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**FACTORS AFFECTING TAX REVENUE COLLECTION IN MINISTRY OF REVENUE
LARGE TAXPAYERS BRANCH OFFICE**

BY

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LARGE TAXPAYERS BRANCH OFFICE**

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Statement of declaration

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

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ACRONYMS AND ABBREVIATIONS

LTO: Large Taxpayers Office

ERCA: Ethiopian Revenue and Customs Authority

TRC: Tax Revenue Collection

TK: Tax Knowledge

TA: Tax Audit

E TAX: Electronic Tax

TG: Trust in Government

VIF: Variance Inflation Factor

NBE: National Bank of Ethiopia

ABSTRACT

Taxes are an important source of revenue for governments, and when they are not collected effectively, it can have a negative impact on a country's development. There are many factors that can affect tax revenue collection, and this paper aims to study the factors that affect tax revenue collection in the Ministry of Revenue Large Taxpayers Branch Office. The study used a mixed research approach, which involved collecting both quantitative and qualitative data. The quantitative data was collected through a survey of 200 taxpayers, and the qualitative data was collected through interviews with a small number of taxpayers. The results of the study showed that there is no statistically significant relationship between e-tax filing and tax revenue collection. However, the results did show that tax revenue collection is highly affected by taxpayers' knowledge, tax audit rates, and trust in government. The study concludes that the tax office should provide more training to taxpayers, increase tax audit rates, and be more transparent and accountable to taxpayers to improve tax revenue collection.

Keywords: Tax revenue collection, Taxpayers knowledge, Tax Audit, E tax filling, Trust in Government

CHAPTER ONE

Introduction

1.1 Background of the study

Taxation is the most important tool and important resource of the state. These funds should be used for basic social services (health and education), services (law enforcement and public services), and infrastructure (including construction and environmental protection) (Muzainah & Zekariah 2016). According to Thomas Wendy Eicher (2002), taxes are an important source of income for governments in both developing and wealthy countries, enabling them to finance basic infrastructure and utilities. But if all taxpayers could obey the law, every free citizen would have the desire to do the best that can be achieved by paying taxes in society.

Since the beginning of human history, both developed and new countries have required their citizens to pay taxes. This includes service providers, business owners, government officials and other groups. Benjamin Franklin's famous quote "There is nothing, but death and taxes" is used to support this idea. This proposal reiterates the idea that all citizens are subject to tax laws and should withhold taxes from their income. The ability of the state to pay public taxes is important in terms of spending money on building large dams, improving transportation and good services for society (Saxunova and Szarkova, 2018).

Taxes and other non-tax revenues are collected by the government. According to Zhou and Madhikeni (2013), the foundation of public administration and the foundation of effective financial management is the revenue collection process. Taxes are an important source of government funding. If the state does not collect enough taxes, the country faces many problems, from macroeconomic recession to government budget deficit every year. Also, low income can affect the development of the country. Many poor countries do not collect enough taxes. According to Janet & Asegedech (1997), many developing countries face problems with collecting taxes from society, which often leads to a shortage of funds and a waste of public resources.

According to several historians and empirical data, Emperor Zeria-Yakob is expected to impose taxes on Ethiopia around the 15th century (Daniel & Shaik, 2017). How much and how to pay depends on the needs of the tax administrator and the type of services available in the area at the time, and the tax is often arbitrary (Lemessa, 2005).

1.1.1 Background of the organization

Ethiopian Revenue and Customs Administration (ERCA), 587/2008 in cooperation with the Ministry of Revenue, Ethiopian Customs and Federal Tax and customs and tax sustainability on 14 July 2008. ERCA was established with the main aim of simplifying public revenue transactions by bringing the relevant institutions under the umbrella of a central financial institution.

According to the May 2014 Internal Tax Audit Manual of Ethiopian Revenue and Customs Administration (ERCA) Headquarters, the Ministry of Revenue (MOR) currently divides taxpayers into Large Taxpayer Office (LTO), Medium Taxpayer Office (MTO), Small Office. Taxpayer's Office (STO).

1.2 Statement of the problem

According to James (2011), "African states will be able to lessen their need for official development assistance to support their development by being able to rely on local sources of income in the form of taxes.

Most of the annual national budget is made up of tax revenue. Many industrialized nations protect their national budgets by effectively collecting tax money. According to the World Bank Group (2020), industrialized countries collect more taxes than developing countries relative to their GDP rates. Developing nations experience annual national budget deficits because they are unable to collect enough tax money. According to Evenlike, Ekenechukwu, and Edirin (2017), nearly all Sub-Saharan countries have seen a fall in tax collection levels that has undermined their fiscal balances and forced governments to borrow money to pay their national budgets. According to Neway, Kenenisa, and Debela (2018), the annual national budget deficit has historically been a major issue for most developing nations.

According to NBE 2021 annual report Ethiopia's Tax to GDP ratio for the year 2021 is 11% which is less than 15% according to world bank countries must have greater than 15% Tax to GDP ratio to fulfill their citizens basic needs the report indicates there is less tax revenue collection which is

one reason for Ethiopia to be unable to fulfill basic necessities of her citizens therefore this indicates the need to solve this problem by conducting researches. Various researches done on the factors that affect tax revenue collection, such as Tibebe (2020) studies factors affecting tax collection and tax compliance in Ethiopia the case of Addis Ababa Grade “A” taxpayers. The researcher identifies variables such as Government Trust, Tax Incentives, High tax Compliance Cost, Tax Avoidance, Tax Evasion, Rule of Law, Tax Proclamations, Policies & Strategies have significant effect on tax revenue collection and compliance, Yoseph (2018) studies factors affecting tax revenue collection in the case of Addis Ketema sub city tax office. The researches finds taxpayer’s awareness, tax compliance, tax office capacity and tax evasion have significant effect on tax revenue collection, Ashebr (2021) study determinants of tax compliance on small and medium enterprises in Kirkos sub city, Addis Ababa. The researcher identifies perception on tax rate, perception on tax audit, tax payers level of knowledge, trust in government and fairness of the tax system has significant effect on tax compliance, Abdulsemed (2019) study the determinants of tax compliance case study at Addis Ababa on value added tax registered individual tax payers in Addis Ketema sub city. The researcher identifies tax rates, tax audit, perception of role (efficiency) of tax authority, role of government spending and ethics and attitudes towards tax has significant effect on tax compliance. Though to increase our country’s GDP ratio one of the components is to increase tax revenue collection, still the issue of less tax collection that the planned is not solved many studies must be conducted to solve this problem. This research will study the factors that affect tax revenue collection in large taxpayers’ offices.

1.3 Objective of the study

1.3.1 General Objectives

The general objective of this study is to examine factors that affect tax revenue collection in ministry of revenue large taxpayers.

1.3.2 Specific Objectives

- To explore the effect of taxpayer’s tax knowledge on tax revenue collection in LTO
- To examine the effect of tax audit on tax revenue collection in LTO
- To analyze the effect of E-tax filling on tax revenue collection in LTO.
- To explore the effect of trust in government on tax revenue collection in LTO.

1.4 Research Questions

- How does taxpayer's tax knowledge affect tax revenue collection in LTO?
- How does tax audit affect tax revenue collection in LTO?
- What is the effect of E-tax filling on tax revenue collection in LTO?
- What is the effect of trust in government on tax revenue collection LTO?

1.5 Significance of the study

The primary use of this research findings is to the large taxpayer's tax office it helps them to know which factor is the most prominent in affecting the tax revenue collection so that it identifies the thing need to be improved, the tax authority can also use it to increase its tax revenue by using the recommendation that will be given after studying the variables. Moreover, the study can be used for different stakeholders who are interested in such as government offices, other taxpayer offices.

In addition, the results of this study will add new information to the existing knowledge in taxonomy and provide additional information to researchers who want to do more research on this subject.

1.6 Scope of the study

The study focuses on identifying the factors which affect tax revenue collection in Ethiopia ministry of revenue large taxpayers. Its scope limited to the variables that are mentioned in the statement of the problem such as tax knowledge, tax audit, E-tax filing, and trust in Government and the study will collect information from sample size of 246 large taxpayers through questionnaire.

1.7 Limitation of the study

To make the research specific and manageable it will be delimited in the large taxpayer's office. It does not include other taxpayer's offices such as small and medium taxpayers and other regional offices. The data will also be collected from the side of taxpayers only by assuming the pay tax amount will be collected by the authority it does not include the tax collectors. Though there are many factors that affect revenue collection this study will be limited to four variables such as taxpayer's tax knowledge, tax audit, E-tax filing, and trust in Government.

1.8 Organization of the Study

This research paper will be divided into five parts. The first part is the introductory part. Chapter two includes a review of the available literature that provides evidence on factors affecting tax revenue collection among large taxpayers. Chapter three presents the methodology to be used to conduct the research. It includes sample design, data sources, sample size and sampling techniques, data collection tools, data collection techniques, and data analysis techniques. In the fourth chapter, the results of the research are discussed and analyzed. Finally, Chapter five presents the summary of the study, its conclusions, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The literature review is divided into four major sections. Section 2.1 presents a review of the theoretical aspects related to the study. This section discusses the relevant theories and concepts that are used to frame the study. Section 2.2 presents an empirical literature review. This section reviews the relevant empirical studies that have been conducted on the topic of the study. Section 2.3 identifies the research gap in the literature review. This section discusses the areas where the current research is lacking and where further research is needed. Section 2.4 presents the conceptual frameworks that will be used to guide the study. This section discusses the theoretical models that will be used to explain the findings of the study.

2.1 Theoretical Review

2.1.1 Definition of taxation

The government uses taxes as taxes for citizens or organizations. Almost all countries in the world have taxes that are mainly used for government spending as well as other things. The consensus in the 19th century was that taxes should be used primarily to finance the government. Taxes are and are used by the government for reasons other than revenue generation. Artin and Dana (2014)

Regardless of the number of services provided to taxpayers, taxes must be paid by the government (Saleemi, 2008). If the tax both affects and befalls the same person, it is called a direct tax; indirect tax, on the other hand, affects one person but not others. Taxes are designed to achieve two main goals: first, to generate enough revenue to cover public expenditure without requiring the government to take large debts to invest in its operations; second, to increase equity income, which reduces its impact on the economy for preventive effect.

2.1.2 Characteristic of good tax system

Jean-Jacque (1998) cited in chinyere (2000) summarized the under listed Characteristic:

The potential tax should try to consider the characteristics and problems of the taxpayer. The importance of the country's goals should be based on; it should be able to keep up with the changes in the country's economy, recognize the rights of taxpayers and generate sufficient income for the country's income.

2.1.3 Tax Revenue

According to Cobham (2005), this is the main and most obvious reason for taxation. Income is needed to meet basic needs. These include dealing with emergencies and disasters such as war, famine, flood, and drought, as well as poverty and medical emergencies. Short-term needs are those that are important but not yet a problem, such as poverty eradication, education provision, and drug prevention and treatment, that can become problems if not met quickly and successfully. Long-term needs include the need to improve public infrastructure and services, improve people's quality of life, and build a strong economy. Taxation can be used for the following important benefits.

A. Redistribution:

According to Cobham (2005), it refers to the need to help members of society living in poverty due to the unequal distribution of goods. Governments are trying to redistribute wealth by taxing more people who can afford it, companies, and financial institutions. The money he receives from this tax is used for the improvement of social and public facilities.

B. Representation:

This is necessary for individuals to believe that they have an impact on the development of democracy and its government (Cobham, 2005). It is important for taxpayers to know that the money they receive is mostly for the construction, maintenance and repair of hospitals, schools, roads, and other public services. This means that every taxpayer contributes to the development and protection of the country and its citizens.

C. Re-pricing economic alternatives:

According to Cobham (2005), this happens when governments use policies to change the behavior of their citizens. Seeing the goals of the policy, for example, reducing services or increasing the cost of waste by saving money to protect the environment, policy makers can formulate appropriate policies to achieve the desired goals.

2.1.4 Tax Collection

The process of collecting taxes from various taxpayers is known as tax collection. According to Jane (2016), this was crucial since efficient tax collection was seen to reduce government borrowing, act as a driving factor behind inflation and interest rates and increase government revenues to cover both ongoing and capital expenses. A tax, often known as taxation, is required contribution to the state's source of revenue that is imposed by the government on citizens' personal income and corporate earnings, as well as on the price of certain goods, services, and transactions. Taxes are imposed at a defined rate that is typically proportionate to the amount of income that is subject to them. However, several issues, including the disregard for the productivity principle, hinder tax revenue collection. Taxes, licensing, and permission fees, as well as other sources, provide funding for governments. The national budget imbalance and the nation's general macroeconomic crisis were both caused by the country's problem with tax collection. The formation of effective tax structures and the creation of enforceable rules can therefore assist in increasing tax collections. It is vital to identify the reasons that lead to lower tax revenues and take steps to avoid them.

2.1.5 Procedures for Tax Collection

Taxpayers are compelled to pay a tax according to their income, and it is assumed that their tax payments would match their income (Damme, L., T. Misrahi, and Orel 2008). On the other hand, tax collectors must collect taxes in a timely and easy manner while keeping costs low enough to not deter business. This is in accordance with the taxation canon. Some of the steps performed by the tax authority to ensure compliance include filing returns, processing tax returns, auditing and examining returns, collecting taxes, and enforcing tax laws.

Reporting taxes within a certain number of months after the end of their tax accounting year, taxpayers must file returns. The return must be submitted in four copies and must include all the taxpayer's information. Presenting all tax-related documents to the tax authority office where the taxpayers' file is kept is required. When tax authority officers receive a taxpayer's return, they evaluate its correctness by looking at how well it was filled out, how accurately the tax was calculated, and whether the taxpayer owes any penalties (James, S., and Nobes, C. 2000). The role of tax review and audit is to verify the accuracy of information provided by taxpayers to taxpayers. Controls range from simple field and desk controls to controls (James, S. and Nobes, C. 2000).

2.1.6 Factors influencing tax revenue collection.

There are many factors affecting tax revenue, this study focuses on four different areas such as taxpayers' tax knowledge, tax audit, electronic tax filing, and trust in the government, because these changes are the most common changes and are considered important in terms of tax.

2.1.6.1 Taxpayers Tax Knowledge

Tax awareness is important for taxpayers to understand the causes and consequences of tax evasion. Taxpayers well trained in tax evasion are less likely to be involved; The opposite is true for uninitialized. It is necessary to pay attention to information about taxes to improve the knowledge of taxpayers and the expertise of authorities (Poudel, 2017). According to Sadjiarto et al. (2020), tax awareness is a way for taxpayers to increase government revenue. Taxpayers are less likely to engage in tax evasion if the government provides them with lots of training on tax evasion and other tax incentives (Rantelangi and Majid, 2018). Tax awareness affects whether taxpayers pay taxes and continue to avoid tax (Abera, 2019). Without proper tax information, taxpayers performing their daily duties will risk tax evasion and tax revenue will decrease (Thu,2017).

According to Dana and Atin (2014), taxpayer awareness is the willingness to understand and comply with taxes. This includes the understanding that taxes are a form of contribution to national development, that postponing tax payments is harmful to the country, and that taxes are managed legally and legally.

Manik and Asri in Rahayu (2010) define a taxpayer as being aware if they can identify the existence of tax laws and principles, understand the payment of taxes to the country, be aware that taxes must be paid in accordance with the rules and regulations, calculate the amount of tax due and pay it willingly and truthfully to the government, calculate, pay, and report taxes accurately. In the field of tax compliance research, tax audits are a popular topic. Academics are interested in the likelihood of audits, the productivity of audits (the percentage of unreported income discovered), and past audit notifications. Alm (1999) predicts that higher audit rates will lead to increased compliance. According to the raffle eligibility or benefit need, the higher the evaluation result and the product, the more the need will be discovered. Therefore, taxpayers will declare more income (Allingham & Sandmo, 1972). This theory is supported by research by Dubin and

Wilde (1990) and research by Kinsey (1992), Shreffinn and Triest (1992), which found that the degree of fit increased. Dubin and Wilde (1990) conducted a study to investigate the effect of audit productivity and relevance on self-reported responses. Audit productivity is the amount of unreported revenue from audits. The results showed that telling people they were going to be screened increased compliance in people who knew they were going to be screened, but decreased compliance in people who didn't know they were going to be screened. General compliance is lost with prior notice of inspection. The findings are interesting because giving taxpayers a clear view of what happens to their reports may not produce the desired results. Alm, Jackson, and McKee (2009) conducted recent laboratory studies to investigate the impact of various information dissemination strategies (formal information from the tax authorities and informal communication among taxpayers) on audit frequency and compliance outcomes. Tax authorities can improve compliance by announcing audit rates in advance and emphasizing the frequency of audits from the previous period in annual enforcement effort reports. Another finding is that informal communication will only work if audit rates are made known to the general population.

According to research, tax audits help reduce tax evasion (Dubin, 2007). These results suggest that tax audits can have an impact on self-assessment, an important goal of promoting voluntary compliance. Depending on the cost and effectiveness of the audit, taxpayers will be more careful when filing their tax returns, declaring all their income, and claiming the necessary deductions to determine their tax liabilities. On the other hand, someone who does not verify their tax return may be inclined to deny their actual income.

2.1.6.3 Trust in Government

Sitardja and Dwimulyani (2016) suggest that trust between the government and its citizens is based on the alignment of citizens' expectations with their beliefs about uncertainties in their environment. Torgler (2004) argues that trust, perceptions of fairness in tax payments, and corruption are all important factors in tax compliance. Feld & Frey (2007) propose that taxpayers are more likely to voluntarily pay taxes when the government is fair, serves its citizens well, and is perceived as non-corrupt. Trust and perceptions of corruption are interconnected. Nzotta (2007) claims that widespread corruption among public officials in Nigeria is a major cause of tax evasion. This is due to officials embezzling tax money without consequences and encouraging bribery instead of tax payments, which reduces citizens' willingness to pay taxes. Siahaan (2012)

concludes that taxpayers' level of trust in the government is a key factor in their compliance with tax laws.

According to Alm, Jackson, Cowell, and Gordon (1988), government expenditure can promote tax compliance. Taxpayers who appreciate the benefits provided by the government and understand that their tax payments are necessary to fund these benefits may be more willing to pay their taxes. Levi (1988) suggests that this can be seen as a trade-off between market power and government-provided benefits.

2.1.6.4 Electronic filing

An electronic filing system that sends tax information to tax services, often without sending physical documents, is called an E-tax filing. It is an e-government tool that is increasingly used all over the world. These systems are particularly useful for governments, as they help prevent fraud using hash data and avoid many of the mistakes taxpayers make when manually filling in data (Manly et al., 2005). Tax inspectors may be able to conduct a more extensive analysis of declarations thanks to the data warehouses created by electronic tax filings, and policymakers may be able to create more equitable and efficient tax systems as a result (Kun et al,2008).

The creation of an electronic tax system began in the United States in the early 1980s as an experiment for taxpayer income (Bojuwon 2015). According to the global economy and new technology, governments in both developed and developing countries have used various e-government systems, including e-commerce, and e-tax systems, which are subsets of e-government. Electronic tax collection is convenient, efficient, and effective among taxpayers and tax authorities (Bojuwon 2015). In other words, e-government ensures the smooth, impersonal, efficient, and effective delivery of public services for both service providers (government) and service users (citizens). In some cases, government agencies may also use e-government services. In terms of the economy, citizens' ability to access government services anytime and anywhere helps reduce transaction costs for various government services. Kun et al. (2008)

2.2 Empirical Review

2.2.1 Studies related to factors influencing tax revenue collection.

The study by Epaphra and Massawe (2017) in Tanzania examined different sectors (corruption and governance), changes in income (income per capita, economic open market, inflation, and agriculture's share of GDP) and the impact of policy changes (taxes and tariffs) across all sectors. The findings show that corruption and trade openness have a positive effect, while tax rates do not have a positive effect on tax revenues, while also indicating a higher tax-to-GDP ratio in countries with small farms and more stable economies.

Kitessa and Jewaria (2018) conducted a study on the determinants of taxation in East Africa in Uganda using panel data analysis to determine the importance of high determinants using information about the period 1992-2015. Their results show that the share of GDP per capita, foreign aid, trade openness and agriculture, trade and services in East African economies are beneficial for long-term income. On the other hand, urbanization, exchange rate fluctuations and inflation negatively affected the income to GDP ratio of the region.

Mutascu and Danuletiu (2013) examine the relationship between tax income and literacy in 123 countries from 1996 to 2010. associated with low income. Taxation and approval of tax levels were influenced by literacy.

Zarra-Nezhad et al. (2016) analyzed the effects of GDP growth, agriculture's share of GDP, exchange rate volatility, urbanization, and independence on tax revenue. The findings show that taxes are positively associated with GDP growth, trade liberalization and democracy. On the other hand, agriculture's share of GDP, exchange rates in cities, and urbanization are all related to taxation.

Olaoye&Atilola (2018) conducted research on the impact of electronic taxation on revenue enhancement. They used secondary data from 2012 to 2018 and analyzed it using trend analysis and descriptive statistics such as mean, standard deviation, and paired sample t-test to compare the differences between the periods before and after the implementation of electronic taxation. The study found no significant difference between the two periods, leading to the conclusion that electronic taxation did not improve tax revenue in the areas studied.

Nasr (2014) studied how taxes can help Malaysia's economy grow. He found out that using electronic ways to file and pay taxes is better than doing it manually. When Malaysia started using electronic tax filing and payments in 2004, they were able to collect more taxes.

Ofurumet et al. (2018) in a study about e-taxation in Nigeria, researchers wanted to see how it affected the country's money and growth. Using data they found, they discovered that when e-taxation was put in place, the amount of money collected from taxes compared to the country's overall money went down a lot.

Famami and Norsain (2019) in their study on factors influencing taxpayers in KPP Pratama Pamengkasan they pointed out that the taxpayers' awareness had no significant effect on tax compliance.

Tibebu (2020) studies the Factors affecting tax collection and tax compliance in Ethiopia the case of Addis Ababa Grade “A” taxpayers. The researcher identify variables such as Government Trust, Tax Incentives, High tax Compliance Cost, Tax Avoidance, Tax Evasion, Rule of Law, Tax Proclamations, Policies & Strategies have significant effect on tax revenue collection and compliance .The study recommended intrinsic quality of the tax policy, nature of payment system, tax reform, and awareness about tax policies and strategies has been found to affect tax compliance and the tax authority have to improve it.

Yoseph (2018) studies factors affecting tax revenue collection in the case of Addis Ketema sub city tax office .The researches finds taxpayer’s awareness, tax compliance ,tax office capacity and tax evasion as an independent variables to explain the tax collection .The major findings of this study were tax awareness has strong positive relations ship with tax revenue collection, tax evasion has a strong negative relationship with tax revenues, the tax office capacity was found as a factor for less tax revenues collection, most of the respondents disagree with the tax office have enough capacity to serve the tax payers.

Abdulsemed (2019) study the determinants of tax compliance case study at Addis Ababa on value added tax registered individual tax payers in Addis Ketema sub city .The researcher uses independent variables such as tax rates, tax audit ,perception of role (efficiency) of tax authority ,role of government spending and ethics and attitudes towards tax to explain tax compliance .The major findings of the researcher were regarding tax rate most respondents response shows that the rate is fair reducing the rate does not create compliance and there is also

significant relationship between tax audit and tax compliance . Most of respondents agreed and others were neutral on the statement's government/tax Authority collects VAT Economically this implies most of them are not sure about efficiency of the government.

Kumar and Nene (2015) explore the factors that determine income in Ethiopia. In their research, they explored factors affecting tax revenue such as per capita income, inflation, services GDP, share of agricultural GDP, trade liberalization, imports, and trade. According to their findings import and trade affect income in the short run, per capita income, inflation, the share of services in GDP, the share of agriculture in GDP and trade liberalization are important determinants of long-term taxation.

Mekdelawit (2022) investigated the factors affecting taxation in Ethiopia using time data from 1996 to 2020 to examine the relationship between taxation and business (agriculture and services GDP, business GDP, inflation, and inflation). factors (corruption and security), social (urbanization and literacy) and tax administration (tax reform). The results show that there is a significant relationship between inflation, GDP service and political stability in the long run, and a positive relationship between corruption and tax payment. Although inflation has a positive effect on tax revenues, agricultural GDP has a negative and positive effect on tax revenues in the short run.

Alemayehu (2020) study the determinants of tax compliance behavior among taxpayers the case of large taxpayers' branch office, Ethiopian ministry of revenues .The researcher uses independent variables such as complexity of tax system, probability of detection, penalty rate ,tax rate, fairness of the tax system, peer influence, tax knowledge, age ,gender and income level to explain the dependent variable tax compliance .The major findings of the study were except tax rate, all other factors were statistically significant to affect tax compliance.

Ashebr (2021) study determinants of tax compliance on small and medium enterprises in Kirkos sub city, Addis Ababa. The researcher uses perception on tax rate, perception on tax audit, taxpayers' level of knowledge, trust in government and fairness of the tax system as an independent variable to explain the dependent variable tax compliance as a finding the researcher concludes that all variables have significant relationship with tax compliance.

Ketema (2016) study Factors Affecting Tax Compliance of Small and Medium Business Profit Taxpayers in Addis Ababa the independent variables were social services to taxpayers, compliance

cost, tax knowledge, attitude toward taxes .The findings of the study revealed that regarding tax compliance costs, salary of accountants, fees to tax consultants, cost of stationaries for record keeping of financial transactions and cost of cash register machine and its operation is high that has effect for compliance , 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 major factors influencing the tax compliance. 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, most of the survey respondents and interviewers feel that the services given by the ERCA to small and medium business taxpayers are poor and it should be improved.

Nazrawit (2022) study the effect if E-tax system on tax revenue collection in the case of Ministry of revenue large taxpayers' office using secondary data and identify the system has significant positive effect on tax revenue collection.

2.2 Research Gaps

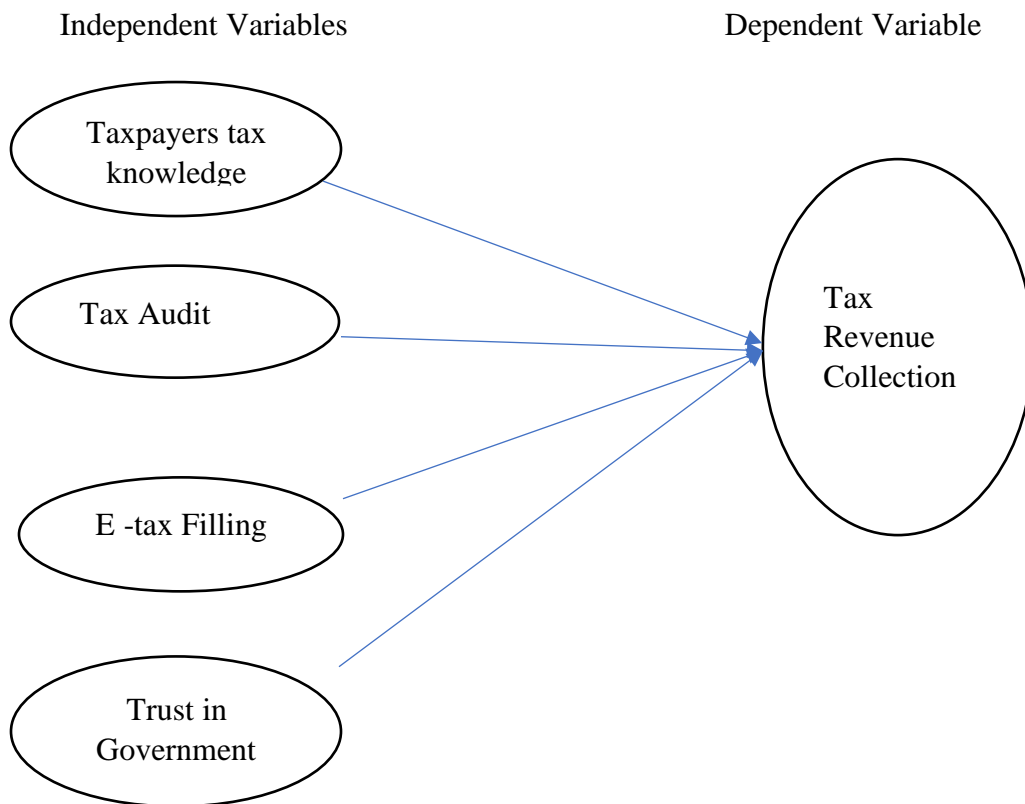
The above researches were conducted on different sub cities and category of taxpayers and identified factors such as tax knowledge, compliance cost, attitude toward taxes, perception on tax audit, tax rate, fairness of the tax system, penalty, trust in Government, tax incentives, tax avoidance, tax evasion, rule of law, tax proclamations and policies & strategies as a factor to affect revenue collection though the above factors were identified there was limited researches done on large taxpayers offices and there were a contradictory results obtained in different studies on the variables tax knowledge and E-tax filing variables on their significance in tax revenue collection.

A study by Arvian and Djeni (2018), Nurkin (2018) found that taxpayers' awareness and tax knowledge have a positive effect on taxpayer compliance. However, the finding of this study contradicts with the results of Famami and Norsain (2019) as they pointed out that the taxpayers' awareness had no significant effect on tax compliance. Olaoye&Atilola (2018) conducted a study on the effects of e-taxation on revenue improvement. The result of the study shows that there was no significant difference between the period before the inception of e-taxation and the period after e-taxation. Hence it was concluded that e-taxation has not improved tax revenue in the selected areas. However, the result of the study contradicts the finding of Nasr (2014) study conducted in

Malaysia on the benefits of maintaining a good electronic tax system as disparate to a manual system revealed that the implementation of electronic tax filing and payments in 2004 median increase of tax revenue collection in Malaysia. Ofurumet et al. (2018) in their study on the impact of e-taxation on Nigeria's revenue and economic growth found out that tax revenue collected to GDP ratio significantly decreased after e-taxation implementation. In Ethiopia Nazrawit (2022) study the effect if E-tax system on tax revenue collection in the case of Ministry of revenue large taxpayers office using secondary data and identify the system has significant positive effect on tax revenue collection, though there are contradictory result on tax knowledge and E-tax system on its impact on tax revenue collection as indicated above this study will incorporate this variables to fill the gap on contradictory issue in addition with other variables such as tax audit and trust in government.

2.3 Conceptual Framework

Figure 1 Conceptual Framework



Source: Compiled from the reviewed literature

2.4 Research Hypothesis

According to theoretical and empirical literatures the researcher has formulated the research hypothesis as follows:

According to Sadjarto et al. (2020), tax literacy is a way for taxpayers to increase the nation's revenue. Taxpayers are less likely to be involved in tax evasion if the government provides them with multiple opportunities to learn about it and other tax-related topics (Rantelangi & Majid, 2018). The following hypothesis is put forth considering the tax knowledge literature.

H₁: Taxpayers tax knowledge has significant positive effect on tax revenue collection.

Higher monitoring is required to ensure compliance (Alm, 1999). According to research, tax audits help reduce tax evasion (Dubin, 2007). These results suggest that tax audits can have an impact on self-assessment, an important goal of promoting voluntary compliance. The following hypothesis is put forth considering the tax audit literature.

H₂: Tax audit has significant positive effect on tax revenue collection.

Electronic filing system is an e-government application that is increasingly used all over the world. These systems are particularly useful for governments because they avoid many of the mistakes taxpayers make when filing manually, and they help prevent tax evasion by comparing documents (Manly et al., 2005). Based on the above information regarding e-tax collection, the following assumption is made.

H₃: E -tax filing has significant positive effect on tax revenue collection.

People who value the goods and services provided by the government and know that their services are necessary to finance the goods and services and encourage others to participate may choose to pay taxes. For this reason, taxpayers are seen as businesses working for the benefit of the state (Levi, 1988). Considering the above information, the following assumption is made.

H₄: Trust in Government has significant positive effect on tax revenue collection.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter describes the research design, research approaches, source of data, sampling design, target population, methods of data analysis, definition and measurement of variables, model specification, and reliability test.

3.1 Research Design

The research design is a plan for conducting a study. It outlines the goals of the study, the methods for collecting and analyzing data, and the way in which the data will be interpreted. There are five main types of research designs: descriptive, experimental, correlational, diagnostic, and explanatory.

Descriptive research is a research design that aims to describe the current situation. It is a theory-based design that is developed through the collection, evaluation, and presentation of data. The researcher can then explain the why and how of their investigation. This helps others to understand the necessity of the research. Surveys and other fact-finding inquiries are part of descriptive research. The primary goal of descriptive research is to describe the situation as it is right now. Explanatory research is a research design that aims to explain the causes of a phenomenon. It is a theory-based design that is developed through the collection, evaluation, and presentation of data. The researcher can then explain the why and how of their investigation. This helps others to understand the causes of the phenomenon. In this study, both descriptive and explanatory research designs will be used. The explanatory design will be used to establish cause and effect between the independent variables and the dependent variables. The descriptive design will be used to explain or describe the factors that affect tax revenue collection.

3.2 Research Approaches

A research approach is a plan and process that includes steps from general concepts to detailed data collection, analysis and interpretation. Our approach to doing research is quantitative, qualitative, and mixed.

3.2.1 Quantitative aspect of the study

The process of collecting and interpreting numerical data is called quantitative research. It can be used to identify variances and means, form hypotheses, analyze causality, and present results to a wider audience. It depends on the quantity or measurement. It is used for phenomena that have many forms. This strategy involves the creation of valuable information that can be evaluated systematically and rigorously (Kothari, 2004).

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This survey was conducted using a self-administered questionnaire that was distributed to large taxpayers. The responses of these taxpayers help to understand the factors that affect tax revenue collection.

3.2.2 Qualitative aspect of the study

Qualitative research is a research approach that uses open-ended dialogue to collect information. This approach is often used to understand people's experiences and perspectives. Qualitative research can be conducted through interviews, focus groups, and participant observation. The goal of qualitative research is to gain a deeper understanding of a topic than is possible with quantitative research. Quantitative research is a research approach that uses numbers and statistics to collect and analyze data. This approach is often used to test hypotheses and make predictions. A hybrid research strategy is a research approach that uses both qualitative and quantitative methods. This approach is often used to get a more complete understanding of a research topic. The researcher will use a hybrid research strategy to gain the advantages of both qualitative and quantitative research. The qualitative research will provide detailed insights into the experiences of large taxpayers. The quantitative research will provide generalizable, externally valid insights into the factors that affect tax revenue collection. The hybrid research strategy will help to improve the evaluation of the tax system by ensuring that the weaknesses of one type of data are counterbalanced by the advantages of the other.

3.3 Source of data

Data in this research will include primary data and secondary data. Researchers circulated closed and open questions to taxpayers that went for tax audits, annual tax declaration, and monthly reporting schemes based on sample size, secondary data used from newspapers, tax books, and websites.

3.4 Sampling Design

A sample design is an established strategy for selecting a sample from a certain population. Design is an idea created to choose a model from a particular person. Performing a census or census of the entire population can be difficult due to many limitations, especially if the survey is comprehensive (Cohen et al., 2007). There are five closely related steps in the design process, all of which are important to research. The five steps are: identify the target audience; design standards; select the model; determine sample size; and follow the sampling procedure.

3.4.1 Target Population

The target population for research is the group of people that the study is trying to understand. In this case, the target population is all taxpayers who pay tax at the large taxpayer's office (LTO). According to the data obtained from LTO, there are about 641 taxpayers in the target population. The target population is important because it helps to ensure that the findings of the study are generalizable to the larger population.

3.4.2 Sampling Techniques

The researchers use purposive sampling to select a sample of taxpayers from the target population. Purposive sampling is a non-probability sampling technique in which the researcher selects the sample based on their judgment. In this case, the researchers select taxpayers who come to the tax authority for different purposes, such as to pay taxes, undergo tax audit, make tax payments, and obtain tax clearance.

$$n = \frac{N}{1 + N(e)^2}$$

$$1 + N(e)^2$$

Where:

n= required sample size

Where, n = is the sample size,

N = is the study of population, and

e = is the level of precision

n = 641

$$1+641(0.05)^2$$

$$=246$$

Using a 5% margin of error, the sample size of taxpayers studied is 246 members of the population. Therefore, the sample size of this study is 246, which adequately represents the population in the study area.

3.5 Reliability Test

Table 1 Reliability Statistics

Variables	Reliability Statistics		
	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
Tax Knowledge	0.885	0.885	5
Tax Audit	0.610	0.610	5
E tax filling	0.670	0.670	5
Trustin Government	0.822	0.818	5
Total			25

Reliability is about the consistency of measures. Cronbach's alpha value is used to ensure the reliability of the scale. Gliem, JA, and Gliem, R.R. (2003) suggests that the Cronbach alpha value should be greater than 0.6 for the test to be reliable. Any value above 0.9 is considered the most reliable, but any value below 0 is considered the least reliable. Based on the above, all Cronbach's

alpha values are above 0.6, indicating that the measures used in this study were reliable and consistent.

3.6 Methods of data analysis

In this study, data descriptive techniques, SPSS software, general statistical information that allows users to analyze and manage the data collected by researchers was used and the results of the findings expanded. For all the information collected and stored to be useful, an appropriate analysis was made using the percentage of presentation and explanation in the list.

3.7 Model Specification, Definition and Measurement of Variables

3.7.1 Model Specification

$$\text{TRC} = \beta_1\text{TK} + \beta_2\text{TA} + \beta_3\text{ETAX} + \beta_4\text{TG} + \varepsilon$$

Whereas,

TRC=Tax Revenue Collection

TK=Taxpayers tax knowledge

TA=Tax Audit

E-tax =Electronic tax filling

TG=Trust in Government

β_1 = The change in the Tax revenue collection due to one unit change in taxpayers' knowledge while other things remain constant

β_2 =The change in the Tax revenue collection due to one unit change in Tax Audit while other things remain constant

β_3 =The change in the Tax revenue collection due to one unit change in E tax filling, while other things remain constant

β_4 =The change in the Tax revenue collection due to one unit change in Trust in Government while other things remain constant

ε = other factors undefined/Error term

3.7.2 Definition and measurement of variables

Concepts that can be taken from different sources are called variables (Kothari 1990). In this study, two types of variables, the dependent variable, and the independent variable, were considered.

3.7.2.1 Dependent Variables

Tax revenue collection:

Tax collection is the process of collecting taxes from different taxpayers. According to Jane (2016), this is important because effective taxation is expected to reduce government borrowing, be a driver of low inflation and interest rates, and increase government revenue to meet repetitive and capital expenditures. The aim of this study is to determine the factors affecting tax revenue collection. The dependent variable was measured by the independent variable's taxpayer's tax knowledge, tax audit, E tax filing and Trust in Government.

3.7.2.2 Independents variable

Taxpayers tax Knowledge

Tax knoweldge is the process of taxpayers learning about tax laws and other tax-related information (Hasseldine, Holland, & van der Rijt, 2009). The taxpayers' denial and doing nothing about tax laws can lead to negative attitudes towards them (OECD, 2019). Various studies have shown that there is a relationship between the level of tax compliance and tax knowledge (Wadesango et al., 2018). According to Adams and Webly (2012), tax knowledge is an important aspect of tax compliance. Tax knowledge is tested using questions about tax knowledge, understanding most tax calculations, knowing when and where tax returns are due, and understanding the prospects of work.

Tax Audit

A tax audit is a level of investigation designed to determine the extent of taxpayer fraud, negligence, to gather evidence to support prosecution. Adams.C(2001) This means that tax audits often involve identifying some undeclared sources of income that could be signs of fraud or corruption. According to Ojo, O.D. (2016), tax audit is the evaluation of the compliance of the

corporate information of the taxpayer with the rules and regulations regarding the declared tax. It is seen that the main purpose of tax audit is to ensure that taxpayers comply with the rules and regulations related to paying taxes and increasing government revenues. To measure this difference, the authors asked questions about benefits and their impact on taxes.

E tax filing

Electronic filing or e-filing is a method of presenting tax information electronically to the tax service, often without the need for paper submissions (Manly et al., 2005), to test this variable, the author incorporates questions related to the contribution of the payment system to the tax revenue collection and compatibility of the system as a mode of tax payment system.

Trust in Government

According to Kichler (2007), trust is important in understanding the history of public participation, cooperation with authorities and compliance. Taxpayers are willing to fulfill their tax obligations if they trust their government, representation, and judgment (Jimenez & Iyer, 2016). Confidence in government spending has been shown to be a determinant of tax revenue collection. To examine these changes, the authors added questions about government tax efficiency, perceptions of benefits from government spending, and corruption and fraud.

CHAPTER FOUR

RESULT AND DISCUSSION

4.Data Collection Overview

This chapter presents the findings and analysis of the research study, based on the interpretation of the data collected. A total of 246 questionnaires were distributed, of which 46 were not collected. This resulted in a total of 200 usable questionnaires, which represents an 81% response rate. The Statistical Package for the Social Sciences (SPSS) software was used to analyze the research findings.

4.1 Descriptive Analysis

4.1.1 Background of the respondents

This section describes the demographic background of the respondents, including their age, gender, educational level, main business activities, legal form of business ownership, and number of years as a large taxpayer. The response analysis was conducted using mean and standard deviation. The researcher compared the mean and standard deviation score of each variable against the settled standard by Best, Hawkins, and Albaum (1977). The mean value ranged from 1 to 1.8, which reflects the lowest level of agreement from the respondent to the variable. A mean value of 1.8 to 2.6 is assumed as low, 2.6 to 3.4 as medium, 3.4 to 4.2 as high, and 4.2 to 5 as highest. The following table summarizes the survey results:

Table 2 Demographic Profile of the respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	142	71
	Female	58	29
	Sum	200	100
Age	18-25	7	3.5
	26-35	55	27.5
	36-45	88	44
	46-55	36	18
	Over 55	14	7
	Sum	200	100
Level of Education	Primary School (1-8)	1	0.5
	High school Graduate (9-12)	16	8
	Certificate/diploma	7	3.5
	BA/BSC Degree	130	65
	Postgraduate degree& above	46	23
	Sum	200	100
Main Business Activity	Manufacturing	92	46
	Trade	25	12.5
	Service	29	14.5
	Construction	53	26.5
	Other	1	0.5
	Sum	200	100
Registration as a large taxpayer's office	0-5 Years	42	21
	6-10 Years	60	30
	11-15 Years	50	25
	16 and above	48	24
	Sum	200	100
Legal forms of business	Sole proprietorship	16	8
	Private Limited Company	108	54
	Partnership	2	1
	Share Company	74	37
	Sum	200	100

Source: Researcher Analysis (2023)

Based on the table, the first demographic factor is gender. The findings indicate that 71% of the respondents were male, while 29% were female. This finding suggests that males are more likely to participate in the tax system than females.

The demographic factor of age shows that 3.5% of the respondents were between the ages of 18 and 25, 27.5% were between the ages of 26 and 35, 44% were between the ages of 36 and 45, 18% were between the ages of 46 and 55, and 7% were above the age of 55. Most of the respondents, 44%, were between the ages of 36 and 45. This suggests that most taxpayers are in the age range where they are more likely to be aware of the impact of taxes on the country's economy.

Demographic factor displays the educational level of respondents (0.5%) was primary school educated, (8%) were high school graduates, (3.5%) has certificate/diploma, (65%) has degree and (23%) has postgraduate degree. From this finding, most of them were degree holders. Therefore, most of them were educated.

Demographic factors display the business activity the respondents engaged in, (46%) were engaged in manufacturing, (12.5%) in trade, (14.5%) in service, (26.5%) engaged in construction and (0.5%) engaged in other business. Most of the respondents around (46%) were engaged in the manufacturing sector.

Demographic factor displays the registration years in large taxpayers' office (21%) were between 0-5 years, (30%) were between 6-10 years, (25%) respondents were registered between 11-15 years and (24%) were registered 16 and above years, most of the respondent's register were within the years between 6-10 years. Regarding the legal form of business (8%) were sole proprietors, (54%) were private limited companies, (1%) was partnership and (37%) were share companies.

4.1.2 Respondents perception towards tax revenue collection

This section presents the descriptive statistics of three items in the form of mean and standard deviation. The items were developed using a Likert scale, which means that all statements were measured on a scale of 1 to 5, with 1 being strongly disagreed and 5 being strongly agree. The following table summarizes the descriptive statistics.

Table 3 Summary of response for Tax Revenue Collection

No	Tax Revenue Collection	N	Mean	Standard Deviation
1	I am paying my taxes consistently and voluntarily	200	3.91	1.133
2	During the past years, I always reported my business transaction honestly	200	3.89	1.219
3	I always pay my tax liability on time by declaring correct amount without enforcement	200	3.83	1.208
	Cumulative mean of tax revenue collection	200	3.87	1.19

The table shows that the mean value of tax revenue collection is 3.87. According to Best, Hawkins, and Albaum (1977), a mean value of 3.4 to 4.2 is considered high. This finding indicates that most of the respondents of the Ministry of Revenue large taxpayers confirm that they pay their taxes voluntarily and consistently on time.

4.1.3 Respondents perception about tax knowledge

In this section, descriptive statistics were done in the form of mean and standard deviation for five items, and it is presented in the following table. And it was developed by items using Likert scale. Thus, all statements were measured on the Likert scale.

Table 4 Summary of response for Tax Knowledge

No	Taxpayers Knowledge	N	Mean	Standard Deviation
1	I clearly know deductible and non-deductible expenses to determine my taxable income	200	3.70	1.089
2	I am aware of major Ethiopian taxes and duties	200	3.62	1.141
3	I accurately compute the tax liability as per the tax rate specified in the law	200	3.69	1.278
4	I know about the period and place to pay my tax obligations	200	3.79	1.246
5	I believe the tax authority is trying to give trainings to increase our tax knowledge	200	3.09	1.313
	Cumulative mean of tax revenue collection		3.57	1.21

The table shows that the mean value of tax knowledge is 3.57. According to Best, Hawkins, and Albaum (1977), a mean value of 3.4 to 4.2 is considered high. This finding indicates that most of the taxpayers agreed that they have a good understanding of the tax laws. They know what deductible and non-deductible expenses are, they are aware of the major Ethiopian taxes and duties, they know when and where to pay their taxes, and they can accurately compute their tax liability. This is a positive finding, as it suggests that most taxpayers are knowledgeable about the tax laws. This knowledge is important for taxpayers, as it can help them to avoid penalties and ensure that they are paying the correct amount of taxes.

4.1.3 Respondents perception about tax audit

This section presents the descriptive statistics of five items in the form of mean and standard deviation. The items were developed using a Likert scale, which means that all statements were measured on a scale of 1 to 5, with 1 being strongly disagreed and 5 being strongly agree. The following table summarizes the descriptive statistics:

Table 5 Summary of response for tax audit

No	Tax Audit	N	Mean	Standard Deviation
1	The probability of being audited by the tax authority are very low as a result I can under report my tax liability	200	3.03	1.285
2	I believe a tax audit improves the level of tax payment	200	3.5	1.008
3	I have a clear awareness of tax audit	200	3.43	0.980
4	I have been audited before and the audit makes me compliant more than pre audit times	200	3.77	2.987
5	Tax audit ensures the submission of accurate and current tax return	200	3.49	1.022
	Cumulative mean of tax revenue collection		3.57	1.4564

The above table showed that the tax audit has a mean value of 3.57 (Best, Hawkins and Albaum,1977), the mean value ranged from 3.4 up to 4.2 is assumed to be high. The finding indicates that the taxpayers agreed that tax audit improves the level of payment, have a clear

awareness of tax audit, audit makes them more compliant and ensures the submission of accurate and current tax returns.

4.1.4 Respondents perception for E tax filing

Descriptive statistics such as the mean and standard deviation were performed on five items. These items were developed using a Likert scale, which means that all statements were measured on a scale of 1 to 5, with 1 being strongly disagreed and 5 being strongly agree. The following table summarizes the descriptive statistics:

Table 6 Summary of response for E-Tax Filing

No	E-Tax Filing	N	Mean	Standard Deviation
1	Electronic tax filing is fast and makes work simple compared to manual system	200	3.71	1.313
2	I do not get any problem with using the electronic tax filing system	200	2.35	1.078
3	I can access my tax obligations accurately using the electronic tax filing system as compared to the old system	200	3.03	1.213
4	I prefer manual system than e tax filling	200	2.22	1.296
5	The system helps me to pay my taxes easily	200	3.53	1.352
	Cumulative mean of tax revenue collection		2.968	1.2504

The above table showed that the E-tax filling has a mean value of 2.968 (Best, Hawkins and Albaum,1977), the mean value ranged from 2.6 up to 3.4 is assumed as medium. The finding indicates that taxpayers have moderately agreed on the system that is easy and fast, helps them to access their tax obligations and the preference than the manual system.

4.1.5 Respondents perception about trust in government

The following table summarizes the descriptive statistics of five items using the Likert scale. The Likert scale is a psychometric scale commonly used in questionnaires and surveys to measure a

person's attitude towards a particular issue or concept. The scale consists of a series of statements that are rated on a five-point scale, with 1 being strongly disagree and 5 being strongly agree.

Table 7 Summary of response for Trust in Government

No	Trust in Government	N	Mean	Standard Deviation
1	I believe that the government spends the collected taxes properly	200	2.46	1.231
2	I believe that my business has benefited from basic government spendings such as education, health, safety etc.	200	2.81	1.305
3	I believe that negative acts (corruption and fraud) of tax assessors encourage noncompliance	200	3.32	1.190
4	Government spending encourages to pay taxes voluntarily	200	2.47	1.299
5	The Government exhibits openness and transparency in dealing with taxpayers	200	2.33	1.228
	Cumulative mean of tax revenue collection		2.678	1.2506

The above table showed that the trust in government has a mean value of 2.678 (Best, Hawkins and Albaum,1977), the mean value ranged from 2.6 up to 3.4 is assumed as medium. The finding indicates that taxpayers disagree on the governments proper spending from the collected tax, their believe about their business benefited from the taxes they pay, about the tax spending encourages them to pay taxes and the Government exhibits openness and transparency on dealing with taxpayers.

4.2 Inferential Analysis

Inferential statistics are used to determine the validity of data using statistical tests such as normality, linearity, correlation, varying variance, and multicollinearity tests. This study uses a correlation matrix to examine the relationship between variables. Multiple regression was used to test the validity of hypotheses and models for factors affecting tax compliance. Evaluation and analysis of the data is shown below.

4.2.1 Correlation Analysis Result

The correlation coefficient is a measure of the strength of the relationship between two variables. The relationship between two variables measures the relationship between them, Brooks (2008, p.28). The correlation can be positive meaning that the two variables are moving in the same direction, or negative meaning that when the value of one variable increases, the cost of the other variables decreases. The correlation coefficient is measured between -1 and 0 to +1. A positive correlation is indicated by +1 or -1. Cohen (1998) defines the correlation coefficient between 0 and 1 as follows. A range of 0.10 to 0.29 is considered to indicate low correlation and a range of 0.3 to 0.49 is considered a good relationship and 0.50 to 1.00 is considered a strong relationship.

Correlations						
Table 8: Correlations Coefficient						
Correlations						
		TRC	TK	TA	ETAX	TG
Pearson Correlation	TRC	1.000				
	TK	.594	1.000			
	TA	.302	.138	1.000		
	ETAX	.362	.323	.380	1.000	
	TG	.645	.581	.261	.440	1.000
Sig. (2-tailed)	TRC	.	.000	.000	.000	.000
	TK	.000**	.	.025	.000	.000
	TA	.000**	.025	.	.000	.000
	ETAX	.000**	.000	.000	.	.000
	TG	.000**	.000	.000	.000	.
N	TRC	200	200	200	200	200
	TK	200	200	200	200	200
	TA	200	200	200	200	200
	ETAX	200	200	200	200	200
	TG	200	200	200	200	200

Source: SPSS output

****Correlation is significant at 0.01 level (2 tailed)**

The table shows the correlation between the dependent (tax revenue collection) and independent variables (tax knowledge, tax audit, E-tax filling, and trust in government), the association of each dependent and independent variable was described below.

Tax knowledge with tax revenue collection correlate, (0.594) shows that there was a high degree of correlation, there was statistically significant relationship, because the Pearson correlation coefficient was 0.594 which found between 0.50 and 1.00 therefore the strength was high, positive, and significant at 0.01 confidence level.

Tax audit with tax revenue collection correlate, (0.302) shows that there was a medium degree of correlation, there was statistically significant relationship, because the Pearson correlation

coefficient was 0.302 which found between 0.30 and 0.49, therefore the strength was moderate and significant at 0.01 confidence level.

E-tax with tax revenue collection correlate, (0.362) shows that there was a medium degree of correlation, there was statistically significant relationship, because the Pearson correlation coefficient was 0.362 which found between 0.30 and 0.49, therefore the strength was moderate and significant at 0.01 confidence level.

Trust in government with tax revenue collection correlate, (0.645) shows that there was a high degree of correlation, there was statistically significant relationship, because the Pearson correlation coefficient was 0.302 which found between 0.50 and 1.00, therefore the strength was moderate and significant at 0.01 confidence level.

4.2.2 Test for Normality

The assumption of normality is important in regression analysis because it ensures that the residuals are randomly distributed and that the standard errors of the estimated coefficients are accurate. One way to check for normality is to use a normal probability plot. A normal probability plot shows the residuals on the y-axis and the expected values of the residuals on the x-axis. If the residuals are normally distributed, the points will fall along a straight line. In this case, the normal probability plot shows that the residuals are reasonably normally distributed. This is supported by the findings of Hair et al. (1996), who found that the residuals in their study were also reasonably normally distributed. The result of the normality check shows that the assumption of normality has been met.

The figure below displays the frequency distribution of the standardized residuals compared to normal distribution. It produced a bell-shaped curve that shows the normal distribution of the

series.

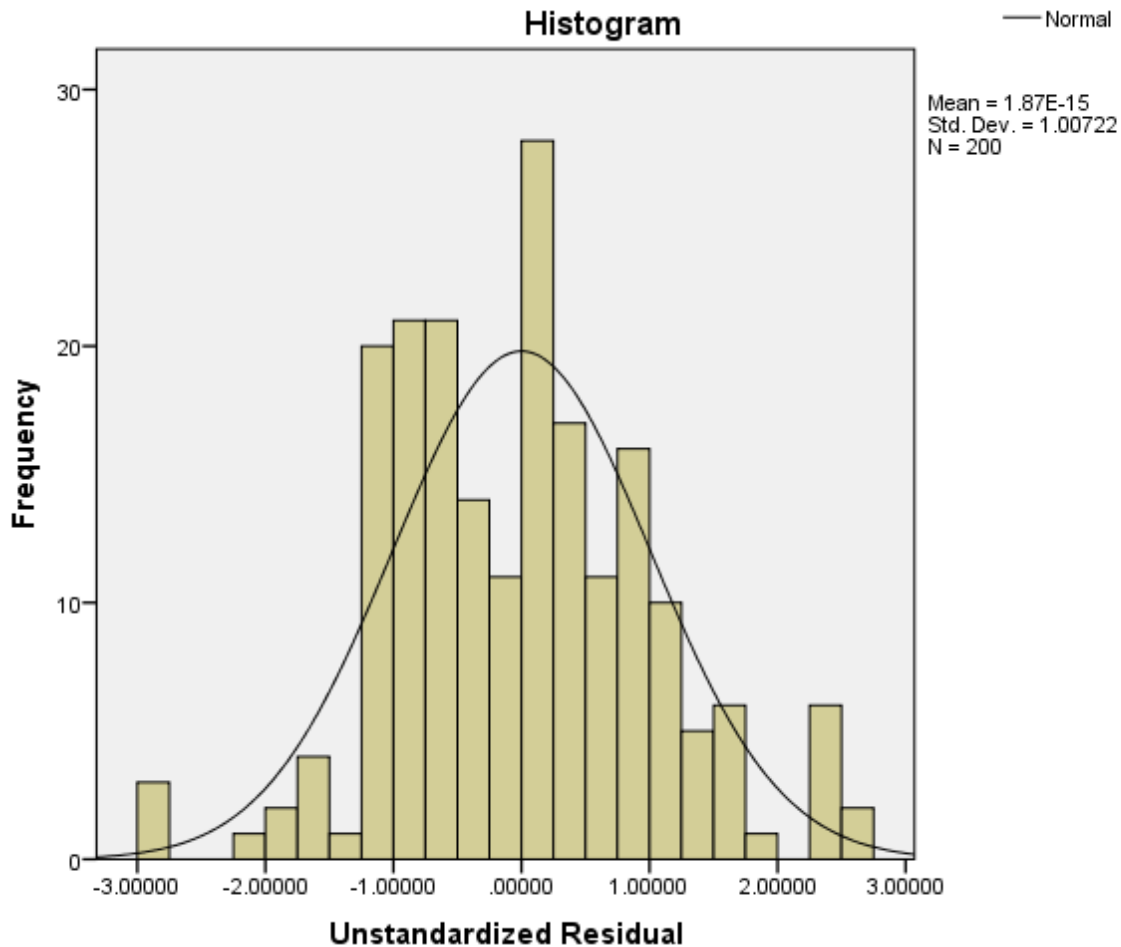


Figure 2 Normality Test

4.2.2 Linearity

Linearity is a measure of how closely the dependent variable (tax revenue collection) is related to the independent variables (tax knowledge, tax audit, E-tax, and trust in government). To determine whether the relationship is linear, a scatterplot of the residuals was created using SPSS. The scatterplot shows that the residuals are randomly scattered around the horizontal line, indicating that the relationship is linear. This satisfies the assumption of linearity, which is important for regression analysis.

Normal P-P Plot of Regression Standardized Residual

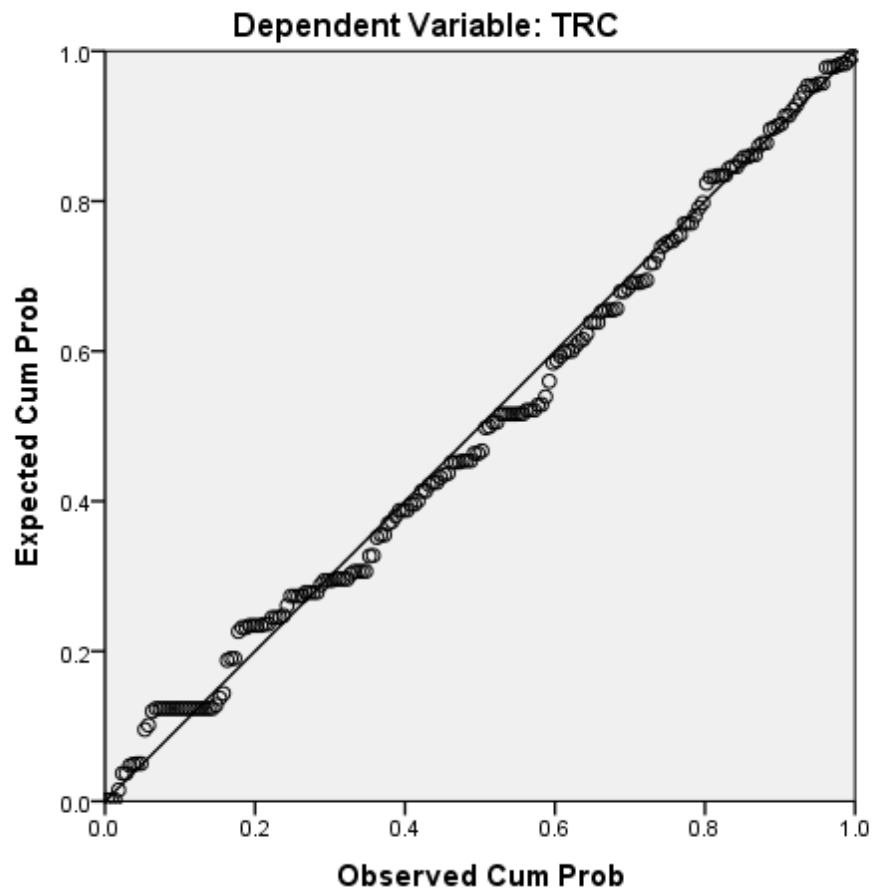


Figure 3 Linearity Test

4.2.3 Test for Multicollinearity

Multicollinearity is a condition where two or more independent variables are highly correlated with each other. This can cause problems with regression analysis, as it can make it difficult to isolate the effects of each independent variable on the dependent variable. In the study, the researcher tested the hypothesis that there is no multicollinearity among the independent variables. The researcher used the following methods to test this hypothesis: Variance Inflation Factor (VIF): This method is used to measure the degree of multicollinearity. A VIF of 1 indicates no multicollinearity.

Table 9 Multicollinearity

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.710	.395		-1.796	.074		
	TK	.466	.087	.332	5.366	.000	.656	1.525
	TA	.240	.093	.141	2.588	.010	.843	1.187
	ETAX	.046	.115	.024	.400	.690	.723	1.382
	TG	.597	.097	.405	6.167	.000	.583	1.715
a. Dependent Variable: TRC								

Source: SPSS output

The acceptable levels of correlation between independent variables vary depending on the source. Cooper and Schendler (2009) suggest that a correlation coefficient between independent variables up to 0.8 may not result in an issue with multicollinearity, while Hair et al. (2006) suggest that the correlation coefficient between independent variables should not be greater than 0.9. In the study, the correlation coefficients between the independent variables were all less than 0.8, and the VIFs for all of the independent variables were less than 10. In the above table the VIF value is below 3 and this indicates that there is no multicollinearity among the independent variables.

4.2.4 Homogeneity

Homoscedasticity is a statistical term that refers to the equal spread of residuals, or errors, around a regression line. This means that the residuals are evenly distributed, with no clear pattern of clustering or spreading out. In the image below, the residuals are evenly distributed around the regression line, indicating that there is no evidence of heteroscedasticity. This is important because

heteroscedasticity can lead to inaccurate estimates of the regression coefficients.

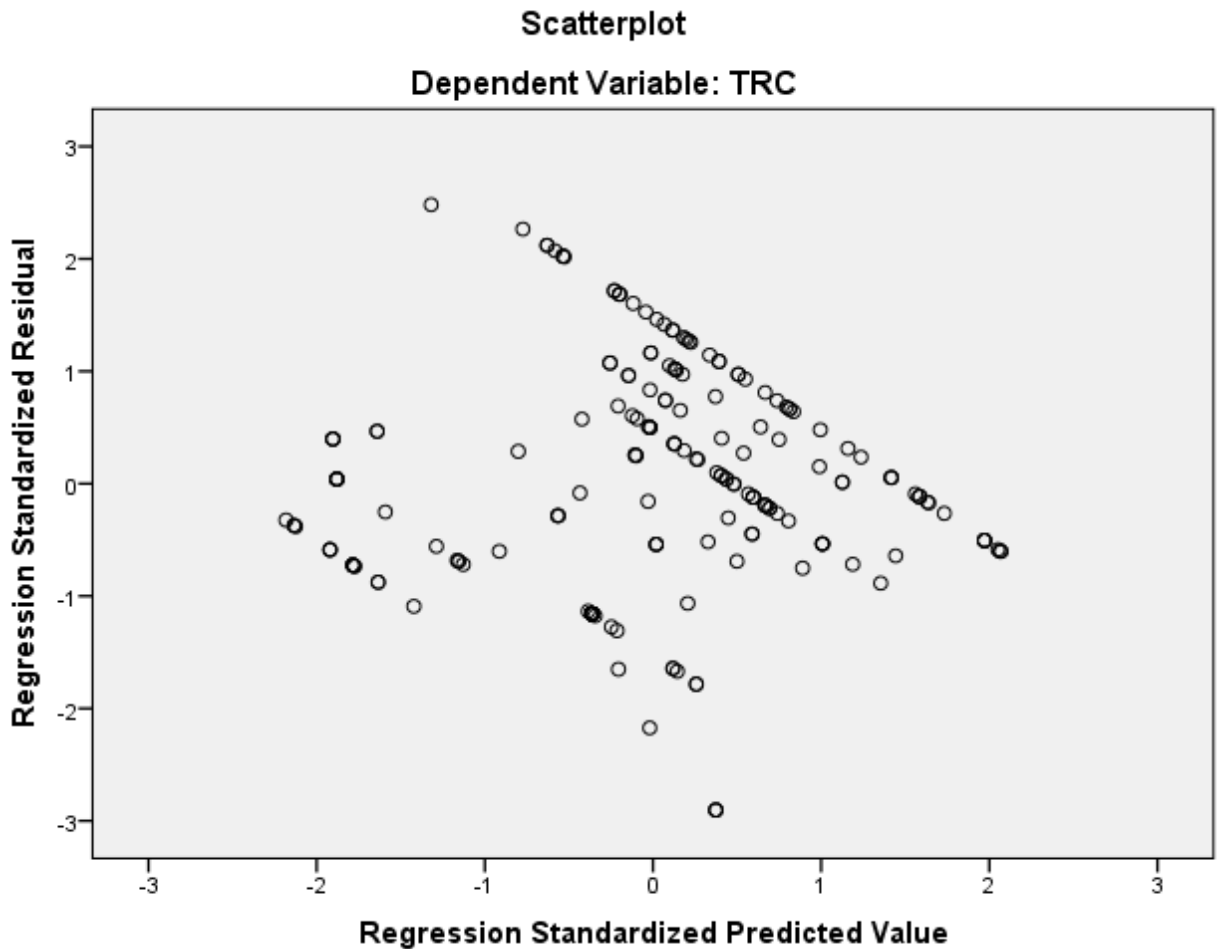


Figure 4: Test for heteroscedasticity

4.4.5 Multiple regression output and its discussion

In this study, multiple regression analysis was performed to obtain the predicted values of the variables. Determining the combination of these designs is easy. It shows how much influence or relationship each independent variable has on the variable and determines the level of significance present in the relationship. It shows the return of tax revenue (TRC) on tax information (TK), tax assessment (TA), electronic tax collection (E-tax), and pressure of trust in government (TG).

The econometrics model employed in this study was the following.

$$TRC = \beta_1TK + \beta_2TA + \beta_3ETAX + \beta_4TG + \varepsilon$$

Table 10 Model Summary

Model Summary ^b							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.714 ^a	.510	.500	.99733	.510	50.704	4

a. Dependent Variable: TRC

b. Predictors: (Constant), TK, TA, E-tax, TG

The table above describes the various variables of the four independent variables as shown in the table, all the decisions of the four independent variables explain 51% ($R^2 = .510$) of the variance in the variable. This shows that 51% of tax revenue collection is based on individual variables, with the remaining 49% determined by other factors not included in this study.

Table 11 ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	201.737	4	50.434	50.704	.000 ^b
	Residual	193.961	195	.995		
	Total	395.698	199			

A. Dependent Variable: TRC

B. Predictors: (Constant), TG, TA, ETAX, TK

The null hypothesis of F-statistic (the overall test of significance) which says the Adjusted R-squared is equal to zero was rejected at 1% significance level, F-value of 0.000 shows strong statistical significance which enhanced the reliability and validity of the model.

<i>Table 12- Coefficients of Multiple Regression</i>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.710	.395		-1.796	.074
	TK	.466	.087	.332	5.366	.000
	TA	.240	.093	.141	2.588	.010
	ETAX	.046	.115	.024	.400	.690
	TG	.597	.097	.405	6.167	.000

a. Dependent Variable: TRC

After running this equation using SPSS 22, the regression model was as follows.

$$\text{TRC} = -710 + 0.466\text{TK} + 0.240\text{TA} + 0.046\text{ETAX} + 0.597\text{TG}$$

The effect is β_0 (constant), the expectation of variance when all independent variables are zero. It is the constant value where the regression line intersects the y-axis representing the value of the dependent variable when all independent variables are zero. In this study, the β_0 (constant) value is -0.710.

The regression coefficients table above shows that there is a positive and significant relationship between tax knowledge (0.466; $P < .05$) and tax revenue collection. The results of the beta coefficient $\beta = 0.466$. This means that if all other variables are equal to zero, an increase in tax knowledge will result in a 46.6% increase in tax revenue.

This study also found similar results, as tax audit (0.24; $P < .05$) and tax revenue collection had positive and significant effects. The results of the beta coefficient show $\beta = 0.24$. This means that if all arguments are equal to zero, an increase in tax audit will result in a 24% increase in tax revenue.

This study also found different results for E-tax filling there is positive but does not have significant effect on tax revenue collection (.046; $P > .05$). The beta coefficient result shows $\beta = .046$.

This implies that by taking all the independent variable zero, a one unit increase in E tax will lead to an increase in tax revenue collection by 4.6 %. This indicates among the all-independent variables E-tax has the least effect on tax revenue collection.

This study also found similar results as trust in government had a positive and significant effect (0.597; $P < .05$). The results of the beta coefficient $\beta = 0.597$. This means that by setting all variables to zero, the increase in trust in the government led to a 59.7% increase in tax revenue.

4.4.6 Testing of hypotheses

Hypothesis testing is a mathematical method in which analysts test a hypothesis about a population parameter using sample data. The hypotheses testing based on regression model output is discussed below:

H₁: Taxpayers tax knowledge has significant positive effect on tax revenue collection.

The β coefficient of tax knowledge is 0.466, that is, if tax knowledge increases by 1 unit, tax revenue increases by 0.466 while other factors do not change. Since the beta coefficient of tax knowledge is positive, it has a positive impact on tax revenue collection of large taxpayers in Ethiopia. Tax information is significant at the 5% significance level because the p-value is 0.000. Below 5%, the t-value indicates whether the independent variable is significant. A value of $t > 2$ indicates that the result is significant. Here, the t value is 5.366, which shows the importance of tax knowledge in tax revenue collection. Therefore, the hypothesis accepted. This finding is supported by previous studies; (Sadjiarto et al., 2020), (Rantelangi & Majid, 2018), Alemayehu (2020), Ashebr (2021), Derar (2016).

H₂: Tax audit has significant positive effect on tax revenue collection.

The results of the study show that tax audit has a positive and significant impact on tax revenue collection. For every one-unit increase in tax audit, tax revenue collection increases by 0.24 units. This finding is consistent with the findings of previous studies that have examined the impact of tax audit on tax revenue collection in other countries. The study also finds that tax audit is statistically significant at the 5% level. This means that there is a less than 5% chance that the observed relationship between tax audit and tax revenue collection is due to chance. The findings of this study suggest that tax audit can be an effective tool for increasing tax revenue collection. The government of Ethiopia should consider increasing the frequency and intensity of tax audits to raise more revenue. The study's findings are also supported by the research of Alm (1999), Dubin

(2007), Abdulsemed (2019), and Ashebr (2021). These studies all found that tax audit has a positive impact on tax revenue collection.

H₃: E tax filling has significant positive effect on tax revenue collection.

The coefficient of E-tax is 0.046, which suggests that a 1-unit increase in E-tax will increase tax revenue collection by 0.046 units, all other factors being equal. Since the coefficient has a positive sign, it means that E-tax has a positive impact on tax revenue collection of large taxpayers in Ethiopia. However, the p-value of 0.690 is higher than 0.05, which means that the impact of E-tax is not statistically significant. Therefore, the null hypothesis cannot be rejected. This research is consistent with Olaoye & Atilola(2018) and Ofurumet et al.(2018).

H₄: Trust in Government has significant positive effect on tax revenue collection.

The coefficient of trust in government is 0.597, which suggests that a 1-unit increase in trust in government will increase tax revenue collection by 0.597 units, all other factors being equal. Since the coefficient has a positive sign, it means that trust in government has a positive impact on tax revenue collection of large taxpayers in Ethiopia. The p-value of 0.000 is lower than 0.05, which means that the impact of trust in government is statistically significant. Therefore, the null hypothesis is accepted. Levi (1988) and Tibebu (2020) argue that trust in government is important for tax revenue collection because it encourages taxpayers to comply with tax laws. When taxpayers trust the government, they are more likely to believe that their taxes are being used for the common good. This, in turn, makes them more willing to pay their taxes. In conclusion, the impact of trust in government on tax revenue collection in Ethiopia is statistically significant. This finding is supported by the research of Levi (1988) and Tibebu (2020).

Table 13 Research Hypothesis Summary

S/N	Hypothesis	Method	Result	Reason
1	Taxpayers tax knowledge has significant positive effect on tax revenue collection.	Regression	Accepted	P - value <0.05
2	Tax audit has significant positive effect on tax revenue collection.	Regression	Accepted	P - value <0.05
3	E tax filling has significant positive effect on tax revenue collection.	Regression	Rejected	P - value >0.05
4	Trust in Government has significant positive effect on tax revenue collection.	Regression	Accepted	P - value <0.05

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

The study investigated factors that affect tax revenue collection in the Large Taxpayers' Office of the Ministry of Revenue. This chapter summarizes the study's major findings, conclusions, and recommendations.

5. 1 Summary of findings

- The study focused on institutions in the Large Taxpayers' Office of the Ministry of Revenue. A total of 246 taxpayers were sampled from this institution, and 81.3% of them responded, returning 200 questionnaires out of 246 distributed. This study mainly used primary data collected through a self-administered questionnaire. Regression analysis was conducted using tax revenue collection as the dependent variable. This was done to obtain the best linear combinations of the constructs, as well as to determine the predictive value of individual predictors for testing the proposed hypotheses. The study used a mixed approach to gain the advantages of multiple approaches.

- A regression analysis was conducted to examine the relationship between tax revenue collection and tax knowledge, tax audit, E-tax filing, and trust in government. The findings showed that trust in government has the highest correlation with tax revenue collection, with an effect size of 59.7%. This means that trust in government is the most important factor in determining tax revenue collection, holding other factors constant. Tax knowledge has the second highest correlation with tax revenue collection, with an effect size of 46.6%. This means that taxpayers who are more knowledgeable about the tax system are more likely to pay their taxes on time and in full. Tax audit has the third highest correlation with tax revenue collection, with an effect size of 24%. This means that taxpayers who are audited are more likely to comply with the tax laws-tax filing has the lowest correlation with tax revenue collection, with an effect size of 4.6%. This means that the use of E-tax filing does not have a significant effect on tax revenue collection. The findings of this study suggest that the government can increase tax revenue collection by increasing trust in government, improving taxpayer knowledge, and conducting tax audits.

5.2 Conclusion

Considering the descriptive and inferential analysis of the factors affecting tax revenue collection, the following conclusions have been drawn.

- This study found that an increase in taxpayer knowledge has a positive effect on tax revenue collection. This suggests that taxpayers who are more knowledgeable about Ethiopia's taxes and duties, deductible and non-deductible expenses for tax purposes, tax periods, and where to pay tax obligations are more likely to pay their taxes on time and in full. There are some of the reasons why taxpayer knowledge is important for tax revenue collection such as taxpayers who are more knowledgeable about the tax system are less likely to make mistakes, which can lead to penalties and interest charges, taxpayers who are more knowledgeable about the tax system are more likely to comply with the law, which can lead to increased tax revenue, taxpayers who are more knowledgeable about the tax system are more likely to be satisfied with the tax system, which can lead to increased taxpayer confidence.
- This study found that tax audits have a positive effect on tax revenue collection. This suggests that tax audits, which are examinations of an organization's financial information to ensure that accurate information is reported in accordance with tax laws, can help authorities to investigate fraud and non-compliance, which can lead to increased tax revenue collection. These are some of the reasons why tax audits are important for tax revenue collection. Tax audits can help to identify and correct errors and omissions in tax returns, which can lead to increased tax revenue, Tax audits can help to identify and deter tax evasion and fraud, which can also lead to increased tax revenue, Tax audits can help to improve taxpayer compliance with the tax laws, which can lead to a more efficient and effective tax system.
- This study found that e-tax filing does not have a significant effect on tax revenue collection. This suggests that e-tax filing, which is a system that allows taxpayers to file their taxes online, does not necessarily lead to increased tax revenue. There are a few possible explanations for this finding: E-tax filing may not be convenient for all taxpayers. Some taxpayers may prefer to file their taxes in person or by mail. E-tax filing may not be accessible to all taxpayers. Some taxpayers may not have access to the internet, or the necessary software-tax filing may not be secure. The tax authority can improve the

effectiveness of e-tax filing by making it more convenient, accessible, and secure. The tax authority can also educate taxpayers about the benefits of e-tax filing and encourage them to use the system.

- This study found that trust in government has a positive effect on tax revenue collection. This suggests that taxpayers who trust the government to use tax revenue effectively and efficiently are more likely to pay their taxes on time and in full. There are reasons why trust in government is important for tax revenue collection. Taxpayers who trust the government are more likely to believe that their taxes are being used for the common good. They are less likely to believe that they are being cheated or taken advantage of. Taxpayers who trust the government are more likely to be willing to comply with the tax laws.

5.3 Recommendations

Based on the findings and conclusions the following recommendation was made by the researcher. large taxpayer's office should consider the following points to improve the tax revenue collection,

- Tax offices should provide continuous tax training to their employees to help them stay up to date on the latest tax laws and regulations. This will ensure that they are able to provide accurate and timely information to taxpayers, and that they are able to properly assess and collect taxes.
- Audit rates should be increased and shortening the time between audits will enhance tax revenue collection.
- The government should be accountable and open to its main activities that are done by the collected taxes to increase the trust of the taxpayers. The government should establish an independent special tax court to hear cases involving tax matters and corruption. This court should be free from political interference and should have the power to impose harsh penalties on those who are found guilty of tax evasion or corruption. By establishing such a court, the government can send a clear message that it will not tolerate corruption and that it is committed to collecting taxes fairly. This will help to increase taxpayer confidence in the tax system and will lead to increased tax revenue. There are some of the benefits of establishing an independent special tax court such as it would send a clear message that the government is serious about fighting corruption, it would provide taxpayers with a fair and impartial forum to resolve their tax disputes, it would deter tax evasion and corruption, it

would increase tax revenue. The government can increase trust in government by being transparent and accountable in its activities. This means that the government should be open about how it collects and spends tax revenue. The government should also be responsive to taxpayer concerns and complaints.

- The tax authority can improve the effectiveness of e-tax filing by making it easier for taxpayers to file their taxes online. This can be done by providing clear and concise instructions, creating a user-friendly interface, and offering technical support, making e-tax filing more accessible to taxpayers. This can be done by providing free internet access at libraries and other public places, and by helping taxpayers who do not have access to the internet.

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APPENDIX

ADDIS ABABA UNIVERSITY FACULTY OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ADMINISTRATION

QUESTIONNAIRE TO BE FILLED BY LARGE TAXPAYERS IN MINISTRY OF REVENUE

Dear Respondents,

The purpose of this questionnaire is to collect data related to tax revenue collection in large taxpayer's offices as a requirement for the partial fulfillment of master's degree in business administration. This research has been intended only for academic purposes authorized by Addis Ababa University Faculty of Business and Economics School of Graduate Studies. Thus, your ideas and comments are kept confidential. Hence, I request you to fill in the questionnaire carefully and at your own best knowledge in all regards. Please do not put your name or other identifiable information anywhere in this survey. Your response will be anonymous.

Thank you very much for sacrificing your valuable time.

Section I

1. **Gender?** Male Female

2. Age

A. 18-25 b. 26-35 C. 36-45 d. 46-55 e. Over 55

3 Level of Education

- a. Primary School (1 -8)
- b. High School Graduate (9-12)
- C. Certificate/diploma
- d. BA/BSc degree e. Postgraduate degree & above

4. What is your main business activity?

a. Manufacturing

b. Trade

c. Service d. Construction

e. Other, please specify.

5. How long have you been registered as a taxpayer in a large taxpayer's office?

a) 0-5 years

b) 6-10 years

c) 11-15 years

d) 16 and above

6. Please indicate the legal form of your business.

a. Sole proprietorship

b. Private limited company (PLC) c Partnership

d. Share company

e. Other if other please specify-----

Section II

Below are questions about tax revenue collection and includes variables taxpayer's tax knowledge, tax audit, E tax filing and Trust in Government. There are options of strongly disagree, disagree, neutral, agree, strongly agree. Please tick (✓) in the box that matches your opinion the best.

Tax Revenue Collection

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	I am paying my taxes consistently and voluntarily					
2	During the past years, I always reported my business transactions honestly					
3	I always pay my tax liability on time by declaring correct amount without enforcement					

Taxpayers tax knowledge:

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	I clearly know deductible and nondeductible expenses to determine my taxable income					
2.	I am aware of Ethiopian taxes and duties					
3.	I accurately compute the tax liability as per the tax rate specified in the law					
4.	I know about the period and place to pay my tax obligations					
5.	I believe the tax authority is trying to give trainings to increase our tax knowledge					

Tax Audit

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	The probability of being audited by the tax authority are very low as a result I can under report my tax liability					
2.	I believe a tax audit improves the level of tax payment					
3.	I have a clear awareness of tax audit					
4.	I have been audited before and the audit makes me compliant more than pre audit times					
5.	Tax audit ensures the submission of accurate and current tax return.					

E-Tax Filing

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Electronic tax filing system is fast and makes work simple compared the manual System.					
2.	I do not get any problem with using the electronic tax filing system					
3	I can assess my tax obligations accurately using the electronic tax filing system as compared to the old system					
4.	I prefer manual system than e-tax filling					
5	The system helps me to pay my taxes easily					

Trust in Government

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	I believe that the government spends the collected taxes wisely.					
2.	I believe that my business has benefited from basic government spendings like education, health, safety etc.					
3	I believe that negative acts (i.e., corruption and fraud) of tax assessors encourage non-compliance.					
4.	Government spending encourages to pay taxes voluntarily					
5.	The Government exhibits openness and transparency in dealing with taxpayers.					

Comments and Recommendations

1. Please specify your comments (if any) about factors that affect tax revenue collection in addition to what is stated in previous tables.

2. Please state possible solutions that can improve tax revenue collection.
