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**FACTOR AFFECTING FAIRNESS OF TAXATION ON  
CATEGORY “B” TAX PAYERS**



MSc. THESIS

BY

ESAY SOLOMON SHINA

HAWASSA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

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HAWASSA, ETHIOPIA

JUNE, 2014

**FACTOR AFFECTING FAIRNESS OF TAXATION ON  
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ESAY SOLOMON DAWIT

SUBMITTED

TO

**PUBLISHED BY IFSMRC INTERNATIONAL PUBLICATIONS (PVT) ETHIOPIA, INDIA**



SCHOOL OF MANAGEMENT AND ACCOUNTING

HAWASSA UNIVERSITY

IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE  
DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

JUNE, 2014

**Approval Sheet-1**

This is to officially state that the topic entitled “Factor affecting fairness of taxation on category “B” tax payers ” is an original work carried out By Esay Solomon under our guidance and supervision. Therefore, we recommend that it would be accepted as fulfilling the thesis requirements.

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### **Approval Sheet-2**

We, the undersigned, members of the board of examiners read this thesis entitled “Factor affecting fairness of taxation on category “B” tax payers” and evaluated the final open defense made by Esay Solomon. Accordingly, we examined the candidate and therefore we certify that it is suitable for submission for the reward of the MSc Degree in Accounting and Finance.

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## **DECLARATION**

I, the undersigned, have by declaration that I have completed research thesis on” factor affecting fairness of taxation on category” tax payers ‘evidence from category “B” tax payers’ and tax authority employees of Hawassa city administration as part of the course requirement.

I further declare that this study my original work and that information presented is true. The matter embodies in this report has not been submitted earlier for the award of any degree or diploma to the best my knowledge and belief.

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## DEDICATION

I dedicate this work to my grandfather, Kala Dorisiso Dogisso.

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First and for most, I thank the almighty God for His wisdom and patience that gave me during my work. I would like to express my heartfelt thanks to my thesis advisor Pro.Raman and Mr. Haimiro.L, Invaluable and immeasurable assistance and guidance during my study. My sincere thanks go to all my colleagues and friends who supported me during my study, especially to Eleni.A and Yonase Y. I want to thank also to Yehalashate.B, and Hawassa city Tax authority employees for their great cooperation in providing information.

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## Table of Contents

DECLARATION.....	viii
Acknowledgments .....	x
Table of Contents .....	xi
List of tables and Figures .....	xiv
List of abbreviations .....	xvi
Abstract .....	xvii
Chapter one: Introduction.....	18
1.1. Background of the study.....	18
1.2. Statement of the problem.....	4
1.3. Research question and hypothesis.....	6
1.3.1. Hypothesis .....	6
1.4. Objectives of the study .....	8
1.4.1. General objective.....	8
1.4.2 .Specific objectives.....	8
1.5. Scope of the study .....	9

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1.5.1. Subject scope .....	9
1.5.2. Geographical scope .....	9
1.6. Significance of the study .....	9
1.7. Limitations of the Study .....	10
1.8. Organization of the paper .....	11
Chapter two: Review of related literature and theoretical Framework.....	12
2.1. Theoretical review of tax fairness .....	12
2.2 On Principles of fairness of tax .....	18
2.2.1. On Principle of Non-Discrimination .....	19
2.3. On Fair tax administration.....	21
2.3.1 On Challenges to administer tax effective.....	22
2.4 On factors affect fairness of tax system.....	23
2.4.1. Level of Administration system .....	23
2.4.2. Educational level of tax payers.....	30
2.4.3 Attitudes toward taxation .....	36
2.5. Taxation in Ethiopia .....	42
2.6 The Ethiopian Tax Reform of 2002.....	44
2.6.1 Declaration of Income and Assessment of Taxes.....	45
2.6.2 Time of Declaration of Income and Payment of Taxes.....	46
2.7. Obligations of the taxpayer: .....	47
2.7.1. Tax Evasion.....	47
2.8 Dimension on tax fairness .....	48
2.9. Analytical Framework .....	50
Chapter three: Research Methodology .....	52
3.1. Research approach.....	52

**PUBLISHED BY IFSMRC INTERNATIONAL PUBLICATIONS (PVT) ETHIOPIA, INDIA**



3.2 Data collection.....	53
3.2.1. Data processing and analysis.....	54
3.3 Research design.....	55
3.4 Study of population .....	56
3.4.1 Sampling and sample design .....	56
3.4.2 Survey area .....	57
Chapter Four: Discussion, Result and Analysis of finding .....	59
4.1. Discussion and result of survey .....	59
4.1.1. Category of respondents .....	59
4.1.1. Educational level of tax payers.....	63
4.1.2 Attitude of tax payers .....	67
4.1.3 Level of administration system.....	73
4.2 CORRELATION ANALYSIS .....	78
4.2.1 Correlation analysis of educational level of tax payers’ .....	78
4.2.2 Correlation analysis of attitude of tax payers’ .....	82
4.2.3 Correlation analysis of level of administration system.....	84
Chapter Five: Conclusion and Recommendation .....	90
5.1. Conclusion.....	90
5.2 Recommendation.....	93
Reference.....	95
APPENDECIES-A .....	101
APPENDICES -B.....	112
List of symbols used in Chapter Four.....	112

**PUBLISHED BY IFSMRC INTERNATIONAL PUBLICATIONS (PVT) ETHIOPIA, INDIA**



## List of tables and Figures

Table 4.1. Types of business activity .....	51
Table 4.2. Position within the organization.....	58

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Table 4.3. sex of respondents.....	59
Table 4.4 For how long has the business been in existence.....	59
Table 4.5 Variables of educational level of taxpayers.....	60
Table 4.6 Variables of attitudes of tax payers.....	60
Table 4.7 Gender of tax authority employees.....	67
Table 4.8 Educational level tax authority employees .....	69
Table 4.9 variables of the respondent work experience.....	70
Table 4.10-12 variables level of administration system.....	70-72
Table 4.13 correlation of educational of tax payers.....	73
Table 4. 14 correlation of attitudes of taxpayers.....	76
Table 4.15 correlation of level of administration system.....	79

**List of Figures**

Figure -1 analytical framework.....	43
Figure -2 chart of Organizational structure.....	54

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## List of abbreviations

**AICPA** American institution of certified public accountant

**CSA** Central Statistical Agency of Ethiopia

**ERCA** The Ethiopian Revenue and Custom Authority

**FRDE** Federal Democratic Republic of Ethiopia

**GDP** Gross Domestic Product

**GTP** Growth and Transformation Plan

**MoFED** Ministry of Finance and Economic Development

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## **Abstract**

*Current Ethiopia is in an era of renaissance and struggling to overcome poverty. For Ethiopia Taxation is Weapon that support this struggle and for this to happen a fair tax system is needed. This study was conducted to identify factor affecting fairness of taxation. The study used a cross-sectional survey design. It used both primary and secondary data and adopted mixed research approach. To get the primary data interview and questionnaire were used. To conduct the survey, from three sub-cities 290 respondents from Category “B” tax payers’ and tax authority employees were selected by applying systematic random sampling technique. The findings show that fairness of taxation directly related with attitude of tax payers. The tax rule and regulation is written down on the paper is fair but the way it is implemented affect its fairness. Fairness of taxation also directly related with Educational level of tax payers. Well educated tax payers’ have an understanding and know-how about tax rules and regulation related to income tax. By using their know-how to identify the gaps on tax rules and regulation are able to avoid tax. Strong administration system of tax authority enforces tax payers’ act*

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*according to the rules and regulation related to income tax. The study showed that category “B” tax payers’ and the observed negative attitude they have needs to be corrected by giving training on the major points, importance’s of income tax to the country and for what purpose it is used and the like. Thereby, enhancing fair tax collection and providing basis for further research in a broader scope.*

Keywords: Tax, Fairness, Taxpayers, Administration system

## **Chapter one: Introduction**

### **1.1. Background of the study**

There are various types of taxes in Ethiopia and various regulations and procedures for registration, assessment, filing and payment of these different taxes. In Ethiopia when the progressive tax proposals were submitted to parliament in the late 1960s, they were vigorously opposed by the members, all of whom being property owners. Parliament passed a tax on agricultural produce in November 1967, but in a form vastly altered from the government proposal. Even this, however, was fiercely resisted by the landed class in Gojam, and the entire province revolted. In 1969, after two years of military action, the central government withdrew its troops, discontinued enforcement of the tax, and canceled all arrears of taxation going back to 1940.

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In Ethiopia, tax is administered at federal or central and regional levels. The constitution of Federal Democratic Republic of Ethiopia (FRDE) has separated the tax revenue to be collected by federal government, state or regional government and jointly by the federal and state government. The regional governments of Ethiopia collect taxes and revenue by bureaus of Regional Inland Revenue Authorities from privately owned enterprises and organs of regional governments. The central government revenue collection organs are responsible to collect revenues of federal and joint revenues owned by both the central government and regional governments from different organizations including which are owned by federal government (Council of Ministers, 2002).

There are different proclamation and regulations and a list of direct and indirect taxes in Ethiopia and in Ethiopia and their rates, which can serve as a quick reference.

The Ethiopian Revenue and Custom Authority (ERCA) is responsible for the enforcement of the tax laws relating to income tax particularly business profit taxes, and other types of taxes. In addition to this, the ERCA is also responsible for collecting withholding tax on payments made to non-residents relating to interest, royalties, contract payments, special classes of income (such as fees for technical advice) and income in respect of services performed by a public entertainer.

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The current income tax system administered according to the Proclamation No.286/2002 -article 6, and the Income Tax Regulation No.78/2002 states that taxes are collected from various taxable sources (Ethiopian Chamber of Commerce, 2005).

According to Anna, Che, and Kamala (2008), taxpayers' perception on the tax system is important because fairness of the tax system will instill compliance among taxpayers. Attitudes about the tax system and perceptions of fairness are naturally influenced by what the public actually know about it. A tax system that is complex, that is poorly understood by both tax administrators and taxpayers, that creates numerous opportunities for corrupt behavior, and that involves coercion in the collection of taxes from reluctant citizens provides a poor basis upon which to build trust between citizens and the government.

Studies have shown that the business profit tax system must be fair; to promote the objective of an equitable distribution of income. This is documented in the works of, for instance, Gerbing (1988), Hite and Roberts (1992), Roberts (1994), Christensen and Weihrich (1996), Richardson (2005) and Coetzee, and Oberholzer, (2009).

So tax fairness is affected by many factors such as attitudes of tax payers, level of tax administration and awareness of tax payers.

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According to James (2003), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. To put it differently, it is essential that a good tax system should appear equitable to the taxpayers.

Brooks (2001) states that fairness has always been widely regarded as the most important criteria in judging tax systems.

The fairness of a tax system may also be perceived in different ways by the taxpayers and tax authorities. What is fair in the eye of the tax authorities may not have the same image in the mind of the taxpayers (Brooks, 2001).

## **1.2. Statement of the problem**

Governments in order to meet the escalating needs of the people require large resources today than ever, while balancing income and expenditure through collecting fair tax. As Tax is major source of income to the governments operation, the government of Ethiopia is working to promote fairness among the taxpayers, so as to maintain equality between the collection plan and capacity of revenue generating within country. With the same target regional governments are also doing to balance their income and expenditure through collecting fair tax. The annual report of Hawassa city administration revenues authority shows that from the total planed level of revenue the city managed to collect

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only about 58% stating that lack of fairness on taxation has contributed for the mismatch of collection and generating capacity of tax in the city (Hawassa city administration annual report, 2013). Amin and Jhon (2008) further revealed that the impact of over-taxation of big and visible businesses is excessively lowering legally earned as it creates a loophole whereby those small businesses, including the large informal sectors are taxed either to a much lesser extent or not at all. Under-capacity of collection of revenue is lack of fairness of taxation due to above factors that affect fairness of taxation. Poor or weak administration systems affect fairness of taxation. For instance, tax officers delay to register tax payers' on time, and delay to give order to use cash register machine on the other hand they give service to those tax payers who are willing through corruption practices which affects fairness of taxation due to non compliance to tax law. Further, according to GTP (2011/12) forwarded by MoFED, there is a plan of increasing tax to GDP ratio to 17 percent in the five years plan. However, the evidence obtained recently shows that the tax to GDP ratios has decreased. According to MOFED, this is specifically due to the prevalence of a high number of non-complying tax payers (MoFED, 2011/12). Moreover, it is believed that well educated tax payers use their knowledge to overstate their expenses by increasing the amount stated on no invoice payments. This leads to affect fairness of taxation because of increasing unnecessary expenses or overstate the

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expenses to reduce the income tax; they pay unfair tax based on ability to pay compared with other tax payer. Despite, a lot of efforts have been made to ensure the fairness of taxation and to reduce tax evasion in the past several years; lack of fairness is still the major challenge. Therefore, this study tries to investigate those factors that affect fairness of taxation in Ethiopia, specifically in the case of Hawassa city.

This study has tried to answer the following research questions.

### **1.3. Research question and hypothesis**

#### **1.3.1. Hypothesis**

Following research hypothesis has been founded in this study

*H1: Educational level of tax payers do not affects fairness of taxation*

As the literatures in this paper suggest the aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996).

*H2: Attitudes of tax payers do not affect fairness of taxation*

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The effect of tax payers' attitude on fairness as Anna, Che, and Kamala (2008), stated taxpayers' perception on the tax system is important because fairness of the tax system will instill compliance among taxpayers. Attitudes about the tax system and perceptions of fairness are naturally influenced by what the public actually knows about it. A tax system that is complex, that is poorly understood by both tax administrators and taxpayers, that creates numerous opportunities for corrupt behavior, and that involves coercion in the collection of taxes from reluctant citizens provides a poor basis upon which to build trust between citizens and the government. Hence, due to complex tax system and weak data compile system are believed to affect the amount of tax to be collected (Anna, Che, and Kamala, 2008).

*H3: Level of administration does not affect fairness of taxation.*

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important

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precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

## **1.4. Objectives of the study**

### **1.4.1. General objective**

The overall objectives of this study is to investigate factors that affect fairness of taxation on “B” categories’ tax payers and causes of unfair taxation present at Hawassa city administration.

### **1.4.2 .Specific objectives**

The specific objective of the study is:

1. To investigate the effect of level of administration system on fairness of tax.
2. To investigate effect of tax payer perception on fairness of tax.
3. To assess the impacts of level of education of tax payer on fairness of tax.

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## **1.5. Scope of the study**

### **1.5.1. Subject scope**

There are many factors that affect fairness of taxation, so this study has been to investigate the relationship between administration system and tax fairness, attitudes of the tax payers on tax fairness and educational level of tax payers' impacts on tax fairness of category "B" income tax payers'. Especially, excluding culture from major factors affecting fairness of taxation because of its difficulty in measuring

### **1.5.2. Geographical scope**

This study covers the areas of three sub cities in Hawassa city administration selected purposively, given a large number of tax payers based within these three sub city and to effectively address of the problem. They are Menaharia, Bahil adarashe and Haike dare sub city.

## **1.6. Significance of the study**

The researcher believes that the result of this research paper would have the following significances. Enabling, the city to collect planned amount of revenue due to compliances of tax payers to tax law and contributing to solve the problem of unfair taxation. The study may serve as a spring board for those who are interested to conduct

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further study on related topics. The study may also contribute to the sum total of the body of knowledge.

## **1.7. Limitations of the Study**

The limitations of the study were:

- The respondents, who are the tax payers and employees of the tax authority, had limited their response due to personal characteristic of questions.
- The study used three sub-cities from the total of eight sub cities for data collection, due to constraint of time and budget.
- This study was also conducted on limited subject scope as this would have been time and finance consuming and made the questionnaire lengthy.

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## **1.8. Organization of the paper**

The thesis is organized in to five chapters. Chapter one incorporates the introduction part of study, background of study, the statement of problem, objectives of study, scopes of study, significances of study and limitation of study . The second, chapter present critical review of related literature and analytical frame work. This part is part of researcher's investigation and past research in the field. The third chapter gives detailed parts of study area, the methodology and design. Chapter four presents result and analysis and chapter five summarized the main results of the study and give some recommendation.

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## **Chapter two: Review of related literature and theoretical Framework**

### **2.1. Theoretical review of tax fairness**

According to Bhatia (1976), a good tax system, in order to achieve various objectives, chooses and adheres to certain principles, which become its characteristics. A good tax system, therefore, is one, which is designed based on an appropriate set of principles, such as equality or fairness and certainty. According to James (2003), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. To put it differently, it is essential that a good tax system should appear equitable to the taxpayers.

The principle of equity asserts that tax payers of the same levels should be taxed similarly that is to say tax payers with equal abilities should pay the same amount of tax. Citizens with great ability should pay more. The principle of equity is also viewed as fairness by

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most scholars because it stipulates that those with greatest ability to pay should have the highest tax burden (AICPA, 1992).

Brooks (2001), states that fairness has always been widely regarded as the most important criteria in judging a tax system. The problem of unfairness is that a tax system allows taxes to be shifted from dishonest to honest taxpayers. The fairness of a tax system may also be perceived in different ways by the taxpayers and tax authorities. What is fair in the eye of the tax authorities may not have the same image in the mind of the taxpayers.

In addition, the implementation of the tax systems based on either progressive tax structure or flat tax rate structure however, most of the individual taxes are progressive tax structures. i.e., that is vertical in terms of providing equity does not meet.

What constitutes a “fair tax” has been the subject of debate since Adam Smith proposed his four canons of taxation in *The Wealth of Nations* in 1776:

- Equity: a tax should be seen to be fair in its impact on all individuals.
- Certainty: taxes should not be arbitrary; the taxpayer should know his or her liability and when and where to pay it.
- Convenience: it should be easy for taxpayers to pay what they owe.

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- Efficiency: the tax system should not have an impact on the allocation of resources and it should be cheap to administer. he expected equity.

Due and Friedlaender (1981), argue that persons will oppose taxes that they feel strike them “unfairly” and allow others to escape a “reasonable” burden, and they will favor taxes they accept to concentrate on others, especially when “others” are non-humans such as corporations.

Lemessa (2005) also adds that a major responsibility is to ensure that all taxpayers dealt with by a given official are accorded similar treatment and that all officials dealing with a given taxpayer would accord the same treatment.

The importance of a sound legal structure for effective tax administration and the importance of incorporating principles that will further tax compliance in the design of that legal structure. Since each stage of the administrative process is dependent upon the other, to achieve a significant improvement in the overall effectiveness of the tax administration each element of the legal structure needs to be designed for maximum effectiveness (Asian Development Bank, 2001).

Bhatia (1976) further says, a good tax system, in order to achieve various objectives, chooses and adheres to certain principles which become its characteristics. A good tax

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system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. Since fairness of a tax system is its corner stone.

Equity and exchange based theories view individuals as rational, self-interested and goal oriented actors who evaluate justice in terms of proportionality of output to inputs among the participants to an exchange.

In this perspective, a fair distribution is one that rewards people according to their contributions towards providing outcomes (Kinsey, Grasmick, and Smith, 1991).

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Equity and exchange based theories view individuals as rational, self-interested and goal oriented actors who evaluate justice in terms of proportionality of output to inputs among the participants to an exchange. In this perspective, a fair distribution is one that rewards people according to their contributions towards providing outcomes (Kinsey, Grasmick, and Smith 1991).

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The literature on tax compliance has suggested that equity theory, distributive justice and procedural justice can give insights to examine tax fairness. Torgler (2001a) mentioned that tax fairness is a very important factor influencing taxpayers' compliance behavior because it is related to tax burdens. In fact, Smith (1796) argued for any 'good' tax system tax fairness is crucial. McGowan (2000) stated that policy makers in the US believe that public perceptions can directly affect tax compliance behavior.

According to Porcano (1984), traditionally equity theory indicates two types of equity within a tax system: (1) horizontal equity and (2) vertical equity. Horizontal equity refers to providing equal treatment to all in the same group whereas vertical equity refers to giving a suitable differentiation among unequal persons in that group. That means those who are rich, should be treated as able to pay higher than lower groups of income earners.

According to Schisler (1995), equity or fairness is positively related in some way to tax compliance. Jackson & Milliron (1986) concluded tax fairness refers to two important dimensions; equity of trade and equity of taxpayers' burden. Equity of trade refers to what is received in exchange for the dollars paid towards one's tax liability and equity of taxpayers' burden refers to the equity of distribution of the tax burden whether is it distributed fairly and evenly with the taxpayers within the same group or is it between groups.

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In testing the existence of the association between tax fairness and tax compliance, Roberts (1994) used a 30 second television public service advertisement to measure if there was any Impact caused by these 30 second advertisement on taxpayers' perception of fairness which was predicted to ultimately influence their tax compliant behavior.

According to Wenzel (2002), various researchers have stressed the role of perceptions of justice and fairness, finding that taxpayers are less likely to be compliant with a tax system they consider unjust, unfair, and thus illegitimate (e.g, Alm, Jackson, & Mckee, 1993; Cowell, 1992; Falkinger, 1995; Roberts & Hite, 1994). There is a growing consensus in the tax compliance literature that the fairness of an economic system plays an important role in tax reporting behavior (Chung 2002).

As stated by Torgler (2001), an increase in deterrence on honest taxpayers will disrupt a balance. Taxpayers' who paid fair dues but gets audited and later fined, and even more disturbed when others who violated the law not punished.

Porcano and Price (1992) suggest that traditionally equity theory indicates two types of equity within a tax system: (1) horizontal equity and (2) vertical equity. Horizontal equity refers to providing equal treatment to all in the same group whereas vertical equity refers to giving a suitable differentiation among unequal persons in that group. That means

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those who are rich should treat as able to pay higher than lower groups of income earners. In addition, the implementation of the tax systems based on either progressive tax structure or flat tax rate structure however, most of the individual taxes are progressive tax structures. i.e., that is vertical in terms of providing equity does not meet.

What constitutes a “fair tax” has been the subject of debate since Adam Smith proposed his four canons of taxation in *The Wealth of Nations* in 1776:

- Equity: a tax should be seen to be fair in its impact on all individuals.
- Certainty: taxes should not be arbitrary; the taxpayer should know his or her liability and when and where to pay it.
- Convenience: it should be easy for taxpayers to pay what they owe.
- Efficiency: the tax system should not have an impact on the allocation of resources and it should be cheap to administer.

## **2.2 On Principles of fairness of tax**

As stated in Bhatia (1976), a good tax system, in order to achieve various objectives, chooses and adheres to certain principles which become its characteristics. A good tax system, therefore, is one which is designed on the basis of an appropriate set of

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principles, such as equality or fairness and certainty. Since fairness of a tax system is its corner stone a brief overview can be presented in the following paragraphs.

According to James (2000), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. Similarly, Due and Friedlaender (1981), also argue that what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society.

### **2.2.1. On Principle of Non-Discrimination**

Another limitation closely associated with federal structures is the prohibition of discrimination in taxation. Unlike “intergovernmental immunity,” the principle of non-discrimination (or against discrimination) is mostly invoked against the constituent states of a federation. When states in a federal system are entrusted with the power of taxation, a distinct threat of discrimination arises particularly against out of state residents, businesses or goods. In the U.S., the principle of “non-discrimination” is developed

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through judicial review to curtail the power of states from discriminating against out of state residents, businesses, or goods.

Taxpayers challenged and succeeded in getting state taxes struck down on the ground that these taxes are discriminatory.

The principle of non-discrimination, which in the U.S. is developed through judicial review, is explicitly recognized in the Australian Constitution.

The Ethiopian Constitution does not contain a non-discrimination clause specifically for taxes. There is a general equality clause in Article 25 of the Constitution, and there is a provision that gives to the Federal Government the power to regulate interstate commerce. It is not clear if these provisions in the Ethiopian Constitution may be used to constrain the power of the states from discriminating against out of state residents, businesses or goods. Once again, there are as yet no cases in which any of the regional state taxes have been struck down on grounds of discriminatory treatment of out-of-state citizens or businesses.

The other major principle of taxation is that the burden of tax should be distributed fairly. Accordingly, equity or fairness is further highlighted by two principles: the ability-to-pay

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principle and the benefits principle. The ability- to-pay principle holds the idea that the amount of taxes that people pay should be based on their ability to pay.

This principle implies two things:

- i) Horizontal Equity: People in equal positions should be made to pay the same amount of taxes.
- ii) Vertical Equity: A tax system should distribute the burden of paying taxes fairly across people with different abilities to pay. Thus, people who earn more should pay more than those people who make less than them.

### **2.3. On Fair tax administration**

Badly conceived or unnecessarily complicated tax structure greatly complicates the operating function of the tax administration, while simple and transparent tax structure

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could affect it in the opposite way. So, the increase of efficiency of the tax administration could be attributed mainly to the simplification of the tax system. Tax administration cannot change legislation as a means for improvement of tax structure, but could propose necessary changes in laws that can improve tax structure and / or could aid in application of the law (Mansfield, 1990).

### **2.3.1 On Challenges to administer tax effective**

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

In the Fischer model, noncompliance opportunity can affect taxpayer compliance directly through income level, income source, and occupation. Almost all the theoretical model indicates that as income rises, tax evasions should increase over most ranges (Andreoni et

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al., 1998). In other way, the lower income group tends to have a lower proportion of tax compliance by under-reporting income and by over-claiming expenses than their counterparts in the higher income group. Taxpayers vary in terms of the opportunities available to them to overstating expenses and understating incomes.

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990).

## **2.4 On factors affect fairness of tax system**

### **2.4.1. Level of Administration system**

Tax administration refers to the identification of tax liability based on the existing tax law, the assessment of this liability, and the collection, prosecution and penalties imposed on recalcitrant taxpayers. Tax administration, therefore, covers a wide area of study,

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encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave, 2005).

The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration. In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

According to Gilligan and Richardson (2005), the tax system that is perceived as unfair by the citizens may likely to be less successful and this will encourage the taxpayers to engage in noncompliant behavior.

Kirchler (2007) and Wenzel (2004) suggested that fairness can be conceptualized as distributive justice, procedural justice and retributive justice.

Distributive justice is concerned with fairness in exchange of resources in both the benefit and cost, while procedural justice refers to fairness in the process of resources

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distribution and retributive justice is concerned with about the fairness in appropriateness of sanctions when rules are broken.

However, Kirchler (2007) stated that research relating to fairness and tax compliance only focuses on distributive justice. With regard to distributive justice, comparisons are made on the basis of individuals, groups and societal level and at individual level; taxpayers will be interested in the fairness of his tax burden, if it is perceived to be too high compare to other individuals' tax burden, his rate of compliance is likely to decrease.

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. (Asamnew Gebreselassie).

Bird and Oldman (1967) further state that the sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of taxpayer respect for the tax system. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite. This implies both an absence

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of arbitrary or corrupt behavior on the part of the officials, and “normative standards” to ensure that the same laws are applied and administered in a standard fashion across the board.

It is pointed out by Adams (1921) that the success of income tax rests primarily upon the honesty of taxpayers. Some authors (Brooks, 2001) indicated that tax morality has declined over the past few decades and this is attributed to wasteful, inefficient, and even perverse governments. Adams further states that one of the factors that contribute to the dishonesty of the taxpayers is the complexity of the tax system, as it may lead to administrative failures.

Self-employed taxpayers are by themselves not very tax compliant, but the addition of a troubling tax administration to this picture further intensifies the difficulty of monitoring self-employed taxpayers (Torgler 2005).

Tax administration has to secure compliance with the laws by applying an array of registration, assessment and collection procedures. A government can keep taxpayers from doing these activities, and thus successfully avoid tax evasion depends on the nature of economy’s actual tax base. Tax administration therefore, should aim at improving on

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laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 1999).

A passive attitude by the authorities towards these errors and falsifications will soon undermine the entire structure, since the diligent and honest taxpayers will almost in self-defense be forced to the level of the careless and dishonest. Bird and Oldman (1967) further state that the sure sign of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of taxpayer respect for the tax system. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite.

Today, corruption and tax evasion seem to take place in practically every country in the world, and should be considered a potential problem everywhere.

Still, evasion and fraud in tax administration are phenomena which hit developing countries hardest. Firm evidence on the extent of such illegal practices is naturally hard to come by.

But anecdotal evidence from different developing countries indicate that half or more of the taxes that should be collected cannot be traced by the government treasuries due to

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corruption and tax evasion. This erosion of the tax base has several detrimental fiscal effects.

According to Anna, Che, and Kamala (2008), taxpayers' perception on the tax system is important because fairness of the tax system will instill compliance among taxpayers. Attitudes about the tax system and perceptions of fairness are naturally influenced by what the public actually knows about it. A tax system that is complex, that is poorly understood by both tax administrators and taxpayers, that creates numerous opportunities for corrupt behavior, and that involves coercion in the collection of taxes from reluctant citizens provides a poor basis upon which to build trust between citizens and the government. Hence, due to complex tax system and weak data compile system are believed to affect the amount of tax to be collected.

Richardson (2006) it is widely believed by tax administrators and the taxpayers that growing the underdeveloped tax system/structure is one of the major causes for this phenomenon. In the Fischer Model the effectiveness of tax system affected by complexity of tax system, probability of detection, and penalties and tax rates.

Today, corruption and tax evasion seem to take place in practically every country in the world, and should be considered a potential problem everywhere. Still, evasion and fraud in tax ad Acconcia, et al., (2003) It is clear that when the corruption arises, the ability of

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the tax officials to accept the bribes from the taxpayer increase, if there is no suitable reward for the tax officials to detect the evasion.

This study tries to assess weakness of tax administration leads the officers of tax authority to take bribe by reducing or making false to tax payers by reducing amount that paid to government based on tax complaint law.

Oberholzer (2008) stated that most of the respondents in the study felt that it is fair to pay taxes. However, the respondents unanimously agreed that corruption and careless spending by government is high, making it hard to justify paying taxes.

Tax officers felt on corruption he/she cannot play major role because of they are felt on corruption by taking on either taking bribe directly or indirectly. Ministrations are phenomena which hit developing countries hardest.

Firm evidence on the extent of such illegal practices is naturally hard to come by. But anecdotal evidence from different developing countries indicate that half or more of the taxes that should be collected cannot be traced by the government treasuries due to corruption and tax evasion. This erosion of the tax base has several detrimental fiscal effects. The consequences of lost revenue to the funding of public services are of special concern (Tanzi, 2000a).

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Corrupt tax officers often operate in networks, which also include external actors. These corruption networks seem to have been strengthened because many of those fired were recruited to the private sector as ‘tax experts’. This partly explains why the positive process experienced in the initial phase of the new revenue authority was later reversed.

#### **2.4.2. Educational level of tax payers**

The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996).

Tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Roth et al., 1996; Soos, 1991). The researcher believe, The tax payers avoid the tax by increasing non invoice purchasing expense and reporting by reducing such income to tax authority, which helps the tax payers to pay less tax from stated.

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Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003).

The level of tax knowledge is of importance to the way people comprehend the reality underlying taxation and the associated attitude to taxation that is expressed (Mohd, 2005). Misperception plays a major role shaping fairness evaluations, attitude to one's own tax evasion, and attitude to other people's tax evasion (Roberts et al, 1994).

Therefore biases are likely to arise with incomplete information or incomplete knowledge. Attitudes about the tax system and perceptions of fairness are influenced by what the public actually knows about the tax system.

Tax knowledge and perceived tax fairness have been identified as those behavioral aspects which positively affect the taxpayers' decision to comply. A taxpayer with good knowledge about tax matters and who perceives the taxes to be fair is expected to comply diligently (Joseph mukasa 2 Education, as a demographic variable relates to the taxpayers' ability to comprehend and comply or not comply with the tax laws (Groenland and Veldhoven, 1983). Two aspects of education distinguished: "the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities" (Jackson

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and Milliron, 1986). This study does not comply with the Joseph Mukasa because of tax payers' use their knowledge to reduce income by increasing such expenses to use loopholes of tax law (gap of tax law).

Increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance.

Education, as a demographic variable relates to the taxpayers' ability to comprehend and comply or not comply with the tax laws (Groenland and Veldhoven, 1983). Two aspects of education distinguished: "the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities".

This study assessing level of education not comply with tax law by using different mechanisms of tax proclamation to avoid tax these leads to unfair taxation. I.e. tax payers' overstating their expense to reduce their income.

Increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance. However, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education (Richardson & Sawyer, 2001). Higher tax knowledge is also assumed to lead to higher compliance rates (Carnes & Cuccia, 1996).

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According to Eriksen and Fallan (1996), as the level of tax knowledge increases, the rate of tax evasion is decreased, and the level of tax compliance becomes much higher.

But my study assess and investigate the level of tax knowledge is increase tax avoidances by using different mechanism by using his on taxation. So the tax payers use their knowledge to avoid tax by the law in wrong way.

In addition to the above stated factors the knowledge base of individuals regarding the types of taxes to pays a may also matter in affecting compliances attitude whether fore control for tax knowledge which is measured as around response for the extent of difficult to know the types of tax to pay.

Higher tax knowledge is also assumed to lead to higher compliance rates (Carnes & Cuccia, 1996). According to Eriksen and Fallan (1996), as the level of tax knowledge increases, the rate of tax evasion is decreased, and the level of tax compliance becomes much higher. Hence, this study believes that higher knowledge is assumed to lead, the rate of tax evasion and Lead to not compliance to tax rate.

According to Eriksen and Fallan (1996), better tax knowledge accounts, at least in part for the improved perception of fairness and attitudes to other's tax invasion. It is apparent that preferences for progressivity in response to concrete questions differ significantly

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from abstract questions. The taxpayer's knowledge about taxation is said to affect the way he perceives the equity of the tax system.

Aripin and Amran (2003) while tax avoidance, denotes the taxpayers' creativity to arrange his tax affairs in a proper manner based on law and regulation (any provision not violated) so as to reduce his tax bill, and this is (or should be) acceptable in view of the tax administrator.

It usually relates to a taxpayer's ability to comprehend and comply or not comply with income tax laws (Jackson & Milliron, 1986). Enhancing the level of general fiscal knowledge, tax compliance improves because of more positive perceptions about taxation.

This study tries to investigate the level of education affects the fairness of taxation by using various proclamation of taxation.

Tax avoidance attracts extreme views. Some see it as a great evil, placing a burden on taxpayers who do not, or cannot, avoid tax and thus creating unfairness in the tax system. Others see legal avoidance devices as mechanisms that enable the tax system to operate in a competitive and efficient way: "a tax system breathes through its loopholes". On this view, especially in a business context, avoidance may make arrangements viable by

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counteracting barriers to Commercial activity created by taxation. Which viewpoint one takes depends to a considerable degree on one's philosophical and political starting point (the smith institute, 1987). But this study try to assess tax payers' makes changes their business to avoid tax or to reduce tax by increasing such expenses to reduce tax.

Avoidance is typically accomplished by structuring transactions so as to minimize tax liability. In some cases, avoidance is encouraged by legislation granting favorable tax treatment to specific activities in contrast to general taxation principles. From a legal standpoint, evasion differs from avoidance in being unlawful, and hence punishable (at least in theory). As far as economic function is concerned, however, evasion and avoidance obviously have very strong similarities; sometimes, indeed, they can hardly be distinguished (see for instance Feldman and Kay, 1981; Cowell,1990; McBarnet, 1992).

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. James (2000) describes tax avoidance as the legal manipulation of an individual's affairs in order to reduce tax.

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The study believe that,Tax payers avoid taxes by using their education level by using different mechanism to reduce tax liability by diverting to avoid tax.

Individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities. Some of these actions can be classified as tax avoidance, or the legal reduction in tax liabilities by practices that take full advantage of the tax code, such as income splitting, postponement of taxes, and tax arbitrage across income that faces different tax treatment.( James Alm1999) .

### **2.4.3 Attitudes toward taxation**

According to Wenzel (2002), various researchers have stressed the role of perceptions of justice and fairness, finding that taxpayers are less likely to be compliant with a tax system they consider unjust, unfair, and thus illegitimate (e.g, Alm, Jackson, & Mckee, 1993; Cowell, 1992; Falkinger, 1995; Roberts & Hite, 1994). Hence, it is believed that tax payers perceive unfair, they are tends to reduces amount tax to government.

Public perception that the tax system is fair is important for tax compliance (Richardson, 2006 b) i.e. taxpayers are inclined to evade taxes if they perceive the tax system to be unfair (Vogel, 1974).

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Taxpayers may not agree with the government's spending policies, or if they perceive that they are not obtaining a fair exchange from the government for their tax payments, then they are distressed, and report less income than taxpayers who perceive equity in their exchange with the government (Chung, 2002).

Although the relationships between fairness perceptions and tax behavior are highly complex, it's generally assumed that perceptions of fairness are positively related to tax compliance (Erich, Apolonia, & Alexander, 2006).

The common beliefs by tax administrators and the general public are that dissatisfaction with the tax system is responsible for increased tax evasion. However, Mason & Calvin (1984) also revealed that high taxes are actually the cause for tax evasion.

The tax payers' tax morale, and whether the taxpayer sees tax evasion as ethical or not differs from person to person and therefore is driven by the taxpayer's perception on whether or not he or she is fairly taxed. With this in mind, the feeling a taxpayer has towards the government goes hand in hand with tax morale. Alm and Torgler (2006).

At the group level, the taxpayers are interested on the fairness of treating their groups compare to other groups, when a group perceived that it is not fairly treated in respect to tax burden in relation to other groups that may lead tax noncompliance in the group. At

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societal level, the taxpayers are concerned with the fairness of tax system of the whole society, where they perceived the tax system to be unfair, tax noncompliance is likely to increase in the society (Kirchler, 2007).

Mason & Calvin (1984) stated perceptions of the tax system have a bearing on public confidence in the tax system which increases tax evasion. However, the dissatisfied but honest taxpayers and the other dissatisfied but dishonest cited deterrence activities, sanction threats and punishments, fear of being caught and possible disclosure of their deviance acts to the public that strongly made them to remain compliant.

Wenzel (2002) the point to reach is that if the taxpayer perceives the tax system not fair, illegitimate then difficult to achieve compliance or in other words evasion increases.

Tax evasion consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth; by overstating deductions, exemptions, or credits; or by failing to file appropriate tax returns. For its part, government must take actions to ensure compliance with the tax laws (James Alm1999).

Perceived tax fairness was measured basing on Gerbing (1988); Richardson, (2006); Anna et al (2008), survey instrument which identified the five dimensions underlying tax

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fairness as from Gerbing's research. The dimensions of measurement were in terms of general fairness, exchange with government, special provisions, tax-rate structure and self interest. The Gerbing tax-fairness scale was used to collect information concerning tax-fairness perceptions. As stated in Bhatia (1976), a good tax system, in order to achieve various objectives, chooses and adheres to certain principles, which become its characteristics.

A good tax system, therefore, is one, which is designed based on an appropriate set of principles, such as equality or fairness and certainty. According to James (2003), the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. To put it differently, it is essential that a good tax system should appear equitable to the taxpayers.

Saw, K, and Sawyer, A. (2010) found that taxpayers adjust their perceived inequalities through tax evasion. Therefore for reaching in to judgment of tax fairness issue looking the attitudes of taxpayers' is quite important. The taxpayer behaves as tax fair or not based on the attitudes he/she has framed against the tax system. Therefore the researchers critical of equity theory claim that in a judgment on fairness, a number of other factors need to be addressed apart from exchange (either mutual or indirect) and horizontal and vertical equity aspect of tax fairness.

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The Fischer model suggests two major considerations for altering taxpayers' attitudes and perceptions to tax compliance are the fairness of the tax system and peer influence. Richardson (2006) it is widely believed by tax administrators and the taxpayers that growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance.

Bobek (1997) argued from the perspective of the theory of functional attitude that the motive of the attitude will determine whether it will be positive or negative. The taxpayer, whose motive of attitude towards tax system is to express his belief in the system, is expected to judge the fairness of the system objectively and the taxpayer whose attitude is motivated with what benefit to derive from the system may label tax system fair if he is benefiting from the system.

Eriksen and Fallan (1996) said that dimensions of attitude towards tax evasion include: attitude to one's own tax evasion which is referred to as tax ethic, fairness of tax system, attitude to other people's tax evasion and attitude to general crime.

These study assessing attitudes of tax payers to evade tax and attitude of other tax payers to evade tax, when other tax payers evade the tax that influences other people to evade tax.

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Tax evasion consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth; by overstating deductions, exemptions, or credits; or by failing to file appropriate tax returns. For its part, government must take actions to ensure compliance with the tax laws. (James Alm1999).

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## 2.5. Taxation in Ethiopia

For a long period of time, tax administration in Ethiopia was an appendage of ministries that did not have administrative specialization over the assessment and collection of taxes—the Ministry of Trade and Industry before the Italian occupation (1936) and the Ministry of Finance after the Italian occupation (1941).<sup>88</sup> (Tadese lanicha2000)

Administrative units or departments within these Ministries were charged with tax administration. The preferred mode of organization was the organization of administrative units around the types of taxes rather than the functions of tax administration.

One mode of organization that prevailed for a long time was an organization of tax administration units or departments for assessment and collection of taxes on international trade (customs duties, sales and excise taxes on imports and exports) and another one for domestic (internal) taxes or revenues (income taxes, sales and excise taxes, stamp duties on domestic transactions). The administrative units for assessment and collection of international trade taxes were organized under the “customs departments” or “customs authorities” while those for the administration of domestic taxes were organized under “inland revenue departments” or “inland revenue

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authorities.” There were also times when specific taxes had their own tax administration units or departments within the Ministries (e.g., income tax departments, excise tax departments).

The separation of tax administration for domestic and international transactions had the effect of parallel tax administrations for those taxes that were levied on both domestic and international transactions. For example, customs departments or administrations assessed and collected sales taxes on imports and Inland Revenue Departments assessed and collected sales taxes on domestic transactions. (Tadese lanicha2000)

With the establishment of the Federal Government Revenue Board in 1995, Ethiopian Tax Administration was for the first time organized as a separate and autonomous government body (Tadese lanicha2000).

The most recent reorganization and restructuring of tax administration which occurred in 2008 merged the three revenue agencies of the Federal Government into one authority the Ethiopian Revenues and Customs Authority (ERCA) (Tadese lanicha2000). This reorganization of Federal Tax Administration has relegated the task of tax administration from ministerial level to an authority but in substance, the reorganization has in fact strengthened the powers of the Tax Authority. Recent tax administration reforms have

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introduced a number of changes to Ethiopian tax administration, only some of which are mentioned here under for their instructive value.

## **2.6 The Ethiopian Tax Reform of 2002**

Since 1992/93, the Government of Ethiopia has made a major economic policy shift from central planning to market oriented economic system. In line with this change, a series of tariff and tax reform measures have been taken. (The three major taxes and their respective Tax Reforms are explained below:

### **A. Taxes on Income and Profits**

Tax on employment income used to be guided by Income Tax Proclamation No. 173/1961. In the 1990s, this proclamation was amended with modifications to the legislation regulating income tax on employment: rural land and agricultural income tax; rental income tax; taxes on business and other profits; tax on income from mining activities; capital gains tax, and taxes on other sources of income such as chance winning (which carries a tax rate of 15 per cent), royalties (with a tax rate of 5 per cent) and tax on non-resident persons offering services in Ethiopia (which carries a tax rate of 10 percent).

### **B. Taxes on International Trade**

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The reform of taxes on international trade relates to levies on imports (customs duty, import excise tax, import sales tax) and tax on exports. The custom tariff reform that took place between 1993 and 2002 grouped imports into 97 categories based on the Harmonized System of Tariffs Classification Code.

### **2.6.1 Declaration of Income and Assessment of Taxes**

Taxpayers shall submit the tax declaration to the Tax Authority at the time of submitting the balance sheet, and the profit and loss account for that tax year within the time prescribed below:

- a) Category “A” taxpayers within four months from the end of the taxpayers’ tax year.
- b) Category “B” taxpayers within two months from the end of the taxpayers tax year.

### **Maintenance of Accounts**

Category "A" and "B" taxpayers shall maintain the following records and accounts:

1. Category "A" taxpayers shall at the end of the (tax) year submit to the Tax Authority a balance sheet and profit and loss statement and the detail of the

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following: Category "B" taxpayers shall at the end of the year submit to the Tax Authority profit and loss statement.

- Gross profit and the manner in which it is computed;
- General and administrative expense
- Depreciation; and
- Provisions and reserves,

2. All entries in the records and account referred to in sub-Article 1 and 2 hereof shall be supported by appropriate vouchers.( **Income Tax Proclamation No. 286/2002 or 286/1994 EC** and its amendment **Income Tax (Amendment) Proclamation No. 608/2008 or 608/2001 EC** ).

### **2.6.2 Time of Declaration of Income and Payment of Taxes**

Category B taxpayers within 2 months from the taxpayers tax year Category C taxpayers shall pay the tax determined in accordance with standard assessment on the 8th of July (1st of Hamle) to the 6th of August (30th of Hamle) every year

- For example (as is the case usually), if a taxpayer follows the fiscal year, the one-year period from 1st of Hamle to 30th of Sene (8th of July to 7th of July), the income has to be declared and paid till 5th of Pagume (or 6th of Pagume during a

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Leap year according to the Ethiopian calendar (that is 10th of September or 11th of September during a Leap year according to the Ethiopian calendar). Income Tax Proclamation No. **286/2002 or 286/1994 EC** and its amendment Income Tax (Amendment) Proclamation No. **608/2008 or 608/2001 EC**.

## **2.7. Obligations of the taxpayer:**

### **2.7.1. Tax Evasion**

A person who evades the declaration or payment of tax, commits an offence and in addition to any penalty may be prosecuted and be subject to a term of imprisonment of not less than five (5) years. If any amount of tax is not paid by the due date, the person liable is obliged to pay interest on such amount for the period from the due date to the date the tax is paid. The interest rate is set at 25% over and above the highest commercial banks lending interest rate that prevailed during the preceding quarter.

A person who fails to file a timely return is liable for a penalty equal to 5% of the amount of tax underpayment for each month (or portion thereof) during which the failure continues, up to 25% of such amount. The penalty is limited to 50, 000 Birr for the first month in which no return.

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## 2.8 Dimension on tax fairness

However Gerbing (1988) developed a survey instrument which was designed to supply structure to the operational definition of tax fairness by identifying the various dimensions of tax fairness. According to Richardson (2006 b), five major underlying tax fairness dimensions were identified which included; general fairness and distribution of tax burden, exchange with government, attitude towards taxation of the wealthy, preferred tax rate structure and self interest

1. General fairness and distribution of the tax burden; this seeks to explain the overall fairness of the tax system and the distribution of the tax burden
2. Exchange with government; this dimension deals with the benefits received from government in exchange for the income taxes paid.

In the context of the income taxation, individuals may focus on evaluating the fairness of tax burdens in terms of the amount of taxes they pay relative to benefits they receive from government (Kinsey et al, 1991). If society does not offer enough (tax funded) resources compared to the amount of tax one must pay, this may lead to feelings of exchange inequity (Peter & Dijke, 2007).

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Taxpayers may not agree with the government's spending policies, or if they perceive that they are not obtaining a fair exchange from the government for their tax payments, then they are distressed, and report less income than taxpayers who perceive equity in their exchange with the government (Chung, 2002).

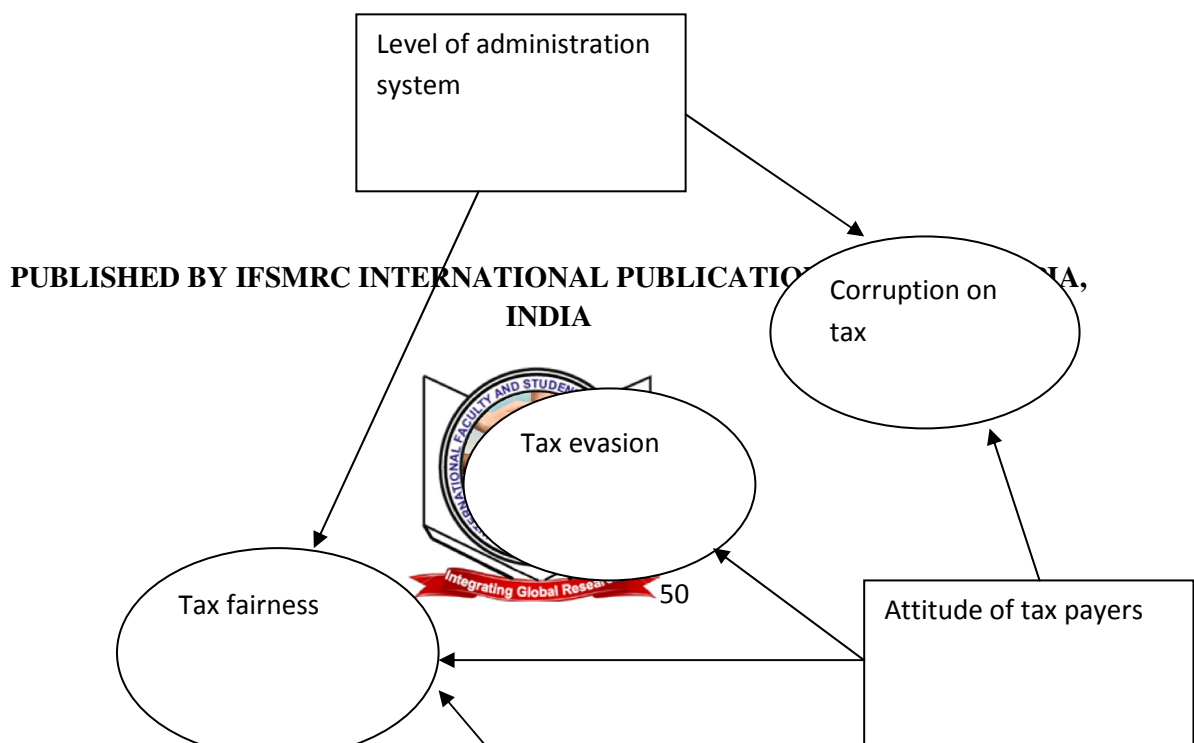
3. Attitudes towards taxation of the wealthy; this dimension deals with wealthy taxpayers not paying their fair share of income taxes and the existence of special provisions and deductions that are only available to the rich.
4. Preferred tax rate structure; this dimension deals with the favored tax rate structure (i.e. progressive tax rate structure Vs flat/proportional tax rate structure).  
The fairness of alternative tax rate structures can be viewed from at least three perspectives. First, there is the belief that higher-income taxpayers should have higher tax liabilities than lower-income taxpayers, *ceteris paribus*. Second, there is the effect of tax rates on a given person's tax liability as his or her income increases or decreases. Third, there is the perspective of self *via-a-vis* others.
5. Self interest; this dimension deals with the amount of tax the individual personally pays is too high generally and in comparison with others. Self-interest assumes that individuals maximize their expected utility by reporting on income that balances the benefits of successful evasion against the consequences of detection

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(Roth, Scholz & Witten, 1989) Richardson (2006)b, found that all the five constructs existed, though more significance was aligned to general fairness, tax rate structure and exchange with the government.

## 2.9. Analytical Framework



Source: - Author designed, 2014

Fig -1 Analytical framework

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## Chapter three: Research Methodology

### 3. Introduction

This chapter describes research design and methodology which was used in this study. First section describes research design and second section describes survey method used in the study including data collection, survey method, sampling procedure, questionnaires.

#### 3.1. Research approach

There are three major research approaches in any academic research. These approaches are qualitative research approach, quantitative research approach and mixed approach.

At the conduct of the research, researcher has to take in to consideration what research philosophy or knowledge claim they have to undertake.

Consequently, the researcher shows the reader what ideal they have followed according to his view and which ideal suits his study best.

There are foremost ideal, interpretivism and positivism. Positivism ideals means with objectivity, which point toward social world properties that should not be inferred subjectivity but measured through objective methods.

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According to (Creswell, 2003), positivism can be a theoretical point of view that advocates the study of direct experience rather than external objective and physical reality. Interpretivism can be “a theoretical point of view that advocates the study of direct experience taken at face value, and one who sees behavior as determined by the phenomena of experience rather than by external, objective and physically describe reality.

The main goal of study is not only to collect efficient tax from tax payer but to enable fair tax from the selected sub city and researcher believe that it will give him best result, especially when it comes to finding answer to the research questions. A researcher has used mixed research approach for this study.

For the purpose of this study survey design is believed to be appropriate since survey design provides a quantitative or numeric description of trends and attitudes of a population by studying a sample data with the intention of statistically generalizing to the population under investigation (Creswell, 2003).

### **3.2 Data collection**

In this study both primary and secondary data were used. Primary data was collected from respondents using self administered questionnaire and in depth interview. The

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questionnaire was divided into four Parts with the intention of extracting information to address the research questions. The first part comprised questions pertaining to the samples respondents' demographic information.

The second part contained questions related to attitude of tax payers. The third part consisted of questions regarding educational level of tax payer and the last part consisting questions related with level of administration system.

This study has also used secondary data collected through the review of Hawassa city administration annual plan, and reports of menaharia, bahil adarashe and haike dare sub city revenue authority plan. From annual reports, published literature, journal, website and internet libraries.

### **3.2.1. Data processing and analysis**

The data so collected was edited, coded, and analyzed to identify the relationship between the independent and dependent variables. Analysis of the data collected was done using statistical package for social scientists (SPSS 20). Correlation coefficients were used to explain the strength and nature of the relationships, predictability and variability between the variables under study. Some qualitative data was analyzed using narrations.

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### **3.2.2. Instruments of collecting data**

This study used structured and self administered questionnaires and interview. The questionnaires were prepared in both English language and Amharic language to non-English speakers of respondents. The instrument was given to 270 tax payers and 20 tax authority employees who participating in giving relevant information of the questions using a 5-point likert scale of strongly agree to strongly disagree and depth interview.

### **3.3 Research design**

This study used a cross sectional survey design and considered both descriptive and analytical aspects. The descriptive survey was used to assess the relationship between fairness of taxation and attitude of tax payers.

The analytical aspect was used to assess relationship between fairness of taxation and level of administration system of tax authority and to assess relationship between tax fairness and educational level of tax payers and also assessing relationship between of fairness of taxation attitude of tax payers.

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### 3.4 Study of population

This study used population of category “B” tax payers in three sub city in Hawassa city administration. There are around 830 category “B” tax payers in these three sub cities and 21 employees of the authority consists the population of the study.

#### 3.4.1 Sampling and sample design

##### 3.4.1.1. Sample size

This study used 270 samples of category “B” tax payers from the total population of 830 in three sub cities and 20 tax authority employees from the total population of 21. It used systematic sampling technique and the sample size was calculated by the formula of finite population sample formula. (Given by Jaro, 1989):

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

Where

n –sample size

N –population, e -permitted error

$$n = \frac{830}{1+830(0.05)^2} = \frac{830}{1+830(0.0025)}$$

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$$= \frac{830}{1+2.075} = \frac{830}{3.075} = \underline{270}$$

$$n = \frac{21}{1+21(0.05)^2} = \frac{21}{1+21(0.0025)} = \frac{21}{1.0525} = \underline{20}$$

### 3.4.2 Survey area

Hawassa town is located in southern part of Ethiopia, Southern Nations, Nationalities and Peoples Regional State, in Sidama Zone at a distance of 275 km from Addis Ababa.

Hawassa city is divided in to Eight (8) sub cities and Each sub cities is divided in to 32 Kebeles, These Eight sub cities are Hayek Dare, Menehariya, Tabore, Misrak, Bahile Adarash ,Addis Ketema, Hawela Tula and Mehal sub city.

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### 3.4.2.4 Organizational structure of tax authority

The organizational structure of the authority is depicted in the following diagram.

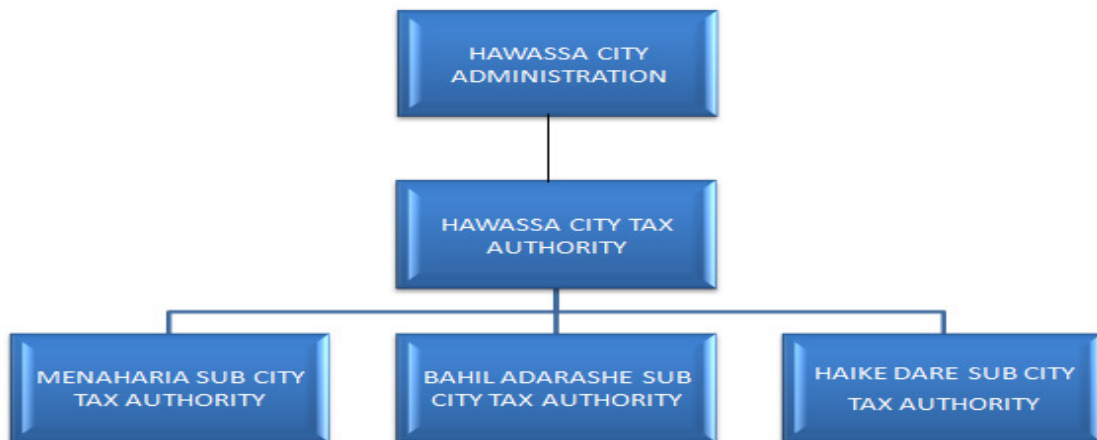


Fig -2: chart of organizational structure

Three sub cities out of nine were selected based on the density of ‘B’ category taxpayers. Business whose taxable income is objectively determined based on source documents or according to their capacity (Income Tax Regulation No. 78/2002), were included in the sampling frame and considered for this study.

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## Chapter Four: Discussion, Result and Analysis of finding

### Introduction

This chapter contains discussion and analysis of finding of the study. It presents the findings related with the study objectives, which includes the assessment of the relationship between tax fairness and attitudes of tax payers, tax fairness and educational level of tax payers and fairness of taxation and level of administration system.

### 4.1. Discussion and result of survey

#### 4.1.1. Category of respondents

Table4. 1: types of business activity

		Frequency	Percent
Valid	Service	77	28.5

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Trade	184	68.1
Manufacturing	7	2.6
Others*	2	.7
Total	270	100.0

Source-data from survey \* others like

The respondents were categorized into four activities namely: trade, service, manufacturing and others. As given in table 4. 1 above, the survey indicates that 68.1 percent from total respondent and 28.5 percent from total respondent are engaged trade and services respectively. 2.6 percent and 0.7 percent are manufacturing and others activities respectively. This implies that almost majority of “B” categories of tax payers are involved in trading activity.

Table 4.2 position within organization

		Frequency	Percent
Valid	Owner	171	63.3
	Manager	58	21.5

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	Accountant	41	15.2
	Total	270	100.0

Source-From survey data

The respondents' positions within organization was categorized into three categories namely owners, managers and accountants of the enterprises. As given in table 4.2 above, the owner respondents represent 63.3 percent of the total respondents. This implies that almost majority of respondent are owner of business, this helped the researcher to get feeling of tax payers because they know about their income capacity and the experience between unfair tax and fair tax.

**Table 4.3 Sex of respondent**

		Frequency	Percent
Valid	Male	150	55.6
	Female	120	44.4
	Total	270	100.0

Source-From survey data

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Above table 4.3: shows that the male respondents accounted for 55.6% while the females accounted for 44.4%. Category “B” tax payer’s enterprises are dominantly owned by male businessmen. However, it implies a marginal difference between men and women in their level of involvement in doing business

1. **Table 4.4-** For how long has this business been in existences?

		Frequency	Percent
Variable	1-3 years	67	24.8
	3-6 years	56	20.7
	6-9 years	106	39.3
	10 years and above	41	15.2
	Total	270	100.0

Source: - From survey data.

As shown above table 4.4. 39.3 percent and 15.2 percent of businesses were existed more than year 6 and 24.8 percent, 20.7 percent and 15.2 percent existed 1-3 years and 3-6 years respectively. So, almost majority of the responded taxpayer businesses operated 6 years and above. Hence, have good experience on tax system of the country.

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#### 4.1.1. Educational level of tax payers

#### 4.5 (a) variables of educational level of tax payers

VARIABLE	RESPONSE	FREQUENCY	PERCENTAGE	Mean
Educational level	Primary	36	13.3	
	Secondary	67	24.8	
	Certificate	21	7.8	
	Diploma	89	33	
	Degree	46	17	
	Masters	11	4.1	
	<b>Total</b>	<b>270</b>	<b>100.0</b>	<b>3.27</b>

As literatures and empirical studies stated in this paper indicates there exists direct relationship between taxpayers educational level with fairness of taxation.

As shown in to table 4.5, with respect to educational levels of the taxpayers of sample respondents in the city, different questions were asked. One of the questions inquired about educational background of taxpayers'. Survey responses shows that 33 percent and 24.8 percent of respondent were diploma holders and secondary school completed. While

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17, 13.3, 7.8, and 4.1 percent were degree, primary schools, certificate and Masters Degree holders respectively.

This implies that almost majority of the respondents are well educated. Hence, they may have a potential to identify the tax system, knowledge to compute income, relying with the tax laws. This also shows that most of the respondents are able to understand simplified tax information and raise tax queries to the tax authority.

**Table 4.5 (b) variables of educational level of tax payers**

VARIABLE	RESPONSE	FREQUENCY	PERCENTAGE	Mean
<b>Attempts to avoid income tax</b>	Strongly agree	37	13.7	
	Agree	110	41.5	
	Neutral	29	10.7	
	Disagree	62	23.0	
	Strongly disagree	31	11.5	
	<b>Total</b>		<b>270</b>	<b>100</b>
<b>I don't have sufficient knowledge to calculate</b>	Strongly agree	13	4.8	
	Agree	85	31.5	
	Neutral	40	14.8	

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<b>income tax</b>	Disagree	92	34.1	
	Strongly disagree	40	14.8	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.23</b>
<b>I pay proportional tax with my income</b>	<b>Strongly agree</b>	<b>30</b>	<b>11.1</b>	
	<b>Agree</b>	<b>66</b>	<b>24.4</b>	
	<b>Neutral</b>	<b>23</b>	<b>8.5</b>	
	<b>Disagree</b>	<b>104</b>	<b>38.5</b>	
	<b>Strongly Disagree</b>	<b>47</b>	<b>17.5</b>	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.27</b>
<b>All taxpayers have a knowledge to calculate income tax</b>	Strongly agree	5	1.9	
	Agree	31	11.5	
	Neutral	72	26.7	
	Disagree	97	35.9	
	Strongly disagree	65	24.1	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.7</b>

Regarding tax avoidance responses indicate that 41.5 percent and 13.5 percent were agree and strongly agree in attempt to avoid income tax liability respectively. This implies that from the total respondent 55 percent were avoiding income taxes and that affects fairness of taxation. Further, the survey indicates that almost more than half of respondent have

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efficient knowledge to compute income tax. This implies that they know the way how to compute tax return as per the tax rules and regulation of Ethiopia.

The survey justifies that 38.5 percent and 17.5 percent disagree and strongly disagree respectively that tax amount paid to tax authority is not in proportion with their income. This implies that, majority tax payers perceive that the amount they pay as income tax to tax authority was not justified with their income.

When respondents are asked their knowledge about rules and regulation related to income tax 52.6 percent agree and 21.1 percent strongly agree that they know the rules and regulation related to income tax. This implies that majority of respondents understand about the taxation system.

**Table 4.5 (c) variables of educational level of tax payers**

VARIABLE	RESPONSE	FREQUENCY	PERCENTAGE	Mean
<b>I tried to read and understand the rule and regulation related with income tax</b>	Strongly agree	42	21.1	
	Agree	104	52.6	
	Neutral	46	12.2	
	Disagree	55	11	
	Strongly disagree	23	3.0	

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	<b>Total</b>	<b>270</b>	<b>100</b>	<b>2.7</b>
<b>I uses experts to compute income taxes</b>	Strongly agree	<b>36</b>	<b>13.0</b>	
	Agree	<b>61</b>	<b>20.7</b>	
	Neutral	<b>39</b>	<b>13.7</b>	
	Disagree	<b>107</b>	<b>42.2</b>	
	Strongly disagree	<b>27</b>	<b>10.4</b>	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.16</b>

Source-From survey data

Regarding Understanding of rules and regulation, the survey revealed that about 12 percent of the respondent replied neutral while 11 percent replied as very disagree. Nearly 3.0 percent of respondents indicated as strongly disagree respectively. In line with this finding Jonas (2003) stated that knowledge combined with tax information strengthens the tax payers attempt to avoid tax liability.

#### 4.1.2 Attitude of tax payers

Table 4.6 (a) variables of attitudes of tax payers

VARIABLE	RESPONSE	FREQUENCY	PERCENTAGE	Mean
Is the income tax system is fair	Strongly fair	39	14.4	
	Fair	74	27.4	
	Neutral	21	7.8	

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	Unfair	95	35.2	
	Strongly unfair	41	15.2	3.0926
	<b>Total</b>	<b>270</b>	<b>100.0</b>	<b>3.27</b>
<b>Do you believe the tax rate is fair</b>	Strongly fair	16	5.9	
	Fair	82	30.4	
	Neutral	29	10.7	
	unfair	115	42.6	
	Strongly unfair	28	10.4	
	<b>Total</b>	<b>270</b>	<b>100.0</b>	<b>3.21</b>
<b>The other tax payers pay fair tax?</b>	Strongly fair	17	6.3	
	Fair	60	22.2	
	Neutral	58	21.5	
	Unfair	111	41.1	
	Strongly unfair	24	8.9	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.24</b>
Tax authority gives the same answer to all tax payers	Strongly fair	23	8.5	
	Fair	75	27.5	
	Neutral	31	11.5	
	Unfair	99	36.5	
	Strongly unfair	42	15.6	

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	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.23</b>
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From the above Table 4.6 it is evident that the majority of the respondents (50.4 percent) rated the tax system is not fair. This can be cited as the root cause for all the problems of unfair tax system. This clearly shows that the available tax system by itself is not effectively providing service for the tax payer without discrimination. What can be established here is that, perceptions towards taxation as a whole whether perceived as fair or unfair, has strong impact on total effective tax collections.

A high score on this scale indicates that the tax system is unfair while a low score indicate a fair tax system. 50.4 percent who had a negative perception, this agrees with the findings of Edmiston (2003) who argued that the presumptive income tax system provided increased inequitable tax liability among tax payers; Thus, an overall effect on performance of different business enterprises. Reinikka and collier (2003) had similar findings of negative perception that the tax effect reduces the amount of internally generated funds for further investment and return on private capital. Taxpayers' attitude towards taxation is crucial for any tax system's success towards compliance.

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Specifically with respect to the tax rates, the survey outcomes revealed that about 42.6 percent, 30.4 percent, 10.7 percent, 10.4 percent, 7.2 percent and 5.9 percent of respondent indicated that the tax rates as perceive strongly fair, fair, neutral, unfair and strongly unfair, respectively. Further the table above reports that 52.1 percent respondents replied the authority doesn't give fair answer on legal issues asked, hence leading tax payer's to perceive negatively that affect tax fairness.

Table 4.6 (b) variables of attitudes of tax payers

VARIABLE	RESPONSE	FREQUENCY	PERCENTAGE	Mean
Income tax burden is similar to all tax payers	Strongly agree	14	5.2	
	Agree	48	17.8	
	Neutral	34	12.6	
	Disagree	138	51.1	
	Strongly Disagree	36	13.3	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.5</b>
I pay fair income tax with proportion to my income	Strongly agree	25	9.3	
	Agree	23	23.0	
	Neutral	39	14.4	
	Disagree	110	40.7	
	Strongly disagree	34	12.6	

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	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.24</b>
<b>Tax authority collects tax for social development</b>	Strongly agree	<b>28</b>	<b>10.4</b>	
	Agree	<b>70</b>	<b>25.9</b>	
	Neutral	<b>57</b>	<b>21.1</b>	
	Disagree	<b>96</b>	<b>35.6</b>	
	Strongly disagree	<b>19</b>	<b>37.0</b>	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.03</b>
I pay fair income tax compare with other tax payer.	Strongly agree	<b>25</b>	<b>9.3</b>	
	Agree	<b>62</b>	<b>23.0</b>	
	Neutral	<b>39</b>	<b>14.4</b>	
	Disagree	<b>110</b>	<b>40.7</b>	
	Strongly disagree	<b>34</b>	<b>12.6</b>	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.24</b>
I got balanced development compare with tax that I pay	<b>Strongly agree</b>	<b>30</b>	<b>11.1</b>	
	<b>Agree</b>	<b>75</b>	<b>27.8</b>	
	<b>Neutral</b>	<b>48</b>	<b>17.8</b>	
	<b>Disagree</b>	<b>74</b>	<b>27.4</b>	
	<b>Strongly disagree</b>	<b>43</b>	<b>15.9</b>	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.1</b>

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High income earner pay high income compare with low income earner	<b>Strongly agree</b>	<b>29</b>	<b>10.7</b>	
	<b>Agree</b>	<b>57</b>	<b>21.1</b>	
	<b>Neutral</b>	<b>48</b>	<b>17.8</b>	
	<b>Disagree</b>	<b>86</b>	<b>31.9</b>	
	<b>Strongly disagree</b>	<b>50</b>	<b>18.5</b>	
	<b>Total</b>	<b>270</b>	<b>100</b>	<b>3.2630</b>

Taxpayers' attitude towards taxation is crucial for any tax system's success toward compliance. Perceptions of taxpayers' compliance are influenced by the many variables such as education, age, gender, norms, self interest, complexity, fairness, audit rate, tax rate, peer reporting and tax administration. These variables can provide critical judgments to develop methods to increase compliance. Tax fairness is one of the variables that have attracted researchers to discover the extent the variable in fostering noncompliant behavior Wenzel (2007). Special interest is taken to relate the importance of tax fairness as a construct under attitudes and perceptions towards tax compliance.

Moreover, when respondents were asked about how you do think about other tax payers about the payments of fair tax, 53.3 percent said that majority of tax payers were not paying fair tax compared with each other, Because, those who are within the same

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income level pays different amount of tax. This implies that there exists unfair application of taxation system

According to the above table 4.6, those respondents who have said that high income earner were not paying the income tax based on their ability to pay.31.9 percent and 18.5 percent responded disagreed and strongly disagreed respectively.21.1 percent and 10.7 percent of the respondent agree and strongly agree and the remaining17.8 percent were neither fair nor unfair i.e. neutral respectively. This implies that almost half of tax payers did not perceive that tax payer not see availability the system of the ability of taxation. On question in support of this issue, the respondents were asked to rank the major problems in the tax system and they responded accordingly.

**4.1.3 Level of administration system**

**4.7 Gender of tax authority employees**

		Frequency	Percent	Cumulative Percent
Valid	Male	10	50	50.0

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	Female	10	50	100.0
Missing		0	0	
Total		20	100.0	

Source-From survey data

The third part of study was conducted on 20 employees of tax authority from three sub cities of Hawassa city administration. From them 50 percent of were female and the rest 50 percent male. From the total three were coordinators and remaining 17 were officers. The table 4.8 below shows, their education level, 25 percent of them diploma holders and 75 percent are degree holders. This implies that majority of respondent are degree holder and half of respondent are female.

#### 4.8. Educational level of tax authority employees

	Frequency	Percent	Commutative
Certificate	-	-	-
Diploma	5	25	25
Degree	15	75	100
Masters	-	-	-
Total	20	100	100

Source: survey data

Table 4.9 The respondents work experience in the tax authority.

Years	Number of respondent	Percentage

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Less than one year	3	15
1-3 years	5	25
4-6 years	12	60
Total	20	100

Source-From survey data

Out of the respondents 15 percent were having experiences less than one year, 25 percent having experiences 1-3 years and the remaining 60 percent were having experiences between 4-6 years, this implies that majority of respondent are well educated and well experienced.

This was asked by leveling their answer from strongly agree to strongly disagree.

Table 4.10 variables of administration level

	ADL-1*	ADL-2	ADL-3	ADL-5
N Valid	20	20	20	20
Missing	0	0	0	0
Mean	1.2500	2.6500	3.5000	2.9500
Median	1.0000	2.0000	4.0000	3.0000

Source-From survey data\_

\*see appendices B for symbols used

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Above table 4.10 shows that, Majority of respondent strongly agree about disclosure of full information to tax payers; they also disagree that penalize tax payers who do not act in accordance to tax rule and regulation. In addition to Majority of respondent disagree that they register all business man immediately as start their business.

Organize the tax payers' information in the modern data compiling system also disagrees. This implies that, the tax authority gives information but the tax payers are not registered as soon as they start their business, their file were not organized in the modern data compiling system and the tax payers who do not act in accordance's with tax law were not penalized.

Table 4.11 variables of administration level

	ADL-13*	ADL-6	ADL-7	ADL-8
N Valid	20	20	20	20
Missing	0	0	0	0
Mean	2.4500	2.7000	2.1000	2.6000
Median	2.0000	3.0000	2.0000	2.0000

Source-From survey data \*see appendices B for symbols used

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Based on the descriptive result table 4.10 shows that, the respondents agree on the point, enforcing the tax payers to submit their profit and loss statement but on the points, penalizing the employees, who do not work in accordance with the law, the difficult and complex of the tax system and penalize the tax payers who are engaged in tax evasion. This implies that, even if tax system is not difficult and complex to implement, the tax authority employees do not strictly follow the tax rules and regulation and the tax authority does not take measure on employees who do not obey the tax law and on those tax payers who evade tax.

**Table 4.12 . Level of administration systems.**

	ADL-9*	ADL-10	ADL-11	ADL-12	ADL-14
N Valid	20	20	20	20	20
Missing	0	0	0	0	0
Mean	3.3000	3.3000	1.9500	1.9500	1.5000
Median	3.0000	3.5000	2.0000	2.0000	1.0000

Source-From survey data \*see appendices B for symbols used

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The above table shows that, the respondents agreed that fair taxation is useful for societal development, the tax system and income tax procedure helps for fair tax collection and the give training to the tax payers about tax law and regulation. But, they disagree on the point equall penalty to all tax payers who do not follow the tax rule and regulation, the collection of fair tax from all tax payers; the employees have no intensity to rent seeking and tax payers to use the cash register machine. This implies that the tax authority knows about the tax law and regulation but they do not practice it.

## 4.2 CORRELATION ANALYSIS

Correlation analysis is conducted to identify the relationship between tax fairness with attitude of tax payers’, educational level of tax payers and level of administration as dependent variable and the independent variables. The outputs of correlation are showed below in Tables 4.13.

### 4.2.1 Correlation analysis of educational level of tax payers’

Table 4.13 Correlation of educational level of tax payers’

<b>Correlations -1</b>						
	<b>EL-1*</b>	<b>EL-2</b>	<b>EL-3</b>	<b>EL-4</b>	<b>EL-5</b>	<b>EL-6</b>

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<b>Educational level</b>	<b>Pearson Correlation</b>	<b>1</b>	<b>.150*</b>	<b>-.040</b>	<b>.114</b>	<b>.081</b>	<b>.052</b>
	<b>Sig. (2-tailed)</b>		<b>.014</b>	<b>.517</b>	<b>.060</b>	<b>.187</b>	<b>.391</b>
	<b>Sum of Squares and Cross-products</b>	<b>562.167</b>	<b>65.611</b>	<b>-17.889</b>	<b>55.333</b>	<b>31.333</b>	<b>23.889</b>
	<b>Covariance</b>	<b>2.090</b>	<b>.244</b>	<b>-.067</b>	<b>.206</b>	<b>.116</b>	<b>.089</b>
	<b>N</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
<b>I attempt to avoid income tax</b>	<b>Pearson Correlation</b>	<b>.150*</b>	<b>1</b>	<b>-.119</b>	<b>.063</b>	<b>.062</b>	<b>.043</b>
	<b>Sig. (2-tailed)</b>	<b>.014</b>		<b>.052</b>	<b>.305</b>	<b>.307</b>	<b>.477</b>
	<b>Sum of Squares and Cross-products</b>	<b>65.611</b>	<b>341.441</b>	<b>-41.726</b>	<b>23.622</b>	<b>18.889</b>	<b>15.459</b>
	<b>Covariance</b>	<b>.244</b>	<b>1.269</b>	<b>-.155</b>	<b>.088</b>	<b>.070</b>	<b>.057</b>
	<b>N</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
<b>I don't have sufficient knowledge to calculate income tax</b>	<b>Pearson Correlation</b>	<b>-.040</b>	<b>-.119</b>	<b>1</b>	<b>.226**</b>	<b>.093</b>	<b>-.032</b>
	<b>Sig. (2-tailed)</b>	<b>.517</b>	<b>.052</b>		<b>.000</b>	<b>.129</b>	<b>.596</b>
	<b>Sum of Squares and Cross-</b>	<b>-17.889</b>	<b>-41.726</b>	<b>362.607</b>	<b>87.622</b>	<b>28.889</b>	<b>-11.874</b>

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	<b>products</b>						
	<b>Covariance</b>	<b>-.067</b>	<b>-.155</b>	<b>1.348</b>	<b>.326</b>	<b>.107</b>	<b>-.044</b>
	<b>N</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
<b>I use expert to compute income tax</b>	<b>Pearson Correlation</b>	<b>.114</b>	<b>.063</b>	<b>.226**</b>	<b>1</b>	<b>.005</b>	<b>.044</b>
	<b>Sig. (2-tailed)</b>	<b>.060</b>	<b>.305</b>	<b>.000</b>		<b>.935</b>	<b>.473</b>
	<b>Sum of Squares and Cross-products</b>	<b>55.333</b>	<b>23.622</b>	<b>87.622</b>	<b>415.467</b>	<b>1.667</b>	<b>17.178</b>
	<b>Covariance</b>	<b>.206</b>	<b>.088</b>	<b>.326</b>	<b>1.544</b>	<b>.006</b>	<b>.064</b>
	<b>N</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
<b>I have knowledge about explanatory that given from Ethiopia revenue and custom authority guided book, journal, magazine and other similar explanatory material.</b>	<b>Pearson Correlation</b>	<b>.081</b>	<b>.062</b>	<b>.093</b>	<b>.005</b>	<b>1</b>	<b>.276**</b>
	<b>Sig. (2-tailed)</b>	<b>.187</b>	<b>.307</b>	<b>.129</b>	<b>.935</b>		<b>.000</b>
	<b>Sum of Squares and Cross-products</b>	<b>31.333</b>	<b>18.889</b>	<b>28.889</b>	<b>1.667</b>	<b>268.667</b>	<b>87.111</b>
	<b>Covariance</b>	<b>.116</b>	<b>.070</b>	<b>.107</b>	<b>.006</b>	<b>.999</b>	<b>.324</b>
	<b>N</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
<b>The rules and regulation</b>	<b>Pearson Correlation</b>	<b>.052</b>	<b>.043</b>	<b>-.032</b>	<b>.044</b>	<b>.276**</b>	<b>1</b>

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related to income tax are clear and understandable	Sig. (2-tailed)	.391	.477	.596	.473	.000	
	Sum of Squares and Cross-products	23.889	15.459	-11.874	17.178	87.111	369.941
	Covariance	.089	.057	-.044	.064	.324	1.375
	N	270	270	270	270	270	270
*. Correlation is significant at the 0.05 level (2-tailed).							
**. Correlation is significant at the 0.01 level (2-tailed).							

Source-From survey data \*see appendices B for symbols used

Table 4.13 above indicates that educational level of taxpayers is positively related to tax payers attempt to avoid income tax with a Pearson correlation coefficient of  $r = .150$  which is significant at 5 % significance level  $p < .05$  indicating genuine effect of taxpayers education on intensifying tax avoidance act. The well educated the tax payers the higher and enhanced will be know-how of tax rules and regulations, hence increased tendencies of avoiding tax liability.

The correlation analysis also reveals that there is a positive significant relationship between the education level of taxpayers and knowledge of how to compute the amount of tax liability. The higher education level helps that tax payers to understand rules and

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regulation related to income tax and enhance their knowledge how to compute income tax. Other attributes stated in the table are also positively related to education level of taxpayers except inability to compute tax liability. Hence we accept H<sub>1</sub> stating education level of taxpayers affects fairness of taxation.

#### 4.2.2 Correlation analysis of attitude of tax payers'

**Table 4.14 –attitude of tax payers**

		ATP-1*	ATP-2	ATP-3	ATP-4	ATP-5	ATP-6	ATP-7	ATP-8	ATP-9	ATP-10
Tax authority collects tax for social development	Pearson Correlation	1	.159**	.063	.390**	.152*	-.051	.172**	.250**	.169**	.098
	Sig. (2-tailed)		.009	.306	.000	.012	.405	.005	.000	.005	.107
	N	270	270	270	270	270	270	270	270	270	270
I pay fair income tax	Pearson Correlation	.159**	1	.385**	.369**	.263**	.025	.442**	.380**	.487**	.472**
	Sig. (2-tailed)	.009		.000	.000	.000	.685	.000	.000	.000	.000
	N	270	270	270	270	270	270	270	270	270	270
income tax burden is similar to all tax payers	Pearson Correlation	.063	.385**	1	.345**	.272**	-.150*	.405**	.164**	.397**	.312**
	Sig. (2-tailed)	.306	.000		.000	.000	.013	.000	.007	.000	.000
	N	270	270	270	270	270	270	270	270	270	270

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tax authority gives the same answer for all tax payers	Pearson Correlation	.390**	.369**	.345**	1	.270**	.034	.356**	.190**	.321**	.238**
	Sig. (2-tailed)	.000	.000	.000		.000	.580	.000	.002	.000	.000
	N	270	270	270	270	270	270	270	270	270	270
high income earner pay high income tax compare with low income earner	Pearson Correlation	.152*	.263**	.272**	.270**	1	-.063	.303**	.117	.393**	.145*
	Sig. (2-tailed)	.012	.000	.000	.000		.299	.000	.055	.000	.017
	N	270	270	270	270	270	270	270	270	270	270
Tax authority gives fair answer for all tax payers to their question	Pearson Correlation	.172**	.442**	.405**	.356**	.303**	-.088	1	.232**	.330**	.331**
	Sig. (2-tailed)	.005	.000	.000	.000	.000	.149		.000	.000	.000
	N	270	270	270	270	270	270	270	270	270	270
Do you believe that tax rate is fair	Pearson Correlation	.250**	.380**	.164**	.190**	.117	-.135*	.232**	1	.207**	.319**
	Sig. (2-tailed)	.000	.000	.007	.002	.055	.027	.000		.001	.000
	N	270	270	270	270	270	270	270	270	270	270
Is their income tax system is fair	Pearson Correlation	.169**	.487**	.397**	.321**	.393**	.052	.330**	.207**	1	.317**
	Sig. (2-tailed)	.005	.000	.000	.000	.000	.397	.000	.001		.000
	N	270	270	270	270	270	270	270	270	270	270
Is their other tax	Pearson Correlation	.098	.472**	.312**	.238**	.145*	.034	.331**	.319**	.317**	1

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payers pay fair tax	Sig. (2-tailed)	.107	.000	.000	.000	.017	.581	.000	.000	.000	
	N	270	270	270	270	270	270	270	270	270	270

Source-survey data \*see appendices B for symbols used

Based on the descriptive result, table 4.14 shows that, the attitudes of tax payers became positive when the tax authority gives the same answer to all tax payers on asked legal aspect. It is contrary to basic principle that they are expected to provide fair reply on questions regarding payment of tax on the principle of ability to pay rate of tax. so that tax payers perceive that the tax system is fair.

The correlation analysis as indicated in the table 4.13 above reveals that there is a positive relationship between attributes significant at 1 %. The positive relationship indicates that if the tax payers perceive the tax system to be fair, their levels of tax compliance will always be high if other factors are constant. Hence we fail to accept the hypothesis that attitudes of taxpayers do not affect fairness of taxation.

### 4.2.3 Correlation analysis of level of administration system

Table 4.15 levels of administration systems.

		ADL-1	ADL-2	ADL-3	ADL-4	ADL-5	ADL-6	ADL-7	ADL-8	ADL-9	ADL-10	ADL-11	ADL-12
we delivery full	Pearson	1	.376	-	.376	-	.141	-.053	.093	-	.505	.210	.819**

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information for tax payers	Correlation			.348		.296				.046	*		
	Sig. (2-tailed)		.102	.133	.102	.204	.553	.825	.696	.849	.023	.375	.000
	N	20	20	20	20	20	20	20	20	20	20	20	20
we penalize tax payers who do not act in accordance in tax law and regulation	Pearson Correlation	.376	1	.192	-.013	.213	.834*	.650*	.006	.516*	.602**	.269	-.063
	Sig. (2-tailed)	.102		.418	.955	.368	.000	.002	.982	.020	.005	.252	.793
	N	20	20	20	20	20	20	20	20	20	20	20	20
we register all business man immediately as start their business	Pearson Correlation	-.348	.192	1	.205	.221	.280	.394	-.312	.170	-.058	.201	-.378
	Sig. (2-tailed)	.133	.418		.385	.349	.232	.085	.180	.475	.808	.395	.100
	N	20	20	20	20	20	20	20	20	20	20	20	20
all business man pays their tax on accordance with income level	Pearson Correlation	.376	-.013	.205	1	-.379	-.180	-.091	-.168	-.407	.061	.385	.507*
	Sig. (2-tailed)	.102	.955	.385		.100	.447	.701	.479	.075	.797	.093	.022
	N	20	20	20	20	20	20	20	20	20	20	20	20
we organize the tax payers information in the modern data compiling	Pearson Correlation	-.296	.213	.221	-.379	1	.406	.475*	-.165	-.136	-.179	-.114	-.382
	Sig. (2-tailed)	.204	.368	.349	.100		.075	.034	.486	.567	.450	.633	.097
	N	20	20	20	20	20	20	20	20	20	20	20	20

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we enforce the tax payers to submit their profit and loss statements	Pearson Correlation	-.159	-.567*	-.024	-.002	-.059	-.577*	-.388	-.053	-.178	-.152	.168	-.085
	Sig. (2-tailed)	.504	.009	.921	.992	.805	.008	.091	.824	.454	.523	.478	.720
	N	20	20	20	20	20	20	20	20	20	20	20	20
our offices penalize our employees who do not work in accordance with the law	Pearson Correlation	.141	.834*	.280	-.180	.406	1	.918*	-.341	.314	.104	-.089	-.126
	Sig. (2-tailed)	.553	.000	.232	.447	.075		.000	.141	.177	.663	.710	.595
	N	20	20	20	20	20	20	20	20	20	20	20	20
our employees work in accordance with the tax law and regulation	Pearson Correlation	-.053	.650*	.394	-.091	.475*	.918*	1	-.635*	.159	-.173	-.157	-.180
	Sig. (2-tailed)	.825	.002	.085	.701	.034	.000		.003	.503	.467	.508	.449
	N	20	20	20	20	20	20	20	20	20	20	20	20
the tax system is difficult and complex to implement	Pearson Correlation	.498*	.179	-.509*	.087	-.255	-.060	-.173	.170	.083	.286	.304	.451*
	Sig. (2-tailed)	.025	.451	.022	.714	.278	.802	.466	.474	.728	.222	.193	.046
	N	20	20	20	20	20	20	20	20	20	20	20	20
our offices strictly penalize tax payers who engaged in tax evasion	Pearson Correlation	.093	.006	-.312	-.168	-.165	-.341	-.635*	1	.140	.607**	.343	-.185
	Sig. (2-tailed)	.696	.982	.180	.479	.486	.141	.003		.557	.005	.139	.435
	N	20	20	20	20	20	20	20	20	20	20	20	20

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	N	20	20	20	20	20	20	20	20	20	20	20	20
our offices equally penalize taxpayers who do not follow tax rule	Pearson Correlation	-.046	.516*	.170	-.407	-.136	.314	.159	.140	1	.535*	.045	-.357
	Sig. (2-tailed)	.849	.020	.475	.075	.567	.177	.503	.557		.015	.851	.123
	N	20	20	20	20	20	20	20	20	20	20	20	20
our offices collect income tax from all taxpayers fairly	Pearson Correlation	.505*	.602*	-.058	.061	-.179	.104	-.173	.607*	.535*	1	.562**	.014
	Sig. (2-tailed)	.023	.005	.808	.797	.450	.663	.467	.005	.015		.010	.954
	N	20	20	20	20	20	20	20	20	20	20	20	20
our employees do not hate rent seeking	Pearson Correlation	.210	.269	.201	.385	-.114	-.089	-.157	.343	.045	.562**	1	-.025
	Sig. (2-tailed)	.375	.252	.395	.093	.633	.710	.508	.139	.851	.010		.918
	N	20	20	20	20	20	20	20	20	20	20	20	20
the tax system and the income tax procedure helps for fair tax collection	Pearson Correlation	.819**	-.063	-.378	.507*	-.382	-.126	-.180	-.185	-.357	.014	-.025	1
	Sig. (2-tailed)	.000	.793	.100	.022	.097	.595	.449	.435	.123	.954	.918	
	N	20	20	20	20	20	20	20	20	20	20	20	20

Source- from data survey \*see appendices B for symbols used

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The above table shows that, strong administration level leads to delivering full information and penalizing the tax payers' who do not act in accordance with the tax rules and regulation. In addition to this, strong administration level enhances business society to pay income tax in accordance their income level and the office penalize employees who do not work in accordance with tax law. Administration level is positively related to the authority strictly penalize tax payers who are engaged in tax evasion and the offices collect income tax fairly from all tax payers . The positive relationship means that making the tax system fair and government using tax revenues for socially desirable purposes while detecting and penalizing non compliant tax payers, makes tax payers fully give all needed information during tax registration.

Weak administration level results in no to organize tax payers' information in modern data compiling system and the registration of all tax payers' immediately the start their business did not became effective. More over the authority did not equally penalize the tax payers who do not act in accordance with the tax rules and regulation. This implies that weak administration level resulted discrimination between tax payers due to rent seeking (i.e. corruption among tax authority employees).

The results from the interviews indicated that, the government spending collected tax revenues whereas the majority of the interviewed income taxpayers signal their

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disappointment and discomfort concerning this issue only satisfied few. These participants firmly believed that tax revenues were not properly spent in desired areas, such as infrastructure, health, education and instead wasted on government bureaucracy. Participants who had experience running the same business, such that small business operators not treated fairly relative to the big companies, who were entitled to various tax breaks.

The participants theoretically agreed this idea of progressive tax rates when they claimed that it is fair to impose higher tax rates on high-income earners rather than low-income earners. However, the implementation of the progressive tax rate under the current income tax system appeared to be unsuccessful. The result of the interviews data indicate, vertical fairness was not accurately maintained in the tax system because; higher incomes earners were not sufficiently taxed. Hence we fail to accept the hypothesis stating that the level of administration does not affect fairness of taxation.

Based on the above analysis, it is clear to say that tax evasion is related with the perception of tax payers' i.e. The tax payers perceive negatively the increase in tax and their tendency to evade tax increase and as tax payers level of education increase their know-how tax rules and regulation increases, this leads tax payers to avoid their income

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tax. Tax avoidance refers to an attempt to reduce tax payments by legal means, for instance by exploiting tax-loopholes, the administration system of tax authority is weak, the tax officers showing tendencies toward corruption.

## **Chapter Five: Conclusion and Recommendation**

### **5.1. Conclusion**

The conclusion drawn based on major findings is discussed as follows. The studies cover three main parts. The first part describe about education level of tax payers in relation to the attempt of avoiding income tax, the tax payers know-how about tax rules and regulation, the taxpayers tendencies to use the knowledge of expert and the tax payers ability to clearly understand the tax rules and regulation. From this the study conclude

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that as education level of tax payers' increase the tendencies of the tax payers to avoid the income tax increase i.e. Educational level and tax avoidance have the positive relationship( educational level and tax avoidance are related positively and significant at 5%. More specifically the education level shows that the tax payers' knowledge to calculate their income tax and their ability to discover the gap on the tax rules and regulation leads them to use these gaps in the negative ways by increasing their expenses and by not using invoices. Also the study concludes that the tax payer attitude is negatively perceived towards the affect of fairness of taxation.

In the second part about the attitudes of tax payers in relation to their perception on the payment of fair income tax, income tax burden is similar to all tax payers' tax, payers' perceive positively on income tax. The tax authority gives the same answer to all tax payers on asked questions legal aspect also tax payers' perceive positively on income tax. a tax payers perceive that high income earner pays high income tax i.e. income tax pays on their ability to pay leads tax payers' attitude toward pays fair tax. Tax authority to give fair answer to their question asked on legal aspect and the tax rate is fair helps toward fair taxation. On other hand when other tax payers' engaged on evasion income tax that affect fairness of taxation. From this, the study concludes that as the tax payers' attitude is perceives negatively that affect fairness of taxation. Taxpayers' will therefore assess the

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fairness in relation to what they receive from government compared to what they are charged as tax. This is supplemented by the assessment of the income tax system as compared to other tax payers, as well as the actual tax amount one pays and finally the tax rate structure i.e. preference for the flat or progressive structures.

Third part strong administration level enhances delivery of full information to tax payers and penalize tax payers who do not act according to tax rules and regulation related to income tax. In addition to strong administration level leads tax payers to pay their income based on ability to pay principle and penalize tax payers who engaged on tax evasion.

Compiling tax payers' information in modern data compiling system helps the tax authority to follow whether or not tax payers' or employees of tax authority act according with income tax rule and regulation.

From this the study conclude that the weaker level of administration the higher rent seeking that means the tax authority employees become rent seeker, they become corrupted, when the level of administration is weak.

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## 5.2 Recommendation

Researcher provides following recommendation on the basis of research work.

### 1. Giving training to tax payers and tax authority employees about taxation

- Training in any area is important. Giving training to the tax authority employees and the tax payers helps to create common and better understanding on the major points like, the legal aspects of taxation, how to organize their financial report and how can they work hand in hand for their common goal. And this training needs not to be a onetime activity, rather a continuous process.

### 2. All tax payers needs to use cash register machine

- It is a known fact that, if tax payers use the cash register machine, the actual income of the tax payers, which is to be taxed, can be is easily and accurately calculated. Using the cash register machine means properly and constantly using for those who start using and for tax payers who are not using need to start using.

### 3. Giving full information about impacts of fair taxation and using Medias to create awareness about what taxation is about on what their collected and used for.

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- Media plays important role in creating awareness. Delivering full, updated and accurate information to the tax payers and more generally to the public as a whole, about the impacts of fair taxation and the activities that the collected tax is used for, plays a vital role in creating and building the fairness of the taxation system in a good form.

#### **4. Giving fair answer to tax payers without any discrimination.**

- The tax payers always expect fair answers to the questions they ask. This does not only mean simply giving an answer to their questions but also this need to be done without discrimination and bias.

#### **5. Compiling tax payers' information in modern data compiling system**

- In today's information age, every activity and work become successful based on the information on hand. So, in order to effectively and efficiently manage the tax system, a modern data compiling system is essential for tax fairness.

#### **6. Equally penalizing those who engaged in tax evasion.**

- As tax evasion is a series matter to the tax authority, getting equal penalty is a series issue to the tax payers. In order to fairly implement the tax

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system the tax payers who engage in tax evasion need to be penalized equally.

## 7. Working together for a common goal

- The tax system in general is for the improvement and development of the country. In order to be able to attain the country`s developmental goal the stakeholders in this tax system should work jointly.

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## **APPENDECIES-A**

### **Taxpayers survey instrument**

**Hawassa University**

**School of management and accounting**

**Department of accounting and finance**

This study is entitled “factors affecting fairness of taxation” on “B” category tax payers in Hawassa city with in menharia ,bahil addarash and haike dare sub city. The investigator is Esay Solomon shina now Msc student in Hawassa university school of management and accounting.

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The aim of This study is to understand factors affecting fairness of taxation on “B” category tax payer and to understand the reason between imbalance Revenue generate capacity and actual collectable revenue within three sub city .To support the reliability of data obtained from in-depth interviews from selected “B” category tax payers and from officers of tax authority .the investigator strive to gather relevant information from selected tax payers and officers by self-administered Questionnaire based on their willingness full responsibility because of to give tangible answer for the Questionnaire.

The information provided is purely for academic purpose and will be with utmost confidential. In order to accomplish this study, you are kindly request to complete this questionnaire; your kind cooperation is highly appreciated.

For information please contact. Esay Solomon Phone number 0916042404

E-mail address: [143esaysolomon@gmail.com](mailto:143esaysolomon@gmail.com)

**Part A-Demographic factors (please tick in the appropriate box)**

2. Categories of respondent

Owner of business  manager  accountant

2. Gender Male  Female

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3. What is your highest level of education?

Primary  secondary  certificate  Diploma   
Degree & above

4. What is your main business activity?

Trade  manufacturing  service  other

If your answer is other, please

specify \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. For how long has this business been in existences?

1-3 years  4-6 years  7-9 years  10 years  
and above

4. Are you registered with revenue authority?

Yes  No

**Part –B Level of administration**

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Please respond by ticking only one answer based on how you feel.

**1. Strongly agree 2. Agree 3. neutral 4. Disagree 5. Strongly disagree**

		1	2	3	4	5
7	The tax authority disclose all necessary information to tax payers					
8	The tax authority penalized to those who do not obey the tax law					
9	Our offices equally penalize tax payers who do not follows tax regulations					
10	Your office use modern technology to compile the information about the tax payers					
11	The authority registers all tax payer as they start their business					
12	All tax payers use the cash register machine.					
13	Tax authorities require to submit their profit and loss statement					
14	We take corrective measure to those who use the gap of tax low					

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15	Our offices penalize our employees who do not work in accordance with the law					
16	Our employees work in accordance with the law					
17	There are problems in tax system itself					
18	Our offices strictly penalize tax payers who engaged in tax evasion					
19	Your organization penalty procedure is always properly followed					
20	Our employees do not hate rent seeking					
21	We educating tax payers and conducting awareness to ensure tax fairness					
22	The tax system and the income tax procedure helps for fair tax collection					
23	Do you believe the ensuring fair tax enable to welfare of society					
24	We offers to clarities the rules and regulation related income tax are clear and understandable to tax payers					

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25	Have you ever heard of other tax authority officer taken discipline measure					
26	Our offices collect income tax from all tax payers fairly					

**Part B-attitudes of tax payers**

Please respond by ticking only one answer based on how you feel.

1. Very fair 2. Fair 3. Neutral 4. Unfair 5. Very unfair

		1	2	3	4	5
27	Is their income tax system is fair					
28	Is their other tax payers pay fair tax					
29	Compared to other taxpayers, I don't pay less than my fair share of income taxes					

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30	Do you believe that tax rate is fair					
31	Do you believe that income tax have the same burden is distributed across to tax payers					
1. Strongly Agree   2. Agree   3. Neutral   4. Disagree   5. Strongly disagree						
32	Penalties are the most appropriate tool for improving tax fairness					
33	Compared to other taxpayers, I pay more than my fair share of income tax.					
34	It is fair that high income earners pay proportionately more tax than low income earners					
35	I got balanced development compare with tax that I pay					
36	Tax authority gives the same answer to all tax payers					

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37 Do you know why you pay tax  yes  
No

If your answer is yes, please specifies the reason-----  
-----

38 Do you think that tax you are paying is fair? Yes  No

If your answer is no, please specify the reason-----  
-----  
-----

39. Do you believe every equal status tax payers pays equal amount?

Yes  No

**Part C educational level of tax payers**

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Please respond by ticking only one answer based on how you feel.

1. Strongly agree 2. agree 3. neutral 4. disagree 5. strongly disagree

		1	2	3	4	5
36	I tried to read and understand the rule and regulation related with tax law					
37	The rules and regulation related to income tax are clear and understandable					
38	I attempt to avoid income tax					
39	I believe that income tax have the same burden is distributed across to tax payers					
40						
41	I uses experts to compute income taxes					
42	Do you think that taxpayers have at least average level of tax knowledge					

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43	I don't have sufficient knowledge to calculate income tax					
44	All tax payers have knowledge to calculate income tax					

43. Do you attempt to avoid tax?

Yes

No

Please specifies how to avoid-----

-----

-----

44. Why do you pay taxes?

To avoid disturbance

To anticipate public welfare

Don't know

State if any -----

-----

45. How often you take training on taxation?




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2-4 times

4-8 times

8 and above

46. Do you submit profit and losses statement to tax authority?

Yes

No

47. What is your opinion about the belief that high-income earners can easily evade tax with the help from tax consultants?

Yes

No

48. Do you think that taxpayers have at least average level of tax knowledge?

Yes

No

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## APPENDICES -B

### List of symbols used in Chapter Four

No	Abbreviation	Description
1	ADL-4	all business man pays their tax on accordance with income level
2	ATP -8	Do you believe that tax rate is fair
3	ATP -8	Do you believe that tax rate is fair
4	EL-1	Educational level
5	ATP -5	high income earner pay high income compare with low income earner
6	ATP -5	high income earner pay high income compare with low income earner
7	EL-4	I use expert to compute income tax
8	EL-2	I attempt to avoid income tax

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9	EL-3	I Don't have efficient knowledge to calculate income tax
		I have knowledge about explanatory that given from Ethiopia revenue and custom authority guided book, journal, magazine and other similar explanatory material.
10	EL-5	
11	ATP -2	I pay fair income tax
12	ATP -2	I pay fair income tax
13	ATP -6	I pay income tax on time
14	ADL-11	Our employees do not hates rent seeking
15	ATP -6	I pay income tax on time
16	ATP -3	income tax burden is similar to all tax payers
17	ATP -3	income tax burden is similar to all tax payers
18	ATP -9	Is their income tax system is fair
19	ATP -9	Is their income tax system is fair
20	ATP -10	Is their other tax payers pay fair tax
21	ATP -10	Is their other tax payers pay fair tax
22	ADL-8	our offices strictly penalize tax payers who engaged in tax evasion
23	ATP-1	Tax authority collects tax for social development
24	ATP-1	Tax authority collects tax for social development
25	ATP -7	Tax authority gives fair answer for all tax payers to their question
26	ATP -7	Tax authority gives fair answer for all tax payers to their question
27	ATP -4	tax authority gives the same answer for all tax payers
28	ATP -4	tax authority gives the same answer for all tax payers
		The rules and regulation related to income tax are clear and understandable
29	EL-6	the tax system and the income tax procedure helps for fair tax collection
30	ADL-12	

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- 31 ADL-1 we delivery full information for tax payers  
we organize the tax payers' information in the modern data  
32 ADL-5 compiling  
we penalize tax payers who do not act in accordance in tax law  
33 ADL-2 and regulation  
34 ADL-3 we register all business man immediately as start their business

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