could still be room for improvement.

Tax Office Staff Competency

Mean = 3.09, SD = 0.66

Just above 3 (Neutral), meaning respondents have a moderate perception of the knowledge and professional competency of tax office staff. Taxpayers neither strongly agree nor strongly disagree that staff are competent, signaling that staff knowledge may only partially contribute to tax compliance.

Customer Handling

Mean = 3.07, SD = 0.76

Slightly above neutral, indicating that respondents perceive the quality of customer service as average. While not poor, the result suggests that improvements in staff responsiveness, communication, and assistance could positively influence taxpayer compliance.

Tax Office Staff Ethics

Mean = 3.54, SD = 0.75

Above 3 (Neutral), trending toward 4 (Agree). This suggests that taxpayers generally perceive tax office staff as ethical and professional. Ethical behavior of staff appears to be a relatively strong positive factor influencing taxpayers' trust and willingness to comply.

Tax compliance

Mean = 2.90, SD = 0.53

Slightly below 3 (Neutral), indicating that respondents perceive the performance of tax compliance collection as moderate. While the perception is not highly negative, it shows that there is room for improvement, potentially by addressing gaps in awareness, technology, staff competency, and customer service.

4.6. Assumption testing underlying Multiple regression.

Normality test

Normality test is verifies if a data follows a normal distribution or has a bell-shaped symmetric curve around the mean.

- Histogram graphs the frequency of data distribution. If the bars follow a bell-shaped curve, the data is considered as normal.
- The Q-Q plot compares the data quantiles with the quantiles of normal distribution. The data is considered as normal when points are located nearer to the diagonal line.

Figure 2- Histogram

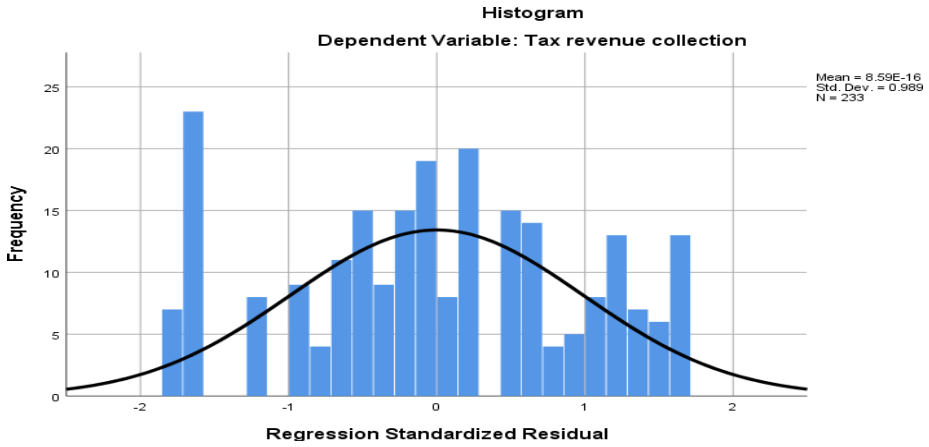
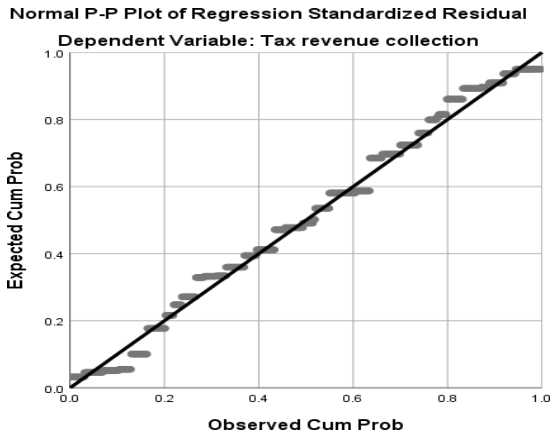


Figure 3- P-P Plot of Regression



To determine whether or not the residuals of the regression model were normally distributed, both histogram of standardized residuals and normal probability plot (P–P Plot) were examined.

As reflected in Figure 1, the histogram isroughly bell-shaped which indicates normality. In addition, the normal P–P plot (Figure 2) also shows that the points are nearer to the diagonal line, which explainss the assumption of normality.

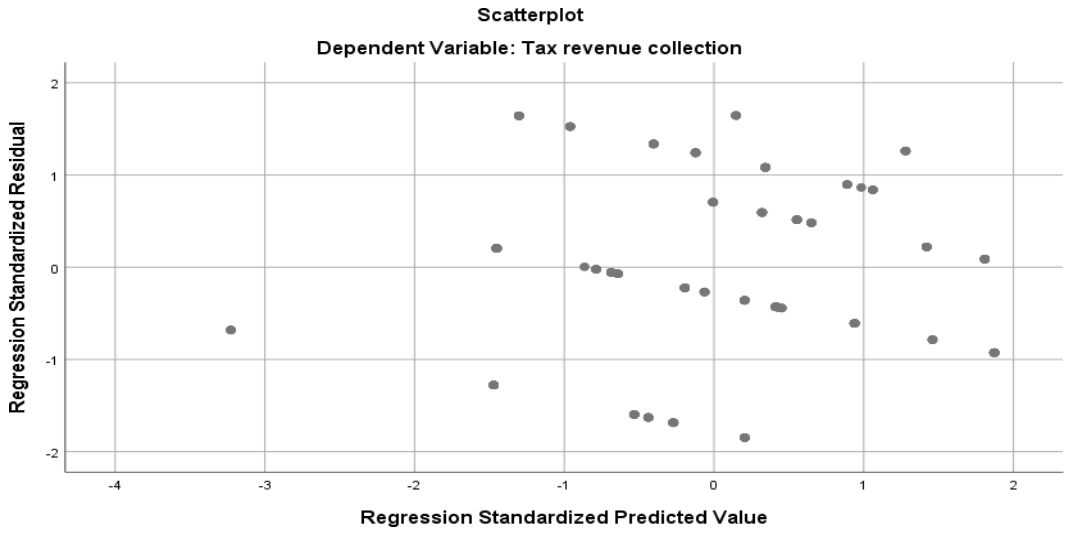
Therefore, the normality assumption for the linear regression model is satisfied.

Linearity and Homoscedasticity

Linearity assumes that there is parallel relationship between the dependent variable and the independent variables. That means both the dependent and independent variables changes proportionally.

Homoscedasticity means the residuals (errors) have equal variance in every value of independent variable.

Figure 4- Scatter Plot



The scatterplot in Figure X is scattered randomly . this means that the linearity assumption and homoscedasticity assumption are met.

Multicollinearity Test

Multicollinearity becomes true when two or more independent variables are highly correlated with one another.

So if;

VIF < 5 → No multicollinearity problem

VIF between 5 and 10 → Moderate multicollinearity

VIF > 10 → Severe multicollinearity

Table 8- Multicollinearity Test result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.659	.234		11.377	.000		
	Tax payers awairness	-.178	.057	-.205	-3.146	.002	.924	1.082
	Technological infrustructure	-.030	.053	-.053	-.568	.570	.447	2.239
	Tax office staff competancy	.159	.064	.199	2.489	.014	.616	1.625
	Customer handling	.175	.068	.252	2.562	.011	.406	2.461
	Tax office staff ethics	-.067	.059	-.095	-1.139	.256	.565	1.770

a. Dependent Variable: Tax revenue collection

All VIF Values were below 5, indicating no multicollinearity problem among independent variables. Each predictor contributes unique information to the model without excessive overlap with other variables.

4.7. Correlation Analysis

Correlation shows the size and direction of relationship between two variables. It helps to explain whether or not, changes in one variable affects/ changes another variable.This can be seen from Pearson correlation .

Pearson correlation reports the linear association between two continuous (ratio or interval) variables.

p-value	Significance	Symbol
$p < 0.05$	Statistically significant	*
$p < 0.01$	Highly significant	**
$p < 0.001$	Very highly significant	***
$p \geq 0.05$	Not significantno symbol	

Table 9- Correlation analysis

Variables	Awareness	Techinfru.	Competency	Customermgt	Ethics	Revenue
Awareness		.171**		.205**		-.154*
Tech.infr	.171**		.581**	.651**	.398**	.154*
Competency		.581**		.404**	.415**	.222**
Customer mgt	.205**	.651**	.404**		.614**	.197**
Ethics		.398**	.415**	.614**		
Revenue	-.154*	.154*	.222**	.197**		

This analysis shows the strength and direction of linear relationships between variables. The significance levels:

* = $p < 0.05$

** = $p < 0.01$

The Pearson correlation coefficients show taxpayer competency ($r = .222$, $p < 0.01$), Customer Handling ($r = .197$, $p < 0.01$), and Technology Infrastructure ($r = .154$, $p < 0.05$) were positively correlated with Tax compliance Collection while Awareness was weakly negatively correlated ($r = –.154$, $p < 0.05$). These results show that higher competence and customer management levels are associated with more favorable attitudes towards tax compliance collection, whereas awareness can affect indirectly. The association between Ethics of Tax Office Staff and Tax compliance Collection was not statistically significant ($p > 0.05$) and weak ($r = 0.123$), which means linear relationship in the data is not significant.

4.8. Regression Analysis (Model Fit and Coefficients)

This test explains the effect of independent variables on the dependent variable (Tax compliance).

Table 10- Model Summary

Model Summary	R	R Square	Adjusted R Square	Std. Error
	.325[a]	.106	.086	.50377

The multiple correlation coefficient ($R = 0.325$) indicates a weak to moderate positive relationship between the combined independent variables (taxpayer awareness, technological infrastructure, staff competency, customer handling, and staff ethics) and tax Compliance.

The R-squared (R^2) value of 0.106 indicates that the independent variables included in the model ,taxpayer awareness, technological infrastructure, staff competency, customer handling, and ethics collectively explain 10.6% of the variability in tax Compliance. The remaining 89.4% of variation is attributed to other variables not included in this model, such as macroeconomic conditions, taxpayer income, perceptions of fairness, or other behavioral and contextual factors.

This result indicates that while taxpayer-related factors do influence tax compliance perceptions, there are other unobserved or unmeasured factors affecting tax compliance outcomes. Future research may incorporate additional determinants such as enforcement intensity, policy clarity, and macroeconomic conditions to improve the explanatory power of the model.

Table 11- ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.805	5	1.361	5.363	.000[b]
	Residual	57.609	227	.254		
	Total	64.414	232			

F = 5.363 → The ratio of explained to unexplained variance is moderate

p < 0.001 (Sig. = .000) → The model is statistically significant

An ANOVA this shows the regression model was a good fit to the data or not.The results showed that the model was statistically significant, $F(5, 226) = 5.363$, $p < 0.001$.

This implies that, collectively, the independent variables (Taxpayer Awareness, Technological Infrastructure, Staff Competency, Customer Handling, and Ethics of Tax Staff) results a significant amount of the variation in Tax compliance Collection.

Table 12- Coefficients Table

Coefficients	B	Beta	T	Sig.
(Constant)	2.659		11.377	.000
Tax payersawareness	-.178	-.205	-3.146	.002
Technological infrastr.	-.030	-.053	-.568	.570
Tax office staff competency	.159	.199	2.489	.014
Customer handling	.175	.252	2.562	.011
Tax office staff ethics	-.067	-.095	-1.139	.256

The results of the multiple linear regression analysis indicate that customer handling, taxpayer awareness, and tax office staff competency are the primary predictors of tax Compliance among Category C taxpayers in Bole Sub City. Customer handling has the largest standardized effect

(Beta = 0.252, p = 0.011), suggesting that the quality of service provided by tax office staff is the most influential factor in shaping taxpayers' perceptions of tax Compliance. Taxpayers who experience efficient, responsive, and supportive customer service are more likely to comply with tax obligations, which in turn positively affects perceived revenue outcomes.

Taxpayer awareness, however, exhibits a significant negative effect (Beta = -0.205, p = 0.002), indicating that lower awareness of tax obligations is associated with lower tax Compliance. This finding underscores the critical role of taxpayer education and awareness initiatives in improving compliance and enhancing revenue collection.

Additionally, tax office staff competency demonstrates a moderate positive effect (Beta = 0.199, p = 0.014), highlighting that perceptions of staff knowledge and professionalism contribute to better compliance behaviors and support overall tax Compliance. In contrast, technological infrastructure and staff ethics showed weaker, non-significant effects, suggesting that these factors may have less immediate influence on taxpayers' perceptions in this context. Overall, these findings indicate that behavioral and service-related factors, particularly customer handling and staff competency, play a more critical role than technology or ethics in influencing how Category C taxpayers perceive tax Compliance. This emphasizes the importance of people-centered service improvements and targeted awareness campaigns in enhancing compliance outcomes.

4.9. Summary of Regression Assumptions

The summary of regression assumptions was presented in the table below.

Table 13- Regression Assumptions

Assumption	Test/Method	Result
Normality	Histogram & P–P Plot of residuals	Approx. normal distribution observed
Linearity	Scatterplot of standardized residuals vs predicted	No pattern observed; linearity assumption met
Homoscedasticity	Scatterplot of residuals	Residuals evenly spread; assumption met
Multicollinearity	Variance Inflation Factor (VIF)	All VIFs < 5; no multicollinearity problem
Independence	Design and sample approach	Random sampling used; independence assumed

Prior to conducting multiple regression analysis, the key underlying assumptions were tested to ensure the validity of the model. The normality assumption was assessed using a histogram and Normal P–P plot of standardized residuals, which showed an approximately

normal distribution. Linearity was examined through a scatterplot of standardized residuals versus predicted values, where no clear pattern was observed, indicating a linear relationship between the independent and dependent variables. Homoscedasticity was also confirmed as the residuals were evenly dispersed across the plot without forming a funnel shape. Multicollinearity was tested using Variance Inflation Factor (VIF) values, and all VIFs were below 5, suggesting that the independent variables were not highly correlated with each other. Finally, independence of observations was supported by the use of a simple random sampling technique, which reduces the likelihood of dependent responses. These results indicate that the assumptions of multiple regression were reasonably satisfied, and the regression findings can therefore be considered reliable.

4.10. Hypothesis Testing Results

This study proposed five hypotheses to examine the effect of selected factors on tax compliance collection. Multiple linear regression analysis was used to test these hypotheses. The results are summarized below.

H1: **Taxpayer awareness has a significant effect on tax compliance collection**

The regression result showed that taxpayer awareness has a statistically significant effect on tax compliance collection ($p < 0.05$). Therefore, H1 is supported. This indicates that changes in taxpayer awareness are associated with changes in tax Compliance.

H2: **Technological infrastructure has a significant effect on tax compliance collection**

The regression analysis revealed that technological infrastructure does not have a statistically significant effect on tax compliance collection ($p > 0.05$). Therefore, H2 is not supported. This means that technological infrastructure, in this study, did not significantly predict tax Compliance.

H3: **Tax office staff competency has a significant effect on tax compliance collection**

The findings showed that tax office staff competency has a statistically significant positive effect on tax compliance collection ($p < 0.05$). Thus, H3 is supported. This suggests that improved staff competency contributes to better tax Compliance.

H4**: Customer handling has a significant effect on tax compliance collection**

Customer handling was found to have a statistically significant positive effect on tax compliance collection ($p < 0.05$). Therefore, H4 is supported. This indicates that better treatment and service to taxpayers improves revenue performance.

H5: **Tax office staff ethics has a significant effect on tax compliance collection**

The regression results indicated that tax office staff ethics does not have a statistically significant effect on tax compliance collection ($p > 0.05$). Hence, H5 is not supported. This means that ethics, although important, did not directly predict tax Compliance in this model.

Summary of Hypothesis Testing

Out of the five proposed hypotheses, three hypotheses (H1, H3, and H4) were supported, while two hypotheses (H2 and H5) were not supported. This implies that taxpayer awareness, staff competency, and customer handling are key determinants of tax compliance collection in the study area, whereas technological infrastructure and staff ethics did not show a direct significant effect.

CHAPTER FIVE

Summary of major Findings, Conclusion, and Recommendations

This chapter defines and explains findings, present conclusion based on the findings and provides possible and actionable recommendations.

5.1. Taxpayer Awareness

From the result of the research (β = –0.205, p = 0.002) it can be inferred that there is a significant negative relationship between tax payers awareness and tax compliance. Tis result shows that when tax payers are more aware and informed, they know the tax system gaps and inefficiencies.

5.2. Technological Infrastructure

The regression results indicate that technological infrastructure does not have a statistically significant effect on tax Compliance (β = -0.053, p = 0.570). Although the coefficient shows a negative direction, the relationship is very weak and not statistically meaningful. This suggests that, within the context of Category C taxpayers in Bole Sub-City, improvements in technological infrastructure alone may not directly influence tax Compliance. Therefore, the hypothesis proposing a significant effect of technological infrastructure on tax Compliance is not supported.

5.3. Tax Office Staff Competency

Tax office staff competency and tax compliance have statistically significant positive relationship and positively correlated (β = 0.199, p = 0.014). This explains that that well trained and competent tax office staff , who can give well informed and knowledgeable explanation to the tax payers queries related to tax assessment procedure makes the taxpayers confident in the process y and increase their willingness to comply. On the other hand, when the tax office staff are not competent, knowledgeable and less informed, the taxpayers will not trust the system and the amount of tax levied on them so they always try to avoid tax.

5.4. Customer Handling

Based on the study result tax office professional's customer handling has a positive relationship with the tax compliance collected ($\beta = 0.252$, $p = 0.011$). This indicates that when taxpayers approach the tax office to get service and when they get welcoming professionals, they will be encouraged to ask all the explanation they need and have confidence on the system. They understand the process transparency which then increase the tax payers willingness to comply and to approach the office whenever they have questions. Rather in bad customer handling, the tax payers will try to avoid tax and become frustrated with the issue related to tax and tax office.

5.5. Ethics of Tax Office Staff

The result of tax office staff ethics with the tax compliance collected was positive but weak according to the result of this study ($r = 0.123$, $p > 0.05$) . The assumption and expectation of the study at the beginning was that when tax office staff are unethical it will negatively affect taxpayers compliance and in turn decrease tax compliance. However, the study finding does not show whether the revenue increase or decrease due to unethical behavior of the tax office staff.

5.6. Overall Model Results

The regression model was statistically significant ($F = 5.363$, $p < 0.001$) and explained 10.6% of tax compliance collection variance ($R^2 = 0.106$). However, the independent variables considered in this study have direct effect on tax compliance only 10.6% which is valid to conclude that the considered variables have effect on the dependent variable but other factors which were not considered in this study such as tax compliance enforcement, political factors , take the remaining 89.4% in affecting the tax compliance collection.

Conclusion

This study concludes that taxpayer-related the indicated factors have a statistically meaningful but relatively modest influence on tax Compliance among Category C taxpayers in Bole Sub-City. The overall model explains 10.6% of the variation in tax Compliance, indicating that though the included variables play a role, a large proportion of revenue

performance is influenced by other factors not investigated in this study. Taxpayer awareness showed a significant but negative relationship with tax Compliance, suggesting that increased awareness alone may not automatically translate into higher compliance; rather, informed taxpayers may better understand loopholes or weaknesses in enforcement unless awareness is supported by effective monitoring and control mechanisms. Technological infrastructure demonstrated a statistically insignificant effect, implying that the presence of technological systems by itself may not enhance revenue performance unless such systems are reliable, user-friendly, and accessible to taxpayers of different capacities. In contrast, tax office staff competency and customer handling service were found to have significant positive effects, highlighting the importance of knowledgeable staff and respectful, supportive service delivery in encouraging voluntary compliance. The perceived ethics of tax office staff showed a weak and statistically insignificant relationship, indicating that although ethics is important for institutional trust, its direct influence on revenue performance was not strongly evidenced in this study. Overall, the findings suggest that improving human interaction and service quality within tax administration may be more immediately impactful than structural or technological changes alone, while broader determinants such as audit systems, enforcement strength, governance quality, and economic conditions remain important areas for further investigation.

Recommendations

Based on the findings of the study, the following could be recommended.

1. Even though the result of this study showed that taxpayer awareness of a significant negative relationship with tax compliance collection, this does not change the fact that taxpayers should be trained and aware of the tax system. However, in addition to making the taxpayers know the policy and procedures it also needs to focus on the transparency and reliability of the system, the benefit of tax compliance to the government in changing the country's economy and the living condition of the society and communicating practical results would help.

2. Having technological infrastructure by itself has insignificant effect unless it is ensured that the available infrastructure is usable by all tax payers at all level. So government should invest in making digital platforms more reliable, user friendly,

and accessible by all users. Taxpayer training on digital tools and feedback mechanisms must be improved.

3. Tax office staff competency and customer handling mechanism should be improved as it has positive effect on voluntary tax compliance. So training tax office professionals focusing on tax laws, assessment procedures, communication skills, will improve service quality and efficiency. Competent staff can increase confidence and compliance.
4. As the regression model explains only 10.6% of the variation in tax compliance collection, it is recommended for researchers also consider other factors such as political situation, internal control system, tax audit and enforcement, economic activity effects of tax compliance and policy stability. Considering these and other factors helps to see the remaining factors that could have up to 89.4% to affect the tax compliance.

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ANNEX -1- Survey questionnaire



ADDIS ABABA UNIVERSITYCOLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTIG AND FINANCE

QUESTIONNAIRE

The purpose of this questionnaire is to gather first-hand information to assess the factors affecting tax compliance collection in Ethiopia - A case study on Addis Ababa Bole Sub City small taxpayers branch office. This study is being conducted as part of the requirements for the completion of a master's degree in accounting and finance. All data and information collected through this questionnaire will be used solely for research purposes and will remain strictly confidential. Your honest and thoughtful responses are vital to the success of this study. Therefore, you are kindly requested to answer the questions to the best of your knowledge and with the utmost good faith. Thank you for your valuable participation.

General Information

Part. I: Respondents' profile

1. Gender of the respondent

- Male ☐ Female ☐

2. What is your age group?

21 - 30 years ☐

31- 40 years ☐

41 – 50 years ☐

Above 50 years ☐

3. What is your educational qualification?

Elementary school ☐ College/University ☐

High School ☐ Other ☐

4. Tax Paying Experience?

Below 1 year ☐

1 – 3 years ☐

4 – 6 years ☐

Above 6 years ☐

No.	Item	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
Taxpayer Awareness - To assess your understanding of tax laws, policies, and procedures that affect small business taxpayers like you.						
1	I understand the tax policies that apply to me.	☐	☐	☐	☐	☐
2	I have received enough education about tax laws and procedures.	☐	☐	☐	☐	☐
3	The tax office provides clear and timely information about tax updates.	☐	☐	☐	☐	☐
4	I know the deadlines and required documents for filing my taxes.	☐	☐	☐	☐	☐
Customer Handling- This section looks at how well tax office staff serve and support taxpayers during visits and interactions.						
5	I am treated with respect and courtesy at the tax office	☐	☐	☐	☐	☐

6	The tax office Staff listen carefully to my issues or concerns	☐	☐	☐	☐	☐
7	The office environment is well organized and efficient	☐	☐	☐	☐	☐
8	I receive support or guidance whenever I need help from the tax office team	☐	☐	☐	☐	☐
Technological Infrastructure - This section examines how the tax office uses technology to share information, provide services, and support communication with taxpayers.						
9	The tax office uses SMS, phone, or other digital means to notify me about important dates or tax issues.	☐	☐	☐	☐	☐
10	I can access information about my tax account quickly when I visit the office	☐	☐	☐	☐	☐
11	I feel that the information systems used in the tax office help reduce delays	☐	☐	☐	☐	☐
12	The tax office uses technology to improve communication and services	☐	☐	☐	☐	☐
Tax Office Team Competency - seek your opinion on the knowledge, training, and skill level of the tax officers you've interacted with.						
13	The tax officers have good knowledge of tax laws.	☐	☐	☐	☐	☐
14	I receive accurate and clear answers to my questions	☐	☐	☐	☐	☐
15	Tax officers are well-trained to handle taxpayer needs.	☐	☐	☐	☐	☐
16	Tax office services are delivered in a timely and professional manner	☐	☐	☐	☐	☐
Ethics of Tax Office Staff - to understand your level of trust in the fairness, honesty, and integrity of tax officers.						
17	I believe the tax office staff act fairly and honestly	☐	☐	☐	☐	☐
18	Bribery or favoritism is not common at this branch	☐	☐	☐	☐	☐

19	I trust the tax officers to keep my information confidential	☐	☐	☐	☐	☐
20	The behavior of tax officers promotes transparency	☐	☐	☐	☐	☐
Tax compliance collection- ·to request your Opinion on the overall government tax compliance						
21	Most taxpayers do not hide or underreport their actual income	☐	☐	☐	☐	☐
22	Most businesses register with the tax authority on time when they begin operating.	☐	☐	☐	☐	☐
23	The tax system in our country collects revenue in a fair and effective manner.	☐	☐	☐	☐	☐
24	Government tax compliance is sufficient to support public services.	☐	☐	☐	☐	☐

Thank you for your participation!