



**TAX COMPLIANCE DETERMINANTS BASED ON THEORY OF  
PLANNED BEHAVIOR  
A THESIS SUBMITTED TO AAU**

**COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF MBA**

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January 2020 G.C**

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**Endorsement**

This is to certify that Dereje Fekade has carried out his research work on the topic entitled, “Tax Compliance Determinants Based on Theory of Planned Behavior”. The work is original and is suitable for submission for the award of the Degree of Master of Business Administration [MBA] at Addis Ababa University.

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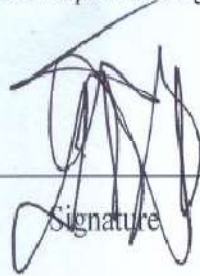
**Declaration**

This thesis, written by Dereje Fekade, and entitled “Tax Compliance Determinants Based on Theory of Planned Behavior” and submitted in partial fulfillment of the requirements for the degree of Master of Business Administration [MBA] complies with the regulation of the University and meets the acceptable standards with respect to originality and quality.

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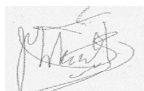
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## **Acknowledgement**

First and foremost, I give thanks to the almighty God for giving me the health, strength and patience to finalize this thesis.

I would also like to express my gratitude to my advisor Dr. Mohammed Seid for his stable and consistent support. I am very grateful for his guidance, encouragement and constructive comments for each part of the paper.

Lastly, I want to thank my family and friends for their love and support throughout writing this thesis.

## Table of Contents

| <b>Contents</b>                                 | <b>Pages</b> |
|---|--------------|
| Acknowledgement .....                           | iii          |
| List of Tables .....                            | vii          |
| List of Chart .....                             | viii         |
| Abstract .....                                  | ix           |
| CHAPTER ONE .....                               | 1            |
| 1. INTRODUCTION .....                           | 1            |
| 1.1. Background of the Study .....              | 1            |
| 1.2. Statement of the Problem .....             | 2            |
| 1.3. Research Questions .....                   | 3            |
| 1.4. Objectives of the Study .....              | 4            |
| 1.4.1. General Objective .....                  | 4            |
| 1.4.2. Specific Objectives .....                | 4            |
| 1.5. Significance of the Study .....            | 4            |
| 1.6. Scope of the Study .....                   | 5            |
| 1.7. Organization of the Paper .....            | 5            |
| CHAPTER TWO .....                               | 6            |
| 2. REVIEW OF RELATED LITERATURE .....           | 6            |
| 2.1. Theoretical Literature Review .....        | 6            |
| 2.1.1. Tax Compliance .....                     | 6            |
| 2.1.2. Factors Affecting Tax Compliance .....   | 7            |
| 2.2. The Theory of Planned Behavior (TPB) ..... | 7            |
| 2.3. Overview of Taxes in Ethiopia .....        | 8            |
| 2.4. Tax administration, Medium Taxpayers ..... | 9            |
| 2.5. Empirical Literatures .....                | 11           |
| 2.6. Conceptual Framework of the Study .....    | 15           |
| CHAPTER THREE .....                             | 17           |

|   |    |
|---|----|
| 3. METHODOLOGY AND RESEARCH DESIGN.....   | 17 |
| 3.1. Research Design.....   | 17 |
| 3.2. Sources of Data .....  | 17 |
| 3.3. Population and Sampling .....  | 17 |
| 3.4. Data Collection Tools/Instruments.....   | 18 |
| 3.5. Method of Data Analysis.....   | 18 |
| 3.6. Ethical Considerations.....  | 19 |
| CHAPTER FOUR.....   | 20 |
| 4. RESULTS AND DISCUSSIONS .....  | 20 |
| 4.1. Reliability of the Questionnaire .....   | 20 |
| 4.2. Demographic Characteristics of Respondents.....  | 21 |
| 4.3. Descriptive Statistic Results.....   | 22 |
| 4.3.1. Attitude .....   | 23 |
| 4.3.2. Attitude across demographic variables ANOVA and T- test.....                             | 23 |
| 4.3.3. Subjective norm .....  | 24 |
| 4.3.4. Subjective norm across demographic variables ANOVA and T- test .....                     | 25 |
| 4.3.5. Perceived Behavioral Control.....  | 26 |
| 4.3.6. Perceived Behavioral Control and across demographic variables ANOVA and T-<br>test ..... | 27 |
| 4.3.7. Tax Compliance Intention.....  | 27 |
| 4.3.8. Tax Compliance Behavior .....  | 28 |
| 4.3.9. Descriptive summary of variables .....   | 29 |
| 4.4. Inferential Statistics Results.....  | 29 |
| 4.4.1. Correlation Results.....   | 29 |
| 4.4.2. Regression result.....   | 30 |
| 4.4.3. Assumption Tests for Multiple Regression.....  | 36 |
| 4.4.4. Independent variables and Tax Compliance Behavior .....                                  | 38 |

|   |    |
|---|----|
| 4.4.5. Independent variables and Tax Compliance Intentions .....                  | 39 |
| 4.4.6 Testing for Mediation .....   | 40 |
| CHAPTER FIVE .....  | 44 |
| 5. CONCLUSION AND RECOMMENDATIONS .....   | 44 |
| 5.1 Conclusions .....   | 44 |
| 5.2 Recommendations .....   | 45 |
| References .....  | 46 |
| Appendix I: English Version Questionnaire .....                                   | 51 |
| Appendix II: Amharic Version Questionnaire .....                                  | 58 |
| Appendix III: Descriptive result of questionnaire (frequency and percentage)..... | 62 |
| Appendix IV: Scatter Plots Matrix .....   | 65 |

## List of Tables

|   | <b>Page</b> |
|---|-------------|
| Table4. 1 Reliability results .....   | 20          |
| Table4. 2 Demographic Characteristics of Respondents .....                                    | 21          |
| Table 4. 3 Attitude .....   | 23          |
| Table4. 4 Demographic variables and attitude.....   | 24          |
| Table4. 5 Subjective norm .....   | 24          |
| Table4. 6 Demographic variables and subjective norm .....                                     | 25          |
| Table4. 7 Perceived Behavioral Controls .....   | 26          |
| Table4. 8 Demographic Variables and Perceived Behavioral Control .....                        | 27          |
| Table4. 9 Tax compliance Intention .....  | 27          |
| Table4. 10 Tax Compliance Behavior .....  | 28          |
| Table4. 11 Descriptive summary of variables.....  | 29          |
| Table4. 12 Correlational matrix .....   | 30          |
| Table4. 13 Regression results attitude and Tax Compliance Intention.....                      | 31          |
| Table4. 14 Regression results subjective norm and Tax Compliance Intention .....              | 32          |
| Table4. 15 Regression results Perceived Behavioral Control and Tax Compliance Intention ..... | 33          |
| Table4. 16 Regression results Tax Compliance Intention and Tax Compliance Behavior.....       | 34          |
| Table4. 17 Summary of hypothesis and test results of the study .....                          | 36          |
| Table4. 18 Multi collinearity Test.....   | 36          |
| Table4. 19 IVs and TCB .....  | 38          |
| Table4. 20 IVs and TCI .....  | 39          |

## **List of Charts**

|  |    |
|--|----|
| Chart 1 Business type of respondents ..... | 22 |
| Chart 2 Normality Test .....               | 38 |

## **Abstract**

*The issue of compliance is not a recent phenomenon as it has been point of discussion and contention since the emergence of tax collection. Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. The objective of this research was to investigate the major factors affecting tax compliance behavior on the basis of theory of planned behavior of medium tax payers in the capital Addis Ababa with particular reference to the Kazanchis Branch Office. Descriptive research design was used. The study has found that tax compliance intention, attitude, subjective norm, and perceived behavioral control, are positively and significantly related with the dependent variable (tax compliance behavior). The regression analysis also revealed that attitude, subjective norm, and perceived behavioral control of tax payers have been found to predict tax payers' tax compliance intention. Tax payers' intention in turn has found to be significantly predicting tax compliance behavior.*

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the Study

Taxes are greatly vigorous apparatus and principal source of revenues to a government. The revenues are needed to finance critical programs such as in health care and education, services such as; law enforcement and public utilities, and infrastructures such as road construction and environmental protection which are essential to the society (Muzainah and Zekariah 2016). Similarly, according to Eicher (2002), taxation is a vital source of revenue to government in both developing and developed countries to provide the basic infrastructural and social amenities. This can only be realized if all taxpayers willingly comply with the tax laws and the desire to uplift one's society is the utmost desire of every patriotic citizen, in which tax payment is a demonstration of such a desire.

Tax revenue is the most common means of funding public investments in education, health, physical infrastructure, crime prevention, and public defense in many countries around the globe. Tax compliance is fulfilling all tax obligations as specified by the law freely and completely. Tax compliance is the ability and willingness of taxpayers to comply with tax laws, declare the correct incomes in each year and pay the right amount of taxes on time (Marti, 2010).

The issue of compliance is not a recent phenomenon as it has been point of discussion and contention since the emergence of tax collection. Most people feel that tax is a burden and should be avoided. People who perceive paying of taxes in this way think that they are being treated harshly and the punitive provisions in the tax laws are applied heartlessly against them. Thus, they choose to stay away the tax authority contributing to the increment of the number of non-filers of tax returns (Coetzee, 1996). Fundamentally, compliance is related to the extent to which a taxpayer meets the following broad categories of obligations registration in the system, timely filing of requisite taxation information, reporting of complete and accurate information, and payment of taxation obligations on time. If a taxpayer fails to meet any of these obligations then they may be considered to be non-compliant.

Be it governmental or non-governmental, medium and small businesses being profit generating establishments are expected to pay their dues. But the main concern here is “how much tax should they be levied”. As opposed to the larger corporate organizations medium businesses are said to be volatile establishments that need special treatment (Ojochogwu and Stephen, 2012).

This study has attempted to assess tax compliance determinants based on the theory of planned behavior. The Theory of Planned Behavior (TPB) is an improved version of the Theory of Reasoned Action (TRA), which was developed by Ajzen (1985). The TRA assumes that human beings behave in a sensible manner, and the constructs that predict intention under the TRA are attitude and subjective norms. While TPB assumes behavior of an individual within the society are under the influence of definite factors, originate from certain reasons and emerged in a planned way. He further stated that the constructs that predict intention are attitude, subjective norms and perceived behavioral control. That is, perceived behavioral control is the addition to the two determinants of intention as described in TRA (Ajzen, 1985). Therefore, this study has also tried to investigate determinant of tax compliance based on theory of planned behavior considering tax payers attitude, subjective norm, and perceived behavioral control and its relation with their tax compliance.

## **1.2. Statement of the Problem**

Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. According to James and Alley (2004) tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise. Measuring and analyzing tax compliance gaps is a powerful first step to addressing noncompliance and reducing them can raise significant amounts. Estimating and dissecting the difference between tax due and collected is becoming more common, but remains the exception even in advanced economies.

Tax noncompliance is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally and this may occur through failure to file tax returns, misreporting taxable income or misreporting of allowable subtractions from taxable income or tax due such as exemptions, deductions, tax credit (Kirchler, 2007). For the compliance of the taxpayers with the taxation, first of all, their confidence in the tax system should be improved

and the classical image of the tax administration that forces the taxpayers, that brings sanctions and that does not create empathy should be bettered. Aside from having a decent and professional tax administration infrastructure, the employees, who are in direct contact with the taxpayers should have common sense and be able to empathize with the taxpayers and therefore should increase their intentness in paying taxes (Hofmann et al, 2008).

The problem of revenue loss which encountered the country was attributed to problems of tax non-compliance. It has been observed on many occasions that there are files for investigation/audit. After the audit investigation audit on files the chances are higher for the tax authority to win (Misrak, 2014). This entails the presence of a non-compliant practice in Ethiopia. In this study, therefore, the compliance nature of tax payers and overall administering of complaints would be assessed.

Medium tax payers are the focus of this study. The concerned governmental institution -- Ministry of Revenues Medium Tax Payers Branch office (MTPBO) is situated in Addis Ababa in Kirkos sub-city around Kazanchis. The office is run by a General Manager, three Deputy Managers, eleven work process owners and 255 employees. Its total branch's tax payers (customers) number is about 4,420. Out of this, about 220 are governmental organizations and the rest are private companies (whose annual sales are between three million ,up to one hundred million ETB).The Ministry of Revenues at large and the branch office in particular place considerable emphasis on voluntary and tax compliance and this is well stated in its mission statement. In spite of this, voluntary and compliance in tax collection is not yet at the expected level. Though improvement has been registered yet the result is not congruent with the targeted outcome. This is an issue that needs to be examined as to whether there is implementation gap or prevalence of external problem. Where there is extensive activity in mobilizing people, voluntary and tax compliance might not go further. Hence, this would be assessed as part of the major objective of the research.

### **1.3. Research Questions**

The basic questions which the researcher tried to answer were:

- Do attitudes, subjective norm and Perceived behavioral control has effect on intention to tax compliance in the branch office?

- Is there any significant difference in attitudes, subjective norm and Perceived behavioral control across demographic variables of tax payers?
- Does intention to tax compliance has effect on tax compliance behavior?

#### **1.4. Objectives of the Study**

##### **1.4.1. General Objective**

The general objective of the study was to investigate the major factors affecting tax compliance behavior on the basis of theory of planned behavior of medium tax payers in the capital Addis Ababa with particular reference to the Kazanchis Branch Office.

##### **1.4.2. Specific Objectives**

The specific objectives of the study are:

- To assess how attitudes, have effect on intention to tax compliance in the branch office.
- To determine if subjective norm has effect on intention to tax compliance in the branch office.
- To determine if perceived behavioral control has effect on intention to tax compliance in the branch office
- To determine if intention to comply has effect on tax compliance behavior in the branch office
- To investigate the difference in attitude, subjective norm and perceived behavioral control across demographic variables of tax payers.

#### **1.5. Significance of the Study**

The findings of this study would be used to identify tax compliance problems of taxpayers with respect to the theory of planned behavior and to track possible gaps in the tax laws and regulations. The research is, therefore, would be valuable since it help improve tax compliance and reduce tax compliance costs of the taxpayers and administrative costs of the Revenues Authority. It is also useful to identify the strengths and weaknesses observed in the process of changing the previous tax collection system. The findings and recommendations may serve as a source of information for those who want to conduct further study on the subject matter. The

study may contribute to understanding and knowledge about tax compliance plan implementation. The study may be useful for the Authority to reconsider its approaches and take corrective measures towards improving its performance and for designing future projects.

### **1.6. Scope of the Study**

The study took account of medium business profit taxpayers which are nongovernmental taxpayers found in Addis Ababa City in identifying the factors affecting their tax compliance level. Geographically, the research covered the area bound in Addis Ababa city. While emphasis would be given to assessing factors determining tax compliance with this class of tax payers it won't deal with large tax payers as the administration is different. Alternatively, effort was made to understand conditions of similar branch offices having proximity to the organization under consideration. Factors that appear to be true for tax payers in a regional state city might not be applicable to the city. Thus, there is no need to discuss tax payer's behavior and attitudes across the country.

### **1.7. Organization of the Paper**

This thesis is organized in to five chapters. Chapter one presents background of the study, problem statement and the most important objective of the study. On Chapter two, literature reviews related to tax payer's compliance were presented in connection with the study. Chapter three gives the description of the methodology to be used in the study, data collection means and way of study on voluntary tax-paying behavior and associated issues. Chapter four presents the findings on data analysis and discussion related to the topic. Finally chapter five presents the summary, conclusions and recommendations.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITERATURE**

In this chapter a review of the related literatures with regard to concepts about taxes in Ethiopia, definition of medium taxpayers and their tax compliance are presented. In the same way, theories about tax compliance, factors affecting tax compliance and empirical review on previous studies are discussed under this chapter.

#### **2.1. Theoretical Literature Review**

##### **2.1.1. Tax Compliance**

The term tax compliance has no single and clear cut definition as it could be understood from wide ranging definitions provided by various scholars. Noting that compliance might be voluntary or enforced compliance Kirchler (2007) underscored that voluntary compliance is made possible based on trust and cooperation between the tax authority and the taxpayer. It takes the willingness of the taxpayer to comply with tax authority's directives and regulations. On the other hand, where there is no trust and cooperation between taxpayer and authority there would be tax hostile climate. In this situation authorities would tend to enforce compliance through threat and application of audit and fine. Alm( 1992) defined tax compliance as the reporting of all incomes and payment of all taxes in accordance with the provisions of laws, regulations and court judgments.

Indicating that tax compliance is a complex concept Marti (2010) pointed out that fulfilling all tax obligations as specified by the tax law freely and completely is a simpler meaning which could be used to begin with discussion about it. Pope and Abdul-Jabbar (2008) found out that regulatory burdens fall disproportionately on small and medium enterprises intentionally. Their size and nature makes the issue of tax compliance one of particular importance especially since most medium and small businesses have access to limited resources and inadequate expertise to comply with diverse and complicated regulation.

### **2.1.2. Factors Affecting Tax Compliance**

The principal responsibility of any revenue authority is to collect taxes and duties payable in agreement with the law. Although they are aware of the obligations required to be fulfilled as per the law, taxpayers are not always compliant. A compliant taxpayer is one who satisfies every aspect of their tax obligations including registering with the revenue authority as required, filing the required returns on time, accurately reporting tax liability in accordance with the prevailing legislation, rulings, and court decisions; paying any outstanding taxes as they fall due; and maintaining all records as required. A non-compliant taxpayer is one who fails to satisfy any one or more of these aspects and poses risk to revenue collection. Jackson(1986)

In the move to designing feasible strategy, the activity should take into consideration theory of why people opt for non-compliance. Revenue administration offices and different academic fields suggest that there are two main approaches to understand tax compliance matters. First is to examine compliance in terms of economic decisions based on the likely economic incentives and costs of complying or not (economic approach). The second one is to look into compliance in terms of psychological upshot (behavioral approach) (Huda, et al, 2012).

### **2.2. The Theory of Planned Behavior (TPB)**

The Theory of Planned Behavior (TPB) is an improved version of the Theory of Reasoned Action (TRA), which was developed by Ajzen (1985). The TRA assumes that human beings behave in a sensible manner, and the constructs that predict intention under the TRA are attitude and subjective norms. Ajzen and Fishbein (2005) conceptualized attitude as the amount of affection which lies for or against an object been observed. In the same vein, it is suggested that attitude is the cause of an individual's behavior towards another person, event or object. Furthermore, an attitude towards any object is the function of one's belief about the object and the implicit evaluative response associated with those beliefs

Subjective norms capture the opinions of social reference groups (such as family, friends and co-workers) regarding whether the individual should engage in the behavior or not (Huda, et al, 2012). Subjective norm refers to the social pressures that individuals feel in performing particular acts, namely the pressure from the persons or groups who are important to the individuals in agreeing or disagreeing with the individuals to take particular acts. Perceived

Behavioral Control (PBC) denotes the ease or difficulty in performing a behavior. In addition, it can be an act of observing a behavior and the consequences of that behavior, which one can recall the sequence of events and use this information to guide subsequent behaviors. In decision-making process, the three factors of attitude, subjective norm and perceived behavioral control are likely to codetermine the behavioral intention of individuals, or each of the three factors directly change the behavioral intention, which means the three factors may influence each other or has different influence on behavioral intention separately (Ajzen 1985).

There are two factors deciding behavioral intention, including the individual nature and the impact of society on individuals, in which the individual nature is defined as the positive or negative evaluation of individuals on the particular acts they engage in, namely the attitude of individuals. The more specific the attitudes and behaviors are, the more obvious the correlation degree between attitudes and behaviors is (Ajzen and Fishbein, 1980).

### **2.3. Overview of Taxes in Ethiopia**

In the move to achieve their goals tax administrations have never accomplished duties unchallenged. In the process of widening the tax base, improving tax collection, strengthening organizational management, controlling tax evasion and promoting voluntary tax compliance challenges are inevitable. The major challenge for any tax administration is achieving and maintaining high degree of voluntary compliance, which can be facilitated by vigorous tax payer service and education programs and creative measures, is to minimize the burden on taxpayers in complying with their tax obligations. The principal responsibilities of the tax administration is to “facilitate and encourage voluntary compliance by taxpayers with the country’s tax laws; administer the tax laws fairly and impartially; minimize the cost and burden on taxpayers to comply with their tax obligations; monitor compliance; enforce the country’s tax laws in cases of non-compliance; and use its resources efficiently and effectively” (URESPOND, 2013).

The five-year Growth and Transformation plan Ethiopia adopted was set to enable it attain a middle income economy. Compared to the previous plans it was termed by many as the most ambitious plan. In order to hit the ultimate target set it clearly mentioned that efforts be exerted towards promoting voluntary compliance. It had underlined that activities [by Ethiopian revenue and custom authority] be strengthened as tax non-compliance affects collection and the ability of

the government to achieve its fiscal and social goals (ERCA, 2011). Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers (Casnegra, 1992).

In connection with the implementation of the second Growth and Transformation plan(II) the Federal Ministry of Finance and Economic Cooperation clearly stated that financing expenditures mainly from tax revenues is the key to ensuring macroeconomic stability for sustainable economic growth (MoFED, 2016). In spite of this, the reality is that as it is for most developing countries, the Ethiopian government revenues yield from taxes is low. This “low income” yield can only be credited to the extent that tax provisions are not properly authorized due to the failure of taxpayers to organize and fail to comply (Solomon, 2017, p. 114). Rent-seeking and governance troubles nevertheless remain ordinary challenges in customs and tax management. Ethiopia is one of the countries in which illicit financial outflows are significant and it is estimated that “\$16.5 billion outflowed since 1970 which is 2.3 percent of the total Africa illicit outflows.” (UNDP, 2018, p. 5).

To this end the government is expected to strengthen their capacity so that the desired result would be achieved through tax collection. The efficiency in tax collection is advantageous both for the government and people of a particular country. This requires measures both to enhance internal tax collection and also to reduce the barriers that are quite simply not fit for their intended purposes, educating the taxpayers, counseling service to taxpayers on tax rules and procedures and increasing audit coverage (Gebrewahid, 2012). In this respect, dealing with the problems of tax compliance requires at least some understanding of the factors affecting the individual taxpayer’s as well as their decision to pay or evade taxes. The tax system in Ethiopia is mainly comprised of direct and indirect taxes levied by both federal and regional government. The main types of direct taxes are taxes including business profit taxes, personal income tax, withholding tax, rental tax and other taxes. The indirect taxes applicable are VAT, TOT and Customs duty (ERCA 2011).

#### **2.4. Tax administration, Medium Taxpayers**

As to UNDP (2018) report taxation is regarded as compulsory fee which governments get in return for the public goods and services they provide. A governing body of a nation could do

nothing without raising tax revenue which is a major part of every economy. It plays a critical role in bringing about development of the country's economy. It enables the government to invest in various developmental projects and economic sectors in a country thereby guarantees survival of the nation. Besides that it helps the economy through creating jobs for citizens. It equally distributes wealth, allocates resources fairly, eliminates foreign dependency and protects the domestic industry from external industrialists by restricting imports through heavy taxes.

Revenues are necessary condition for governments to finance construction of infrastructures, services delivery, operations of public sector institutions as well as to inject in developmental priorities as a whole. The major duty of tax administration is to collect the tax revenue needed by their governments from taxpayers in agreement with the country's tax laws and without inhibiting the private sector development. According to URESPOND (2013), the principal responsibilities of tax administration are facilitating and encouraging voluntary compliance by taxpayers as per the country's tax laws; administering the tax laws impartially and fairly; minimizing the cost and burden of taxpayers to comply with their tax obligations; monitoring the compliance; enforcing the country's tax laws in cases of noncompliance; utilize its resources efficiently and effectively as well as ensuring tax officials perform their functions with integrity and honesty.

In effecting taxation organizations (both governmental and private) are categorized to execute their duties as a taxpayer. The level of small, medium and large business enterprises vary from country to country and are defined in accordance with their number of employees, turnover levels, total net assets and capital base. For instance, small enterprise in South Africa is any business with fewer than 200 employees, annual turnover of less than ZAR 5million, capital assets of less than ZAR 2million and with owners who are directly involved in the management of the business (Nelson, 2014). In the United States a small enterprise is an entity that is independently owned and operated and which does not dominate in its field of operation (Hisrichet et.al, 2004). The Australian tax administration employs a parameter which categorizes enterprises ranging from micro enterprises to big firms with their annual revenue base. Accordingly, those enterprises with less than two million Australian dollar is categorized as micro whereas between two million and 250 million as small enterprise and beyond 250 million is taxed as a large enterprise.

Unless they have been given care today's medium enterprises could not grow to become large taxpayer after years. Without development of the private sector it might not be viable to expect growing tax revenue. Creating an environment favorable to the growth of medium businesses, strengthening the factors that lead business success, and addressing the problems threatening the existence and advancement of medium businesses would enable them adequately play the role expected of them in economic growth. In developing economies like Ethiopia these businesses have immense contribution to GDP, export, manufacturing, employment generation, building an industrial economy and mobilization of domestic resources (Ethiopian Development Research Institute, 2014). It is for this reason that an ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic growth and proper utilization of resources. It is undeniable that revenues gained from the taxation of individuals and businesses are an important stream of income for government. Tax revenues are the source of funds for development projects that include provision of infrastructure such as roads, clean drinking water, power supply, etc. all of which combined to create an enabling environment for businesses to thrive and picking up of the overall economy at large.

## **2.5. Empirical Literatures**

Theory of planned behavior has penetrated into various fields, including taxation. There are some researches in the field of taxation that use the framework of theory of planned behavior. Some researchers prove that empirically, the attitude of tax compliance, subjective norm, perceptual behavior, and perceptions of taxpayers towards the government have certain effect on the intention to comply with the tax obligations. The following researches, both foreign and local, have been summarized to compare the empirical background of different studies across different geographic areas.

Nurwanah et al (2018) analyzed determinants of tax compliance in the perspective of the theory of planned behavior and stakeholder theory and found that the attitude of the taxpayer has a positive and significant effect on the behavioral intention for tax compliance. The creation of good attitude has been found to increase tax compliance intentions; subjective norm has a positive and significant effect on behavioral intention for tax compliance. The intention of tax professionals measured by the tendency to be compliant, the desire to always be consistent to

comply and care for the society through payment of taxes has proven to affect tax compliance behavior.

Benk and Budak (2011) studied tax compliance intention from a theory of planned behavior perspective. The most outstanding point regarding the results of the study is that there is no statistically significant relationship between the equity perceptions of the taxpayers and the tax compliance intention. Despite the inconsistent findings of various researchers, it is widely acknowledged that demographic variables, such as, age, gender, marital status, education, culture and occupation have an effect upon tax equity perceptions which ultimately impacts upon compliance. Therefore, this issue must be examined comprehensively. Another point that draws attention as regards to the results is that normative expectations and legal sanctions are influential in determining the tax compliance intention. Consequently, while tax policies are determined, moral and social norms should be taken into consideration with the purpose of increasing voluntary tax compliance. Moreover, efficiency of the tax penalty system that is applied in order to ensure the enforced tax compliance should also be increased.

Based on a study conducted in New Zealand by Smart (2012) found that noneconomic variables, such as beliefs and attitudes, are good predictors of tax compliance behavior. Consistent with the majority of studies, the most influential factor in predicting and explaining tax compliance behavior (through the mediating effects of behavioral intention) is attitude towards the behavior. Other factors such as personal, social and societal norms were also significant predictors of tax compliance behavior. Perceived behavioral control was only significant for the taxpayers but not for the tax agents. In contrast, perception of the tax authority was significant for New Zealand tax agents, but not for taxpayers. The results also suggest that tax compliance behavior is complex, and different determinants of compliance behavior affects different sub-groups of taxpayers differently. The results lend further support to the literature that indicates that taxpayers are not a homogeneous group. This study also found that taxpayers and tax agents generally perceive tax noncompliance as less serious relative to a number of other similar civil offences.

Similarly, Riza and Sarjono (2013) studied intention and behavior of tax payment compliance by the individual tax payers. This study found that the construct of subjective norm, perceived behavioral control, and the complexity of the tax laws are considered important components in

improving compliance behavior intention for the taxpayers. Other constructs that can be inferred such as attitude toward compliance is not an important component in improving the compliance behavior intention for the taxpayers. In addition, the construct of the complexity of tax laws is an important factor in improving tax compliance behavior. Implicitly, the more complex of tax laws, the taxpayers will display submissive behavior such as being late in delivering a notification (SPT) and they will not pay the tax on time. Conversely, if the taxpayer feels that the tax code is not complex and easy to understand, he will show good behavior.

Galib et al (2018) examined and analyzed the influence of spirituality, subjective norms and perceived behavioral control on taxpayer compliance. This study showed that there is an indirect influence of spirituality on taxpayer compliance through intentions. Subjective norms affect the intention to behave obediently and there is no direct influence of perceived behavioral control on tax compliance or indirect influence through the intention to behave obediently.

Woro (2012) identified factors that influence taxpayer compliance that expected can change the tax culture in Indonesia. The results of this study indicated that tax compliance is influenced by intention to comply. While the intention to comply is influenced by the attitude towards tax compliance, subjective norms, and perceived behavioral control. The study also found that subjective norm factor turned out to provide the greatest influence on the intention to comply than attitude towards tax compliance and perceived behavioral control.

A study in Ethiopia by Kanbiro (2018) examined the factors influencing tax voluntary compliance attitude with tax system the case of Gedeo Zone. The result of this study showed that out of fourteen explanatory variables incorporated in the model, seven variables such as gender, age, lack of tax knowledge, simplicity of tax system, awareness on penalty, probability of being audit, and perception on tax rate were found to be key factors influencing taxpayers' voluntary compliance attitude with tax system in the study area. Whereas variables such as education level, tax authority efficiency, peer influence, occupation, income level of taxpayers, perception on government speeding, and perception on fairness and equity have no significant influence on tax voluntary compliance attitude.

Redae and Shailinder (2015) studied tax compliance behavior in Tigray state, Ethiopia. The study found that educated and younger people were found engaged in business and self-

employed in the state. In contrary to this result indicated that, most of the respondents have exercise few years of work experience this may be lead to face challenges to run their business and to prepare all the necessary documents for the purpose of tax liability because lack of experience in business. In line with the above, most of the business in the study area are managed by owners instead by professional managers. According the rules and regulation of Ethiopian Revenue and Custom Authority, every tax payer should know in which category is categorized. But in this study result indicated that, large numbers of business income tax payers' do not know in which category is categorized. In addition portion of business income tax payers' have understood the tax system of Ethiopia in some conditions but still they have difficulties to understand the tax system of the country. Even though the various tax reforms undertaken by governments to increase tax revenue over the years, to create tax payers' awareness and build tax payers' knowledge is not given attention by the government. Tax payers may follow laws they know or trust to produce good results. But laws are not only chosen according to past experiences; they are also influenced by the acknowledgments tax payers give to them. Tax payers' plays an important role in determining which laws are followed and which are not. In general tax payers are more inclined to comply with the laws if the relationship between the tax paid and the performed government services is found to be reasonable.

Tadesse and Goitom (2014) studied factors influencing taxpayers' compliance with the tax system and indicated that tax compliance was influenced by the probability of being audited, financial constraints and changes on current government policy. Other variables such as perception of government spending, perception of equity and fairness, penalties, roles of the tax authority and tax knowledge were not significantly correlated with tax compliance at the time of this study. The low compliance and non-compliance rates influenced the frequency of the authority's tax audit activities and the practice of imposing penalties.

Tilahun and Yidersal (2014) examined the determinants of tax compliance behavior in Ethiopia particularly in Bahir Dar city administration. Perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behavior. However, gender and probability of being audited have no significant impact on tax compliance behavior. Finally, the findings show that older people will

comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favorable.

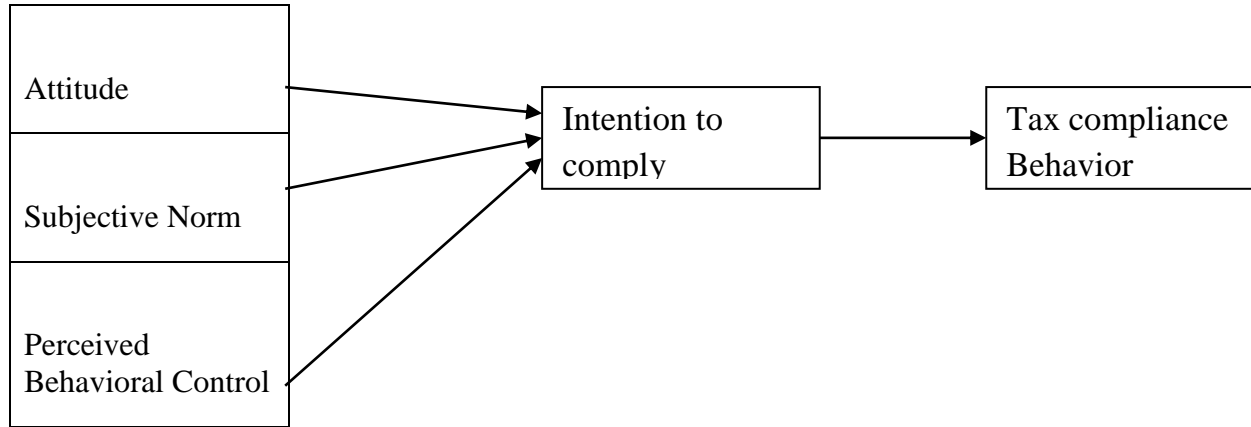
## **2.6. Conceptual Framework of the Study**

Various research outcomes produced a number of models aimed at understanding compliance behavior of taxpayers considering it from economic, social, psychological cultural and demographic points of view that have influenced tax compliance since the 1960s. Recently, however, tax compliance researches such as (Torgler and Murphy, 2004), Murphy(2004) and Tan, (1998) were conducted more of depending upon social and psychological theories. They argued that the human element plays a vital role in individual taxpayer compliance decisions. In reality, the tax compliance could be considered from a wide variety of disciplines as to why people do or do not pay their taxes.

Most theoretical approaches to tax compliance have commonly been divided into the economic deterrence approach, and the wider behavioral approach which incorporates both social and psychological approaches. The economic deterrence model wants to examine non-compliance and compliance from a theoretical perspective (Jackson and Milliron, 1986). Determinants that have been assessed from the economic deterrence model point of view include complexity of the tax system, level of revenue information services, withholding and information reporting, audit coverage, level of tax rates, and penalties for non-compliance.

In contrast, this study wants to rely on a theory of planned behavior as it incorporates the social, economic and psychological models. Looking into non-compliance from either social or economic or psychological point of view might not enable to come up with comprehensive conclusion and analysis. The theory of planned behavior stresses that a wider ranging gaps occur in the display of behaviors (Ajzen, 2005). The theory of planned behavior states that the behavior of an individual is influenced by three factors -- behavioral, normative and control beliefs. The behavioral belief is an outcome belief, and evaluation of results. Evaluation of results and confidence tend to form an attitude towards a certain behavior. The normative belief is an individual belief in the normative expectations of other people such as friends, family, corporate leaders, tax officers, and tax consultants. And the control belief is personal belief about the existence of things that influence their behavior and perceptions. The control belief forms a

perceived behavioral control. When one relies on this theory of planned behavior, perceptions, attitudes, subjective norm, and control perceived behavior are taken into account in constructing tax payers intention to comply with the rule (Ajzen, 1991).



**Source: Ajzen (1991, 2005) With own modification.**

## **CHAPTER THREE**

### **3. METHODOLOGY AND RESEARCH DESIGN**

#### **3.1. Research Design**

The research design that would be used in this study is descriptive research design because using descriptive type of research is appropriate for the study topic under consideration. Kothari (2004) indicates that the major purpose of descriptive research is description of the state of affairs as it exists at present. In addition, descriptive research is done through describing the existing situation. For this reason the research design that employed for this study is descriptive in nature. In addition to this, inferential analysis was applied accordingly. In order to describe variables fully, mixed research approach was used which enabled the researcher to achieve the required research objective and to answer the research questions. Qualitative approaches helped to interpret the research data and describe aspects about the respondents in the research qualitatively whereas quantitative approach assists in presenting data in a tabular form and percentage quantitatively with numerical value. Hence, the determinants of tax compliance in Addis Ababa could be described in such approach.

#### **3.2. Sources of Data**

The necessary data for this study was collected both from primary and secondary sources to be able to come up with adequate information needed to analyze the topic. Primary data were gathered through questionnaire and semi structured interview while secondary source data be accessed through document analysis, annual reports, journals, books, online resources research, papers and other relevant materials.

#### **3.3. Population and Sampling**

The study's target population is customers of Ministry of Revenues Medium Taxpayers Branch Office and its employees. At present the office has 255 employees and about 4,420 tax payers (customers) whose annual sales are between three million up to one hundred million ETB. The Branch office is run by a General Manager, three Deputy Managers and eleven work process owners. Among its customers some 220 are governmental organizations and the rest are private

companies. For the study the sample was selected from non-governmental taxpayers from the selected Branch Office because they are capable to provide information for the research. The total number of customers at the branch office is 4,420 less 220(governmental) which are about 4200.

Consequently, the sample size was determined by using the statistical formula by Yamane (1967). Based on the assumption of 95% confidence level and P = .05 and population 4,200.

$$\text{sample size} = \frac{\text{Population size}}{1 + \text{Population size}(e)^2}$$

$$\text{sample size} = \frac{4,200}{1 + 4,200(0.05)^2}$$

$$\text{sample size} = 365.37 \approx \mathbf{368}$$

Therefore, took 368 tax payers convenient sampling techniques. Convenient sampling is used due to the nature of the participants since it is hard to get all of them during this study period, therefore, available tax payers were used. But after convenient sampling to get the taxpayer's in one place the questionnaires' were distributed for every 12<sup>th</sup>taxpayer.

### **3.4. Data Collection Tools/Instruments**

In order to collect primary data, structured questionnaire were applied with two sections. The first section focuses on the overall demographic characteristics of taxpayers, and the second section is to understand awareness of taxpayers as well as examining the determinants of tax compliance on the basis of theory of planned behavior. The researcher carried out distribution of questionnaires in person. The secondary data were collected from the branch office reports through direct contacts of concerned department heads besides data to be found at other places beyond the branch office.

### **3.5. Method of Data Analysis**

The study carried out with qualitative and quantitative techniques. Information was gathered from questionnaires and document analysis. The data that obtained through questionnaire were analyzed by using descriptive statistics such as frequency, percentage, mean and standard

deviation using SPSS statics as well as correlation and regression analyses. Data presentation is done by tabularization including interpretation using frequency tables, graphs and percentages whereas data that is obtained from semi structured interview is presented. In the discussion and summary part of the study, the data gained from questionnaire will be analyzed against the literatures. The information from document study and interview would be summarized as additional information. Conclusion and recommendations were made based on the results of the study and on the basis of the analyzed data.

### **3.6. Ethical Considerations**

Throughout the research understating there would be ethical considerations the researcher holds as non-negotiable with regard to information obtained from research participants. First and foremost the researcher is has obligations on protection from stress, harm, or danger; right to privacy; confidentiality; and honesty with respondents and an oral information consent that is to obtained from research participants. Before going out to conduct the study, research permission is secured from Addis Ababa University and institutional consent is also secured from the Medium Taxpayers Branch office.

## CHAPTER FOUR

### 4. RESULTS AND DISCUSSIONS

In this chapter, the result obtained from the questionnaire survey are presented and analyzed. First demographic characteristics of the respondents are presented. It follows with a summary respondent's reply on various variables presented to them. Then it follows with description of the data gathered, discussed and analyzed the findings carefully in order to assess the effect of various independent variables with the dependent variable of findings has been organized in accordance with the study objectives.

Consequently, this chapter presents the results and findings of the research. The chapter mainly includes data results from the statistical tests conducted on the gathered primary data. The research mainly emphasis was to examine tax compliance determinants based on theory of planned behavior. Descriptive analysis and inferential analysis of the study are presented respectively. Three hundred sixty five questionnaires were distributed to the respondents and out of these questionnaires; three hundred thirteen were collected that accounts 85.7% response rate. Accordingly, the analysis of this study is based on the number of questionnaires collected. Here the statistical program used for the analysis and presentation of data in this study is the Statistical Package for the Social Sciences (SPSS) version 23. First the reliability of the questionnaires was presented below.

#### 4.1. Reliability of the Questionnaire

Table4. 1 Reliability results

| Sub scales                   | Number of items | Cronbach's Alpha |
|------------------------------|-----------------|------------------|
| Attitude                     | 5               | .846             |
| Subjective norm              | 4               | .802             |
| Perceived Behavioral Control | 5               | .887             |
| Tax Compliance Intension     | 6               | .824             |
| Tax Compliance Behavior      | 4               | .890             |
| Entire scale                 | 24              | .962             |

## 4.2. Demographic Characteristics of Respondents

Table 4. 2 Demographic Characteristics of Respondents

| Characteristics          |                  | Frequency  | Percentage (%) |
|--------------------------|------------------|------------|----------------|
| <b>Gender</b>            | Male             | 199        | <b>63.6%</b>   |
|                          | Female           | 114        | <b>36.4%</b>   |
| <b>Age</b>               | 18 - 24          | 27         | <b>8.6%</b>    |
|                          | 25 - 40          | 208        | <b>66.5%</b>   |
|                          | 41 - 60          | 72         | <b>23.0%</b>   |
|                          | above 60         | 6          | <b>1.9%</b>    |
|                          |                  |            |                |
| <b>Educational level</b> | Primary          | 10         | <b>3.2%</b>    |
|                          | Secondary        | 22         | <b>7.0%</b>    |
|                          | Tertiary college | 200        | <b>63.9%</b>   |
|                          | University       | 72         | <b>23.0%</b>   |
|                          | Other            | 9          | <b>2.9%</b>    |
| <b>Total</b>             |                  | <b>313</b> | <b>100%</b>    |

Based on table 4.2, regarding the sex of respondents, the majority of them 199(63.6%) were males while the remaining 114(36.4%) were female respondents. This shows the dominance of male tax payers in the study area.

Regarding the age of respondents, the majority of the respondents 208(66.5%) fall in the age range 25–40 years. This shows that the participants as well as the tax payers in the area are largely composed of young and early adults.

Based on their education status, more than half of the respondents 200(63.9%) were tertiary or college graduates. This shows that all of the respondents can read and write as well as the can fill this research questionnaires well.

Regarding the business type, as presented in the upcoming chart, of these participant tax payers, direct selling, transportation, health care, education and energy were found to be the major business types they perform in their income generating activities.

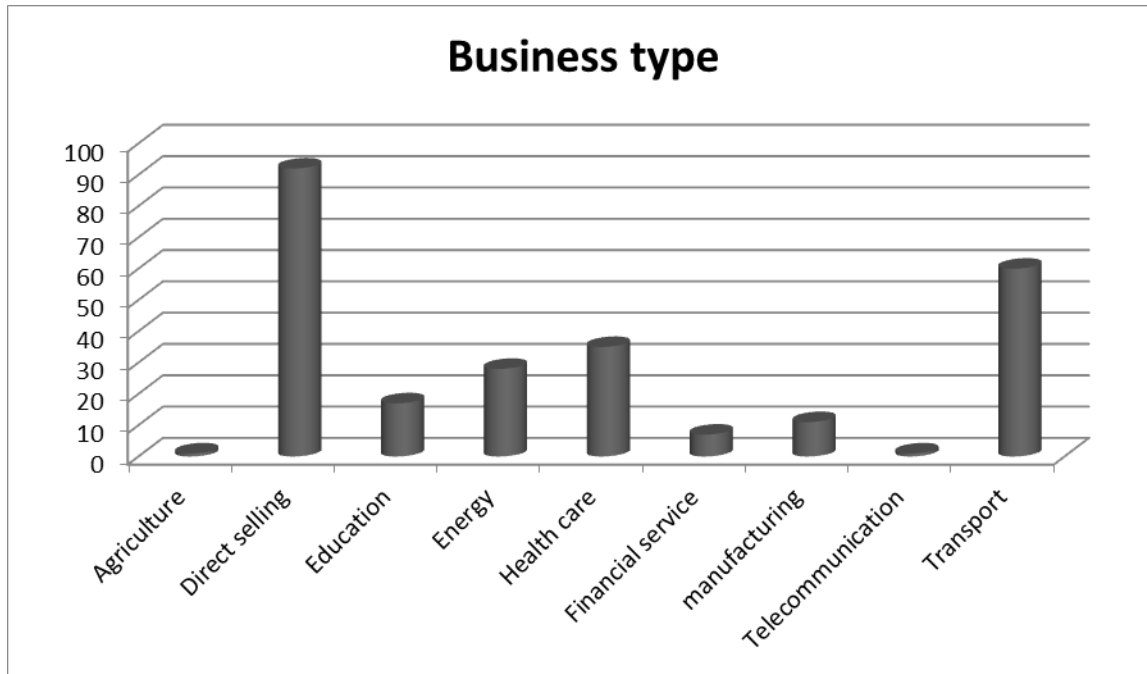


Chart 1 Business Type Of Respondents

#### 4.3. Descriptive Statistic Results

In this part the responses of the respondents for the variables indicated below were measured on five point Likert scale with: 1= strongly disagree, 2= disagree, 3 = neutral, 4= agree and 5= strongly agree. The descriptive statistics which are in the form of mean and standard deviation were presented. However, while making interpretation of the results of mean the scales were reassigned as follows to make the interpretation easy and clear.

With 5 point scales, the interval for breaking the range in measuring each variable is calculated by  $5 - 1/5 = 0.8$ . It means items with scores that fall between the ranges of: 4.21 – 5.00 are considered as strongly agreed; 3.4 – 4.20 as agreed; 2.61 – 3.4 as Neutral; 1.81 – 2.6 as disagree and 1.00 – 1.8 strongly disagree. This formula is adapted from (Vichea, 2005).

### 4.3.1. Attitude

Regarding the attitude of tax payers, the following descriptive result obtained

Table 4. 3 Attitude

| Items   | N         | Mean      |            | Std. Deviation |
|---|-----------|-----------|------------|----------------|
|   | Statistic | Statistic | Std. Error | Statistic      |
| I would not feel guilty if I excluded some of my income when completing my tax return   | 313       | 3.5176    | .08431     | 1.49159        |
| Even though the supporting documents do not need to be sent to the tax authority, I don't wish to manipulate the figure in the tax return | 313       | 3.5847    | .07903     | 1.39827        |
| I do not think it is ethically right if I excludes small amount of income when completing the tax return.                                 | 313       | 3.3323    | .08702     | 1.53948        |
| Paying my expected amount of tax is a good thing to do  | 313       | 3.7412    | .07339     | 1.29847        |
| I strongly believe that individuals should pay their taxes genuinely  | 313       | 3.6677    | .08934     | 1.58058        |

Regarding the attitude of tax payers, the above table presents the items which all fall in the agreement range except the item which asks whether respondents don't think it is ethically right if they excludes small amount of income when completing the tax return with a mean of 3.33 and standard deviation 1.54.

This result implies that the tax payers in the study area have higher positive attitude in paying government taxes. This higher attitude manifested in feeling guilty if they excluded some of their income when completing their tax return, refraining from manipulating the figure in the tax return, and the believe in the paying of taxes is a good habit.

### 4.3.2. Attitude across demographic variables ANOVA and T- test

To examine the demographic variables in relation to attitude of tax paying the following summery was conducted using sex, age group and educational background as demographic variables.

Table4. 4 Demographic variables and attitude

| <b>Demographic characteristics</b> | <b>Options</b>   | <b>Mean</b> | <b>P value</b> |
|------------------------------------|------------------|-------------|----------------|
| Sex                                | Male             | 3.65        | .103           |
|                                    | Female           | 3.43        |                |
| Age                                | 18 - 24          | 3.74        | .404           |
|                                    | 25 - 40          | 3.57        |                |
|                                    | 41 - 60          | 3.56        |                |
|                                    | above 60         | 2.70        |                |
| Educational background             | Primary          | 3.54        | .201           |
|                                    | Secondary        | 3.96        |                |
|                                    | Tertiary college | 3.51        |                |
|                                    | University       | 3.62        |                |
|                                    | Other            | 3.62        |                |

Based on the above table, based on their attitude towards tax, there is no difference in sex, age and education groupings. This result shows these demographic characteristics are not statically different in terms of their attitude towards taxpaying.

### 4.3.3. Subjective norm

Regarding subjective norm, the following results were obtained

Table4. 5 Subjective norm

| <b>Items</b>   | <b>N</b>         | <b>Mean</b>      |                   | <b>Std. Deviation</b> |
|--|------------------|------------------|-------------------|-----------------------|
|  | <b>Statistic</b> | <b>Statistic</b> | <b>Std. Error</b> | <b>Statistic</b>      |
| My friend pay taxes without any misconduct   | 313              | 3.9297           | .06896            | 1.22010               |
| My parents pay their fair share of taxes without any act of violating the tax rules            | 313              | 3.9233           | .07478            | 1.32307               |
| Significant people around me pay taxes honestly  | 313              | 3.4473           | .08583            | 1.51846               |
| My friends and families would not try to hide any income if they get the opportunity to do so. | 313              | 3.7157           | .07182            | 1.27059               |

Based on the above results, the responses were analyzed using mean, all items found to be fall in the agreement range which include; whether their friends pay taxes without any misconduct (mean 3.92, SD 1.22), whether their parents pay their fair share of taxes without any act of violating the tax rules (mean 3.92, SD 1.32), whether significant people around them pay taxes honestly (mean 3.44, SD 1.51), and whether friends and families would not try to hide any income if they get the opportunity to do so (mean 3.71, SD 1.27).

This implies that the respondent's friends, families, and other significant people around them pay taxes without deception and without and other misconduct.

#### 4.3.4. Subjective norm across demographic variables ANOVA and T- test

Table 4. 6 Demographic variables and subjective norm

| Demographic characteristics | Options          | Mean (subjective norm) | P value |
|-----------------------------|------------------|------------------------|---------|
| Sex                         | Male             | 3.79                   | .475    |
|                             | Female           | 3.70                   |         |
| Age                         | 18 - 24          | 3.86                   | .749    |
|                             | 25 - 40          | 3.75                   |         |
|                             | 41 - 60          | 3.75                   |         |
|                             | above 60         | 3.33                   |         |
| Educational background      | Primary          | 3.65                   | .555    |
|                             | Secondary        | 3.98                   |         |
|                             | Tertiary college | 3.69                   |         |
|                             | University       | 3.89                   |         |
|                             | Other            | 3.69                   |         |

Based on the above table there is no difference in sex, age and education groupings in terms of subjective norm (p value > 0.05).

### 4.3.5. Perceived Behavioral Control

Table4. 7 Perceived Behavioral Controls

| Items   | N         | Mean      |            | Std. Deviation |
|---|-----------|-----------|------------|----------------|
|   | Statistic | Statistic | Std. Error | Statistic      |
| I believe the penalty rates for tax related crimes are very high and I can't afford to pay the penalty                                      | 313       | 3.5367    | .07705     | 1.36324        |
| I think tax law enforcement in the country is very strong   | 313       | 3.9617    | .06476     | 1.14570        |
| It is my strong believe that the tax authority is intolerant towards tax offence and most probably it will never escape without punishment. | 313       | 3.4409    | .08805     | 1.55781        |
| I believe that the tax authority has competent capability to investigate all income reported  | 313       | 3.4856    | .09220     | 1.63121        |
| I believe that tax related crimes are punished consistently through the country   | 313       | 3.6933    | .09474     | 1.67615        |

Concerning perceived behavioral control, the responses fall in the agreement range with a mean greater than 3.39. these items include; whether the penalty rates for tax related crimes are very high and they can't afford to pay the penalty (mean 3.53, SD 1.36), whether they think tax law enforcement in the country is very strong (mean 3.96, SD 1.14), whether the tax authority is intolerant towards tax offence and most probably it will never escape without punishment (mean 3.44 and SD 1.56), whether the tax authority has competent capability to investigate all income reported(mean 3.49, SD1.63), and tax related crimes are punished consistently through the country (mean3.69, and SD 1.68).

The above results imply that respondents believe that there is strong behavioral control in the study area.

#### 4.3.6. Perceived Behavioral Control and across demographic variables ANOVA and T-test

Table4. 8 Demographic Variables and Perceived Behavioral Control

| Demographic characteristics | Options          | Mean | P value |
|-----------------------------|------------------|------|---------|
| Sex                         | Male             | 3.70 | .174    |
|                             | Female           | 3.50 |         |
| Age                         | 18 - 24          | 3.74 | .350    |
|                             | 25 - 40          | 3.65 |         |
|                             | 41 - 60          | 3.58 |         |
|                             | above 60         | 2.77 |         |
| Educational background      | Primary          | 3.62 | .752    |
|                             | Secondary        | 3.85 |         |
|                             | Tertiary college | 3.57 |         |
|                             | University       | 3.68 |         |
|                             | Other            | 3.96 |         |

After the comparison of each group mean, the result showed that there is no difference in sex, age and education groupings in terms of perceived behavioral control (p value > 0.05).

#### 4.3.7. Tax Compliance Intention

Table4. 9 Tax compliance Intention

| Items   | N         | Mean      |            | Std. Deviation |
|---|-----------|-----------|------------|----------------|
|   | Statistic | Statistic | Std. Error | Statistic      |
| Paying tax is the right thing to do   | 313       | 3.9233    | .07478     | 1.32307        |
| Paying tax is a responsibility that should be willingly accepted by all society | 313       | 2.8786    | .08934     | 1.58052        |
| I feel a moral obligation to pay my tax   | 313       | 2.9936    | .09589     | 1.69652        |
| Paying my tax finally advantages everyone                                       | 313       | 3.4888    | .08564     | 1.51511        |
| I think of tax paying as helping the government do worthwhile things            | 313       | 3.7380    | .07855     | 1.38966        |
| I accept responsibility for paying my fair share of tax                         | 313       | 3.7412    | .08271     | 1.46327        |

Regarding tax compliance, the above result showed that the responses fall in the agreement range for items such as whether paying tax is the right thing to do (mean 3.92 and SD 1.32), whether paying my tax finally advantages everyone (mean 3.49 and SD 1.51), whether tax paying as helping the government do worthwhile things (mean 3.73 and SD 1.39) and whether respondents accept responsibility for paying my fair share of tax (mean 3.74 and SD 1.46).

On the contrary, the other two items fall in the neutral range which include; whether paying tax is a responsibility that should be willingly accepted by all society (mean 2.88, SD 1.58), and respondent feel a moral obligation to pay my tax (mean 2.99, and SD 1.64).

#### 4.3.8. Tax Compliance Behavior

Table4. 10 Tax Compliance Behavior

| Items  | N         | Mean      |            | Std. Deviation |
|--|-----------|-----------|------------|----------------|
|  | Statistic | Statistic | Std. Error | Statistic      |
| I have never been late in paying my taxes                        | 313       | 3.7412    | .08271     | 1.46327        |
| During the past years, I always reported my tax returns honestly | 313       | 3.7444    | .07717     | 1.36527        |
| I have never been accused of any tax related crimes              | 313       | 3.4377    | .08165     | 1.44452        |
| I always behave based on the tax law of the country              | 313       | 3.5463    | .08268     | 1.46276        |

Based on the above table, the responses for tax compliance behavior items fall in the agreement range which composed of whether respondents have never been late in paying my taxes (mean 3.74, and SD 1.46), whether respondent always reported my tax returns honestly during the past years (mean 3.74, SD 1.36), whether respondents never been accused of any tax related crimes (mean 3.43, SD 1.44) and whether always behave based on the tax law of the country (mean 3.54, SD 1.46).

### 4.3.9. Descriptive summary of variables

Table4. 11 Descriptive summary of variables

| Variables                    | N         | Minimum   | Maximum   | Mean      |            | Std. Deviation |
|------------------------------|-----------|-----------|-----------|-----------|------------|----------------|
|                              | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic      |
| Attitude                     | 313       | 1.60      | 5.00      | 3.5687    | .06516     | 1.15289        |
| Subjective norm              | 313       | 1.50      | 5.00      | 3.7540    | .05987     | 1.05924        |
| Perceived Behavioral Control | 313       | 1.20      | 5.00      | 3.6236    | .06975     | 1.23395        |
| Tax Compliance Intension     | 313       | 1.67      | 5.00      | 3.4606    | .06184     | 1.09415        |
| Tax Compliance Behavior      | 313       | 1.50      | 5.00      | 3.6174    | .07027     | 1.24325        |

The above descriptive summary of the variables shows subjective norm, perceived behavioral control, and tax compliance intention have higher mean 3.75, 3.62 and 3.61 respectively.

## 4.4. Inferential Statistics Results

### 4.4.1. Correlation Results

Pearson's Product Moment Correlation Coefficient was used to determine the relationship between the following variables.

Table4. 12 Correlational matrix

|                                    |                        | <b>Correlations</b>           |                                |          |                    |                                    |
|------------------------------------|------------------------|-------------------------------|--------------------------------|----------|--------------------|------------------------------------|
|                                    |                        | Tax<br>Compliance<br>Behavior | Tax<br>Compliance<br>Intension | Attitude | Subjective<br>norm | Perceived<br>Behavioral<br>Control |
| Tax<br>Compliance<br>Behavior      | Pearson<br>Correlation | 1                             | .844**                         | .720**   | .838**             | .800**                             |
|                                    | Sig. (2-tailed)        |                               | .000                           | .000     | .000               | .000                               |
|                                    | N                      | 313                           | 313                            | 313      | 313                | 313                                |
| Tax<br>Compliance<br>Intension     | Pearson<br>Correlation | .844**                        | 1                              | .762**   | .921**             | .818**                             |
|                                    | Sig. (2-tailed)        | .000                          |                                | .000     | .000               | .000                               |
|                                    | N                      | 313                           | 313                            | 313      | 313                | 313                                |
| Attitude                           | Pearson<br>Correlation | .720**                        | .762**                         | 1        | .803**             | .822**                             |
|                                    | Sig. (2-tailed)        | .000                          | .000                           |          | .000               | .000                               |
|                                    | N                      | 313                           | 313                            | 313      | 313                | 313                                |
| Subjective<br>norm                 | Pearson<br>Correlation | .838**                        | .921**                         | .803**   | 1                  | .809**                             |
|                                    | Sig. (2-tailed)        | .000                          | .000                           | .000     |                    | .000                               |
|                                    | N                      | 313                           | 313                            | 313      | 313                | 313                                |
| Perceived<br>Behavioral<br>Control | Pearson<br>Correlation | .800**                        | .818**                         | .822**   | .809**             | 1                                  |
|                                    | Sig. (2-tailed)        | .000                          | .000                           | .000     | .000               |                                    |
|                                    | N                      | 313                           | 313                            | 313      | 313                | 313                                |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on the above correlational metrics results, all the independent variables namely; Tax Compliance Intension ( $r = .844$ ), Attitude ( $r = .720$ ), Subjective norm ( $r = .838$ ), and Perceived Behavioral Control ( $r = .800$ ), are positively and significantly related with the dependent variable (Tax Compliance Behavior) at  $p$  value  $<0.001$ .

This result implies that the tax compliance behavior has direct relation with tax compliance intention, attitude, subjective norm, and perceived behavioral control.

#### 4.4.2. Regression result

To test the hypothesis of this study, the following simple regression was used. In simple regression, we have only two variables, one variable defined as independent is the cause of the behavior of another one defined as dependent variable. Since the result provides only the

direction and significance of relationship between variables. Multiple regression analysis was employed to examine the effect of independent variables on the dependent variables.

Since this research was designed to investigate the mediating variable, we employed linear regression analysis to see the effect of individual independent variables on dependent variable and to test the presence of mediation as well.

***H1: Attitude of tax payers significantly affects tax payers Tax Compliance Intention***

Table 4. 13 Regression results attitude and Tax Compliance Intention

**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .762 <sup>a</sup> | .580     | .579              | .71028                     |

a. Predictors: (Constant), Attitude

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 216.614        | 1   | 216.614     | 429.363 | .000 <sup>b</sup> |
|       | Residual   | 156.900        | 311 | .505        |         |                   |
|       | Total      | 373.514        | 312 |             |         |                   |

a. Dependent Variable: Tax Compliance Intension

b. Predictors: (Constant), Attitude

**Coefficients<sup>a</sup>**

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
|       |            | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant) | .881                        | .131       |                           | 6.739  | .000 |
|       | Attitude   | .723                        | .035       | .762                      | 20.721 | .000 |

a. Dependent Variable: Tax Compliance Intension

From above regression result R square and adjusted R square value of the simple linear regression is given by .580 and .579, respectively. This is interpreted as 58% of variance in Tax Compliance Intention is explained by attitude, while the remaining of variation in Tax Compliance Intention can be attributed to other variables which are not considered in this study. Attitude has positive beta coefficient which is significant.

The F-statistic value of 429.363 at 1 and 311 degrees of freedom is statistically significant at 99% confidence level; which implies the variation in Tax Compliance Intention that is explained by attitude expressed by R square is statistically significant.

Therefore, we accept the hypothesis which states attitude of tax payers significantly affects tax payers' tax compliance intention.

***H2: Subjective norm of tax payers significantly affects tax payers Tax Compliance Intention***

Table 4. 14 Regression results subjective norm and Tax Compliance Intention

**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .921 <sup>a</sup> | .849     | .848              | .42648                     |

a. Predictors: (Constant), Subjective norm

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F        | Sig.              |
|-------|------------|----------------|-----|-------------|----------|-------------------|
| 1     | Regression | 316.947        | 1   | 316.947     | 1742.532 | .000 <sup>b</sup> |
|       | Residual   | 56.567         | 311 | .182        |          |                   |
|       | Total      | 373.514        | 312 |             |          |                   |

a. Dependent Variable: Tax Compliance Intention

b. Predictors: (Constant), Subjective norm

| Coefficients <sup>a</sup> |                 |                             |            |                                    |        |      |
|---------------------------|-----------------|-----------------------------|------------|------------------------------------|--------|------|
| Model                     |                 | Unstandardized Coefficients |            | Standard<br>ized<br>Coeffi<br>ents | t      | Sig. |
|                           |                 | B                           | Std. Error | Beta                               |        |      |
| 1                         | (Constant)      | -.111                       | .089       |                                    | -1.254 | .211 |
|                           | Subjective norm | .952                        | .023       | .921                               | 41.744 | .000 |

a. Dependent Variable: Tax Compliance Intention

Similar with the variable of attitude, subjective norm with R square and adjusted R square value of the simple linear regression is given by .849 and .848, respectively. This is interpreted as 84.9% of variance in Tax Compliance Intention is explained by subjective norm, while the remaining of variation in Tax Compliance Intention can be attributed to other variables which are not considered in this study. Subjective norm has positive Beta coefficient which is significant.

Additionally, the F-statistic value of 1742.5 at 1 and 311 degrees of freedom is statistically significant at 99% confidence level; which implies the variation in Tax Compliance Intention that is explained by subjective norm expressed by R square is statistically significant.

Consequently, there is enough evidence to accept the hypothesis which states subjective norm of tax payers significantly affects tax payers' tax compliance intention.

***H3: Perceived Behavioral Control of tax payers significantly affects tax payers Tax Compliance Intention***

Table4. 15 Regression results Perceived Behavioral Control and Tax Compliance Intention

| Model Summary |                   |          |                   |                            |
|---------------|-------------------|----------|-------------------|----------------------------|
| Model         | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1             | .818 <sup>a</sup> | .670     | .669              | .62983                     |

a. Predictors: (Constant), Perceived Behavioral Control

| ANOVA <sup>a</sup> |            |                |     |             |         |                   |
|--------------------|------------|----------------|-----|-------------|---------|-------------------|
| Model              |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
| 1                  | Regression | 250.145        | 1   | 250.145     | 630.591 | .000 <sup>b</sup> |
|                    | Residual   | 123.369        | 311 | .397        |         |                   |
|                    | Total      | 373.514        | 312 |             |         |                   |

- a. Dependent Variable: Tax Compliance Intention  
 b. Predictors: (Constant), Perceived Behavioral Control

**Coefficients<sup>a</sup>**

| Model |                              | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|------------------------------|-----------------------------|------------|---------------------------|--------|------|
|       |                              | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant)                   | .831                        | .111       |                           | 7.515  | .000 |
|       | Perceived Behavioral Control | .726                        | .029       | .818                      | 25.112 | .000 |

a. Dependent Variable: Tax Compliance Intention

Perceived Behavioral Control with R square and adjusted R square value of the simple linear regression is given by .818 and .670, respectively. This is interpreted as 67% of variance in Tax Compliance Intention is explained by Perceived Behavioral Control, while the remaining of variation in Tax Compliance Intention can be attributed to other variables which are not considered in this study. Perceived behavioral control has positive beta coefficient which is significant.

Besides, the F-statistic value of 630.5 at 1 and 311 degrees of freedom is statistically significant at 99% confidence level; which implies the variation in Tax Compliance Intention that is explained by Perceived Behavioral Control expressed by R square is statistically significant.

Consequently, there is enough evidence to accept the hypothesis which states Perceived Behavioral Control of tax payers significantly affects tax payers' tax compliance intention.

***H4: Tax Compliance Intention of tax payers significantly affects tax payers Tax Compliance Behavior***

Finally, in the following linear regression, the mediating variable (tax compliance intention) is tested against the dependent variable of the study which is tax compliance behavior.

Table 4.16 Regression results Tax Compliance Intention and Tax Compliance Behavior

**Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .844 <sup>a</sup> | .712     | .711              | .66791                     |

a. Predictors: (Constant), Tax Compliance Intention

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 343.510        | 1   | 343.510     | 770.028 | .000 <sup>b</sup> |
|       | Residual   | 138.737        | 311 | .446        |         |                   |
|       | Total      | 482.248        | 312 |             |         |                   |

a. Dependent Variable: Tax Compliance Behavior

b. Predictors: (Constant), Tax Compliance Intention

**Coefficients<sup>a</sup>**

| Model |                          | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|--------------------------|-----------------------------|------------|---------------------------|--------|------|
|       |                          | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant)               | .299                        | .125       |                           | 2.382  | .018 |
|       | Tax Compliance Intention | .959                        | .035       | .844                      | 27.749 | .000 |

a. Dependent Variable: Tax Compliance Behavior

Tax Compliance Behavior having R square and adjusted R square value of the simple linear regression is given by .712 and .711, respectively. This is interpreted as 71.1% of variance in tax compliance behavior is explained by tax compliance intention, whereas the remaining of variation in tax compliance behavior can be attributed to other variables which are not included in this study. Tax compliance intention has positive Beta coefficient which is significant.

The F-statistic value of 770.0 (1 and 311) degrees of freedom is statistically significant at 99% confidence level; which implies the variation in tax compliance behavior that is explained by tax compliance intention expressed by R square is statistically significant.

Accordingly, there is enough evidence to accept the hypothesis which states tax compliance intention of tax payers significantly affects tax payers' tax compliance behavior such as Woro, T.D. (2012) indicated that tax compliance is influenced by intention to comply. While the intention to comply is influenced by the attitude towards tax compliance, subjective norms, and perceived behavioral control.

Table4. 17 Summary of hypothesis and test results of the study

| No. | Hypothesis  | Test result           |
|-----|---|-----------------------|
| 1   | <i>Attitude of tax payers significantly affects tax payers Tax Compliance Intention</i>                     | <b>Fail to reject</b> |
| 2   | <i>Subjective norm of tax payers significantly affects tax payers Tax Compliance Intention</i>              | <b>Fail to reject</b> |
| 3   | <i>Perceived Behavioral Control of tax payers significantly affects tax payers Tax Compliance Intention</i> | <b>Fail to reject</b> |
| 4   | <i>Tax Compliance Intention of tax payers significantly affects tax payers Tax Compliance Behavior</i>      | <b>Fail to reject</b> |

Based on the regression analysis results of the study, all the above hypotheses were accepted to be statically significant. This implies that attitude, subjective norm, and perceived behavioral control of tax payers have been found to predict tax payers tax compliance intention. Tax payers' intention in turn has found to be significantly predicting tax compliance behavior.

#### 4.4.3. Assumption Tests for Multiple Regression

Before the analysis of multiple regressions to test the models for mediation, different assumptions of regression tests were conducted. They are necessary to confirm that the obtained data truly represented the sample and that researcher has obtained the best results (Hair et al., 1998). Three assumptions for regression analysis used in this study were discussed for the individual variables: multicollinearity, linearity and Normality.

##### A. Multi collinearity Test

Table4. 18 Multi collinearity Test

| Model |                              | Collinearity Statistics |       |
|-------|------------------------------|-------------------------|-------|
|       |                              | Tolerance               | VIF   |
| 1     | Attitude                     | .267                    | 3.748 |
|       | Subjective norm              | .127                    | 7.897 |
|       | Perceived Behavioral Control | .235                    | 4.247 |
|       | Tax Compliance Intension     | .135                    | 7.407 |

a. Dependent Variable: Tax Compliance Behavior

According to the coefficients outputs of collinearity statistics, obtained Variance Inflation Factors (VIF) values showed that the obtained values are 1 to 10, it can be concluded that there is no multi collinearity symptoms.

### **B. Linearity Test**

The linearity of the relationship between the dependent and independent variable represented the degree to which the change in the dependent variable is associated with the independent variable. In a simple sense, linear models predict values falling in a straight line by having a constant unit change of the dependent variable for a constant unit change of the independent variable (Hair et al., 1996).

Therefore, the scatter plots of standardized residuals versus the fitted values for the regression models were visually inspected. So that the dots at the P-P Plot are closer to the diagonal line, indicating that assumption of linearity is met (the plots are shown in the appendix).

### **C. The Assumption of Normality**

A check for normality of the error term is conducted by a visual examination of the normal probability plots of the residuals. The normality probability plots were plotted to assess normality. The P-P plots were approximately a straight line instead of a curve. Accordingly, the residuals were deemed to have a reasonably normal distribution, as suggested by Hair et al. (1996). The result showed that the assumption of normality has been met.

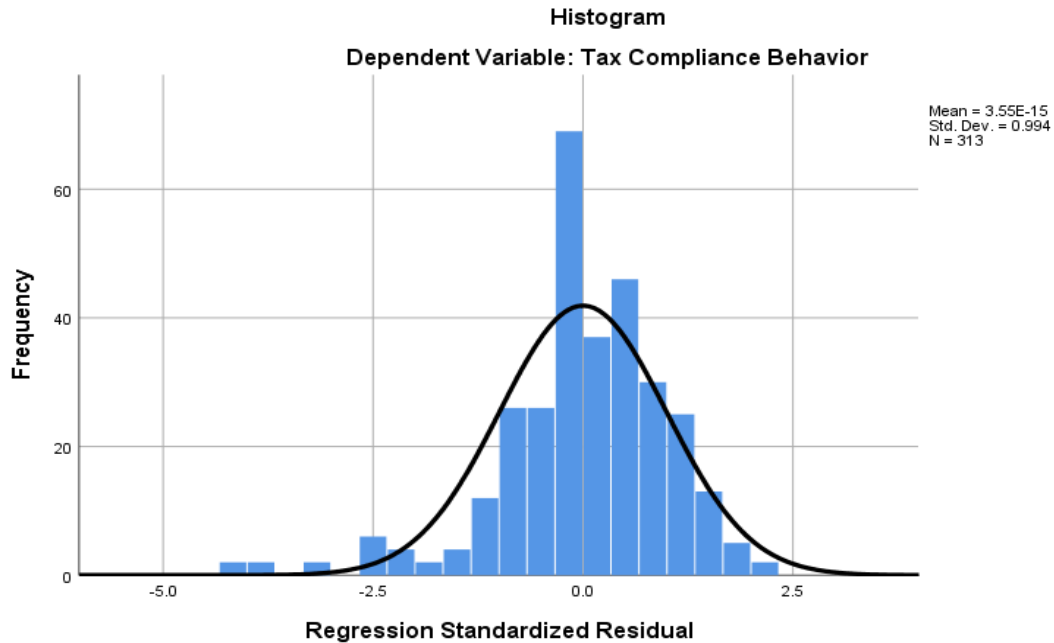


Chart 2 Normality Test

#### 4.4.4. Independent variables and Tax Compliance Behavior

Table 4. 19 IVs and TCB

##### Model Summary<sup>b</sup>

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .864 <sup>a</sup> | .746     | .744              | .62939                     |

a. Predictors: (Constant), Perceived Behavioral Control, Subjective norm, Attitude

b. Dependent Variable: Tax Compliance Behavior

##### ANOVA<sup>a</sup>

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 359.843        | 3   | 119.948     | 302.799 | .000 <sup>b</sup> |
|       | Residual   | 122.404        | 309 | .396        |         |                   |
|       | Total      | 482.248        | 312 |             |         |                   |

a. Dependent Variable: Tax Compliance Behavior

b. Predictors: (Constant), Perceived Behavioral Control, Subjective norm, Attitude

According to the above results of the multiple regression the independent variables and tax compliance behavior with R square value .746 which is interpreted as 74.6% of variance in tax compliance behavior is explained by the predictor variables.

#### 4.4.5. Independent variables and Tax Compliance Intentions

Table 4. 20 IVs and TCI

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .930 <sup>a</sup> | .865     | .864              | .40398                     |

a. Predictors: (Constant), Perceived Behavioral Control, Subjective norm, Attitude

b. Dependent Variable: Tax Compliance Intention

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 323.084        | 3   | 107.695     | 659.885 | .000 <sup>b</sup> |
|       | Residual   | 50.430         | 309 | .163        |         |                   |
|       | Total      | 373.514        | 312 |             |         |                   |

a. Dependent Variable: Tax Compliance Intention

b. Predictors: (Constant), Perceived Behavioral Control, Subjective norm, Attitude

| Model |                              | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|------------------------------|-----------------------------|------------|---------------------------|--------|------|
|       |                              | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant)                   | -.115                       | .085       |                           | -1.353 | .177 |
|       | Attitude                     | .053                        | .038       | .056                      | 15.391 | .000 |
|       | Subjective norm              | .797                        | .040       | .772                      | 19.787 | .000 |
|       | Perceived Behavioral Control | .213                        | .036       | .240                      | 5.882  | .000 |
|       |                              |                             |            |                           |        |      |

a. Dependent Variable: Tax Compliance Intention

From above multiple regression result between the independent variables and tax compliance intentions with R square value .865 which is interpreted as 86.5% of variance in tax compliance intention is explained by the predictor variables, while the remaining of variation in tax compliance intention can be attributed to other variables which are not considered in this study.

All the three independent variables namely attitude, subjective norms and perceived behavioral control have positive and significant coefficients which further strengthens the hypothesis H<sub>1</sub> (Attitude of tax payers significantly affects tax payers Tax Compliance Intention) this is supported by Nurwanah et al (2018) and this is also in consistent with the finding of Smart (2012) which says that the most influential factor in predicting and explaining tax compliance behavior through the mediating effects of behavioral intention is attitude towards the behavior.

H<sub>2</sub> (Subjective norm of tax payers significantly affects tax payers Tax Compliance Intention) which is the second hypothesis that is supported by this result is also consistent with findings of Riza and Sarjono (2013) which found that the construct of subjective norm, perceived behavioral control are important components in improving compliance behavior intention for the taxpayers. In addition to this Galib et al (2018) also found out that Subjective norms affect the intention to behave obediently which supports this study. H<sub>3</sub> (Perceived behavioral control of tax payers significantly affects tax payers Tax Compliance Intention) is supported as well by Riza and Sarjono (2013), Woro, T.D. (2012).

#### **4.4.6 Testing for Mediation**

To test for the mediating role of tax compliance intention between TPB (Perceived Behavioral Control, Subjective norm, Attitude) and tax compliance behavior, the following steps were taken.

According to Baron and Kenny (1986), mediation is a hypothesized causal chain, in which one variable affects a second variable that, in turn, affects a third variable. The intervening variable, M, is the mediator. It “mediates” the relationship between a predictor, X, and an outcome. It consisted of a four step approach in which several regression analyses are conducted and significance of the coefficients is examined at each step.

Model 1: Conduct a simple regression analysis with X predicting Y,

$$Y = B_0 + B_1X + e$$

Model 2: Conduct a simple regression analysis with X predicting M,

$$M = B_0 + B_1X + e$$

Model 3: Conduct a simple regression analysis with M predicting Y,

$$Y = B_0 + B_1M + e$$

Model 4: Conduct a multiple regression analysis with X and M predicting Y

$$Y = B_0 + B_1X + B_2M + e$$

“The purpose of models 1-3 is to establish that zero-order relationships among the variables exist. If one or more of these relationships are not significant, researchers usually conclude that mediation is not possible or likely. Assuming there are significant relationships from Steps 1 through 3, one proceeds to Step 4. In the Step 4 model, some form of mediation is supported if the effect of M remains significant after controlling for X. If X is no longer significant when M is controlled, the finding supports full mediation. If X is still significant (i.e., both X and M both significantly predict Y), the finding supports partial mediation” (Baron and Kenny, 1986).

*Model 1: TPB (Perceived Behavioral Control, Subjective norm, Attitude) predicting tax compliance behavior (X predicting Y)*

**Model Summary<sup>b</sup>**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .839 <sup>a</sup> | .704     | .703              | .67750                     |

a. Predictors: (Constant), TPB

b. Dependent Variable: Tax Compliance Behavior

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 339.496        | 1   | 339.496     | 739.626 | .000 <sup>b</sup> |
|       | Residual   | 142.752        | 311 | .459        |         |                   |
|       | Total      | 482.248        | 312 |             |         |                   |

a. Dependent Variable: Tax Compliance Behavior

b. Predictors: (Constant), TPB

In the linear regression result of model 1, the variability Of Tax Compliance Behavior explained by TPB is 70.4% and significant ( $p < 0.01$ ). Fulfilling the requirement of model 1, let's proceed to model 2.

*Model 2: TPB (Perceived Behavioral Control, Subjective norm, Attitude) predicting Tax Compliance Intension (X predicting M)*

**Model Summary<sup>b</sup>**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .888 <sup>a</sup> | .789     | .789              | .50312                     |

- a. Predictors: (Constant), TPB  
 b. Dependent Variable: Tax Compliance Intension

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F        | Sig.              |
|-------|------------|----------------|-----|-------------|----------|-------------------|
| 1     | Regression | 294.791        | 1   | 294.791     | 1164.588 | .000 <sup>b</sup> |
|       | Residual   | 78.723         | 311 | .253        |          |                   |
|       | Total      | 373.514        | 312 |             |          |                   |

- a. Dependent Variable: Tax Compliance Intension  
 b. Predictors: (Constant), TPB

Based on model 2, TPB significantly predicts Tax Compliance Intention (mediator). Therefore, the model fulfills the requirement.

*Model 3: Tax Compliance Intention predicts Tax Compliance Behavior (M predicting Y)*

**Model Summary<sup>b</sup>**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .844 <sup>a</sup> | .712     | .711              | .66791                     |

- a. Predictors: (Constant), Tax Compliance Intension  
 b. Dependent Variable: Tax Compliance Behavior

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 343.510        | 1   | 343.510     | 770.028 | .000 <sup>b</sup> |
|       | Residual   | 138.737        | 311 | .446        |         |                   |
|       | Total      | 482.248        | 312 |             |         |                   |

- a. Dependent Variable: Tax Compliance Behavior  
 b. Predictors: (Constant), Tax Compliance Intension

As it is depicted in the above table, Tax Compliance Intention (mediator variable) 71.2% predict Tax Compliance Behavior. Since the above three models were found significant the final model (model 4) is constructed as follow.

*Model 4: TPB and Tax Compliance Intension predicting Tax Compliance Behavior (X and M, predicting Y)*

**Model Summary<sup>b</sup>**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .866 <sup>a</sup> | .750     | .748              | .62349                     |

a. Predictors: (Constant), Tax Compliance Intension, TPB

b. Dependent Variable: Tax Compliance Behavior

**ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1     | Regression | 361.737        | 2   | 180.868     | 465.262 | .000 <sup>b</sup> |
|       | Residual   | 120.511        | 310 | .389        |         |                   |
|       | Total      | 482.248        | 312 |             |         |                   |

a. Dependent Variable: Tax Compliance Behavior

b. Predictors: (Constant), Tax Compliance Intension, TPB

Based on the final model, on can conclude that both the dependent and mediating variables (TPB and Tax Compliance Intension) significantly predict Tax Compliance Behavior with  $R^2 = .75$ ,  $p < 0.01$ .

| Model |                          | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|--------------------------|-----------------------------|------------|---------------------------|-------|------|
|       |                          | B                           | Std. Error | Beta                      |       |      |
| 1     | (Constant)               | -.010                       | .125       |                           | -.079 | .937 |
|       | TPB                      | .490                        | .072       | .423                      | 6.847 | .000 |
|       | Tax Compliance Intension | .532                        | .070       | .468                      | 7.564 | .000 |

a. Dependent Variable: Tax Compliance Behavior

Since both TPB and Tax Compliance Intension are significant in predicting Tax Compliance Behavior, the result showed the presence of partial mediation role of Tax Compliance Intension between the independent and dependent variables.

## CHAPTER FIVE

### 5. CONCLUSION AND RECOMMENDATIONS

#### 5.1 Conclusions

Based on the finding of the study the following conclusions are drawn:

- This study has found that the tax payers in the study area have higher positive attitude in paying government taxes. This higher attitude is expressed in feeling guilty whenever they tried to excluded some of their income when completing their tax return, abstaining from manipulating the figure in the tax return, and the believe in the paying of taxes is a good habit.
- The study also found that the tax payers' friends, family members, and other significant people around them pay taxes without deception and without and other misconduct which contributed for the tax compliance intension of tax payers.
- Concerning perceived behavioral control, the tax payers believed that there is strong behavioral control in place in the country as well as in the Addis Ababa City. This include the penalty rates for tax related crimes, tax law enforcement, tax authority is intolerant towards tax offence, tax authority capability to investigate all income reported and steady tax related crimes punishment.
- Using t tests and ANOVA, this study has found that attitude, subjective norm, and perceived behavioral control have been found to be statically similar across different demographic variables of tax payers such as sex, age and education groupings.
- The correlation result also showed that all the independent variables namely; tax compliance intention, attitude, subjective norm, and perceived behavioral control, are positively and significantly related with the dependent variable (tax compliance behavior) at p value <0.001.
- The regression analysis also revealed that attitude, subjective norm, and perceived behavioral control of tax payers have been found to predict tax payers' tax compliance

intention. Tax payers' intention in turn has found to be significantly predicting tax compliance behavior.

- This study has found that tax compliance intention is not only significantly predicted by Attitude, Perceived Behavioral Control, Subjective norm, but also it acted as a mediating variable between these independent variables and the dependent variable (tax compliance behavior).

## **5.2 Recommendations**

Based on the findings and conclusions of the study, the researcher forwards the following recommendations.

- Tax authorities should work towards creating a voluntary tax compliance through improving tax knowledge of the taxpayers and changing taxpayers' attitude through sustainable tax education programs. Therefore, awareness creation programs should be provided consistently to tax payers in order to increase citizens' tax compliance behavior.
- The tax system in Ethiopia should treat equal people in equal circumstances in an equal way. Therefore, the question of fairness or equity is not only dealing with current taxpayers but also concerned with people outside the tax system because ensuring fairness means encouraging and protecting honesty and loyalty of the society by ensuring fair competition among business community specially on registration, tax assessment, collection, and by taking into account the ability to pay principle.
- The government should make the tax law and procedures simple, understandable and easy to develop transparency in the tax administration, increase revenue and diminish tax noncompliance.
- Since this study have found a strong connection between attitude, subjective norm, and perceived behavioral control and tax compliance intention, the tax authority should work towards creating positive attitude of tax payers about the necessity of paying tax for the functioning of the country, ensuring the adherence of tax laws and through regular implementation of tax related crime punishments.

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**Appendix I: English Version Questionnaire**  
**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF POST GRADUATES**  
**DEPARTMENT OF MBA**

Dear Respondent

My name is Dereje Fekade, a student of Addis Ababa University pursuing Masters of Business Administration.

In partial fulfillment of the requirements, I am carrying out a research on “Tax Compliance Determinants Based on Theory of Planned Behavior”. I am kindly requesting you to take a few moments to respond to the questions. Your response will be of great help to both my study and the understanding of issues connected to the topic. I therefore assure you that no source will be identified.

Thanks in advance

**SECTION ONE: PERSONAL DATA**

1. What is your gender?

Male

female

2. Kindly Tick against your Age bracket (years)? .....

18 – 24

25 – 40

41 – 60

Above 60

3. Level of education

Primary

Secondary

Tertiary College

University

None

4. Kindly Tick against your Major industry type as listed below or specify where necessary.

Agriculture  Financial service

Defense  Information

Direct selling  manufacturing

Education  Mining & Minerals

Energy  Telecommunication

Entertainment  Transport

Health care  Chemical

Others (please specify) \_\_\_\_\_

### SECTION B. ATTITUDE

Kindly tick whether you strongly disagree (SD), disagree (D), undecided (U), agree (A), or strongly agree (SA) with the following statements about attitude.

| No | Statements  | SD | D | U | A | SA |
|----|---|----|---|---|---|----|
| 1  | I would not feel guilty if I excluded some of my income when completing my tax return   |    |   |   |   |    |
| 2  | Even though the supporting documents do not need to be sent to the tax authority, I don't wish to manipulate the figure in the tax return |    |   |   |   |    |
| 3  | I do not think it is ethically right if I excludes small amount of income when completing the tax return.                                 |    |   |   |   |    |
| 4  | Paying my expected amount of tax is a good thing to do  |    |   |   |   |    |
| 5  | I strongly believe that individuals should pay their taxes genuinely  |    |   |   |   |    |

**SECTION C: SUBJECTIVE NORM**

Kindly tick whether you strongly disagree (SD), disagree (D), undecided (U), agree (A), or strongly agree (SA) with the following statements about subjective norm.

| No | Statements   | SD | D | U | A | SA |
|----|--|----|---|---|---|----|
| 1  | My friend pay taxes without any misconduct   |    |   |   |   |    |
| 2  | My parents pay their fair share of taxes without any act of violating the tax rules            |    |   |   |   |    |
| 3  | Significant people around me pay taxes honestly  |    |   |   |   |    |
| 4  | My friends and families would not try to hide any income if they get the opportunity to do so. |    |   |   |   |    |

### SECTION D: PERCEIVED BEHAVIORAL CONTROL

Kindly tick whether you strongly disagree (SD), disagree (D), undecided (U), agree (A), or strongly agree (SA) with the following statements about perceived behavioral control.

| No | Statements  | SD | D | U | A | SA |
|----|---|----|---|---|---|----|
| 1  | I believe the penalty rates for tax related crimes are very high and I can't afford to pay the penalty                                      |    |   |   |   |    |
| 2  | I think tax law enforcement in the country is very strong   |    |   |   |   |    |
| 3  | It is my strong believe that the tax authority is intolerant towards tax offence and most probably it will never escape without punishment. |    |   |   |   |    |
| 4  | I believe that the tax authority has competent capability to investigate all income reported  |    |   |   |   |    |
| 5  | I believe that tax related crimes are punished consistently through the country   |    |   |   |   |    |

### SECTION E. TAX COMPLIANCE INTENTION

Kindly tick whether you strongly disagree (SD), disagree (D), undecided (U), agree (A), or strongly agree (SA) with the following statements about tax compliance intentions.

| No | Statements  | SD | D | U | A | SA |
|----|---|----|---|---|---|----|
| 1  | Paying tax is the right thing to do   |    |   |   |   |    |
| 2  | Paying tax is a responsibility that should be willingly accepted by all society |    |   |   |   |    |
| 3  | I feel a moral obligation to pay my tax   |    |   |   |   |    |
| 4  | Paying my tax finally advantages everyone                                       |    |   |   |   |    |
| 5  | I think of tax paying as helping the government do worthwhile things            |    |   |   |   |    |
| 6  | I accept responsibility for paying my fair share of tax                         |    |   |   |   |    |

### **SECTION F: TAX COMPLIANCE BEHAVIOR**

Kindly tick whether you strongly disagree (SD), disagree (D), undecided (U), agree (A), or strongly agree (SA) with the following statements about tax compliance behavior

| <b>No</b> | <b>Statements</b>  | <b>SD</b> | <b>D</b> | <b>U</b> | <b>A</b> | <b>SA</b> |
|-----------|--|-----------|----------|----------|----------|-----------|
| 1         | I have never been late in paying my taxes                        |           |          |          |          |           |
| 2         | During the past years, I always reported my tax returns honestly |           |          |          |          |           |
| 3         | I have never been accused of any tax related crimes              |           |          |          |          |           |
| 4         | I always behave based on the tax law of the country              |           |          |          |          |           |

**End of the questionnaire**  
**Thank you for your kind cooperation!**



4. የተሰማሩበት የንግድ ዘርፍ፡-

እርሻ

መዝናኛ

መከላከያ

የጤናዘርፍ

ገዝቶ መሸጥ

ሂሳብነክ

ትምህረት

መረጃ

ሀይል

ማምረት

መዐድንና የመከላከያውጤቶች

ቴሌኮሚኒኬሽን

መንገድ

ኬሚካል

ሌሎች ካሉ ይገለጹ \_\_\_\_\_

**ክፍል ሁለት አመለካከት**

ለሚከተሉት መጠይቅ በጣም አልስማማም፣ አልስማማም፣ መካከለኛ፣ እስማማለሁ እና በጣም እስማማለሁ በሚለው ስር ምልክት ያድርጉ፡፡

| ተ. ቁ | መጠይቅ  | በጣም አልስማማም | አልስማማም | መካከለኛ | እስማማለሁ | በጣም እስማማለሁ |
|------|---|------------|--------|-------|--------|------------|
| 1    | ግብሬን ሳሳውቅ ከገቢዬ ላይ የተወሰነውን ባላሳውቅ የጥፋተኝነት ስሜት አይሰማኝም  |            |        |       |        |            |
| 2    | ምንም እንኳን ደጋፊ ሰነዶች ለግብር ባለስልጣኑ መላክ ባያስፈልግም በግብር ማሳወቂያ ውስጥ ያለውን አሀዝ በማይገባ መልኩ ማስተካከል አልፈልግም |            |        |       |        |            |
| 3    | የግብር ማሳወቂያውን በምሞላበት ጊዜ አነስተኛ ገቢዬን ባስወጣ ከስነምግባር አንፃር ትክክል አይመስለኝም                          |            |        |       |        |            |
| 4    | የሚጠበቅብኝን ግብር መክፈል ጥሩ ነገር ነው   |            |        |       |        |            |
| 5    | ግለሰቦች ግብርን በሀቅ መክፈል አለባቸው ብዬ አምናለሁ  |            |        |       |        |            |

**ክፍል ሶስት**

**የሌሎች ተፅዕኖ**

ለሚከተሉት መጠይቅ በጣም አልስማማም፣ አልስማማም፣ መካከለኛ፣ እስማማለሁ እና በጣም እስማማለሁ በሚለው ስር ምልክት ያድርጉ።

| ተ. ቁ | መጠይቅ   | በጣም አልስማማም | አልስማማም | መካከለኛ | እስማማለሁ | በጣም እስማማለሁ |
|------|--|------------|--------|-------|--------|------------|
| 1    | ጓደኛዬ ያለምንም ተግዳሮት ህግን ተከትሎ ይከፍላል                    |            |        |       |        |            |
| 2    | ወላጆቼ የግብር ደንቦቼን ሳይጥሱ ተገቢውን ግብር ይከፍላሉ               |            |        |       |        |            |
| 3    | በዙሪያዬ ያሉ አብዛኞቹ ሰዎች ግብርን በታማኝነት ይከፍላሉ               |            |        |       |        |            |
| 4    | ጓደኞቼና ቤተሰቦቼ እድሉን ቢያገኙም እንኳን ማንኛውንም ገቢ ለመደበኛ አይሞክሩም |            |        |       |        |            |

**ክፍል አራት መቆጣጠር የምንችለው ታሳቢ ባህሪ**

ለሚከተሉት መጠይቅ በጣም አልስማማም፣ አልስማማም፣ መካከለኛ፣ እስማማለሁ እና በጣም እስማማለሁ በሚለው ስር ምልክት ያድርጉ።

| ተ. ቁ | መጠይቅ   | በጣም አልስማማም | አልስማማም | መካከለኛ | እስማማለሁ | በጣም እስማማለሁ |
|------|--|------------|--------|-------|--------|------------|
| 1    | ከግብር ጋር ለተዛመዱ ወንጀሎች የቅጣት ክፍያዎች በጣም ከፍተኛ ስለሆነ ቅጣቱን ለመክፈል አቅም የለኝም                 |            |        |       |        |            |
| 2    | የሀገሪቱ የግብር ህግ የማስፈጸም አቅም ጠንካራ ነው ብዬ አስባለሁ  |            |        |       |        |            |
| 3    | የግብር ባለስልጣኑን የግብር ጥፋትን ባለመታገስ ጠንካራ እምነት ያለው ነው እናም ምን አልባት የግብር ጥፋት ያለቅጣት አያመልጥም |            |        |       |        |            |
| 4    | የግብር ባለሥልጣኑ ሪፖርት የተደረገባቸውን ገቢዎች ሁሉ ለመመርመር የሚያስችል ብቃት እንዳለው አምናለሁ                 |            |        |       |        |            |
| 5    | ከግብር ጋር የተዛመዱ ወንጀሎች በሀገሪቱ ውስጥ በቋሚነት የሚቀጡ እንደሆኑ አምናለሁ                             |            |        |       |        |            |

**ክፍል አምስት**

**የግብር ተገዢነት ዝግጁነት (ተነሳሽነት)**

ለሚከተሉት መጠይቅ በጣም አልስማማም፣ አልስማማም፣ መካከለኛ፣ እስማማለሁ እና በጣም እስማማለሁ በሚለው ስር ምልክት ያድርጉ።

| ተ. ቁ | መጠይቅ   | በጣም አልስማማም | አልስማማም | መካከለኛ | እስማማለሁ | በጣም እስማማለሁ |
|------|--|------------|--------|-------|--------|------------|
| 1    | ግብር መክፈል ትክክለኛ ነገር ነው                              |            |        |       |        |            |
| 2    | ግብር መክፈል በሁሉም ማህበረሰብ ዘንድ በፍቃደኝነት ሊቀበለው የሚገባ ነው     |            |        |       |        |            |
| 3    | ግብሬን የመክፈል የሞራል ግዴታ አለብኝ                           |            |        |       |        |            |
| 4    | ግብሬን መክፈል በአጠቃላይ ለሁሉም ይጠቅማል                        |            |        |       |        |            |
| 5    | ግብር መክፈል መንግስትን ጠቃሚ የሆኑ ነገሮችን እንዲያከናውን የሚረዳ ይመስለኛል |            |        |       |        |            |
| 6    | ፍትሃዊ የግብር ድርሻዬን የመክፈል ሀላፊነትን አቀበላለሁ                |            |        |       |        |            |

**ክፍል ስድስት**

**የግብር ተገዢነት ባህሪ**

ለሚከተሉት መጠይቅ በጣም አልስማማም፣ አልስማማም፣ መካከለኛ፣ እስማማለሁ እና በጣም እስማማለሁ በሚለው ስር ምልክት ያድርጉ።

| ተ. ቁ | መጠይቅ  | በጣም አልስማማም | አልስማማም | መካከለኛ | እስማማለሁ | በጣም እስማማለሁ |
|------|---|------------|--------|-------|--------|------------|
| 1    | ግብሮቼን በመክፈል ዘግይቼ አላውቅም                        |            |        |       |        |            |
| 2    | ላለፉት ዓመታት የግብር ተከፋዬን ሁልጊዜ በሀቀኝነት ሪፖርት አድርጌያለሁ |            |        |       |        |            |
| 3    | ከግብር ጋር በተያያዘ ወንጀሎች በጭራሽ አልተከሰስኩም             |            |        |       |        |            |
| 4    | ሁልጊዜ በሀገሪቱ የግብር ህግ መሰረት እሰራለሁ                 |            |        |       |        |            |

**መጠይቁ አልቋል ስለትብብሮ አመሰግናለሁ።**

**Appendix III: Descriptive result of questionnaire (frequency and percentage)**

|   |                   | Frequency | Percentage |
|---|-------------------|-----------|------------|
| I would not feel guilty if I excluded some of my income when completing my tax return   | strongly disagree | 61        | 19.5%      |
|   | disagree          | 31        | 9.9%       |
|   | undecided         | 0         | 0.0%       |
|   | agree             | 127       | 40.6%      |
|   | strongly agree    | 94        | 30.0%      |
| Even though the supporting documents do not need to be sent to the tax authority, I don't wish to manipulate the figure in the tax return | strongly disagree | 43        | 13.7%      |
|   | disagree          | 38        | 12.1%      |
|   | undecided         | 25        | 8.0%       |
|   | agree             | 107       | 34.2%      |
|   | strongly agree    | 100       | 31.9%      |
| I do not think it is ethically right if I excludes small amount of income when completing the tax return.                                 | strongly disagree | 70        | 22.4%      |
|   | disagree          | 35        | 11.2%      |
|   | undecided         | 19        | 6.1%       |
|   | agree             | 99        | 31.6%      |
|   | strongly agree    | 90        | 28.8%      |
| Paying my expected amount of tax is a good thing to do  | strongly disagree | 44        | 14.1%      |
|   | disagree          | 0         | 0.0%       |
|   | undecided         | 50        | 16.0%      |
|   | agree             | 118       | 37.7%      |
|   | strongly agree    | 101       | 32.3%      |
| I strongly believe that individuals should pay their taxes genuinely  | strongly disagree | 59        | 18.8%      |
|   | disagree          | 30        | 9.6%       |
|   | undecided         | 15        | 4.8%       |
|   | agree             | 61        | 19.5%      |
|   | strongly agree    | 148       | 47.3%      |
| My friend pay taxes without any misconduct  | strongly disagree | 33        | 10.5%      |
|   | disagree          | 0         | 0.0%       |
|   | undecided         | 46        | 14.7%      |
|   | agree             | 111       | 35.5%      |
|   | strongly agree    | 123       | 39.3%      |
| My parents pay their fair share of taxes without any act of violating the tax rules   | strongly disagree | 31        | 9.9%       |
|   | disagree          | 25        | 8.0%       |
|   | undecided         | 25        | 8.0%       |
|   | agree             | 88        | 28.1%      |
|   | strongly agree    | 144       | 46.0%      |
| Significant people around me pay taxes honestly   | strongly disagree | 69        | 22.0%      |
|   | disagree          | 19        | 6.1%       |
|   | undecided         | 23        | 7.3%       |
|   | agree             | 107       | 34.2%      |
|   | strongly agree    | 95        | 30.4%      |
| My friends and families would not try to hide any income if   | strongly disagree | 38        | 12.1%      |
|   | disagree          | 0         | 0.0%       |

|   |                   |     |       |
|---|-------------------|-----|-------|
| they get the opportunity to do so.  | undecided         | 81  | 25.9% |
|   | agree             | 88  | 28.1% |
|   | strongly agree    | 106 | 33.9% |
| I believe the penalty rates for tax related crimes are very high and I can't afford to pay the penalty                                      | strongly disagree | 38  | 12.1% |
|   | disagree          | 56  | 17.9% |
|   | undecided         | 0   | 0.0%  |
|   | agree             | 138 | 44.1% |
|   | strongly agree    | 81  | 25.9% |
| I think tax law enforcement in the country is very strong   | strongly disagree | 31  | 9.9%  |
|   | disagree          | 0   | 0.0%  |
|   | undecided         | 25  | 8.0%  |
|   | agree             | 151 | 48.2% |
|   | strongly agree    | 106 | 33.9% |
| It is my strong believe that the tax authority is intolerant towards tax offence and most probably it will never escape without punishment. | strongly disagree | 71  | 22.7% |
|   | disagree          | 23  | 7.3%  |
|   | undecided         | 20  | 6.4%  |
|   | agree             | 95  | 30.4% |
|   | strongly agree    | 104 | 33.2% |
| I believe that the tax authority has competent capability to investigate all income reported  | strongly disagree | 63  | 20.1% |
|   | disagree          | 53  | 16.9% |
|   | undecided         | 0   | 0.0%  |
|   | agree             | 63  | 20.1% |
|   | strongly agree    | 134 | 42.8% |
| I believe that tax related crimes are punished consistently through the country   | strongly disagree | 71  | 22.7% |
|   | disagree          | 25  | 8.0%  |
|   | undecided         | 0   | 0.0%  |
|   | agree             | 50  | 16.0% |
|   | strongly agree    | 167 | 53.4% |
| Paying tax is the right thing to do   | strongly disagree | 31  | 9.9%  |
|   | disagree          | 25  | 8.0%  |
|   | undecided         | 25  | 8.0%  |
|   | agree             | 88  | 28.1% |
|   | strongly agree    | 144 | 46.0% |
| Paying tax is a responsibility that should be willingly accepted by all society   | strongly disagree | 88  | 28.1% |
|   | disagree          | 52  | 16.6% |
|   | undecided         | 78  | 24.9% |
|   | agree             | 0   | 0.0%  |
|   | strongly agree    | 95  | 30.4% |
| I feel a moral obligation to pay my tax   | strongly disagree | 110 | 35.1% |
|   | disagree          | 19  | 6.1%  |
|   | undecided         | 48  | 15.3% |
|   | agree             | 35  | 11.2% |
|   | strongly agree    | 101 | 32.3% |
| Paying my tax finally advantages everyone   | strongly disagree | 51  | 16.3% |
|   | disagree          | 50  | 16.0% |

|  |                   |     |       |
|--|-------------------|-----|-------|
|  | undecided         | 23  | 7.3%  |
|  | agree             | 73  | 23.3% |
|  | strongly agree    | 116 | 37.1% |
| I think of tax paying as helping the government do worthwhile things | strongly disagree | 38  | 12.1% |
|  | disagree          | 25  | 8.0%  |
|  | undecided         | 50  | 16.0% |
|  | agree             | 68  | 21.7% |
|  | strongly agree    | 132 | 42.2% |
| I accept responsibility for paying my fair share of tax              | strongly disagree | 47  | 15.0% |
|  | disagree          | 0   | 0.0%  |
|  | undecided         | 103 | 32.9% |
|  | agree             | 0   | 0.0%  |
|  | strongly agree    | 163 | 52.1% |
| I have never been late in paying my taxes                            | strongly disagree | 47  | 15.0% |
|  | disagree          | 0   | 0.0%  |
|  | undecided         | 103 | 32.9% |
|  | agree             | 0   | 0.0%  |
|  | strongly agree    | 163 | 52.1% |
| During the past years, I always reported my tax returns honestly     | strongly disagree | 39  | 12.5% |
|  | disagree          | 12  | 3.8%  |
|  | undecided         | 71  | 22.7% |
|  | agree             | 59  | 18.8% |
|  | strongly agree    | 132 | 42.2% |
| I have never been accused of any tax related crimes                  | strongly disagree | 42  | 13.4% |
|  | disagree          | 55  | 17.6% |
|  | undecided         | 46  | 14.7% |
|  | agree             | 64  | 20.4% |
|  | strongly agree    | 106 | 33.9% |
| I always behave based on the tax law of the country                  | strongly disagree | 36  | 11.5% |
|  | disagree          | 59  | 18.8% |
|  | undecided         | 44  | 14.1% |
|  | agree             | 46  | 14.7% |
|  | strongly agree    | 128 | 40.9% |

# Appendix IV: Scatter Plots Matrix

