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COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FIANANCE

Factors Affecting Tax Compliance of Small and Medium Business Profit Taxpayers in Addis Ababa

By

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This is to certify that Ketema Derar Wolde has carried out his research on the topic entitled “Factors Affecting Tax Compliance of Small and Medium Business Profit Taxpayers in Addis Ababa”. The work is original in nature and suitable for submission for the reward of the M.Sc. Degree in Accounting and Finance.

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Statement of declaration

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

Declared by:

Ketema Derar Wolde

Signature: _______________ Date: _______________ Place: ________________________

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Abstract

This research sought to obtain opinions about tax compliance behaviour of small and medium business profit taxpayers in Addis Ababa. The study has employed a descriptive survey design. In order to gather the required data, questionnaire and key informant interview have been used. A sample size of 230 were used from a population of 147,795 small and medium business operators in Addis Ababa. To ensure the representativeness of different business sectors of taxpayers, stratified sampling technique was adopted. Data for this study was collected using self-administered questionnaires to small and medium business profit taxpayers and interviews to tax consultants and staffs of ERCA. Responses of survey data were analyzed using SPSS software (V. 20) and the findings were presented using tables and figures. The results showed that social services positively influence tax compliance of taxpayers. With regard to cost of tax compliance, the study result revealed that small and medium businesses incur different costs such as salary of accountants, fees to tax consultants, cost of stationaries, etc. that contributed for their non-compliance. Lack of knowledge of tax rules contributed to the inability to calculate taxable income and tax liability is another form of non-compliance. The findings of this study further revealed that perception of small and medium businesses about the services provided by the different branches of ERCA contributed for their tax non-compliance decisions. The researcher then recommended that ERCA should educate the taxpayers and disseminate information on tax updates more frequently to create the necessary awareness on tax laws to improve tax compliance. ERCA should simplify filling and tax collection procedures by opening new tax offices, reducing frequency of tax filling procedures to save time and money of small and medium business profit taxpayers. It should improve the facilities of offices (internet connections, parking, etc.) and retain experienced staffs so as to provide quality & timely services to taxpayers to improve the level of their tax compliance and to generate more revenues.

Key Words: *Addis Ababa, ERCA, small and medium business profit taxpayers, tax compliance.*

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Abbreviations

ATO:	Australian Taxation Office
AU$:	Australian Dollar
CTPA:	Center for Tax Policy and Administration
DRM:	Domestic Revenue Mobilization
EBDSN:	Ethiopian Business Development Services Network
EC:	European Commission
ECC:	Ethiopian Chamber of Commerce
ERCA:	Ethiopian Revenues and Customs Authority
GDP:	Gross Domestic Product
GTP:	Growth and Transformation Plan
ILO:	International Labor Organization
IRS:	Internal Revenue Service
LICs:	Low Income Countries
MICs:	Medium Income Countries
OECD:	Organization for Economic Co-operation and Development
RBZ:	Reserve Bank of Zimbabwe
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Study
TOT:	Turn Over Tax
VAT:	Value Added Tax
ZAR:	South African Rand

Chapter 1

Introduction

The purpose of this chapter is to provide background information on the thesis. The remaining parts of the chapter are organized as follows. The first section presents background of the thesis. While the second section sets out statement of the problem. The objective of the research is presented in the third section. The fifth and sixth sections present the scope and significance of the study. Structure of the thesis is provided at the end of the chapter.

Tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax laws and regulations of a country that can be expressed by declaring income, filing a return and paying a tax due in a timely manner (Cummings, 2007). Marti (2010) defined tax compliance as fulfilling all tax obligations as specified by the tax law freely and completely. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time (IRS, 2009 & ATO, 2009). According to the report of OECD & CTPA (2008) tax compliance generally encapsulates four basic tax compliance obligations of citizens and businesses that must be administered by all revenue bodies in accordance with their respective tax laws:

1. To register for tax purpose;
2. To file tax returns on time (i.e. by the date stipulated in the law);
3. To correctly report tax liabilities (including as withholding agents); and
4. To pay taxes on time (i.e. by the date stipulated in the law)

Compliance by taxpayers with these basic obligations can also be viewed in terms of weather such compliance is achieved voluntarily (i.e. voluntary compliance) or corrected by enforcement actions carried out by the revenue body.

Tax non-compliance is the failure of a taxpayer to meet tax obligations whether the act is done intentionally or unintentionally (James & Alley, 2004), and Kirchler (2007) broadly classified non-compliance as failing to file a tax return; underreporting of taxable income; overstating tax claims such as deductions and exemptions and failing to make timely payment of tax liability. Other terms often used in a tax compliance or non-compliance context are tax evasion and tax avoidance or unacceptable tax minimization arrangements (OECD & CTPA, 2008). Tax non-compliance diminishes the mobilization of resources that governments need to invest in development programs and social and personal development including health, education, social security and infrastructure development (Cummings, 2007).

1.1 Background of the study

Almost invariably, tax revenue provides the cheapest means of funding public investments in education, health, physical infrastructure, crime prevention, and public defense. Tax is also core to the social contract between citizens and state: citizens as taxpayers want assurance that everyone pays their fair share and that the revenue collected is being spent wisely on their behalf (European parliament, 2014). Developing countries need to take the lead in mobilizing the financing necessary for development (World Bank, 2013). Domestic revenue mobilization of emerging and developing economies amounted to US$ 7.7 trillion in 2012 having grown by 14 percent annually since the year 2000. These buoyant domestic revenues also lowered aid dependency and raised country creditworthiness for official and private non-concessional loans, thereby having a multiplier effect on the volume of resources available for development.

Nevertheless, increasing Domestic Revenue Mobilization (DRM) remains a challenge for many governments, particularly in low-income countries. Low tax –to GDP ratios are exacerbated by limited capacity to collect revenues especially tax revenues. Progress will be needed expanding tax coverage, strengthening accountability, improving tax administration, and closing loopholes could make significant difference in lower-income countries, where tax revenues account for only about 10 to 14 percent of GDP, one-third less than in middle income countries and far below the 20- 30 percent of GDP reached in high income countries (World Bank, 2013).

Low- income countries differ from their high-income counterparts in their formal tax structures and tax collection capacity. Low-income countries (LIC) tax bases tend to be quite narrow, reflecting the smaller share of the formal sector in employment and business activity. As table 2.1.1 illustrates, Low-income Countries (LIC) have the lowest tax-to-GDP ratio, although there has been some improvement over the last two decades. For this group, the average ratio of taxes to GDP increased from 10 percent in 1998 to 13.6 percent in 2009.

Table 1.1.1: Greater taxation capacities in MICs than in LICs

Country	Tax Revenue as % of GDP (2004-2011)
LICs	
D. Republic of Congo	9.3
Ethiopia	9.4
Uganda	10.6
Zambia	18.0
Bangladesh	7.6
Pakistan	12.3
Sri Lanka	16.0
MICs	
Colombia	11.0
Bulgaria	26.7
Vietnam	24.9
South Africa	21.8

Source: World Development Indicators 2013: Financing for Development

Tax administration in developing countries is often staffed with poorly trained and poorly paid officials. And they may have rigid structures that do not encourage an integrated approach to different tax categories. Unsatisfied tax officer may not have willingness to support the taxpayers' and will not give sufficient services as required. As a result, most developing countries have not been able to raise sufficient revenues for essential public infrastructure and human development services (World Bank, 2013). The report highlighted the importance of mobilizing own-financial resources in order for nations to grow and develop. Therefore, attention to tax compliance and administration is necessary if a country is to avoid the external and aid dependency trap, and in turn make sustainable efforts towards poverty reduction.

Small and medium businesses being profit generating establishments are also expected to pay their dues. The important question however is “how much tax should they be levied”. Small and medium businesses are volatile establishments that need special treatment (Ojochogwu & Stephen, 2012). Putting their nature into consideration, every little resource at their disposal can make a world of difference. Despite the fact that people need to pay taxes based on rationales of horizontal and vertical equities, it is not always the case that tax systems are comprehensible and transparent for taxpayers especially for less literate business operators (ECC & EBDSN, 2005). A number of Ethiopian small and medium business operators choose to remain in the informal sector and a considerable number of those who pay taxes only do so because they are forced by ERCA (Ethiopian Development Research Institute, 2014).

Previous studies have identified various variables as the major determinants of tax compliance. Nicoleta (2011) classified tax compliance determinants into seven economic determinants and three non-economic factors. The seven economic factors of tax compliance were identified as the level of actual income, tax rate, fines, penalties, tax benefits and tax audit probabilities. Non-economic determinants were attitude towards taxes, personal, social and national norms and perceived fairness of tax system.

According to OECD (2008) for most small and medium businesses, tax compliance is associated with heavy costs due to the various limitations they face, particularly in maintaining proper and sufficient records for management and taxation purposes. Compliance by SMEs to the tax regulations requires some level of tax knowledge in order for them to be able to interpret the requirements of different tax rules, regulations and proclamations. With/or without this knowledge, SME incur different costs as they seek to be compliant.

Since most business owners especially micro, small and medium businesses do not have simplified access to and clarification on the tax laws and procedures, they lack awareness on tax rules and regulations and this has an impact on the practicability of the tax compliance of small and medium businesses. They do not have sufficient filing and reporting procedures to declare the correct amount of tax due. The tax non-compliance also occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Ojochogwu & Stephen, 2012).

If poor countries like Ethiopia are to escape from aid dependency and from poverty, it is essential that Ethiopian Revenues and Customs Authority offices have the capacity to collect taxes efficiently and in ways that are just and equitable. This requires measures both to enhance internal tax collection and also to reduce the barriers that are quite simply not fit for their intended purposes, educating the taxpayers, counseling service to taxpayers on tax rules and procedures and increasing audit coverage (Gebrewahid, 2012). Hence, dealing with the problems of tax compliance requires at least some understanding of the factors affecting the individual taxpayer's as well as their decision to pay or evade taxes.

The tax system in Ethiopia is mainly comprised of direct and indirect taxes levied by both central and regional government (Ethiopia Trade and Investment, 2015). The main types of direct taxes are taxes including business profit taxes, personal income tax, withholding tax, rental tax and other taxes. The indirect taxes applicable are VAT, TOT and Customs duty.

According to income tax proclamation No. 286/2002, taxable business income would be determined per tax period on the basis of the profit and loss account or income statement. Accordingly, taxable business income of corporate businesses is taxed at a flat rate 30% and other business (unincorporated individual businesses and PLCs) taxpayers are taxed at a progressive rate between 10% to 35%. The standard rate of VAT is 15% of the value of every taxable transaction by a registered person and all imports of goods and services other than those exempted.

The tax law also classified business income taxpayers into three major categories based on their annual turnover as category A, B and C. Therefore, taxpayers with annual turnover of Birr 500,000 and above are categorized under Category "A" taxpayers, business income taxpayers with annual turnover between Birr 100,000 and Birr 500,000 are under category "B" and business profit taxpayers with annual turnover less than Birr 100,000 are under category "C" taxpayers.

According to (ERCA, 2012), taxpayers are further classified in to large, medium, and small taxpayers at the Federal level and Regional level based on their annual turnover. Accordingly, large taxpayers are taxpayers those annual turnover is above Birr 15million, medium taxpayers are those annual turnover between Birr 1.5million and Birr 15millon and small businesses are those annual turnover between Birr 100,000 and 1.5million.

There are nine regional states and two city administrations in Ethiopia. Addis Ababa city administration is chosen for this study as there are many small and medium business taxpayers found in Addis Ababa and convenience to the researcher. According to the CSA (2011 Survey of Ethiopia Facilities and Services, the Addis Ababa City Administration has ten Sub Cities and a total population of 2, 739,551. The ten Sub Cities are divided into 114 kebeles. The highest populated Sub City is Kolfe Keranyo Sub City with a total population and total Kebeles of 428,895 and 10 respectively and the lowest populated Sub City is Akaki Kality with total population of 181,270 and 8 Kebeles.

Different types of small and medium businesses are operating in Addis Ababa. According to the Micro and Small Enterprises Development Strategy (2011) special attention is given to the following major sectors such as manufacturing, merchandizing trade & service giving.

1.2 Statement of the problem

Taxes are important sources of public revenue. The existence of collective consumption of goods and services necessitates putting some of our income into government hands. Such public goods like roads, power, municipal services, and other public infrastructures have favorable results on many facilities, business enterprises, industries and the general public. Government intervention in the supply of public goods is therefore inevitable and can only be done if the public pays taxes for the production and supply of such goods (ERCA, 2015.)

Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. Since each country has its own approach to manage tax compliance levels and each has different tax laws and regulations, the factors influencing tax compliance behavior appear to vary among countries (Palil, 2011). One measure used to determine a country's tax mobilization (tax compliance) is tax as a percentage of GDP. Currently, the governments of developing countries collect much lower proportions of their GDPs in tax revenue than do the governments of the OECD countries: 10-20% rather than 30-40%. Their tax effort indices-revenue collections relative to estimated revenue potentials- are also lower than those of OECD countries. Many low income countries including Sub Saharan African Countries report Tax to GDP ratio below 15 which is generally considered the threshold below which contemporary governments find it hard to finance their basic functioning and services (European Parliament, 2014).

According to the Report of (African Economic Outlook, 2015), the average 2010/11 to 2015/16 Ethiopia Tax Revenue Ratio to GDP is about 12.08. Although tax revenue-to-GDP showed a slight improvement in 2013/14 that is 12.7 compared to 12.4 in 2012/2013, it still remains low compared to the tax revenue generating capacity of the economy and the financing requirements of the development programs as GTP1 target of tax to GDP was 15-17%. Similarly, it is well below the average performances of sub Saharan African Countries of about 20% (Kenya 23%, Mauritius 19% and Tanzania 17%).

According to the (Ministry of Finance and Economic Development, 2013), the government clearly stated that efforts will be geared towards promoting tax compliance, by equipping tax collection institutions and undergoing tax administration measures to further increase revenue mobilization at federal and regional levels and realize the GTP1 target of 15-17% of tax to GDP ratio by 2015. However, this effort couldn't still bring the required result. Continued low revenue collection levels for a government is detrimental to economic development of this nation (Cobham, 2005). A large segment of the informal sector, especially the small and medium businesses in Addis Ababa exhibit low tax compliance levels (ERCA report No. 74, 2015). This is a great loss of revenues to be used to finance public expenditures. It is for this reason that this study attempted to find out the factors influencing tax compliance of small and medium business profit taxpayers' with the tax system of Ethiopian Revenues and Customs Authority.

1.3 Objective of the study

General and specific objectives are clearly stated in identifying the factors influencing tax compliance of small and medium business profit taxpayers in Addis Ababa.

1.3.1 General Objective

The overall objective of this study was to identify the factors that affect tax compliance of small and medium business profit taxpayers in Addis Ababa with the tax laws and regulations of Ethiopian Revenues and Customs Authority.

1.3.2 Specific objectives

a. To analyze how social services influence tax compliance of small and medium business profit taxpayers
b. To determine the extent to which costs incurred by small and medium businesses affect their tax compliance level
c. To assess tax knowledge of individual small & medium taxpayers as a factor of tax compliance
d. To assess how attitude towards taxes influence tax compliance level
e. To evaluate the services given to small and medium business profit taxpayers by the Ethiopian Revenues and Customs Authority offices as a factor of tax compliance.

1.4 Scope of the study

This study included small and medium business profit taxpayers found in Addis Ababa City Administration in identifying the factors affecting their tax compliance level. Many factors can be considered to analyze tax compliance of small and medium business profit taxpayers. But in this study, only six factors (social services, amount of tax liability, cost of tax compliance, tax knowledge, and attitude of taxpayers and services of ERCA to business profit taxpayers) are considered. This is due to their significance in the national tax compliance related agendas.

1.5 Significance of the Study

The findings of this study will be used to identify tax compliance problems of taxpayers and to improve the tax laws and procedures accordingly. Hence, it helps to improve tax compliance and reduce tax compliance costs of the taxpayers & administrative costs of Ethiopian Revenues and Customs Authority.

1.6 Limitation of the study

The respondents required much explanations to fill survey questionnaires and that took much time, money and energy of the researcher. Most of the respondents of small and medium business profit taxpayers are service providers and retail traders and do not have enough time to respond to the questionnaires. These all required additional time to encourage and frequently visit most of the businesses even during weekends and out of the normal working hours.

1.7 Organization of the paper

The thesis is structured as follows: Chapter 2 contains a review of the literature of the definitions of small and medium business profit taxpayers, tax compliance theories and factors affecting tax compliance. The research design and methodology are presented in chapter 3. Specifically, this chapter presents sampling techniques, data sources, data collection instruments and procedure of data collection. Chapter 4 presents the results of survey and interviews subsequently followed by an analysis of the results of the different methods. That is the findings of all the survey and interview results are pooled together and the main research question is answered. Finally, chapter 5 presented conclusion and recommendations.

Chapter 2

Literature Review

This chapter presents a review of the related literatures concerning the definitions of small and medium business profit taxpayers' and their tax compliance. Similarly, theories about tax compliance, factors determining tax compliance and empirical review of previous studies are presented in the literature review part.

2.1 General overview of small and medium business profit taxpayers

Most large companies have their roots in small and medium businesses suggesting that the future large corporations are the small and medium businesses of today that must be nurtured to enter their growth. Thus, small and medium businesses are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments, which would otherwise not have taken place (Aryeetey & Ahene, 2004). Therefore, developing economies like Ethiopia needs to further the development of its private sector by creating an environment favorable to the growth of small and medium businesses, strengthening the factors that lead business success, and addressing the problems threatening the existence and advancement of small and medium businesses, so they can adequately play the role expected of them in economic transformation. Such role includes contribution to GDP, export, manufacturing, employment generation, building an industrial economy and mobilization of domestic resources (Ethiopian Development Research Institute, 2014). It is for this reason that an ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic growth and proper utilization of resources (Moses, 2013). It is a well-known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for government. Tax revenue is the source of funds for development projects such as provision of infrastructure like roads, stable power supply, water supply, etc. all of which combine to create an enabling environment for businesses and in turn the economy at large to grow.

In most Organization for Economic Corporation and Development (OECD) countries, small and medium enterprises represent over 95% of enterprises and generate over 50% of private sector employment (RBZ, 2009). And micro, small and medium-sized enterprises play a central role in the European economy. They are a major source of entrepreneurial skills, innovation and employment. In the enlarged European Union of 25 counties, some 23 million SMEs provide around 75 million jobs and represent 99% of all enterprises, (European Commission, 2005).

The International Labor Organization (ILO, 2002), estimated that SMEs constitute over 90% of the total enterprises in most economies of OECD countries with a high rate of employment creation. SMEs have been viewed the world over as a vehicle for growing through increased industrial production and exports, for example in the US and EU countries it is estimated that SMEs contribute over 60% in the employment, 40-60% in GDP and 30-60% to exports. The Asian Tigers – Chaina, India, Malaysia, Japan and South Korea also have thriving SMEs sectors contributing between 70-80% in employment and an estimated 40% contribution to their respective GDPs, (EC, 2007). In Africa economic power houses such as South Africa, Egypt, Nigeria and Kenya have their SME sectors contributing over 70% in employment and 30-40% to GDP but contributing less than 4% to their tax earnings, (Bodin, 2008). According to Ethiopian Development Research institute (2014), the current size of SMEs in terms of its contribution to GDP, tax revenue, employment, export, and total manufacturing output is largely unknown.

2.1.1 General definition of small and medium business profit taxpayers

Many authors and organizations have sought to define what actually a small and medium enterprise is. Various definitions have been put forward and all are based on variables such as number of employees, turnover levels, total net assets and capital base. For example SME in South Africa is defined as any business with fewer than 200 employees, annual turnover of less than ZAR 5million, capital assets of less than ZAR 2million and with owners who are directly involved in the management of the business (Nelson, 2014). In the USA, an SME is defined as an entity that is independently owned and operated and which does not dominate in its field of operation (Hisrichet et.al, 2004). The Australian Tax Office went further to separate SMEs from Micro-Enterprises and large firms by using the annual revenue base (less than AU$ 2million is categorized as Micro, between AU$ 2million and AU$ 250million is SMEs; and above AU$ 250million is large enterprise.

Different academic disciplines have similarly endeavored to define SMEs using different fundamentals, features, variables or characteristics in their definitions. Most of these definition have however been on size, measured in terms of annual sales revenue, total assets figures and average number of permanent employees (Nelson, 2014).

The classification of businesses into small and medium scale depends on a number of variables such as level of employment, turnover, capital investment, production capacity, level of technology and subsector. Accordingly, the following scales are referred to the classification of enterprises in the Ethiopian context.

Table 2.1.1: Definition of Small and medium businesses

Level of the sector	Sector	Human power	Total asset
Small businesses	Industry	6-30	≤ Birr 1.5 Million
	Service	6-30	≤ Birr 0.5 Million
Medium businesses		Up to 51	Birr 1.5 million to 15million

Ethiopian Development Research Institute 2014

2.2 Theories of tax compliance

Various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way is to increase incentives (Feld & Frey, 2007); others believe the best way is to increase penalties. The following tax compliance theories are considered suitable for this study:

1. Economic based theories,
2. Non-economic or psychological based theories

2.2.1 Economic based theories

Economic factors (tax rates, tax audits and perceptions of government spending) in relation to tax compliance refer to actions which are associated with the costs and benefits of performing the actions (Loo, 2006). They are also known as deterrence theory and they place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risk (Trivedi and Shehata, 2005). They would attempt to minimize their tax liability, for example by intentionally underreporting their income and would enjoy tax savings if they were not detected by the tax authorities (Sandmo, 1972).

Similarly, the economic deterrence theory states that taxpayers' behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs (Sandmo, 1972). This implies that if detection is likely and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial non-compliance. The theoretical principles of economic deterrence have also been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught.

Concerning perceptions of government spending in relation to tax compliance, logically taxpayers are sensitive to what the government spends their money on (Palil, 2010). According to Palil, taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. In addition to that (Roberts et.al., 1994) also suggest that if the government is wisely spending national revenue, for example for basic facilities like education, health, safety and public transportation, it is likely that voluntary tax compliance will increase.

2.2.2 Non-economic or psychological based theories

Psychological based theories on the other hand posit that taxpayers are influenced to comply with their tax obligations by Psychological factors. They focus on the taxpayers' moral and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on factors such as increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax systems (Alm & Torgler, 2012).

There are many non-economic factors to affect the level of tax compliance. Many researchers have been done to include those non-economic factors to explain the behavior of tax compliance under the framework of economic analysis (Alm et.al., 1995). These non-economic factors include the willingness to pay for public provision, public education, tax morale, tax knowledge and information, attitudes towards taxes, personal & social norms and perceived fairness of tax system.

2.3 Tax compliance by small and medium profit taxpayers

The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. In fulfilling the revenue function, a well-designed tax system should be efficient in minimizing the distortionary impact on resource allocation, and equitable in its impact on different groups in society (Ojochogwu & Stephen, 2012). An effective and efficient tax administration system is integral to any country's well-being; it is a result of this that Baurer (2005) believes that the tax administration must provide an even playing field for businesses by ensuring that all taxpayers meet their tax filing and paying requirements. The tax administration must balance its educational and assistance role with its enforcement role.

According to Marti (2010) tax compliance is a complex term to define. Simply put, tax compliance refers to fulfilling all tax obligations as specified by the tax law freely and completely. It has been found that regulatory burdens fall disproportionately on small and medium enterprises internationally (Pope and Abdul-Jabbar, 2008). Their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation.

Tax non-compliance may be in one of many forms; it could either be failure to submit a tax return within the stipulated period or no submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date (Hanefah et al, 2002). And in some cases non-compliance may mean an outright failure to pay levied taxes. Studies have shown that the problem of tax evasion is a widespread one. Furthermore, Fagbemi & Noah (2010) found that it is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other socio-economic problems. Ojochogwu & Stephen (2012) identified tax rates and complex filling procedures as the major causes for tax non-compliance. They pointed out that a higher tax rate increases taxpayers' burden and reduces their disposable income therefore, the probability of evading taxes is higher.

Studies have identified different variables as core determinants of tax compliance of small and medium enterprises namely tax rates, tax audits, perception of government spending, role of tax authority, simplicity of tax return and administration, probability of detection, awareness on offenses and penalty, and personal financial constraint (Yong & Hooper, 2011).

Similarly, the taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behavior. Those factors which influence tax compliance and/or non-compliance behavior are different from one country to another and also from one individual to another (Kirchler & Hoelzl, 2008). They include: taxpayers perceptions of the tax system and revenue authority, peer attitude, taxpayers understanding of the tax system (tax laws), morality of the taxpayer and the tax collector, equity of the tax systems; demographic factors such as sex, age, education and size of income and use of informants.

In Ethiopia, all small and medium businesses are required to be formal, properly licensed and subject to paying taxes as per the tax proclamation of the country (Income Tax Proclamation No. 286/2002). Taxpayers who receive income from trade are required by law to register for tax (have their TIN-Taxpayers' Identification Number), keep and maintain sufficient records for tax purposes, carryout tax assessments, pay taxes (as due) and carryout other tax related duties like withholding and paying employment income tax on behalf of their employees. All small and medium businesses are required to use cash register machine. Most business operators of small and medium taxpayers are subject to indirect taxes, like VAT, TOT and are required to comply with all applicable provisions under the respective tax status. For instance, small and medium businesses whose annual taxable transaction is less than Birr 500,000 are required to pay Turn Ove Tax (TOT) to equalize and fairness in commercial relations and make complete the coverage of tax system so as to increase government revenue from taxation (ERCA, 2015).

Compliance to tax regulations is mandatory. For most small and medium businesses, because of the various limitations they face, tax compliance is sometimes associated with heavy costs that burden operations of small and medium Enterprises in developing and underdeveloped countries, (EC, 2007; OECD, 2008). In addition to that, lack of awareness of tax rules and procedures faced by SMEs (Yohannes & Zerihun, 2013) particularly in maintaining proper and sufficient records for management and taxation purposes is another problem for small and medium businesses Ethiopia. According to Addis Ababa Micro and Small Enterprises Development Bureau, there are as much if not more informal firms as are formal firms in Addis Ababa (Ethiopia Research Institute, 2014). Some of the reasons attributed for the informality are high transaction costs during licensing and fear of exorbitant taxation.

Compliance by small and medium businesses to the different tax regulations requires some level of tax knowledge in order for them to be able to interpret the provisions of different tax status. Without this knowledge, small and medium businesses incur internal and external costs as they seek to be compliant with the tax laws and regulations. This study therefore, seeks to find out the major factors affecting tax compliance of small and medium business profit taxpayers in Addis Ababa City Administration.

2.3.1 Public services

Tax compliance is proposed to be studied based on a psychological tax contract representing interaction between taxpayers and the government in establishing a fair and reciprocal exchange (Feld & Frey, 2007). The existence and survival of this contract is apparent in a number of circumstances in prior studies. For instance, if taxes paid and services provided by government are regarded as equitable, taxpayers may be inclined to comply with the tax laws and this has a significant positive effect on tax compliance (ibid).Taxpayers that are more satisfied with public service provision are more likely to support government's right to tax (Merima, 2013). Similarly, according to the study on tax and development in developing countries, the satisfaction with public expenditures and services can serve as a measure of how well governments convert taxes into expenditures (OECD, 2013). The results showed that satisfaction with services such as health, education, water and sanitation influences tax morale and tax compliance.

In summary, government should prudently spend taxpayers' money because the way in which government spends the money produces different levels of compliance. Taxpayers' perceptions are potentially important in determining their compliance behavior (Palil, 2010).

2.3.2 Tax compliance costs

Businesses incur costs to comply with tax requirements, which are additional to their tax liability. Tax compliance costs include three major components, namely monetary costs, time costs and psychological costs to the taxpayers (Sandford, 1989). Monetary costs include sums spent on tax professionals (i.e. tax agents and accountants) and expenses related to taxation guides, books, communication and other incidental costs. Time costs are incurred by the taxpayer, mainly on record keeping for the purposes of completing the tax return and preparing tax details for the tax professionals as well as time spent on dealing with the tax authorities. Psychological costs comprise costs such as anxiety of handling complex tax matters.

The study result on tax compliance costs made in Ethiopia Yeseget et. al. (2012) revealed that tax compliance costs in Ethiopia in the fiscal year 2011/2012 were relatively high. The total costs of tax compliance are estimated to be in the range of Ethiopian Birr 5.8 billion representing about 4.5 percent and 1 percent of the tax revenue collection and GDP respectively in the years under consideration. The study result also identified that smaller businesses are bearing disproportionately higher burden of tax compliance costs in Ethiopia. The study result further revealed that compliance costs related to business profit tax, VAT and TOT absorbed the largest share. Compliance costs related to business profit tax is due to the complexities especially in relation to the tax regime for relatively smaller businesses and the frequency of reporting with respect to VAT and TOT.

High compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness (Okeka, 2012). According to Patrick (2014), most small and medium enterprises in Kenya feel that consultancy charges and the cost of hiring professional staff are expensive. Many SMEs hire professional tax consultants to be able to accomplish the statutory requirements and to computerize their accounting records. All these efforts do amounts some cost bore by the taxpayer. He found out that compliance costs in the form of fees charged by tax consultants are positively correlated with non-compliance behavior and thus negatively correlated with tax compliance behavior. Because of the perceived technical nature of return filling, most taxpayers are forced to employ professional tax consultants (Patrck, 2014). The tax laws and regulations are legal documents with legal language which is complicated for ordinary taxpayers to comprehend and given the numerous legal amendments every year, taxpayers lack necessary expertise to complete the tax returns. It also saves time and money for the small and medium businesses by engaging a tax consultant to complete the tax returns in the most efficient manner. Therefore, tax laws should be simplified to lower both compliance costs and administrative costs, to reduce uncertainty faced by taxpayers' and to improve the levels of tax compliance (Kasipillai, 2005).

2.3.3 Tax knowledge

In addition to reducing the compliance costs, small and medium businesses have to be in a position to understand and cope with the administrative and legal requirements. One possible rout of action is to increase small and medium business owners' level of tax knowledge (Bernadette et. al., 2012). Small and medium businesses owners not only self-report and pay their income taxes but need to take account of various types of business taxes such as property taxes, payroll taxes and sales taxes such as VAT and TOT (Christen et. al, 2001). They require substantial tax knowledge about the different compliance measures and requirements in order to understand the rules and pay appropriate taxes .The degree of tax knowledge is an important factor on the behavior of tax payers. Less educated taxpayers are less exposed to tax compliance information and less informed about relevant tax compliance information and thus more prone to tax evasion (Andreoni J.Errard, 1998). Some taxpayers, especially small businesses find the complexity of tax information more difficult to understand than others. This complexity may lead to unintentional tax non-compliance if taxpayers have problems may be in filling of tax returns. Tax laws are often too complex to understood by laymen (Kirchler, 2007), which may small business owners undoubtedly are. Acquiring taxation knowledge is costly in terms of time (e.g. to become informed, to keep records, to fill out the forms), etc. As a result; small business managers seek the help of tax practitioners to handle part of the tax paying process (Coolidge, 2009).

2.3.4 Attitude towards taxes

Attitudes towards taxes- 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 attitude towards tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive (Kirchler & Hoelzl, 2008).

Taxpayers' attitude may be influenced by many factors which eventually influence taxpayers' behavior (Ambrecht, 1998). These factors which influence tax compliance behavior are many and are different from one country to another and from one individual to another. They include taxpayers perception towards the tax system and revenue authority; peer attitude; taxpayers understanding of the tax laws; motivation such as rewards and penalties, cost of compliance, equity of the tax systems and demographic factors such as sex, age and size of income.

Besides attitude norms are important determinants of tax compliance. On the individual level, norms define internalized standards on how to behave. There is considerable overlap between individual norms, values and ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary tax compliance (Trivedi & Shehata, 2005). On the social level norms are usually defined as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). Social norm are related to the behavior of reference groups. It is reasonable to assume that human behavior in the area of taxation is influenced by social interactions much in the same way as other forms of behavior. Compliance behavior and attitudes towards the tax system may therefore be affected by the behavior of an individual's reference group such a relatives, friends, and neighbors. Therefore, if a taxpayer knows many people in groups important to him who evade taxes, his/her commitment to comply will be weaker.

2.3.5 Services of ERCA to taxpayers

Services to taxpayers include taxpayer registration, customer service, tax collection, taxpayer education on tax laws, providing tax related information, tax appeals and claims resolution, etc. Tax authorities need to provide timely and quality services to taxpayers by helping the taxpayers understand the tax laws and meet their tax responsibilities (IRS, 2010). By doing these, the tax authority can help the taxpayers to understand the tax laws, determine & report their tax liabilities and pay conveniently. These also can reduce the administrative costs of the tax authority and the compliance costs borne by taxpayers. The tax authority should also offer clear, understandable, and current tax information and make this information available to the taxpayers through various media and in written forms that one can rely on to questions and requests for tax information (Asian Development Bank, 2001). According to Internal Revenue Service (IRS) of America, performance in tax administration can be measured using the following variables:

Behavioral outcomes: behavioral outcome measures evaluate taxpayer transactions with the tax administration to determine how effectively the tax administration is influencing taxpayers' behaviors, such as using web site, filling and paying electronically and generally fulfilling their tax obligations by meeting deadlines etc.

Quality measures: quality measures evaluate key characteristics of taxpayers' products and services, such as completeness, timeliness, consistency, and accuracy. Quality improvements can decrease the burden associated with erroneous information, and increase the public trust and confidence in the tax administration. Therefore, taxpayers should receive accurate information when asking tax related questions and when they seek and clarification on the tax laws and procedures and should be able to receive accurate responses from the tax officers.

Timeliness measures: used to evaluate how quickly tax authority services to the taxpayers can be delivered. The timely execution of activities by the tax authority can help taxpayers avoid unnecessary burdens resulting from long wait times (such as fees, penalties, and opportunity costs due to delayed services).

In summary, tax officers should assist taxpayers in an efficient, courteous and considerable manner. Tax offices should also be made as accessible and comfortable (such as parking areas and waiting seat for taxpayers, etc.) as possible. According to the report (united nations, 2000), taxpayer assistance can do much to enhance the image of the tax administration and promote voluntary compliance of taxpayers. The staff at the tax authority offices can help small taxpayers to complete their returns either in person or by telephone, but should encourage the taxpayers to do themselves, so that they would be able to complete the tax returns unaided on subsequent periods.

2.4 A review of empirical studies

Taxpayer's attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behavior. Those factors that influence tax compliance and /or non-compliance behavior are different from one country to another and also from one individual to another (Kirchler, 2007). Study made on 'Evaluating taxpayers' attitude and its influence on tax compliance decisions in Tamale, Ghana' (Abubakari & Christopher, 2013) can be summarized as follows:

The above study focused on individual self-employed/petty traders and individuals engaged in small and medium scale enterprises. After analyzing the survey responses from questions administered to operators of small and medium enterprises, in Ghana, the results indicated that individuals are highly concerned with the amount of taxes they pay. The rates of income taxes in Ghana are generally perceived to be high. Furthermore, the burden of taxes paid affects the attitudes of individuals and this informs how they evaluate the tax system and consequently their compliance decisions. According to this study, other important factors contributing for tax non-compliance of individuals were found to be the perception level of benefits derived from the provision of public goods and services particularly physical infrastructure, problems of understanding the tax laws, and levels of accountability and transparency in governance are matters that tax payers have less regard for their tax compliance issues.

Another study made on 'Factors that influence rental taxpayers' compliance with the tax system' an empirical study of Mekelle City, Ethiopia, (Suresh & Sriniva, 2012) identified tax compliance issues as follows: The researchers used structured questionnaires to collect data from a respondents of 140. And the responses were analyzed using SPSS software to summarize the findings of the study. Accordingly, the major problems of rental tax compliance in Mekelle City, Ethiopia were found to be intentional tax avoidance (presence of dishonest taxpayers), that means some rental taxpayers intentionally understate their taxable income, and also there are some who entirely do not report their taxable income to the concerned body. Consequently, this result is affecting the attitudes and tax compliance of genuine taxpayers towards the tax system. In addition to this, lack of knowledge of the tax system, especially how the taxable income is calculated and low awareness creation by the Revenue and Tax Authority by Mekelle City to taxpayers were found to be the major factors for tax compliance issues.

Similarly, a study by Ojochogwu & Stephen (June 2012) on 'Factors that affect tax compliance among small and medium enterprises' in Northern Central Nigeria revealed some of the issues of tax compliance. Data for this research was collected from primary sources using survey method (questionnaire and personal interview with 150 respondents of small and medium enterprises). The sample was obtained using a combination of non-probability (judgmental) and probability (random) sampling methods. Data analysis was made by using Microsoft Office excel 2007 using the one sample-size z-test. Thus according to this study, it was found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of small and medium enterprises. Other factors like multiple taxation and lack of proper enlightenment affect tax compliance among small and medium enterprise taxpayers to a lesser extent.

Study made by Nelson Maseko (2014) on 'Determinants of tax compliance by small and medium enterprises' in Zimbabwe can be summarized as follows: The main objectives of the study were to investigate how the unique business conditions of small and medium enterprises, the perceptions of small and medium operators towards taxation, levels of tax knowledge and compliance costs affect tax compliance of small and medium enterprise taxpayers. To achieve these objectives, the researcher stated research propositions: the current tax system in Zimbabwe does not cater for the special business needs of small and medium enterprises and that strong correlation do exist among tax knowledge, compliance costs, and tax compliance. The study adopted a chiefly qualitative research design. Methodological triangulation was employed, utilizing the interview method and questionnaire survey to collect primary data from small and medium enterprises in Harare. Interview responses were analyzed through summative content analysis and questionnaire responses were analyzed using SPSS software (V.16.0). The results indicated that small and medium enterprises face different business conditions from large companies which cause them to bear high tax compliance burdens. The results also indicated that the perceptions of small and medium enterprise operators about tax fairness, tax service quality and government spending priorities greatly affect their tax compliance decisions. Tax knowledge was discovered to have no correlation with tax registration compliance but week negative correlations with filing compliance.

In addition to that, the study made by Tilahun & Yadersal (2014) on “determinants of tax compliance behaviour in Ethiopia: the case of Bahir Dar City taxpayers can be summarized as follows: The study used quantitative methods research approach to study the determinants of tax compliance. The study also employed survey methods of data collection using questionnaires. The data collected from 201 usable questionnaires was analyzed using T-test and one-way ANOVA. The results revealed that perception of government spending, perception of equity and fairness of the tax system, penalties, personal financial constraint, changes on current government policies and referral group (friends, relatives, etc.) are factors that significantly affect tax compliance behaviour of taxpayers. However gender and probability of being audited have no significant impact on tax compliance behaviour. The findings also showed that older people will comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favorable.

Finally, the study on “assessing the gaps and problems that exist between the business community and Tax Authorities of Dire Dawa Administration (Yohannes & Zerihun, 2013) found various factors related to taxation system. The study was conducted to assess the challenges the business community of Dire Dawa City, in relation to taxation. Data were collected from various sources such as taxpayers’ survey and focus group discussions. A total of 183 taxpayers, key informants from Tax and Revenue Authority and Federal Customs and Inland Revenue Authority have participated in the study. Descriptive statistics such as mean, standard deviation, percentages, frequency, charts and frequency, etc. were used to summarize the study findings and present the results. The findings of the study revealed that most of the taxpayers, especially those in the category “C” have been facing various problems such as they are paying beyond their ability to pay and that they have no trust in the employees of the Tax Authority and the overall tax assessment, estimation and collection procedures. They pointed out the following major problems creating the existing gap between the taxpayers and the Dire Dawa Tax Administration. These are overexertion as a result of overestimation, lack of fairness in similar businesses, poor tax laws enforcement, poor communication and understanding between taxpayers and the Tax Authority and weakness in tax collection and unsatisfactory service delivery of the Tax Authority. Thus, they recommended that the Tax Authority should revise its working system and promote transparency, so that trust of taxpayers on the tax system will develop.

2.5 Conclusion and knowledge gaps

This chapter describes the relevant theories about tax compliance; various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay tax unless there is a motivation to do so. Some believe that the best way is to increase incentives (Feld & Frey, 2007) others believe the best way is to increase penalties. Some of the major tax theories include economic based theories and psychological based theories.

Economic based theories are also known as deterrence theory and they place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection. They analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risk. The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner (Cowell and Gordon 1988, Levi 1988, Moor,2004). They believe that compliance increase with perceptions of the availability of public goods and services.

On the other hand, non-economic based theories focus on the taxpayers’ moral and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on factors such as increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax systems (Alm & Torgler, 2012). These non-economic factors include the willingness to pay for public provision, public education, tax morale, tax knowledge and information, attitudes towards taxes and perceived fairness of tax system.

Reviews of past studies on tax compliance of small and medium enterprises indicate mixed but interesting findings. For instance, while study made by Nelson Maseko, on 'Determinants of tax compliance by small and medium enterprises' in Zimbabwe that tax compliance of small and medium enterprises are affected by different situations from those of larger corporations which make them to bear high tax burden. In addition to this, the perceptions of small and medium enterprise operators about tax fairness, tax service quality and government spending priorities greatly affect their tax compliance decision and tax knowledge was discovered to have no effect on tax registration compliance. Similarly, various studies were made on tax compliance issues, in developing countries especially, Nigeria, Kenya and Ghana. More specifically, in the case of Ethiopia, to the knowledge of the researcher, even though, there were few researches made on tax compliance in general, there is no study on such issues specifically on tax compliance of small and medium business profit taxpayers. This encourages the researcher to assess and identify the factors affecting small and medium business profit taxpayers in Addis Ababa City Administration.

Chapter 3

Research Design and Methodology

In order to study the topic, the researcher used descriptive survey design. The required data for this study was collected using survey method and key informant interview. It is selected on the assumption that it helps to gather adequate information and is more relevant to determine opinions of the taxpayers and helps to obtain the knowledge and experience from those who are familiar with the issue to identify the factors affecting tax compliance of small and medium business profit taxpayers based in Addis Ababa City Administration.

The research describes the perception of different small and medium business profit taxpayers towards tax compliance factors. Hence, it is categorized as descriptive research. Data for this research is collected from primary sources. Survey method and interview is employed in collecting primary data. Survey is one method of descriptive research method that helps to gather data at a particular point in time with the intension of describing the nature of existing conditions. Therefore, the adoption of survey design in the study is helpful in order to represent a wider population; provides descriptive, inferential and explanatory information and gathering of information that will not available from archive records. Questionnaire was distributed to different sectors of small and medium business profit taxpayers found in Addis Ababa. In addition to these, tax consultants and ERCA staffs were interviewed. The questionnaires were consisted of properly constructed close ended questions. The subsequent sub sections deal with sample design and sampling technique.

3.1 Sample design

Ideally, samples are selected on random bases indicating the representativeness of the population (Tabachnick and Fidell, 2001). The intension of this study is to generalize the findings to all small and medium business profit taxpayers in Addis Ababa and to obtain diverse number of sample in order to clearly identify the factors affecting tax compliance of small and medium business profit taxpayers. To obtain the relevance and accuracy of research findings, the sample design is structured as follows. The target population of the study is small and medium business profit taxpayers who are active in 2014/15 (2007E.C) budget year in Addis Ababa City Administration

As the literatures on survey methods reveal, how well a sample represents a population depends on the sample frame, the sample size and the specific procedures of selecting potential respondents. In respect of sample frame, the sample frame from which potential respondents are to be drawn have to be representative of the population of interest. The sample design provides the basic plan and methodology for selecting the sample. In a sample design, a sample selection about broader potential respondents giving equal chance of selection is vital in increasing the representativeness of the sample. Therefore, the total population used to determine the sample was all active small and medium business profit taxpayers in Addis Ababa City Administration. According to the records on May, 2015 of the Ethiopian Revenues and Customs Authority, Information Technology, the total number of active small and medium business taxpayers in Addis Ababa City Administration was 147,795.

3.1.1 Sampling technique

In an attempt to obtain a fair representation of the population, the selection of small and medium business profit taxpayers was done using stratified random sampling technique. Stratified sampling was used to include all sectors of the economy in the sample.

3.1.2 Sample size

Another point to be raised in here about sample design is the sample size. The choice of sample size has a bearing on the reliability of the result of a study. However this does not mean that large sample size always leads to high level of accuracy rather it is to indicate that sample size is one of the factors that contribute to the credibility of the survey estimate. For the choice of sample size, different researchers have different opinions. For instance, some researchers noted that the choice of sample size is normally made after considering practical issues and available resources (e.g. cost and time). According to Ary et. al. (2002) all things being equal, the larger sample size, the better representative of the population.

On the other hand Fowler (1984) noted that there is no single precise way for the determination of sample size hence there are a number of inadequacy for deciding on sample size. Therefore, it is better to decide the sample size by considering the different goals to be achieved by a particular study, sample size used by other researchers on similar studies for example, Wubshet (2011) and by considering practical issues like availability of time, resources and the size of the population to be studied. Fowler (1984) indicated that for a population, the level of precision increases steadily up to sample sizes of 150 to 200. If the desire is to increase the sample size beyond this limit, there is much more gain that is modest. In addition, Fraenkel & Wallen (2006) contend that stratified random sampling increases the likelihood of representativeness, especially if the sample is not very large.

The most important characteristic of a sample, therefore, is its representativeness, not its size. Therefore, a sample of 230 small and medium business profit taxpayers is selected from a population of 147,795 small and medium business profit taxpayers in Addis Ababa. The total population is stratified into three sectors and each sector is again classified into small and medium businesses as shown in table 3.1.1. Then the 230 sample was drawn based on the proportion of the sectors and the size (small and medium) of the businesses in their respective sectors. The fraction of the sample compared to the total population of small and medium business profit taxpayers seems low, .16%. This is due to the large population of small and medium business profit taxpayers found in Addis Ababa.

As stated above, the sample size used in the survey was 230 small and medium business profit taxpayers found in Addis Ababa City Administration. In order to substantiate the information obtained from the 230 small and medium business profit taxpayers, 4 tax consultants based in Addis Ababa and 10 ERCA staffs working at different branches and positon were interviewed. To ensure the representativeness and to identify the factors affecting tax compliance, the population of small and medium business profit taxpayers found in Addis Ababa was stratified in to business sectors, namely manufacturing, merchandizing and service giving. Then each sector is further classified into small or medium business profit taxpayer. Stratified random sampling technique was used in order to ensure all characteristics in the population are reflected in the sample selected.

Table 3.1.1: Sample size selection procedures using stratified multistage sampling

Sector	Size	Population		Sample	
		Frequency	Percentage	Frequency	Percentage
Manufacturing	Small	15,002	10.2%	23	10%
	Medium	7,889	5.3%	12	5.3%
Merchandizing	Small	50,562	34.2%	79	34.3%
	Medium	21,414	14.5%	33	14.3%
Service giving	Small	42,785	28.9%	67	29.3%
	Medium	10,143	6.9%	16	7%
Total		147,795	100	230	100

Source: ERCA information technology and own computation

3.2 Source of data

The required data for this study were collected from primary sources.

3.2.1 Primary data source

The primary data were collected through structured questionnaire and interview. The questionnaire consisted of close-ended and a few open-ended questions to understand small and medium business profit taxpayers' opinions about the factors affecting their tax compliance to the tax system. The primary data sources were small and medium taxpayers of Addis Ababa City (who were operational in the year 2014/15 (2007E.C) and from tax consultants and ERCA staffs.

3.2.2 Nature of the questionnaire

The survey questionnaire was prepared in English and translated to Amharic versions to reduce the impact of language barriers. Each version divided into six sections. The first section consisted of eleven questions with multiple choice answers each that are aimed at gathering the general information on the background of the respondents and their businesses. The second section of the questioner is intended to analyze tax compliance of the taxpayers in relation to the social services provided by the government. The third section is concerning the analysis of tax compliance costs as factors of tax compliance.

Section four is about business profit taxpayers' general knowledge of tax rules and procedures. This section was intended to assess the tax compliance of small and medium business taxpayers in Addis Ababa with the tax laws in correctly determining their taxable income and tax liability by using appropriate tax rates and deductible and nondeductible expenses. Section five is analysis about other factor affecting tax compliance of small and medium businesses such as attitude of taxpayers towards tax payment.

The last section is about the services of Ethiopian Revenues and Customs Authority to its business profit taxpayers concerning awareness creation and solving problems on tax related issues and the respondents were asked to rate using the given scales (bad, good and very good). And the respondents were also asked to state their opinions about possible measures needed to undertake by the Ethiopian Revenues and Customs Authority to improve its performance and to improve tax compliance level of small and medium business profit taxpayers.

As part of the procedure for data collection, questionnaire which contains Likert-type items was used to ascertain factors affecting small and medium business profit taxpayers. This is adapted from questionnaire developed by Palil (2010) for the study: "Tax knowledge and tax compliance determinants in Malaysia." The questionnaire for sections three to five were designed in such a way that the respondents state their opinion to the statements listed by putting a tick mark on one of their choices from five choices on the Likert scale (1=Strongly agree, 2=Agree, 3=Uncertain, 4=Disagree and 5=Strongly disagree).

In addition to self-administered questionnaires, in-depth interview were also conducted with tax consultants and ERCA staffs to identify the factors affecting small and medium business profit taxpayers and to supplement the data gathered through survey questionnaires. The use of interview is appropriate in obtaining either sensitive information as well as understanding concepts requiring detailed information (Hair et al., 2007). Eight questions each consisting of sub questions and twenty questions were developed for tax consultants and ERCA staffs respectively as guide for interview sessions. These questions were formulated with reference to the topics under study that is: identifying factors affecting tax compliance of small and medium business profit taxpayers and based on the result of taxpayers survey responses. Both survey and interview questions are attached in appendices 1 to 4.

3.2.3 Response rates

Survey questionnaires were distributed to 230 randomly selected small and medium business profit taxpayers found in Addis Ababa. Different methods were employed to increase the response rate. First of all, almost all the questionnaires were close-ended questions as information sought on tax compliance is sensitive and direct interview questions might lead the respondents to answer the questions dishonestly (Richardson, 2008). And to boost the response rate, questionnaires were prepared in both Amharic and English versions. Follow up reminders like repeated telephone calls and also personal visits were made by the researcher and data collection group. A total of 195 responses were received, 184 responses were usable and 11 responses were not usable giving a response rate of 80%. This shows that the response rate is considered as good Dillman (2007) suggests that the response rate for a personal delivery approach varies considerably from the lower of 28 percent to the highest of 50 percent.

3.2.4 Response representativeness

Many survey organizations use the response rate as an indicator for the quality of survey data. As a consequence, a variety of measures are implemented to reduce the non-response or to maintain response rate at an acceptable level. However, the response rate is not necessarily a good indicator of non-response bias. What matters is how the composition of the response differs from the composition of the sample or the composition of the population (Jelke Bethlehem, 2009). In this study, responses were compared based on distribution of legal personality of businesses and annual sales turnover (to determine whether the business is in small or medium category or not). In both these measures, the percentage of the survey response is very much comparable with the total population of small and medium business profit taxpayers in the city. Comparing the survey responses with the total population on the above criteria signifies no major differences. Thus, it can be concluded that the responses are representative of the population small and medium business profit taxpayers in Addis Ababa City Administration.

Chapter 4

Results and Discussions

This chapter presented the data analysis, presentation and interpretation of findings on the data collected from small and medium business profit taxpayers in Addis Ababa and interview made with tax consultants and ERCA staffs. The main objective of the study was to identify the factors affecting tax compliance among small and medium business profit taxpayers' in Addis Ababa.

The study sampled 230 small and medium business profit taxpayers in Addis Ababa City Administration. The results are based on 184 questionnaires collected from the taxpayers and interviews made with tax consultants and ERCA staffs. The responses of small and medium business profit taxpayers gathered through questionnaire were encoded in SPSS version 20 software. In this case, each factor collected from the respondents was given a particular code. After that descriptive analysis was made and the results are presented using percentages, mean, tables and charts.

Accordingly, sections 4.1 to 4.7 deals with the analysis and summary of results of the questionnaire gathered from small and medium business profit taxpayers in Addis Ababa and the interview responses from tax consultants and ERCA staffs working at different branches and positions in Addis Ababa respectively. Sections 4.8.1 and 4.8.5 summarize the findings of all the responses from small and medium business profit taxpayers, tax consultants and ERCA staffs to answer the main research question: Factors affecting tax compliance of small and medium business profit taxpayers in Addis Ababa.

4.1 Backgrounds of the respondents and their business

This section describes respondents' general information and the business such as when the business started, total assets, gender and educational level, experience of being audited by the ERCA and main business activities of respondents. Accordingly, table 4.1.1 summarizes the responses on the main business of the respondents.

Table 4.1.1: Type of business sectors of respondents

Main business sector	Frequency	Percentage
Manufacturing	20	11
General merchandising and trade	95	51.5
Service (Secretarial, maintenance, food, etc.)	69	37.5
Total	184	100

Source: SPSS output from survey result of 2015

According to Income Tax Regulation No. 78/2002, there are different types of businesses in Ethiopia. The types of business sectors are summarized into three major categories for the consumption of this thesis. Table 4.1.1 shows the distribution of respondents according to the categories of business sectors. It shows that 95 (51.5%) of the respondents are engaged in general merchandizing and trade, 69 (37.5%) are service sectors and the remaining 20 (11%) are manufacturing sectors. This shows that the majority of small and medium businesses in Addis Ababa are engaged in merchandizing and trade businesses.

Table 4.1.2 shows that 163 (88.7%) of the respondents are sole proprietorship, 7 (3.8%) are private limited companies, 9 (4.8%) of them are partnerships and the other 5 (2.7%) associations. This shows the majority of small and medium business taxpayers are sole proprietorship.

Table 4.1.2: Distribution of legal forms of businesses

Legal form of business	Frequency	Percentage
Sole proprietorship	163	88.7
PLC (Private Limited Company)	7	3.8
Partnership	9	4.8
Other (Associations, …)	5	2.7
Total	184	100.00

Source: SPSS output from survey result of 2015

Concerning the positions of the respondents in their respective sectors, table 4.1.3 illustrates that (46.2%) of the respondents were owners of the businesses, (23.4%) were managers, (26.6%) were accountants and the reaming (3.8%) were other employees other than owners, managers and accountants of the small and medium businesses. This indicates that the majority of small and medium businesses are managed by their owners.

Table 4.1.3: Respondents' position in the sector

Respondents position	Frequency	Percentage
Owner	85	46.2
Manager	43	23.4
Accountant	49	26.6
Other (employees like cashier, salesmen)	7	3.8
Total	184	100.00

Source: SPSS output from survey result of 2015

Table 4.1.4 below summarizes the ages of the firms. Accordingly, 8 SMEs (4.3%) of the respondents started business within two years, 80 SMEs (44.2%) of them started their business between 3-5 years, 51 SMEs (27.7%) started business between 6-10 year and the rest of the respondents 45 (24.5%) of them started business before ten years. Since the majority of the respondents were in the business for more than six years, their responses will greatly contribute in identifying the factors of tax compliance.

Table 4.1.4: Age of the firm

When the business started	Frequency	Percentage
2 years and less	8	4.3
3-5 years	51	27.7
6-10 years	80	44.2
More than 10 years in the business	45	24.5
Total	184	100.00

Source: SPSS output from survey result of 2015

The researcher found it of importance to ask the respondents to indicate their annual sales turnover, as this is the factor identifies the category of under which a taxpayer falls consequently determining whether the respondents can be classified as either small or medium businesses taxpayers. Table 4.1.5 shows that 120(65.2%) and 61(33.2%) of the respondents were small business taxpayers and medium scale business taxpayers respectively.

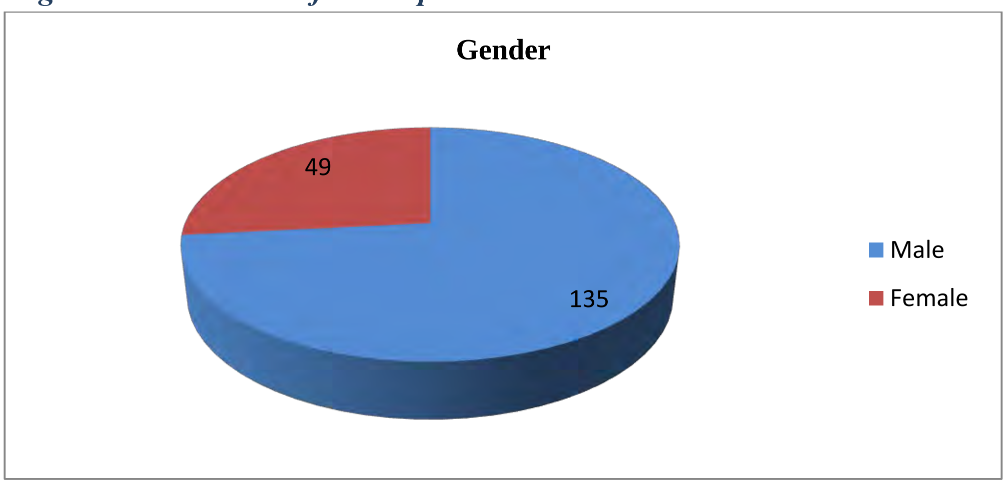
Table 4.1.5: Annual sales turnover of the businesses

Total asset	Frequency	Percentage
Birr 100,000 and less	3	1.6
Birr 100,001-1,500,000	120	65.2
Birr 1,500,001-15,000,000	61	33.2
Total	184	100.00

Source: SPSS output from survey result of 2015

The personal data of respondents such as gender, age and education levels are discussed under the following figures, figure 4.1.1, figure 4.1.2 and figure 4.1.3. Concerning the gender of respondents, figure 4.1.1 shows that 135 (73.4%) of the respondents were males and 49 of the respondents which represents 26.6% of the total respondents were females. This shows that the majority of the taxpayers of small and medium businesses are males.

Figure 4.1.1: Gender of the respondents

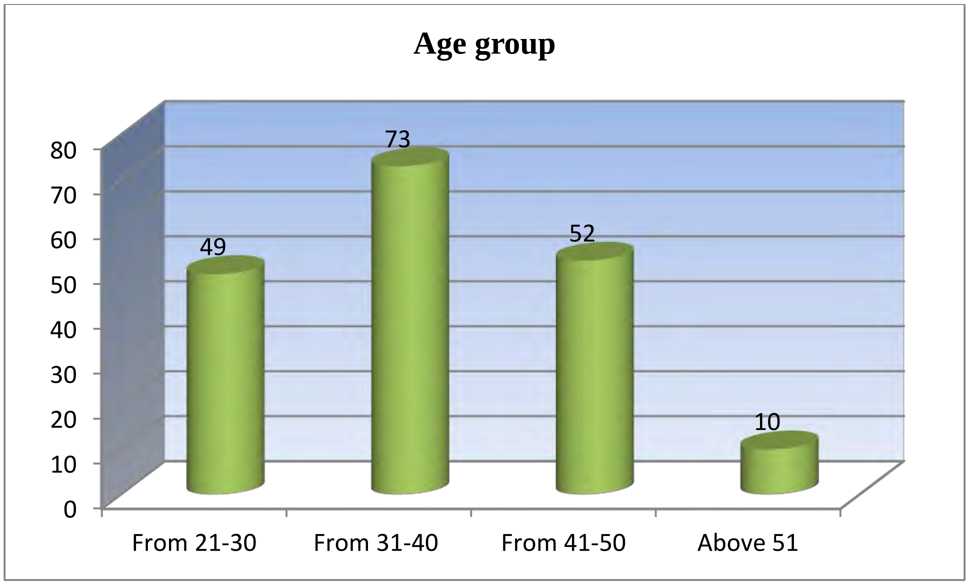


Source: SPSS output from survey result of 2015

Figure 4.1.2 shows the age groups of the respondents. Since the study emphasized business taxpayers, a minimum age of 21 years old was considered reasonable. There were four age groups involved in this study with a 10-year range in each group except for above 51 years old. The largest group of the respondents, (73 or 39.7%) was aged between 31 and 40 years old and respondents in the group of above 51 years old was the lowest number with 10 responses (5.4%).

Generally, respondents within the age group of 31 and 52 made up the largest portion with 125 (68%) of the total respondents.

Figure 4.1.2: Age group of the respondents

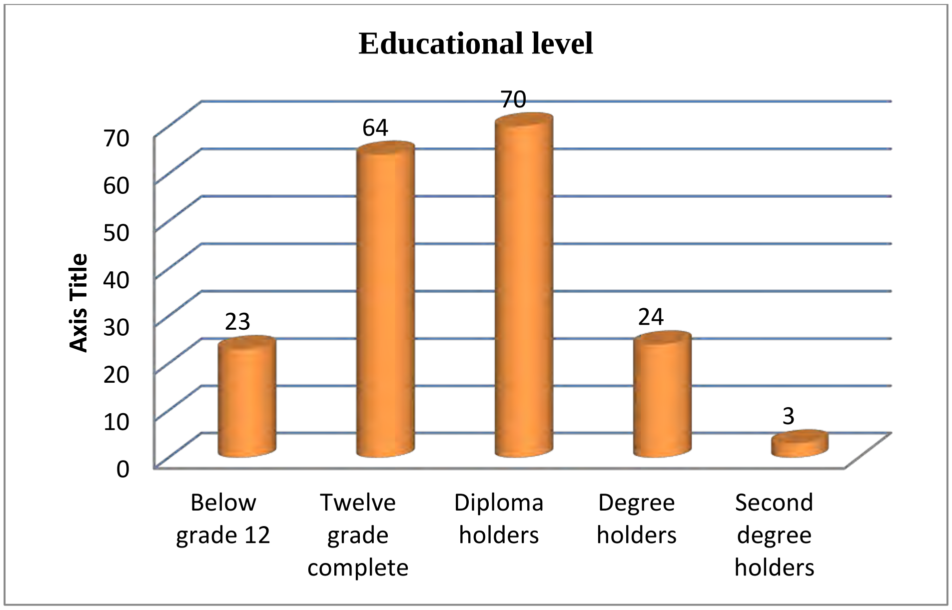


Source: SPSS output from survey result of 2015

Concerning the educational qualification of the respondents, figure 4.1.3 illustrates that 23 (12.5%) of the respondents are below twelve grade, 64 (35%) of the respondents are twelve grade complete. On the other hand, the number of respondents who are diploma and degree holders are 70 and 24; each of them representing 38% and 13% of the total respondents respectively. The remaining 3 (1.5%) of the total respondents were second degree holders. This can be an indication that the majority of the respondents have no good academic background that can help them to understand the tax laws and procedures and they do not have specific tax knowledge that can help them to comply with different tax compliance requirements.

In order to pay appropriate taxes, small and medium business owners must be knowledgeable about the different compliance measures and requirements. Taxation knowledge is a specific part of the general human potential entrepreneurs which increases the chances of business success (Haber & Reichel, 2007). The extent of non-compliance arising from knowledge deficits because of the tax complexity of reporting and returning requirements might be substantial among small business, in the UK, for example, VAT non-compliance mostly results from errors that do not stem from evasion intent (Webley, 2004).

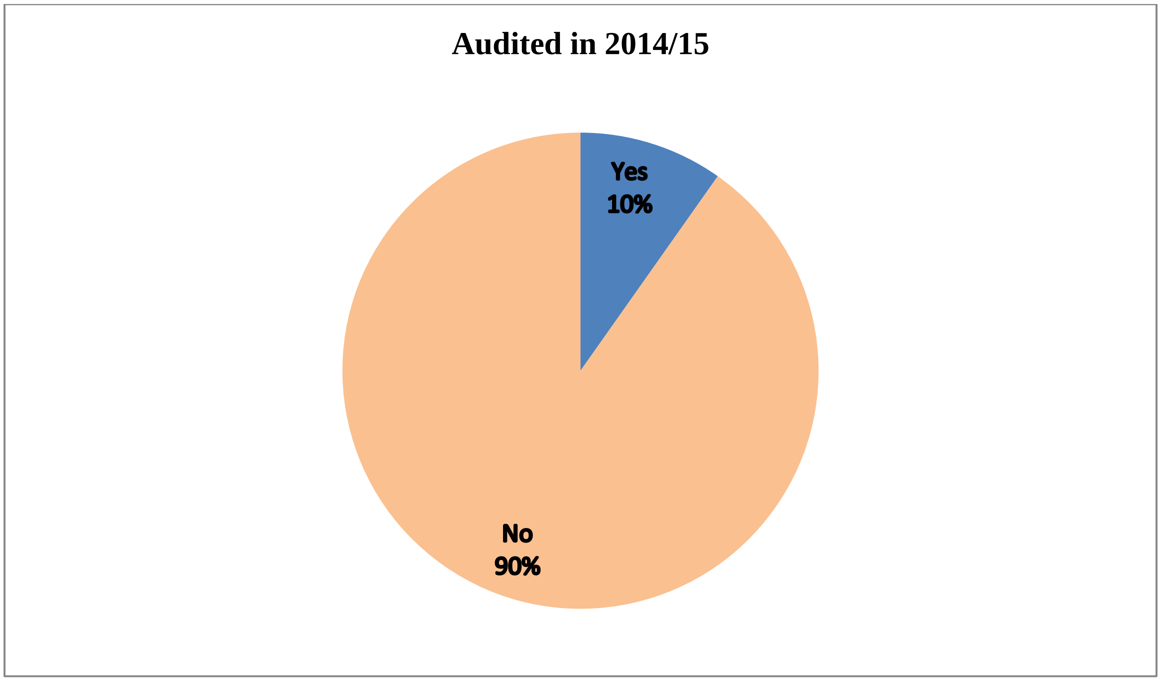
Figure 4.1.3: Educational level



Source: SPSS output from survey result of 2015

Figure 4.1.4 below describes the percentage of the respondents that their businesses audited in the year 2014/15 by the ERCA. It shows that 18 out of 184 or only 10% of the respondents were audited by the tax authority and 166 (90%) of the respondents did not. Therefore, from the survey responses, it can be concluded that the Ethiopian Revenues and Customs Authority has limited capacity to investigate the records of the majority of the small and medium business taxpayers found in Addis Ababa city Administration (Figure 4.1.4). According to the interview result of tax consultants, low audit coverage is the main reason why some small and medium businesses underreport their income or overstate their expenses up on declaring their taxable income. In addition to that, some informal suppliers transact without using legal receipts as they know the probability of detection by ERCA audit team is low due to low audit coverage.

Figure 4.1.4: Audited by the ERCA in the year 2014/15



Source: SPSS output from survey result of 2015

Table 4.1.6 below summarized the responses under which conditions the small and medium taxpayers are penalized by the ERCA. It is indicated in the table that small and medium business taxpayers penalized by the ERCA mainly due to late tax payments 41 (22.8%) and late filing of the tax return 26 (14.7%). Some responded that not filing a tax return 9 (4.9%) and under reporting income 9 (4.9%) were the reasons under which small and medium businesses penalized by the ERCA. This is very similar with the interview result with ERCA staffs that most small and medium businesses profit taxpayers do not pay their taxes timely and as a result they pay with penalty. This is mainly due to lack of awareness of tax rules and procedures, they cannot easily prepare tax returns and also do not record their daily transactions so it takes time until they compile the transactions at once and submit the reports.

It is clearly shown in table 4.1.6 that the compliance level of female taxpayers is relatively better than that of males' regarding filing tax returns and reporting the correct taxable income. The association between gender and tax compliance has received some attention in prior studies. Some studies found that females are more compliant (Mohammed Ali et. Al., 2007) and gender has no significant impact on tax compliance (Richardson, 2008). Although the findings are different concerning gender and tax compliance, it is relevant in order to help tax administrators to plan the tax audits and education programmes effectively.

Table 4.1.6: Penalized due to the following reasons in the year 2014/2015

Penalized due to	Yes	No	Yes (Male)	Yes (Female)
Not filing a tax return	9 (4.9%)	175 (95.1%)	9 (100%)	
Late filing of tax return	26 (14.7%)	157 (85.3)	23 (88%)	3 (12%)
Under reporting income	9 (4.9%)	175 (95.1%)	8 (90%)	1(10%)
Over claiming deductions	4 (2.2%)	180 (97.8%)	4 (100%)	
Late tax payments	41 (22.8%)	142 (77.2%)	35 (85%)	6 (15%)

Source: SPSS output from survey result of 2015

Table 4.1.7 below summarizes assessment of tax amount payable as a factor influencing tax compliance. Based on the survey responses, 83 out of 184 of the respondents felt their tax liability is fair and does not influence their tax compliance, 101 (55%) of the small and medium business taxpayers replied that their tax liability is unfair and influences their tax compliance.

Table 4.1.7: Assessment of tax liability as a factor influencing tax compliance

Amount of tax liability	Frequency	Percentage
Fair (does not influence compliance)	83	45
Unfair (influences compliance)	101	55
Total	184	100

Source: SPSS output from survey result of 2015

4.2 Analysis of social services as a factor influencing tax compliance

Respondents were asked whether the provision of social services by the government like (road, electricity, water, security, health services, etc.) contributed for their tax compliance. Table 4.2.1 shows that the majority 78 (42.4%) and 60 (32.6%) of the respondents strongly agree or agree that provision of social services contributed for their tax compliance. On the other hand, 19 (10.3%) of the respondents disagree and 10 (5.4%) of the respondents strongly disagree with the above facts while 17 (9.2%) of the respondents are uncertain whether the provision of social services contributed for their tax compliance or not.

Table 4.2.1: Provision of social services by government as a factor of tax compliance

Social services improve the level of tax compliance	Frequency	Percentage
Strongly agree	78	42.40
Agree	60	32.60
Uncertain	17	9.20
Disagree	19	10.30
Strongly disagree	10	5.40
Total	184	100.00

Source: SPSS output from survey result of 2015

This is in line with the findings of the study made by (Merima, 2013) on factors affecting tax compliant attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa. According to her findings, those who are more satisfied with public service provision are more likely to support government's right to tax in all the four countries. For instance, access to infrastructure such as roads and electricity encourage tax compliance attitude in Kenya while respondents in Tanzania and Uganda refer to education and health services as key to their tax compliance.

The interviewed tax consultants also explained that compliance of small and medium business profit taxpayers is influenced by the social services such as electrify, water, education, health facilities, etc. provided by the government. Taxpayers are more compliant and willing to pay their taxes when they are more satisfied by the social services.

Unlike the result obtained from taxpayers and tax consultants, the interview result with ERCA staff did not support the findings social services influence tax compliance level of taxpayers. The majority of the interviewers working at Ethiopian Revenues and Customs Authority at Merkato 2 and Addis Ababa 1 & 2 branch offices replied that social services cannot influence the level of tax compliance of small and medium business profit taxpayers due to the following reasons. They argue that Ethiopian Revenues and Customs Authority do not have such kind of loyal taxpayers that have confidence and moral to ask proportional services for what they are paying.

There are only very few loyal taxpayers in the country that cannot be representative for all taxpayers to ask such kind of questions. The majority of the interviewers said that currently taxpayers do not associate any social services provided by the government with tax and they simply consider tax as payment to the government. They also explained that most of the taxpayers' even large taxpayers do not consider social services or wealth distribution but they pay taxes because they are forced by ERCA.

4.3 Analysis of tax compliance costs as a factor influencing tax compliance

Tax compliance costs are costs associated with keeping and maintaining sufficient records for tax purposes, carry out tax assessments, pay taxes (as due), file all tax returns in time and carry out other tax-related duties. Therefore, respondents were asked to indicate the extent to which they agreed or disagreed with the factors that influence their compliance with business profit tax law requirements. This was on a five point Likert scale, where strongly agree = (1); agree = (2); uncertain = (3); disagree = (4); strongly disagree = (5).

Table 4.3.1: I wish not to comply with the tax laws for the following reasons

Statements	Strongly agree	Agree	Un certain	Dis agree	Strongly disagree	Mean	Std. deviation
The penalty due to not paying tax is lower than my tax saving	2 1.1%	9 5%	28 15%	84 46%	56 30%	4.02	.880
Cost of stationaries , computer , etc. is high	84 46%	31 17%	25 14%	22 12%	17 9%	2.20	1.388
Cost of cash register machine & its operation is high	81 45%	38 21%	21 12%	22 12%	17 9%	2.20	1.374
Cost of software & internet is high	10 6%	15 8%	33 18	77 42%	44 24%	3.73	1.095
Cost of hiring staff such as accountant &sales man is high	100 54%	37 20%	8 4%	22 12%	12 7%	1.93	1.305
Most of the time I hire external services (tax consultant) to file tax returns and I pay additional costs)	81 44%	41 23%	15 8%	23 13%	18 10%	2.19	1.393
My tax liability is large	60 33%	64 35%	16 9%	25 14%	11 6%	2.22	1.234

Source: SPSS output from survey result of 2015

Table 4.3.1 above summarizes the responses to the statement which make the business taxpayers not to comply with the tax laws. Accordingly, most of the respondents of small and medium businesses agree with mean value of approximately 2 that cost of stationaries, cash register machine & its maintenance, salary of accountant & fees to tax consultants are the major factors for tax non-compliance. Similarly, the majority of small and medium business taxpayers wish not to comply with the tax laws due to the high amount of tax liability.

From table 4.3.1, it is possible to conclude that costs incurred by small and medium businesses in the process to be tax compliant (such as cost of stationaries, cash register machine & its maintenance, fees to tax consultants, salary of accountants, etc.) are the major factor contributing for their tax noncompliance.

Similarly, the interview result of ERCA staffs confirmed that tax compliance costs such as salary of accountants, fees to tax consultants & tax representatives, cash register machine & its maintenance or renewal cost, time for filing VAT & TOT and declaration of income, computer, stationaries and software used in the record keeping process affect the tax compliance level of small and medium business profit taxpayers.

Concerning tax compliance costs of small and medium businesses, the tax consultants were asked about how they price their services and whether or not the cost of their tax service can influence compliance decisions of small and medium businesses.

All of the interviewed tax consultants explained that pricing of tax services to small and medium business is a difficult and tricky issue. Even if, the price is not very significant, compared to the services provided to them, most of the small and medium businesses do not understand the value of the services. As a result, they are reluctant to pay or value the consultants' contribution and effort. Most of the tax consultants replied, they collect the service fees in time, i.e. as soon as they completed the services but before delivering to the enterprises due to the above reasons. That means, once the service is delivered, most of the small and medium businesses owners hesitate or take time to settle their service fees. Similarly, the tax consultants replied that the service fee can influence the tax compliance decision of small and medium businesses to some extent but the intension to conceal taxes, the procedure to file returns to the Tax Authority, and salaries of accountants and cost of stationaries have higher influence on compliance decision.

In addition to that they replied that for small and medium businesses, it is costly to maintain accounting records because they need to hire an accountant, rent office, and purchase computers, stationaries and software, and so on. Monthly and quarterly tax filing is another costly process for small and medium businesses as they spent too much time to file monthly or quarterly returns. It may take up to three days and the queue starts around 5:00 AM in the morning.

Therefore, from the survey responses of small and medium businesses and interview result of tax consultants and ERCA staffs, compliance costs such as salary of accountants, fees to tax consultants & tax representatives, cost of cash register machine & its maintenance, the time for filing VAT & TOT and declaration of income, cost of computer, stationaries and software used in the record keeping process affect the tax compliance of small and medium business profit taxpayers.

4.4 Respondents knowledge of tax rules as a factor influencing tax compliance

The level of tax education received by taxpayers is an important factor that contributes to the understanding of tax requirements. Therefore, respondents were asked different questions to assess the level of their knowledge of tax rules and how they are complying with tax requirements such as determining their income and tax liability timely and correctly by applying the appropriate tax rates, deductible & nondeductible expenses, and other filing requirements. Therefore, respondents were asked to rate their tax compliance level using the variables in table 4.4.1 below on a five point Likert scale, where strongly agree = (1); agree = (2); uncertain = (3); disagree = (4); strongly disagree = (5).

Most of the respondents ranked the variables with mean value approximately 4 (disagree with the respective variables). This shows that most of the small and medium businesses are not familiar with tax requirements as indicated in Table 4.4.1. The table describes survey responses of small and medium business profit taxpayers on how well they can easily calculate their taxable income by using deductible and nondeductible expenses and how they can determine their tax liability by using appropriate tax rates such as schedule "C" income tax rates. Accordingly, the majority of the respondents said they cannot easily determine their correct taxable income and tax liability as they are not clear with deductible and nondeductible expenses and the tax rates such as schedule 'C' income tax rate used in determining their correct tax liability.

Respondents were also asked to rate their tax compliance level using the variables in table 4.4.1. It is clearly shown that most of the small and medium businesses do not comply with the tax laws due to the complexity of tax declaration formats such as TOT, VAT, payroll income taxes etc. and the general record keeping process of the financial events is difficult for them. The survey result in the table shows most of the respondents of small and medium business taxpayers are relatively clear with the period and where to pay their tax liabilities.

In this study, it was found that most of the small and medium business profit taxpayers were not clear with how they can easily calculate their tax liability and determine their taxable income using deductible and nondeductible expenses. In addition to that, requirements of VAT & TOT filing, recording keeping and filing of their business process are also difficult for most of the small and medium taxpayers. Therefore, it can be concluded that lack of knowledge of tax laws and procedures and tax information are another form of factors affecting the level of tax compliance of small and medium business profit taxpayers.

These problems have an impact on the small and medium business taxpayers' tax compliance decisions as a research by Lumubra et. al. (2010) revealed that small and medium taxpayers' did not pay their tax obligations because of their inability to understand tax law requirements. The level of tax education received by taxpayers is an important factor that contributes to the understanding of tax requirements, such as determining their income and tax liability correctly by applying the appropriate tax rates, deductible & unreducible expenses, and other filing requirements. A study by Palil (2011) supports the findings of this study that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation and their ability to comply.

Table 4.4.1: I wish to comply with the tax laws for the following reasons

Statements	Strongly agree	Agree	Uncertain	Dis agree	Strongly disagree	Mean	Std. deviation
I know how to determine my taxable income	20 11%	30 16%	14 8%	90 49%	29 16%	3.43	1.233
I clearly know deductible and non-deductible expenses to calculate correct taxable income	8 4%	14 8%	28 15%	78 42%	53 29%	3.85	1.067
I know schedule "C" income tax rates	2 1.1%	9 5%	28 15%	84 46%	56 30%	4.02	.880
I can easily calculate my tax liability	11 6%	20 11%	13 7%	119 65%	20 11%	3.64	1.017
I am certain about the period and where to pay my tax liability	78 42%	80 44%	6 3%	9 5	10 5.3%	1.87	1.066
Declaration formats are simple to fill	6 3%	13 7%	17 9%	136 74%	11 10%	3.73	0.813
General record keeping process is simple	11 6%	14 8%	9 5%	139 76%	10 5.3%	3.67	0.921
I can easily get the necessary tax information & updates	6 3.3%	15 8.2%	33 17.9%	81 44%	44 23.9%	3.79	1.015

Source: SPSS output from survey result of 2015

One of the questions that asked by the tax consultants concerning tax compliance was about the tax knowledge of the small and medium businesses found in Addis Ababa City Administration.

Majority of the tax consultants generally explained that it is difficult to say the owners of small and medium businesses have tax knowledge as most of them do not have accounting background. The tax consultants explained that lack of tax knowledge can be the main reason why small and medium businesses seek their services. Even if small and medium businesses have accountants on regular or retention based, they mainly seek the services of the tax consultants to make sure that they are within the tax laws and procedures.

Another problem that makes small and medium businesses to seek the services of tax consultants is the frequent changes of directives and guidelines by ERCA concerning taxes that are not made public or not provided to professionals or tax consultants.

According to the interview result of ERCA staffs, lack of awareness of tax rules and regulations and updates on tax directives are the major factor affecting tax compliance of small and medium business profit taxpayers. The major types of taxes paid by small and medium businesses are VAT, TOT, payroll tax, withholding tax, and excise tax. Every VAT registered business is expected to declare VAT on monthly basis whether there is sale or not. Because of lack of awareness, some small and medium businesses do not declare VAT timely especially when there is no sale. But the tax law requires nil declaration even if there was no sale. As a result, some small and medium businesses forced to pay a penalty of birr 10,000.00 for not declaring one month VAT report. Another problem of lack of knowledge of tax rules and procedures is that most small and medium businesses do not keep timely and proper records of their business. They do not properly collect & file their receipts concerning business transactions. They do not keep chronological order of receipts and records. As a result, they loss what they would have been reimbursed. Most of them pay VAT on purchases but cannot properly reimburse what they have paid.

Most small and medium business taxpayers do not understand the benefits of proper record keeping of financial transactions and events. Some do not even know why they pay taxes. As a result, it is very difficult to determine their taxable income properly. They fail to include some expenses to determine correct taxable income or overstate their expenses by including expenses without supporting documents. As a result, ERCA determines taxable income of such businesses on estimation basis. As a result of poor record keeping, some of the small and medium businesses complain of paying large amount of tax as tax liability is determined by estimation in the absence of proper records of financial transactions and supporting documentation. The interviewers of ERCA staffs at different branches believed that ERCA as a whole is behind concerning awareness creation and education of tax rules and regulations of small and medium businesses taxpayers especially on timely updating of the taxpayers on circulars, changes of directives and guidelines related to taxes.

4.5 Analysis of attitude of taxpayers towards tax as a factor of tax compliance

Table 4.5.1 shows that most of the respondents want to comply with the tax laws as they feel guilty if they understated their taxable income. The majority 130(70%) of the respondents agree or strongly agree that they want to be tax compliant by contributing for the general economic growth by paying the right amount of income tax. Similarly, the majority of the taxpayers comply with the tax laws due to fear of penalty by ERCA. On the other hand, the majority of the respondents indicated that they do not want to be tax compliant as there is no fair tax among similar businesses indicating there are similar businesses that do not pay equal amount of taxes. Similarly, the majority of the respondents believed that the presence of similar traders and friends who do not pay taxes contributed for their tax noncompliance.

The interview result of tax consultants and ERCA staffs also indicated the presence of unfair tax system due to low audit coverage and inconsistence tax audit investigations by ERCA audit team. Due to the low audit coverage, similar sized small and medium businesses engaged in similar activities may not be subject to the same tax reporting requirement-one on presumptive tax while the other is required to register for VAT and maintain records.

According to the tax consultants interview result; there is an inconsistent enforcement approach by ERCA's tax surveillance team. The tax investigation team may not give attention on major transactions and sometimes found to be wasting their time on simple transactions. Therefore, some suppliers use this gap and undergo their transactions without issuing legal receipts which makes similar businesses out of the market and also negatively affects tax compliance of small and medium businesses taxpayers who forced (due to lack of alternatives) to purchase imputes to run their business as they lack evidence to support their transactions. As the result of this inconsistent surveillance, there exist similar small and medium businesses that are out of the formal reporting requirement. That means similar sized small and medium businesses engaged in similar activities may not be subject to the same tax reporting requirement-one on presumptive tax while the other is required to use cash register machine, register for VAT and maintain records.

Table 4.5.1: I wish to comply with the tax laws for the following reasons

Statements	Strongly agree	Agree	Un certain	Disagree	Strongly disagree	Mean	Std. deviation
I would not fill guilty if excluded some of my income when completing my tax return	8 4%	14 8%	28 15%	78 43%	53 29%	3.85	1.067
By paying right amount of income tax, I believe that I am contributing for the economic growth of the country	52 28%	78 42%	20 11%	18 10%	15 8%	2.27	1.209
Serious enforcement and penalty may apply by ERCA if I do not comply	87 47%	76 41%	4 4%	10 5%	3 2%	1.72	.898
There is fair tax among similar businesses in same proximity	11 6%	20 11%	13 7%	119 65%	20 11%	3.64	1.017
My friends and all similar traders pay their taxes faithfully	10 6%	15 8%	33 18	77 42%	44 24%	3.73	1.095

Source: SPSS output from survey result of 2015

4.6 Analysis of services of the ERCA to taxpayers as a factor of tax compliance

Assessing the services of the Ethiopian Revenues and Customs Authority from the perspectives of small and medium business profit taxpayers is important in analyzing their effectiveness, to identify areas of improvement and to increase tax compliance. Therefore, respondents were asked to rate the services of the ERCA to taxpayers as shown on table 4.6.1 below.

Concerning the services of the ERCA branch offices to the small and medium taxpayers, the majority of the services are rated as poor as shown in table 4.6.1. For instance, the majority of the respondents (58.7% & 73.4%) rated getting timely services and reimbursement of overpaid taxes as poor respectively. With respect to solving problems of tax related issues timely and correctly, 69% rated as poor, 23.9% rated good and 7.1% rated very good. Similarly, correcting errors may occur during filing tax return, 66.3% replied poor, 28.8% replied good and 4.9% rated very good.

In addition to that tax education and regular updates, availability of internet connection, willingness of the tax collectors to serve the taxpayers, experience in handling customer cases and fairness in the tax system are rated poor by the majority of the respondents of small and medium business profit taxpayers.

Table 4.6.1: Rating services of ERCA as a factor influencing tax compliance

Type of services	Very good	Good (%)	Uncertain (%)	Poor (%)	Very poor (%)
Getting timely services	5.4	35.9	0.00	58.7	0.00
Tax education and updates regularly	13	32	0.00	55	0.00
Reimbursement of overpaid tax timely	8.7	17.9	0.00	73.4	0.00
Solving problems of tax related issues timely and correctly	7.1	23.9	0.00	69.0	0.00
Cooperativeness of tax officers in explaining any tax related questions raised from taxpayers	8.2	35.3	0.00	56.5	0.00
Correcting errors made during filing tax return	4.9	28.8	0.00	66.3	0.00
Availability of internet connection	3.5	35.5	0.00	61	0.00
Willingness of tax officers in tax collection centers to serve the taxpayers	11	37	0.00	52	0.00
Fairness of the tax system	12	36.8	0.00	51.2	0.00
Experience of officers in handling customer cases	9.2	39.7	0.00	51.1	0.00

Source: SPSS output from survey result of 2015

This shows that the services of the ERCA branch offices such as reimbursing overpaid taxes timely, solving problems of tax related issues such as correcting errors made by taxpayers during filing tax returns, provision of timely services and experience in handling customer cases by the ERCA are poor and the taxpayers are not satisfied with these services. Table 4.6.1 clearly shows that the majority of the respondents rated the above services as poor and this can be concluded as the major factor affecting tax compliance of small and medium business profit taxpayers.

This finding is similar with the study made by Suresh & Sriniva (2012) on 'Factors that influence rental taxpayers' compliance with the tax system' an empirical study of Mekelle City, Ethiopia. They identified that the Tax Authority capacity of delivering services to the taxpayers at Mekelle City is not yet sufficient enough and is one of the factors affecting taxpayers' compliance.

Similarly, a study made by Lumumba et. al. (2010) found that small and medium operators preferred tax consultants to the tax authority, when searching for tax updates. This finding was also indicated that the tax authority service quality to small and medium taxpayers' is poor and this can negatively impact on small and medium taxpayers' tax compliance decisions. A good relationship between the tax authority and taxpayers has an important consideration in increasing tax compliance (Kirvhler, 2007). A study by Alabedeetal et. al. (2011) found that perceived tax service quality is positively and significantly related with tax compliance behavior and the results of this study agree with these earlier findings.

In addition to the above close-ended questions, respondents of small and medium business profit taxpayers were also provided with the opportunity to express their opinions using the given open-ended questions. The questionnaire is read as follows:

1. What is your view of the Ethiopian Revenues and Customs Authority assisting you with tax education? Are you happy with ERCA's service to small and medium taxpayers?

2. Is there anything would you like to add on tax issues affecting small and medium taxpayers' compliance in Addis Ababa?

Accordingly, the majority of respondents of the small and medium taxpayers gave their opinion on the general services and commented on the system of the ERCA. Even though the comments were many, the general ideas are almost similar with what were discussed in the close-ended questionnaire above. The major points are summarized below and most of the respondents replied that their tax compliance level is affected because they were not satisfied with the services of the Ethiopian Revenues and Customs Authority branch offices due to the following reasons:

1. The Tax collection centers of the ERCA are not giving timely & prompt services, the tax collection process is cumbersome and most of the taxpayers are complaining of their wasted time during tax payments, it sometimes takes two or three days to pay taxes. Long ques is observed every day. Problem of network and the system ERCA using is observed every time, no adequate staffing, the existing staffs themselves are not willing to serve the taxpayers so it is not easy to get timely services.

2. The tax system is unfair. The employees of ERCA do not treat the taxpayers equally, that means, two traders with equal years of service, involved in same businesses in similar area, earning similar income and paying equal house rents may not be treated equally. One of them made to use cash register machine and VAT registered while the other is

not, and because of this they are exposed to different reporting requirements and tax rates and unfair competition in the business.

3. There is no regular training and updates on taxes especially when there is a change on tax directives. Some employees themselves are not updated with the changing directives of tax laws, do not have enough knowledge on the rules and procedures as a result they do not provide or create adequate awareness for the taxpayers and they want to penalize the taxpayers when they found some error. They provide incomplete and inconsistent solutions when they encounter tax issues.

4. Most of the tax officers do not trust the taxpayers; they have no confidence on the taxpayers. The officers simply reject expenditure receipts without providing sufficient reasons or without trying to convince the taxpayers. Some of the respondents said that they always pay an overstated amount of tax. But what is true here is all taxpayers do not provide legal VAT receipts, that means some taxpayers do not use the correct or legal cash register machine, so that the tax officers/auditors/ should differentiate those taxpayers from the loyal ones. All small and medium taxpayers should use legal receipts and cash registration machine as the tax law requires.

5. Another point raised by the respondents of small and medium taxpayers is about the tax laws and regulations. That means, the tax system is not transparent enough, changes are undergoing every time and it is very difficult to understand without requesting support from others such as tax officers and tax consultants.

6. The place the cash collectors and taxpayers are sitting is not convenient and should be improved, ERCA's workers especially new employees should be trained well and be honest and loyal for their work and the government. And they should apply assessment methods or tax rates correctly so that all taxpayers whether small or medium can pay the correct amount of tax. The tax officers should update themselves with the changing tax directives and assist the taxpayers in any tax related issues in a cooperative way but should not focus on fault findings.

The interview result of tax consultants and ERCA staffs also similar with the survey results of small and medium business taxpayers. The tax consultants believed the availability of problem of network, the new directives are not communicated timely to taxpayers and tax consultants, no regular training are given to taxpayers and since the experienced staffs leave the ERCA frequently, the new staffs acquire such experience at the expense of the taxpayers.

Similarly interviewers of ERCA staffs believed that ERCA is not providing timely and quality services to its customers currently due to two major problems. The problems can be categorized as taxpayer side and ERCA's side. Most of the taxpayers do not file their monthly & quarterly reports such as VAT and TOT timely. Similarly, they do not declare and pay their annual taxable income and income taxes according to the tax periods for taxpayers' categories A, B and C. Rather, most of them come on the last day of every period. Similarly most of the small and medium business taxpayers do their business without knowledge of tax rules and regulations. As a result, they do not keep the records of financial transactions and the documents properly. Even though ERCA tried to handle such kind of problems by working on extra hours & weekends during such periods, it is becoming difficult to give timely services to all the taxpayers at once and most of them are made to get the same service with penalty.

However, according to the interview result of ERCA staffs working at different branches and positions, the major factors for tax noncompliance of small and medium business taxpayers is the problem from ERCA's side. These are listed as follows:

i. Internet connection: Most of the service delivery process is automation systems which are constrained by poor Tele networks and low processing speed of the system itself.

ii. The system ERCA currently uses: ERCA is using a system called SIGTAS (Standard Integrated Government Tax Administration System) that is used almost for any activities such as file management, tax collection and refund, tax clearance, selection of risk based audit, etc. The system is very slow to process customer cases. Besides, its application is not user friendly and most of the officers are not well trained on how to handle customer queries and resolving it.

iii. There is knowledge gap among ERCA staffs regarding updating themselves on changing guidelines, circulars and directives. As a result, it is difficult for some of them to properly solve problems of taxpayers and deliver timely & quality services. Complaints received from the taxpayers that some employees of ERCA give inconsistent solutions for the same problem and cannot convince the taxpayers for the decisions they made.

iv. Poor facilities such as office layout and inadequate logistics: Based on the researcher's observation and interview result of Merkato 1 and 2 offices, the office layout and other facilities like staff tables and chairs are not convenient for operations and inhibit smooth communication with their customers. Problems of parking and seat for taxpayers are also observed.

v. Inadequate staffing both in number and qualification. According to the current structure of staffing of ERCA, the human resource is fulfilled only 52% as of November 2015. Due to this problem, high work load and lack of motivation to serve the taxpayers is also observed among the existing staffs.

vi. Staff turnover: ERCA is experiencing high staff turnover every year. The total staff of ERCA is about 10,000 and from these, 1,000 of experienced staffs leave the organization every year. This is considered as high problem in ERCA as the experienced staffs leave the organization, the new staffs take time to learn and update themselves with the systems and to give timely and quality services to the taxpayers.

Respondents of small and medium business taxpayers were asked to express their opinions to some selected measurements that must be undertaken in order to improve the services of the ERCA to taxpayers to improve the tax compliance level of small and medium business profit taxpayers. Their responses are summarized in table 4.6.2 below.

The table clearly shows that the majority of the respondents strongly agree with mean value approximately 1 that opening new branches at the vicinity of taxpayers' and improving internet connection problems, build trust with the taxpayers, and creating awareness through training and education are possible measures that should be undertaken by ERCA to improve its service delivery to small and medium taxpayers to improve the tax collection effectiveness. Similarly, the majority of the respondents strongly agree with mean value of approximately 1that the ERCA should ensure fairness in the tax system, make tax collection procedures simple and simplify filing procedures in order to improve the services to taxpayers to improve the level of tax compliance of small and medium business profit taxpayers.

Table 4.6.2: possible measures should be undertaken by ERCA to improve tax compliance

Statements	Strongly agree	Agree	Un certain	Dis agree	Strongly disagree	Mean	Std. deviation
Opening new branches at the vicinity of taxpayers	135 73%	49 27%	0	0	0	1.20	0.398
Improving internet connections	157 86.3%	22 12.1%	1 .5%	2 1.1%	0	1.16	0.465
Improving relationships & building trust with taxpayers	139 76.4%	41 22.5%	0	0	2 1.1%	1.27	0.575
Creating awareness through training & education	138 76%	40 22%	2 1%	0	2 1%	1.29	0.600
Ensuring fairness in the tax system	139 76.4%	39 21.4%	2 1%	0	2 1%	1.28	0.598
Simplifying filing procedures	143 78.6%	32 17.6%	7 3.8%	0	0	1.25	0.517
Making tax collection procedures simple	157 86.3%	22 12.1%	1 .5%	2 1.1%	0	1.16	0.465

Source: SPSS output from survey result of 2015

Therefore, from the survey result of small and medium businesses (table 4.6.2), it can be said that the tax compliance of small and medium businesses can be improved by opening new branches to the vicinity of taxpayers, improving internet connections, simplifying tax filing and collection procedures by introducing e-filling and e-payment systems, improving relationships and building trust with the taxpayers by communicating the tax programmes with the taxpayers, creating awareness through regular training & education on tax laws and procedures, ensuring fairness in the tax system and by making accessible of any changes to the tax laws and directives to the taxpayers timely.

The tax consultants were asked to offer some recommendations that would improve tax knowledge and promote a more cooperative relationship between small and medium businesses and ERCA and improve tax compliance and their interview results were summarized as follows:

1. Simplifying the filing system-reduce the time it takes to file monthly returns by opening new branches and minimizing the frequency of VAT filling. As an example, some of the

tax consultants explained that they have clients in Akaki who need to come to Addis to file their monthly returns.

2. The computer network at Ethiopian Revenues and Customs Authority goes down frequently due to network problem. One has to wait for several hours until the system resumes. So ERCA should work with Ethio telecom to improve or eliminate this problem.

3. There are new directives/guidelines every time; therefore, communicating those directives at least to tax consultants will minimize the gaps of tax compliance problems. In addition to that it is important to educate taxpayers and their accountants frequently concerning tax rules and procedures to minimize time and errors during filing of tax returns. It is also important to train small and medium taxpayers to keep records of financial transactions and events daily or weekly to improve their tax compliance.

4. Strengthen the professional body (Accountants and Auditors) so as to monitor unethical practices. Uniform application of the tax rules, procedures and the new directives and the need for strict enforcement.

5. Seal loopholes and misuse of incentives- some small and medium businesses manipulate loopholes, tax incentives with the objectives of concealing taxes. As an example, some cooperatives establish themselves newly every two years as the government gave them a two year tax incentive specifically for such type of businesses.

6. The need to retain experienced staffs at ERCA (Ethiopian Revenues and Customs Authority). Experienced staffs can handle complex issues and provide good services within very limited time. But most of them are leaving ERCA up on acquiring such experiences and the new staffs will learn or acquire such knowledge at the expense of the taxpayers and the government. Therefore, ERCA needs to minimize the staff turnover if it cannot stop it.

7. Lastly, it is important to consider that the modern tax enforcement and expansion of the tax base is a recent phenomenon in Ethiopia:

    i. The introduction of VAT, Withholding tax, use of cash register machine, TIN, etc.

ii. Automation of the tax system at Ethiopian Revenues and Customs Authority, and

iii. Expansion of private companies. So taking into account of the above factors, the progress made is significant but the tax compliance issues can be improved further by applying the above recommendations for the benefit of the nation.

To solve the problems in tax service quality and to improve the tax compliance level of small and medium business profit taxpayers in Addis Ababa, ERCA needs to do the following major activities as recommended by the interviewers of ERCA staffs:

1. The interviewers believed that ERCA should create awareness by training and educating the taxpayers in all matters of tax rules and regulations using different media such as TVs, Radio, different publications, Magazines, and tax training activities. Similarly ERCA needs to simplify frequency of filing procedures and also open new branches. Some of the interviewers from ERCA recommended the need of starting e-filing and e-payments to reduce the costs of tax compliance and to save the time of taxpayers of small and medium businesses.

2. In addition to these, ERCA needs to ensure application of uniform tax systems by increasing tax enforcement activities to identify those who do not pay their taxes properly and also to include the informal traders into the tax system.

3. On the other hand, the organization should improve the facilities of employees working environment such as office facilities, internet connections, parking, etc. Similarly, ERCA should retain the existing staffs, give on job training especially for new staffs and also hire enough number of qualified and experienced staffs. The organization should also upgrade some features of the system it currently uses to improve its processing speed and to make it user friendly.

4. Finally, most of the interviewers recommended the need of delineation of clear role & responsibilities of officials and managers of all levels, implementation of risk based audit service of taxpayers & development and implementation of best practices.

4.7 Summary

From the findings of the study, the majority, 51.5% of the respondents are engaged in merchandizing and trade as their main business activity and the owners were the major respondents group. Most of the respondents were in the business for more than 6 years and the majority, 88.7% of them are sole proprietorship. The majority, 65.2% of them have sales turnover between birr 100,001-1,500,000 and the remaining 33.2% are between birr 1,500,001-15,000,000 hence falling well within small and medium business taxpayers' bracket. About 40% of the respondents were between age groups of 31-40 years and 73.4% of them were males. Regarding the educational qualification of the respondents, 12.5% of them are below 12th grade complete & 64 (35%) of the respondents are 12th grade complete. The numbers of respondents who are diploma and degree holders were 38% and 13% respectively. Concerning the amount of tax payable, the majority, 55% of the respondents think that the amount of tax liability is high and it influences their tax compliance. The respondents said that late tax payments and late filing of tax return were the main reason for them to get penalized by the ERCA and few of them also responded not filing a tax return and underreporting income were also the reasons to get into penalty while only 18 out of 184 or only 10% of the respondents audited by the ERCA in the year under study.

The findings of the study showed that the majority of the taxpayers feel amount their tax liability is large and it influences their tax compliance level. Similarly, social services provided by the government (such as road, electricity, water, health facilities, etc.) influence the tax compliance of small and medium business profit taxpayers. The findings of the study revealed that with regard to tax compliance costs, salary of accountants, fees to tax consultants and cost of stationaries for record keeping of financial transactions and cost of cash register machine and its operation are the major factors influencing the tax compliance of small and medium business profit taxpayers. In addition to that, the study findings show that knowledge of tax rules and procedures (such as complexity of tax declaration formats and difficulty of general record keeping process) are the factors influenced the tax compliance of small and medium business profit taxpayers. The study result also showed that most of the respondents were not clear with the tax rates and deductible and nondeductible expenses showing most of them cannot correctly determine their taxable income and amount of their tax liability as well. Similarly, attitude of taxpayers towards taxes and the existence of similar traders and relatives and friends who do not pay their taxes faithfully and presence of informal traders who transact without using legal receipts and cash register machine affected the tax compliance of other loyal taxpayers. Finally, the majority of the survey respondents and interviewers feel that the services given by the ERCA to small and medium business taxpayers is poor and is affecting the tax compliance of small and medium business profit taxpayers and the majority of them feel that it should be improved.

4.8 Discussion of the findings

Relying on the survey responses of taxpayers and interview result with tax consultants and ERCA staffs, the researcher came up with findings which were used to make conclusions and the related recommendations.

4.8.1 Social services

Concerning social services provided by the government, 138 (75%) of the respondents strongly agree or agree that social services (like road, electricity, water, health facilities and education, etc.) positively influence the level of their tax compliance. The findings of this study do therefore; agree with those of other researchers as discussed in the literature review. According to Braithwaite (2009) it is expected that if the government spends taxpayers' money wisely, for example on basic facilities like education, health facilities and safety and public transportation, it is assumed that voluntary compliance will increase. This factor can be exploited to improve tax compliance. In contrast, if taxpayers perceive that the government spends too much on something else, taxpayers might feel betrayed and attempt to evade, and cannot be tax compliant. Therefore, this is an indication that if the government can use taxpayers' money wisely and in a transparent manner and if taxpayers are satisfied with public service provisions, tax compliance will improve. According to Merima (2013), those who are more satisfied with public service provisions are more likely to support government's right to tax. Similarly, the interview result with the tax consultants support the above findings that social services provided by the government positively affect the level of tax compliance. These imply that taxpayers are more compliant when they are satisfied with the services provided by the government.

Unlike the result obtained from taxpayers and tax consultants, the interview result with ERCA staff did not support the findings social services influence the level of taxpayers. They feel that there are only few taxpayers that have confidence to ask proportional services for what they paid as tax. In addition to this, they said that currently, taxpayers do not associate the tax they pay with any social services provided by the government and they consider tax simply as payment to the government and they pay tax because they are forced by ERCA to do so.

4.8.2 Tax compliance costs

High compliance costs can result in tax avoidance and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness (Ojeka, 2012). The results of the survey respondents and interview of this study showed that cost of hiring staff, cost of stationaries to conduct their business, cost of cash register machine and its operation, fees to tax consultant and tax agents, general record keeping process and time to file tax returns are expensive to the small and medium business profit taxpayers and affecting their tax compliance. The survey result also showed the majority of small and medium business profit taxpayers feel that tax amount payable to ERCA is large and it affects their tax compliance level. Concerning cost of tax compliance, hiring staff such as accountants and sales man and computerizing the accounting systems are becoming the requirement of tax rules by ERCA. These costs are expensive to the small and medium business taxpayers as their return is relatively small compared to the salaries of accountants and costs of stationaries. Concerning cost of hiring tax consultants, even if small and medium businesses have accountants on regular or retention based, they seek the services of the tax consultants to make sure that they are within the tax laws, and procedures. The other reasons why small and medium business taxpayers seek the services of tax consultants are the frequent changes of directives and guidelines by Ethiopian Revenues and Customs Authority (ERCA) concerning taxes that are not made public or not provided to professionals easily. As a result, small and medium business taxpayers needed the services of tax consultants to be sure that they are in line with the tax laws and procedures and be able to fulfill the requirements of the tax laws in preparing annual returns with audited accounts. Similarly, the tax consultants can prepare the tax returns in a short period of time and also keeping the required standard of the records. This helps the small and medium taxpayers to pay their taxes timely and obtain their tax clearance certificates easily.

4.8.3 Knowledge of tax rules and procedures

With regard to knowledge of tax rules and procedures, the study result showed that the majority of small and medium profit taxpayers are not clear with the tax rules such as tax rates, deductible and nondeductible expenses used in the determination of taxable income and they lack timely information and updates on changes of tax directives and guidelines issued by the Ethiopian Revenues and Customs Authority. Taxpayers are also unable to easily calculate their tax liability and they have problems of timely filing of taxes due to complexity of formats. The study result also showed that small and medium business taxpayers have problems of general record keeping and filing of documents of their business. As a result, some of the small and medium business profit taxpayers are forced to pay penalty on late filing and late tax payments. In addition to that, as the result of lack of the necessary tax knowledge & information, the respondents said that they are forced to hire external services such as tax consultants to make sure that they are doing in line with the tax laws and procedures. The respondents explained that the Ethiopian Revenues and customs Authority do not give frequent and consistent tax training and education to small and medium taxpayers and updates made to different directives and guidelines concerning tax are not made available to taxpayers. These are the main reasons that created the knowledge gap on tax rules and procedures according to the interview results of both ERCA staffs and tax consultants. As it is discussed in the literatures review section of this study, small and medium taxpayers, especially less literate ones have limited access to tax compliance information and less informed about relevant tax information and thus more prone to tax evasion and errors. Some taxpayers find the complexity of tax rules and procedures are more difficult to understand than others, this may lead to unintentional tax noncompliance such as late filing and late payments of taxes and overstating deductions and understating taxable income. Most of the respondents said that inability to easily access tax information and updates also contributed for their tax noncompliance. Small and medium business taxpayers often find themselves in a difficult situation while making important business decisions as tax laws may not be clear to them to handle complex business transactions. As a result taxpayers seek the interpretation and implications of different tax laws of certain business transactions from the tax consultants and tax officers. The majority of the respondents and all ERCA staffs and tax consultants participated in this study agreed that taxpayers training and education plays a positive role in enhancing tax compliance. Frequent education and training given to taxpayers enhances future compliance and through this knowledge taxpayers are able to know their rights and obligations expected of them.

4.8.4 Attitude of taxpayers towards tax

The survey response of small and medium business profit taxpayers indicated that most of them want to comply with the tax laws as they believe they are contributing for the general economic growth by paying the right amount of income tax. In addition to that the majority of the taxpayers also comply with the tax laws due to fear of penalty by ERCA. The respondents also confirmed the existence of unfair tax among similar businesses. That means the presence of similar traders and friends that do not pay taxes contributed for their tax noncompliance. Interviewers of ERCA staffs and the tax consultants believed the existence of major suppliers which transact without issuing legal receipts. Since there are a number of small and medium profit taxpayers which purchase their major imputes from those kind of suppliers intentionally or having no choice, this process affected the tax compliance of small and medium profit taxpayers as they cannot easily get legal receipts to settle their transactions. These informal groups have family ties and are suppliers most of the time. They have no regular location, create informal or non-invoice market and can increase or decrease price of goods easily to make the loyal taxpayers out of the market.

The tax consultants also said that there are a number of small and medium business operators who have a desire to hide revenue from the ERCA as well as from their partners. Similarly, some cooperatives newly establish themselves every two years as the government gave them a two years tax incentive specifically for such type of businesses. These problems existed as tax noncompliance factors due to inconsistence tax surveillance approaches and low audit coverage by ERCA's task team in enforcement operation according to the interview results with the tax consultants. In addition to these, the modern tax enforcement and expansion of the tax base is a recent phenomenon such as Automation of the tax system, introduction of TIN, VAT, and expansion of private companies contributed for the tax noncompliance of small and medium business profit taxpayers.

4.8.5 Services of ERCA

Based on the study results, most of the respondents of small and medium business taxpayers are not satisfied with services delivered by the Ethiopian Revenues and Customs offices. Most of the respondents explained that there are no timely and quality services given by the branches of the Ethiopian Revenues and Customs Offices. Small and medium profit taxpayers spent too much time to file monthly and quarterly returns. The ERCA is not efficient in dealing with the taxpayers such as making refunds of overpaid tax, solving problems of tax related issues timely and correctly, issuing tax clearance and delivering regular tax training and education. These problems are attributed to lack of staff motivation to serve the taxpayers due to work loads, high turnover of experienced staff and system break down are the major factors. There is high staff turnover at ERCA and the newly hired staffs are not well updated with the systems and the changing directives and guidelines. As a result, the taxpayers could not get timely and quality services; inconsistent and incomplete solutions are given for different problems encountered the taxpayers. Most of the taxpayers feel that there is no trust between the taxpayers and ERCA. As a result, officers of ERCA reject expenditure receipts without giving adequate justification as they consider most of the taxpayers as evaders. The interview result with ERCA staffs and tax consultants confirm the presence of the above problems. Fairness and trust are perceived by many researchers to be important drivers for compliance. Murphy (2004) pointed out the importance of mutual trust and cooperation between the taxpayers and their tax authority in order to achieve voluntary tax compliance. He argues that fair treatment of taxpayers and trustworthiness of tax authorities will enhance voluntary compliance. Therefore, it can be concluded that lack of timely and quality services and lack of trust between the taxpayers and ERCA is the major factor contributed for tax noncompliance.

Similarly, most of the respondents and the interviewed ERCA staffs and tax consultants explained that the tax system is not uniformly applied by Ethiopian Revenues and Customs Authority. Most of the respondents believed that there is no fair tax among similar small and medium business taxpayers. Similar sized small and medium businesses engaged in similar activities may not be subject to the same tax reporting requirements-one on presumptive tax while the other is required to register for VAT, use cash register machine and maintain records. This created unfair competition among similar small and medium profit taxpayers. This clearly shows that the tax system is not fair and this has its own negative impact on the level of tax compliance of small and medium business profit taxpayers.

Chapter 5

Conclusion and Recommendations

5.1 Conclusion

The findings of this study revealed that most of the identified factors have influence on the tax compliance of small and medium business profit taxpayers' tax compliance. The identified tax compliance factors included social services, tax compliance costs, knowledge of tax rules and procedures, attitude towards tax and services of the ERCA to the taxpayers.

Most of the respondents' from the taxpayers and interviewers from ERCA staffs and tax consultants believed the existence of the stated problems. The problems will be solved by regular training of the taxpayers on the tax rules and procedures especially, on changing directives and guidelines and making them available to the taxpayers and the tax consultants timely. It is also necessary to simplify filing procedures by opening new tax centers in the vicinity of taxpayers and by reducing the frequency of filing of VAT to quarterly level in order to save the time and cost of small and medium profit taxpayers. The tax return formats should be simplified so that no outside help will be needed to file the returns.

The Ethiopian Revenues and Customs Authority should encourage the small and medium business profit taxpayers to use the web sites related to tax information, to improve their bookkeeping and filing of documents related to their businesses and they should be engaged on forums on how to reduce costs associated with the tax compliance. Similarly, the government should be transparent and wisely use the tax collected from the public and communicate with the taxpayers about tax programs to promote the benefits of paying taxes.

On the other hand, this study confirmed that the ERCA needs to use both deterrent measures alongside the voluntary tax compliance strategy. The government should strengthen legal enforcements and consistently apply them to control those who do not pay their taxes according to the Country's tax law. The government needs to establish fair tax system and bring the informal groups in to the tax system by strengthening the tax enforcement team and uniform application of the tax rules and procedures. Regarding tax knowledge and information, tax knowledge and information received by taxpayers is an important factor that contributes to their understanding of the tax responsibilities, especially regarding filing requirements. ERCA should address the complexities of tax returns, changes in tax directives and guiltiness. This information should be passed to the small and medium business profit taxpayers timely and regularly via various channels to improve the level of tax compliance.

Finally, the Government should work towards building confidence and trust between the taxpayers and its tax officers so that any tax related problems can be solved smoothly. ERCA needs to give on job training especially for new staffs on the usage of the tax systems and customer handling. There is a need of improving network problems and office layout to deliver quality and timely services to the small and medium business profit taxpayers.

5.2 Recommendations

Based on the findings of this study, the researcher came up with the following recommendations to encourage tax compliance among small and medium business profit taxpayers.

1. With regards to social services provided by the government to the public, the study findings confirmed that most of the small and medium business profit taxpayers in Ethiopia are encouraged to pay taxes when they are satisfied with the public services. This factor can be exploited to improve tax compliance of small and medium businesses. Therefore, the government should use the taxpayers' money wisely and in a transparent manner and communicate with the taxpayers about tax programs to promote the benefits of paying taxes.

2. ERCA needs to open new tax offices at the vicinity of small and medium business profit taxpayers and it needs to minimize the frequency of filing VAT. Similarly, ERCA should introduce e-filing and e-payments for medium business, tax return formats should be simplified for small and medium businesses so that noncompliance related to late filing and late payments can be minimized and fees to tax consultants can be saved.

3. Tax directives, guidelines and any changes therein should be available to small and medium business profit taxpayers' timely and necessary tax education and training should be given consistently and frequently by using different medias such as TV, Radio, different publications, Magazines and training activities. Similarly, taxpayers should be encouraged to use the web sites of ERCA. So that it will enhance awareness of taxpayers, minimize gaps of tax compliance problems and it will also enhance timely submission of the tax returns by small and medium business profit taxpayers.

4. With regard to the attitude of taxpayers towards the payment of taxes, the study result showed that most of the taxpayers and interviewers confirmed the presence of similar traders, friends and informal suppliers who do not pay taxes. Since the presence of those who do not pay taxes negatively affect the taxpayers attitude towards tax compliance, ERCA should strengthen the tax enforcement team so as to monitor informal suppliers transacting without using legal receipts and to include all small and medium traders in to the tax system. The frequency and coverage of audit should be increased to ensure uniform application of tax rules and procedures and to ensure fair tax system among similar businesses.

5. Most of the services such as reimbursement of overpaid taxes, solving tax related problems timely, tax education and updates, willingness and experience of tax officers to handle and solve customer cases etc. are rated poor and thus there is a very reason to improve them. ERCA should use different mechanisms to motivate its staffs so that they can serve the taxpayers well and improve their tax compliance:

   I. ERCA should improve the facilities of its offices & tax collection centers; work on network problems with the Ethio-telecom, and upgrade the processing speed of the system, SIGTAS (Standard Integrated Government Tax Administration System).

II. The organization needs to give on job trainings & capacity building training to its employees, especially for new staffs so that they can provide correct advice to the taxpayers.

III. Implementation of risk based customers’ services in the organization. That means, the history of the taxpayers (based on size, sector and past behaviour, etc.) should be recorded well and the services to them are also accomplished accordingly to encourage the loyal taxpayers and improve their tax compliance level.

5.3 Suggestions for further research

This study proposes the following areas for further research:

1. Factors affecting tax compliance among small and medium business profit taxpayers in other regions of Ethiopia
2. Impact of tax audit on tax compliance

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Appendices 1 Small and medium business profit taxpayers' survey *instrument (English V.)*

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

ACCOUNTING AND FANANCE DEPARTMENT

Inquiry for taxpayers

The purpose of this study is to identify factors affecting taxpayers' compliance of small and medium taxpayers of Addis Ababa City. The specific purpose of this study is to identify:

Factors affecting small and medium business profit taxpayers' in relation to the tax compliance requirements of the Ethiopian Revenue and Customs Authority of Ethiopia.

1. Social services (provision of health facilities, road, electricity, security, etc.)
2. Tax compliance costs of SMEs (such as salary of accountants, tax consultant fees, stationaries, and tax agent, etc.)
3. Problems of skill gap of the tax laws, rules and regulations
4. Taxpayers attitude towards tax
5. Service delivery of the ERCA(delivering time and quality services)

The confidentiality of any information, name and address of the respondent will be kept secret. And the study is conducted by:

Ketema Derar Wolde

Telephone 0911 35 42 12

Email: derarketema@yahoo.com

Part One: General information of the taxpayer and the business

1) What is your main business sector?

   a. ☐ Manufacturing

   b. ☐ General merchandising & trade

   c. ☐ Services (secretarial, maintenance, food & beverage, etc.)

2) What is the legal form of your business?

   a. ☐ Sole proprietorship

   b. ☐ PLC (Private Limited Company)

   c. ☐ Partnership

   d. ☐ Other (E.g. Associations…)

3) What is your position in the sector

   a. ☐ Owner

   b. ☐ Manager

   c. ☐ Accountant

   d. ☐ Other, please specify (Cashier, Salesman, …)

4) When did you start business?

   a. ☐ Two year and less

   b. ☐ 3- 5 years

   c. ☐ 6- 10 years

   d. ☐ more than 10 years

5) What was the annual sales turnover of your business in 2014/15 (2007E.C)?

a. ☐ Birr 100,000 or less c ☐ Birr 1,500,000-15,000,000

b. ☐ Birr 100,001-1,500,000 d ☐ above Birr 15,000,000

6) Gender ☐ Male ☐ Female

7) Age ☐ From 21-30 ☐ From 31-40

☐ From 41-50 ☐ Above 51

8) Your educational level

Educational Level	✓ Please tick one	Type of your education
Below 12 grade		
10th/12th grade complete		
Diploma		
Degree		
Second degree		

9) Have you been audited by the ERCA in the year 2014/15 or 2007E.C?

Yes ☐ ☐ No

10) Penalized by Tax Authority in 2014/15 or 2007E.C due to the following reasons?

Penalized due to	Yes	No
Not filing a tax return		
Late filing of tax return		
Under reporting income		
Over claiming deductions		
Late tax payments		

11) How do you relate the amount of your tax liability (tax rate) with tax compliance?

a. ☐ Fair (does not influence compliance)

b. ☐ Unfair (influences compliance)

Part Two: Social services as a factor influencing tax compliance

1. Does the existence of social services (like road, power, security, health service…) contribute for your tax compliance?

   a. ☐ Strongly agree

   b. ☐ Agree

   c. ☐ Uncertain

   d. ☐ Disagree

   e. ☐ Strongly Disagree

Part Three: Cost of tax compliance as a factor influencing tax compliance of taxpayers

Please state your opinion to the statements listed in the following table using the given scales:

I wish **not to comply** with the tax laws for the following reasons

S. N	Statements	1 Strongly agree	2 Agree	3 **Uncertain**	4 Disagree	5 Strongly disagree
1	The penalty due to not paying tax is lower than my tax saving					
2	Cost of stationaries, computer, etc. is high					
3	Cost of cash register machine and its operation is high					
4	Cost of software and internet is high					
5	Cost of hiring staff such as accountant & sales man is high					
6	Most of the time I hire external services (tax consultant) to file tax returns and I pay additional costs					
7	My tax liability is large					

Part four: Business profit taxpayers' knowledge of tax rules as a factor of tax compliance: For each question below please tick one using the given scales

I wish **to comply** with the tax laws for the following reasons

S. N	Statements	1 Strongly agree	2 Agree	3 **Uncertain**	4 Disagree	5 Strongly disagree
1	I know how to determine my taxable income					
2	I clearly know deductible and nondeductible expenses to determine my taxable income					
3	I know schedule "C" income tax rates					
4	I can easily calculate my tax liability					
5	I am certain about the period and where to pay my tax liability					
6	Declaration formats are simple to fill					
7	General record keeping & filing process is simple					
8	I can easily get the necessary tax information & updates					

Part Five: Attitude of taxpayers towards tax as a factor influencing tax compliance

I wish **to comply** with the tax laws for the following reasons

Possible measures	1 Strongly agree	2 Agree	3 **Uncertain**	4 Disagree	5 Strongly disagree
I would not fill guilty if excluded some of my income when completing my tax return					
By paying right amount of income tax, I believe that I am contributing for the economic growth of the country					
Serious enforcement and penalty may apply by ERCA if I do not comply					
There is fair tax among similar businesses in same proximity					
My friends and all similar traders pay their taxes faithfully					

Part Six: Service delivery of the ERCA to taxpayers as a factor of tax compliance

1. Please rate the following services of ERCA as a factor of tax compliance

No	Type of services	Bad	Good	Very good
1	Conduciveness of tax paying compound, such as parking, getting timely services			
2	Awareness creation on tax laws and procedures			
3	Reimbursement of overpaid tax timely			
4	Solving problems of tax related issues timely and correctly			
5	Cooperativeness of tax officers in explaining any tax related questions raised from taxpayers			
6	Correcting errors may made during filing tax return			

2. **Possible measures:** Need to be undertaken to improve the services to taxpayers to improve tax compliance level of small and medium business profit taxpayers:

   Please state your opinion by using tick marks from the given choices

Possible measures	Strongly Agree1	Agree 2	Uncertain 3	Disagree 4	Strongly Disagree5
Strengthening legal enforcements & penalties					
Improving relationships & trust with the taxpayers					
Creating awareness through training & education					
Providing adequate information about its service provisions					
Simplifying filling procedures					
Making tax collection procedures simple					

3. What is your view of the Revenue and Tax Authority assisting you with tax education? Are you happy with the Tax Authority's service to small and medium Enterprises?

____

4. Is there anything you feel I have left out or is there anything else would you like to add on tax issues affecting small and medium business profit taxpayers?

____

Appendices 2 Small and medium business profit taxpayers' ***survey instrument (Amharic V.)***

አዲስ አበባ ዩኒቨርሲቲ

ቢዝነስና ኤኮኖሚክስ ድፓርትመንት

አካዉንቲንግና ፋይናነስ ት/ክፍል

<u>የግብር ህግ ተገዥነት ጥናት መጠይቅ</u>

የተከበሩ የጥናቱ ተሳታፊ፡

የጥናቱ ዋና ኣላማ ግብር ከፋዮች ለታክስ ህግ ተገዥ እንዳይሆኑና በፍቃደኝነት በህጉና ደንቡ መሰረት ግብርን እንዳይከፍሉ የሚያደርጉ ነገሮችን ለማጥናትና አስፈላጊዉን የመፍትሄ ሀሳብ በጋራ ለመጠቆም ያለመ ነዉ፡፡ የትናቱ ዝርዝር ዓላማ ከዚህ በታች የተዘረዘሩት ነገሮች ለግብር ህግጎችና ደንቦች ከመገዛት ጋር ምን አይነት ግንኙነት እንዳላቸዉ ለማጥናት ነዉ፡፡

1. በመንግስት የሚሰጡ አገልግሎቶች (ትምህርት ቤት፡ ጤና፡ መንገድ፡ ዉሃ፡ኤሌክትሪክ፡ ወዘተ) ከታክስ ህጉ ተገዥነት ጋር ያላቸዉን ግንኙነት ለመረዳት
2. ለግብር ደንቡ ተገዥ ለመሆን በሚደረገዉ ሂደት የሚወጡ ወጭዎችን በተመለከተ
3. ግብር ከፋዩ ስለግብር ያለዉ ዕዉቀት (የግብር ህጎችንና መመሪያዎችን በአግባቡ መረዳትን በተመለከተ)
4. ግብር ከፋዩ ህብረተሰብ ስለግብር መክፈል ያለዉ አመለካከት እና
5. የግብር ሰብሳቢ መስሪቤት አገልግሎት አሰጣጥን በተመለከተ

እርስዎ ወይም ድርጅቶ በዚህ ጥናት ላይ እንድሳተፉ የተመረጡት በዕጣ ሲሆን በጥናቱ ዉስጥ የተካተቱትን ጥያቄዎች ለመመለስ ሙሉ በሙሉ በፍቃድዎ ላይ የተመሰረተ ነዉ፡፡ ከላይ እንደተገለጠዉ ጥናቱ የሚካሄደዉ አንዱ አላማ ለሁለተኛ ድግሪ ማሞያ ፅሁፍ ነዉ፡፡ በጥናቱ ላይ የተመለሱ መልሶች ወይም የግለሰቦች ወይም የድርጅች ስም በምንም መልኩ አይገለጡም፡፡ የዚህ ጥናት ተሳታፊዎች የጥናቱን ዉጤት ወይም ግኚት አጥኚዉ ጥናቱን ከጨረሰ በኃላ በሚከተሉት አድራሻ ጠይቀዉ መረዳት ይችላሉ፡፡

ከተማ ደራር ወልዴ

ስልክ 251-911-35-42-12

ኢሜል፡ derarketema@yahoo.com

ክፍል አንድ፡ አተቃላይ መረጃዎች

1. የድርጅቶ ዋነኛ የስራ እንቅስቃሴ ምንድነዉ?

   1. ☐ ማምረት
   2. ☐ የንግድ ስራ
   3. ☐ አገልግት (ጋራዥ፡ ምግብና መጠጥ፡ ጽህፈት አገልግሎት፡ ወዘተ)

2. የድርጅቶ ህጋዊ ሰዎነት በየትኛዉ ይመደባል

   1. ☐ በአንድ ገለሰብ የተያዘ (Sole Propritorship)
   2. ☐ ኃ.የተ. የግ.ማህበር (PLC)
   3. ☐ የሽርከና ማህበር ነዉ
   4. ☐ ሌላ ከሆነ ይግለጹ...

3. በድርጅቱ ዉስጥ ያሎት የስራ ድርሻ ምንድነዉ

   1. ☐ ባለቤት
   2. ☐ አስተዳዳሪ
   3. ☐ ሕሳብ ሰራተኛ
   4. ☐ ሌላ፣ ይግለፁ...

4. ድርጅቱ መቼ ተመሰረተ?

   1. ☐ 2 አማትና ከ 2 አመት ያነሰ
   2. ☐ ከ 3- 5 አመት
   3. ☐ ከ 6- 10 አመት
   4. ☐ ከ 10 አመት በላይ

5. የድርጅቶ ሽያጭ ገቢ በ 2007 ወይም በ2014/15 በብር ምን ያህል ይገመታል?

   1. ☐ ከብር 100,000 ያነሰ   3 ☐ ከብር 1,500,000-15,000,000
   2. ☐ ከብር 100,001-1,500,000   4 ☐ ከብር 15,000,000 በላይ

6 ፆታ ☐ ወንድ ☐ ሴት

7 እድሜ ☐ ከ 21-30 ☐ ከ 31-40

☐ ከ 41-50 ☐ ከ51 አመት በላይ

8 የትምህርት ደረጃዎ፡

የትምህርት ደረጃ	አንዱን ያመልክቱ	የትምህርቱ አይነት
12ኛ ክፍል ያላጠናቀቀ		
12ኛ ክፍል ያጠናቀቀ		
ዲፐሎማ		
ድግሪ		
2ኛ ድግሪ		

9 ድርጅትዎ በግብር ባለስልጣኑ መ/ቤት በ 2007 (2014/15) የሂሳብ ምርመራ ተደርጎለታል?

1. ☐ አዎ 2. ☐ አልተደረገም

10 በሚከተሉት ምክንያት/ቶች በግብር ባለስልጣኑ መ/ቤት በ 2007 (2014/15) ተቀጥተዉ ያዉቃሉ

ዓረፍተ ነገር	አዎ	አልተቀጣሁም
የግብር ፎርሙን ባለመሙላት		
የግብር ፎርሙን በወቅቱ ሞልቶ ባለማቅረብ		
ገቢን አሰንሶ ርፖርት በማድረግ		
ወጪን ከፍ አድርጎ ርፖርት በማድረግ		
ግብርን በወቀቱ ባለመክፈል		

11 በየአመቱ የሚከፍሉትን የግብር መጠን ከግብር ህግ ተገዥነት ጋር እንዴት ያዛምዳሉ

1. ☐ ልክ ነዉ (ለግብር ህግ ተገዥነት ያበረታታል)
2. ☐ ብዙ ጊዜ ከፍ ያለ ነዉ (ለግብር ህግ ተገዥነት አያበረታታም)

ክፍል ሁለት፡ በመንግስት የሚሰጡ አገልግሎቶች (ትምህርት ቤት፡ ጤና፡ መንገድ፡ ዉሃ፡ኤሌክትሪክ፡ ወዘተ) ከታክስ ህጉ ተገዥነት ጋር ያላቸዉን ግንኙነት

1. የተለያዩ አገልግሎቶች ለህበረተሰቡ መሰጠታቸዉ (እነደ መንገድ፡ ኤሌክተሪክ፡ የአከባቢ ጥበቃ ዋስትና፡ ዉሃ፡ ጤናና ወዘተ) ግብርን በአግባቡና በፍቃደኝነት ለመክፈል አስተዋጽሆ አለዉ ብለዉ ያምናሉ?

1. ☐ በጣም እስማማለሁ 3. ☐ እርግጠኛ አይደለሁም

2. ☐ እስማማለሁ 4. ☐ አልስማማ 5. ☐ በጠም አልስማማም

ክፍል ሶስት፡ ለግብር ደንቡ ተገዥ ለመሆን በሚደረገዉ ሂደት የሚወጡ ወጭዎችን በተመለከተ

እባክዎ በሚቀጥለዉ ሰንጠረዥ ለሉት ሀሳቦች በተሰጠዉ መለኪያ መሰረት አስተያየትዎን ይስጡ

በሚከተሉት ምክንያቶች ለግብር ህግና ደንቡ ተገዥ **አለመሆንን** እመርጣለሁ

ተ.ቁ	ዐረፍተ ነገሮች	1 በጣም እስማማለሁ	2.እስማ ማለሁ	3.ገለልተ ኛ ነኝ	4. አልስማማ ም	5. በጣም አልስማማ ም
1	የገቢ ግብርን ባለመክፈል የማተርፈዉ ከቅጣቱ ስለሚበልጥ					
2	የፅህፈት ዕቃዎችና የኮምፒዉተር ዋጋ ብዙ ስለሆነ					
3	የሽያጭ መመዝገቢያ መሳሪያ ዋጋና ጥገናዉ ዉድ ነዉ					
4	የሶፍትዌርና ኢነተርኔት ዋጋ ዉድ ስለሆነ					
5	የሰረተኛ ደመወዝ (ምሳሌ ሒሳብ ሰራተኛ) ከፍተኛ ነዉ					
6	ብዙ ጊዜ ግብርን ለማሳወቅ የግብር አማካሪ ስለምቀጥር ተጨማሪ ወጭ ያስወጣኛል					
7	የተከፋይ ግብር መጠን ብዙ ስለሆነ					

ክፍል አራት፡ የትርፍ ግብር ከፋዮች የግብር ህግ ዕዉቀት ከግብር ህጉ ተገዥነት ጋር ያለዉ ግንኙነት

በሚከተሉት ምክንያቶች ለግብር ህግና ደንቡ ተገዥ **መሆንን** እመርጣለሁ

ተ.ቁ	ዓረፍተ ነገሮች	1 በጣም እስማማለሁ	2.እስማ ማለሁ	3.ገለልተ ኛ ነኝ	4.አልስማማ ም	5. በጣም አልስማማ ም
1	የትርፍ ግብር ገቢየን በትክክል ማስላት እችላለሁ					
2	የንግድ ስራ ገቢን ለማስላት ተቀናሽ የማይደረጉና የሚደረጉ ወጭዎችን ለይቼ አዉቃለሁ					
3	የሰንጠረዥ "ሐ" የገቢ ቀመርን በትክክል አዉቃለሁ					
4	የገቢ ግብር ዕዳዬ ምን ያህል እንደሆነ በትክክል ስለማዉቅ					
5	የገቢ ግብር ዕዳየን የትና መቼ መክፈል እንዳለብኝ ስለማዉቅ					
6	የገቢ ግብር ፎርሙ ለመሙለትና ፋይል ለማድረግ ቀላል ነዉ					
7	አጠቃላይ የሀሳብ መዝገብ አያያዝ ቀላል ስለሆነ					
8	የግብር መረጃዎችንና የተደረጉ ለዉጦችን (updates) በቀላሉ ማግኘት እችላለሁ					

ክፍል አምስት፡ ግብር ከፋዩ ስለግብር ያለዉ አመለካከት ከግብር ህግ ተገዥነት ጋር ያለዉ ግንኙነት

በሚከተሉት ምክንያቶች ለግብር ህግና ደንቡ ተገዥ **መሆንን** እመርጣለሁ

ተቁ	ሊሰሩ የሚገቢ ስራዎች	(1)በጣም እስማማሁ	(2) እስማማለሁ	(3)ገለል ተኛ ነኝ	(4)አልስማ ማም	(5) በጣም አልስማማም
1	ከትርፍ ግብር ገቢየ የተወሰነዉን አሳንሼ ባቀርብ አእምሮየን አይወቅሰኝም					
2	ትክክለኛዉን የትርፍ ግብርን መክፈል ለሀገር እድገት ይጠቅማል ብዬ ስለማምን					
3	ግብሬን በአግባቡ ካልከፈልኩ የግብር ሰብሳቢ ባለስልጣን መ/ቤቱ ስለሚቀጣኝ					
4	ተመሳሳይ የንግድ ድርጅቶችም ተመጣጣኝ ግብር እንደሚከፍሉ ስለማምን					
5	ጎደኞቼና ተመሳሳይ የንግድ ድርጅቶች ግብርን በታማኝነት እንደሚከፍሉ ስለማዉቅ					

ክፍል ስድስት፡ 1. የገቢዎች ባለስልጣንን አገልግሎት አሰጣጥ ከግብር ህግ ተገዥነት ጋር ያለዉ ግንኙነት

ተቁ	የአገልግሎቱ ዓይነት	ጥሩ አይደለም	ጥሩ	በጣም ጥሩ
1	የግብር መክፈያ አከባቢዉ፡ ለምሳሌ ለመኪና ማቆሚያ አመቺነት፡ እና የተቀላጣፋ አገልግሎት ማግኘት....			
2	የተለያዩ የግብር ህጎችንና ደንቦችን ለግብር ከፋዩ በየጊዜዉ ግንዛቤ የማስጨበጥ ስራ			
3	በብልጫ የተከፈለን ግብር በወከቱ ተመላሽ ማድረግን በተመለከተ			
4	ግብርን በተመለከተ ለሚነሱ ችግሮችና ጉዳዮች በትክክና በወቅቱ መፈትሄ መስጠት			
5	የግብር ሰብሳቢ መ/ቤቱ ሰራተኞች የግብር ነክ ጉደዮችን ለግብር ከፋዩ ለማስረደት ያላቸዉ ተነሳሽነትና በጎ አመለካከት			
6	ግብር በሚወሰንበት ጊዜ የሚፈጠሩ ስህተቶችን የማረምና ማስተካከል ወዘተ			

2 የግብር ባላስልጣንን አገልግሎት አሰጣጥ ለማሻሻልና ብሎም ለግብር ህጉ ተገዥነትን ለማበረታታት ሊወሰዱ የሚገቡ እርምጃዎች

ተቁ	ሊሰሩ የሚገቢ ስራዎች	(1)በጣም እስማማሁ	(2) እስማማለሁ	(3) ገለልተኛ ነኝ	(4)አልስማማም	(5) በጣም አልስማማም
1	የግብር ህግና ደንብን እንዲሁም ቅጣትን ማጠንከር					
2	ከግብር ከፋይ ህብረተሰቡ ጋር ያለዉን ግንኑነትና መተማመንን ማሻሻል					
3	በግበር ህገና ደንቡ ላይ የግንዛቤ ማስጨበጫ ስራ መስራት (በስልጠናና ፡በማስተማር)					
4	የግብር ባለስልጣኑ ስለአገልግሎቱ በቂ መረጃ መስጠት አለበት					
5	የገቢ ግብር ፎርሙን ለመሙለትና ፋይል ለማድረግ አመቺ ማድረግ					
6	የግብር አሰባሰብ ዘዴዎችን ቀልጣፋና ቀላል ማድረግ					

3 የግብር ባለስልጣኑን ድጋፍ በተላይ ስለግብር ትምህርት መስጠትና በአጠቃላይ አገልግሎቱን እንዴት ይገልፁታል? በአገልግሎታቸዉስ ደስተኛ ነዎት?..

....

4 እስከ አሁን ከተወያየንባቻዉ ነገሮች ዉስጥ የቀረና መከከለኛና አስተኛ ግብር ከፋዮችን የግብር ተገዥነትን ከሚወስኑ ነገሮች መከከል መጨመር የሚፈልጉት ካለ...

....

ስለትብብሮ እጅግ አመሰግናለሁ

Appendices 3 In-depth interviews to - ERCA staffs

1. How long have you been in the Ethiopian Revenues and Customs Authority Office as an employee and what are your responsibilities?
2. How do you define SMEs (Small and medium Enterprises)? Capital, No of staff, sales turnover, or other? What are the types of taxes small and medium enterprises pay?
3. What are the major factors influencing small and medium taxpayer's compliance to the tax rules and regulations?
4. How do you see social services (like road, electricity, water, security, health services, etc.) provided by the government in relation to tax compliance of SMEs?
5. Do you feel the amount of tax liability (tax rate) influence the tax compliance decision of SMEs taxpayers?
6. Are there costs to SMEs in the process of fulfilling tax compliance requirements of ERCA? Which influences the tax compliance decision of SMEs the most?
7. Can knowledge of tax rules and regulations (such as tax period, tax rates used in determining income tax, deductible and nondeductible expenses, TIN & withholding taxes, etc.) influence tax compliance of SMEs?
8. Do you think SMEs get the necessary tax education and training frequently? Do you believe SMEs get any updates on tax directives and guidelines timely? Please explain.
9. From your experience, do SMEs hire professionals (tax consultants) for filling tax returns or prepare by themselves?
10. Are all SMEs business operators in Addis Ababa paying their taxes faithfully?
11. If your answer in No. 9 is No, do the existences of SMEs business operators who do not pay their tax affect the loyal taxpayers' tax compliance?

12. How do the presence of smugglers and non-informal groups affect the tax compliance of formal enterprises?
13. Which of the above factors greatly influence the tax compliance of EMEs business profit taxpayers? (Tax rate, social services, cost of tax compliance, knowledge of tax rules & regulations, existence of SMEs businesses that do not pay taxes, or other factors?)
14. What kind of services is provided to SMEs taxpayers by your office?
15. How do you relate the services given by different offices of Ethiopian Revenues and Customs Authority to tax compliance?
16. Do you believe SMEs taxpayers get timely and quality services?
17. If your answer in No. 15 is No, please explain the reasons?
18. How do you explain the facilities used to give tax related services to SMEs:
    - Number and qualified staffs,
    - Availability of internet connections
    - Awareness on changing tax directives and guidelines
    - Staff turnover, etc.
19. Would you offer some recommendations that will improve tax compliance of SMEs business taxpayers?
20. Is there anything you would like to add?

Thank you!

Appendices 4 In-depth interviews to -tax consultants

General information

1. How long have you been in the accounting business and what types of services do you offer?
2. Please tell me some of the reasons why SMEs profit taxpayers come to you.

Factors of tax compliance

3. From your experience, are there any tax compliance issues that are unique to SMEs taxpayers?
4. What are the factors influencing SMEs taxpayers' compliance decisions? Please explain

    4.1. Amount of tax liability (tax rate)

    4.2. Social services (such as water, electricity road, security, etc.) provided by the government.

    4.3. Cost of tax compliance (such as cost of office rent, salary of accountants, cost of tax consultants, stationaries, internet and software, general record keeping & filling process, etc.)

    4.5. How do you price your services for tax to your clients? Do they always pay you in time? How do your clients pay you? (Before or after service).

    4.6. Do you feel that the cost of your tax services can influence compliance decisions of SMEs taxpayers? How and why?

    4.7. Which of the above costs to SMEs influence their tax compliance decisions the most?

5. Tax knowledge of SMEs business profit taxpayers

1.1. Do you think that lack of knowledge is the main reason why SMEs seek your service? Please explain.

1.2. Do you handle any Ethiopian Revenues and Customs Authorities inquiries relating to your clients and why?

1.3. Do you think SMEs are getting the necessary tax education and updates on any changes of tax directives and guidelines?

6. Do you feel that attitude towards taxes and presence of informal traders (those who do not pay their tax due properly) influence the loyal taxpayers' tax compliance? Please explain.
7. How do you explain the services given by the Ethiopian Revenues and Customs Authority's offices as a factor of tax compliance of SMEs taxpayers?
8. Suggestions and improvements

    8.1 Is there anything you would like to add?

    8.2 Can you offer some recommendations that would improve tax compliance and promote a more cooperative relationship between SMEs and ERCA?

Thank you!