



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**THE EFFECT OF TAX DIGITALIZATION ON LARGE TAXPAYERS'
COMPLIANCE IN THE CASE OF ETHIOPIA**

By: Diana Gashaw Neberu

June, 2024

Addis Ababa, Ethiopia

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**A THESIS SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF MASTER OF SCIENCE**

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June, 2024

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Declaration

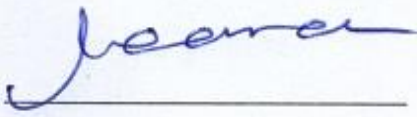
This is to respectfully declare that, except for my research advisor's advice and suggestions, I worked independently and diligently to accomplish my research thesis, "The Effect of Tax Digitalization on Large Taxpayers' Compliance in Case of Ethiopia". To the best of my knowledge, all sources of the study's materials have been properly recognized. This paper has not been submitted for consideration for any other university program.

Diana Gashaw

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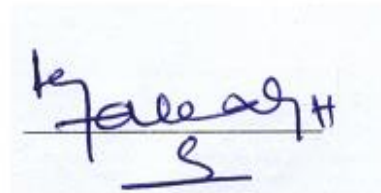
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Endorsement

This certifies that, except for my advice and suggestions, MS. Diana Gashaw Neberu finished this research thesis independently under the subject "The Effect of Tax Digitalization on Large Taxpayers' Compliance in Case of Ethiopia". As a university research advisor, I have given my consent for this thesis to be submitted for examination.

Alem Hagos (PhD)

Advisor's Name

A handwritten signature in blue ink, appearing to read 'Alem Hagos', written over a horizontal line. Below the line is a stylized flourish or underline.

Signature

June, 2024

Addis Ababa, Ethiopia

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THE EFFECT OF TAX DIGITALIZATION ON LARGE
TAXPAYERS' COMPLIANCE IN THE CASE OF ETHIOPIA

By: Diana Gashaw

APPROVED BY BOARD OF EXAMINERS

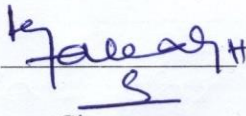

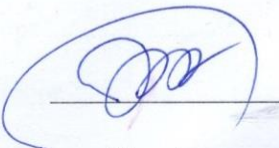
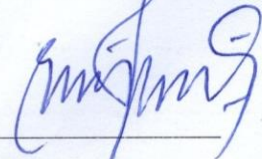
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ACRONYMS AND ABBREVIATIONS

AI	Artificial Intelligence
BI	Behavioral Intention
DOI	Diffusion of Innovation
ERCA	Ethiopian Revenue and Customs Authority
ESRMs	Electronic Sales Recording Machine
EFS	Electronic Filing System
ETI	Electronic Tax Invoice
EWS	Electronic Withdrawal System
FDRE	Federal Democratic Republic of Ethiopia
GDP	Growth Domestic Product
IT	Information Technology
IFRS	International Financial Reporting Standards
LTP	Large Taxpayer's
ML	Machine Intelligence
MOR	Ministry of Revenue
OECD	The Organization for Economic Cooperation and Development
PEOU	Perceived Ease of Use
PU	Perceived Usefulness
SME	Small and Medium Enterprise
SPSS	Statistical Package for Social Sciences
TAM	Technological Acceptance Model

ABSTRACT

The objective of this study is to assess the effect of tax digitalization on tax compliance among large taxpayers in the case of Ethiopia. To achieve this main goal of the study the researcher developed specific objectives. These specific objectives are evaluate and identify the e-tax system perceived usefulness, perceived ease of use and perceived risk of use, analyzing their effect of on compliance behavior. The study adopted an explanatory research design. Data collected through structured questionnaires from 150 sample large taxpayers. A quantitative research approach was utilized. The data collected were analysis systematically using SPSS 23. The study found that tax compliance behavior was positively affected by the e-tax system's perceived usefulness and ease of use. However, certain risks were noted, including data processing errors, delays from system hang-ups, and concerns about financial data security. These perceived risks negatively affected tax compliance behavior. To address these issues, ERCA needs to invest in strengthening the e-tax system's security and reliability to reduce perceived risks and increase compliance. Highlighting the system's advantages and effectiveness can also improve taxpayers' perception and enhance compliance rates.

Key Words: *E-Tax System, Perceived Ease of Use, Tax Compliance, Perceived Usefulness, Perceived Risk of Use.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Taxation is a weapon that policymakers can employ to direct economic activity and accomplish social objectives. Governments can stimulate particular businesses, foster innovation, or alleviate income disparity by using tax incentives or deductions. To put it briefly, having a solid system for tax is essential for the operation of both the government and the economy (Stiglitz & Stiglitz, 2000).

As per to Kirchler et al. (2008), idea the citizens must pay taxes. The country's main aim is that, regardless of the compliance reasons, residents fulfill this obligation and act according to the law. Tax compliance is capacity to file accurate tax returns on time and make timely tax payments (Jones, 2009). According to (Auyat, 2013), filing an income tax return on time and accurately, along with making the necessary payments when they're due, constitutes tax compliance. Tax compliance comes in two different forms: voluntary and involuntary (enforced) (Mandola, 2013). Involuntary tax compliance occurs when people comply with tax laws as a result of coercion from the state or other comparable entities. States are not always compelled to aggressively enforce tax rules in order for taxpayers to comply with them, unlike in situations of involuntary tax compliance. (Hussein et al., 2010).

Jones, (2009) define tax compliance as the accurate self-assessment of taxes due, filling appropriate & submitting of the necessary tax evidence and also prompt payments of those taxes without facing enforcement action. Three aspects of tax compliance are mentioned in the explanation: submission, disclosure, and settlement. "As a consequence, if a taxpayer fails to complete the three dimensions accurately, they are deemed non-compliant. Various governments have enacted tax reforms aiming to boost voluntary compliance; one such method involves employing an electronic filing system(Isa, 2014).

Tax evasion or avoidance diminishes the effectiveness of taxes, irrespective of justifications presented (Jones, 2009). The implementation of a self-assessment system (SAS) stands as a tactic to achieve the objective of tax reform, aiming to enhance voluntary compliance across numerous nations (Isa, 2014). "

In Ethiopia, taxes are essential for supporting socioeconomic development and financing public spending. However, the country's attempts to raise money have been hampered by issues including tax evasion, unofficial economic activity, and administrative inefficiencies (Hamza, 2018). According to (FDRE, 2018), tax administration is within the authority of ERCA. Ethiopian income is taxed according to its source, such as business profits, rent, or salaries, under a scheduler tax system (Ministry of Finance). Ethiopia taxing system have two types the first one is direct the second in indirect. One kind of tax that an individual/ business pays to the state directly is called a direct taxing. The Income Tax Proclamation No. 979/2016 categorizes tax groups based on the income levels of the taxpayers. First up, there are Category 'A' taxpayers, which are any entity or individual with an annual gross income of ETB one million or more. The second type of taxpayer is Category 'B' which are any individual with an annual gross income between ETB five hundred thousand and one million or more. The final one is the Category 'C' taxpayer, which is defined as an individual with a gross annual income below ETB five hundred thousand. Businesses that reach a specific threshold are subject to a turnover tax, and import and export customs taxes are imposed.

The United States is credited with the invention of the electronic tax system since the Internal Revenue Service (IRS) started providing tax return e-filing exclusively for refunds (Muita, 2011). The present trend is that roughly one in five individual taxpayers file electronically due to the growth in this. But this is a result of all the features and improvements that have been introduced to the application over time. According to Ramayah et al. (2008), other developed nations that have adopted electronic filing include Australia, Brazil, United Kingdom, Sweden, and many others. Likewise, E-taxing systems are becoming more & more common in developing countries. Kenya, Nigeria,

and Rwanda are among the states that are adopting E-filing and payment (Muita, 2011). According to Besley & Persson (2014), one of the characteristics of tax systems in countries, which are developing, is high cost of tax declarations, which may deter taxpayers from filing their returns. Furthermore, by frequently declaring in-person meetings between taxpayers and tax collectors, these manual tax methods encourage corruption.

In recent years ERCA started to digitalize the enhance the administration taxing system tax earnings & tax compliance by; enabling clear information about taxpayers to be in the tax administrative system, making the tax administration efficient and modern, reducing the time and cost spent by the tax administration to collect and track tax payments, make tax decision-making efficient and honest, and by enabling the system to be accessible and affordable by using digital tools. The electronic tax combines the method of electronic tax declaration & payment (e-filing & e-payment) in which the taxpayer can file and pay the tax anywhere and at any time using the Internet, and also receive the payment receipt from his e-mail address. E-filing is part of the e-tax application system, which was launched in 2011 by G.C. on a pilot basis with 50 top tax-payers. The electronic filing system objective is to increase tax compliance, reduce the cost for tax payers', improve the tax information collection system, increase the quality of information, and make it possible for the taxpayer to be able to announce the type of tax expected using the internet at the time, wherever the taxpayer is. In a move to expand the e-tax system's functionality, an e-payment component was introduced. This pilot program involved eleven state-owned businesses that bank with the Commercial Bank of Ethiopia. Accordingly, the e-tax full implementation has been started since December 2018, with the addition of all high taxpayers and all government offices. Currently, the authority is starting a new project to implement an additional digital tax tool called E-invoice.

1.2. Statement of the problem

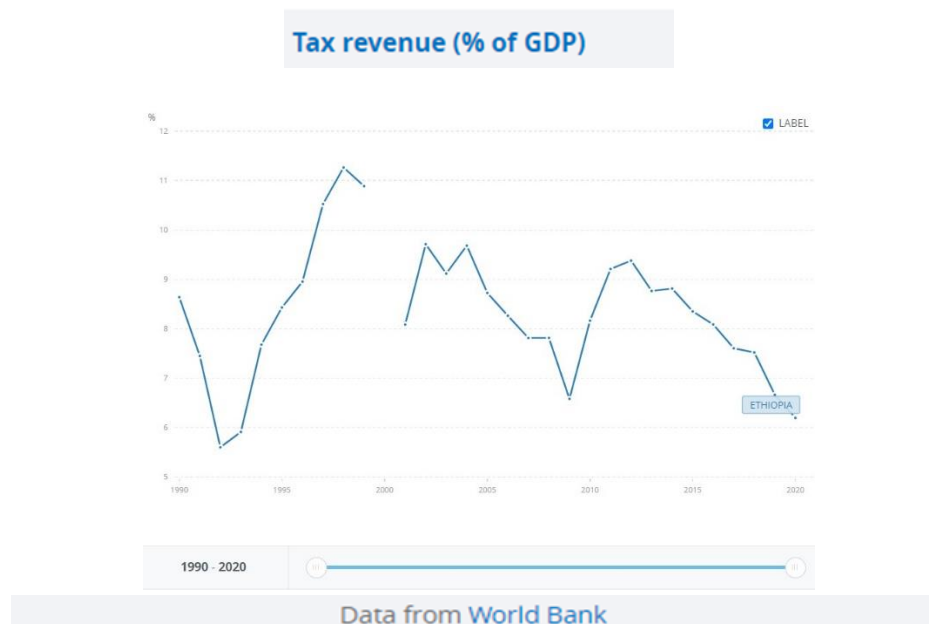
Developing nations like Ethiopia heavily rely on tax revenue to finance government spending and social programs that alleviate poverty. These taxes are essential for funding public services that improve the lives of citizens. However, the usability, efficacy, and general success of a tax system's implementation all affect its efficacy. Despite the significance of taxation, a large number of Ethiopian taxpayers voice dissatisfaction with the tax administration's efficiency in addition to the quality of the service provided by tax offices, in addition to the procedural difficulties associated with tax collecting (Tafa, 2020).

Ethiopian taxpayers suffer several difficulties, according to (Tafa, 2020), including poor communication with revenue officers, antiquated technology infrastructure, frequent internet connectivity problems, and slow uptake of IT-supported tax administration systems. These difficulties exacerbate taxpayer annoyance and make it more difficult to comply with tax duties. According to (Tafa, 2020), facilitating taxpayer access to electronic filing and payment systems may make tax compliance easier and more efficient, which would boost overall service quality and taxpayer satisfaction.

Future tax levels are influenced by present actions to adopt or alter tax systems. It will alter the incentives for future governments to increase tax collection (Besley & Persson, 2014). For instance, in low-income countries, from the total revenue of the state, the GDP share in 2006 was 12.1%. Nonetheless, the percentage for OECD high-income countries was 25.2%, which is twice as high as for low-income countries. Therefore, the political economics of development has paid more attention to the state's insufficient fiscal capability (Besley & Persson, 2010) & (Acemoglu et al., 2005). The tax-to-GDP ratio and overall tax structure of developing countries today might resemble those of high-income nations at a similar historical development stage. This trend implies that a variety of factors that also contribute to the explanation of why low-taxing nations are

impoverished may be reflected in low taxation. From this perspective, encouraging development rather than focusing special measures only on tax system improvement is the biggest difficulty (Besley & Persson, 2014). According to the World Bank report tax to GDP Ratio of Ethiopia has declined over time especially starting from 2012 G.C.

Figure 1 Tax Revenue (% of GDP)



There are several reasons for undermined tax collections and the lowered Tax-to-GDP ratio but the first one is tax evasion and avoidance activities, which involve underreporting income by individuals and businesses or using legal and administrative gaps to decrease tax payments. These issues may be made worse by inefficient tax administration, corruption, and lax enforcement procedures. According to (Hussain et al., 2016) Increasing revenue collection requires an effective tax administration. Several factors contribute to developing countries' low tax-to-GDP ratios. These include limited tax bases, widespread non-compliance by taxpayers, and a misalignment between the distribution of tax revenue across different sectors and the overall structure of the economy (GDP).

There are studies conducted by academics & researchers on tax digitalization and its effect on tax compliance. One of those research is conducted by (Mbise & Baseka, 2023), investigates how tax digitization affects tax adherence. The hypothesis that the implementation of digital tax management systems has a good impact on compliance with taxes within Small and Medium Enterprises (SMEs) is supported empirically by their findings. The use of technology, tax data analytics, and electronic filing techniques are credited with this improvement. Furthermore, a research conducted by (Ali et al., 2015), shows that enterprises in underdeveloped countries have improved their tax compliance by using Electronic Sales Recording Machines (ESRMs). But there's a worry that more regulation might unintentionally promote more informality in the economy."

In Ethiopia Shiferaw (2020), conducted research to investigate how the digitalizing tax system impacts tax compliance among significant taxpayers under the Ministry of Revenues. The study concentrated on three primary topics: the effects of electronically filing taxes, electronically remitting taxes, and the difficulties posed by the electronic tax system. The findings showed that big taxpayers' tax compliance was positively impacted by the electronic filing system, especially when it came to e-filing, e-remittance, and resolving system-related concerns. Furthermore, his study noted that taxpayers had a favorable attitude regarding electronic filing, which further improved the simplicity of conducting business.

The current study, which assessed how tax digitization affects the compliance behavior of large taxpayers in Ethiopia, was centered on tax compliance. This research aims to bridge the gap in understanding how tax digitalization impacts taxpayer behavior. To achieve this, the researcher will focus on taxpayers' perceptions of the e-tax system, specifically its perceived usefulness, ease of use, and associated risks. This study addresses the potential of electronic tax systems (e-tax) to enhance the effectiveness and efficiency of tax administration in Ethiopia. The purpose of the current study was to look into how large taxpayers (category 'A') view e-tax systems in terms of the ease of use, benefits, perceived challenges, and assess their effect on tax compliance. The study intends to

address these problems to offer insights that can guide the creation of more reasonable tax laws and administrative techniques in Ethiopia.

1.3. Research question

- ✓ How useful and ease to use is the overall e-tax system for large taxpayers in Ethiopia?
- ✓ How does the perceived ease of use of the tax system affect large taxpayers' compliance in Ethiopia?
- ✓ How does the perceived usefulness of the tax system affect large taxpayers' compliance in Ethiopia?
- ✓ What are the risks associated with the use of e- tax system for large taxpayers in Ethiopia?
- ✓ How does the perceived risk of e-tax system use affect large taxpayers' compliance in Ethiopia?

1.4. Objective of the study

1.4.1. General objective

To Assess the Effect of Tax Digitalization on large Taxpayers' Compliance in The Case of Ethiopia

1.4.2. Specific objectives

- ✓ To evaluate the perceived usefulness and ease of use of the e-tax system for large taxpayers in Ethiopia.
- ✓ To examine how the perceived ease of use of the e-tax system affects large taxpayers' compliance in Ethiopia.
- ✓ To examine how the perceived usefulness of the e-tax system affects large taxpayers' compliance in Ethiopia.

- ✓ To identify the risks associated with the use of the e-tax system for large taxpayers in Ethiopia.
- ✓ To assess how the perceived risk of using the e-tax system affect large taxpayers' compliance in Ethiopia?
- ✓ To examine how the perceived risk of using the e-tax system affects large taxpayers' compliance in Ethiopia.

1.5.Scope of the study

1.5.1. Conceptual scope

The scope of the study is assessing the Effect of Tax Digitalization on large Taxpayers' Compliance in the Case of Ethiopia. The study specifically assessed whether the Ethiopian big taxpayers find the overall e-tax system easy to use and useful, evaluates the impact of the system's perceived usefulness and ease of use on large taxpayers' compliance in Ethiopia, evaluates the impact of the system's perceived risk on large taxpayers' compliance in Ethiopia, and determines whether using the e-tax system poses a risk to large taxpayers in Ethiopia.

The subject scope was chosen because, as per (Setiawan et al., 2018), the degree of taxpayers' compliance can be impacted by how useful, simple, and risky technology systems are seen to be. For a user to choose to use a technological system, they must believe it to be valuable simple, and less risky. Therefore, the study sought to carry out a deeper understanding of the concepts

1.5.2. Geographical scope

The Federal Ministry of Revenue (MOR) Large Taxpayers branch Office was the exclusive geographic focus of the study to evaluate the impact of tax digitalization on taxpayer compliance behavior. Only Large taxpayers were included in the study because only large taxpayers' branch offices currently use e-tax payment systems. The Ethiopian Revenue Authority reports that 744 businesses and people are listed as major taxpayers under the electronic taxing system.

1.5.3. Time scope

The time scope for the study has been six months that is from December 2023 to June 2024 G.C when the research papers were expected to be submitted.

1.6. Significance of the study

This study has the potential to significantly advance the understanding of how digital tax tools, such as electronic filing and payment systems, influence tax compliance through their technological usefulness, risk and, ease of use in Ethiopia. By examining the impact of these electronic systems, the research aims to shed light on how technology can improve tax administration in Ethiopia. And also aim to fill the gap in literature in the area of tax digitalization impact on taxpayers' compliance in Ethiopia. This study is focused on country where tax digitalization in on emerging stage, therefore this study can be valuable for policymakers, tax authorities, and other relevant actors seeking to leverage digital solutions to boost tax compliance, increase revenue collection, and ultimately contribute to Ethiopia's economic growth.

1.7.Limitation of the study

This study is limited to examining large taxpayers within a specific geographic are, Ethiopia. As a result, the findings may not be generalizable to other taxpayer categories or regions. Future research should consider exploring the impact of tax digitalization across a broader spectrum of taxpayer groups and in diverse geographic areas to achieve a more comprehensive understanding of its overall effects. This would help in capturing a wider range of experiences and challenges, thereby providing more robust insights into the effectiveness of the e-tax system and its effect on tax payers compliance.

1.8.Organization of the study

The study unfolds across five chapters. Chapter 1, the introduction, lays the groundwork by establishing the research context, outlining the problem, crafting research questions and objectives, highlighting the study's significance, defining its scope, and acknowledging any limitations. Chapter 2 delves into relevant theoretical and empirical literature on the topic. Chapter 3 details the research methodology, including the target population, sampling approach, research design, and data collection and analysis techniques. Chapter 4 presents the study's key findings. Finally, Chapter 5 concludes by summarizing the research, offering recommendations, and drawing conclusions based on the findings.

CHAPTER TWO

LITERATURE REVIEW

This chapter lays the groundwork by defining key concepts like digitalization, tax digitalization, electronic tax systems, PU, PRU, PEU, and tax compliance. It explores various factors influencing tax compliance behavior. Additionally, the chapter introduces the theoretical frameworks underpinning the study: the Diffusion of Innovation Theory & Technology Acceptance Model. It also reviews relevant prior research and establishes a conceptual framework that outlines the research variables and identifies knowledge gaps this investigation aims to address.

2.1. Theoretical Review

2.1.1. Digitalization and Digital Transformation

Scholars have offered various definitions of the term "digitalization." As per (Khomyakova, 2019) Digitalization refers to the widespread integration of digital technologies across various aspects of human life, including social, medical, and economic fields. This process fundamentally transforms how information is created, stored, and communicated. (Miroshnichenko & Mamychev, 2019), also gives three definitions of "digitalization": the adoption of digital technology for information transmission, the transformation of information into digital format, and the application of AI and digital technologies to many aspects of modern society. According to (Gerasimova & Moskvitina, 2019), "digitalization" refers to the process of introducing and utilizing cutting-edge technologies along with the digital economy's tenets within the framework of societal socioeconomic life, all in conjunction with the complete introduction of AI, Robotics, and automation, According to (Katrin, 2022), Digitalization is a process that involves several steps and actions to create, implement, and apply digital systems and technologies. This multifaceted process involves the creation, implementation, and application of these technologies across various objects, tools, and systems. Ultimately, digitalization fosters a transformation in how the state, society, and

individuals interact with each other. At the corporate level, digitalization has an impact on decision-making through efficient data analysis and forecasting, improved communication in private-public partnerships, managing corruption, supporting business startups, lowering government project costs, and allowing quick exchange of information among individuals. At the government level, digitalization has an impact on decision-making through changes in business roles, disruption of existing business models, easy access to large data sets, increased productivity, enhanced competitive advantage, and more (Kraus & Kraus, 2020).

According to the above scholars, we can generalize the term "digitalization" as the integration of advanced technology and the application of concepts from the digital economy into the social & economic life of society. Examples of these include AI, robotics, and automation. The process of adopting digital technology, converting information into a digital format, and using AI and digital technologies in many facets of society is known as "digitalization." To improve communication between the government, society, and individuals, it also covers the development, use, and utilization of digital systems and technology.

Digitalization transforms decision-making for organizations by enabling more effective data analysis and forecasting. It encourages better communication in public-private partnerships, strengthens anti-corruption initiatives, and gives entrepreneurs more clout. Digitalization also expedites information interchange among businesses and reduces project costs for the government (Gassmann et al., 2014). According to (Solis, 2016), it is realignment or investment that encompasses all corporate activities, including operations, business models, and technology. Digital transformation according to (Kim et al., 2021), is the outcome of an ever-increasing interplay between digital technology, business, and society that alters process pace, scope, and impact while producing transformative impacts. They defined digital transformation as a vector, identifying it as the dynamic activity and direction in and of itself. In addition Digital Transformation is also described

(OECD, 2019) as a complex and rapidly evolving phenomenon it can reshape model of the organizations including the dynamic activity itself.

2.1.2. Tax Digitalization

Tax administrations in wealthy countries began digitizing tax systems in the United States as early as the 1990s, when electronic filing was announced. In the 2000s and 2010s, this modality spread throughout the world, especially in Asia and the Pacific. Recent advancements involve the automation of tax compliance and reporting procedures in the back office of tax administrations, which can profit from creative approaches incorporating artificial intelligence (AI), machine learning (ML), and customer support procedures. Developing nations differ in their ability and willingness to fully profit from digitalization, notwithstanding the advantages it offers tax administrations (ESCAP, 2022).

Mihai et al. (2021), state that the Tax digitization process affects taxpayers and that modern technologies give taxpayers' legal entities the ability to find several ways to expedite specific processes that influence their finances. Stated differently, the process of digitization presents legal taxpayers with the chance to enhance specific fiscal and financial metrics. For corporate taxpayers, tax digitization is essential since severe and stringent fiscal reporting and financial accounting requirements force them to create and employ cutting-edge new technology. Such alignment is also required by accounting rules like IFRS. By putting digitalized procedures in place, they force businesses to synchronize their financial, risk, and business data.

2.1.3. Electronic Tax System

The traditional manual system has been surpassed by a modern electronic tax system. This secure, web-based application streamlines domestic tax management through

complete automation and integration. Taxpayers benefit from online functionalities such as registration, return filing, payment processing, status inquiries, and real-time account checking (Waweru, 2013). As per (OLAOYE & ATILOLA, 2018), The process of administering and collecting taxes via an electronic channel is known as E-taxation. As per (Hu et al., 2013), electronic tax is a fast, simple, barrier-free internet channel that provides all citizens. This eliminates barriers and allows for 24/7 access to comprehensive tax information and services, regardless of location. Also (Wasao, 2014), describe electronic tax system as, a functions as a web-based platform accessible via the internet. This platform empowers taxpayers to interact with the tax authority and manage their tax obligations electronically. Services offered typically include registering for a Taxpayer Identification Number (TIN) and filing tax returns electronically.

The goal of e-tax is to improve the system effectiveness and quality service of the tax department while significantly lowering taxpayer compliance and filing expenses, which will benefit the people as well as the government. Using simple instructions and examples, E-Tax enables users to produce the necessary tax forms, file taxes, report income tax withholding, and make tax payments (Hu et al., 2013).

In Ethiopia currently, the Electronic taxing system combines the method of electronic tax declaration and payment which is the taxpayer can declare and pay the tax anywhere and at any time using the Internet, and also receive the payment receipt from his e-mail address. According to (Heeks, 1998) electronic tax systems make it easier to prepare and file tax declaration forms electronically. They also make it easier to pay taxes electronically using electronic channels. This can be accomplished by using system structures as complex as interactive accounts of banks with Internet access or as basic as ATMs. Here, "E-Taxation" refers especially to the process by which citizens use computers with Internet or other communication capabilities to calculate, realize, and pay taxes that have accrued to a government.

E –Filing & E- Payment

Electronic-Filing

it is one of the most significant edges to reduce government tax filing expenses. Several nations have been using electronic filing systems for the past few years. Tax refunds are expedited and economies arising from electronic transactions are supported by an electronic filing system. The benefits of EFS that proponents most frequently cite include economy and improved service. Errors are frequently present in data, documents, and other material that filers supply while filing manually (Hu et al., 2013). Data and computation errors are prevented when filing electronically since tax filing software automatically identifies and fixes problems, resulting in more accurate data being submitted for evaluation (Hwang, 2000).

E-Payment

As per (Azmi & Kamarulzaman, 2010), the e-payment system is one method by which governments worldwide utilize ICTs to improve public service delivery and public administration information dissemination to the public. The growing emphasis on accountability in online public services necessitates robust security measures for e-tax payment systems. These systems leverage secure online platforms equipped with advanced security features. For instance, banks might utilize specialized software on their secure, private extranets or networks to facilitate e-tax payments. (Heeks, 1998). E-tax payment systems save taxpayers money and time, making tax payments simpler and easier. At the same time, E-tax payments assist governments in effectively managing tax collection. By streamlining the process and potentially reducing opportunities for tax evasion, e-tax payments can lead to increased overall tax revenue collection. (Centeno, 2004).

2.1.4. Tax Compliance

It is a well-known adage that the only things in life that are certain are death and taxes, but the truth is that taxes are far from inevitable. People use several strategies to lower their tax obligations because they dislike paying taxes (Olowookere & Fasina, 2013). Fulfilling tax obligations as a responsible citizen is known as tax compliance. This encompasses paying taxes due, filing accurate tax returns on time, and submitting any necessary documentation or explanations to the tax authorities (Oyedele, 2009). Tax compliance signifies fulfilling a taxpayer's legal obligation to report all taxable income and pay all associated taxes according to the established laws, regulations, and any relevant court rulings, (Jackson & Milliron, 2002). Despite potential complexities in tax codes, ensuring tax compliance remains a major concern for many tax authorities. Achieving this – convincing taxpayers to fulfill their tax obligations – presents a significant challenge. At its core, tax compliance simply refers to the degree to which taxpayers adhere to the established tax regulations. (James & Alley, 2002).

As per (Kirchler, 2007), being compliance might be enforced or voluntary. The readiness of the taxpayer's to voluntarily obey with the rules and directions of the tax administration, as well as the mutual trust and collaboration between the tax authority and taxpayer, are the keys to voluntary compliance. However, authorities can compel compliance by threatening and using audits and fines in the event of mistrust and noncooperation between them and the taxpayer, which fosters a hostile tax environment. According to (Aktan et al., 2006), voluntary tax compliance is characterized as a manifestation of favorable attitudes about taxation and a readiness to pay taxes.

According to (Geetha & Sekar, 2012), tax compliance refers to the complete and accurate fulfillment of tax obligations. This typically involves truthfully reporting income, correctly calculating the amount owed (liability), filing tax returns on time, and settling all outstanding tax payments. In contrast, tax avoidance strategies focus primarily

on manipulating the tax base. Tax evaders, unlike compliant taxpayers, often attempt to minimize or eliminate their reported tax liability.

2.1.5. Factors that Affect Tax Compliance

Tax compliance behavior is influenced by multiple factors in varying ways. Several studies on tax compliance have shown factors according to (Loo, 2006) and (Palil, 2010), taxpayer attitudes towards compliance are influenced by a confluence of factors categorized into five main areas: Demographic (Education, Gender, and Age), Economic (Tax Rate, Income Level), Social (Fairness of Tax System and Government Policy Change), Individual (Tax Knowledge and Tax Awareness) and Institutional (Tax Audit and Tax complexity).

Demographic Factors

Education: According to (Chan et al., 2000), people with more education are probably more morally developed and have more positive attitudes toward compliance, which will lead them to tend to comply more. Ensuring that taxpayers possess the necessary qualifications, confidence, and capacity to fulfill their tax responsibilities is one way to promote voluntary compliance (Adbul, 2001).

Gender: According to (Olowookere & Fasina, 2013), women have historically been associated with more limitations, restraints of morals, and conservative living forms. (Hasseldine & Hite, 2003) discovered that female taxpayers proved more compliant than male taxpayers regardless of gender. (Palil, 2010) and (Adbul, 2001) similarly observed that female participants were more cooperative in their respective investigations. However, (Richardson, 2006) discovered no proof of a significant gender disparity in compliance among 45 national

Age: One factor thought to influence taxpayers' level of compliance behavior is age. According to the (Widianto, 2015) logit model analysis indicates a statistically significant negative association between age and tax compliance. In other words, older taxpayers are less likely to comply with tax regulations compared to younger taxpayers." In other words, older taxpayers have a lower compliance rate than younger ones. According to (Engida & Baisa, 2014) research, there was a negative correlation that suggested older taxpayers were less cooperative. On the other hand, research by (Manchilot, 2018) & (Adimassu & Jerene, 2016) figured out that while the age of taxpayers has a beneficial effect on their level of compliance, it does not significantly affect it.

Economic Factors

Tax rate: Many researches have demonstrated a noteworthy inverse relationship between tax compliance and tax rate. As per (Mas'ud et al., 2014), tax rate negatively impacts taxpayers' compliance behavior. High tax rates are one of the key elements linked to low compliance, according to (Helhel & Ahmed, 2014). Also according to a (Ahmed, 2013) study on tax compliance determinants in Jimma Town, the tax rate is a weighty factor of tax compliance and has an adverse association with tax compliance. On the other hand, researchers who have shown an optimistic association between tax rate & tax compliance have a different perspective. (Alm, 1991).

Income Level: Higher income sets tend to avoid more in countries where wealth redistribution is unsatisfactory (Adbul, 2001) because they may feel deceived and treated unfairly. While (Torgler, 2007) observed that Western Germany low earners were less compliant. Additionally, (Palil, 2010) discovered a solid optimistic correlation among tax compliance and income level.

Individual Factors

Tax Knowledge & Tax Awareness: tax compliance is influenced by level of taxpayers knowledge, which is linked to the readiness and capacity of taxpayers to comply with rules of tax. (Sebhat & Assfaw, 2019). Many studies demonstrated a strong correlation

between taxpayer compliance and tax knowledge. (Redae, 2016), (Ersodo, 2014), (Singh & Bhupalan, 2001), (Mesfin, 2016), have found that tax awareness has a major influence on taxpayer compliance attitudes. The taxpayer gains awareness of their rights, responsibilities, and tax payment procedures through taxpayer education, along with the repercussions of noncompliance (Machogu & Amayi, 2016). One significant element that can influence a taxpayer's comprehension of tax obligations, particularly about registration and filing procedures, is their level of awareness (Maseko, 2014).

Institutional Factors

Tax Audit: According to (Muoki & Peter, 2014), tax audits are conducted by the tax administration office to ascertain if a taxpayer has paid the accurate sum of tax liability. Through its influence on taxpayer behavior, tax audits can significantly contribute to better tax management and overall taxpayer obedience. Among other actions made by the state's revenue authorities, tax audits have a considerable optimistic effect on taxpayer compliance (Mebratu, 2016) One way that tax audits contribute to reaching revenue targets is by reducing the issues associated with tax evasion (Badara, 2012). On the other hand, (Tehulu & Dinberu, 2014) study discover that behavior of tax obedience is not significantly impacted by the chance of an audit.

Complexity of Tax System: For the reason that the effectiveness of a tax system hinges on its accessibility for a diverse population of taxpayers. This includes individuals with varying educational backgrounds, income levels, and cultural understandings. To ensure widespread compliance and understanding, the tax code should strive for simplicity. The tax authority needs a basic yet adequate tax return to support people in appropriately completing their tax returns (Ahmed & Kedir, 2015). This is because taxpayers' actions regarding tax compliance are significantly positively connected with their degrees of tax law understanding (Abdul-Razak & Adafula, 2013). (Agbadi, 2011) asserts that tax compliance is completely and meaningfully correlated with the administration and simplicity of tax returns. In situations characterized by uncertainty, such as in complex tax systems, taxpayers exhibit a higher tendency towards non-compliance according to (Beck et al., 1991). Simplifying the tax system could potentially enhance the perception

of fairness and consequently take the lead to decrease tax non-compliance as indicated by (Beck et al., 1991). by (Schuetze, 2002).

The difficulty of the tax system increases the chance of underreporting tax burdens and hurts tax compliance decisions (Jayawardane & Low, 2016), (Alstadsæter & Jacob, 2013) & (Sawyer et al., 2014).

2.1.6. Tax Compliance and Digitalization

Ensuring tax compliance has consistently been a top concern for politicians, tax administrators, and the general public. This focus stems from the direct link between tax compliance and government revenue generation (Wasao, 2014). Most tax revenue is typically categorized or referred to as large taxpayers. Tax administration must keep up with big taxpayers' technological advancements to prevent cheating, given the difficulty of these taxpayers and their crucial role in revenue collection. Among other strategic interventions, countries should strive to reduce the possibility of corruption by automating and restructuring control systems; simplifying and reducing paper handling through the appropriate use of electronic filing for large taxpayers to achieve its intended goal/purpose. For the effective operation of tax administration with the goals of improved compliance, decreased tax evasion, and increased tax revenue the adoption of an integrated management model, which assumes the use of digital components becomes mandatory (Chatama, 2013).

It is anticipated that the e-tax will have an optimistic effect on the tax compliance. This is because the electronic tax system is optional and intended to streamline the process of filing and paying tax returns and speed up the filing and process for taxpayers. The part that information technology plays in tax compliance has many studies conducted worldwide. For illustration, (K. C. Lee et al., 2008) conducted a study on customer assessment of tax returning websites in Turkey and South Korea examine the websites' ease of use, design, and complexity as well as the simplicity with which taxpayers could

file tax forms and inquire about their tax status. Despite the complexity of Turkey's online system, Turkish consumers found it easy to utilize the tax filing system since they depended on accounting specialists to complete their online tax filings. However, although being thought to be less complicated, few taxpayers were using the South Korean system as intended. While developing an electronic tax filing system is a significant accomplishment, ensuring its user-friendliness for taxpayers presents a distinct challenge.

2.1.7. Perceived Ease of Use

The degree to which a potential user believes using the technology will require little effort is known as perceived ease of use (Davis, 1989). Innovations that potential consumers consider to be less complicated and simple to use have a greater likelihood of being adopted and put to use (Agarwal & Prasad, 1998).

Perceived ease of use discusses the user's degree of confidence in their ability to utilize the system in a manner that is simple and learnable by them (Venkatesh & Davis, 2000). Furthermore, people make decisions based on their awareness of a technological system's simple to utilize, so if they think it's simple to use, comprehend, and acquire, they will undoubtedly choose to employ it (Prasetya & Putra, 2020). According to (Venkatesh & Davis, 2000), perception markers of ease of use include: simplicity to Use, Not Requiring a Lot of Intellectual Effort, Clear and Understandable, and Ease to Get the web To Do What the user Wants To Do.

2.1.8. Perceived Usefulness

As per (Davis, 1989), perceived usefulness is the point to which an individual thinks that utilizing the platform will improve their ability to accomplish their work. Davis went on

to say that a system's perceived usefulness is a key factor influencing its adoption. People are more likely to embrace a system once they understand its benefits and how it can address their needs. According to (Doll et al., 1998), perceived usefulness in the framework of e-tax refers to how much taxpayers think utilizing an e-tax system would benefit their businesses, save them time, and improve performance.

As per (Venkatesh & Davis, 2000), perceived utility is the degree to which a user feels confident in utilizing a technology that can enhance their performance. According to (Prasetya & Putra, 2020), in the framework of technology adoption, "perceived usefulness" signifies a user's belief that a system can improve their performance or help them achieve their goals. Productivity, efficacy, and overall benefit are the key indicators of perceived helpfulness. As per (Venkatesh & Davis, 2000), the following measures of perceived usefulness are employed: The system is useful; the job improves performance; productivity increases; effectiveness increases; and the job improves performance. The term "perceived usefulness" in this study mentions to how taxpayers view the value of using an electronic tax payment system (e-filing).

2.1.9. Perceived Risk of Use

Perceived Risk, as per the (Bauer, 1960) definition, it is the result of a mix of factors including uncertainty, the gravity of the potential consequence, and " the customer's irrational anticipation of losing out on a desired result"

(Oglethorpe & Monroe, 1994) defined perception of risk as a customer's sense of uncertainty and potential drawbacks while purchasing a good or service. The insecurity of an occasion that; should it occur, will result in a loss is known as perceived risk. Perceived risk encompasses various factors, including financial concerns (wasting money), functional worries (product not working as expected), physical dangers (safety

hazards), psychological anxieties (embarrassment, regret), social disapproval (negative perceptions from others), and time wasted (effort spent on a bad decision).

According to (Schaupp et al., 2010), in the realm of e-tax filing, perceived risk refers to a taxpayer's concern about potential negative consequences they might encounter while trying to fulfill their tax obligations using electronic systems. They go on to say that perceived risk is influenced by one's level of trust in the system. Moreover, behavioral and environmental uncertainty are two categories into which perceived risk can be divided. The distinction between the two is that the former results from the impersonal character of the internet, whilst the latter is brought on by the unpredictability of Internet-based technology.

2.1.10. Technology Acceptance Model

As per (Legris et al., 2003), to better understand and forecast user behavior regarding IT, Davis first introduced the technology acceptance model (TAM). According to (Shajari & Ismail, 2010), the Technology Acceptance Model (TAM) is a widely used framework in IST research. It helps researchers understand how users adopt new technologies and the factors influencing their success within organizations. TAM has proven to be a valuable tool for explaining user adoption patterns (Shajari & Ismail, 2010). The Technology Acceptance Model (TAM) proposes that two key factors influence a person's decision to use a system: perceived usefulness (PU) and perceived ease of use (PEOU). PU refers to an individual's belief that a system will enhance their job performance. PEOU reflects the user's expectation of how effortless it will be to interact with the system. According to TAM, both PU and PEOU contribute to a user's intention to adopt a new technology. These beliefs operate as a catalyst between behavioral intention (BI) and external variables (Davis, 1989). According to (Chuttur, 2009), The TAM framework has been demonstrably successful in anticipating how users will engage with new systems. Many kinds of studies established major statistical results for the high influence of attitude on

behavioral goal to use a given system. TAM has shown to be an effective structure for comprehending user adoption patterns and has been often active in the field of information systems to analyze IT adoption and its efficacy. To investigate the issues that influence people's adoption and utilization of digital tax administration solutions. This theory study talks about how taxpayers' propensity to utilize digital tax systems is subjective by elements like perceived utility, easiness of use, and trust.

2.1.11. Diffusion of Innovation Theory

The notion of innovation diffusion, introduced in nineteen sixty-two and further developed by (E. Rogers, 1995), delves into the spread of new ideas and technologies within social groups. This theory centers around understanding the factors that influence how, why, and at what pace these innovations are adopted by a community (E. Rogers, 1995). Regarding change theories, the Diffusion of Innovation (DOI) Theory approaches change analysis differently. This approach to change prioritizes the adaptation of products and behaviors to better align with the needs of individuals and groups. It emphasizes an evolutionary process, where innovations are tailored to specific requirements, rather than focusing solely on convincing people to adopt them through persuasion. Innovations themselves change their dispersion rather than persons (Robinson, 2009). Conversely, the concept of diffusion describes the gradual spread of a new idea or technology within a social system over time. This process is facilitated by specific communication channels that influence how participants learn about and adopt the innovation. (Rogers, 2003). Diffusion is the process by which a technology spreads among a population of organizations, according to (Fichman, 2000). According to (E. M. Rogers et al., 2014), the term "diffusion of innovations" typically refers to the transfer of ideas from one society to another or from a center or institution within a society to other areas of that world. Four primary components comprise the entire notion of innovation dissemination (Sahin, 2006). According to (Pinho et al., 2021), the development diffusion theory is a form of imaginative obliteration that argues for creating a new one while erasing the previous one. The adoption of digital tax systems in Ethiopia can be examined using the Diffusion of Innovations theory, and methods for increasing taxpayer

acceptance can be determined. The supposed benefits and compatibility of digital tax systems are among the factors that affect taxpayers' desire to utilize them. Additionally to investigating ways to improve the perceived benefits and compatibility of digital tax administration systems, research should concentrate on comprehending how innovation characteristics influence attitudes and actions toward them.

2.2. Empirical review

2.2.1. Global Studies

According to (H. C. Lee, 2016) study titled “Can Electronic Tax Invoicing Improve Tax Compliance? A Case Study of the Republic of Korea’s Electronic Tax Invoicing for Value-Added Tax, suggests that a well-implemented mandatory Electronic Tax Invoicing (ETI) can significantly enhance tax compliance through a comprehensive approach combining institutional, legislative, normative, and cognitive aspects. In the case of Korea, the mandatory ETI led to significant institutional changes by replacing paper-based invoicing, altering invoicing mechanisms, and providing real-time access to tax data through the Electronic Withholding System (EWS). This improved tax administration system also facilitated the identification of fraudulent activities. Additionally, the study found that the concurrent implementation of EWS and mandatory ETI contributed to enhancing tax morale and trust in tax administration among taxpayers. Survey results indicate that corporate taxpayers and tax practitioners in Korea perceive electronic tax administration as effective in increasing tax compliance, suggesting that it offers a valuable tool by integrating economic and non-economic compliance elements.

According to (Mbise & Baseka, 2023) studies, which involved 133 SMEs in the TRA, Tanga regional office, “evaluated the effect of the digital tax administration system on compliance”. Results showed that there is a high correlation between SME compliance and the digitalization of tax administration. The results also imply that the digital tax system uses technology to enhance tax compliance. A finding of the research also shows

that because tax data is readily available on digital platforms, using tax data analytics enhances compliance. SMEs could utilize the data to examine tax patterns and possible task risks so they can take the appropriate safety measures. A finding of the research that SMEs' compliance is enhanced when they utilize the electronic filing capabilities offered by digital tax systems. Consequently, the study also demonstrates how technology affects the connection between tax compliance and digitization. The authors advise SMEs to keep using digital tax systems to manage the taxes they owe the government, based on their study's findings. The authors advise small and medium-sized enterprises to engage proficient IT specialists to provide ongoing assistance for digital tax platforms. This would enhance the organization's efforts toward tax compliance and streamline corporate processes. Future research in Tanzania's other tax zones or abroad in the world is also suggested by the researchers.

(Sifile et al., 2018) conducted a study titled " Analyzing the Impact of Electronic Tax Filing on Compliance: The Case of Harare Taxpayers, Zimbabwe." The researchers identified three key discoveries. The primary finding of this investigation is the overwhelmingly positive attitude exhibited by respondents to e-filing. This is demonstrated by their comprehension of the advantages that electronic filing offers. Nonetheless, this optimistic outlook is mitigated by several hindrances that render e-filing either challenging or inconvenient. The second significant discovery from this study is the affirmative nature of e-filing in promoting compliance with tax. The results suggest electronic filing alone does not guarantee tax compliance; nevertheless, it represents a constructive step towards tax conformity and serves as just one of the three compliance elements. While e-filing facilitates tax submissions, it does not, however, ensure compliance with payment obligations. The third major revelation is the enhancement of business interactions with ZIMRA through e-filing. The study indicates that the new system allows for convenient filing of tax returns and account access directly from workplaces.

(Onuselogu & Onuora, 2021) "Effect of E-Tax Payment on Revenue Generation in Nigeria." This research investigated the impact of electronic systems for company income tax and capital gain tax payments on national revenue collection. Utilizing data's from the tax report of the FIRS and the Quarterly Economic Reports and Statistical Releases of the Central Bank of Nigeria, the analysis spanned from the 2012 quarter one to 2018 second quarter. Data analysis was carried out using the Ordinary Least Square Method. The finding indicated that electronic company income tax payment had a negligible optimistic impact on revenue generation, indicating a possible increase in revenue with higher electronic company income tax payment, though lacking statistical significance. Conversely, electronic capital gain tax payment demonstrated a detrimental effect on revenue generation, also without statistical significance, suggesting a potential decline in revenue with decreased electronic capital gain tax payment. The study suggests the need to educate companies on the importance of electronic tax payment to enhance its positive influence on Nigerian revenue generation amount.

(Rahayu & Prastiwi, 2021) "How taxpayers' compliance is affected by their perceptions of the usefulness and ease of use of e-filing, with the mediating role being taxpayer behavioral intention." The study was conducted with a one-hundred sample size, the study focuses on different taxpayers who use KPP Pratama Ngawi's e-filing services. The Theory of Planned Behavior (TPB) and the Technology Acceptance Model (TAM) make up the theoretical framework. The results show that: perceived simplicity of use has a significant optimistic power on taxpayer compliance; perceived usefulness has a significant positive impact on taxpayer compliance; behavioral purpose mediates the relationship between perceived helpfulness and taxpayer compliance; and behavioral intention mediates the connection between perceived simplicity of use and taxpayer compliance.

(Setiawan et al., 2018) conduct research entitled "Examine the relationship between taxpayer compliance and the impression of electronic filing as well as the mediating role that intention to use plays in this relationship." Perception of utility and perceived

simplicity of use is the two aspects that make up the perception of electronic filing. There are 750 participants in the sample, who are individual taxpayers with taxpayer registration numbers from several regencies in the Central Java Province, such as Surakarta, Boyolali, Sukoharjo, Klaten, and Karanganyar. The researchers employed structural equation modeling (SEM) to analyze the theoretical framework. Their findings suggest that a taxpayer's intention to use the e-filing system acts as an intermediary factor between their perception of its helpfulness and simplicity of use. In other words, both perceived utility and ease of use positively influence a taxpayer's intention to use the system, which ultimately leads to greater compliance.

The study conducted by (Setyana & Yushita, 2018) entitled “Investigating the Influence of Interest, Perceived Usefulness, and Ease of Use on E-filing Adoption and Taxpayer Compliance: A Case Study of Individual Taxpayers in Magelang”. This research investigates how factors like interest in using electronic filing systems, taxpayer opinions of its advantages, and its perceived simplicity of use influenced individual taxpayer compliance in Magelang during the year 2016. Quantitative research was incorporated into their study. The Individual Taxpayer (WPOP) registered with the Office of Tax Services Prathama Magelang is the population under study. The study's samples come from one hundred taxpayers. The method of sample collection employed in this study was basic random sampling. One way to acquire data is via distributing questionnaires. They use multiple linear regression analysis, basic linear regression analysis, and the standard assumption test to analyze the data. The study's findings reveal a statistically significant positive relationship between e-filing usage and taxpayer compliance. This is supported by a regression coefficient of 0.802. Furthermore, taxpayers' perceptions of the utility and ease of use of e-filing also emerged as significant positive influences on compliance. In conclusion, the research suggests that using e-filing, alongside positive perceptions of its benefits and ease of use, all contribute to increased taxpayer compliance.

2.2.2. Local studies

Yoseph (2017), conducted an assessment of the E-tax filing system within selected branch offices of the ERCA. The research sought to assess the system's efficacy by conducting a thorough literature analysis and gathering primary data via Likert scale questionnaires. Descriptive analysis methods were employed to summarize collected. The finding emphasized several difficulties that taxpayers have, such as their perceptions of the system, mistakes made by taxpayers, and problems with the government. On the other side, advantages of the electronic tax filing system were noted, including enhanced accuracy, work performance, data processing, and comply with tax. Additionally, the study found a favorable correlation between complies with tax law and the E-tax filing system. It was suggested that the group work with Ethiopian Telecom to improve internet availability and raise system awareness while offering electronic payment choices.

Muluken (2020), carry out an investigation aimed at evaluating the benefits and challenges of implementing the E-tax Payment system in the Ethiopia MOR. The research design used for the research is descriptive. A questionnaire was utilized to collect the necessary input. The data collected from 213 taxpayers and 49 MOR workers served as the basis for the study. The finding research showed that some of the biggest obstacles to implementing an e-tax payment system were inaccurate data entering the system, delayed technical support, low internet connectivity, network outages, and regular power outages. The price of internet access and IT equipment, however, was not discovered to be an obstacle. The research also highlighted several key benefits of implementing an electronic tax payment system for both tax authorities (MOR) and taxpayers. These advantages include faster tax collection, reduced transaction costs and processing times, access to real-time payment information, minimized risk of cash handling errors and fraud, improved operational efficiency for tax authorities, and potentially more positive interactions between taxpayers and tax offices

According to Ali et al. (2015), study entitled “Information Technology and fiscal capacity in a developing country: evidence from Ethiopia”, the limited fiscal capacity of states presents a significant impediment to economic progress, leading governments in numerous developing nations to adopt electronic systems as a cost-efficient method of enhancing fiscal capability. The research provides empirical data from Ethiopia regarding the influence of (ESRMs) on firms' compliance with tax. The results demonstrate a noteworthy rise in tax contributions by firms after the introduction of ESRMs, especially among privately owned enterprises, which exhibit a higher tendency towards tax avoidance. Conversely, there was no substantial impact observed for corporately owned enterprises. On the whole, the utilization of ESRMs is linked to improved tax adherence among firms. Nevertheless, it is imperative to acknowledge that the research concentrates on registered taxpayers, representing a minor proportion of all businesses in Ethiopia, thereby giving rise to concerns about potential growth in informal economic activities if enforcement measures prompt certain firms to operate outside the established tax framework. Consequently, further investigation is warranted to analyze the degree to which heightened enforcement through ESRM deployment influences informal economic sector expansion. (Sisay, 2018) investigates how an online tax system is affected by technological attributes such as perceived risk, simplicity of use, utility, and facility. To do this, a questionnaire with a sample size of 92 respondents was administered, and structural questions were evaluated using convenient non-probable sampling techniques. The outcome demonstrated that, when used as a gauge for the online tax system, all technological indicators are statistically significant. The study also identifies potential problems within the current electronic tax filing system. By investigating these issues, we can gain a more comprehensive understanding of both the strengths and weaknesses of the online tax system. Studies in particular would aid ERCA in comprehending the issues surrounding the online tax system; yet, inadequate knowledge and technological infrastructure have severely hampered the system's efficient implementation.

Shiferaw, (2020) examines the influence of Ethiopia's Ministry of Revenues' electronic tax system on LTP tax compliance. To achieve this, the research delves into three key

areas: electronic tax filing, electronic tax payments (remittances), and challenges associated with the e-tax system. Using a survey explanatory research methodology, information was gathered from 150 sampled taxpayers who were registered at the Ministry of Revenues, a sizable taxpayers' branch office, using structured questionnaires. To gain insights from the collected data, a range of statistical methods were employed, including regression analysis, correlation analysis, and descriptive statistics. The output of the study implies that the electronic filing system has a favorable impact on large taxpayers' tax compliance, especially when it comes to e-tax filing, remittance e-tax, and electronic tax system-related difficulties. Furthermore, it noted that taxpayers had a favorable attitude regarding electronic filing, which further improved the simplicity of conducting business.

2.2.3. Summary of Empirical Review and Research Gap

The reviewed global research papers offer insightful information about the connection between tax compliance and digitalization in various situations. (Loo, 2006) demonstrates how a well-executed Electronic Tax Invoicing (ETI) system can improve tax compliance by integrating several factors, including real-time tax data access and institutional modifications. Similarly, (Mbise & Baseka, 2023) highlight the importance of technology and electronic filing capabilities in improving compliance by demonstrating a substantial association between digital tax administration and compliance among SMEs. The impact of electronic tax filing on tax compliance in Zimbabwe is examined by (Sifile et al., 2018). They find that while e-filing is well-received, there are still issues to be resolved, and further compliance measures are required. According to (Onuselegu & Onuora, 2021) assessment, there may be benefits to the revenue generated by electronic firm income tax payments when it comes to e-tax payments in Nigeria.

The reviewed Ethiopian research papers offer valuable insight into the effectiveness of electronic taxing and its application. (Yoseph, 2017) evaluated the effectiveness of the

ERCA E-tax filing system in a few different branches. The findings emphasized the challenges encountered by taxpayers as well as the advantages of the electronic filing system, such as increased accuracy & tax compliance. (Muluken, 2020) assessed the advantages and difficulties of the Ethiopian Ministry of Revenue's (MOR) adoption of the E-Payment system. Results from 213 taxpayers and 49 MOR employees showed benefits including faster tax collection and better taxpayer-office relations, but with drawbacks like erroneous data entry and inadequate internet connectivity.

Ali et al. (2015) looked into how Ethiopian businesses' tax compliance was affected by Electronic Sales Recording Machines (ESRMs). Although ESRMs resulted in higher tax contributions, particularly from privately held businesses, the study raised concerns about the possibility that enforcement actions may encourage the expansion of the black market. The effect of Ethiopia's electronic tax system on large taxpayers' tax compliance was investigated (Shiferaw, 2020). The Ministry of Revenues' survey of 150 taxpayers revealed positive effects on compliance, especially regarding e-tax filing and remittance. (Sisay, 2018) how an online tax system is affected by technological attributes such as perceived risk, simplicity of use, utility, and facility.

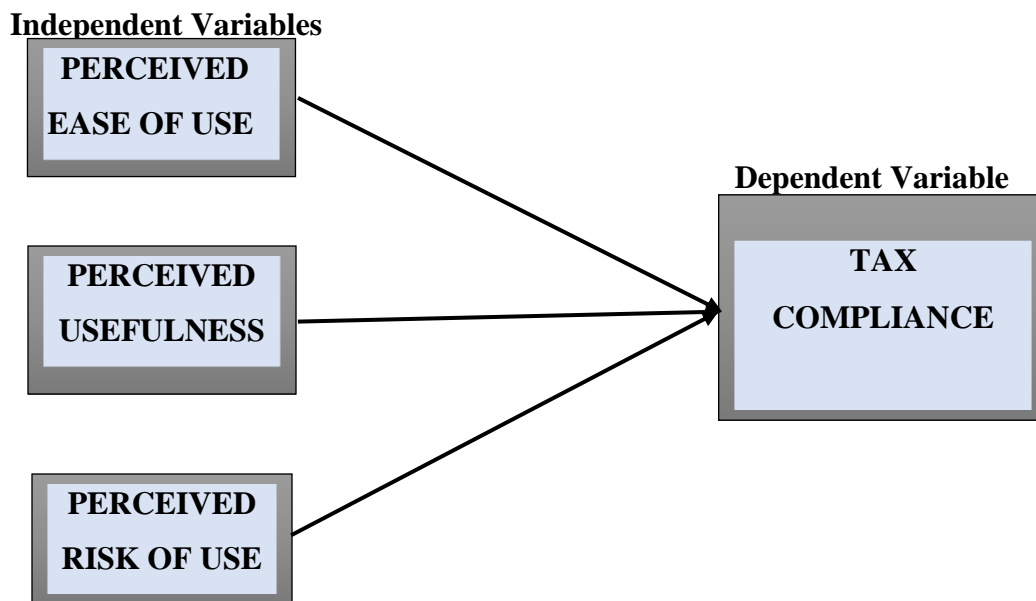
Most of the local research done by (Yoseph, 2017), (Muluken, 2020) & (Sisay, 2018) focuses on the effectiveness, advantages, and difficulties of the acceptance of the electronic tax system by ERCA only, but its influence on compliance is not covered.

In Ethiopia, as per the knowledge of the researcher, limited research exists on the impact of Ethiopia's digital tax system on tax compliance. Shiferaw (2020), study focuses on the effect of e-filing on tax compliance. The current study will fill this gap by specifically analyze the effect of electronic tax systems, including electronic filing and payment methods, which are presently in use within the ERCA by identifying their perceived ease of use, usefulness, and risk of use. By incorporating these digital tools, the study aims to

offer a comprehensive assessment of the effect of tax digitalization on large taxpayers' compliance in the case of Ethiopia.

2.3. Conceptual Framework

Figure 2: Conceptual Framework



2.4. Research Hypothesis

The following directed research hypotheses were established following a thorough examination of related literature on the tax compliance, electronic tax system, perceived ease of use, perceive usefulness, perceived risk of use and other issues associated with electronic tax system and tax compliance.

- Perceived usefulness and ease of use of the e-tax system for large taxpayers in Ethiopia.

H1: The e-tax system is not perceived as useful and easy to use for large taxpayers in Ethiopia.

- The effect of perceived ease of use of the e-tax system on large taxpayers' compliance in Ethiopia.

H2: Perceived ease of use of the e-tax system positively influences large taxpayers' compliance in Ethiopia.

- The effect of perceived usefulness of the e-tax system on large taxpayers' compliance in Ethiopia.

H3: Perceived usefulness of the e-tax system positively affect large taxpayers' compliance in Ethiopia.

- There are perceived risks associated with the use of the e-tax system for large taxpayers in Ethiopia.

H4: There are no significant risks associated with the use of the e-tax system for large taxpayers in Ethiopia.

- The effect of Perceived risk of using the e-tax system on large taxpayers' compliance in Ethiopia.

H5: Perceived risk of using the e-tax system negatively affect large taxpayers' compliance in Ethiopia.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter outlines the research methods that will be utilized to conduct this study." Within this chapter, a discussion will be given regarding the population and selection of research participants, the research design, and source of data, together with the tools for data gathering and techniques for data interpretation will be explained.

3.1. Research design

The purpose of this study is to determine how tax digitization affects large taxpayers' compliance in Ethiopia using an explanatory research approach. To clarify the relationship and causal effects between the dependent variable (tax compliance) and the independent variables (perceived usefulness, perceived ease of use, and perceived risk of the e-tax system), an explanatory design is selected. This research design is especially appropriate for this research as it enables a comprehensive analysis of how attitudes toward the e-tax system impact compliance practices.

3.2. Research approach

The focus of the study was on quantitative research methods only. Typically, it entails gathering data and turning it into a numerical format so that conclusions can be formed via statistical analysis. Scholars had formulated inquiries for their research. Predictions of potential linkages between the items under study were included in the answers to these questions. Deductive reasoning, which leans toward the specific, is the primary focus of quantitative research. This is referred to as a top-down strategy occasionally. It was demonstrated that the legitimacy of one or more grounds, previous reports, conclusions, or conditions, was necessary for the conclusions to be valid.

3.3. Population and Sampling

This study targeted large corporate taxpayers registered with the Ethiopian Ministry of Revenue's federal large taxpayer branch office. As of February 2024, this population comprised approximately 744 businesses. The focus on large taxpayers was due to the Ministry's current implementation of electronic tax filing (e-tax) services for this specific category only.

Both basic random sample and stratified sampling were utilized in the investigation. The taxpayers were categorized into eight strata according to the sectors in which they operated, including Agriculture, Construction, Manufacturing, Hotel & Restaurants, Import/Export, Financial Institutions, Community Social and Personal Services, and others. The research utilizes random sampling to obtain a representative sample size from the stratum. Because of this, the researcher was able to disseminate the questionnaire to responders in all industries fairly. Based on tax returns submitted, taxes collected throughout time, and significant difficulties encountered in interacting with technology and taxation.

The sample size was determined using the (Rose et al., 2014) formula, a confidence level of approximately 95% is used when estimating a population proportion.

The formula is as follows:

$$n = \frac{Z^2 pq}{d^2}$$

Where:

n = Sample Size

z = for 95% level of confidence 'z' can be 1.96

p = estimated percentage of the population showing the characteristic (p = 0.5 is used when the proportion is unknown).

$$q = 1-p$$

d = acceptable margin of error (at 95% confidence level 4 – 8% margin of error is acceptable)

$$n = \frac{z^2 pq}{d^2}$$

$$n = \frac{1.96^2 pq}{d^2}$$

$$n = \frac{1.96^2 * 0.5 * 0.5}{0.08^2}$$

$$n = \frac{3.8416 * 0.25}{0.0064}$$

$$n = 150.0625 \approx 150$$

As a result, out of the 744 major corporate business taxpayers, about 150 respondents were chosen. It should be noted that in accordance with (Israel, 1992) a percentage of 50% denotes a higher degree of variability than either 20% or 80%. This is because 20% and 80%, respectively, show that a sizable majority possess the relevant quality. As the maximum variability in a population is indicated by a fraction of 0.5, this value is frequently used to determine a more conservative sample size, meaning that the sample size may be bigger than the true variability of the population attribute employed.

After the anticipated sample size was determined, Stratification was done for the taxpayers based on their sectors fairly distribute samples among each stratum by using (Rose et al., 2014) formula.

$$n_h = \frac{N_h}{N_s} n$$

Where:

n_h = Number of samples selected from each subgroup

N_h = Number of population of each subgroup

N_s = Total population

n = Total sample size

Table 1 Population & Sample Size

Sector	Population in each subgroup	Sample size for each subgroup
Agriculture	24	5
Construction	93	19
Manufacturing	209	42
Hotel& Restaurants	85	17
Import/Export	95	19
Financial institutions	50	10
Community, social ,and personal services	126	25
Other	62	13
Total	744	150

Source: MOR, Federal Large Taxpayers Branch Office.

3.4.Source of Data and Collection of Data Methods

Only primary data sources were used in this research. Primary information's gathered from structured questionnaire. This provides targeted answers to the study questions. Primary data can be described as information obtained through surveys and interviews for a particular study project in response to a specific issue. For this study questionnaires' are distributed to Large Taxpayer's.

3.5.Data Analysis

The collected data were analyzed using SPSS 23, using a range of statistical techniques including descriptive statistics, correlation analysis, and regression analysis. These analyses aimed to identify and understand the significant influence of e-tax system on tax compliance among large taxpayers in Ethiopia.

(Goddard & Melville, 2004) state that equipment or data collection tools used in research have to satisfy two essential requirements: validity and reliability. Testing, interviews, and questionnaires are often used methods for obtaining primary data from people. These resources are useful for both qualitative and quantitative research, and they are integral to both kinds of investigations.

3.6.Validity

In research, the accuracy of a measurement tool in capturing its intended concept is known as its validity (Engel & Schutt, 2014). In this context, a questionnaire's validity is determined by how well it poses accurate questions. For a research questionnaire to be considered valid, the questions it contains must directly address the variable being studied. In simpler terms, the questionnaire's content should be closely linked to the specific factor you're trying to measure (Kothari, 2004)

The study's thorough procedure has been used to validate the questionnaire intended to evaluate how tax digitization affects Ethiopian large taxpayers' tax compliance. Expert's review, the adviser for this study, who reviewed the appropriateness of the questions and the measuring scales, confirmed the content validity. This was done to verify that the tool measures the intended parameters and to measure the clarity. Also, the researcher conduct interviews with the large taxpayers' branch office staff's. These source's feedback guaranteed the questionnaire's comprehensiveness, clarity, and relevance of material. As

a result, the researcher confirm that the questionnaire is a legitimate means of gathering information regarding how payers compliance is pushed by tax digitalization, guaranteeing precise and useful findings for the research

3.7. Reliability

In research, reliability refers to the consistency of a measurement tool in generating comparable data when used multiple times under similar circumstances (Mugenda & Mugenda, 2003). A key aspect of reliability is the minimization of random errors in the measurements. To assess this internal consistency within the questionnaire, Cronbach's alpha coefficient was employed. This statistical test evaluates how well the individual questions within the instrument measure the same underlying concept.

The reliability (or internal consistency) of the Likert scale items is measured by Cronbah' s alpha, which has a numerical value between zero and one. The scale items have good internal consistency when their Cronbach's alpha reliability test is high or very close to 1.

3.8. Model Specification

To evaluate the effect of tax digitalization on large taxpayers'' compliance, the study used the following linear regression model:

$$\text{Tax Compliance} = \alpha + \beta_1 (\text{PEU}) + \beta_2 (\text{PU}) + \beta_3 (\text{PRU})$$

Where:

- α (alpha): Represents the constants
- β_1 (Beta 1), β_2 (beta 2), β_3 (Beta 3): Represent the slopes indicating the degree of change in tax compliance for a one-unit change in each independent variable

- Tax Compliance: Dependent Variable
- PEU: Perceived Ease of Use (Independent Variable)
- PU: Perceived Usefulness (Independent Variable)
- PRU: Perceived Risk of Use (Independent Variable)

The model will be estimated using the Ordinary Least Squares (OLS) method. To assess whether the independent variables significantly affect the dependent variable, a t-test was conducted on the model with a 95% confidence interval, and significant differences identified at an alpha level of 0.05. Correlation coefficients measured the strength of the association between variables, and correlation analysis performed to detect multicollinearity. Both dependent and independent variables were measured on a ratio scale for greater precision. The significance of each regression coefficient was tested using a t-test.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter delves into the analysis and interpretation of data gathered from large taxpayers in Ethiopia through questionnaires. The collected information sheds light on the influence of the country's digital tax system on taxpayer compliance behavior.

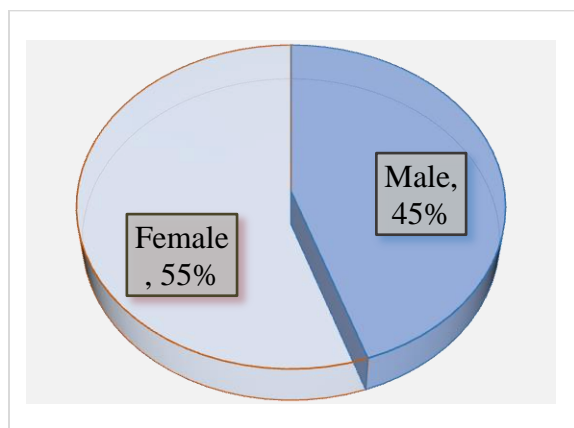
4.1.Result of Demographic Characteristics

The survey begins by collecting basic information from the respondents. The demographic profile is categorized into different attributes such as gender, age, background of education, total experience with e-tax, business sector, and frequency of e-tax use. This section utilizes tables and figures to present a detailed overview of the participants' background characteristics. For this study purpose 150 questionnaires are distributed to large taxpayers and all 150's are collected back. The researcher checked the data for missing information and to make sure it aligned with the study's expectations.

Gender

Of the total responders, 44.7% are males the remaining 55.3% are females

Figure 3: Gender Classification

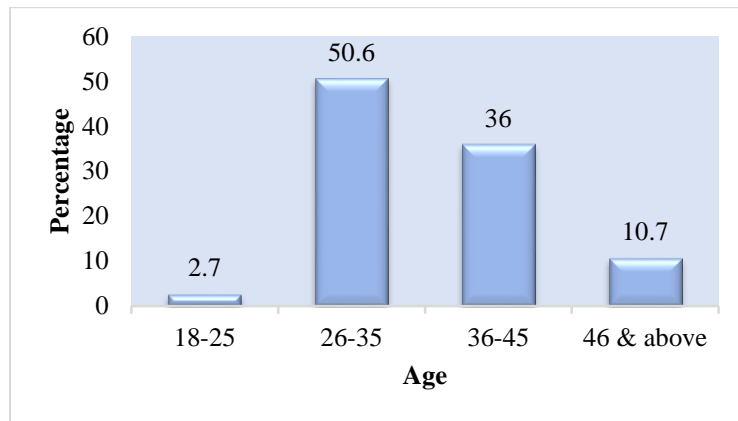


Source: Own Survey Result, 2024

Age

To the age range of the participants, the majority of participants (50.6%) are situated within the 26-35 and between 36 and 45 there are 36.0%. Subsequently, 2.7% of individuals fall within the age brackets of 18-25. The remaining 10.7% of respondents were aged 46 & above.

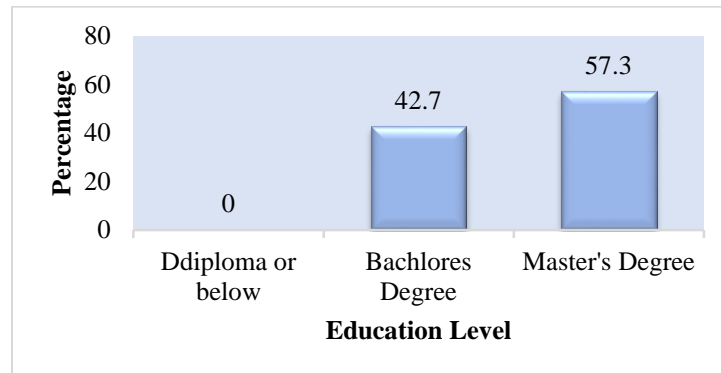
Figure 4: Age of Respondents



Source: Own Survey Result, 2024

Education Background

Figure 5 Education Background of Respondents



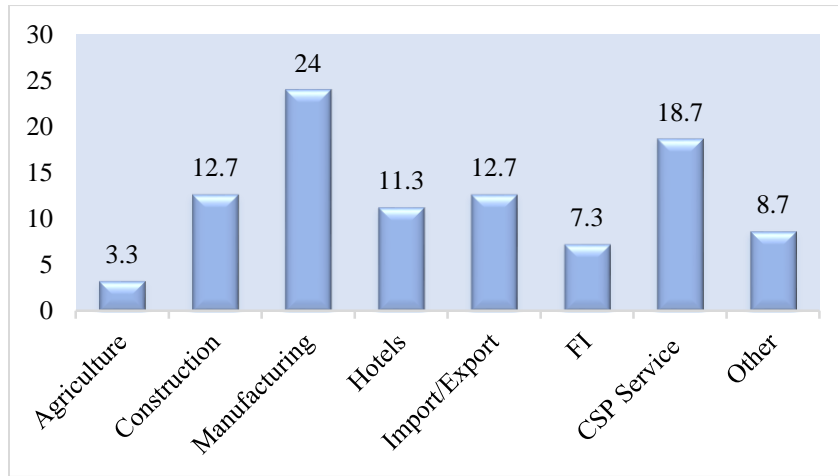
Source: Own Survey Result, 2024

As shown in the figure five, the majority of the participants, accounting for 57.3%, hold a degree of Master, whereas the rest 42.7% possess a bachelor's degree. Notably, none of the respondents hold a diploma or below. Thus, it can be reasonably concluded that the workforce mostly comprises individuals with a Master's degree.

Business Sector

The majority of participants 24% were associated with manufacturing enterprises, 18.7% were community, social & personal services, both construction and import/exports were 12.7% for each, 11.3% covered hotels and restaurants 7.3% in financial institutions, 3.3% of the respondents are in the agriculture industry. The remaining 8.7% are from other different business industries

Figure 6: Business Sector

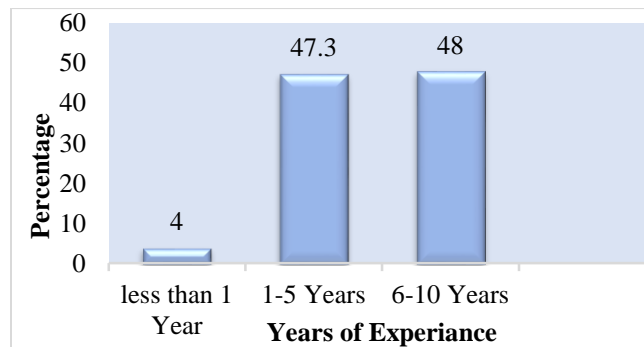


Frequency of E-tax System used

All respondents (100%) use the electronic taxing system, both Electronic Filing and E-pay, in every month's only.

Years of Experience in E-tax System

Figure 7: Experience of Respondents



Source: Own Survey Result, 2024

Most of the participants had less than 1 and between 1-5 years of e- tax experience 4% of the respondents had between six and ten years of experience with e- tax system. This suggests that most of the participants have substantial familiarity with both traditional and the modern electronic tax filing and paying methods, making them suitable for the study that compares the two systems.

4.2.Descriptive Analysis of Variables

The goal of the study was to determine how the Ministry of Revenues' electronic tax system affected large taxpayers' tax compliance. Four primary inquiries (variables of the study) were posed and distributed to the participants, namely: tax compliance, perceived ease of use, perceived usefulness, and perceived risk of use. To achieve the study's goals, multiple components of each variables were investigated.

4.2.1. Perceived Ease of Use

Table 2: Descriptive Statistics of PEU

No.	Questions	SA	A	N	D	SD	Total	\bar{x}	Std. Dev.
		f	f	f	f	f			
		%	%	%	%	%			
1	I can easily pick up the skills necessary to use the E-tax system.	63	77	5	4	1	150	4.31	0.73
		42	51.3	2.7	3.3	0.7			
2	I find The E-tax system seems user-friendly to me. the E-tax system easy to use	67	72	5	4	2	150	4.31	0.81
		44.7	48.0	3.3	2.7	1.4			
3	For me, using an e-tax system is simple to learn.	72	67	7	3	1	150	4.37	0.73
		48	44.7	4.6	2	0.7			
4	I find E-tax system flexible to interact with.	69	76	4	1	0	150	4.42	0.58
		46	50.7	2.6	0.7	0.0			
5	I have no trouble accessing the e-tax system.	17	87	16	29	1	150	3.59	0.97
		11.3	58	10.7	19.3	0.7			
6	The E-tax system is simple, uncomplicated, and easy to grasp.	86	62	2	0	0	150	4.56	0.52
		57.3	41.3	1.4	0	0			
7	I find it simple to utilize the E-tax system program.	40	101	9	0	0	150	4.19	0.63
		26.7	67.3	6	0	0			

Source: SPSS output (2024)

The survey result indicates that large taxpayers in Ethiopia generally find the e-tax system easy to use. A significant majority of respondents (93.3%) agree or strongly agree that they can easily acquire the necessary skills to use the e-tax system, as evidenced by a high mean score of 4.31 and a low standard deviation of 0.73. Similarly, 92.7% of respondents find the e-tax system user-friendly, with a mean score of 4.31 and a standard deviation of 0.81. Additionally, 92.7% of respondents agree that the e-tax system is simple to learn, reflected in a mean score of 4.37 and a standard deviation of 0.73. Most respondents (96.7%) also perceive the e-tax system as flexible to interact with, as indicated by a mean score of 4.42 and a low standard deviation of 0.58.

While a majority (69.3%) agree that they have no trouble accessing the e-tax system, the mean score of 3.59 and the higher standard deviation of 0.97 suggest some respondents face challenges in this area. However, an overwhelming majority (98.6%) find the e-tax system simple, uncomplicated, and easy to grasp, with the highest mean score of 4.56 and a very low standard deviation of 0.52. Furthermore, 94% of respondents find it simple to utilize the e-tax system program, reflected in a mean score of 4.19 and a standard deviation of 0.63.

Overall, these findings suggest that the e-tax system's user-friendly design and ease of use play a crucial role in facilitating compliance among large taxpayers in Ethiopia, although occasional issues with accessibility may need to be addressed.

4.2.2. Perceived Usefulness

Table 3: Descriptive Statistics of PU

No.	Questions	SA	A	N	D	SD	Total	\bar{x}	Std. Dev.
		f	f	f	f	f			
		%	%	%	%	%			
1	Filing tax returns would be difficult to be done without E tax	59	60	24	5	2	150	4.13	0.89
		39.3	40	16.1	3.3	1.3			
2	Using E-tax enhances my effectiveness on the job when making tax payments	84	65	1	0	0	150	4.55	0.51
		56	43.3	0.7	0	0			
3	Using E-tax makes it easier to file tax returns to ERCA	75	71	3	1	0	150	4.45	0.65
		50	47.3	2.0	0.7	0			
4	We find E-tax system useful in my enterprise	50	93	7	0	0	150	4.29	0.55
		33.3	62	4.7	0	0			
5	The time I spent to submitting tax returns is reduced by using an e-tax system	77	70	2	1	0	150	4.5	0.53
		51.3	46.7	1.3	0.7	0			
6	Using E-tax gives us greater control over my company when making tax payments	54	57	22	16	1	150	3.98	0.54
		36	38	14.7	10.7	0.7			
7	Using an E-tax system improves our company's expected performance	14	89	29	9	9	150	3.53	1.05
		9.3	59.3	19.4	6	6			
8	Using the E-tax system allows me to accomplish more work than would otherwise be possible	64	82	4	0	0	150	4.4	0.54
		42.7	54.6	2.7	0	0			
9	The E-tax system addresses our company-related needs	53	84	11	2	0	150	4.25	0.65
		35.3	56	7.4	1.3	0			
10	Accurate tax data information has been made possible by the E-tax.	77	70	3	0	0	150	4.49	0.54
		51.3	46.7	2	0	0			
11	The use of the E-tax system meets our expectations	28	72	49	1	28	150	3.83	0.77
		18.7	48.0	32.6	0.7	18.7			
12	The E-tax system is	38	76	21	14	1	150	3.9	0.93

	reliable when used	25.3	50.7	14	9.3	0.7			
13	The E-tax system is available all the time	23	74	32	21	0	150	3.66	0.90
		15.4	49.3	21.3	14	0			
14	When used, the E-tax system performs quickly and reliably.	20	64	42	24	0	150	3.53	0.92
		13.3	42.7	28	16	0			

Source: SPSS output (2024)

The survey outcomes reveal a healthy endorsement of the e-tax system among large taxpayers in Ethiopia, highlighting its perceived effectiveness and ease of use. Across various metrics, respondents expressed strong agreement regarding the system's utility. For instance, 93.3% affirmed that it enhances their job effectiveness (Mean = 4.55, SD = 0.51), indicating a high degree of satisfaction with its operational impact. Moreover, 94.7% find the system instrumental in simplifying the process of filing tax returns (Mean = 4.45, SD = 0.65), underscoring its role in streamlining administrative tasks. Users also reported significant benefits in terms of time efficiency, with 87.3% noting a reduction in the time spent on tax submissions (Mean = 4.5, SD = 0.53), and 92% highlighting its role in ensuring the accuracy of tax data (Mean = 4.49, SD = 0.54). These positive sentiments collectively indicate that the e-tax system is not only well-received but also considered integral to enhancing operational efficiency and compliance among large taxpayers in the country.

However, the survey also reveals some areas of divergence in user experiences and expectations. While the majority of respondents find the system reliable (76%, Mean = 3.9, SD = 0.93), concerns exist regarding its impact on company performance, with only 63.3% agreeing that it improves expected outcomes (Mean = 3.53, SD = 1.05). Additionally, perceptions regarding the system's availability (74%, Mean = 3.66, SD = 0.90) and speed of performance (64%, Mean = 3.53, SD = 0.92) exhibit slightly lower levels of agreement, suggesting areas where user experiences may not consistently meet expectations. These nuances highlight the importance of continuous system improvement and user training to address these concerns effectively. Overall, e-tax system considered as usable among large taxpayers in Ethiopia

4.2.3. Perceived risk of use

Table 4 Descriptive Statistics of PRU

No.	Questions	SA	A	N	D	SD	Total	\bar{x}	Std. Dev.
		f	f	f	f	f			
		%	%	%	%	%			
1	Filing returns and paying taxes online may not perform as expected	6	55	59	28	2	150	3.23	0.85
		4	36.7	39.3	18.7	1.3			
	Filing returns and paying taxes online may not adequately protect my financial details.	15	57	36	36	6	150	3.26	1.06
		10	38	24	24	4			
2	I may lose money by installing expensive internet which may fail to assist in filing and paying taxes due to poor connectivity	1	22	27	53	47	150	2.18	1.06
		0.7	14.7	18.3	35.3	31.3			
3	I am concerned that my business strategies may be exposed to competitors if I file returns and pay taxes using the Internet.	0	31	34	64	21	150	2.5	0.95
		0	20.7	22.6	42.7	14			
4	.I worry that inaccurate data processing during online tax payment and return submission might result in fines and interest.	2	35	34	62	17	150	2.62	1.01
		1.3	23.3	22.7	41.4	11.3			
5	System problems worry me because they might cause delays in completing returns and paying taxes during tax filing seasons.	9	75	25	39	2	150	3.33	0.97
		6	50	16.7	26	1.3			
6	I had to deal with irregular power supplies and Internet disruptions	26	62	31	2	3	150	3.5	1.09
		17.3	41.4	20.7	18.6	2			
7	Because of the many choices on the online site, I'm still confused about the electronic filing procedure.	11	51	21	46	21	150	2.86	1.27
		7.3	34	14	30.7	14			

9	I still reject the concept of e-filing because of the perceived danger involved.	0	16	32	76	26	150	2.2	0.94
		0	10.7	21.3	50.7	17.3			
10	There is a lack of internet security	2	46	41	50	11	150	2.83	1.04
		1.3	30.7	27.3	33.3	7.3			
11	For a taxpayer with a complicated income structure, e-filing cannot offer automatic online support.	24	58	18	32	18	150	3.19	1.33
		16	38.7	12	21.3	12			

Source: SPSS output (2024)

Based on the survey responses regarding concerns and perceptions about filing taxes online in Ethiopia, several key insights emerge. Firstly, there is a notable apprehension among respondents regarding the performance and security of online tax filing systems. A significant portion, 59.3%, expressed concerns that filing returns and paying taxes online may not perform as expected (Mean = 3.23, SD = 0.85), highlighting skepticism about the reliability and effectiveness of digital platforms for tax compliance. Similarly, 42% of respondents worry that online systems may not adequately protect their financial details (Mean = 3.26, SD = 1.06), reflecting apprehensions about data security and privacy in electronic transactions. Moreover, concerns about potential financial losses due to unreliable internet connectivity were noted by 35.3% of respondents (Mean = 2.18, SD = 1.06), indicating perceived risks associated with infrastructure challenges in accessing and using online tax systems.

Secondly, issues related to system reliability and operational challenges also surfaced prominently. Approximately 50% of respondents expressed concerns about system problems causing delays during tax filing seasons (Mean = 3.33, SD = 0.97), underscoring worries about technological glitches impacting timely compliance. Moreover, irregular power supplies and internet disruptions were cited by a significant 41.3% of respondents (Mean = 3.5, SD = 1.09), highlighting infrastructure limitations

that hinder seamless use of e-filing systems. Additionally, the complexity of the electronic filing procedure was a concern for 46% of respondents (Mean = 2.86, SD = 1.27), indicating a need for user-friendly interfaces and clearer guidance to mitigate confusion. These findings collectively emphasize the multifaceted challenges and perceived risks associated with transitioning to digital tax compliance systems in Ethiopia, suggesting areas where improvements in technology infrastructure and user education could enhance adoption and effectiveness.

4.2.4. Tax Compliance

Table 5: Descriptive Statistics Tax Compliance

No.	Questions	SA	A	N	D	SD	Total	\bar{x}	Std. Dev.
		f	f	f	f	f			
		%	%	%	%	%			
1	The company is aware of the advantages of following tax compliance regulations.	44	78	21	6	0	150	4.07	0.77
		29.3	52	14	4	0			
2	The business submits the correct self-assessment of taxes owed	48	90		4	5	150	4.07	0.86
		28	60	6	2.7	3.7			
3	The business has been filing returns before Submission deadlines	56	76	12	5	1	150	4.2	0.81
		37.3	50.7	8	3.3	0.7			
4	Without any enforcement activity, the Company pays the taxes due on time	59	76	11	4	0	150	4.27	0.51
		39.3	50.7	7.3	2.7	0			
4	The E tax system influences my willingness to file and pay taxes accurately and on time	56	65	15	14	0	150	4.09	0.92
		37.3	43.3	10.0	9.4	0			
6	The transparency of electronic tax systems has increased my trust in the tax authority, leading to greater compliance	32	78	24	4	12	150	3.76	1.07
		21.3	52	16.0	2.7	8.0			
7	Electronic generation of payment slips has reduced	45	61	30	11	3	150	3.89	0.98

	the chances of evading payment of tax	30	40.7	20.0	7.3	2.0			
8	Tax reporting has become more accurate and timeline subsequently the implementation of the online taxing system	67	66	6	10	1	150	4.25	0.75
		44.7	44	4.0	6.7	0.7			
9	I have noticed a change in my compliance behavior since the introduction of the electronic tax system	21	92	16	15	6	150	3.71	0.93
		14	61.3	10.7	10	4			

The survey results indicate generally positive perceptions and behaviors regarding tax compliance and the impact of electronic tax systems among respondents. A significant majority (78%) acknowledges the advantages of following tax compliance regulations ,and a similar percentage (90%) believe their business submits correct self-assessments of taxes owed Over 75% of respondents report consistently filing tax returns before submission deadlines and paying taxes on time without enforcement activities. The introduction of the E-tax system is seen as influencing willingness to file and pay taxes accurately and on time by a majority (65%). However, there are mixed sentiments regarding the system's impact on compliance behavior, with 61.3% noticing positive changes and 14% disagreeing. Despite these positive indicators, there are areas for improvement: transparency enhancements in electronic tax systems and the effectiveness of electronic payment slips in reducing tax evasion receive more varied responses, suggesting room for refining system features to further bolster trust and compliance.

Generally, while the electronic tax system is positively perceived for improving accuracy and timeliness in tax reporting, ensuring continued trust and effectiveness remains crucial for sustained compliance and adoption.

4.3. Reliability Analysis

Table 6 The Cronbach's Alpha Reliability of all component

	Cronbach's Alpha	N of Items
All items	0.734	41

Source: SPSS OUTPUT (2024)

Overall Cronbach's Alpha: The overall reliability of the entire survey, represented by all 41 items, is 0.734. This indicates a moderate to good level of internal consistency among the items in the questionnaire.

Table 7 The Cronbach's Alpha Reliability of each variables item

	Cronbach's Alpha	N of Items
Perceived ease of use	0.701	7
Perceived usefulness	0.727	14
Perceived risk of use	0.735	11
Tax compliance	0.783	9

Source: SPSS output (2024)

The reliability analysis using Cronbach's Alpha coefficient provides a measure of internal consistency for the survey components and variables:

1. Variable-Level Cronbach's Alpha:

- Perceived ease of use: This variable, consisting of 7 items, has a Cronbach's Alpha of 0.701, indicating moderate internal consistency.

- Perceived usefulness: With 14 items, this variable shows a Cronbach's Alpha of 0.727, suggesting moderate internal consistency.
- Perceived risk of use: This variable includes 11 items and has a Cronbach's Alpha of 0.735, indicating good internal consistency.
- Tax compliance: The variable with 9 items demonstrates the highest Cronbach's Alpha at 0.783, indicating very good internal consistency among its items.

These results imply that while the survey as a whole demonstrates reasonably good internal consistency, individual variables vary slightly in their reliability. Variables such as perceived risk of use and tax compliance show stronger internal consistency compared to perceived ease of use and perceived usefulness, which exhibit moderate consistency. In general the analysis underscores the questionnaire's reliability in effectively measuring the targeted constructs, supporting the validity of the survey findings.

4.4. Correlation Analysis

A correlation analysis is used to indicate the link or association between two or more quantitative variables. The underlying premise of this analysis is that there is a straight-line relationship between the quantitative variables. It gauges the "strength" or "extent" of an association between the variables as well as its direction, much like the measures of association for binary variables. A correlation study yields a correlation coefficient, which has a range of values from -1 to +1. A correlation coefficient of +1 denotes a perfect positive relationship between the two variables under study, a correlation coefficient of -1 denotes a perfect negative relationship, and a correlation coefficient of zero denotes no linear relationship at all between the two variables.

Table 8 Correlation Analysis

		Tax Compliance	Perceived ease of use	Perceived usefulness	Perceived risk of use
Pearson Correlation	Tax Compliance	1.000	.318	.265	-.231
	Perceived ease of use	.318	1.000	.010	-.038
	Perceived usefulness	.265	.010	1.000	-.150
	Perceived risk of use	-.231	-.038	-.150	1.000
Sig. (1-tailed)	Compliance	-	.000	.001	.002
	Perceived ease of use	.000	-	.452	.320
	Perceived usefulness	.001	.452	-	.034
	Perceived risk of use	.002	.320	.034	-
N	Compliance	150	150	150	150
	Perceived ease of use	150	150	150	150
	Perceived usefulness	150	150	150	150
	Perceived risk of use	150	150	150	150

Source: SPSS output (2024)

The correlation matrix provides valuable insights into the relationships between variables related to tax compliance, perceived ease of use, perceived usefulness, and perceived risk of use. Firstly, tax compliance shows a significant positive correlation with perceived ease of use ($r = 0.318$, $p = 0.000$) and perceived usefulness ($r = 0.265$, $p = 0.001$), indicating that businesses or individuals who perceive the tax system as easy to use and beneficial are more likely to comply with tax regulations. Conversely, there is a negative correlation between tax compliance and perceived risk of use ($r = -0.231$, $p = 0.002$), suggesting that higher perceived risks associated with using the tax system may lead to lower compliance rates.

Secondly, perceived ease of use shows a moderate positive correlation with tax compliance ($r = 0.318$, $p = 0.000$), affirming that when users find the tax system easy to navigate and operate, they are more inclined to comply with tax requirements. However, perceived ease of use does not significantly correlate with perceived usefulness ($r =$

0.010, $p = 0.452$) or perceived risk of use ($r = -0.038$, $p = 0.320$), indicating that ease of use primarily affects compliance behavior rather than perceptions of utility or risk.

Thirdly, perceived usefulness demonstrates a positive correlation with tax compliance ($r = 0.265$, $p = 0.001$), underscoring that when taxpayers perceive the tax system as beneficial and advantageous, they are more motivated to comply with tax obligations. There is also a weak negative correlation between perceived usefulness and perceived risk of use ($r = -0.150$, $p = 0.034$), suggesting that as users perceive the tax system to be more useful, they may perceive fewer risks associated with its use.

Overall, these findings emphasize the critical role of user perceptions in influencing tax compliance behavior. Enhancing perceptions of ease of use and usefulness while mitigating perceived risks can potentially increase compliance rates by fostering a more favorable attitude towards tax systems.

4.5. Regression Analysis

A dependent variable and one or more independent variables (explanatory variables) are modeled and analyzed statistically using regression analysis. The objective is to comprehend the nature of the relationship and apply the model to forecast dependent variable values in response to new data's collected on independent variables.

The approach known as "Multiple Regression" enables the inclusion of additional components to the study individually in order to assess their respective effects. It is useful for calculating the effect of several concurrent effects on a single dependent variable. Furthermore, even when the researcher is only interested in the effects of one of the independent variables, multiple regression is sometimes necessary due to the bias caused by missing factors in simple regression. Multiple regression analysis was conducted to examine the influence of perceived ease of use, perceived usefulness, and perceived risk on tax compliance. The results are presented in the following Tables

Table 9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.754 ^a	.569	.560	.30999

a. Predictors: (Constant), Perceived risk, Perceived ease of use, Perceived usefulness

b. Dependent Variable: Tax Compliance

Source: SPSS output (2024)

The model summary indicates a strong relationship between the predictors (perceived ease of use, perceived usefulness, and perceived risk of use) and the outcome variable (tax compliance), with an R^2 of 0.569. This means that approximately 56.9% of the variance in tax compliance can be explained by the predictors included in the model. The adjusted R^2 , which considers the number of predictors, is 0.560, indicating that the model's explanatory power remains robust after accounting for the degrees of freedom. The standard error of the estimate is 0.30999, representing the average distance between observed values and predicted values, providing a measure of the model's accuracy in predicting tax compliance.

Table 10 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	8.849	3	2.950	12.378	.000 ^b
Residual	34.794	146	.238		
Total	43.643	149			

a. Predictors: (Constant), Perceived risk, Perceived ease of use, Perceived usefulness

b. Dependent Variable: Tax Compliance

Source: SPSS output (2024)

The analysis of variance (ANOVA) table shows that the regression model is statistically significant ($F = 12.378$, $p = 0$), indicating that the predictors jointly contribute

significantly to explaining the variance in tax compliance. The regression sum of squares (8.849) and residual sum of squares (34.794) illustrate the division of variance between the model's ability to explain tax compliance and the variance that remains unexplained. With 3 degrees of freedom for regression and 146 degrees of freedom for residuals, the model effectively distinguishes the contribution of the predictors from random variation. Overall, these results underscore the model's validity in capturing the relationships between perceived ease of use, perceived usefulness, perceived risk of use, and tax compliance, providing a solid foundation for understanding these dynamics in tax compliance behavior.

Table 11 Coefficients of Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Tax Compliance	1.516	.722		2.098	.038
	Perceived Ease of Use	.384	.092	.309	4.180	.000
	Perceived Usefulness	.347	.111	.234	3.133	.002
	Perceived Risk of use	-.297	.121	-.184	-2.455	.015

a. Predictors: (Constant), Perceived risk, Perceived ease of use, Perceived usefulness

b. Dependent Variable: Tax Compliance

Source: SPSS output (2024)

The multiple regression analysis explored how perceived ease of use, perceived usefulness, and perceived risk of use collectively influence tax compliance. The model's R² value of 0.569 indicates that approximately 56.9% of the variability in tax compliance can be explained by these predictors. Perceived ease of use emerged as a significant positive predictor (Beta = 0.309, p < 0.05), suggesting that taxpayers are more likely to comply with tax obligations when they perceive the tax system as straightforward and

user-friendly. This finding underscores the importance of designing tax systems that are easy to navigate and operate, as they can enhance compliance behavior among taxpayers who find them accessible.

Similarly, perceived usefulness also positively influenced tax compliance (Beta = 0.234, $p < 0.05$). This indicates that when taxpayers perceive tangible benefits and value in using the tax system, they are more motivated to comply with tax regulations. Enhancing the perceived usefulness of the tax system through clear benefits and efficient functionalities could therefore play a crucial role in fostering voluntary compliance. These results suggest that tax authorities and policymakers should focus on not only simplifying the tax filing process but also clearly communicating the benefits taxpayers gain from timely and accurate compliance.

Conversely, perceived risk of use showed a negative association with tax compliance (Beta = -0.184, $p < 0.05$). This suggests that higher perceived risks associated with using the tax system may deter taxpayers from fully complying with tax regulations. Addressing concerns related to data security, reliability of the system, and potential penalties could mitigate perceived risks and thereby improve compliance rates. Overall, these findings highlight the intricate relationship between user perceptions of system ease of use, perceived benefits, and perceived risks in shaping tax compliance behavior, providing valuable insights for designing effective tax policies and systems.

4.6. Collinearity Diagnostics

When there is a strong correlation between two or more independent variables in a regression model, it is referred to as multicollinearity, or collinearity. It is difficult to separate the distinct impacts of each predictor due to the strong correlation between the variables, which suggests that they supply duplicate information regarding the response

variable. Correlation matrices and the Variance Inflation Factor (VIF) are two common detection techniques. A VIF score of more than 10 typically denotes significant collinearity.

Table 12 Collinearity Statistics

Model	Tolerance	VIF
Perceived Ease of Use	0.999	1.001
Perceived Usefulness	0.978	1.023
Perceived Risk	0.976	1.024

Source: SPSS output (2024)

The collinearity statistics in Table 4.6 indicate minimal to no issues of multicollinearity among the predictors: perceived ease of use, perceived usefulness, and perceived risk in the regression model for tax compliance. Tolerance values near 1 and VIF values close to 1 for all predictors (perceived ease of use: tolerance = 0.999, VIF = 1.001; perceived usefulness: tolerance = 0.978, VIF = 1.023; perceived risk: tolerance = 0.976, VIF = 1.024) suggest that each predictor contributes independently to explaining tax compliance without substantial overlap or redundancy with the others. These findings indicate that the regression model effectively distinguishes the unique contributions of perceived ease of use, perceived usefulness, and perceived risk to tax compliance behavior, enhancing the reliability and interpretability of the model's results.

CHAPTER FIVE

CONCLUSION, SUMMARY, AND RECOMMENDATION

The study discusses conclusions, and recommendations based on research findings are outlined in this chapter, along with suggestions for areas that may need more investigation as part of future research.

5.1. Discussion and Summary of Major Findings

The purpose of this study was to ascertain the effect of electronic tax systems on large taxpayers in Ethiopia with respect to tax compliance, with an emphasis on the perceived risk, usefulness, and simplicity of these systems. The analysis of respondent data in the study offers perceptive information about these specific goals. The findings from the research are presented below by the study-specific goals. The frequency of the responses and previous studies supported the findings.

- The study found that the e-tax system is largely perceived as useful and easy to use by large taxpayers in Ethiopia, supporting hypothesis H1. High mean scores and positive responses indicated a general satisfaction with the system's usability.

- The analysis demonstrated a positive relationship between perceived ease of use and tax compliance, confirming hypothesis H2. The regression results ($\beta = 0.309$, $p < 0.05$) suggest that simplifying the e-tax system's interface and ensuring ease of operation can significantly boost compliance among large taxpayers. Because it is so simple to use, taxpayers find it easier to comply with accuracy requirements and deadlines related to tax filing and tax payment.

When adopting a technological system, perceived ease of use is a key signal, according to the technological acceptance model theory (Setiawan et al., 2018). There is an excellent probability that taxpayers who find the electronic tax method user-friendly and simple

will also be more likely to pay their taxes on time. The finding of the study, that perceived simplicity of use positively influences taxpayer compliance is in favor with earlier studies by Rahayu & Prastiwi (2021) and Setiawan et al. (2018).

- Perceived usefulness also positively affects tax compliance, as hypothesized in H3. The regression coefficient ($\beta = 0.234$, $p < 0.05$) indicates that taxpayers who recognize the tangible benefits of the e-tax system, such as time savings and improved efficiency, are more likely to adhere to compliance requirements. Because of the system's efficiency and ability to save time, taxpayers are encouraged to abide by tax laws. Large taxpayers adopt more conscientious and timely tax practices as a result of the system's capacity to improve work effectiveness and grant greater control over tax payments.

According to the technology acceptance model (TAM) idea, a system will be valuable if it can help the user. To ensure that the great level of taxpayer compliance in fulfilling their tax obligations is influenced by the perceived value of e-tax usage, which grows. These findings are corroborated by earlier studies conducted by Ritsatos (2014), Setyana & Yushita (2018), and Setiawan et al. (2018), offer the view that usefulness perception positively affects taxpayer compliance. These findings align with the current research result.

- Specific risks of using an e-tax system that has been identified include the possibility of data processing errors, system hang-ups that cause delays, and worries regarding the security of financial information. Although significant, these risks had an impact on the degree of trust and confidence that people had in the e-tax system. The efficient use of e-tax systems may be further increased by addressing these issues through increased security and improved system dependability.
- The perceived risk negatively impacts tax compliance, confirming hypothesis H5. The negative correlation between perceived risk and tax compliance ($\beta = -0.184$,

$p < 0.05$) highlights the adverse impact of these risks on taxpayer behavior. Taxpayers who perceive higher risks in using the e-tax system are less likely to comply with tax regulations although individuals with greater risk perceptions behaved more cautiously in their tax compliance operations, most respondents continued to use the e-tax system despite these worries.

Schaupp et al., (2010), define perceived risk as the taxpayer's belief that they could incur losses in the process of trying to comply. The finding of the study, that perceived risk of use negatively influences taxpayer's compliance, is in favor of the study conducted by Shiferaw (2020).

5.2. Conclusion

This study aimed to assess the effect of tax digitalization on large taxpayers' compliance in Ethiopia by examining the perceived ease of use, perceived usefulness, and perceived risk associated with the e-tax system. The findings provide valuable insights into how these factors influence tax compliance and offer guidance for improving the system to achieve higher compliance rates. The study confirmed that the e-tax system is generally perceived as easy to use and beneficial by large taxpayers in Ethiopia, significantly enhancing tax compliance. Simplifying the system's interface and highlighting its benefits can further improve compliance.

The positive relationship between perceived ease of use and tax compliance underscores the importance of continuous improvements in the system's usability. Ensuring that the e-tax system remains easy to navigate and operate is crucial for maintaining high compliance levels. The study found that perceived usefulness positively affects tax compliance. Taxpayers who see the e-tax system as advantageous and efficient are more likely to comply with tax regulations. This finding aligns with the Technology

Acceptance Model (TAM), emphasizing the need to communicate and demonstrate the tangible benefits of the system to taxpayers.

Significant risks associated with the e-tax system, such as data security and system reliability concerns, were identified. These risks negatively impact tax compliance, highlighting the necessity for robust security measures and reliable system performance. The negative impact of perceived risk on tax compliance indicates that taxpayers who perceive higher risks in using the e-tax system are less likely to comply with tax regulations. Effective risk management strategies, including enhanced security protocols and reliable system performance, are essential to mitigate these risks and foster a positive compliance environment.

In conclusion, the e-tax system has the potential to significantly improve tax compliance among large taxpayers in Ethiopia. Ensuring the system's usability, demonstrating its benefits, and addressing associated risks are key to achieving and sustaining high compliance levels.

5.3.Recommendation

- ERCA needs to make investments to improve the e-tax system's reliability and security. This will result in a more reliable and safe electronic tax system, which will lower taxpayers' perceived risks and boost compliance.

- To improve the way that the e-tax system is seen as being more user-friendly, ERCA needs to give users thorough training and continuing assistance. By using this approach, any potential technological problems will be addressed and taxpayers will feel more competent and confident in their ability to use the system.

- By emphasizing the benefits and effectiveness of the electronic tax system, ERCA can increase taxpayers' perception of electronic tax system usefulness. Highlighting these advantages will result in increased compliance rates since taxpayers will see the benefits of handling their tax responsibilities with a simplified and effective e-tax system.

- Future research should show the long-term effects of e-tax systems on tax compliance behavior, compare studies across different regions, and look into the specific features of e-tax systems to find out how they contribute to compliance. These studies can provide insightful information that might be used to improve the designs of e-tax systems and tactics meant to increase compliance in various contexts.

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APPENDIX

Appendix I – Questionnaire

Addis Ababa University

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Post Graduate Students

My name is Diana Gashaw, and I'm a Master's student in Accounting & Finance at Addis Ababa University. I'm inviting you to participate in a short questionnaire to gather your valuable insights for my thesis research. This study explores the influence of Ethiopia's digital tax system on tax compliance among large taxpayers

Your honest and thoughtful responses are crucial to the success of this research. By completing all the questions to the best of your ability, you'll be making a significant contribution to this study. I kindly request your cooperation in answering the questions as clearly and accurately as possible. Please be assured that all the information you provide will be used solely for academic purposes and will be kept strictly confidential.

Questionnaires: Part I

General Instructions

- No need to write your name
- Put (√) under the column of your opinion for scale questions

General Information's:

1. Gender: Male Female
2. Age: Under 18 18-25 26-35 36-45 46 and above

3. Educational background: High school or below Bachelor's degree
 Master's degree or higher
4. Business sector: Agriculture Manufacturing Services
 Finance & Insurance Import/Export Education Hotel
 Health Construction Real Estate Other
5. Years of experience with E-tax: Less than 1 year 1-5 years 6-10 years
6. How frequently do you use electronic tax filing and payment methods?
 Daily Weekly Monthly Yearly Rarely

PART II

No.	Questions	1	2	3	4	5
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Perceived ease of use

1. I can easily pick up the skills necessary to use the E-tax system.
2. I find The E-tax system seems user-friendly to me.
the E-tax system easy to use
3. For me, using an e-tax system is simple to learn.
4. I find E-tax system flexible to interact with.
5. I have no trouble accessing the e-tax system.
6. The E-tax system is simple, uncomplicated, and easy to grasp.
7. I find it simple to utilize the E-tax system program.

Perceived Usefulness

1. Filing tax returns would be difficult to be done without E tax
2. Using E-tax enhances my effectiveness on the job when making tax payments
3. Using E-tax makes it easier to file tax returns to ERCA
4. We find E-tax system useful in my enterprise
5. The time I spent to submitting tax returns is reduced by using an e-tax system
6. Using E-tax gives us greater control over my company when making tax payments
7. Using an E-tax system improves our company's expected performance
8. Using the E-tax system allows me to accomplish more work than would otherwise be possible
9. The E-tax system addresses our company-related needs
10. Accurate tax data information has been made possible by the E-tax.
11. The use of the E-tax system meets our expectations
12. The E-tax system is reliable when used
13. The E-tax system is available all the time
14. When used, the E-tax system performs quickly and reliably.

Perceived Risk of use

1. Filing returns and paying taxes online may not perform as expected
2. Filing returns and paying taxes online may not adequately protect my financial details.
3. I may lose money by installing expensive internet which may fail to assist in filing and paying taxes due to poor connectivity
4. I am concerned that my business strategies may be exposed to competitors if I file returns and pay taxes using the Internet.
5. I worry that inaccurate data processing during online tax payment and return submission might result in fines and interest.
6. System problems worry me because they might cause delays in completing returns and paying taxes during tax filing seasons.
7. I had to deal with irregular power supplies and Internet disruptions.
8. Because of the many choices on the online site, I'm still confused about the electronic filing procedure.

Because of the many choices on the online site, I'm still confused about the electronic filing procedure.
9. I still reject the concept of e-filing because of the perceived danger involved.
10. There is a lack of internet security

11. For a taxpayer with a complicated income structure, e-filing cannot offer automatic online support.

Tax Compliance

1. The company is aware of the advantages of following tax compliance regulations.
2. The business submits the correct self-assessment of taxes owed
3. The business has been filing returns before Submission deadlines
4. Without any enforcement activity, the Company pays the taxes due on time
5. The E tax system influences my willingness to file and pay taxes accurately and on time
6. The transparency of electronic tax systems has increased my trust in the tax authority, leading to greater compliance
7. Electronic generation of payment slips has reduced the chances of evading payment of tax
8. Tax reporting has become more accurate and timeline subsequently the implementation of the online taxing system
9. I have noticed a change in my compliance behavior since the introduction of the electronic tax system