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DETERMINANTS OF RENTAL INCOME TAX COMPLIANCE BEHAVIOR IN ADDIS ABABA: THE CASE OF YEKA SUB CITY SMALL TAXPAYERS BRANCH OFFICE

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Statement of Declaration

I declare that;

The study was undertaken by me, Workneh Lemma Mengesha, department of Accounting and finance, school of Business and Economics, Addis Ababa University, Ethiopia.

The ideas enclosed in this thesis are entirely my own, except the ideas and views of other researchers, authors and scholars expressed in the work are duly acknowledged. I also certify that the work is original and has not been submitted for any other award.

Name of Student: Workneh Lemma Mengesha

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Date: October, 2020

Statement of Certification

This is to certify that this research paper entitled "Determinants of rental income tax compliance behavior in Addis Ababa: The case of Yeka Sub City Small Taxpayers Branch Office" is the work of Workneh Lemma Mengesha. It complies with the regulations of the university and meets the accepted standards in respect to originality and quality. It is submitted in partial fulfillment of the requirement of Master of Science (MSc) in Accounting and Finance

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Date: October, 2020

Addis Ababa University

College of Business and Economics

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This is to certify that the thesis prepared by Workneh Lemma Mengesha entitled 'Determinants of rental income tax compliance behavior in Addis Ababa: The case of Yeka Sub City Small Taxpayers Branch Office', which is submitted in partial fulfillment of the requirements for the Degree of Masters in Accounting and Finance, complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ACRONYMS

AP = Auditing and Penalty

CTA = Capacity of Tax Authority

ERCA = Ethiopian Revenue and Customs Authority

ILTP= Income level of taxpayers

PTP = Perceptions of taxpayers

RTC = Rental income tax compliance

TCC = Tax compliance costs

ABSTRACT

The main purpose of this study was to identify and establish the factors that determine the rental income tax compliance behavior of small tax payers found in the jurisdiction of Yeka sub city. In conducting the study, a model was constructed that holds rental income tax compliance as dependent variable and perception of tax payers, capacity of tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs as independent variables. The research has employed descriptive and explanatory research design as well as qualitative and quantitative approaches to conduct the study. The data for the research was gathered from both primary and secondary sources. The quantitative data was analyzed using regression model whereas the qualitative data was analyzed by inferential conclusions. From the results of the study, it was concluded that 73.5% of the variation in rental income tax compliance is accounted for by changes in perceptions of tax payers, capacity of tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs. It was also shown in the study that the model gets it statistically significant in predicting rental income tax compliance through the impacts of perceptions of tax payers, capacity of tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs. The findings of the study confirmed all the research hypotheses (H2, H3, H4, and H5) except hypothesis proposed for perceptions of taxpayers (H1).The result demonstrated that all the independent variables except tax compliance costs affect positively and strongly rental income tax compliance. By taking into accounts the results of the study and the data showing the reality on the ground, it is recommended that the tax office to act more on awareness programs and modernizing and improving the capability of the tax office.

Key words: tax compliance, perception of tax payers, tax compliance costs

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Taxation is a system of raising money to finance governments expenditure incurred under recurrent and capital budget. It is central to economic, social and political development. According to several authors, a strong tax system can play three important roles in national development. These are revenue generation, lessening of inequality and promotion of good governance (Cobham, 2005). However, collection of tax is not a simple task. It has serious challenges. One of the serious problems that slacken a tax administration is tax noncompliance. It is a failure of taxpayers to meet intentionally or unintentionally tax obligations prescribed by laws (James & Alley, 2004; Loo 2006; Mohani, 2001).Efforts by governments to generate tax revenues are hampered by widespread tax evasion among taxpayers in many countries. The desire to evade tax is prevalent in every country. Studies have shown that, those factors which influence tax compliance and/or non-compliance behavior differ from one country to another and also from one individual to another (Kirchler, 2007).

Income taxation in Ethiopia has undergone successive changes across years since its inception in 1944. Currently, the operative law with regard to income tax in Ethiopia for the federal government and the city government of Addis Ababa is proclamation no. 979/2016.This law adopts scheduler system of income taxation by embracing in its scope different sources of income into consideration for the purpose of taxation. It has classified the sources of income into four schedules as; schedule A (employment income), schedule B (rental income), schedule C (business income) and schedule D (miscellaneous income).

Even though it has been a long time since it was included in the income tax proclamation, rental income tax was started to be strictly enforced especially on individual house owners recently. This tax, which falls under schedule B of the current applicable law, requires the imposition of tax on incomes derived from rent of buildings. Any income arising from rental of buildings is taxable under schedule B. The taxable income includes all form of income from rent of a building including rent of furniture and equipment if the building is fully furnished (Ethiopian Tax Proclamation 979/2016).

Tax noncompliance is a serious challenge in Ethiopia as it is in some other developing and countries. Like the federal and other regional governments of Ethiopia, the government of Addis Ababa city administration has faced this big problem as it is evidenced from its exposure to poor revenue performance over several years (ERCA L., 2014). Facts show that several taxpayers fail to fulfill their income tax duties and a number of them face legal liability for their failure (ERCA L., 2014).

The rental income tax regime of Addis Ababa city administration is one of the tax sectors which is being exposed to the tax noncompliance problem .Comparing the plans and the actual revenue collected by the city government for the period from 2016 to 2020 showed the severity of the challenge clearly. The result of the actual revenue from the planned was shows on average a decrease of 5%. The city government of Addis Ababa administration conducts its tax administration through its ten sub cities which are empowered to have their own revenue and customs administration offices for tax assessment, collection, and control of variety of the tax bases. One of these is Yeka sub city. It is composed of (14) fourteen woredas and has a total of 4,775, 4,655, 6,049, 5,612 and 3,219 registered taxpayers under its jurisdiction for the past five consecutive years from 2016 to 2020.

Huge amount of money have been planned for rental income tax was not actually collected by Yeka sub city for the past five consecutive years from 2016 to 2020. According Yeka small taxpayers' branch office report (2020), the number of non-filers, null-declarants and the amount of tax collected by enforcement activity are significant. Therefore, the aforementioned problems necessitate this study to be carried out so as to establish the determinants that influence the tax voluntary compliance behavior from both taxpayers' and tax authority perspective in Yeka sub city.

1.2. Statement of the Problem

Rental of buildings can be of various classes based on flats, stand-alone houses, apartments and so on. The demand for housing depends on one's ability and willingness to pay the required fee of rent. Rental housing has really expanded and most individuals or entities are investing in rental houses (Sani & Gbadegesin, 2015). Thus, it is noted that understanding the compliance behavior of rental income taxpayers since the taxation of rental income influences the relationship between house owners, house renters and the government (Berhane & Yesuf, 2013).

Ethiopia is ranked among countries with low compliance as far as tax revenue collection is concerned. The problem is common for all levels of governments in the country including Addis Ababa city government. The tax revenue is more attributed to lack of good mechanisms to enforce tax collection. The Addis Ababa city government needs to invest more on tax administration so as to ensure that no tax revenue is lost or uncollected. Although the city has registered significant growth in tax collection by over 107% from 2007 E.C to 2011 E.C. the contribution of rental income tax has been very low despite all the efforts of the city government. One of its sub cities, Yeka sub city has not collected huge amount of rental income tax money that should have been paid over successive years. The number of non-filers and null-declarants are plenty in the sub city and also the amount of tax collected by enforcement activity in the sub city is significant.

At the global level, several studies have been carried out on tax compliance behavior of non-rental income taxpayers. Palil (2010) in his research on tax compliance determinants in self-assessment system in Malaysia established that compliance of tax is influenced by probability of being audited, penalties, personal financial constraints and referent groups. Mukabi (2014) in his study on factors influencing turnover tax compliance in the Kenya revenue authority revealed that l cost of compliance and complicated systems result in low levels of compliance. His findings also indicated that perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. According to the study conducted by Fadjar (2012) on the influence of tax fairness and tax compliance in Indonesia, it is shown that tax fairness and trust has direct effect on voluntary tax compliance. The study of Abubakari and Christopher (2013) on Ghana taxpayers found out that attitudes of taxpayers towards a tax system influence to a significant degree the compliance of tax laws. Studies of Friedland et al. (1978) and Paul & Osebe (2014) disclosed that a higher audit rate and penalties lead to more tax compliance.

Relatively, the numbers of international studies conducted on tax compliance behavior of rental income taxpayers are lower. The study of Thananga, Wanyoike and Wagoki (2013) on landlords of Nakuru Municipality revealed that compliance level to provisions of rental income tax policy is very low due to expenses overstatement and deductions. A study by Hargreaves (2008) on the influence of tax system on New Zealand's housing market showed that owner-occupiers do not pay tax from a rental income. Karanja (2014) in his study on rental income taxpayers of Nairobi County established that attitude and perception had strong positive responses. His findings also indicated that income levels strongly influenced tax non-compliance study by Osebe (2013) on Kenyan real estate sector showed that compliance costs, knowledge of tax and education, penalties and the perceived tax evasion opportunities influenced tax compliance. The findings Adelaide(2016) study on determinants of residential rental income tax compliance by property owners in Thika town found a significant positive relationship between tax rate, tax knowledge and residential rental income tax compliance and an insignificant positive relationship between attitude and perception and residential rental income tax compliance. The study also found an insignificant negative effect between income levels, fines and penalties and residential rental income tax compliance by property owners.

Locally, certain studies have been conducted in general way on determinants of tax compliance in Ethiopia. The study of Lemessa T. (2007) that assessed the factors affecting voluntary tax compliance behavior in Dire Dawa City category C tax payers indicated that fairness and equity has an influence on tax compliance behavior. Taddese and Goitom (2014) who studied factors influencing taxpayers' compliance with the tax system in Mekele City disclosed that tax compliance is influenced by the probability of being audited and financial constraints. However, this study showed that perception, penalties, and roles of the tax authority are not significantly correlated with tax compliance. Akalu (2016) in his study on determinants of tax compliance behavior of large corporate taxpayers revealed that perception of fairness has an insignificant relationship with non-compliance behavior but compliance cost has a strong relation with non-compliance attitude. The study results of Yesegat and Fjeldstad (2016) disclosed that audit probability was found to have a statistically significant association with compliance attitude.

Regarding determinants of tax compliance behavior of rental income taxpayers, the researcher found only two domestic researches. Berhane and Yesuf (2013) in their study on challenges and opportunities of business house rental income taxation of Tigray region found out that insufficient number of business house rent tax assessment and collection officers lead to tax noncompliance. The study results of Daba G.(2017) on factors affecting rental income tax payers' compliance in Hawassa city showed that perception of tax payers, financial constraints ,and auditing influence tax compliance significantly. The findings also indicated that the impact of the effectiveness of the tax authority is positive but insignificant.

It is observed that the findings of some past studies are inconsistent so that their authors recommended further study on the subject matter. Moreover, previous domestic researches didn't explore the rental income tax compliance problems of Addis Ababa city. Therefore, the aforementioned reasons necessitate this study to assess and fill the existing gap in the area by undertaking its research on factors influencing tax compliance on rental income tax payers of Yeka sub city.

1.3. Objectives of the study

1.3.1. General Objective

The general objective of this study is to identify and assess the determinant factors influencing the rental income tax compliance behavior in Yeka sub city small tax payers’ branch office.

1.3.2. Specific Objectives

Based on this general objective, specifically, the researcher plans:

1. To examine how perceptions of taxpayers affect the rental income tax compliance behavior in Yeka sub city

2. To determine the influence of the strength of the tax office on the rental income tax compliance behavior in Yeka sub city

3. To examine the impact of the income level of taxpayers on the rental income tax compliance behavior in Yeka sub city

4. To investigate the effects of auditing and penalty on the rental income tax compliance behavior in Yeka sub city, and

5. To evaluate the influence of tax compliance costs on the rental income tax compliance behavior in Yeka sub city

1.4. Research Hypotheses

By having relied on the existing literatures, the following hypotheses are framed for the research:

H1: Perceptions of taxpayers has positive and significant effects on rental income tax compliance behavior.

H2: The impact of capacity of a tax authority is positive and strong on rental income tax compliance

H3: Income level of taxpayers impacts positively and significantly rental income tax compliance

H4: Auditing and Penalty are related positively and strongly with rental income tax compliance, and

H5: Tax compliance costs are related negatively and significantly with rental income tax compliance

1.5. Significances of the Study

The research has major theoretical and practical significances. In actual scenario, it provides for policy makers vital insight on factors affecting rental income tax compliance and helps them to focus on those variables that improve the tax system. In addition, the study gives recommendations on the enhancement of rental income tax compliance which may assist the tax authorities in our country. Theoretically, the research will help to broaden the knowledge and understanding of readers on rental income tax compliance and also will serve as a reference for other potential scholars or researchers who are interested to conduct further research in related topics.

1.6. Scope of the Study

The study was limited to small taxpayers of Yeka sub city branch office and focused solely on individual rental income tax payers. This means bodies which rent buildings in the sub city were excluded from the coverage of the study. The investigation of the study was confined to those factors: perceptions of taxpayers, capacity of a tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs included in the study model. For the identification research problem the researcher used a data collected from 2015 to 2019 plan versus performance report from Yeka Sub City Small Tax Payers Branch Office. The researcher limited the methods to conduct the study as per the research design on survey and interview only.

1.7. Limitation of the Study

As mentioned above, the study targeted individual rental income tax payers and also limited itself in only one sub city of Addis Ababa. It would have been more successful had it been conducted on bodies which rent houses and over other sub cities too. So, the study may not give a holistic judgment for the application of the findings in different settings. Furthermore, the study may not accurately measure the fact under investigation since it largely based perceptions of respondents,

1.8. Organization of the Paper

The study is divided into five chapters. The first chapter introduced about the research problem, the objectives it addresses, the significance of the study, the research hypotheses, scope and limitation of the study. In the second chapter, the paper tried to discuss all theoretical concepts and empirical explanations which lay the foundations for all the arguments and justifications which would be raised during the subsequent analysis of data. Chapter three outlined the research methodology followed in the study. The fourth chapter dealt with data presentation and analysis. In the final chapter, findings and conclusions were summarized with suggested recommendations.

CHAPTER TWO

LITERATURE REVIEW

This chapter looks at theoretical reviews and empirical studies which have been carried out in the research area. It presents the relevant literatures that help to understand about the factors that determine tax compliance on rental income tax payers. It is organized in three sections. The first section reviews theoretical studies, the second section presents the empirical works on the area, and the final section outlines conceptual framework and provides summary of the knowledge gap identified.

2.1. Theoretical Literature

This section first gives conceptual presentations on taxation, tax compliance, and non-tax compliance. Next, there is a briefing on the background of Ethiopian rental income tax. Following this, different theories of tax compliance are explained and lastly determinants of tax compliance are discussed.

2.1.1. Concepts and Definitions

2.1.1.1. Taxation

Taxation is a system of raising money to finance governments. It is central to economic, social and political development. According to several authors, a strong tax system can play three important roles in national development: Revenue generation, lessen inequality and promote good governance (Cobham, 2005). Revenue generation is the most obvious and direct role of taxation. Tax revenue are used to address immediate problems of human development such as outbreak of famine and emergency medical treatment and long-term financing of public infrastructural services such as roads, airports, hospitals and schools. Income from aid and natural resources can substitute tax income and might ensure that important development goals are reached. Tax revenues also provide income for a government which it may use to distribute as welfare transfers to reduce extreme poverty. Moreover, taxation plays a key role in building up institutions and democracy through making the state accountable to its taxpayers.

There are different approaches in classifying taxes. They can be placed in either direct or indirect tax. Direct taxes are those taxes whose impact (immediate burden) and incidence (ultimate burden) fall on the same or single person while indirect tax is a tax whose impact (immediate burden) and incidence (ultimate burden) fall on different persons (taxpayers). In other words, a direct tax is one which is demanded from the very persons who it is intended or desired from. On the other hand, indirect taxes are those which are demanded from one person in expectation and intention that he/she shall indemnify himself/herself at the expense of another.

2.1.1.2. Tax Compliance

Tax compliance has been defined in various ways by various authors. Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. It is also defined as a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003).

Tax compliance behavior is not simple phenomena. It is affected by economic determinants, institutional factors, social factors, psychological factors and individual and demographic factors (MOHD,2010; Joana, M. 2014; Alm, Jackson and Mckee ,1992).It has been conceptualized from several perspectives. Brown and Mazur (2005) contend that tax compliance is a difficult concept, both theoretically and empirically. They considered three perspectives of compliance namely, payment, filling and reporting. Kirchler and Wahl (2010) assert that the challenges of tax compliance are split into conceptualization problems and vagueness of terminologies used. According to Allingham and Sandmo (1972), tax compliance behavior is predisposed to a situation where taxpayers make decisions under uncertainty.

The behavior of tax compliance has been long explained by the policies oriented to punishment, like tax audit and penalty rate (Alm, McClelland, Schulze, 1992). However, the theoretical approach could not completely explain the behavior of tax compliance. There have been many studies to explain the behavior of tax compliance in a more realistic situation. They have been focused on the factor affecting of tax compliance, respectively on economic and non-economic factors. Non-economic factors explain the tax compliance by using the economic framework (SmithlandStalans, 1991). They include the willingness to pay for public provision, public education, and tax morale (Hyun, 2005).

Facilitating compliance involves such elements as improving services to taxpayers by providing clear instructions, easy to fill forms and assisting and educating them on their duties and obligations. Monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments (Masinde and Makau,2010).

2.1.1.3. Tax Noncompliance

Tax non-compliance is defined as failure to obey with tax laws and/or declare understate revenue, the act of asking for unfitting expense, relief and refunds and/or paying the incorrect amount of tax beyond the stipulated time frame. Noncompliance is also perceived as the failure of a taxpayer to report the actual income, claim exaggerate deductions and rebates and remit the small amount of tax payable to the tax authority on time (Kirchler, 2007). In short, it is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally (Loo 2006; Mohani, 2001).

Tax noncompliance can be either in the form of tax avoidance or tax evasion. Tax avoidance is the legal reduction in tax liabilities by practices that take the full advantage of the tax code, such as income splitting and postponement of taxes while tax evasion which consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations like by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns. (Mansor, 2005).

Tax non-compliance occurs in different forms; it could either be failure to submit a tax return within the stipulated period or non-submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date and in some cases it may mean an outright failure to pay levied taxes (Kasipillai & Abdul Jabbar, 2006). Soos (1991) and

Kirchler, (2007) included under noncompliance acts such as failing to file a tax return; underreporting of taxable income; overstating tax claims such as deductions and exemptions and failing to make timely payment of tax liability.

2.1.2. Background of Ethiopian Rental Income Tax

Income taxation in Ethiopia has undergone successive changes across years since its inception in 1944. Rental income tax was first identified as a separate source of income tax in 1949. The income tax base was much broader during the Imperial period when land and buildings were privately owned. During the Dreg regime, it remained vacant when it was illegal to use buildings for anything other than one's own residence. In the income tax reforms of 2002, rental income tax was made to constitute one of the principal sources of the main income tax system of Ethiopia. Currently, the operative law with regard to income tax in Ethiopia for the federal government and the city government of Addis Ababa is proclamation no. 979/2016.This law adopts scheduler system of income taxation by embracing under its scope different sources of income of a person into consideration for the purpose of taxation. It has classified the sources of income into four schedules as schedule A (employment income), schedule B(rental income), schedule C(business income) and schedule D (miscellaneous income).

Even though it has been a long time since it was included in the income tax proclamation, it has been started to be strictly enforced recently. The current rental income tax, which falls under schedule B, requires the imposition of tax on incomes derived from rent of buildings. Since any income that has received from renting out a property is legally responsible for income tax, the owners of the property have to include it in their tax return. Thus, any income arising from rental of buildings is taxable under schedule B of rental income tax .Gross rental income also includes any cost incurred by the lessee for improvement to the land or building all payments made by the lessee on behalf of the lesser in accordance with the contract lease.

The operative income tax law of Ethiopia states the base of rental income tax is income from rental of buildings. It includes all form of income from rent of a building and rent of furniture and equipment if the building is fully furnished. Income collected from the lease of business; including goods, equipment and building which is part of the normal operation of a business.

It also covers the income of sub lessors on the difference between income from sub-leasing and the rent paid to the lessor. However, it is silent on what structures qualify as buildings Moreover; it is not intended to cover all forms of income. Income from causal rental of buildings and leasing a business are excluded from its coverage. It classifies the rental tax payers as bodies and individuals so as to set different tax rates separately.

2.1.3. Theories on Tax Compliance

Theories of tax compliance explain the behaviors of tax payers for making decision to pay or not to pay taxes according to the tax laws and procedures(Jackson and Milliron,1986;McKerchar and Evans, 2009) .As discussed by various researchers, the major theories are economic theory, behavioral theory, and social theory.

2.1.3.1. Economic Theory

The theory argues that a tax payer's behavior is influenced by economic factors. The model assumes rational behavior among tax payers. The model is based on an expected utility theory and a deterrence theory. The expected utility theory views taxpayers as perfectly amoral utility maximizes, who choose to evade taxes whenever the expected gain exceeds the cost of evasion. The deterrence theory is concerned with the effects of sanctions and sanction threats where an increase in the severity of penalties and the certainty of their imposition will discourage undesirable behavior (Allingham and Sandmo 1972).

The theory considers a number of factors for explaining the compliance behavior of taxpayers. The important ones include income level of taxpayers, probability of detection, and imposition of penalty and/or sanctions. The model also associates with the compliance behavior actions which are related with the costs and benefits of performing the actions (Loo, 2006). Tax payers make calculations of economic consequences for different compliant alternatives. They choose the alternative which maximizes their expected after tax-return/profit.

2.1.3.2. Behavioral Theory

The theory is framed using psychological determinants (Wenzel, 2003; Mumford, 2001). The behavioral approach asserts that individuals are not simply independent, selfish, utility maximizes but that they interact according to differing attitudes and beliefs (Elffers H, 1992). It assumes that psychological factors including moral and ethical concerns are critical to tax payers so that they may comply even when the risk of audit is low. It deemphasizes audits and penalties and instead focuses on changing individual attitudes towards tax system (Trivedi and Shehata, 2005).

The theory contends that individuals undertake deliberate and reasoned action according to their personal preferences. People are assumed to consider the implications of their actions before they decide, or form an intention, to engage or not engage in a given behavior (McKerchar and Evans, 2009). It also argues that individuals rationally interpret and analyze events in order to understand causal structures. In judging the behavior of others, people will generally attribute the outcome as being caused by their own internal attributes. Additionally, it propounds that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable (McKerchar and Evans, 2009).

The theory considers as an important factor the attitude of taxpayers towards trust and power of authorities. Trust in authorities indicates the opinion of individuals that the works of tax authorities are beneficial for the common good without any kind of inequality. The power of authority is concerned with taxpayer’s perception of potential of tax officers to detect illegal tax evasion and to punish tax evasion. Thus, the psychological variable includes the perception of tax payers on the fairness of the tax system and the tax authorities (Devos, 2014).

It has been held that tax mentality; feelings of tax tension, and tax morale were the three psyches that together made up a taxpayer’s attitude. The more positive the taxpayer’s attitude towards paying tax the greater the level of co-operation with the tax authority and the greater the willingness to pay tax. However, fiscal ignorance may be a negative influence on a taxpayer’s attitude (Lewis, 1979).

2.1.3.3. Social Theory

The theory is founded on sociological factors. It affirms that individual behavior in taxation is basically influenced by social interactions like other forms of behavior (Ali et al., 2013). The theory follows that an individual is most likely to comply with tax requirements if he believes members of his reference groups also comply. He is also likely not to comply if he believes that members of his referent group do not comply (Walsh, 2012).

The theory also presupposes that the fear of social stigmatization as one of the possible deterrent factor to tax compliance (Kirchler, 2007), and that existence of the social norms effect on compliance behavior. It argues that property owners are likely to be influenced by social groups, family members, friends and other property owners to comply on payment of residential rental income tax.

According to this model, compliance is also affected by demographic factors. It is held that there may be differences in perception about taxation between age groups, urban–rural location, gender, education levels, occupation, ethnicity, religion, and so on (Fjeldstad et al. 2012).

2.1.4. Determinants of Tax Compliance

For understanding the issues of tax compliance, appreciating those factors that determine it is of paramount importance towards influencing individual taxpayers' decision to comply with the provision of the tax laws. In pursuance with tax compliance theories and previous works of scholars, tax compliance variables are categorized under social, economic, and psychological factors (Kirchler, 2007; Devos, 2008). By linking the theories with previous researches, the major determinants of tax compliance identified for the current study are: Perceptions of taxpayers, Capacity of tax authorities, Income level of taxpayers, Auditing and Penalty, and Tax compliance costs

2.1.4.1. Perceptions of Taxpayers

Perception of taxpayers towards tax is extremely important in a tax system which is based largely on voluntary compliance (Song, 1978). Perception represents the positive and negative evaluations that an individual hold of objects. It is assumed that attitudes encourage individuals to act according to them. Perception has a big impact in shaping fairness evaluations. It requires examination for the degree to which it is a product of myth and misperception. When myths and misperceptions are replaced by knowledge, a change in perception towards taxation will occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged.

The interaction between tax authorities and taxpayers plays a key role in influencing perceptions that shape tax behavior. Tax perceptions in general depend on the perceived use of the tax revenue and therefore are connected to knowledge (Kirchler et al., 2008). Perception towards the government affects the taxpayer's commitment to comply with law. Due and Friedlander (1981) argue that perceptions toward the general level of taxation and tax increases are dependent on attitudes about the desirability of governmental programs and on attitudes toward the government itself. Individuals' willingness to pay taxes voluntarily rests on the local government's capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise on-compliant *(*Fjeldstad, 2004).

Perceived fairness of tax system has fairness concerns. The taxpayer considers fairness resource distribution, appropriateness of sanctions in the case of norm breaking and fairness of treatments relative to merits, efforts and needs (Kirchleret ,2008).Perception to one's own tax compliance and to other peoples are important too (Roberts, 1994).Fairness of the tax system and peer influence are major factors in altering taxpayers attitudes and perceptions. Thus, a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes (Kirchleret al., 2008).

2.1.4.2. Capacity of Tax Authorities

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. A tax administration which seeks compliance must protect those who comply, or else compliance will not be forthcoming. The administration is normally managed by a tax authority. The strength of a tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. It plays a central role through enforcement and collection mechanisms. It needs to be continuously efficient in administering the tax system in order to minimize tax noncompliance (Hasseldine J. a., 1999).

A tax system doesn't function in a vacuum. Its relationship with others at every turn is crucial. Operations and its effectiveness of a tax system are affected by the attitudes of taxpayers towards the tax authority. Rational and efficient procedures, higher personnel standards, and better management can operate to increase the public respect for the tax administration. Compliance would hardly be tolerated or even not taken seriously when tax are inefficient. If a tax administration has brought stability and honesty to its own operations, the self-respect achieved can form the foundation for its demand of respect and compliance from the tax payer (Bird and Oldman, 1967).

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and taxpayers. Tax administration with a skilled and responsible staff is a precondition for realization of tax objectives (Kaldor, 1980). Furthermore, Roth (1989) suggested that in order to increase compliance, maximize tax revenue and be respected by taxpayers, a government must first have an economical tax system, which is practicable; they must discourage tax evasion and not induce dishonesty; they must avoid the tendency to dry up the source of the tax.

2.1.4.3. Income Level of Taxpayers

Mohani (2001) argued that financial constraints contribute for tax evasion as financial distress encourages prioritizing what has to be paid first as basic survival needs or where immediate demand on limited income is enforced rather than tax liabilities. Individuals in financial problems are likely to be more prone to evade tax when compared to people in less financial distress.

Looking at the relation of income and relative risk aversion is not indispensable. Allingham and Sandom (1972) conclude that when actual income varies, the fraction of income declared will increase, stay constant or decrease accordingly. Progressive tax rates might encourage the higher income group to evade rather than the lower income group because their tax rates and taxable income are high. In a country where income redistribution is not satisfying, the higher income group tends to evade more (Mohani A. 2001) because the high-income earner might feel betrayed and unfairly treated.

2.1.4.4. Auditing and Penalty

A theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalty and audit probability have an impact on tax compliance. Probability of detection and tax audit plays an important role in reporting compliance behavior because taxpayers may state all incomes if they observe that they will be audited in that specific year (Richardson, 2008). Allingham and Sandmo (1972) opined that Taxpayers would declare their income correctly if the probability of detection is high. Audit rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions (Mohd et al., 2011).

Penalty is also one of the factors that influence tax compliance behavior. The economic model recognizes that individuals are trying to increase the level of their tax evasion as a result of poor punishment or legal enforcements. It is argued that "an increase in the penalty rate increases the fraction of actual income declared" (Allingham & Sandmo, 1972). Different countries may have different penalty structure and penalty rate. Penalty rates are separately applied by different tax subjects .The penalty rates for each tax subject are differentiated by the different types of evasion, like non filing of tax return, late filing of tax return, late payments of tax, failure to keep proper records, failure to meet similar requirement or the penalty are differently applied to the types of taxpayers, depending upon their evaded behaviors (Hyun, 2005).

2.1.4.5. Tax Compliance Costs

Tax compliance costs refer to all the costs borne by businesses and individuals for complying with tax regulation, excluding the costs of the taxes themselves. Slemrod J. B. (2001) defined tax compliance costs as costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. He segregated compliance costs of corporate taxpayers into main components, specifically: internal costs, external costs, and psychological costs.

The internal costs component comprises of time costs of employing internal staff such as tax manager, accountant, account clerks and programmers to handle the company's tax affairs. Incidental tax compliance costs are other expenses incurred in the completion of tax activities such as the costs of postage, travelling and stationeries. The external costs component includes payments made to tax professionals from outside a company and any incidental costs incurred in relation to the tax work. These payments include the financial costs of professional fees paid to tax agents, accountants, legal advisers and any other external consultants in relation to the corporate income tax (CIT). Psychological costs occur due to the existence of uncertainty. Many people experience considerable anxiety and frustration in dealing with their tax affairs. Some employ professional adviser primarily to reduce this burden of worry. Another source of psychological cost is the anxiety, which may be generated by a tax investigation (Slemrod, 2001).

2.2. Empirical Literatures

The empirical literature will provide us information from studies on determinants that affect the compliance behavior of taxpayers. It will examine the findings of various scholars and authors who concluded on the subject matter. It will also situate the existing literature in a broader scholarly and historical context. This means it will report the claims made in the existing literature. In short, this examination of the literature will enable us to distinguish what has been learned and accomplished in the area of study and what still need to be learned and accomplished.

In the global arena, studies have been undertaken on determinants of tax compliance behavior in general and the attitude of rental income taxpayers in particular. However, the studies with respect to factors affecting compliance attitude of rental income taxpayers are comparatively low.

Mukabi (2014) in his study on factors influencing turnover tax compliance in the Kenya revenue authority revealed that like cost of compliance and complicated systems result into the low levels of compliance. His findings also indicated the perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. Agbedzani Yayra (2011) in his research on effectiveness and efficiency of income tax collection in Berekum District Tax Office concluded that tax noncompliance was attributed to poor performance of the tax administration.

According to the study conducted by Fadjar (2012) on the influence of tax fairness and tax compliance in Indonesia, it was showed that tax fairness and trust has direct effect on voluntary tax compliance. This study is consistent with the findings of Etzioni (1986) and Bradley (1994) that tax fairness could increase compliance behavior. These results indicate that feeling of unfair tax system increase the tendency to evade. Evaluating taxpayers' attitude and its influence on tax compliance decisions in Ghana, Abubakari and Christopher (2013) found out in their studies that attitudes of taxpayers towards a tax system influence to a significant degree the compliance of tax laws.

Friedland et al. (1978) found that a higher (random) audit rate leads to more compliance. However Alm et al. (1992) find that this impact appears to be small and nonlinear, so that the deterrent effect of a higher audit rate eventually disappears. Paul & Osebe (2014) employed in their study that fines and penalties play a vital role in improving tax compliance. Specifically, for a tax system with fair tax rates of fines and penalties, tax compliance is likely to be improved.

Dube (2014) explored tax administration of informal sector in Zimbabwe and revealed that a high rate of tax and sheer ignorance are the main tax compliance disincentive in informal sector which leads to a low tax revenue collection. Palil (2010) also investigated tax knowledge and tax compliance determinants in self-assessment system in Malaysia and established that compliance of tax is influenced by probability of being audited, penalties, personal financial constraints and referent groups.

Relatively, the numbers of international studies conducted on tax compliance behavior of rental income taxpayers are lower. The study of Thananga, Wanyoike and Wagoki (2013) on landlords of Nakuru Municipality revealed that compliance level to provisions of rental income tax policy is very low due to expenses overstatement and deductions. A study by Hargreaves (2008) on the influence of tax system on New Zealand's housing market showed that owner-occupiers do not pay tax from a rental income. Karanja (2014) in his study on rental income taxpayers of Nairobi County established that attitude and perception had strong positive responses. His findings also indicated that income levels strongly influenced tax non-compliance. A study by Osebe (2013) on Kenyan real estate sector showed that compliance costs, knowledge of tax and education, penalties and the perceived tax evasion opportunities influenced tax compliance. The findings Adelaide(2016) study on determinants of residential rental income tax compliance by property owners in Thika town found a significant positive relationship between tax rate, tax knowledge and residential rental income tax compliance and an insignificant positive relationship between attitude and perception and residential rental income tax compliance. The study also found an insignificant negative effect between income levels, fines and penalties and residential rental income tax compliance by property owners.

Locally, certain studies have been conducted in general way on determinants of tax compliance in Ethiopia. The study of Lemessa T. (2007) that assessed the factors affecting voluntary tax compliance behavior in Dire Dawa City category C tax payers indicated that fairness and equity has an influence on tax compliance behavior. Taddese and Goitom (2014) who studied factors influencing taxpayers' compliance with the tax system in Mekelle City disclosed that tax compliance is influenced by the probability of being audited and financial constraints. However, this study showed that perception, penalties, and roles of the tax authority are not significantly correlated with tax compliance. Akalu (2016) in his study on determinants of tax compliance behavior of large corporate taxpayers revealed that perception of fairness has an insignificant relationship with non-compliance behavior but compliance cost has a strong relation with non-compliance attitude. The study results of Yesegat and Fjeldstad, (2016) disclosed that audit probability was found to have a statistically significant association with compliance attitude.

Regarding determinants of tax compliance behavior of rental income taxpayers, the author found only two domestic researches. Berhane and Yesuf (2013) in their study on challenges and opportunities of business house rental income taxation of Tigray region found out that insufficient number of business house rent tax assessment and collection officers lead to tax noncompliance. The study results of Daba G.(2017) on factors affecting rental income tax payers' compliance in Hawassa city showed that perception of tax payers, financial constraints ,and auditing influence tax compliance significantly. The findings also indicated that the impact of the effectiveness of the tax authority is positive but insignificant.

2.3. Summary and Research Gap

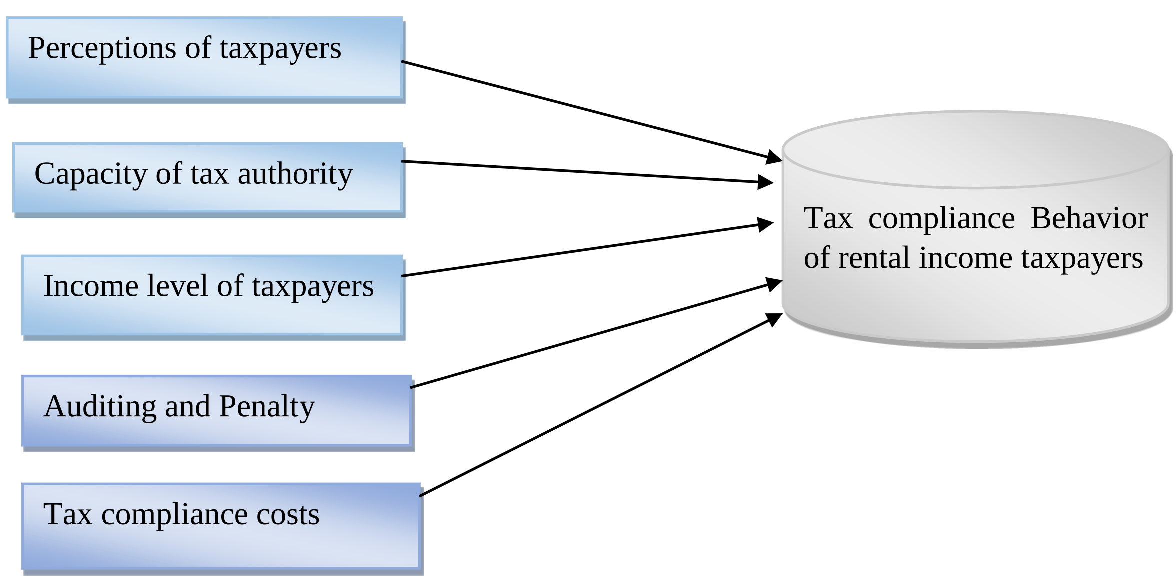
The main research gaps identified include that most of the past studies in Ethiopia on factors affecting tax compliance behavior focused on business income taxpayers, few local researches conducted on the determinants of rental income taxpayers' were done on taxpayers outside Addis Ababa, and lack of consistency in reported results concerning the relationships of some of the determinants for tax noncompliance attitudes.

Hence, the above-mentioned reasons necessitated the current study which sought to bridge the existing research gap. In view of the realization of the significance of the study, the proposed study will attempt to examine those factors that determine the tax compliance behavior of rental income taxpayers of Yeka sub city.

2.4. Conceptual Framework

Below a conceptual framework is depicted to explain factors that affect the tax compliance of rental income taxpayers. Flowing from the combination of economic, behavioral, and social theories, this study is built around the researches of Adelaide(2016), Karanja (2014) and Daba G.(2017) by using the following model:

Figure 2.1: Conceptual Framework



Source: developed by the researcher from tax compliance theories and empirical literatures

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presented the research design, the target population, data collection and data analysis and presentation methods. It dealt about the overall planed journey of the research process to achieve the objective of the study. Thus, the chapter outlined and explained the methodology which addresses the research objectives. It described the research philosophy that assists to test those hypothesizes formulated in chapter one

3.1. Research Design

The research design enables the researcher to answer the basic research hypothesizes. According to Saunders, Lewis and Thornhill (2009) showed that the choice of research design depend on the objective of the study, the availability data source, the cost of obtaining the data and the availability of time. The purpose of this research is to examine factors affecting compliance behavior of rental income tax payers. Therefore, the research employed descriptive study to describe about the variables determining tax compliance behavior and also has used explanatory design to show relationship of independent variables with compliance attitude of rental income taxpayers.

The study employed both qualitative and quantitative approaches. The qualitative method helps the researcher to understand the meaning of situation, event, experiences, and actions of participants while a quantitative research requires standardized measures and is often expressed in form of numbers to verify and test facts (Maxwell, 2005). Quantitative method is used to deal with survey data while qualitative study is employed to explain interview results that are collected from participants.

3.2. Target Population

Population is the large general group of many cases from which a researcher draws a sample for a study. It is a group of potential participants, objects, or events to whom or to which researchers want to generalize the results of the study derived from a sample drawn from the population. According to Mugenda (1999), a target population means the population to which a researcher wants to generalize the results of the study. The population of the current study constituted 312 (staffs), 71 (supervisors), and 3 (managers) in Yeka sub city small tax payer's branch office as well as 3,219 registered rental income tax payers at Yeka sub city small tax payers' branch office during the year 2020.

3.3. Sample Size and Sampling Techniques

In principle, accurate information about given population could be obtained only from census study. However, due to time and financial constraint, in many cases, a complete coverage of population is not possible; thus, sampling is one of the methods, which allow the researcher to study relatively small number of units representing the whole population. This research employed a simple random sampling technique for selecting the sample units. This technique is chosen because the sampling frame of the target population is made up of members of similar characteristics.

In determining the sample size, the research used a formula indicated by Israel Glen D (1992) with 95% confidence level as indicated below:

$n = N/1+N (e)^2$

Where:

- n = size of the sample
- N =total number of the target population
- e = sampling error on this research (5%)

Therefore, the sample size for:

- Staffs = 312/1.78 = 175
- Supervisors = 71/1.77 = 60
- Rental income taxpayers = 3219/9.06 = 355

In Yeka sub city small tax payers' branch office, there are only three managers. Since the target population is few, a census method was employed. Thus, all the managers were interviewed.

3.4. Method of Data Collection

To maintain the stated objective, primary and secondary data were used in gathering the relevant data. The primary data was used to examine the evidence without the opinions, analysis, and interpretations of others. On the other hand, the secondary sources of data used to draw conclusions about the events described in primary sources. Moreover, the information more accessible by assembling and interpreting information gathered from a variety of primary sources.

The primary data of the research was gathered through self-administered questionnaire. The questionnaire is directly related with the research hypotheses and objective of the study. In designing the self-administered questionnaire, questions used in similar previous researches were modified and included as they are important to address certain issues. Likert scale is applied for the questionnaires. Likert scale questions have five degrees namely; strongly Agree, Agree, Neutral (Undecided), Disagree, and Strongly Disagree that are combined into a single composite score/variable during the data analysis process (Kothari, 2004).

Semi structured interview was employed to collect primary data from managers. The secondary data was obtained from the documentary review made on tax reports.

3.5. Model Specification and Variables Measurement

The research used econometrics model since it provides us numerical measure of the relationship between the dependent and independent(s) variables; hence the model would show the relationship between the dependent and independent variables and their effect on the compliance behavior of rental income tax payers in yeka sub city. While the dependent variable is rental income tax compliance, the independent variables are the four dimensions that influence the compliance behavior. These independent variables are perceptions of taxpayers, capacity of the tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs. Thus, the model took the general form:

$$RTC = \beta 0 + \beta 1PTP + \beta 2CTA + \beta 3ILTP + \beta 4AP - \beta 5TCC + ei$$

Where:

RTC = Rental income tax compliance

PTP = Perceptions of taxpayers

CTA = Capacity of tax authority

ILTP= Income level of taxpayers

AP = Auditing and Penalty

TCC = Tax compliance costs

ei = error term

Using prior literatures, the researcher selected five criteria that are measured on five-point Likert scale to assess the dependent variable. These criteria are individuals who rent houses appear before the tax office for registration as per the requirement of the law, rental income taxpayers declare timely, rental income taxpayers file tax returns timely, rental income is declared correctly, and taxpayers file returns just to avoid penalties.

The independent variables were similarly measured using a five-point Likert scale. Perceptions of taxpayers, auditing and penalty, and capacity of the tax authority would be measured by four indicators while income level of taxpayers and tax compliance costs are measured by four proxies.

3.6. Method of Data Analysis

Raw data collected using questionnaires were organized and data verification was carried out after the field data collection completed. Concerning the processing software, STATA was used to analyze. The data was analyzed based on the type of question that were asked by the researcher and type of data demanded. Accordingly, different statistical techniques were used incorporating descriptive statistics which includes frequencies, percentages etc. In addition, Pearson's correlation coefficients were used to show the relationship between the independent variables and the rental income tax compliance. The qualitative data gathered through interview was analyzed qualitatively. Analysis of the data was conducted using the process of data reduction, data display and conclusion drawing (Miles & Huberman 1994).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This study makes an assessment of factors affecting the rental income tax compliance at Yeka sub city at Addis Ababa city administration. The section details the results of the data collection via interview and questionnaire dissemination. In the sub sections below, the reliability and validity of the assessment made and various aspects of the collected data are presented. This includes demographic data, and compliance practices of rental income tax payers in terms of identified independent and dependent variables. The data analysis presentation is based on survey result analysis of the gathered data.

4.2. Reliability and Validity Tests

Cronbach's alpha is used to measure the reliability of the individual sub constructs that affect the tax compliance of rental income tax payers in Addis Ababa city administration at Yeka sub city small tax payers' branch office. The following table summarizes the reliabilities (Cronbach's α) of the variables.

Table 4.1 Computed reliabilities the variables

Measurement Items	(Cronbach's α)
Rental Income Tax compliance	0.8262
Perception of taxpayers	0.8290
Capacity of the tax authority	0.8442
Income level of taxpayers	0.8482
Auditing and penalty	0.8253
Tax compliance costs	0.9100
Test scale	0.8714

Source: Survey data, from STATA output

A commonly used value for acceptable reliability is 0.70. More reliable measures give greater confidence that the individual indicators are all consistent in their measurements, and therefore, the model is repeatable. The respective results found in this study show such strong indication towards the internal consistency of the study approach which in turn ensures repeatability of the method adopted in this research work.

Since the variables are previously applied and tested, content validity is assumed. External validity is related to the extent to which the findings from one research can be applied to other similar situations. In other words, how the conclusions drawn can be generalized to other contexts.

4.3. Response Rate

A total of 573 questionnaires were disseminated in person to respondents. From the distributed questionnaires 523 were returned to make the response rate 91.3%. The non-returned questionnaires were 50. From the returned questionnaires, 12 were incomplete. So, the total responses used for the data analysis was 511.

4.4. Demographic Information

4.4.1. Profiles of Respondents

The respondents were selected to ensure that they are from employees of Yeka small tax payers branch office and registered rental income tax payers in the branch office to provide more detailed information. Respondents are familiar with the day-to-day operational activities of the branch office with regard to tax collection and administration. Additionally, three managers from the management of the branch office were interviewed to bring in more perspective.

The results pertaining to the general information on respondents as obtained from Section 1 of the questionnaires are outlined below.

I. **Qualification**

Table 4.2**:** Qualification of Respondents

Academic Status		
Level	Frequency	Percent
High school	21	4.11
Diploma	34	6.65
BA	410	80.23
MSc	46	9.00
Total	511	100.00

Source: Survey data in 2020, STATA output

As indicated in Table 4.2, educational levels of the respondents indicate their literacy. Nearly eighty nine percent of the respondents have B.A. degree or above (89%), and the rest (11%) held Diploma and High school certificate. This shows that the respondents can clearly understand the questions and give valuable input about the issues raised in the questionnaire.

II. Work experience

Table 4.3: Service year of respondents

Work experience				
Duration in years	Frequency		Percent	
	Staff/supervisor	Taxpayers	Staff/supervisor	Taxpayers
Below 5	13	6	6	2
From 5-10	133	164	58	58
Above 10	84	111	36	40
	230	281	100	100

Source: Survey data 2020, STATA output

The number of years that the respondents has been in work is as outlined in the above table shows that staff and supervisors that constituted 94% have been working above 5 years, Similarly 98% of the taxpayer respondents have been in operation beyond 5 years. Therefore, one could say that the respondents have long experience to know the activities of the tax authority and other issues in connection with tax administration. In short, it can be said that the data is more reliable.

4.5. Descriptive Statistics

In this section, the responses of the participants for each of the questions relating to each variable is discussed in terms of the mean and percentage results of the study

4.5.1. Compliance with Rental Income Tax

The respondents were asked about this dependent variable under five questions. These questions indicate the extent of tax compliance practices of the rental income tax payers registered under Yeka small tax payers' branch office.

Table 4.4: Compliance to rental income tax

Description	Individuals who rent houses appear before the tax office for registration as per the requirement of the law	Rental income taxpayers declare timely	Rental income taxpayers file tax returns timely	Rental income taxpayers declare correct rental income	Rental income taxpayers file tax returns to avoid penalties
Mean	3.44	3.16	3.48	2.99	2.96
Std. Deviation	1.05	0.92	1.30	1.08	1.11
Strongly agree	10.59%	10.18%	31.12%	5.09%	12.92%
Agree	28.38%	16.05%	18.40%	36.99%	14.87%
Neutral	35.03%	57.53%	25.24%	14.87%	33.46%
Disagree	14.87%	11.74%	17.42%	37.77%	32.88%
Strongly disagree	3.13%	4.50%	7.83%	5.28%	5.88%

Source: Survey data 2020, STATA output

As presented in Table 4.4, the average mean score (M=3.21) which is close to neutral response of the question. But, average (SD =1.10) the standard deviation shows that not all respondents were in agreement with that since there was a wider variance between answers. However, from the mean value of 3.44 and standard deviation of 1.05 we can understand that more than half of the respondents agreed on the statement, house renters appear before the tax office for registration as per the requirements of the law. But, the deviation result 1.05 indicates that there is a deviation on the statement.

The statement used for the measurement of rental income taxpayers file their tax returns for avoiding penalties has the smallest mean 2.96 and the standard deviation was 1.11. This means the result of the study showed that the respondents do not agree with the statement and there is gap in their response level of agreement as per the standard deviation analysis.

The respondents calculated mean value on the statement of rental income taxpayers file tax returns timely is 3.48 and that of standard deviation is 1.30. From the result it is traceable that more than half of respondents accept the statement but there is the difference in their responses. The mean value for the proposition that states rental income tax payers declare their taxes on time is 3.16 and standard deviation was 0.92. This result indicated that majority of the respondents accept the statement that tax payers settle their tax timely.

4.5.2. Perceptions of Tax Payers

Positive and negative attitudes towards a given tax system can be evaluated through different parameters. For this study, six questions that were asked for addressed as it is shown in the table below.

Table 4.5: Perceptions of tax payers

Description	Rental income taxpayers consider payment of tax as their own responsibility	The relationship between rental income taxpayers and the tax office influences the willingness of taxpayers to be compliant	Payment of tax is perceived by rental income taxpayers as contribution to economic growth of the country	The city government spending encourages rental income taxpayers to be tax compliant	There is procedural fairness, trustworthiness on the tax office, and respectful treatment in the tax office	Staffs and managers of the tax office are supportive and respond promptly to tax queries
Mean	2.57	2.91	3.01	3.35	2.80	3.49
Std. Deviation	1.38	1.56	1.56	1.39	1.35	1.42
Strongly agree	9.78%	24.85%	24.27%	29.16%	15.26%	31.12%
Agree	23.68%	17.81%	22.11%	19.37%	17.61%	26.81%
Neutral	10.37%	6.65%	11.15%	22.11%	18.98%	18.00%
Disagree	25.83%	25.24%	15.46%	16.24%	27.98%	7.83%
Strongly disagree	30.14%	25.44%	27.01%	13.11%	20.16%	16.24%

Source: (Stata output from survey data during 2020)

As presented in the above table, the calculated mean value of 2.57 and standard deviation 1.38 showed that, the respondents didn't agree on the statement that tax payers consider their payment of income tax as their own citizenship responsibility but their degree of response level is different.

The calculated mean value of assertion for the relationship between rental income taxpayers and the tax office influences the willingness of taxpayers to be compliant is 2.91 and that of standard deviation 1.56. This indicated that the respondents didn't agree on the statement but their level of responses is different.

From the respondents calculated mean value of 3.01 and standard deviation is 1.56, it is concluded that nearly half of participants have neutrality for the statement that rental income taxpayers perceived their tax payment contribution to the economic growth of the country but there is strong difference in their responses.

The statement for the city government spending encourages rental income taxpayers to be tax compliant was accepted by many respondents with a calculated mean value of 3.35 but there is deviation on their opinions with the standard deviation of 1.39.

From the mean value of 3.49 and standard deviation of 1.42 we can understand that more than half of the respondents agreed on the statement that staffs and managers of the tax office are supportive and respond promptly to tax queries. But, the deviation result 1.42 indicates that there is a difference on their assessment of the statement.

The statement for the procedural fairness, trustworthiness on the tax office, and respectful treatment in the tax office was not accepted by the majority of the respondents with calculated mean value of 2.80 and the standard deviation of 1.35 which indicated that there is a deviation on their level of responses.

4.5.3. Capacity of Tax Authority

The respondents gave their replies as indicated in the table below to the six questions included in the distributed questionnaires. These questions evidence the strength, the efficiency and the tax administration capability of the yeka small taxpayers' branch office.

Table 4.6: Capacity of tax authority

	The tax office is capable to track down all eligible rental income taxpayers in its jurisdiction	The tax office has the capability to investigate all rental income reported by the tax payers.	The tax office has included in its tax net sub lessees who rent from the principal lesser	The tax office has fewer amounts of arrears of uncollectable rental income tax.	The tax office could manage correctly the tax computation of furnished rented houses	The tax office has guidelines that enable it to differentiate causal rental income tax payers falling under schedule D from rental income taxpayers categorized under schedule B.
Mean	2.97	2.07	2.53	2.13	3.12	1.84
Std. Deviation	1.16	1.19	1.44	1.16	1.55	1.06
Strongly agree	6.65%	5.09%	14.48%	4.70%	29.16%	2.94%
Agree	31.31%	9.00%	15.07%	10.18%	18.40%	6.46%
Neutral	27.98%	17.61%	12.13%	16.05%	9.00%	12.33%
Disagree	20.16%	24.85%	25.44%	31.51%	22.50%	28.18%
Strongly disagree	13.89%	43.44%	32.88%	37.57%	20.94%	50.10%

Source: (Stata output from survey data during 2020)

The responses of the participants in the study for the proposed statement that: the tax office has the capability to investigate all rental income reported by the tax payers have a mean of 2.07 and a standard deviation of 1.19. The mean result showed that the respondents didn’t accept the statement but the standard deviation explained that there is gap in their response level of agreement.

Majority of the respondents did not accept the assertion that the tax office is capable to track down all eligible rental income taxpayers in its jurisdiction. The mean calculated value for participants’ level of agreement was 2.97 and the standard deviation was 1.16. This indicated that the participants nearly accept the statement but as the standard deviation result showed there is gap in their response of level of agreement.

The mean value for level of agreement of respondents’ opinions for the statement that the tax office could manage correctly the tax computation of furnished rented houses was 3.12 and the standard deviation was 1.55. This indicated that though there is deviation on their responses, the statement was accepted.

The calculated mean value and standard deviation for the statement to measure the tax office has included in its tax net sub lessees who rent from the principal lesser were 2.53 and 1.44 respectively. This result showed that the respondents didn't agree with the statement but there is deviation in level of agreement.

4.5.4. Income Level of Tax Payers

This variable concerns with the degree of income level that affects tax payers for their non-tax compliance decisions. In reality, the amount of income earned by tax payers varies over the course of time. With this difference into consideration, participants were asked through four questions whether the income they earn influence their compliance behavior on tax payments.

Table 4.7: Income level of tax payers

Description	Tax rate should vary with level of rental income	Low rental income earners should not be taxed	Taxpayers with smaller rental income are more non-compliant	The prevailing inflation level of the country discourages positive tax compliance
Mean	3.57	3.79	3.57	3.42
Std. Deviation	1.39	1.22	1.19	1.25
Strongly agree	34.44%	36.20%	25.05%	18.00%
Agree	27.40%	29.55%	34.25%	43.25%
Neutral	9.20%	17.42%	19.37%	12.33%
Disagree	18.59%	10.57%	15.07%	15.66%
Strongly disagree	10.37%	6.26%	6.26%	10.76%

Source: (Stata output from survey data during 2020)

As it is indicated in table 4.7., the mean value amounting to 3.57 for the responses given to the inquire related to the impact of variance in income level shows that there is a belief by almost a majority of the respondents that income level of a tax payer affects the tax compliance behavior of taxpayers. They express their opinion which explained that tax payers with smaller rental income are more non-compliant. Similarly, the mean value of 3.57 given by the respondents indicated that tax rate should vary with the level of tax payers' spending capacity. In the same manner, the calculated mean values 3.79 and 3.42 of the respondents showed that low rental income earners should not be taxed and level of inflation is discouraging of positive tax compliance respectively but there is a difference on the level of agreement because of standard deviations amounting to 1.22 and 1.25 respectively

4.5.5. Auditing and Penalty

As indicated in the table below the calculated mean value of 3.04 and standard deviation of 1.26 disclosed that nearly half of the participants showed neutrality in their response on continuous audits conducted by the tax office do not fully protect the tax system from non tax compliance but there is deviation on the responses. On the other hand, calculated mean and standard deviation for the statement that the existing practice of penal actions in the tax office is too weak to discourage tax payers who evade tax were 3.54 and 1.12. The result indicated that the respondents agree on the statements but there is difference on level of opinion.

For the proposition that states the penalty which tax payers paid in the past affects next tax liability payment get a calculated mean value of 3.67 and standard deviation of 1.28. This result explained that majority of the respondents accept the assertion but there is difference on the level of their opinion.

The assertion for the tax office audit system is sufficiently promoting voluntary compliance of rental income tax payment obtained a calculated mean value of 3.14 and a standard deviation value of 1.33. The finding revealed that taxpayers need a coordinated and well developed tax system but there is deviation on the response

Table 4.8: Auditing and Penalty

Description	The tax office audit system is sufficiently promoting voluntary compliance of rental income taxpayers	The tax office makes continuous audits as a result there is no room to non-compliance	Taxpayers will not evade tax if the probability of detection is high	Penalty discourages non-compliance of rental income taxpayers	The existing practice of penal actions in the tax office is too weak to discourage taxpayers who evade tax	The penalty that taxpayers have been paid in the past affects the liability of tax that will paid in the next
Mean	3.14	3.04	3.56	3.16	3.54	3.67
Std.Deviation	1.33	1.26	1.26	1.35	1.20	1.28
Strongly agree	18.00%	11.94%	24.66%	18.98%	25.44%	31.51%
Agree	26.61%	31.12%	37.80%	28.57%	33.07	35.23
Neutral	22.70%	21.14%	19.57%	17.61%	16.05%	9.20%
Disagree	16.63%	20.94%	6.26%	19.57%	21.33%	16.44%
Strongly disagree	16.05%	14.87%	12.13%	15.26%	4.11%	7.63%

Source: STATA output, from survey data during 2020

4.5.6. Tax Compliance Costs

As it is shown in the table below, the average mean result of responses for tax compliance costs equates to 2.91 indicates that respondents are not certain about the discouraging tax compliance effects of tax administration costs. The calculated mean value amounting to 2.80 obtained from the respondents indicated that frequently dealing with tax authority is not so tedious to cause them not to comply with tax requirements but there is variation their responses. It is disagreed by the majority of the respondents with a calculated mean value of 2.44 that travelling expenses lead to rental income tax noncompliance behavior. From the calculated mean value of 3.20 of the responses, it is concluded that tax computation, keeping records, purchase of accounting software and soft copy do not motivate them to abide by tax rules but there is difference on level of response.

Table 4.9: Tax compliance costs

Description	The cost of filing a tax return (tax computation, keeping records, purchase of accounting software and photocopies) discourages rental income tax compliance	Tax related staffs' salary and allowances and also the cost of hiring a tax agent discourage tax compliance	The cost of travelling in order to file a return discourages rental income tax compliance	Frequently dealing with tax authorities is tedious so that it motivates tax noncompliance
Mean	3.20	3.18	2.44	2.80
Std. Deviation	1.35	1.39	1.28	1.35
Strongly agree	20.55%	25.05%	8.02%	13.50%
Agree	23.09%	18.40%	14.87%	21.14%
Neutral	30.92%	19.77%	21.14%	18.79%
Disagree	7.05%	23.29%	24.85%	25.44%
Strongly disagree	18.40%	13.50%	31.12%	21.14%

Source: STATA output, from survey data during 2020

4.6. Multiple Regression Data Analysis

Under this sub section inferential statistics is conducted in order to see if there is a relationship between the dependent variable and the independent variables. The variables are rental income tax compliance, perception of taxpayers, capacity of tax authority, income level of taxpayers, auditing and penalty, and tax compliance cost.

4.6.1. Assessment of Ordinary Least Square Assumptions

Since regression analysis is based upon assumptions, evaluation of the assumptions is so indispensable to ascertain its validity. Accordingly, this study has examined the presence of the main assumptions before applying the analysis. The assumptions that were subject to examination were normality, multicollinearity, and hetroscedasticity.

4.6.1.1. Normality

Skewness and Kurtosis are used to test normality distribution. Values of skewness and kurtosis which exceed specific critical values indicate non-normal distribution. The most commonly used critical values are ±2.58 are at 1% significance level and ±1.96 at 5% significance level. The result of normality distribution test of the research shows that the skewness and kurtosis value does not exceed the critical values. Therefore it indicates that the data were normal and reliable for analysis.

Table 4.10: Stata output for skewness and kurtosis.

Variables	Observation	Pr (skewness)	Pr (kurtosis)
PTP	511	0.0000	0.0331
CTA	511	0.0016	0.6447
ILTP	511	0.7469	0.0000
AP	511	0.0269	0.0000
TCC	511	0.5456	0.0000

Source: STATA output, from survey data during 2020

4.6.1.2. Multicollinerity

Multicollinearity occurs when there is a strong correlation among predicators. A correlation value greater than 0.80, a tolerance value less than 0.10, and a Variance Inflation Factor (VIF) greater than 10 in a correlation matrix show a presence of multicollinearity problem (Field, 2009).Based on the results of the study, the tolerance levels for all variables are greater than 0.10 and the Variance Inflation Factor (VIF) value for all variables is less than 10. The finding also showed that the correlation between dependent and independent variables is less than 0.80. Therefore, correlation value, tolerance level, and VIF value indicate that there was no multicollinearity problem in this study.

Table 4.11: Stata output for collinearity statistics

Variables	VIF	Tolerance
PTP	3.53	0.2835
CTA	2.69	0.3715
ILTP	2.82	0.3547
AP	3.11	0.3218
TCC	1.18	0.8508
Mean VIF	2.66	

Source: STATA output, from survey data during 2020

Table 4.12: Stata output for correlation matrix

	RTC	PTP	CTA	ILTP	AP	TCC
RTC	1.0000					
PTP	0.7308	1.0000				
CTA	0.6874	0.6089	1.0000			
ILTP	0.6837	0.7652	0.3773	1.0000		
AP	0.7867	0.7062	0.7348	0.6090	1.0000	
TCC	0.1931	0.2218	0.3466	0.2434	0.2608	1.0000

Source: STATA output, from survey data during 2020

4.6.1.3. Hetroscedasticity

It is assumed that the variance of an error term is constant and this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, the condition is considered as a problem of heteroscedasticity. Stata software uses Breusch Pagan test to assess homoscedasticity and P – value > 0.05 is acceptable. The result of the research showed a critical value of 0.9528 which indicated the absence of heteroscedasticity.

Table 4.13 Stata output for testing of heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity
Ho: Constant variance
Variables: fitted values of RTC
chi2(1) = 0.00
Prob> chi2 = 0.9528

Source: STATA output, from survey data during 2020

4.6.2. The Regression Results

The regression result will explore the necessary indicators for the rental income tax compliance using those determinant variables identified in the model. Coefficient of determination (R^2) is used to evaluate how well a statistical model is likely to predict future outcomes. It serves as a measure for the goodness of fit of the estimated model. The value of R square indicates how much of the variance of the dependent variable is brought as a consequence of the factors included in the model. For our study, it reveals the extent of change on the rental income tax compliance which is brought as a result of a change on the perception of tax payers, the capacity of tax authority, income level of tax payers, auditing and penalty, and tax compliance costs.

4.6.2.1. ANOVA Analysis

The study conducted analysis of variances to test the effect of relationship between the dependent variable and independent variables in the model. Based on the results of the study, 73.5% of variation in rental income tax compliance is accounted due to changes on the perception of tax payers, the capacity of tax authority, income level of tax payers, auditing and penalty, and tax compliance costs. These means the combined effect of the predictor variables contribute to 73.5% changes in rental income tax compliance.

The findings of the study showed that the value of the F statistics is 280.04.The p-value of the F statistics tests whether coefficient of determination is different from zero. If the p-value of the F statistics is lower than 0.05, then the model shows a statistically significant relationship between the dependent variable and the predictors. In our case, the result of the study displayed a p-value of 0.0000 for the F statistics. Thus, it is possible to conclude boldly that the model of this study is statistically significant in predicting the impact of the perception of tax payers, the capacity of tax authority, income level of tax payers, auditing and penalty, and tax compliance costs. .

Table 4.14 ANOVA results for the model

Source	Sum of squares(SS)	Degree of freedom(DF)	Means of square(MS)	F	Significance
Model	365.8999	5	73.1800	280.04	0.0000
Residual	131.9669	505	0.2613		
Total	497.8668	510	0.9762		

Dependent variable: rental income tax compliance

Independent variables: the perception of tax payers, the capacity of tax authority, income level of tax payers, auditing and penalty, and tax compliance costs. These means the combined effect of the predictor variables contribute to 73.5% changes in rental income tax compliance.

4.6.2.2. Beta Coefficients

Beta coefficients tell us about the relationship between the dependent variable and each predictor. The beta (β) sign includes a sign of positive (+) and negative (-). They show the effect of independent variables over the dependent variable (Field, 2009).If the value is positive we can tell that there is positive relationship between the predictor and the outcome, whereas a negative coefficient represents a negative relationship between predictors and outcome.

Table 4.15: regression coefficients' results

	coefficients	Standard error	t-statics	P-value	Lower 95%	Higher 95%
constant	-.1108125	.1058071	-1.05	0.295	-.3186888	.0970638
PTP	.0968043	.0500423	1.93	0.054	-.0015125	.195121
CTA	.3201226	.0396031	8.08	0.000	.2423155	.3979298
ILTP	.3672157	.0430931	8.52	0.000	.2825519	.4518796
AP	.349127	.0427031	8.18	0.000	.2652293	.4330246
TCC	-.0866235	.0222741	-3.89	0.000	-.1303849	-.0428621

Regarding values, the P-value shows whether each coefficient is different from 0. To be statically significant, the p-value of a given coefficient needs to be lower than 0.05 at 95% level of significance. Based on the results of the study, the capacity of tax authority, income level of tax payers, auditing and penalty, and tax compliance costs are statistically significant in explaining compliance to rental income tax. To be important enough to affect the model, coefficients must have a t-value greater than 1.96 at 0.05 confidences. The results of the study showed that all the predictors except perception of taxpayers are important variables for the model. Even, from amongst them the capacity of the tax authority is the most important one for the model.

Disregarding the perception of tax payers and tax compliance costs, the other three independent variables are positively associated with compliance to rental income tax. Taking all the factors (the perception of tax payers, the capacity of tax authority, income level of tax payers, auditing and penalty, and tax compliance costs) constant at zero, compliance to rental income tax will be negative (-0.11). The findings show that the highest and least contribution for rental income tax compliance come from income level of tax payers and tax compliance costs respectively. According to the result, a unit increase of the income level of the taxpayers would lead to a 0.37 increase in the compliance of rental income tax. Regarding tax compliance costs, a unit increase of the variable would lead to a 0.09 reduction on rental income tax compliance.

4.6.3. Discussions and Interpretations

The discussion in this section is centered on the findings from the data and literature analysis that answers the research questions raised in connection with the determinants on rental income tax compliance. In order to ensure the data give full information and to corroborate the research findings, the study used data triangulation. The following results and interpretations are made on the determinants of the rental income tax compliance formulated in the model of this research paper.

4.6.3.1. Perceptions of Tax Payers

The positive beta sign (0.097) and a statistically insignificant regression result (1.93) of the variable did not agree with the proposed hypothesis which argues that the perceptions of taxpayers affect positively and significantly rental income tax compliance behavior. In contrast to the hypothesis, the attitudes of rental income tax payers have weak impact on the dependent variable. Therefore, the hypothesis is rejected. The result is consistent with the past research works of Kirchleret al. (2008) which concludes that a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes..

4.6.3.2. Capacity of Tax Authority

The result of the study displayed that the capacity of the tax authority is positively related with rental income tax compliance. Based on the finding, rental income tax compliance is changed by 0.32 for a unit change in the strength of the tax authority. The t test result (8.08) of the regression output showed a statistically significant relationship with rental income tax compliance. Therefore, the researcher accepts the hypothesis of the study that says Capacity of a tax authority is positively and strongly associated with rental income tax compliance. This result of the study agrees with the prior research works of Hasseldine J. a. (1999) and Roth (1989) which argued an efficient and economical tax system staffed with skilled manpower greatly minimize tax noncompliance. It is also supported by the local works of Berhane and Yesuf (2013) which found out that insufficient number of business house rent tax assessment and collection officers lead to tax noncompliance

4.6.3.3. Income Level of Tax Payers

The finding of this study concluded that the income level of rental income tax payers affects compliance of rental income tax positively at a high level of statistical significance. The magnitude of the effect of the independent variable is 0.37. P-value of 0.000 and t- value of 8.52 indicated us the big impact of the size of an income earned by rental income tax payers on tax compliance. Therefore, the researcher accepts the hypothesis of the study which asserts that income level of taxpayers affects positively and significantly rental income tax compliance. The result of this study is consistent with the past study of Taddese and Goitom (2014) who concluded that tax compliance is influenced by the probability of being audited and financial constraints. It is also in line with the position of Karanja (2014) who indicated in his studies that income levels strongly influenced tax noncompliance.

4.6.3.4. Auditing and Penalty

Because of the variable's low P-value (0.000), the regression output showed a statistically significant relationship with the rental income tax compliance. It is strongly related since its t= test has a value 8.18 at 5% level of confidence and also causes positively a variation of 0.35 on the compliance of rental income tax. Therefore, the researcher accepts the hypothesis of the study which contends auditing and penalty are related positively and strongly with rental income tax compliance. This finding is consistent with the position of prior studies of Allingham & Sandmo (1972) and Mohd et al. (2011) who concluded that taxpayers who fear the possibility of detection through auditing and a high imposition of penalty refrain themselves from under reporting of actual income and claiming false deductions. It also agrees with the works of Yesegat and Fjeldstad (2016) which disclosed that audit probability was found to have a statistically significant association with compliance attitude.

4.6.3.5. Tax Compliance Costs

Tax compliance costs have a negative relationship with the regressed variable with a coefficient of = -0.09.Likewise, its statistical significance on the rental income tax compliance is so high; since the p-value test of the variable is 0.000 which is well below the critical value(0.05) at 95% confidence interval. This showed that the regression result of the study supported the proposed hypothesis. Therefore, the researcher accepts the hypothesis of the study which holds that tax compliance costs are associated negatively and significantly with rental income tax compliance. The outcome of this study agrees with the past study of Mukabi (2014) who revealed that cost of compliance and complicated systems result in low levels of compliance.

4.6.4. Analysis of Interview Result

The interview questions were designed in order to support and confirm the information acquired from survey questionnaire result. So, the interview questions were made after fully completing the analysis of the survey questionnaires. For this purpose, three high level branch managers of Yeka Sub City Small Tax Payers Branch Office were selected and interviewed individually. These persons were the general manager of the branch office, deputy manager of the tax affairs department, and deputy manager of modernization and corporate department. After face to face in-depth interviews with these three high level branch managers their feedback results were summarized as follows;

From the first interview question forwarded to the interviewees, the researcher wants to know what kind of taxpayers' perception reflected at the mangers view. First, all the mangers replied that all taxpayers could not have the same perception. Next, they expressed that many lower income level taxpayers believed that requiring them to pay tax is not fair. These tax payers think that their tax contribution is not fully deployed to those economic development areas that serve for their day to day life like transportation service, health care service, utility service (water, electric power, telephone). The interviewed managers explained also that lower income tax payers consider the imposed tax tariff or tax payment calculation rate is not fair too. All managers agreed that all individual who have business income should have to register for tax declaration voluntarily as per the existing Ethiopian tax law. However, they said this is not the reality. Currently all tax eligible individuals are not registered for taxation and also they don't pay their duties for lack of integrated tax administration and their negative perceptions toward tax benefit.

For the second question, feedback of the mangers was related to the capacity of the branch office. On this issue, the managers admitted that the branch office does not have enough educated man power as well as networked information delivery at level of every kebele. They described that there is poor record keeping which is not supported by automated technology in the branch office so that the office could not control or supervise all house renters in its jurisdiction. They elaborated more this capacity problem with all its manifestations by indicating that all individuals do not give right information, the presence of inappropriate price setting for house rent governed under kebeles, lack of law enforcement to force private owners for their house rent price evasion and lack of proper management over large number (13,000-18,000) of lessees who possessed kebele houses through untraceable ownership transfers.

For the third question, the managers held the view that rental income tax is properly paid by many tax registered building renters and some home residence and shop renters who have notarized lease contracts. Nevertheless, they said a large number of low income earning individuals who rent their living houses with back door or traditional local agreements didn't appear before the branch office for rental income tax registration.

For the fourth question, the managers indicated in their responses that the branch office develops two types of audit plans which are on desk/on spot checking audit plan and long period audit plan. They said the on desk/on spot checking audit plan contains audit activities that would be conducted before payment of taxes by tax payers and long period audit plan schedules tasks that would be done through finical document audit. They expressed that the past auditing results of the office disclosed several tax non-compliances of rental income tax payers that resulted in collection of unpaid taxes, interest and penalty from these tax payers. From their observations, they replied that they understand many penalized taxpayers take possible cautions to avoid or minimize the occurrences of next mistake. They responded that, lots of rental income tax payers organize their documents well for fear of being caught for errors or deliberate acts during long period audits of the branch office. All managers agreed that the branch office collects large amount of income tax through the help of audit findings which revealed tax misleading and tax evasions as well as from penalties imposed for non on time declaration and late filling.

For the last question, the managers showed in their answers the dissatisfaction of a large number of rental income tax payers for non-reimbursed tax compliance costs. They said the tax payers complain for the lack of room to entertain by the tax office the transport expenses they incur as they use taxi, train and buses from and to the tax office for managing their tax issues. They stated that the tax payers mentioned absence of guide line in the legal framework of the country to take submitted transport invoices as legal documents.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This chapter provides summary, conclusions and some recommendations on the study. It depicts the preceding chapters collectively to synthesize the contribution of this study. In the first section, the researcher tries to show the findings of the study. In the second and the last sections, the researcher wraps up the implications of the findings and also gives recommendations according to the study results.

5.1. Summary

Collection of tax is not a simple task. It has serious challenges. One of the serious problems that weaken a tax administration is tax noncompliance. Tax noncompliance implies a failure of taxpayers to meet intentionally or unintentionally tax obligations prescribed by laws. The desire to evade tax is prevalent in every country. Studies have shown that factors which influence tax compliance behavior differ from one country to another and also from one individual to another (Kirchler, 2007).

The rental income tax regime of Addis Ababa city administration is one of the tax sectors which being exposed to the tax noncompliance problem. The actual revenue of the city has shown constantly a disparity from the planned one. The city government of Addis Ababa administration conducts its tax administration through its ten sub cities which are empowered to have their own revenue and customs administration offices for tax assessment, collection, and control of variety of the tax bases. One of these sub cities is Yeka sub city .The factors underlying the individual tax payer's decision whether to comply with rules or not are different and have unique nature across the ten sub cities of the Addis Ababa administration. Huge amount of rental income tax money that should have been paid is not actually collected by the Yeka sub city each year. The number of non-filers, null declaring and the amount of tax collected by enforcement activity are significant.

The purpose of this study is to identify and establish the determinant factors influencing the rental income tax compliance behavior in Yeka sub city small tax payers' branch office and give recommendations on the enhancement of rental income tax compliance. In doing the study, the research has employed descriptive study to describe about the supply chain factors and also explanatory approach to show the relationship between the rental tax compliance and the predictors identified in the study model. The research used both qualitative and quantitative methods. The data for the research was gathered from primary and secondary data sources. The primary data was the replies obtained from questionnaires and interviews of respondents. The secondary data were tax report and plans.

From the descriptive statistical analysis results of the study, it was discovered that most participants didn't consider their payment of income tax as their own citizenship responsibility. More than half of the respondents accepted that the expenditure patterns of the city administration as a crucial factor for their tax payment compliance. The inability of the tax office to track down all eligible tax payers was acknowledged by majority of the respondents. The same opinion is reflected by most respondents as to the inclusion of sub lessees in the tax net of the branch office. Most respondents rejected the capability of the office to investigate all rental income reported by the tax payers. The participants disagreed with the idea that the tax office has fewer amount of areas of uncollectable income tax.

Findings of the descriptive statistical analysis also revealed that many of the participants believe that income level of the tax payers affect the tax compliance behavior of taxpayers. More than half of the respondents contend that tax rate should vary with the level of tax payers' spending capacity. In the same manner, a large number of the respondents agreed that low rental income earners should not be taxed and level of inflation is discouraging of positive tax compliance. Half of the participants were not certain that continuous audits conducted by the tax office are not well enough to bring the required level of tax compliance. A large number of the respondents argued that the penalties passed by the tax office are too weak to discourage tax noncompliance. It is disagreed by the majority of the respondents that travelling expenses lead to rental income tax noncompliance behavior. Majority of the respondents concluded that tax computation, keeping records, purchase of accounting software and soft copy do not motivate them to abide by tax rules.

Interview responses disclosed that lots of lower income taxpayers think that their tax contribution is not fully deployed to those economic development areas that serve for their day to day life like transportation service, health care service, and utility service. They also consider the existing tax tariff or tax payment rate as unfair imposition. The tax branch office does not have enough educated man power as well as networked information delivery at level of every kebele. There is poor record keeping which is not supported by automated technology in the branch office so that the office could not control or supervise all house renters in its jurisdiction. Past auditing results of the tax office disclosed several tax non-compliances of rental income tax payers that resulted in collection of unpaid taxes, interest and penalty from these tax payers. Many tax payers complain for the lack of room to entertain by the tax office the transport expenses they incur as they use taxi, train and buses from and to the tax office for managing their tax issues.

The regression analysis outcomes of the study revealed that the coefficient variation (R^2) of the study model is 73.5%. This means the finding indicated that the combined contribution effect of the predictor variables is 73.5% on the rental income tax compliance. The result of the study displayed a p-value of 0.0000 to the study model for the F statistics. At 95% level of significance, the p value of all the independent variables except perception of tax payers is lower than 0.05. Similarly, the t value of all the independent variables except perception of tax payers is greater than 1.96 at 95% confidence intervals. Disregarding tax compliance costs, the other four independent variables are positively associated with compliance to rental income tax. The findings for the beta coefficients show that the highest and least contribution for rental income tax compliance come from income level of tax payers and tax compliance costs respectively.

5.2. Conclusions

This section concludes and answers the research hypotheses raised in chapter one of this paper. Based on the findings presented in the previous section, the following conclusions are drawn:

73.5% of the variation in rental income tax compliance in Yeka small tax payers branch office is accounted due to changes on perceptions of tax payers, capacity of tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs. It was also shown in the study that the model has a p-value of 0.0000 for the F statistics. This evidenced that the model is statistically significant in predicting rental income tax compliance through the impacts of perceptions of tax payers, capacity of tax authority, income level of taxpayers, auditing and penalty, and tax compliance costs.

The findings of the study confirmed all the research hypotheses (H2, H3, H4, and H5) except the hypothesis proposed to perceptions of tax payers(H1).The result demonstrated that all the independent variables except tax compliance costs are positively associated with rental income tax compliance. To be statically significant, the p-value of a given coefficient needs to be lower than 0.05 at 95% level of significance and “t” test value greater than 1.96. Based on the results of the study, all the independent variables aside from perceptions of tax payers have a t test value greater than 1.96.This means four of the predictors in the model are statistically significant in explaining the rental income tax compliance in Yeka tax branch office. Income level of taxpayer has the highest beta value which would impact the regressed variable the most. The outputs indicate that Yeka tax branch office would achieve a higher level of rental income tax compliance if it has managed and considered well the income level of taxpayers, capacity of the tax office, and its auditing and penalty practices.

The positive beta sign (0.09) and a statistically insignificant regression result (t-statistics =1.93) of perceptions of tax payers didn't support the proposed hypothesis which states that perceptions of tax payers affects positively and significantly the tax compliance behavior of rental income tax payers registered in Yeka tax branch office. Therefore, the hypothesis is rejected. Based on the data analysis, rental income tax compliance behavior increment is by

0.09 for a unit change in the perceptions of the tax payers. The t test result (1.93) of the regression output showed a statistically insignificant relationship with the two variables.

From responses of questionnaires and interviews, it is concluded that most tax payers don't have a positive attitude for their tax payment responsibility since they believe that their tax contributions don't spend by the government to address their problems and also the current law fixes unfair tax rate on renters earning lower levels of income. The capacity of the tax office is not strong enough to track down all eligible tax payers in its territory because of shortage of manpower, not well organized and complete record keeping, absence of technology supported automated system, and lack of networked information exchange environment. There is a belief that low level of income needs to be excluded from taxation by amending the current law. The tax office has not been able to reach at all necessary places through its continuous auditing activities as well as its penalties imposition for noncompliance has not sent strong signals as intended. Finally, there are some dissatisfaction from taxpayers the treatment of certain expenses that they incurred during they try to comply their tax obligations.

5.3. Recommendations

By taking the findings of the study into consideration which showed the strong impacts of all the independent variables, some recommendations are proposed to alleviate the problems observed at Yeka sub city small taxpayers' branch office during the study. For establishing harmonious relationship between taxpayers and the tax authority and ultimately boost the economic growth of the country tremendously, it is imperative to change the negative perception of the majority of the taxpayers on the existing tax system of the country. Most tax payers don't consider their tax payments as their civic responsibility. So, it is advised that special focus needs to be given to engage in aggressive tax awareness creation programs, to introduce and update better practices on internal and external customer care.

To promote efficient and economic tax administration through building and promoting a higher capability to the tax authority, it is recommended that the authority should have to recruit capable and enough number of man power, implement technologically supported system, and install communication channels that enables information gathering from kebeles at every level. The realization of this recommendation assists significantly the tax authority to audit the documents of all registered and non-registered tax payers and thereby to embrace in its tax net all potential rental income taxpayers as well as to detect all sub lessees of rental income taxpayers within the sub city territory.

To exploit the positive and big impacts of auditing and penalty as it is raveled in the study, it is recommended that the tax authority should bring more persons educated and experienced in the field of auditing so that the quality and the coverage of its auditing activities expand to the level that commands tax compliance. It is also advised that the tax authority should refrain itself from being linnet in its application of penalties either by charging light punishments or granting several exoneration from penalties. The authority should exercise its power according to the spirit and letter of the tax law.

It is recommended initiatives to be taken periodically to revise the income floor for taxation by considering the high inflation and the ever changing burdens of livelihood so as to get positive attitudes from low income tax payers. It is also advised the concerned government bodies to consider options that allow treatment of transport expense invoices as lawful documents in order to mitigate the tax compliance costs of the tax payers.

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APENDEX-I QUESTIONNAIRE FOR PARTICIPANTS

Dear Sir/Madam:

The enclosed questionnaire is designed to gather information from staffs and supervisors of Yeka Sub City Small Tax Payers Branch Office as well as from registered rental income taxpayers of the noted office. The information/answers gathered from respondents provide to the items in the questionnaire will be used to generate part of the data needed for a study of **Determinants of Rental Income Tax Compliance Behavior at Yeka Sub City Small Tax Payers Branch Office**. The study is being conducted as part of the postgraduate study the researcher for Master's degree in Accounting and Finance at Addis Ababa University, Ethiopia.

The questionnaire is anonymous so that there will be no mentioning of name on it. The conclusions of the study will be drawn in aggregate terms, without any reference to individual respondents. The information obtained from the questionnaires will be strictly kept confidential.

I would like to say that participation in this survey is completely voluntary and in filling the questionnaire:

- You don't need to write your name.
- Tick (√) the appropriate point that indicates your opinion.

Thank for your participation.

Best regards;

Workeneh Lemma

Part I. Participant's Profile

- Gender: ☐ Male ☐ Female
- Age ☐ Below 25 ☐ 25 to 29 ☐ 30 to 39 ☐40 and above
- Level of education

  ☐ Doctorate ☐ Masters ☐ Bachelor ☐ Diploma Other ________________
- Job position

  ☐ Supervisor ☐staff Other-----------------
- Work experience in years

  ☐ 0-5 ☐ 5-10 ☐ 10-15 ☐ `5-20 ☐ above 20--------

Part II: Questions

The values of scales are 5= strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree

No.	Description of Variables	Scales				
	Tax Compliance	5	4	3	2	1
1	Individuals who rent houses appear before the tax office for registration as per the requirement of the law. በቅርንጫፍ መስሪያ ቤቱ ያሉት የቤት አከራይ ተመዝጋቢዎች የተመዘገቡት ታክስ ሰብሳቢ መስሪያ ቤት ሳያስገድዳቸዉ የታክስ ህጉ በሚጠይቀዉ መስፈርት መሰረት በራሳቸዉ ተነሳሽነት ነዉ፡፡					
2	Rental income taxpayers declare timely. የቤት ኪራይ ታክስ ከፋዮች ታክሱን በሰዓቱ ያሳዉቃሉ፡፡					
3	Rental income taxpayers file tax returns timely. የቤት ኪራይ ታክስ ከፋዮች የታክስ ተመላሽ ሰነዶችን በወቅቱ ያሳዉቃሉ፡፡					
4	Rental income taxpayers declare correct rental income. የቤት ኪራይ ታክስ ከፋዮች ትክክለኛዉን የታክስ መጠን ያሳዉቃሉ፡፡					
5	Rental income taxpayers file tax returns to avoid penalties. የቤት ኪራይ ታክስ ከፋዮች የታክስ ተመላሽ ሰነዶችን በወቅቱ የሚያሳዉቁት ከቅጣት ለማምለጥ/ላለመቀጣት ስሉ ነዉ፡፡					
	Perception of taxpayers	5	4	3	2	1
6	Rental income taxpayers consider payment of tax as their own responsibility. የቤት ኪራይ ታክስ ከፋዮች የታክስ ክፍያዉን የሚፈጽሙት ታክሱን መክፈል የራሳቸዉ ኃላፊነት ስለምሰማቸዉ ነዉ፡፡					
7	The relationship between rental income taxpayers and the tax office influences the willingness of taxpayers to be compliant. በቤት ኪራይ ታክስ ከፋዮች እና በታክስ ሰብሳቢ መስሪያ ቤት ሰራተኞች መሀከል ያለዉ ጥሩግንኙነት የታክስ ገቢ ህጉ በትክክል ስለመተግበሩ ላይ ተጽእኖ አለዉ					
8	Payment of tax is perceived by rental income taxpayers as contribution to economic growth of the country. የቤት ኪራይ ታክስ ከፋዮች ከታክስ የሚሰበሰዉ ገቢ ለሀገርቱ የኢኮኖሚ እድገት ግንባታ አስተዋጾ አለዉ ብለዉ ያምናሉ፡፡					
9	The city government encourages rental income taxpayers to be tax compliant. የከተማ አስተዳደሩ የቤት ኪራይ ታክስ ህግ በትክክል እንድተገበር የቤት ኪራይ ገቢ ግብር ከፋዮችን ያበረታታል፡፡					
10	There is procedural fairness, trustworthiness on the tax office, and respectful treatment in the tax office በግብር ሰብሳቢ መስሪያ ቤት ሰራተኞች ዘንድ፤ ግልጽነት÷ የግብር ከፋዩ ተአማኒነት መኖሩን እና አድሎዊነት የሌለዉ መስተንግዶ በትክክል ይተገበራል፡፡					
11	Staffs and managers of the tax office are supportive and respond promptly to tax queries.የግብር ሰብሳቢ መስሪያ ቤት ኃላፊዎችና ሰራተኞች ለግብር ከፋዩ					

		5	4	3	2	1
	አስፈላጊዉን ድጋፍም ሆነ ለጠየቁት ጥያቄ በቀናነት ይመልሳሉ፡፡					
	Capacity of the tax authority	5	4	3	2	1
12	The tax office is capable to track down all eligible rental income taxpayers in its jurisdiction. ግብር ሰብሳቢዉ መስሪያ ቤት በቀጠናዉ ያሉትን ሁሉንም የቤት አከራዮች የመቆጣጠር አቅም አለዉ፡፡					
13	The tax office has the capability to investigate all rental income reported by the tax payers. ግብር ሰብሳቢዉ መስሪያ ቤት ሪፖርት የተደረጉትን ሁሉንም የቤት ኪራይ ገቢ ታክስ ሰነዶችን የመመርምር አቅም አለዉ፡፡					
14	The tax office has included in its tax net sub lessees who rent from the principal lesser. በግብር ሰብሳቢዉ መስሪያ ቤት ያለዉ የቤት ኪራይ ገቢ ግብር ዕቅድ ዉስጥ የተከራይ አከራይ ገቢ ግብር ዕቅድ ያካተቴ ነዉ፡፡					
15	The tax office has fewer amounts of arrears of uncollectable rental income tax. በግብር ሰብሳቢ ቅርንጫፍ ጽ/ቤት ያለዉ ያልተሰበሰበ የቤት ኪራይ ገቢ ግብር መጠን በጣም ትንሽ ነዉ፡፡					
16	The tax office could manage correctly the tax computation of furnished rented houses. ግብር ሰብሳቢዉ መስሪያ ቤት የቤት ኪራይ ገቢ ግብር ስሌትን በተቀመጠዉ ስሌት መሠረት በትክክል ስለመሰራቱ ይቆጣጠራል፡፡					
17	The tax office has guidelines that enable it to differentiate causal renal income tax payers falling under schedule D from rental income taxpayers categorized under schedule B.					
	Income Level of taxpayers	5	4	3	2	1
18	Tax rate should vary with level of rental income. የቤት ኪራይ ገቢ ግብር ፐርሰንት ስሌት እንደኪራይ ገቢ መጠን ይለያያል፡፡					
19	Low rental income earners should not be taxed . ዝቅተኛ የቤት ኪራይ ገቢ ያላቸዉ አከራዮች የቤት ኪራይ ገቢ ግብር አይከፍሉም፡፡					
20	Taxpayers with smaller rental income are more non-compliant ዝቅተኛ የቤት ኪራይ ገቢ ያላቸዉ ግብር ከፋዮች ከሌሎች በበለጠ የታክስ ህግን አይተገብሩትም፡፡					
21	The prevailing inflation level of the country discourages positive tax compliance. በሀገርቱ ያለዉ ድንገተኛ የዋጋ ግሽበት መጠን ተማኝ የሆኑ ግብር ከፋዮችን አያበረታታም፡፡					
	Auditing and Penalty	5	4	3	2	1
22	The tax office audit system is sufficiently promoting voluntary compliance of rental income taxpayers. የግብር ሰብሳቢ ቅርንጫፍ ጽ/ቤቱ የኦዲት አሰራር ፍቃደኛ የቤት ኪራይ ገቢ ግብር ከፋዮችን በትክክል ያበረታታል፡፡					

23	The tax office makes continuous audits as a result there is no room to non-compliance. የግብር ሰብሳቢ ቅርንጫፍ ጽ/ቤት የታክስ ከፋዮችን ሰነድ በተከታታይ የሚያደርግ ስለሆነ ምንም አይነት የህግ ትግበራ ክፍተት አይፈጠርም፡፡					
24	Taxpayers will not evade tax if the probability of detection is high. ጠንከር ያለ የምርመራና የክትትል ስራ ቢኖር ግብር ከፋዮች የታክስ ክፍያን አያጭበረብሩም፡፡					
25	Penalty discourages non-compliance of rental income taxpayers. የታክስ ቅጣት ለታክስ ህጉ ተገዥ ያልሆኑ የቤት ኪራይ ገቢ ግብር ከፋዮችን አያበረታታም፡፡					
26	The existing practice of penal actions in the tax office is too weak to discourage taxpayers who evade tax. በአሁኑ ወቅት በግብር ሰብሳቢ ቅርንጫፍ ጽ/ቤት በኩል ያለዉ ተሞክሮ ግብር ከፋዮች ታክስን እንዳያጨበረብሩ የሚወሰደዉ እርምጃ በጣም ደካማ ነዉ፡፡					
27	The penalty that taxpayers have been paid in the past affects the liability of tax that will paid in the next. በባለፈዉ ጊዜ በግብር ከፋዮች ላይ የተጣለዉ የቅጣት ክፍያ በቀጣይ ዕዳ ክፍያ ላይ ተጽእኖ አለዉ፡፡					
	Tax compliance costs	5	4	3	2	1
28	The cost of filing a tax return (tax computation, keeping records, purchase of accounting software and photocopies) discourages rental income tax compliance የሒሳብ ሰነዶችን በአግባቡ ለመያዝ ለቁሳቁስ ግዥና ለሌሎች ተያያዥ ጉዳዮች የሚከፈሉ ወጪዎች የቤት ኪራይ ገቢ ግብር ከፋዮችን ለህጉ ተገዥ እንዳይሆኑ ያደርጋል፡፡					
29	Tax related staffs’ salary and allowances and also the cost of hiring a tax agent discourage tax compliance. ለቢሮ ሰራተኞች የሚከፈል ደመወዝና አበል እንዲሁም ለስራ ቅጥር ወኪሎች የሚወጣ ወጪ ግብር ከፋዮችን አያበረታታም፡፡					
30	The cost of travelling in order to file a return discourages rental income tax compliance. ታክስን ለማወራረድ በግብር ሰቢሳቢዉ መስሪያ ቤት በመመላለስ የሚወጣዉ የትራንስፖርት ወጪ የቤት ኪራይ ገቢ ግብር ከፋዮችን ለህጉ ተገዥ እንዳይሆኑ ያደርጋል፡፡					
31	Frequently dealing with tax authorities is tedious so that it motivates tax noncompliance. የታክስ ጉዳዮችን በግብር ሰቢሳቢዉ መስሪያ ቤት ተመላልሶ መነጋገር አሰልች ስለሆነ ግብር ከፋዮችን ለህጉ ተገዥ እንዳይሆኑ ያበረታታል፡፡					

APPENDIX II-INTERVIEW GUIDE

INTERVIEW QUESTIONS FOR MANAGERS

- How do you understand the perceptions of rental income tax payers in paying their tax? Are they thinking that paying tax is their responsibility or any else? Are they thinking that paying tax is supporting the economic growth of the country?

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- Do you think that your tax branch office have the full capacity of manpower, technology, information gathering net work and organized data handling to control all house renting individuals in your sub city who registered and unregistered? If not why?

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- In your sub city who were registered for rental income tax declaration and not registered to pay rental income tax?

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- How do you make auditing in your tax branch office? What are the rental income taxpayers thinking toward tax auditing and penalties in your sub city?

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- What do you think the impact of tax compliance cost on rental income tax payers? What compliant registered regarding tax compliance cost from tax payers? Do you have any suggestion or recommendation out of the raised questions?

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