



**ST. MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**DETERMINANTS OF TAX EVASION AT GULLELE SUB CITY**  
**SMALL TAX PAYERS CATEGORY "A" TAXPAYERS**

**BY**

**FIREW GEDEFA ADUGNA**

**SGS/0233/2013A**

**JUNE 2023**

**ADDIS ABABA, ETHIOPIA**

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CATEGORY “A” TAXPAYERS**

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**SGS/0233/2013A**

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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES,  
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SCHOOL OF GRADUATE STUDIES  
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TAXPAYERS**

**BY  
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**APPROVED BY BOARD OF EXAMINERS**

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## **DECLARATION**

I, the under signed, declare that this thesis entitled ‘Determinants of Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers, is my original work and to the best of my knowledge has not been presented for a degree by any other person, and that all the sources of material used for the thesis have been duly acknowledged.

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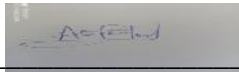
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## **STATEMENT OF CERTIFICATION**

This is to certify that the thesis carried out by Eden Akliluon the topic entitled “Determinants of Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers” is his original work and is suitable for submission for the award of Master of Art Degree in accounting and finance.

A rectangular box containing a handwritten signature in blue ink, which appears to be "Eden Akliluon".

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Date & Signature

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## **Acronyms**

|              |   |  |
|--------------|---|--|
| <b>GDP</b>   | = | Gross Domestic Product                       |
| <b>IMF</b>   | = | International Money Fund                     |
| <b>UNDP</b>  | = | United Nations Development Programme         |
| <b>MoFED</b> | = | Ministry of Finance and Economic Development |
| <b>VAT</b>   | = | Value Added Tax                              |
| <b>CFO</b>   | = | Chief Financial Officer                      |
| <b>ANOVA</b> | = | Analysis of Variance                         |
| <b>SPSS</b>  | = | Software Package for Social Science          |
| <b>VIF</b>   | = | Variance Inflation Factor                    |

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## **Abstract**

*The aim of this thesis was to depict the determinants of tax evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers level context. To attain the objectives of this study explanatory research design was used. By using non probability sampling techniques, 215 participants were involved in this research. Data was collected through questionnaire from a sample of 226 Gullele Sub City Small Tax Payers Category “A” Taxpayers district. The data collected from the questionnaire were analyzed using statistical tools such as mean, standard deviation, correlation, and multiple regression analysis. The results of this study indicate that, tax evasion (moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate) have positive and significant relationship with tax evasion. Additionally, the above-mentioned tax evasion significantly contributes 68.2% to tax evasion in Gullele Sub City Small Tax Payers Category “A” Taxpayers. Based on the findings of the study, the study concludes that the contribution of tax evasion practice was found to be significant effect. Therefore, it is possible to conclude that Gullele Sub City Small Tax Payers Category “A” Taxpayers is collapsing the tax evasion in to decreasing the existing tax evasion perception towards its actual implementation and to eliminate their tax evasion accordingly. The research also suggested that efforts to be made with regard to revising the perceived moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate engage in national campaign to raise awareness and increase education about the benefits of voluntary compliance, increase the percentage of audit coverage of taxpayers, penalize defaulters and “name and shame” them, simplify tax laws, close tax law loopholes, and train tax inspectors.*

**Keywords: Moral Obligation, Subjective Norms, Tax Knowledge, Tax Fairness, Tax Rate, and Tax Evasion**

# CHAPTER ONE

## INTRODUCTION

The aim of this chapter is to introduce the topic and provide adequate information about the research in order to enable readers to comprehend significance of the research question. It gives description of the problem that will address. In this section the researcher ought to discuss the nature of the research, the purpose of the research, significance of the research problem and the research questions to be addressed. In this chapter included background of the research, statement of problem, background of the organization, research questions, the research objectives to accomplish, hypotheses of the research, limitations, significances of research, scope of the study and organization of the study which present and introduces the basics of this study issues.

### 1.1 Background of the study

The issue of tax evasion has been a significant concern for governments worldwide for many years. In many countries, tax evasion is widespread, and it has been estimated that the global tax gap, which is the difference between the amount of tax owed and the amount of tax collected, is around \$427 billion annually (Levi, 2019). Tax evasion leads to a loss of revenue for governments, which can result in a reduction in public services or an increase in the tax burden on honest taxpayers. Thus, understanding the determinants of tax evasion is crucial for policymakers to design effective measures to combat tax evasion.

Previous research has been conducted on the determinants of tax evasion, and the findings suggest that several factors influence individuals' decision to evade taxes. One of the main factors is the level of tax morale or the extent to which taxpayers believe that paying taxes is their civic duty (Frey & Torgler, 2007). Other factors include the complexity of the tax system, the severity of penalties for tax evasion, the level of tax rates, the availability of opportunities to evade taxes, and the level of trust in government institutions (Alm & Torgler, 2011; Glaeser & Sacerdote, 2000).

International studies have been conducted to examine the determinants of tax evasion in different countries and regions. A study by Torgler and Schneider (2007) examined the determinants of tax evasion in 25 OECD countries. The study found that tax morale, tax complexity, and the

quality of institutions were significant determinants of tax evasion. Another study by Alm, Jackson, and McKee (1992) examined the determinants of tax evasion in the United States. The study found that income, tax rate, and perceived audit probability were significant determinants of tax evasion.

In recent years, several studies have been conducted to examine the determinants of tax evasion in African countries. A study by Kinyanjui and Oduor (2017) examined the determinants of tax evasion in Kenya. The study found that tax knowledge, tax rate, and perceived audit probability were significant determinants of tax evasion. Another study by Awasthi and Batabyal (2019) examined the determinants of tax evasion in South Africa. The study found that trust in government and perceived audit probability were significant determinants of tax evasion.

One study conducted by Kirchler, Hoelzl, and Wahl (2008) examined the determinants of tax compliance in Austria and found that tax morale, fairness perceptions, and trust in the government were significant determinants of tax compliance. Similarly, a study by Alm, Sanchez, and de Juan (1995) in Spain found that the probability of tax evasion was influenced by the level of tax morale, the size of the underground economy, and the severity of penalties for tax evasion.

Another study by Torgler and Schneider (2007) examined the determinants of tax compliance in Switzerland and found that trust in government institutions, perceived tax burden, and social norms were significant determinants of tax compliance. The study also found that taxpayers were more likely to comply with their tax obligations if they believed that others were complying with theirs.

In addition to these factors, recent research has also examined the role of technology in tax compliance. A study by Maruši and Krsnik (2018) found that the use of electronic invoicing and online payments increased tax compliance in Croatia. Similarly, a study by Purnama and Puspitasari (2020) in Indonesia found that electronic tax filing and payment systems increased tax compliance.

In conclusion, tax evasion is a global problem that leads to a loss of revenue for governments and undermines public trust in the fairness and integrity of the tax system. Previous research has identified several determinants of tax evasion, including tax morale, fairness perceptions, trust in

government institutions, complexity of the tax system, severity of penalties, tax rates, availability of opportunities to evade taxes, and social norms. Recent research has also examined the role of technology in tax compliance. Understanding these determinants is crucial for policymakers to design effective measures to combat tax evasion and increase tax compliance.

In Ethiopia, tax evasion is a significant problem that affects the government's ability to provide public goods and services. Several studies have been conducted to examine the determinants of tax evasion in Ethiopia. A study by Tadesse and Negash (2017) examined the determinants of tax evasion in Ethiopia. The study found that tax knowledge, perceived tax fairness, and perceived audit probability were significant determinants of tax evasion. Another study by Tadesse (2015) examined the determinants of tax evasion in Ethiopia. The study found that tax knowledge, tax rate, and perceived audit probability were significant determinants of tax evasion.

In conclusion, tax evasion is a significant problem that affects governments worldwide. Understanding the determinants of tax evasion is crucial to designing effective policies that can reduce this phenomenon. International studies, African studies, and Ethiopian studies have identified several determinants of tax evasion, including tax knowledge, tax rate, perceived audit probability, trust in government, tax complexity, tax morale, and quality of institutions. Therefore, policymakers should take into account these determinants when designing policies to reduce tax evasion.

Therefore, it is very important for every country to be aware of the causes for tax evasion since it is the only way to find a strategy for combatting it. The issue is extremely complex, but undoubtedly, it is an exercise, which all countries must undertake. It is important to point out that the causes vary from one country to another and even, within the same country through time and moments of its history. Thus, the aim of this study is to investigate the Determinants of Tax Evasion in Addis Ababa City Administration: The Case of Gullele Sub City Small Tax Payers Category "A" Taxpayers as a case. The results of the findings can help the management in each sub cities to have a clear picture and thorough understanding of the significant contribution of tax evasion through effective factors of tax evasion practices. Based on this, all the sub city can



make remedial actions by creating favorable and well oriented tax payers that could lower the tax evasion.

## **1.2 Statement of the Problem**

**Knowledge Gap;** although there have been a few studies on tax evasion in Ethiopia, the majority of these studies have focused on the macro-level determinants of tax evasion, such as tax policy and enforcement. There is a lack of empirical research that examines the micro-level determinants of tax evasion, such as individual taxpayer characteristics and attitudes towards tax compliance. Therefore, there is a significant knowledge gap in understanding the specific factors that influence tax evasion among individual taxpayers in Ethiopia. The study by Torgler and Schneider (2009) found that tax knowledge has a significant negative effect on tax evasion behavior. However, there is limited research on the relationship between tax knowledge and tax evasion in Ethiopia.

**Methodological Gap;** most of the existing studies on tax evasion in Ethiopia employ basic statistical techniques and do not account for the complex interactions between the various determinants of tax evasion. There is a need for more rigorous empirical studies that use advanced econometric techniques, such as panel data analysis and instrumental variable estimation, to analyze the determinants of tax evasion. By using these more sophisticated methods, researchers can obtain more accurate estimates of the effects of different factors on tax evasion. The study by Adesina and Olufemi (2018) used a logistic regression analysis to examine the determinants of tax compliance among small and medium enterprises in Nigeria. However, there is limited research using multiple regression analysis to examine the determinants of tax evasion in Ethiopia.

**Time Gap;** most of the existing studies on tax evasion in Ethiopia were conducted more than a decade ago and may not reflect the current economic and political landscape in the country. Since then, Ethiopia has undergone significant economic and political changes, such as the liberalization of the economy, the introduction of new tax policies, and changes in the political regime. Therefore, there is a need for more recent studies that reflect the current economic and political environment in Ethiopia. The study by Alm and Torgler (2011) examined the determinants of tax evasion behavior in 2004 using a survey conducted in Switzerland. However,

there is a need for more recent studies that examine the determinants of tax evasion in Ethiopia, given the changes in the tax system and socio-economic factors over time.

**Practical gap** in the study of determinants of tax evasion of taxpayers could be the lack of implementation of effective policies and measures to combat tax evasion. Despite the extensive research conducted on the determinants of tax evasion, the implementation of effective policies and measures to combat tax evasion remains a challenge in many countries, including Ethiopia. The practical gap is further exacerbated by the limited capacity of tax authorities to detect and enforce tax laws, the lack of political will to address tax evasion, and the lack of public awareness on the negative effects of tax evasion on the economy and society.

For example, a study conducted by Gobena and Van Dijk (2018) in Ethiopia found that taxpayers' perception of the fairness of the tax system was one of the significant determinants of tax compliance. However, the study also revealed that the enforcement of tax laws and regulations was weak and ineffective, leading to low levels of tax compliance. This suggests a practical gap in policy implementation and enforcement mechanisms in Ethiopia.

Similarly, a study conducted by Alm and Torgler (2011) on tax compliance in Africa found that the lack of effective tax administration and enforcement was a significant obstacle to tax compliance in many African countries. The study emphasized the need for effective tax administration and enforcement mechanisms to enhance tax compliance levels.

Therefore, the practical gap in the research on the determinants of tax evasion is the lack of effective policy implementation and enforcement mechanisms. Policymakers and tax authorities need to focus on developing and implementing effective policies and enforcement mechanisms to reduce tax evasion levels.

To address this practical gap, the study could recommend practical measures that can be implemented by tax authorities to improve tax compliance, such as simplifying tax systems, increasing tax education and awareness programs, strengthening tax enforcement, and introducing incentives for compliant taxpayers. Furthermore, the study could recommend the need for political commitment to address tax evasion and the importance of improving the public perception of tax compliance as a civic duty. Based on the above discussion, the objective of the

study is to Determinants of Tax Evasion in Addis Ababa City Administration: The Case of Gullele Sub City Small Tax Payers Category “A” Taxpayers.

**The rationality** to conduct research with determinants of tax evasion is based on the significant impact that tax evasion has on the economy of a country. Tax evasion can lead to a reduction in government revenue, which can result in inadequate provision of public goods and services, and subsequently, low economic growth. Additionally, tax evasion undermines the fairness and equity of the tax system, creating a perception of inequality and injustice. This perception can lead to a loss of trust in the government, which can have negative consequences for social and political stability. Therefore, understanding the determinants of tax evasion is crucial in designing effective policies and strategies to curb tax evasion and improve tax compliance. By identifying the factors that influence taxpayers to evade taxes, policymakers can implement targeted interventions that address these factors and promote compliance. This research can also inform tax education programs that increase awareness and knowledge of tax obligations, reduce ignorance, and improve tax compliance.

Furthermore, studying the determinants of tax evasion can contribute to the body of knowledge on tax compliance behavior, especially in developing countries. Previous research has shown that tax compliance behavior is context-specific and can vary across different countries and cultures. Therefore, conducting research on the determinants of tax evasion in a specific context like Gullele Sub City Small Tax Payers Category “A” Taxpayers can provide valuable insights into the factors that affect tax compliance behavior in that particular area and inform policymakers on how to improve compliance. In summary, the rationality to conduct research with determinants of tax evasion is rooted in the need to promote tax compliance, enhance government revenue, and promote social and political stability.

### **1.3 Research questions**

The main question is to identify how determinants of tax evasion affected the perceived tax evasion. It is achieving by addressing the following research questions:

1. What is the effect of Moral Obligation of Tax Payers on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers?

2. What is the effect of Subjective Norms on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers?
3. What is the effect of Tax Knowledge on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers?
4. What is the effect of Tax fairness on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers?
5. What is the effect of Tax rate on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers?

## **1.4 Objective of the study**

The objectives of this study are grouped into general and specific objectives as listed below.

### **1.4.1 General objective of the study**

The main objective of this study is to examine the influence of Tax Evasion in Addis Ababa City Administration: The Case of Gullele Sub City Small Tax Payers Category “A” Taxpayers.

### **1.4.2 Specific objective of the study**

The specific objective of this study will achieve by addressing the following objectives specifically aiming to:

1. To Analyze the effect of Moral Obligation of Tax Payers on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers.
2. To Evaluate the influence of Subjective Norms on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers.
3. To Analyze the effect of Tax Knowledge on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers.
4. To Investigate the effect of Tax fairness on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers.
5. To Evaluate the influence of Tax rate on Tax Evasion at Gullele Sub City Small Tax Payers Category “A” Taxpayers.

## **1.5 Scope of the study**

The study has only encompassed the Gullele Sub City Small Tax Payers Category “A” Taxpayers located in Addis Ababa. The scope of this study is geographically limited to the capital city, even if other categories of tax payers are located in other sub cities. Methodologically, this study was also limited to use explanatory research. Conceptually, the five factors that influence tax evasion were investigated because these factors are highly influences the tax evasion existence. These were namely, moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate on which the company focused. Other factors that could affect tax evasion like tax penalty, and demographic characteristics that can influence the tax evasion are not being considered in this study. Regarding the respondent’s scope, this study will employ category ‘A’ tax payers.

## **1.6 Significance of the study**

The study on the determinants of tax evasion among small taxpayers in Gullele Sub City, Ethiopia, is significant for several reasons. First, the findings of this study will contribute to the existing body of knowledge on the determinants of tax evasion, which is still an under-researched area in Ethiopia. Second, the study will provide valuable insights for policymakers and tax authorities in designing effective tax policies and enforcement strategies to reduce tax evasion. Third, the study will also benefit taxpayers by enhancing their understanding of the factors that contribute to tax evasion and the importance of paying taxes for the development of their community and country.

Moreover, the study will have practical significance in enhancing the revenue collection efforts of the Ethiopian government. Ethiopia's revenue collection is currently low, and the country is heavily reliant on foreign aid. Enhancing tax revenue collection through effective policies and strategies is crucial for Ethiopia's economic development and self-sustainability. Therefore, the findings of this study will provide valuable information for policymakers to design and implement effective tax policies to increase revenue collection.

Additionally, the study will have academic significance as it will contribute to the existing literature on tax evasion determinants in developing countries, particularly in sub-Saharan Africa. The study findings will add to the growing body of knowledge on the determinants of tax

evasion and provide a comparative analysis of the factors influencing tax evasion in Ethiopia with other developing countries. The study's academic contribution will be useful for scholars and researchers in this area to further explore and analyze the factors affecting tax evasion in developing countries.

In summary, the study's significance lies in its contribution to the body of knowledge, its practical implications for policymakers and taxpayers, and its potential to enhance revenue collection and economic development in Ethiopia.

### **1.7 Operational definition of key terms**

**Moral Obligation:** refers to the personal sense of duty and responsibility felt by taxpayers to pay their taxes on time and in full. It is a reflection of the taxpayer's ethical and moral principles regarding their contribution to society through taxation (Alleyne et al., 2017).

**Subjective Norms:** refer to the perceived social pressure that individuals experience to comply with tax laws and regulations. These norms are shaped by the attitudes and behaviors of significant others, such as family, friends, and colleagues (Alm&Torgler, 2011).

**Tax Knowledge:** refers to the level of understanding that taxpayers have of the tax laws and regulations governing their tax obligations. This includes knowledge of tax deductions, credits, and filing requirements (Akinleye et al., 2019).

**Tax fairness:** refers to the perception of taxpayers that the tax system is just and equitable in the distribution of the tax burden among taxpayers. This includes the fairness of the tax laws, tax rates, and the use of tax revenue by the government (Kirchler et al., 2008).

**Tax rate:** refers to the percentage of taxable income that taxpayers are required to pay as taxes to the government. This includes income tax rates, sales tax rates, and other taxes imposed by the government (Feld & Frey, 2002).

**Tax Evasion:** refers to the intentional non-compliance with tax laws and regulations by taxpayers in order to avoid paying taxes owed to the government. This includes underreporting income, claiming false deductions, and failing to file tax returns (Andreoni et al., 2017).

## **1.8 Limitation of the study**

Sample size: The study may have been limited by the size of the sample used, which may not have been large enough to capture the full range of factors affecting tax evasion among small taxpayers in Gullele Sub City.

Data quality: The study may have relied on self-reported data from participants, which may be subject to bias or misreporting. Also, there may be some missing data that could affect the accuracy of the results.

Generalizability: The results of the study may not be generalizable to other settings or populations beyond the study area. Factors such as culture, economic conditions, and tax policies may differ in other contexts, and as such, the results may not be applicable.

Causality: The study may not be able to establish a cause-and-effect relationship between the independent variables and tax evasion, as there may be other confounding factors that were not accounted for.

Time constraints: The study may have been limited by time constraints, which may have affected the depth and breadth of the research.

## **1.9 Organization of the study**

The entire study is divided into five chapters. Chapter one gives a general introduction about the study: the background of the study, the statement of the problem, the objectives of the study, the significance of the study, scope of the study used in the study and the organization of the study. Chapter two presents the review of literature related to the area of study. Chapter three deals with Research Design and Methodology. while Chapter four has data analysis, result and discussion. Finally, Chapter five presents summary of major findings, conclusions, recommendations and suggestions for future research.

# **CHAPTER TWO**

## **RELATED LITERATURE REVIEW**

### **2.1 Theoretical Literature review**

#### **2.1.1 Tax and Tax Evasion**

Tax refers to a compulsory financial charge levied by the government on individuals or entities, to support public expenditure and ensure the provision of essential public services such as healthcare, education, and infrastructure (Bird & Zolt, 2019).

Tax is a mandatory financial charge imposed by the government on individuals and businesses to fund public expenditures and services. It is a form of revenue generation for the government to finance public goods and services like infrastructure, education, healthcare, defense, and social welfare programs. (Mankiw, 2014).

Tax is a compulsory payment that is levied by the government on income, goods, and services. It is a legal obligation of citizens and businesses to contribute a portion of their earnings and transactions to the government. (Bird & Zolt, 2019).

Tax is a tool for government to redistribute resources from the private sector to the public sector in order to finance collective goods and services, and to address income inequality and other social issues. It is also a means to regulate economic activity and behavior by imposing taxes on specific goods and services to discourage their consumption or production. (Keen & Krelove, 2018).

Tax evasion is an illegal practice that involves deliberately underreporting or concealing income or assets to avoid paying taxes that are legally due. Tax evasion undermines the integrity of the tax system and deprives the government of revenue that is necessary to fund public services (Alm & Torgler, 2011).

Tax evasion refers to the illegal and deliberate non-payment or underpayment of taxes by individuals or entities, typically through the concealment of income or assets, or by claiming illegitimate deductions or credits. Tax evasion is often accompanied by efforts to deceive or mislead tax authorities, and may involve the use of offshore tax havens, false documentation, or



other forms of fraud. Tax evasion is distinct from tax avoidance, which refers to legal strategies used to minimize tax liability through the exploitation of loopholes or other provisions in tax laws (Gupta, S. (2019)).

## **2.1.2 Theories Related to Tax Administration Efficiency**

### **2.1.2.1 Public Choice Theory:**

This theory suggests that the efficiency of tax administration is influenced by the incentives and motives of both taxpayers and tax administrators. Taxpayers have an incentive to evade taxes while tax administrators have an incentive to maximize tax revenue. Therefore, the level of efficiency of tax administration depends on how well tax administrators can balance the needs of taxpayers and the government. The theory also emphasizes the importance of political and institutional factors in shaping the tax system (Webley & Robben, 1995).

### **2.1.2.2 Agency Theory:**

This theory focuses on the relationship between taxpayers and tax administrators. It suggests that tax administrators act as agents on behalf of the government while taxpayers act as principals. The theory posits that the efficiency of tax administration is influenced by the level of trust, communication, and monitoring between taxpayers and tax administrators. If taxpayers do not trust tax administrators or do not believe that they are being monitored, they are more likely to evade taxes (Boyd, 2005).

### **2.1.2.3 Transaction Cost Theory:**

This theory suggests that the costs of transactions between taxpayers and tax authorities can affect tax compliance and efficiency. High transaction costs, such as complicated tax laws and regulations, can lead to non-compliance and inefficiency (Alm & Torgler, 2011).

### **2.1.2.4 Resource Dependence Theory:**

This theory suggests that the level of efficiency of tax administration is influenced by the availability and allocation of resources, such as financial, human, and technological resources. The theory posits that tax administrators need adequate resources to carry out their duties effectively, and that the level of resources available to tax administrators affects their behavior and performance (Gursoy & Aydiner-Avsar, 2017).

### **2.1.3 Determinants of Tax Evasion**

#### **2.1.3.1 Moral Obligation of Tax Payers**

Moral obligation is a principle and a duty of taxpayers by paying a reasonable amount of tax for the tax authorities without the enforcement of others. It is an intrinsic motivation of payers paying the tax. When taxpayers have low tax moral they will become negligent to pay their allotted tax (Alm&Torgler, 2006; Torgler& Schneider, 2007; Frey, 1997). According to Frey and Field (2002) when tax officials are responsible and provide respects in their duties toward taxpayers, tax morale or the honesty of taxpayers will increase. Tax morals may be affected by a demographic factors-like income level, marital status, and religion (Cornelius & Nurhapizah, 2018).

#### **2.1.3.2 Subjective Norms**

The stakeholders, government experts, families, individuals, groups, and peers influence taxpayers whether they engaged in tax evasion or not (Harris,2017). The stakeholders around the taxpayers might be motivators to push taxpayers in the criminal act of tax evasion. Based on the above discussion the fourth hypothesis becomes.

Attitude a means to evaluating the activities whether they are positive or negative of any object. Many studies have been done by different scholars by defining and identifying the relationship between the attitudes of taxpayers with tax evasion (Harris, 2017). If the attitude of taxpayers towards taxation negative they was reluctant to pay their obligation to the authority, the reverse is true taxpayers who have positive attitudes towards taxation.

#### **2.1.3.3 Tax Knowledge**

Tax knowledge is vital for taxpayers to know the cause and effect that brought to them engaged in tax evasion. A well-informed taxpayer knows about taxation his/her participation in tax evasion would be infrequent, the reverse is true for a taxpayer who is not well informed. Tax related information should give more emphasis to enhance the knowledge of taxpayers and experts of the authority (Poudel, 2017). If the authorities cascade different training for taxpayers about tax evasion and other tax-related issues taxpayers become reluctant to engage in tax evasion (Cornelius & Nurhapizah, 2018).

#### **2.1.3.4 Tax Fairness**

The tax collection procedures, principles, and implementation must be fair. Unethical behavior may happen due to the unfairness of the tax collection process. The fairness of tax may influence payers positively. When the tax rate is reasonable and fair the payer will regret to engage in the tax evasion practices and they will inform their annual income for authorities without avoiding the amount. Considering the ability of paying or acceptable tax rates is helps to maintain the fairness of the taxation system (Cornelius & Nurhapizah, 2018).

#### **2.1.3.5 Tax rate**

A tax rate is simply defined that the percentage at which an individual or corporation is taxed. As Park & Hyun (2003) noted that the increase in tax rate strengthen the incentive to report less income to compensate the reduced income”. Therefore, there is positive and significance relationship between tax evasion and tax rate. Another study conducted by Tanzi (1980) used an econometric model to give an interpretation to the relationship between noncompliance and marginal tax rate in the United States. He pointed that “tax rates were negatively correlated with tax compliance”. Finally, many researchers have been examined the relationship between tax rates and tax evasion in both developing and developed countries. The results of their study showed that the tax rate has a positive significant effect on tax evasion.

#### **2.1.4 The relationship between determinants of tax evasion and tax evasion**

Research has shown that there is a negative relationship between moral obligation and tax evasion. When individuals feel a sense of moral obligation towards paying taxes, they are less likely to engage in tax evasion behavior. A study by Kirchler et al. (2008) found that moral obligation had a significant negative effect on tax evasion behavior among self-employed taxpayers in Austria.

Subjective norms can also influence tax evasion behavior. Research has shown that individuals who perceive social pressure to comply with tax laws are less likely to engage in tax evasion. A study by Feld and Frey (2007) found that subjective norms had a significant negative effect on tax evasion behavior among Swiss taxpayers.

Tax knowledge is also an important factor that can influence tax evasion behavior. Individuals who have more knowledge about tax laws and regulations are more likely to comply with them.

A study by Alm et al. (1995) found that tax knowledge had a significant negative effect on tax evasion behavior among US taxpayers.

Tax fairness can also influence tax evasion behavior. Research has shown that when individuals perceive tax laws and regulations as fair, they are more likely to comply with them. A study by Cullis and Lewis (1997) found that tax fairness had a significant negative effect on tax evasion behavior among UK taxpayers.

Tax rate can also influence tax evasion behavior. When tax rates are high, individuals may be more likely to engage in tax evasion behavior. A study by Torgler (2003) found that tax rate had a significant positive effect on tax evasion behavior among Swiss taxpayers.

### **2.1.5 Tax Evasion in Ethiopia**

In most developing countries, like Ethiopia, there could be many economic activities that are not constantly referred to and captured by professional statistics. Revenues generated by the government are not equal to the expenditure spent. This low tax revenue yield must be attributed to the reality that tax law enforcement is often a contentious issue, and this is definitely the case in Ethiopia (Abdella& Clifford, 2010). The practice of tax evasion reached 10% of the economy. The result has important implication for tax policy and incentive structure towards the small and medium scale enterprises if these sectors are to be the deriving engines of Ethiopia's transformation (Emrta, 2010).

Regardless of the fact that, the contribution of tax revenue as the percent of GDP is declining currently, as consistent with the document of IMF (as cited in UNDP, 2016) Ethiopia is also losing 6 percent of its GDP every year in the form of illegal outflows. According to the Ethiopian Ministry of Finance and Economic Development (MoFED) 2nd growth and transformation plan (2016) sowed that the contribution of tax revenue-to-GDP in Ethiopia is one of the lowest in subSaharan Africa which is 13.3% as compared to over 18% for the rest of Sub-Saharan Africa.”

In most developing countries, like Ethiopia, the revenue which is generated by the government is much less than the expenditures spent. This low tax revenue can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration due to the noncompliance behavior of taxpayers (Abdella and Clifford, 2010).

Tax evasion was higher during the 1970's and 1980's reaching as high as 10.4% of the recorded economy. Although the contribution of tax revenue as percentage of GDP is declining recently, it is growing on average by about 19 percentage points in nominal terms since 2000. It remained high but decreasing since 1991 while tax revenue to GDP ratio start to rise before it starts to bend downward since 2004. The declining trend in tax-to-GDP ratio since 2004 is mainly due to the rapidly increasing economy in the face of stagnated tax collection efforts (Emrtat, 2010). The tax evasion due to the prevalence of unreported economy could have been a critical resource for infrastructural and public service developments in the country.

As Emerta (2010) stated that bringing the unreported economy to the tax net remained as a challenge for the responsible body with substantial implication on tax policy of the country. Yidersal (2014) examined on the topic “determinants of tax compliance behavior in Bahir Dar city administration among category “A & B” business income taxpayers”. The investigator has been used a random sampling technique and quantitative research approach. The raw data were collected through a structured questionnaire and used both descriptive and inferential statistics for data analysis. The results disclosed that tax compliance behavior was significantly affected by perception on government public spending, perception on equity and fairness of the tax system, penalties rate, personal financial constraint, and changes on current government policies and referral group (friends, relatives etc.) However, gender and probability of being audited have no significant impact on tax compliance behavior.

A study conducted by Amina & Saniya (2015) investigated on the determinants of tax compliance in the case of category “A” taxpayers in Jimma zone. The investigators have applied survey research design, and both qualitative and quantitative approach was employed by the researcher. They categorized the sample as stratified according to nature of the business and then randomized the sample from each segment. The raw data was collected by using structured questionnaires. Both descriptive and inferential statistics were used for data analysis. The result of the analysis was shown that age, sex, punishment, auditing, simplicity, fairness, and perception of the government have had an impact on tax compliance. Finally, the investigator had recommended that making tax system fair to encourage voluntary compliance of taxpayers and the tax authority should work on the tax system for the younger generation.

Bisrat (2010) examined the relationship between tax administration and compliance with VAT. His research design was both qualitative and quantitative approach and primary and secondary data were used for the study. Primary data collected through closed and open questionnaires. The researcher used descriptive statistics and case selection sampling technique to conduct the research. The results showed that the core determinants of VAT were the audit probabilities, the perceived fairness of VAT and the efficiency, and effectiveness of the tax authority.

A study conducted by Worku (2016) on the assessment of tax evasion the case of Lideta sub city small taxpayers branch office. The researcher has been used descriptive type of research, primary and secondary data were used for the study. Primary data was collected through structured questionnaire survey and secondary data has been drawn from the existing official documents and reports. The selection of entities was bases on non-random sampling technique. The researcher has been used both descriptive and inferential statistics for data analysis. The results showed that majority of the respondents pay tax due to fear of punishment and believe tax law should be respected. There was also an indication that taxpayers in the branch office can evade tax regardless of the strength of the tax law.

A study conducted by Endashaw (2019) Determinants of tax evasion in Addis Ababa administration city the case of Bole sub city category “A” taxpayers. The research applied an explanatory research method. And it carried out both the qualitative and quantitative aspects of the research method., Primary data was collected through structured questionnaire survey. The researcher has been used both descriptive and inferential statistics for data analysis. The results showed that the tax being levied is not fair and equitable, awareness is a corner stone for enhanced voluntary compliance, legal enforcement, and penalties by itself cannot ensure voluntary tax compliance behavior. The research also showed that attitude and peer influence have a positive effect on tax evasion. Finally, the researcher has recommended that tax law must be simple, the branch office should improve the efficiency of the provision of services to taxpayers.

## **2.2 Empirical literature review**

Alm and Torgler (2004) studied tax compliance across different countries. In their research, they make an attempt to investigate the differences in tax ethics between countries, i.e., tax consciousness, which varies from country to country. The survey is based on representative national samples of at least one thousand (1000) individuals in each country, in more than forty (40) countries in total. All surveys were conducted through face-to-face interviews in the homes of the interviewees and in their respective national languages.

Mara (2015) identified the determinants of tax havens in the real economic context. Tax havens are countries that offer low or zero taxation. In addition, they ensure high levels of secrecy and have a strong network of financial services that allows those who want to avoid taxation to implement sophisticated strategies to achieve their goal. These include a combination of favorable conditions in order to create the financial and tax policies necessary for the development of tax evasion and avoidance, using tools and mechanisms such as offshore companies.

Crocker and Slemrod (2004) studied corporate tax evasion in the context of the contractual or employment relationship between a company's shareholders and the CFO who has private information about the extent of legally permissible deductions on taxable income and who may engage in illegal tax evasion. Using a framework for measuring tax misrepresentation, they characterize the optimal incentive compensation contract for the operator of the firm's tax affairs and, in particular, how the form of this contract changes relative to alternative policies imposed by tax authorities. This optimal contract can be adapted to compensate for the effect of sanctions against illegal tax evasion. The result of the study is interesting because it is not directly related to the policies implemented, sanctions imposed directly on the CFO are more effective in reducing tax evasion than those imposed on shareholders.

Albulescu (2016) studied the long-term relationship between entrepreneurial activity and tax evasion in fifteen European countries. They found out that tax evasion and corruption negatively affect entrepreneurship. They used a regression analysis with panel data and realised that there is a long-term relationship between the variables and that tax evasion and corruption negatively affect overall entrepreneurship. They also show that the impact of tax evasion is smaller in cases of individuals who started an entrepreneurial activity not because they conceived it as an

opportunity but because they had no better job options (necessity-driven entrepreneurs). This derives from the fact that these entrepreneurs were forced to start a business activity without other sources of income, and they are, thus, less affected by the institutional failure of the state to tackle tax evasion in order to promote entrepreneurship.

Gokalp (2017) studied why companies avoid taxation. They studied companies operating in countries with different institutional backgrounds, comparing the incentives and constraints of staying in the formal sector with the competitive pressures from the informal sector. The data for their regression analysis came from the World Bank and from a questionnaire they conducted about the investment climate. The survey was conducted in one hundred and seven countries (107) between 2002 and 2006. They argued that a combination of factors explains, to a great extent, the tax avoidance decisions of companies. The findings highlight the dark side of competition, particularly when it comes from unfair sources. They also shed light on how this impact is moderated by the institutional conditions in the environment.

McGee and Ross (2014) stated that in Netherlands tax evasion perceptions vary with demographical factors, besides they found that tax payers consider tax evasion as crime which is not serious as wife beating, claiming government benefits to which you are not entitled and avoiding a fare on public transport and more serious than suicide, abortion, prostitution, euthanasia, or divorce.

Nhavira (2016) found that in Zimbabwe on average people participated in the study supported tax evasion at least in some cases, besides he pointed out that participants highly supported tax evasion in some cases like when tax system seems to be unfair, tax rates are high or government finances a war that public considers to be unjust. The tax evasion is supported when tax is spent on projects that tax payers do not want morally and money collected is spent on projects that are not benefited by tax payers (Nhavira, 2016).

In Jordan, Iran and Egypt taxpayers do not highly support tax evasion and specifically women are less likely to support tax evasion than (McGee and Bose, 2008). Similarly, Benno and Neven T (2006) found that in Western Europe women are less likely to justify tax evasion practices compared to men. Kastlunger, Dressler, Kirchler, Mittone, & Voracek (2010) and also mentioned that female tax payers comply tax laws more than male tax payers.



McGee (2012) studied tax evasion attitudes of male and female professors and argued that female professors are highly against tax evasion compared to male professors. In regard to male and female tax attitudes, there are some other researchers who stated something different from what was mentioned by above studies. For example, there is no difference between tax evasion attitudes of male and that of males (Jeyapalan & Abdul Jabbar, 2006; Mustapha, 2010) and McGee (2014) pointed out that male tax payers are less likely to evade tax than female tax payers. Although, most of the researchers concluded that female tax payers comply tax laws more than male tax payers, the existing literature did not come up with same argument when it comes tax evasion attitudes of male and female. In my opinion, tax evasion practices are more common in male than female because tax evasion is crime and we know that higher percentage of those who commit the different crimes in this world are male. Therefore, it is logic to say males evade taxes more than females evade.

Ahmad (1995) and Yusuf (1971) explained the Islamic perspectives of tax evasion and they mentioned that it is not obligatory to pay tax customs duties, restrictive tariffs, court fees, revenue stamps, and income tax. As they stated, they reason that they were against income tax its effect on creativity and its restriction on the income of the wealthy citizen (cited by Preobragenskaya & McGee 2016). These two Islamic scholars recommended that government should collect tax in a way similar to Zakat and they also refused indirect tax and death tax (cited by Preobragenskaya & McGee 2016).

Jalili (2012) also explained Islamic stand point of tax evasion or tax compliance and he stated that the tax compliance is depending on the religious principles that government or state is exercising and if the state is Islamic, it is obligatory all citizens to pay all forms of tax that legal state leaders demand (cited by Preobragenskaya & McGee 2016).

According to Jalili, if the state is less Islamic or totally un-Islamic state, tax payment issues are not clear: it depends on what the government is doing with the tax, this means if public tax is spent on good actions, tax payment seems to be compulsory cited by Preobragenskaya & McGee 2016). Christians and Jewish also have their own perceptions towards tax evasion.

Tamari (as cited in McGee,2001) claimed that it is obligatory a Jewish person to contribute to public fund as demanded by the corpus of Jewish law and this obligatory payment is not only limited to funding of defense and infrastructure, but also people in need, sick people, old people

and religious education and other religious objectives of the society should be funded. Moreover, Tamari states that tax evasion is a kind of theft and therefore it is prohibited. Thus, Tamari claims that tax evasion is bad, even if the government is corrupt government( McGee,2001). Different Christian writers came up with slightly dissimilar arguments when it comes tax evasion and some of them argue that tax evasion is sometimes acceptable while others stated that tax evasion should not be accepted in any case (McGee,2001).

Crowe ( as cited in McGee,2001,pp. 160-161) pointed out that tax evasion is unethical unless taxes are unjust and tax to be just: it should be collected by legal Authority, there should be reason behind tax collection, and tax burden should be distributed in a fair manner. Stack and Kposowa (2006) indicated that Buddhists were more likely to evade taxes compared to Protestants and Muslims and Hindus were same as Protestants when it comes to tax evasion attitudes, further, Stack and Kposowa (2006) stated that there was no different between tax fraud attitudes of Jews and Protestants. Furthermore, they pointed out that there is negative relationship between religiosity and tax fraud acceptability in general without considering specific religion and the participants with no religious affiliation were the most likely to evade taxes. Confidence in government, justice system and police are also included in factors that influence tax evasion attitudes. For example, people who have more confidence in justice system are those who highly opposed to tax evasion while those who do not have higher confidence in justice system are not highly opposed to tax evasion (McGee and Ross, 2014). Similarly, Bilgin (2014) stated that when confidence in justice increases, tax moral also increases.

Also, Kirchler (2003) pointed out that voluntary tax compliance increases with increase in confidence in authorities like government branches and levels. Furthermore, the people who are highly confident in police opposed to tax evasion while those who are not highly confident in police did not highly oppose to tax evasion (McGee and Ross, 2014). What is more, tax payers that are satisfied by the government are highly against tax evasion compared those who have no confidence in government (Ali, Fjeldstad, & Sjurssen, 2014).

Likewise, Wintrobe and Gërkhani (2014) indicated that individuals who are confident with government and other tax payers are less likely to evade taxes compared to those who do not have confidence in government and other tax payers. In contrast, Mason & Calvin (2018) stated that confidence in government does not affect tax evasion practices and both those who are

confident in government and those who have no confidence in government accepted that they evade taxes.

The study conducted by Ameyaw & Dzaka with the objective of investigating factors that have a detrimental effect on tax evasion in Ghana. Survey research design and quantitative method are applied by the researcher. Descriptive and inferential statistics also used to analyze the collected raw data. The results obtained from the analysis revealed main factors that have a significant effect on the evasion of taxes: Taxation and fiscal factors, demographic factors, administrative factors, and economic factors, (2016).

The study made by Mukasa targeting examination of the relationships between tax knowledge, tax fairness and the compliance of small and medium-sized enterprises combination with qualitative and quantitative methods, and the researcher adopted a cross-sectional research design. The researcher's finding shows tax knowledge and tax fairness to be linked to compliance with taxes and tax knowledge to have a positive and significant relationship with tax compliance. Finally, the researcher recommended that to have a concrete tax knowledge (technical knowledge) when conducting tax education. Furthermore, the government should improve its service provision and accountability for the taxpayers to perceive an equitable exchange with the government, (2011).

The study Enoch was conducted to investigate factors that influence tax avoidance and evasion in Nigeria. The researcher uses a survey research design and a quantitative technique. To analyze the data, the researcher used descriptive and inferential statistics. The results of the analysis found that tax avoidance and evasion in Nigeria is not significantly influenced by the low quality of the service return. Also, the tax system and perception of fairness, low transparency and accountability of public institutions, and high level of corruption do considerably influence tax avoidance and evasion in Nigeria. Finally, the researcher recommends that for the government to take imperative steps to measure expectations once transparency, accountability and therefore the fight against corruption are involved, (2013).

### **2.3 Summary of Literature Review**

The empirical analysis of tax evasion obviously requires some measure of compliance. As emphasized earlier, such measures are difficult to find and subject to much criticism. However, these limitations have not prevented researchers from attempting to estimate the determinants of evasion, whatever the source of data. This literature is large and growing, and I can only highlight some important studies. For example, most empirical evidence has found that a higher tax rate generally leads to less compliance, with an estimated underreported income-tax rate elasticity of 0.5 to 3.0 (Clotfelter, 1983); Crane and Nourzad, 1992). Various empirical studies also have found a significant, though diminishing, deterrent effect of higher audit rates, with an estimated reported income audit rate elasticity ranging from 0.1 to 0.2; that is, an increase in audit rates of 10 percent increases reported income by 1 to 2 percent (Witte and Woodbury, 1985; Dubin et al., 1990).

However, the increase in compliance appears to be nonlinear, which suggests that there are limits to how much government can increase compliance by increasing the probability of detection. Audits also seem to have a “spillover effect”, or an increase in compliance independent of revenues generated directly from the audits and penalties themselves (Dubin, 2007). There is substantial evidence that a tax amnesty generates relatively small amounts of additional tax revenues, and seems to have relatively small effects on post-amnesty compliance (Fisher et al., 1989). Similarly, there is strong evidence that audit rates are endogenous, that there are revenue gains from strategic audit selection, and that information sharing across governments could increase compliance (Feinstein, 1991; Alm et al., 1993; Johannesen, 2010).

It should be emphasized, again, that this empirical work needs to be treated cautiously. The main difficulty in all empirical work here is the absence of reliable information on individual reporting behavior. This information is hard to come by for any country. Also, the information that is available seldom allows the identification of the independent effects of, say, audit rates or fine rates on compliance, given the inevitable commingling of cause-and-effect. These difficulties have not stopped researchers. However, there are obvious problems with the data and with the identification strategy that make much of this empirical work somewhat suspect.

According to (Torgler, 2007) and (Alm J. &, 2007) also reported that many other factors have been investigated, such as audit “productivity”, withholding systems, audit selection methods,

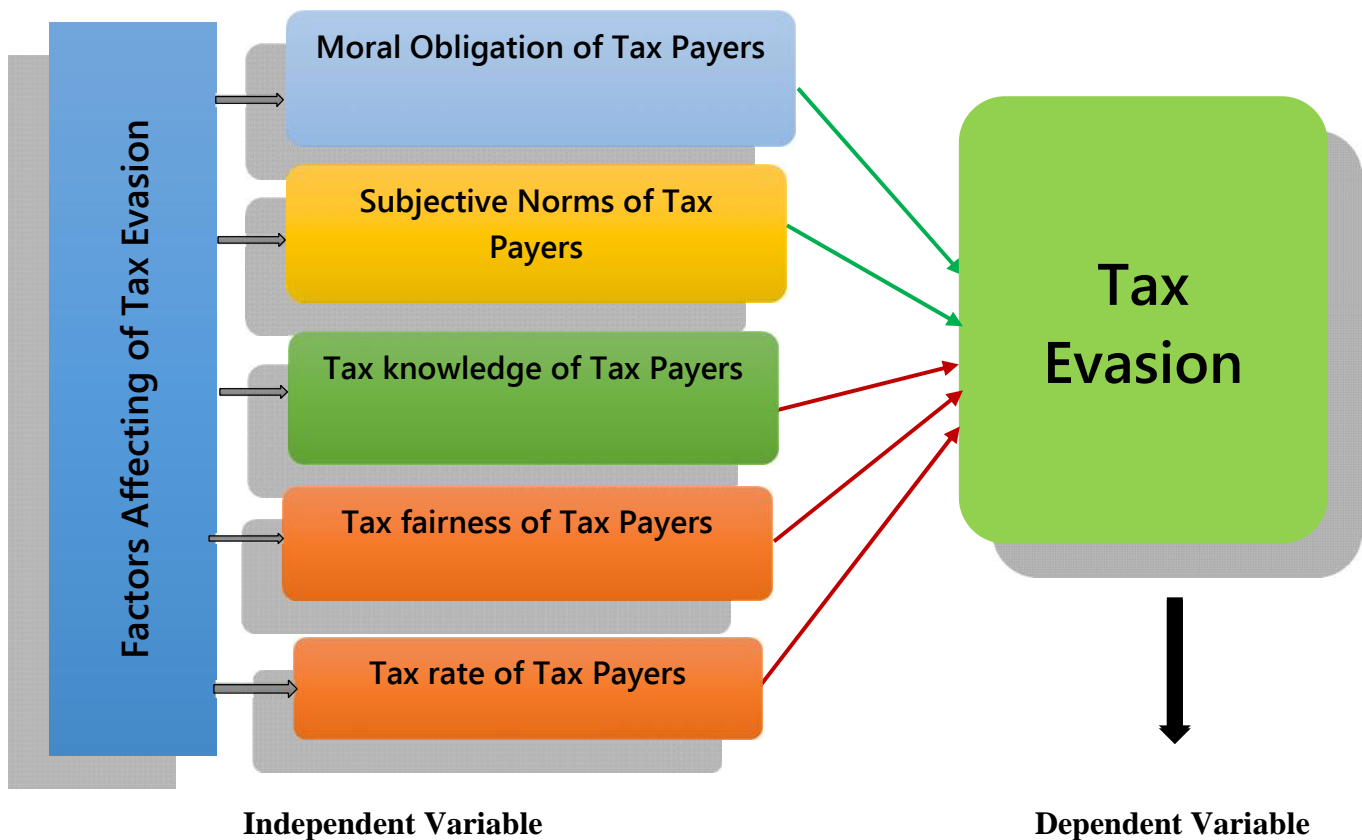
complexity and uncertainty, taxpayer services, social institutions, collective decision rules, notions of “fairness” and “inequity”, and tax amnesties. Based on these gaps in the literature together with the problems stated in section 1.2 the following grand research question is established. How much is the level of Business Income Tax Evasion in category A Taxpayers? Thus this thesis was conducted with a title “determinants of tax evasion.

## **2.4 Conceptual framework of the study**

In summary, the conceptual framework suggests that the determinants of tax evasion, such as subjective norms, tax knowledge, tax fairness, and tax rate, have a significant relationship with tax evasion. These determinants are considered essential factors in shaping the behavior of taxpayers towards tax compliance. The understanding of these determinants can help policymakers and tax authorities to design effective tax policies and strategies to reduce tax evasion. Subjective norms are considered an essential determinant of tax evasion because it represents the social aspect of tax compliance. People who believe that tax evasion is socially unacceptable are less likely to evade taxes. Therefore, the higher the level of subjective norms, the lower the level of tax evasion.

Tax knowledge is considered a significant determinant of tax evasion because people who have a better understanding of tax laws are more likely to comply with them. Therefore, the higher the level of tax knowledge, the lower the level of tax evasion. Tax fairness is considered an important determinant of tax evasion because people who perceive the tax system as unfair are more likely to evade taxes. Therefore, the higher the level of tax fairness, the lower the level of tax evasion. And, tax rate is considered a significant determinant of tax evasion because people who face high tax rates are more likely to evade taxes. Therefore, the higher the tax rate, the higher the level of tax evasion.

**Figure 1** Conceptual Framework of the Study



**Source:** Conceptualized based on previous studies (Kirchler, E. (2007), Martinez-Vazquez, J., & McNab, R. M. (2003), Alm, J., Jackson, B. R., & McKee, M. J. (1993), Torgler, B. (2002) and Feld, L. P., & Frey, B. S. (2007)

## Research Hypothesis Development

**Ha:1: There is a negative and significant influence of Moral Obligation of Tax Payers on Tax Evasion.**

In terms of the hypothesis that there is a negative and significant influence of Moral Obligation of Tax Payers on Tax Evasion, prior research supports this claim. For example, a study by Kirchler, Hoelzl, and Wahl in 2008 found that moral factors play a significant role in determining whether taxpayers choose to evade taxes. Similarly, a study by Feld and Frey in 2002 found that social norms and moral obligations are important factors that affect tax compliance.

A study by Feld and Frey (2007) investigated the impact of moral values on tax compliance in Switzerland and found that moral convictions have a significant negative effect on tax evasion.

In a study conducted by Kirchler et al. (2008) on tax compliance and enforcement in Austria, it was found that moral norms were the most important factor influencing tax compliance. Specifically, individuals who had a stronger sense of moral obligation towards paying taxes were less likely to evade taxes.

A study by Torgler (2007) on tax morale and compliance in Switzerland found that tax morale, which is influenced by moral beliefs, has a significant negative impact on tax evasion. Overall, these studies provide evidence that moral obligation is a significant determinant of tax compliance and evasion, supporting the hypothesis that there is a negative and significant influence of moral obligation of taxpayers on tax evasion.

**Ha:1: There is a negative and significant influence of Subjective Norms on Tax Evasion.**

Regarding the hypothesis that there is a negative and significant influence of Subjective Norms on Tax Evasion, previous research also supports this claim. For instance, a study by Torgler and Schneider in 2009 found that subjective norms, such as beliefs about the behavior of others and perceptions of social pressure, are important factors in shaping tax compliance behavior. Similarly, a study by Wenzel in 2004 found that social norms play a crucial role in shaping tax compliance behavior, with taxpayers being more likely to comply with tax laws when they perceive that other taxpayers are also complying.

For example, a study conducted by Kirchler et al. (2008) found that subjective norms were negatively related to tax evasion behavior. The study was conducted in Austria and included a sample of 492 taxpayers. The results showed that taxpayers who believed that tax evasion was socially unacceptable were less likely to engage in tax evasion behavior.

Another study conducted by Feld and Frey (2007) found that subjective norms were an important determinant of tax compliance. The study was conducted in Switzerland and included a sample of 4,218 taxpayers. The results showed that taxpayers who perceived high levels of tax compliance in their social environment were more likely to comply with their tax obligations.

Similarly, a study conducted by Alm and Torgler (2006) found that social norms were a significant predictor of tax compliance behavior. The study was conducted in Switzerland and included a sample of 1,496 taxpayers. The results showed that taxpayers who perceived high levels of tax compliance in their social environment were more likely to comply with their tax obligations.

In addition, a study conducted by Kogler et al. (2015) found that social norms had a negative influence on tax evasion behavior. The study was conducted in 39 countries and included a sample of over 29,000 taxpayers. The results showed that taxpayers who believed that tax evasion was socially unacceptable were less likely to engage in tax evasion behavior. Overall, these studies provide strong evidence that subjective norms have a negative and significant influence on tax evasion behavior.

**Ha:1: There is a negative and significant influence of Tax Knowledge on Tax Evasion.**

Several previous studies have found evidence supporting the hypothesis that tax knowledge has a negative and significant influence on tax evasion. For example: Kirchler, Hoelzl, and Wahl (2008) conducted an experiment in which participants were given information about tax regulations and their likelihood of being audited. They found that participants who received more information about tax regulations were less likely to engage in tax evasion.

Kastlunger, Lozza, and Kirchler (2013) conducted a survey of taxpayers in Austria and found that those who reported having more knowledge about taxes were less likely to engage in tax evasion.

Alm, Jackson, and McKee (1992) conducted a study in the United States and found that tax knowledge was negatively related to tax evasion. Torgler (2003) conducted a survey of taxpayers in Switzerland and found that tax knowledge had a negative effect on tax evasion.

In terms of the hypothesis that there is a negative and significant influence of Tax Knowledge on Tax Evasion, previous research also supports this claim. For example, a study by Alm and Torgler in 2011 found that tax knowledge is an important factor in shaping tax compliance behavior. Similarly, a study by James and Alley in 2001 found that taxpayers who have a better understanding of tax laws and regulations are more likely to comply with tax obligations.



**Ha:1: There is a negative and significant influence of Tax fairness on Tax Evasion.**

The study conducted by Torgler (2002) found that tax fairness has a significant impact on tax morale, which in turn affects tax compliance. The results of the study showed that individuals who perceive the tax system as fair are more likely to comply with tax laws than those who perceive the system as unfair.

Luttmer and Singhal (2014) conducted a review of the literature on tax morale and found that tax fairness is one of the key factors that influence tax compliance. The authors argued that individuals are more likely to comply with tax laws if they believe that the tax system is fair and that everyone is paying their fair share.

Ceruti and Sacchi (2018) conducted a study in Italy and found that tax fairness has a negative and significant impact on tax evasion. The results of the study showed that individuals who perceive the tax system as fair are less likely to engage in tax evasion than those who perceive the system as unfair. These studies, along with others, provide strong evidence to support the hypothesis that tax fairness has a negative and significant influence on tax evasion.

Regarding the hypothesis that there is a negative and significant influence of Tax fairness on Tax Evasion, prior research provides mixed evidence. Some studies support this claim, such as a study by Torgler in 2002, which found that perceptions of tax fairness are an important factor in shaping tax compliance behavior. However, other studies have found that perceptions of tax fairness do not significantly affect tax compliance behavior, such as a study by Kleven, Kreiner, and Saez in 2009.

**Ha:1: There is a negative and significant influence of Tax rate on Tax Evasion.**

Lastly, in terms of the hypothesis that there is a negative and significant influence of Tax rate on Tax Evasion, previous research provides mixed evidence. Some studies support this claim, such as a study by Torgler in 2003, which found that higher tax rates lead to lower levels of tax compliance. However, other studies have found that the relationship between tax rates and tax compliance is more complex and may depend on other factors, such as perceptions of tax fairness and the effectiveness of enforcement measures. For instance, a study by Luttmer in 2005

found that higher tax rates may actually increase tax compliance if taxpayers perceive that the revenue will be used for public goods and services.

Overall, previous research provides some support for the hypotheses that Moral Obligation of Tax Payers, Subjective Norms, Tax Knowledge, and Tax rate have a negative and significant influence on Tax Evasion. However, the evidence regarding the relationship between Tax fairness and Tax Evasion is mixed. It is important to note that the findings of previous studies may not necessarily generalize to the specific context of Gullele Sub City Small Tax Payers Category “A” Taxpayers, and further research is needed to confirm the relationships between these variables in this context.

A study conducted by Cebula (2005) in the United States found that higher marginal tax rates are associated with higher levels of tax evasion, suggesting that taxpayers are more likely to evade taxes when they perceive the tax rates as being unfair or excessively high.

In a study conducted by Alm and Torgler (2011) in Switzerland, they found that higher tax rates were associated with a lower probability of tax compliance, particularly among self-employed taxpayers. They argued that this may be due to the fact that self-employed taxpayers have greater control over their income and are more able to engage in tax evasion when tax rates are high.

A study conducted by Kirchler and Wahl (2010) in Austria found that higher tax rates were associated with lower levels of voluntary tax compliance. They argued that this may be due to the fact that taxpayers perceive higher tax rates as being unfair or unreasonable, and therefore are more likely to engage in tax evasion.

In a study conducted by Abdulkadir and Hassan (2019) in Nigeria, they found that tax rate has a negative and significant influence on tax compliance behavior. They suggested that the government should consider reducing tax rates to encourage voluntary tax compliance among taxpayers.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research approach and research design**

The research design of this study is explanatory type of research by applying research approach (quantitative research approach. The rationale for the choice of explanatory survey method is the fact that the explanatory survey studies will be used in order to explain and interpret trends of events as it exists at present and quantitative involves statistical models such as means, standard deviations, correlations, and regressions analysis. So that, to show the relationship between variables explanatory types of study will be used. This is because the desire to know “why”, to explain, is the purpose of explanatory research. It looks for causes and reasons Neuman (2006). According to Saunders, Lewis and Thornhill (2007), explanatory research is practical when the aim is to clarify one's understanding of a specific problem. And explanatory since it will enrich and support the previous theories through comparing our findings with research questions. Furthermore, the questionnaire will provide rich information for the interpretation of determinants of tax evasion.

#### **3.2 Data type and source**

The researcher was used both primary and secondary data sources for this study.

##### **3.2.1 Primary Data**

The primary data was generated from Gullele Sub City Small Tax Payers Category “A” Taxpayers, through the instruments of closed ended questionnaires based on the previous studies, because these data sources are quicker for providing the available data and helps to understand the research problem at hand.

##### **3.2.2 Secondary Data**

The secondary data was collected using an existing data generated from more varied record data files, like different books, research documents, internet-based information's, academic articles, journals, and other secondary sources, which all are contributed by different Authors.

### **3.3 Target Population**

Population is an aggregate or totality of all the objects, subjects or members that conform to a set of specifications Polit and Hungler (1999). The target population of this study are Gullele Sub City Small Tax Payers Category “A” Taxpayers. The total (taxpayers) study population found in the Gullele Sub City Small Tax Payers Category “A” Taxpayers are, 522 according to 2021 report.

### **3.4 Sampling Techniques and sample size determination**

Creswell (2003) asserted individual researchers have freedom of choice. They are “free” to choose the methods, techniques, and procedures of research that best meet their needs and purpose. Since the aim of this study is to get actual information in Gullele Sub City Small Tax Payers Category “A” Taxpayers. In addition to time, money and data constraints that had played an important role in selecting of the sample size, it is very important to determine a sample size by considering the practical situation. On the one hand selecting the sample size of the category A tax payers. Therefore, to determine the sample size the researcher was used the Slovene’s formula as follows:  $n = \frac{N}{1+N(e)^2}$ , Where “n” is sample size, “N” is number of populations, “E” is 0.05 which is an allowance of random error (sampling error).  $n = \frac{522}{1+522(0.05)^2}$ .  $n = 226$ . The sample size as indicated as is 226. The branch office knows about the taxpayer. (Yamane, 1967).

This study is was used probability sampling techniques in order to give equal opportunity for the target population. Accordingly, the total population of the study is estimated to be 522. After having the representative sample size, simple random sampling techniques are used for identification of respondents to the quantitative questionnaire. Since, simple random sampling is the most practical way of sampling to give every population equal chance to be representative sample for this study. From the total of 522 in Addis Ababa, 226 tax payers was selected on the assumption that they represent the company.

### **3.5 Methods of data Collection**

Questionnaire is a document consists of questions and designed to claim information or gather valuable information for appropriate to analysis, and the fundamental purpose of a questionnaire is to collect valuable information which is connected to the problem under study (Tuckman,

1999). The use of the questionnaire or a set of questions is a common process in the research. Findings are based on the answers gathered through different questions asked to the sample population. However, closed-ended and open-ended are prevalent types of research questions. Due to this fact the easiest nature for gathering and interpretation of closed ended questionnaires, the researcher was applied closed-ended type question, or the Likert scale types usually, there are 5 categories of response ranging from 1 = strongly agree, 2 = agree 3 = neutral 4= disagree and 5= strongly disagree type of response (Jamieson, 2004). The researcher was requested support letters from Saint Mary University, to start data gathering. The request letter would be submitted to the Gullele Sub City Small Tax Payers Category “A” Taxpayers.

### **3.6 Reliability and Validity**

Validity and reliability are qualities that are essential to the effectiveness of any data gathering procedure. Validity refers the researcher’s conclusion is true or correct with corresponds to the actual state of the world. Whereas, reliability indicates the accuracy or precision of the measuring instrument (Ghose, 2014). Cronbach’s alpha measures the consistency of the participants’ response to all the items in a questionnaire indicating the degree to which items that are independent measures of the same concept are correlated with each other (Ali, 2013). Therefore, the reliability of the tax evasion questionnaire was tested by Cronbach’s Alpha coefficient. Reliability was measured using Cronbach’s alpha and the minimum value that was set as acceptable was 0.7 (Ali, 2013).

### **3.7 Methods of data analysis**

After returning from the field quantitative data processing (editing and coding) have was made using statistical techniques and tools. The coded primary date was entered and analyze using Statistical Packages for the Social Sciences (SPSS) version 22.0. Inferential methods of data analysis were used. The inferential analysis in turn used to infer about the Determinants of Tax Evasion. Inferential statistics such as Pearson correlation and regression analysis was used in the study.

### **Model of Specification**

The study employed linear regression models. This model was captured the determinants of tax evasion by breaking into two parts. The first part of the model mainly focused on the analyzing

the aggregate variables of determinants of tax evasion (Moral Obligation of Tax Payers, Subjective Norms, Tax fairness, and Tax rate) and tax evasion. The second part of the model on the other hand, focuses on the disaggregated impacts of these explanatory variables on the dependent variable. To this end, the equation used in the study was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where, Y is the dependent variable tax evasion  $\beta_0, \beta_1, \beta_2$  and  $\beta_3$  are parameters to be estimated or regression line coefficients or slopes;  $X_1, X_2, X_3, X_4, X_5$  are independent variables (such as moral obligation of tax payers, subjective norms, tax fairness, and tax rate) and  $\varepsilon$  is the error term.

### **Multicollinearity**

Multicollinearity is a phenomenon in which two or more predictor variables in multiple regressions are highly correlated, meaning that one can be linearly predicted from the other. That is two or more explanatory variables in a multiple regression model are highly linearly related. The Variance Inflation Factor (VIF) and tolerance are the widely used measures of the degree of multicollinearity. A tolerance of less than 0.10 and/or a VIF of 10 and above indicate multicollinearity problem (O'Brien, 2007).

Multicollinearity increases the standard errors of the coefficients. Increased standard errors in turn mean that coefficients for some independent variables may be found not significantly different from zero. In other words, by over inflating the standard errors, multicollinearity makes some variables statistically insignificant when they should be significant (Belsley, 1991).

### **Pearson Product Moment Correlation**

According to Stigler (1989), Pearson Product Moment Correlation is a measure of the linear correlation between two variables x and y giving a value between +1 and -1 inclusive, where 1 is total positive correlation, 0 is no correlation, and -1 is total negative correlation. The sign of the coefficient tells us whether the relationship is positive or negative, whereas the numerical part of the coefficient indicates the magnitude of the correlation. The closer the correlation coefficient to 1 or -1 the greater the relationship between the variables. To ascertain whether a statistically significant relationship exists between determinants of tax evasion and tax evasion, the Pearson Product Moment Correlation Coefficient has been used. Pearson's Product Moment Correlation

was used. According to McDanail and Gates (2006), correlation coefficient can range from -1.00 to +1.00.

### **Multiple Regression Analysis**

The purpose of multiple regressions is to learn more about the relationship between independent or predictor variables and dependent variable. Multiple regressions analysis takes into account the inter-correlations among all variables involved. In multiple regression analysis more than one predictor was regressed against the dependent variable (Cohen & Swerdlik, 2002). This method was used to investigate the determinants of tax evasion and tax evasion and the dependent is tax evasion.

### **3.8 Ethical Consideration**

Measures were taken to ensure the respect, dignity and freedom of each participant of the study. Complete confidentiality of the study subjects has also been emphasized. Names of respondents were not recorded anywhere on the final report. The researcher first informed participants the purpose of the study and requested their consent to take part in the research. According to Creswell (2009), the common practice is to present a written informed consent for describing the nature of the research project and the purpose of one's involvement. Their participation was purely voluntary and they were guaranteed confidentiality and anonymity during data handling. Further, participants were told that they have the right to withdraw from the study at any time if they feel uncomfortable with their participation. Only those individuals who are voluntarily approached for the purpose of data collection. The researcher was committed to report the research findings in a complete and honest fashion, without misleading others about the nature of the findings. Giving appropriate credit to the use of another person's ideas is mandatory (Creswell, 2009). In this regard, all materials belonging to another person or organization were properly acknowledged. Finally, appropriate measures were taken to ensure the research would cause no physical or psychological harm to research participants.

## CHAPTER FOUR

### RESEARCH FINDINGS, ANALYSIS, AND DISCUSSIONS

This chapter was presented a discussion of the final results and the process through which the results were obtained. It addresses the research questions raised in the first chapter. The first part of this chapter reports the demographic characteristics of the respondents. The second part is the statistical methods of analysis were discussed, which included a descriptive analysis, a correlation analysis, and a regression analysis through SPSS version. Under this chapter data gathered through survey is analyzed and interpreted. Accordingly, the section contains respondents' profiles, data presentation, data analysis and interpretation.

**Table 4.1 Response Rate**

| Distributed Questionnaire | Actually collected | Response Rate in % |
|---------------------------|--------------------|--------------------|
| 226                       | 215                | 95                 |

Source: survey data, 2022

Table 4.1 shows the response rate of the distributed questionnaire. Out of the 226 questionnaires distributed, 215 were actually collected, resulting in a response rate of 95%. This indicates a relatively high response rate, which can increase the reliability and validity of the data collected from the questionnaire. A high response rate suggests that the sample is representative of the population of interest and reduces the possibility of non-response bias.

#### 4.1 Quantitative Data Analysis and Interpretation

The data was then checked for possible erroneous entries and corrections made appropriately. The descriptive statistics utilized were based on frequency tables to provide information on the demographic variables. Through tables, summary statistics such as means, standard deviations are computed for each determinant of tax evasion and tax evasion in this study. This is followed by presentation of inferential statistics based on each research question formulated for the study.



## 4.2 Reliability Test

Aimed at the point that even if the research is repeat, they would end up with similar results or the consistency or dependability of a measurement technique, and it's concerned with the consistency or stability of the score obtained from a measure or assessment overtime and across settings or conditions. Cronbach's alpha is a coefficient of reliability that gives an unbiased estimate of data generalization (Zinbarg, 2005). An alpha coefficient of 0.70 or higher indicated that the gathered data are reliable as they have a relatively high internal consistency and can be generalized to reflect opinions of all respondents in the target population (Zinbarg, 2005). The table shows the Cronbach's alpha values for six variables: moral obligation, subjective norms, tax knowledge, tax fairness, tax rate, and tax evasion. Cronbach's alpha is a measure of internal consistency, indicating how closely related a set of items are as a group. An alpha value of 1.0 indicates perfect internal consistency. In this case, all variables have high Cronbach's alpha values, ranging from .708 to .968, indicating that the items within each variable are highly related and that the variables are measuring what they are intended to measure with a high degree of internal consistency. This suggests that the survey questions used to measure these variables were well-designed and reliable for assessing the attitudes and beliefs related to tax compliance among the study participants.

**Table 4.2 Reliability Statistics**

| S/N | Variables        | Cronbach's alpha | Justification |
|-----|------------------|------------------|---------------|
| 1   | Moral obligation | .901             | Optimal       |
| 2   | Subjective norms | .957             | Optimal       |
| 3   | Tax knowledge    | .968             | Optimal       |
| 4   | Tax fairness     | .879             | Optimal       |
| 5   | Tax rate         | .952             | Optimal       |
| 6   | Tax Evasion      | .708             | Optimal       |

Source: Survey data (2022)

### 4.3 Demographic Characteristics

The study participants have different personal information. The presentation of the results characteristics of respondent's bio data such as gender, age, educational level in the Gullele Sub City Small Tax Payers Category "A" Taxpayers are presented here. The following tables depict each demographic characteristic of the respondents.

**Table 4.3 Demographic Characteristics**

| Description        |                 | Frequency  | Percent    |
|--------------------|-----------------|------------|------------|
| Gender             | Male            | 121        | 56         |
|                    | Female          | 94         | 44         |
|                    | <b>Total</b>    | <b>215</b> | <b>100</b> |
| Age                | 25-30           | 38         | 18         |
|                    | 30-35           | 73         | 34         |
|                    | 40-45           | 42         | 19         |
|                    | 45 and above    | 62         | 29         |
|                    | <b>Total</b>    | <b>215</b> | <b>100</b> |
| Educational Status | Bachelor degree | 103        | 48         |
|                    | Masters         | 67         | 31         |
|                    | Diploma         | 45         | 21         |
|                    | <b>Total</b>    | <b>215</b> | <b>100</b> |

Source: Survey data (2022)

The table provides information on the frequency and percentage distribution of respondents based on their gender, age, and educational status. In terms of gender, 56% of the respondents were male, while 44% were female. The distribution of gender in the sample indicates that there were slightly more males (56%) than females (44%). The implication of this finding depends on the research question and the context of the study. For example, if the study is investigating gender differences in attitudes towards tax evasion, the researcher may need to consider the sample composition when interpreting the results.

Regarding age, the largest age group was respondents aged 30-35 years, accounting for 34% of the total sample. The next largest group was respondents aged 45 and above, comprising 29% of the sample. The age distribution in the sample shows that the majority of respondents were between 30 and 45 years old, with 34% falling in the 30-35 age group. The implication of this

finding is that the study results may be more representative of the attitudes of individuals in this age range, and may not generalize to other age groups.

In terms of educational status, nearly half of the respondents had a Bachelor's degree (48%), followed by those with a Master's degree (31%), and those with a Diploma (21%). The educational status of the sample indicates that the majority of respondents (79%) had at least a Bachelor's degree or higher. The implication of this finding is that the study results may be biased towards individuals with higher levels of education, and may not be representative of the attitudes of individuals with lower levels of education. This may be important to consider when interpreting the results and making generalizations about the population. Overall, this table provides a snapshot of the demographic characteristics of the sample population, which can be useful in understanding the distribution of the respondents and any potential biases that may exist in the study.

#### **4.4 Descriptive Statistics for Determinant of Tax Evasion**

To analyze the determinants of tax evasion practices, such as moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate, mean and standard deviation statistics were used to examine the responses. Descriptive statistics have the benefit of presenting quantitative data in a simplified summary form, making it more manageable (Kothari, 2004). The tables below demonstrate the extent to which respondents agreed with the given statements regarding the determinants of tax evasion practices. This section presents a descriptive analysis that illustrates the sample's perception and agreement. Zaidatol and Bagheri's (2009) rule of thumb was used as a basis to describe the mean score of determinants of tax evasion and its sub-scales. According to their rule, a mean score of  $\leq 3.39$  is considered moderate, 3.40 to 3.79 is good, and  $> 3.80$  is high. Based on this guideline, the mean score of determinants of tax evasion and its sub-scales can be described as follows.

##### **4.4.1 Respondents Perception about Moral obligation**

This section presents the descriptive statistics that were calculated based on the four scales of moral obligation. The results, which include measures of central tendency and dispersion, were obtained from a sample of respondents in Gullele Sub City Small Tax Payers Category "A" Taxpayers, as shown in the following tables. The tables display the mean and standard deviation

of variables. The mean score indicates the degree to which respondents agreed with the given idea, while the standard deviation indicates the degree of variation in the responses. The higher the standard deviation, the greater the variation in the responses of the respondents.

**Table 4.4: Moral obligation and its sub scales**

| Items of Moral obligation                                  | Mean        | Std. Deviation |
|--|-------------|----------------|
|  | Statistic   | Statistic      |
| I think it would be morally wrong to engage in tax evasion | 2.65        | 0.68           |
| I would not feel guilty if I cheated on taxes              | 2.72        | 0.73           |
| Cheating on taxes goes against my principles               | 2.64        | 0.68           |
| It would be morally wrong for me to cheat on taxes         | 3.49        | 0.63           |
| <b>Cumulative Mean of Moral obligation</b>                 | <b>2.87</b> | <b>0.68</b>    |

Source: Survey data (2022)

The table shows the results of a survey conducted to measure the moral obligation of individuals towards tax evasion. The survey measured four items related to moral obligation, with each item having a mean score and standard deviation.

The mean score is an average score of responses from all participants, which ranges from 1 to 5, where 1 indicates strong disagreement and 5 indicates strong agreement. A higher mean score indicates a higher level of agreement with the statement.

The standard deviation indicates the degree of variability of responses around the mean score. A higher standard deviation indicates that responses are more varied, while a lower standard deviation indicates that responses are more consistent.

Looking at the table, we can see that the participants, on average, feel that it would be morally wrong to engage in tax evasion (mean = 2.65), but they would not feel guilty if they cheated on taxes (mean = 2.72). However, they believe that cheating on taxes goes against their principles (mean = 2.64) and it would be morally wrong for them to cheat on taxes (mean = 3.49).

According to Zaidatol and Bagheri (2009), a mean value that falls below 3.39 is considered moderate. The findings indicate that the perception of Small Taxpayers Category "A" in Gullele Sub City about the average mean of moral obligation is 2.85, which is a moderate result. Based on the data collected, the findings indicate that a significant number of respondents hold the belief that tax evasion in their Sub City can be attributed to a lack of moral obligation among taxpayers. In other words, they perceive that individuals who evade taxes do so because they do not feel morally obligated to fulfill their tax obligations. This suggests that there may be a prevailing attitude or mindset among taxpayers in the Sub City that views tax evasion as acceptable or justifiable, thereby undermining the sense of duty to contribute to the community through taxes. These respondents view the issue of tax evasion as a result of a moral deficit or ethical shortcomings within the taxpayer population, emphasizing the need to address this issue by promoting a stronger moral and ethical framework regarding tax compliance, which involves the principle and duty of paying a reasonable amount of tax to the authorities without enforcement by others. This intrinsic motivation is important for taxpayers to pay their taxes.

The standard deviation for moral obligation was 0.69, which is low, indicating that there was no extreme positive or negative scoring. This implies that the participants' responses were homogenous and not widely spread from the mean. This variation is acceptable because the values are normal and support the agreement. The obtained result of standard deviation (0.68) is supported by Mark, Philip, and Adrian (2009), which suggests that the respondents' responses were not dispersed towards the perceived/obtained mean result.

#### **4.4.2 Respondents perception about Subjective norms**

This section presents the descriptive statistics calculated for the four scales of subjective norms. The tables below show the measures of central tendency and dispersion obtained from the sample of respondents in Gullele Sub City Small Tax Payers Category "A" Taxpayers. The tables display the mean and standard deviation of the variable. A higher mean score indicates a greater agreement among respondents on the given idea, and vice versa. Conversely, the standard deviation indicates the degree of variability in the responses among the respondents. A higher standard deviation signifies a greater variation in the responses.

**Table 4.5: Subjective norms and its sub scales**

| Items of Subjective norms   | Mean        | Std. Deviation |
|---|-------------|----------------|
|   | Statistic   | Statistic      |
| Most people I know would approve of me cheating on taxes.                     | 3.44        | 0.58           |
| If I cheated on my taxes, most people who are important to me would.          | 2.76        | 0.72           |
| No one who is important to me thinks it is ok to cheat on taxes.              | 2.79        | 0.71           |
| Most people who are important to me will look down on me if I cheat on taxes. | 2.52        | 0.60           |
| <b>Cumulative mean of Subjective norms</b>                                    | <b>2.87</b> | <b>0.65</b>    |

Source: Survey data (2022)

The table provides information on the mean and standard deviation of the items related to subjective norms regarding tax evasion. The mean scores indicate the level of agreement or disagreement with the statements.

For the first item, the mean score is 3.44, which indicates that the participants believe that most people they know would approve of them cheating on taxes. The standard deviation is 0.58, which means that the responses are not too spread out and most participants gave similar responses.

For the second item, the mean score is 2.76, which suggests that the participants think that most important people in their lives would not approve of them cheating on taxes. However, the standard deviation of 0.72 is relatively high, which indicates that there is more variability in the responses for this item.

The third item has a mean score of 2.79, indicating that the participants do not believe that anyone important to them thinks it is okay to cheat on taxes. The standard deviation for this item is 0.71.

Finally, the mean score for the fourth item is 2.52, which suggests that the participants believe that most important people in their lives will look down on them if they cheat on taxes. The standard deviation is 0.60.

According to (Zaidatol and Bagheri, 2009), a mean value falling below  $\leq 3.39$  is considered moderate. The finding indicates that taxpayers in Category "A" of Gullele Sub City Small Tax Payers perceive the average mean of subjective norms to be 2.87, which is a moderate result. From the data collected, it can be seen that most respondents in this category According to the perception of the respondents, they believe that tax evasion in the Sub City is primarily influenced by low subjective norms. This means that individuals in the community have a diminished sense of moral obligation or social pressure to comply with tax regulations and fulfill their tax obligations. They perceive that there is a general acceptance or tolerance of tax evasion within the Sub City, leading to a culture or norm where individuals feel less compelled to fulfill their tax responsibilities. This perception suggests that addressing the issue of tax evasion would require interventions that focus on changing these subjective norms by promoting a stronger sense of ethical responsibility and social expectation for tax compliance. Stakeholders such as government experts, families, individuals, groups, and peers can influence taxpayers on whether they engage in tax evasion or not. The standard deviation for subjective norms was 0.65, which is low, indicating that there is no extreme in the positive or negative scores. This implies that the participants' responses are homogenous and not widely spread from the mean. This variation is acceptable because the values are normal and support the agreement. The obtained result of standard deviation (0.65) is consistent with (Mark, Philip and Adrian, 2009), which implies that the responses of the respondents were not dispersed towards the perceived/obtained mean result.

#### **4.4.3 Respondents perception about Tax knowledge**

This section describes the descriptive statistics calculated for the four scales of tax knowledge. The measures of central tendency and dispersion were obtained from the sample of respondents in Gullele Sub City Small Tax Payers Category "A" Taxpayers and are shown in the following tables. The tables show the mean and standard deviation of the variables. The standard deviation reflects the degree of variation in the responses of the respondents. A higher standard deviation indicates more variation in the responses.

**Table 4.6: Tax knowledge and its sub scales**

| Items of Tax knowledge   | Mean        | Std. Deviation |
|--|-------------|----------------|
|  | Statistic   | Statistic      |
| I feel that taxpayers have enough knowledge on tax evasion   | 2.60        | 0.65           |
| The authority given training on the Ethiopian tax law and its procedure to taxpayer to build tax evasion knowledge.  | 3.41        | 0.66           |
| I am able to interpret taxation laws when computing taxes  | 2.71        | 0.73           |
| I feel that every taxpayer has knowledge an obligation to fill a tax return form and calculate his own tax liability | 3.49        | 0.63           |
| <b>Cumulative mean of Tax knowledge</b>  | <b>3.05</b> | <b>0.67</b>    |

Source: Survey data (2022)

The table presents the results of the respondents' perceptions of their tax knowledge. The mean scores of each item on the tax knowledge scale range from 2.60 to 3.49, with a cumulative mean of 3.05. The standard deviation ranges from 0.63 to 0.73, indicating that the responses are clustered around the mean.

The first item shows that respondents believe that taxpayers do not have enough knowledge of tax evasion, with a mean score of 2.60. The second item suggests that training on Ethiopian tax law and its procedures can help taxpayers build their knowledge of tax evasion, with a mean score of 3.41. The third item indicates that respondents are confident in their ability to interpret taxation laws when computing taxes, with a mean score of 2.71. The final item shows that respondents believe that every taxpayer has an obligation to fill a tax return form and calculate their own tax liability, with a mean score of 3.49.

According to (Zaidatol and Bagheri, 2009), a mean value below or equal to 3.39 is considered moderate. The finding indicates that the perception of Gullele Sub City Small Tax Payers Category “A” taxpayers about the average mean of tax knowledge is 3.05, which is a moderate result. From the collected data, most respondents in Gullele Sub City Small Tax Payers Category “A” perceived that based on the understanding of the respondents, they believe that tax evasion in their Sub City is primarily caused by a lack of tax knowledge among taxpayers. This means



that individuals may not have a clear understanding of their tax obligations, the proper procedures for filing taxes, or the consequences of tax evasion. As a result, they may unintentionally or knowingly engage in tax evasion due to ignorance or misinformation. The respondents perceive that addressing this issue would require initiatives aimed at improving tax literacy and awareness among taxpayers in the Sub City. By providing education and resources about taxation, individuals can become more informed and aware of their tax responsibilities, which can help reduce instances of tax evasion. Taxpayers need to understand the cause and effect of taxation to reduce their engagement in tax evasion. A well-informed taxpayer is less likely to evade taxes, whereas an uninformed taxpayer is more likely to do so. The standard deviation for tax knowledge was 0.67, indicating that the participants' responses were homogeneous and not widely spread from the mean. This variation is acceptable because the values are normal and support the agreement. The obtained result of standard deviation (0.68) is supported by (Mark, Philip, and Adrian, 2009), which implies that the respondents' responses were not dispersed towards the perceived/obtained mean result.

#### **4.4.4 Respondents perception about Tax fairness**

This section presents the descriptive statistics calculated based on the four scales of tax fairness. The measures of central tendency and dispersion were obtained from the sample of respondents in Gullele Sub City Small Tax Payers Category “A” Taxpayers, as shown in the tables below. The tables present the mean and standard deviation of the variable. The mean score represents the degree to which respondents agreed with the given idea. Meanwhile, the standard deviation indicates the degree of variation in the responses of the participants. A higher standard deviation indicates more variation in the responses of the respondents.

**Table 4.7: Tax fairness and its sub scales**

| Items of Tax fairness  | Mean        | Std. Deviation |
|--|-------------|----------------|
|  | Statistic   | Statistic      |
| I feel while the tax burden imposed upon large business firms is fair    | 3.41        | 0.62           |
| I believe that a fair tax system would decreases tax evasion of taxpayer | 2.65        | 0.71           |
| Every large business pays fair tax under the current income tax system   | 3.44        | 0.65           |
| I believe that the overall tax system is equitable                       | 2.64        | 0.68           |
| <b>Cumulative mean of Tax fairness</b>                                   | <b>3.03</b> | <b>0.67</b>    |

Source: Survey data (2022)

The table presents the mean and standard deviation of the responses to the four items measuring tax fairness.

The first item, "I feel while the tax burden imposed upon large business firms is fair," has a mean score of 3.41, indicating that, on average, the respondents perceive that the tax burden imposed on large business firms is fair.

The second item, "I believe that a fair tax system would decrease tax evasion of taxpayer," has a mean score of 2.65, suggesting that the respondents do not fully believe that a fair tax system would reduce tax evasion.

The third item, "Every large business pays fair tax under the current income tax system," has a mean score of 3.44, indicating that, on average, respondents believe that every large business pays a fair tax under the current tax system.

Finally, the fourth item, "I believe that the overall tax system is equitable," has a mean score of 2.64, which implies that the respondents do not fully believe that the overall tax system is equitable.

According to Zaidatol and Bagheri (2009), a mean value falling below or equal to 3.39 is considered moderate. The study found that the perception of Gullele Sub City Small Tax Payers Category "A" taxpayers about the fairness of the tax system had a mean value of 3.03, which is

moderate. Based on the data collected, a significant majority of respondents perceived that tax evasion in their Sub City occurs due to the perceived unfairness of the tax collection procedures, principles, and implementation. The respondents believe that the current system of tax collection is characterized by inequities, inconsistencies, or biases, which lead individuals to engage in tax evasion as a form of protest or resistance against what they perceive as an unjust system. They perceive that certain taxpayers may exploit loopholes or receive preferential treatment, while others bear a disproportionate burden of taxation. This perception of unfairness undermines the willingness of individuals to comply with tax regulations and contributes to a culture of tax evasion. Addressing this issue would require reforms in the tax collection procedures, ensuring greater transparency, equity, and consistency, in order to restore trust and encourage voluntary compliance among taxpayers. Unethical behavior may occur due to the unfairness of the tax collection process. The fairness of tax may have a positive impact on taxpayers. The standard deviation for tax fairness was 0.67, which is low, indicating homogeneity in the participants' responses and minimal variation from the mean. This variation is acceptable as its values are normal and support the agreement. The obtained standard deviation result (0.63) is supported by Mark, Philip, and Adrian (2009), indicating that the responses of the participants were not dispersed from the obtained mean result.

#### **4.4.5 Respondents perception about Tax rate**

This section presents the descriptive statistics computed for the four scales of tax rate. The mean and standard deviation of the variable were obtained from the sample of respondents in Gullele Sub City Small Tax Payers Category “A” Taxpayers, as shown in the following tables. The mean score represents the extent to which respondents agreed with the given statement, while the standard deviation reflects the degree of variability among the responses. A higher standard deviation indicates greater variation in the responses of respondents.

**Table 4.8: Tax rate and its sub scales**

| Items of Tax rate  | Mean      | Std. Deviation |
|--|-----------|----------------|
|  | Statistic | Statistic      |
| VAT rate have effect on tax evasion.                                     | 3.41      | 0.62           |
| Exempted or Zero-Rated Goods affect VAT cause to increase tax evasion    | 2.65      | 0.71           |
| Reducing the rate of VAT might encourage taxpayers' tax evasion          | 3.44      | 0.65           |
| Raising the rate of tax will encourage taxpayers' voluntary tax evasion. | 2.64      | 0.68           |
| <b>Cumulative mean of Tax rate</b>                                       | 3.03      | 0.67           |

Source: Survey data (2022)

The table presents the results of a study examining taxpayers' perceptions of the impact of tax rates on tax evasion. The items in the table relate to the respondents' views on VAT rate and its effect on tax evasion, as well as their opinions on how the tax rates can influence taxpayers' tax evasion behavior.

The mean values for the items range from 2.65 to 3.44, with a cumulative mean of 3.03. The item with the highest mean score is "Reducing the rate of VAT might encourage taxpayers' tax evasion" (3.44), while the item with the lowest mean score is "Raising the rate of tax will encourage taxpayers' voluntary tax evasion" (2.64). The standard deviation values for the items range from 0.62 to 0.71, indicating that there is relatively low variability in the responses.

The results suggest that respondents believe that tax rates have an impact on tax evasion, with a majority indicating that reducing the VAT rate might encourage tax evasion. However, it is important to note that these perceptions may not necessarily reflect actual tax evasion behavior. The study highlights the need for policymakers to carefully consider the impact of tax rates on taxpayer behavior and to take steps to minimize tax evasion.

According to Zaidatol and Bagheri (2009), a mean value of  $\leq 3.39$  is considered moderate. The study found that Small Taxpayers Category "A" in Gullele Sub City perceive the average tax rate to be 3.03, which is a moderate result. Based on the data collected, a significant majority of

respondents hold the belief that tax evasion occurs in their Sub City due to the low tax rate. According to their perception, the reduced tax rate incentivizes individuals or corporations to underreport their income as a means to compensate for the decrease in tax liability. They perceive that this creates an environment where taxpayers are more likely to engage in evasion tactics, such as hiding income or engaging in fraudulent practices, in order to minimize their tax obligations even further.

These respondents view the low tax rate as a contributing factor that undermines tax compliance and encourages tax evasion. They perceive that increasing the tax rate or implementing measures to prevent underreporting and tax avoidance would be necessary to address this issue. Their perception highlights the importance of striking a balance between setting tax rates that are fair and reasonable while ensuring that they provide sufficient revenue to support public services and initiatives. The standard deviation for the tax rate was 0.67, which is low, indicating that the responses of the participants were homogeneous and not widely spread from the mean. This level of variation is acceptable because the values are normal and support agreement among the participants. The obtained standard deviation value (0.67) is consistent with Mark, Philip, and Adrian's (2009) findings, which state that a value  $<1$  implies that the respondents' responses were not dispersed from the perceived/obtained mean result.

#### **4.4.6 Respondents perception about tax evasion**

This section explains the descriptive statistics calculated on the ten scales of tax evasion. The measures of central tendency and dispersion were obtained from a sample of respondents in Gullele Sub City Small Tax Payers Category "A" Taxpayers, as shown in the following tables. The tables indicate the mean and standard deviation of variables. The standard deviation indicates the degree of variation in responses among the respondents. The higher the standard deviation, the more the responses varied among the respondents.

**Table 4.9: Tax Evasion and Its Sub Scales**

| Items of Tax Evasion   | Mean | Std. Deviation |
|--|------|----------------|
| The government does not do enough to enforce tax laws and regulations.               | 3.62 | 0.28           |
| Taxpayers who engage in tax evasion should face severe penalties.                    | 4.37 | 0.32           |
| Tax evasion undermines the fairness of the tax system.                               | 3.58 | 0.63           |
| The government should simplify the tax code to make it more difficult to evade taxes | 3.93 | 0.71           |
| Engaging in tax evasion is foolish.  | 4.68 | 0.51           |
| Tax evasion can be (useless-useful)  | 4.03 | 0.81           |
| I find the concept of tax evasion (unattractive-attractive)                          | 3.86 | 0.71           |
| I think I would pay less taxes if I engaged in tax evasion (likely).                 | 3.79 | 0.86           |
| Cheating on taxes is unpleasant.   | 3.76 | 0.84           |
| Tax authority employees are the reason for tax evasion.                              | 4.08 | 0.84           |
| <b>Cumulative mean of tax evasion</b>  | 4.27 | 0.65           |

Source: Survey data (2022)

The table presents survey results regarding the attitudes of participants towards tax evasion. For each survey item, the mean and standard deviation were calculated. One of the survey items was about the government's enforcement of tax laws and regulations. The mean response was 3.62, indicating a moderate level of agreement that the government needs to do more to enforce tax laws and regulations. Therefore, respondents believe that the government is not doing enough to enforce tax laws and regulations, and they think that stricter penalties or increased efforts to detect and prosecute tax evaders may be necessary. This perception may indicate that respondents expect the government to ensure tax compliance, and they find the current level of enforcement insufficient. To gain the trust and compliance of taxpayers, the government may need to improve their enforcement efforts.

Another survey item was about penalties for taxpayers who engage in tax evasion. The mean

response was 4.37, indicating a high level of agreement that tax evaders should face severe penalties. Therefore, respondents believe that tax evasion is a severe offense that should be punished harshly. This perception may indicate that respondents find the current consequences for tax evasion too lenient or that the government should prioritize enforcing penalties for tax evaders. Respondents support measures to deter tax evasion through the threat of severe penalties, which could include fines, legal action, or even imprisonment. Respondents believe that stronger penalties could increase tax compliance and reduce the incidence of tax evasion.

According to the survey results, tax evasion is seen as a threat to the fairness of the tax system, with a mean response of 3.58 indicating moderate agreement on this issue. Respondents suggest that preventing tax evasion is necessary to maintain equity in the tax system. This view may motivate them to support measures such as stricter penalties, increased enforcement, or raising public awareness on the negative effects of tax evasion to improve compliance.

The survey also revealed a moderate level of agreement (mean response of 3.93) that simplifying the tax code could help prevent tax evasion. Respondents may see the complexity of the tax code as a contributing factor to tax evasion. This suggests that respondents may believe that simplification of the tax code could make it easier for taxpayers to comply with their obligations and reduce opportunities for evasion. This perception may encourage them to support tax reforms aimed at simplifying the tax code. The government could take action to address this perception and consider ways to simplify the tax code to improve tax compliance and reduce tax evasion.

Engaging in tax evasion is unwise: The mean response was 4.68, indicating a high level of agreement that engaging in tax evasion is unwise. The implication of the paragraph is that the respondents in the survey strongly believe that engaging in tax evasion is a risky and unwise behavior. The high level of agreement with this statement suggests that the respondents perceive tax evasion as a behavior that can have serious negative consequences, such as legal action, fines, damage to reputation or loss of public trust.

The implication is that the respondents likely see tax evasion as a behavior that is not worth the potential risks and consequences. This perception could motivate the respondents to support

measures to deter tax evasion through education, public awareness campaigns, or more stringent penalties. Additionally, this perception could also suggest that the respondents may have a negative view of tax evaders and may be less likely to engage in tax evasion themselves.

Tax evasion can be ineffective: The mean response was 4.03, indicating a moderate level of agreement that tax evasion can be ineffective. The implication of the paragraph is that the respondents in the survey have a mixed perception of the effectiveness of tax evasion. The moderate level of agreement with this statement suggests that the respondents are not entirely convinced that tax evasion can be a useful or effective strategy for taxpayers.

The implication is that the respondents may view tax evasion as a behavior that may not yield significant financial gains for taxpayers in the long run. This perception could motivate the respondents to support measures to deter tax evasion through education, public awareness campaigns, or more stringent penalties. Additionally, this perception could also suggest that the respondents may be less likely to engage in tax evasion themselves if they believe that it may not be a profitable or worthwhile endeavor. However, the moderate level of agreement could also suggest that some respondents may believe that tax evasion can be a useful strategy under certain circumstances, such as when tax rates are perceived as too high or when the likelihood of getting caught is low. This perception could be problematic if it leads to a culture of tax evasion or undermines public trust in the fairness and integrity of the tax system.

I found the concept of tax evasion (unattractive-attractive). The mean response was 3.86, indicating a moderate level of agreement that tax evasion is unattractive. This paragraph implies that the respondents in the survey hold a moderate level of negative perception of the concept of tax evasion. The moderate agreement with this statement suggests that the respondents perceive tax evasion as an undesirable behavior that violates moral and ethical principles.

This perception may motivate respondents to support measures to deter tax evasion through education, public awareness campaigns, or more stringent penalties. Additionally, this perception could indicate that respondents may be less likely to engage in tax evasion themselves if they view it as unattractive or morally wrong. However, the moderate level of agreement with this statement may also suggest that some respondents do not have a strong negative perception of



tax evasion or may view it as more acceptable under certain circumstances. This perception could be problematic if it leads to a culture of tax evasion or undermines public trust in the fairness and integrity of the tax system.

"I believe I would pay fewer taxes if I engaged in tax evasion" (unlikely-likely): The mean response was 3.79, indicating a moderate level of disagreement with the statement that tax evasion would result in paying fewer taxes. The implication is that the respondents in the survey do not consider tax evasion to be an effective way of reducing their tax burden and are unlikely to engage in such behavior for this reason.

The moderate level of disagreement suggests that respondents have a basic understanding of the risks and consequences of tax evasion, which can help deter such behavior by promoting compliance with tax laws and regulations. However, it also implies that some respondents may not fully comprehend the potential negative consequences of tax evasion or may believe that it is a viable means of reducing their tax burden. This perception could be problematic if it leads to an increase in tax evasion or undermines public trust in the fairness and integrity of the tax system.

"Cheating on taxes is unpleasant" (unpleasant-pleasant): The mean response was 3.76, indicating a moderate level of disagreement with the statement that cheating on taxes is pleasant. This implies that respondents do not view tax evasion as a desirable or enjoyable activity, which may make them less likely to engage in it.

The moderate level of disagreement suggests that respondents have a basic sense of morality and ethical values and perceive cheating on taxes as negative behavior. This perception can be beneficial in discouraging tax evasion by promoting compliance with tax laws and regulations. However, it could also imply that some respondents do not fully appreciate the severity of tax evasion or the harm it can cause to society. This perception could be problematic if it leads to an increase in tax evasion or undermines public trust in the fairness and integrity of the tax system.

"Tax authority employees are the reason for tax evasion" (untrue-true): The mean response was 4.08, indicating a moderate level of disagreement with the statement that tax authority employees are the reason for tax evasion. This suggests that respondents do not believe that tax authority employees are solely responsible for tax evasion and may recognize other factors that contribute to it.

The moderate level of disagreement can promote a more nuanced understanding of the causes of tax evasion and a more cooperative relationship between taxpayers and tax authorities. If taxpayers understand that tax authorities are not solely responsible for tax evasion, they may be more willing to cooperate with tax authorities and comply with tax laws and regulations. However, the moderate level of disagreement could also indicate that some respondents lack trust or have negative perceptions of tax authority employees, which could hinder compliance with tax laws and regulations. It is essential for tax authorities to address these perceptions and build trust with taxpayers to promote compliance with tax laws and regulations.

Cumulative mean of tax evasion: The mean response was 4.27, indicating a relatively high level of agreement with the concept of tax evasion. Overall, the results suggest that the participants have a generally negative attitude towards tax evasion and believe that tax evaders should face severe penalties. However, there is also some level of disagreement regarding the effectiveness of the government's efforts to combat tax evasion, and some participants may view tax evasion as a means of paying less taxes.

The high level of agreement with the concept of tax evasion suggests that a significant portion of the respondents may have a negative perception of tax laws and regulations, or may view tax evasion as a justifiable means of reducing their tax burden. This perception could be problematic if it leads to an increase in tax evasion or undermines public trust in the fairness and integrity of the tax system.

However, the general negative attitude towards tax evasion and belief in severe penalties for tax evaders suggests that the respondents view tax evasion as a serious offense that should be discouraged. The level of disagreement regarding the effectiveness of the government's efforts to combat tax evasion could indicate a lack of confidence in the tax system or a perception that the government is not doing enough to address the issue. Addressing these concerns and promoting public awareness of the harms of tax evasion could be beneficial in promoting compliance with tax laws and regulations.

## **4.5 Determinant of Tax Evasion**

### **4.5.1 Pearson's Product Moment Correlation Coefficient**

Correlation measures the association between two variables. Kothari (2004) states that a positive value of "r" indicates a positive correlation between the two variables, meaning that changes in both variables occur in the same direction. Conversely, negative values of "r" indicate a negative correlation, meaning that changes in the two variables occur in opposite directions. A "r" value of zero indicates no association between the two variables. A value of (+) 1 for "r" indicates perfect positive correlation, and a value of (-) 1 indicates perfect negative correlation.

In this study, Pearson's Product Moment Correlation Coefficient was used to determine the relationship between the determinants of tax evasion and tax evasion. The following section presents the results of Pearson's Product Moment Correlation for the relationship between the independent and dependent variables. The table below shows that the correlation coefficients for the relationships between variables are linear and positive, ranging from substantial to strong correlation coefficients. Table 4.10 presents the Pearson's Coefficient of Correlation matrix for the four variables.

To determine the strength of the relationship between the determinants of tax evasion and tax evasion, the measurement of the rule of thumb is used. A correlation of 0.20 is characterized as very weak, > -0.20 and -0.40 is characterized as weak, > -0.40 and -0.60 is characterized as moderate, > -0.60 and -0.80 is characterized as strong, and greater than 0.80 is very strong (Kothari, 2004). The Pearson correlation analysis was used to examine the relationships between the determinants of tax evasion and tax evasion.

**Table 4.10: Correlations Matrix**

|  |                        | Moral<br>Obligation | Subjective<br>Norms | Tax<br>Knowledge | Tax<br>Fairness | Tax<br>Rate | Tax Evasion |
|--|------------------------|---------------------|---------------------|------------------|-----------------|-------------|-------------|
| Moral<br>Obligation  | Pearson<br>Correlation | 1                   | .397**              | .213**           | .129*           | .416**      | -.573**     |
|  | Sig. (2-tailed)        |                     | .000                | .000             | .011            | .000        | .000        |
| Subjective<br>Norms  | Pearson<br>Correlation | .397**              | 1                   | .383**           | .252**          | .504**      | -.447**     |
|  | Sig. (2-tailed)        | .000                |                     | .000             | .000            | .000        | .000        |
| Tax Knowledge  | Pearson<br>Correlation | .213**              | .383**              | 1                | .405**          | .499**      | -.426**     |
|  | Sig. (2-tailed)        | .000                | .000                |                  | .000            | .000        | .000        |
| Tax Fairness   | Pearson<br>Correlation | .129*               | .252**              | .405**           | 1               | .519**      | -.602**     |
|  | Sig. (2-tailed)        | .011                | .000                | .000             |                 | .000        | .000        |
| Tax Rate   | Pearson<br>Correlation | .416**              | .504**              | .499**           | .519**          | 1           | -.382**     |
|  | Sig. (2-tailed)        | .000                | .000                | .000             | .000            |             | .000        |
| Tax Evasion  | Pearson<br>Correlation | -.573**             | -.447**             | -.426**          | -.602**         | -.382**     | 1           |
|  | Sig. (2-tailed)        | .000                | .000                | .000             | .000            | .000        |             |
| **. Correlation is significant at the 0.01 level (2-tailed). |                        |                     |                     |                  |                 |             |             |
| *. Correlation is significant at the 0.05 level (2-tailed).  |                        |                     |                     |                  |                 |             |             |

Source: Survey data (2022)

In addition, Table 4.10 above presents the correlations between the dependent variable (tax evasion) and independent variables (moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate). The table provides the Pearson's correlation matrix for the analyzed variables.

The results of the correlation analysis are presented in Table 4.10, which shows a significant negative relationship between tax knowledge and tax evasion ( $r=-.426$ ,  $p=0.000$ ). This indicates that lower tax knowledge leads to a higher tendency to evade taxes among the Gullele Sub City

Small Tax Payers Category “A” taxpayers, and vice versa. The negative association between these variables suggests that when tax knowledge is weak, tax evasion becomes difficult to manage by the Gullele Sub City Small Tax Payers Category “A” taxpayers. Therefore, the association between tax knowledge and tax evasion in this category was negative and statistically significant.

Table 4.10 also reveals a significant negative relationship between tax rate and tax evasion ( $r=-.382$ ,  $p=0.000$ ). This indicates that when tax rates perform better, tax evasion among the Gullele Sub City Small Tax Payers Category “A” taxpayers decreases, and vice versa. The negative association between these variables suggests that when tax rates are weak, tax evasion becomes difficult to manage by the Gullele Sub City Small Tax Payers Category “A” taxpayers. Therefore, the association between tax rate and tax evasion in this category was negative and statistically significant.

Furthermore, the table shows a significant negative relationship between tax fairness and tax evasion ( $r=-.602$ ,  $p=0.000$ ). This indicates that the more fair the tax system is perceived to be, the less tax evasion occurs among the Gullele Sub City Small Tax Payers Category “A” taxpayers, and vice versa. The negative association between these variables suggests that when tax fairness is weak, tax evasion becomes difficult to manage by the Gullele Sub City Small Tax Payers Category “A” taxpayers. Therefore, the association between tax fairness and tax evasion in this category was negative and statistically significant.

Moreover, the table indicates a significant negative relationship between moral obligation and tax evasion ( $r=-.573$ ,  $p=0.000$ ). This indicates that an increase in moral obligation inversely affects tax evasion among the Gullele Sub City Small Tax Payers Category “A” taxpayers, and vice versa. The negative association between these variables suggests that when moral obligation is weak, tax evasion becomes difficult to manage by the Gullele Sub City Small Tax Payers Category “A” taxpayers. Therefore, the association between moral obligation and tax evasion in this category was negative and statistically significant.

Finally, the table shows a significant negative relationship between subjective norms and tax evasion ( $r=-.447$ ,  $p=0.000$ ). This indicates that an increase in subjective norms inversely affects tax evasion among the Gullele Sub City Small Tax Payers Category “A” taxpayers, and vice versa. The negative association between these variables suggests that when subjective norms are weak, tax evasion becomes difficult to manage by the Gullele Sub City Small Tax Payers Category “A” taxpayers. Therefore, the association between subjective norms and tax evasion in this category was negative and statistically significant.

#### 4.5.2 Assumption for Linear Regression Model Test

Multiple regression analysis is a method that examines whether one or more independent variables can account for changes in the dependent (outcome) variable. The assumptions of regression analysis include tests for multicollinearity, normality, linearity, homoscedasticity, and independence of errors or residuals.

##### 4.5.2.1 Multi Collinearity Test of Assumptions

Multicollinearity occurs when there is high correlation between predictor/independent variables. This can result in shared predictive power between variables, reducing the effectiveness of individual predictors. To detect multicollinearity, tolerance and variance inflation factor (VIF) values can be used. A tolerance value below 0.1 and VIF value above 10% indicate a multicollinearity problem (Robert, 2006). In this study, all VIF values are within the acceptable range, indicating no issue of multicollinearity.

**Table 4.11 : Multi collinearity Test**

| Variables        | Tolerance | VIF   |
|------------------|-----------|-------|
| Moral obligation | .838      | 1.194 |
| Subjective norms | .740      | 1.351 |
| Tax knowledge    | .749      | 1.336 |
| Tax fairness     | .825      | 1.212 |
| Tax rate         | .351      | 1.001 |

Source: Survey data (2022)

The presence of multicollinearity in the regression model was assessed in this study using both Variance Inflation Factor (VIF) and tolerance values. A tolerance value closer to 1 and a VIF value around 1 and not exceeding 10 indicate the absence of multicollinearity among the independent variables (Pallant, 2005). The table above indicates that there is no evidence of multicollinearity in this study.

#### 4.5.2.2 Normality test of Assumption

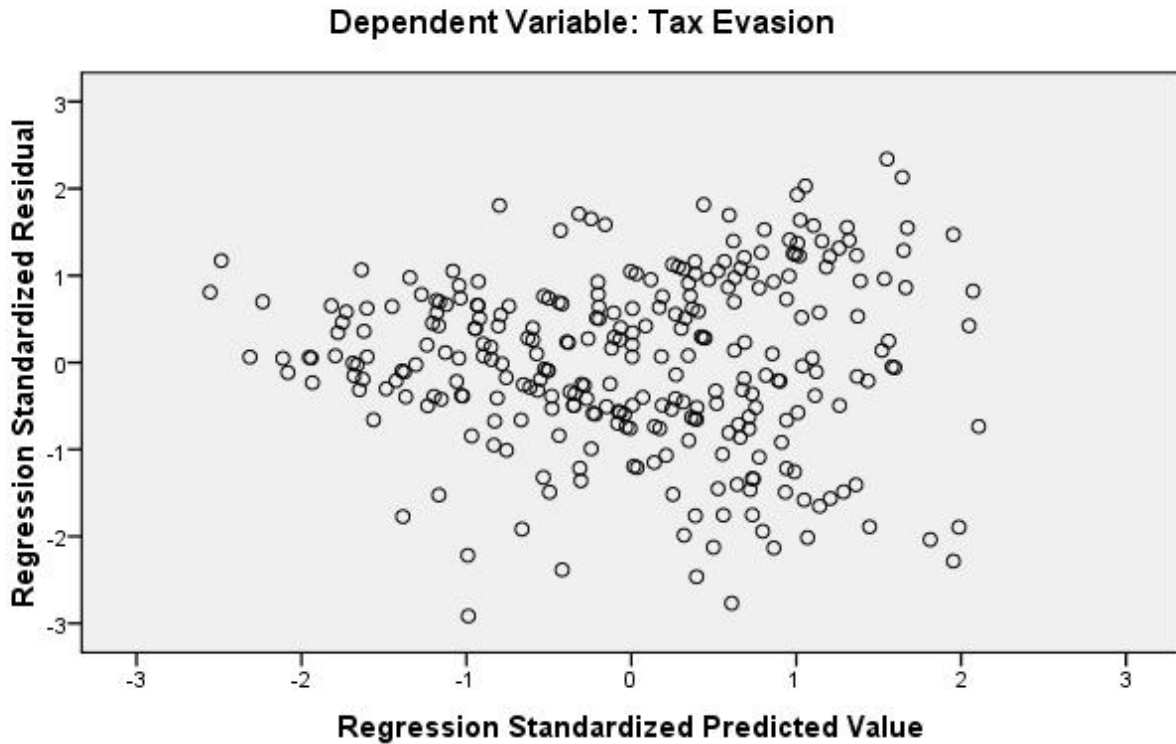
Park (2008) suggests that a common assumption in statistical analysis is that a random variable follows a normal distribution. Although normality is often assumed without empirical proof or testing, many statistical procedures require normality. If this assumption is violated, the interpretation and inference may not be reliable or valid. Normality can be assessed in terms of skewness (lack of symmetry) and kurtosis (pointiness), with a normal distribution having values of zero for both parameters (Ghasemi and Zahedias, 2012). The acceptable range for normality is typically between -1 and +1. As shown in the above table, the skewness and kurtosis test results for the data fall within this acceptable range, indicating that the data is normally distributed.

*Table 4.12 Normality Test*

|                  | N         | Skewness  |            | Kurtosis  |            |
|------------------|-----------|-----------|------------|-----------|------------|
|                  | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Moral obligation | 215       | 1.004     | .125       | -1.061    | .248       |
| Subjective norms | 215       | .140      | .125       | -.831     | .248       |
| Tax knowledge    | 215       | .355      | .125       | -.175     | .248       |
| Tax fairness     | 215       | .354      | .125       | -.909     | .248       |
| Tax rate         | 215       | .403      | .125       | -.135     | .248       |

Source: Survey data (2022)

## Scatterplot



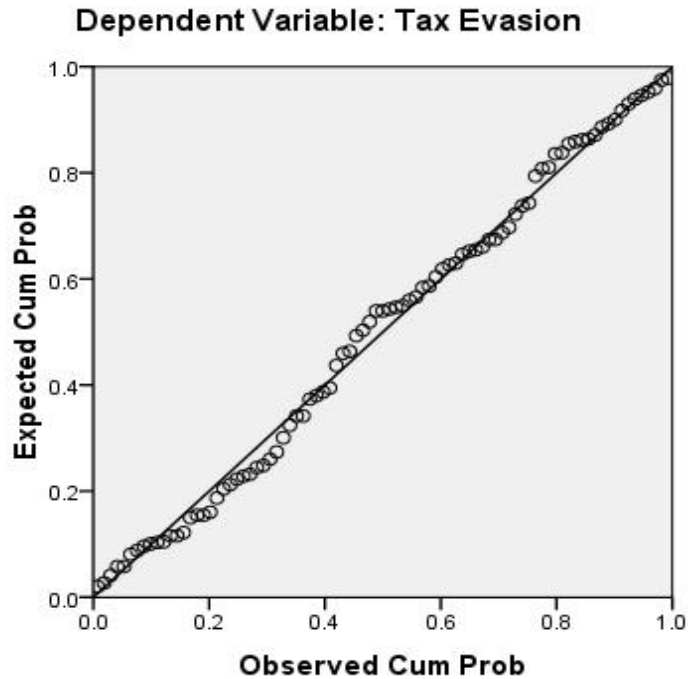
Source: Survey data (2022)

### 4.5.2.3 Linearity test of Assumption

To test for linearity, it is important to assess the degree to which changes in the independent variables are related to changes in the dependent variable. In order to determine whether a linear relationship exists between the dependent variable (tax evasion) and the independent variables (moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate), plots of regression residuals were generated using SPSS. The scatter plot of residuals shows minimal differences in the spread of residuals when viewed from left to right, as depicted in the figure above. This suggests that the relationship being predicted is linear, thereby satisfying the assumption.



## Normal P-P Plot of Regression Standardized Residual

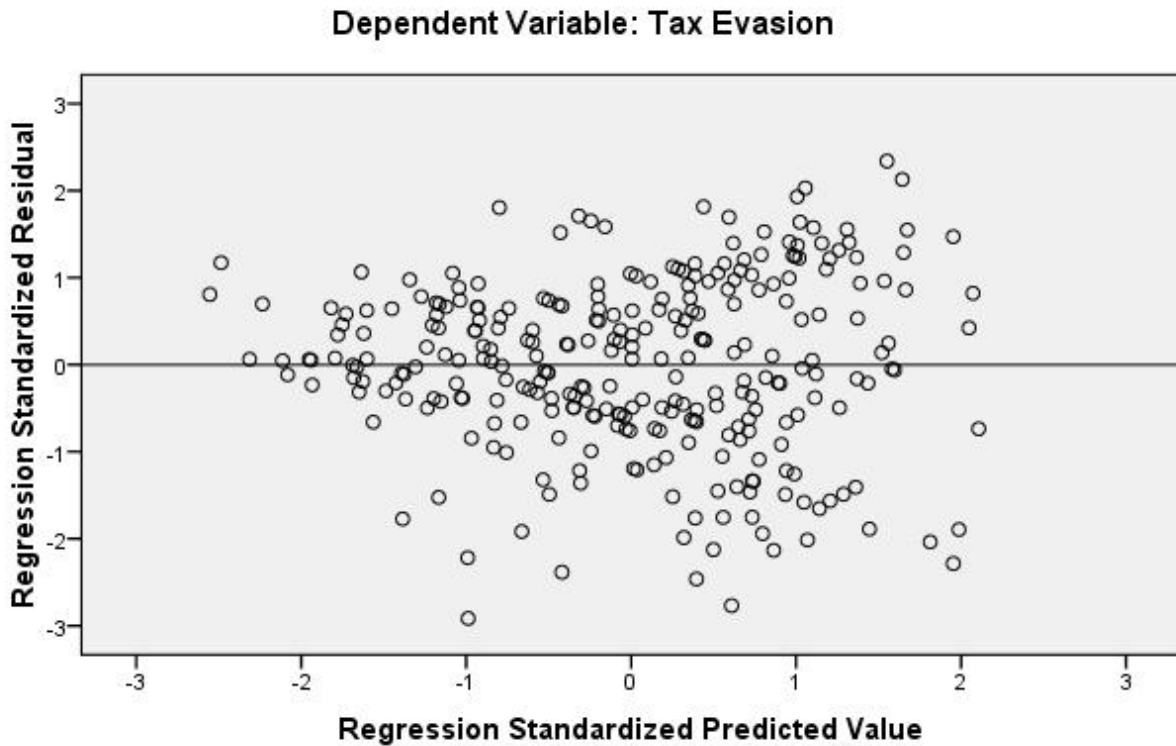


Source: Survey data (2022)

### 4.5.2.4 Homoscedasticity (equal variance)

To ensure the existence of homoscedasticity or equal variance, the variance of the residual terms should be constant at each level of the predictor variables (Field, 2013). This means that as we move through levels of one variable, the variance of the other variable should not change. In the table below, we can see that the variances between the dependent variable (tax evasion) and the independent variables (moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate) are very minimal. Therefore, we can conclude that the assumption of homoscedasticity or equal variance was fulfilled for this particular study. Homoscedasticity can be observed when the spread of residuals is randomly distributed, resembling a shotgun blast rather than a cone or fan shape in which points are equally distributed above or below the X-axis to the left/right of zero on the y-axis. As shown in Figure 2, the residuals were randomly distributed, and the variance or homogeneity of variance was constant across the linear model. Thus, homoscedasticity was not violated.

## Scatterplot



Source: Survey data (2022)

### 4.5.2.5 Independence of errors or residuals

To examine the independence of errors or residuals, the Durbin-Watson statistic is utilized, with an acceptable range of 1.50 to 2.50. The results of the Durbin-Watson test are presented below in table 4.13, indicating a value of 1.817. Assumption 4 is also met as the Durbin-Watson value falls within the acceptable range of 1.50 to 2.50.

**Table 4.13: Independence of errors or residuals**

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

| Model | R    | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               | Durbin-Watson |
|-------|------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|---------------|
|       |      |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |               |
| 1     | .826 | .682     | .679              | .33913                     | .682              | 203.35   | 4   | 211 | .000          | 1.817         |

a. Predictors: (Constant), moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate

B. Dependent Variable: Tax Evasion

Source: Survey data (2022)

**4.5.3 Results of Inferential Statistics**

This section presents the results of inferential statistics used to evaluate the study's objectives. Pearson's Product Moment Correlation Coefficient and regression analyses were conducted to draw conclusions regarding the sample and make decisions about the research hypothesis.

**Table 4.14: Model Summary**

| Model | R    | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               | Durbin-Watson |
|-------|------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|---------------|
|       |      |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |               |
| 1     | .826 | .682     | .679              | .33913                     | .682              | 203.35   | 4   | 211 | .000          | 1.817         |

a. Predictors: (Constant), Moral Obligation, Subjective Norms, Tax Knowledge, Tax Fairness, And Tax Rate

b. Dependent Variable: Tax Evasion

Source: Survey data (2022)

This statistical measurement informs us by indicating the value of R<sup>2</sup>, which explains the extent of the effect of the independent variable on the dependent variable. Table 4.14 above illustrates and clarifies the linear regression of four independent variables and the dependent variable. As illustrated in the table, the collective set of determinant factors of the five independent variables explained 68.2% (R<sup>2</sup> = .682) of the dependent variable (tax evasion). This suggests that 68.2%

of tax evasion among the surveyed Gullele Sub City Small Tax Payers Category “A” Taxpayers is evidently influenced by the independent variables, whereas the remaining 31.8% is determined by other unaccounted factors in this study.

#### 4.5.4 Evaluating the Independent Variables Based on the ANOVA Result (F - test)

In this study, the ANOVA table shows a significance value of 0.000, which is less than 1%, indicating a significant simultaneous determinant of tax evasion dimensions towards tax evasion (Table 4.14). The coefficients table 4.14 shows the individual determinant of tax evasion dimensions towards tax evasion. All five independent variables have a significance value less than the significance level (5%), which significantly affects the dependent variable individually. Therefore, from the ANOVA test in Table 4.14, it can be observed that the F-value (F=203.359) is significant at 0.000 (P<0.05), indicating a significant statistical relationship between tax evasion and the predictors, i.e., moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate. According to Gupta (1999), the sig result should be less than 0.05 to fit the model and the data. Therefore, the researcher concludes that the overall significance of the model in the ANOVA table (Table 4.1) is fit at a sig of 0.000, indicating that the model fits the data.

**Table 4.15: ANOVA**

|   | Model      | Sum of Squares | df  | Mean Square | F       | Sig.              |
|---|------------|----------------|-----|-------------|---------|-------------------|
| 1 | Regression | 93.551         | 4   | 23.388      | 203.359 | .000 <sup>a</sup> |
|   | Residual   | 43.588         | 211 | .115        |         |                   |
|   | Total      | 137.139        | 215 |             |         |                   |

a. Predictors: (Constant), moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate

b. Dependent Variable: Tax Evasion

Source: Survey data (2022)

**Table 4.16 Regression Coefficients**

| Model            | Unstandardized Coefficients |            | Standardized Coefficients | T     | Sig. | Collinearity Statistics |       |
|------------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
|                  | B                           | Std. Error | Beta                      |       |      | Tolerance               | VIF   |
| (Constant)       | .305                        | .113       |                           | 2.701 | .007 |                         |       |
| Moral obligation | -.444                       | .026       | -.545                     | 7.227 | .000 | .838                    | 1.194 |
| Subjective norms | -.078                       | .022       | -.119                     | 3.525 | .000 | .740                    | 1.351 |
| Tax knowledge    | -.152                       | .027       | -.188                     | 5.624 | .000 | .749                    | 1.336 |
| Tax fairness     | -.237                       | .023       | -.328                     | 4.288 | .000 | .825                    | 1.212 |
| Tax rate         | -.070                       | .055       | -.090                     | 1.286 | .199 | .450                    | 2.224 |

a. Dependent Variable: Tax Evasion

Source: Survey data (2022)

The results from the last regression coefficient table (4.16) show a significant and negative effect of moral obligation (-.545;  $P < .05$ ) on tax evasion. This means that the predictor variable, moral obligation, has a significant contribution to tax evasion. Therefore, it can be concluded that any decrease in moral obligation will lead to an increase in tax evasion, while an improvement in moral obligation will lead to a decrease in tax evasion (dependent variable).

Similarly, the results show a significant and negative effect of subjective norms (-.119;  $P < .05$ ), tax knowledge (-.188;  $P < .05$ ), tax fairness (-.328;  $P < .05$ ), and tax rate (-.090;  $P < .05$ ) on tax evasion. Therefore, any decrease in these variables will lead to an increase in tax evasion, while an improvement in these variables will lead to a decrease in tax evasion (dependent variable).

In terms of unique contributions, the beta values for moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate were -.545, -.119, -.188, -.328, and -0.090 respectively (all measures are statistically significant). This indicates that the biggest unique contribution to tax evasion is made by moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate. Among these variables, moral obligation ( $\beta = -0.545$ ) was found to be the most significant and statistically meaningful in enhancing tax evasion in Gullele Sub City Small Tax Payers Category

“A” Taxpayers, while tax rate ( $\beta = -.188$ ) had the least influential factor. Based on this analysis, the regression equation for the tax evasion of the Gullele Sub City Small Tax Payers Category “A” Taxpayers can be algebraically formulated as:

**Equation: For Regress Determinants of Tax Evasion**

$$Y_i = 0 + 1X_1 + 2X_2 + 3X_3 + 4X_4 + E \dots\dots$$

$$Y = .305 + .545X_1 + .119X_2 + .188X_3 + .328X_4 + 0.09X_4 + E \dots\dots$$

The regression coefficient explains the average amount of change in the dependent variable that is caused by a unit of change in the independent variable. Therefore, the regression equation above indicates that when moral obligation, subjective norms, tax knowledge, tax fairness, and tax rate decrease by one unit, they are likely to have an influence on the increase of tax evasion of Gullele Sub City Small Tax Payers Category “A” Taxpayers by -.545, -.119, -.188, -.328, and -0.09, respectively.

**Hypothesis Testing**

The proposed hypothesis was tested based on the results of the regression analysis, where the Sig.-value in Table 4.16 was used to determine whether a specific independent variable had a significant effect on the dependent variable. For this study, the rule of thumb was that if the P-value was less than  $\alpha = 0.05$ , the null hypothesis ( $H_0$ ) would be rejected, and conversely, if  $\text{Sig.} > \alpha = .05$ ,  $H_0$  would be accepted. In other words, the hypothesis was supported when the Sig. value was less than 0.05, and the null hypothesis was rejected when the Sig. value was larger than 0.05. To evaluate the effect of each independent variable on the dependent variable, beta coefficients were used. Therefore, the interpretation was done by comparing the Sig. and beta estimates for each hypothesis.

***H1: Moral obligation has a negative and significant effect on the tax evasion.***

***H0: Moral obligation has no a negative and significant effect on the tax evasion.***

The multiple regression coefficient results in Table 4.16 indicate that moral obligation has a significant negative effect on tax evasion, with a standardized coefficient beta value of -.545 and  $p < 0.05$  at a 95% confidence level. Consequently, the null hypothesis ( $H_0$ ) is rejected, and moral obligation significantly contributes to tax evasion. Therefore, it can be concluded that any increase or decline in the variable's value has a significant influence on the level of tax evasion

among Category "A" taxpayers in Gullele Sub City Small Tax Payers.

***H1: Subjective norms has a negative and significant effect on the tax evasion.***

***H0: Subjective norms has no a negative and significant effect on the tax evasion.***

Based on the multiple regression coefficient results displayed in Table 4.16, subjective norms have a significant negative effect on tax evasion, with a standardized coefficient beta value of -.119 and  $p < 0.05$  at a 95% confidence level. Consequently, the null hypothesis ( $H_0$ ) is rejected, and subjective norms contribute significantly to tax evasion. Therefore, it can be concluded that any increase or decline in the variable's value has a significant impact on the level of tax evasion among Category "A" taxpayers in Gullele Sub City Small Tax Payers.

***H1: Tax knowledge has a negative and significant effect on the tax evasion.***

***H0: Tax knowledge has no a negative and significant effect on the tax evasion.***

According to the multiple regression coefficient results in Table 4.16, tax knowledge has a significant negative effect on tax evasion, with a standardized coefficient beta value of -.188 and  $p < 0.05$ , at a 95% confidence level. As a result, the null hypothesis ( $H_0$ ) is rejected. Tax knowledge also contributes significantly to tax evasion. Therefore, it can be concluded that any increase or decrease in the variable's value has a significant impact on the level of tax evasion among Category "A" taxpayers in Gullele Sub City Small Tax Payers.

***H1: Tax fairness has a negative and significant effect on the tax evasion.***

***H0: Tax fairness has no a negative and significant effect on the tax evasion.***

According to the multiple regression coefficient results shown in Table 4.16, tax fairness has a significant negative effect on tax evasion, with a standardized coefficient beta value of -.328 and  $p < 0.05$  at a 95% confidence level. As a result, the null hypothesis ( $H_0$ ) is rejected, and tax fairness also significantly contributes to tax evasion. Therefore, it can be concluded that any increase or decrease in the variable's value has a significant impact on the level of tax evasion among Category "A" taxpayers in Gullele Sub City Small Tax Payers.

***H1: Tax rate has a negative and significant effect on the tax evasion.***

***H0: Tax rate has no a negative and significant effect on the tax evasion.***

According to the multiple regression coefficient results presented in Table 4.16, tax rate has a significant negative effect on tax evasion, with a standardized coefficient beta value of -.090 and

$p < 0.05$  at a 95% confidence level. As a result, the null hypothesis ( $H_0$ ) is rejected, and tax rate significantly contributes to tax evasion. Therefore, it can be concluded that any increase or decrease in the variable's value has a significant impact on the level of tax evasion among Category "A" taxpayers in Gullele Sub City Small Tax Payers.

**Table 4.17: Regression Coefficients**

| S/N | Hypothetical Statement   | Analytical Method   | Decision  | Reason             |
|-----|--|---------------------|-----------|--------------------|
| 1   | Moral Obligation has a negative and significant effect on the Tax Evasion. | Multiple regression | Supported | P - value $< 0.05$ |
| 2   | Subjective Norms has a negative and significant effect on the Tax Evasion  | Multiple regression | Supported | P - value $< 0.05$ |
| 3   | Tax Knowledge has a negative and significant effect on the Tax Evasion     | Multiple regression | Supported | P - value $< 0.05$ |
| 4   | Tax fairness has a negative and significant effect on the Tax Evasion.     | Multiple regression | Supported | P - value $< 0.05$ |
| 5   | Tax rate has a negative and significant effect on the Tax Evasion.         | Multiple regression | Supported | P - value $< 0.05$ |

Source: Survey data (2023)

## 4.6 Discussion result

The findings from this study are consistent with previous research on tax compliance. For example, studies have consistently shown that moral obligation and social norms are important factors in promoting tax compliance behaviors (e.g., Kirchler et al., 2008; Feld & Frey, 2007). Similarly, previous research has found that tax knowledge and transparency around tax policies are important in promoting compliance behaviors (e.g., James & Alley, 2002; Andreoni et al., 1998).

Additionally, previous research has highlighted the importance of fairness perceptions in promoting tax compliance behaviors. For example, a study by Torgler (2003) found that individuals who perceive tax policies to be fair are more likely to comply with tax laws.



Furthermore, research has suggested that increasing transparency and information around tax rates and how taxes are used can improve fairness perceptions and promote compliance behaviors (e.g., Alm&Torgler, 2006; Cummings et al., 2004).

Lastly, the finding that respondents have a relatively high level of agreement with engaging in tax evasion behaviors is consistent with previous research on the prevalence of tax evasion (e.g., Alm et al., 1992). This highlights the need for continued efforts to deter tax evasion and increase the perceived risks and costs of engaging in such behavior.

Overall, these findings suggest that efforts to promote tax compliance behaviors should focus on reinforcing moral and ethical dimensions of tax compliance, increasing social norms around tax compliance, improving tax education and transparency, enhancing perceptions of tax fairness, and deterring tax evasion through increased risk and costs.

For example, a study by Kirchler et al. (2008) found that individuals who perceived tax evasion as morally wrong were less likely to engage in tax evasion. The study also found that individuals who were exposed to messages emphasizing the social responsibility of paying taxes were less likely to engage in tax evasion. This supports the idea that policymakers and tax authorities can focus on strategies that strengthen individuals' sense of moral obligation to pay taxes in order to reduce tax evasion.

Similarly, a study by Alm et al. (2010) found that individuals with higher levels of tax knowledge were less likely to engage in tax evasion. The study also found that providing taxpayers with clear and accessible information on tax rules and regulations can help to reduce tax evasion. This supports the idea that improving tax education programs and providing clear and accessible information on tax rules and regulations can reduce tax evasion.

In terms of tax fairness, a study by Torgler (2003) found that individuals who perceived the tax system as fair and just were more likely to comply with tax laws. The study also found that individuals who believed that the wealthy and powerful pay their fair share of taxes were more likely to comply with tax laws. This supports the idea that policymakers can work to create a tax system that is perceived as fair and just, with policies that ensure the wealthy and powerful pay their fair share of taxes in order to reduce tax evasion.

Regarding subjective norms, a study by Feld and Frey (2002) found that social pressure can act as a deterrent to tax evasion. The study found that individuals who believed that tax evasion was socially unacceptable were less likely to engage in tax evasion. This supports the idea that tax authorities can leverage social norms around tax compliance and use public campaigns to promote a culture of tax compliance.

Finally, in terms of tax rates, a study by Slemrod and Yitzhaki (2002) found that increasing tax rates can reduce the likelihood of tax evasion. However, the study also found that the impact of tax rates on tax evasion is complex and depends on a number of factors, including the level of tax rates, the structure of the tax system, and the level of taxpayer sophistication. This highlights the need for policymakers to consider the potential negative impact of high tax rates on economic growth and individual incentives to work and invest when considering tax rate changes.

Overall, these empirical studies support the importance of moral obligation, tax knowledge, tax fairness, subjective norms, and tax rates in promoting tax compliance and reducing tax evasion. Policymakers and tax authorities can use these findings to develop effective strategies to promote tax compliance and reduce tax evasion.

There have been several empirical studies that support the idea that moral obligation and social norms play a significant role in tax compliance. For example, a study by Kirchler et al. (2008) found that social norms significantly influenced tax compliance behavior, and that tax authorities could leverage social norms by promoting the idea of "good citizenship" and creating a social environment that values tax compliance. Similarly, a study by Feld and Frey (2002) found that moral obligation had a positive effect on tax compliance, and that taxpayers who had a stronger sense of moral obligation were less likely to engage in tax evasion.

Regarding tax knowledge, a study by Hofmann et al. (2014) found that taxpayers who had a better understanding of tax rules and regulations were more likely to comply with tax obligations, and that tax education programs could be effective in increasing tax compliance behavior. Additionally, a study by Torgler (2003) found that tax literacy had a significant

positive effect on tax compliance, and that providing clear and accessible information on tax rules and obligations could increase compliance.

The importance of tax fairness in promoting tax compliance has also been supported by empirical studies. A study by Alm et al. (2010) found that taxpayers who perceived the tax system as fair were more likely to comply with tax obligations, and that policies aimed at increasing tax fairness could improve compliance behavior. Similarly, a study by Feld and Frey (2006) found that tax fairness was an important factor in taxpayers' decision to comply with tax obligations.

Finally, the relationship between tax rates and tax compliance is a topic of ongoing debate in the literature. While some studies have found that higher tax rates can reduce tax evasion (e.g., Cullis and Jones, 1988), others have found that high tax rates can have a negative impact on compliance behavior by reducing the incentives to work and invest (e.g., Cowell and Gordon, 1988). Nonetheless, it is important for tax authorities to consider the potential impact of tax rates on compliance behavior when designing tax policies. Overall, the findings from these empirical studies suggest that tax authorities can promote tax compliance by focusing on strategies that strengthen individuals' sense of moral obligation, leverage social norms, improve tax education programs, and create a tax system that is perceived as fair and just.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION**

#### **5.1 Summary of Findings**

##### **Descriptive Statistics**

- ✓ The cumulative mean of moral obligation is 2.87, with a standard deviation of 0.68. This suggests that, on average, individuals in the sample have a moderate level of moral obligation towards paying taxes, with some variability in their responses.
- ✓ The cumulative mean of subjective norms is also 2.87, with a slightly lower standard deviation of 0.65. This suggests that, on average, individuals in the sample perceive moderate social pressure to comply with tax regulations, with slightly less variability in their responses compared to moral obligation.
- ✓ The cumulative mean of tax knowledge is 3.05, with a standard deviation of 0.67. This indicates that, on average, individuals in the sample have a moderate to high level of knowledge about the tax system, with some variability in their responses.
- ✓ The cumulative mean of tax fairness is 3.03, with a standard deviation of 0.67. This suggests that, on average, individuals in the sample perceive moderate levels of fairness in the tax system, with some variability in their responses.
- ✓ The cumulative mean of tax rate is also 3.03, with a standard deviation of 0.67. This indicates that, on average, individuals in the sample perceive moderate tax rates, with some variability in their responses.
- ✓ The cumulative mean of tax evasion is 4.27, with a standard deviation of 0.65. This suggests that, on average, individuals in the sample have a relatively low level of tax evasion, with low variability in their responses. However, it's important to note that self-reported data on tax evasion may not accurately reflect actual behavior.

### **Correlation statistics**

- ✓ There is a negative correlation (-0.573\*\*) between moral obligation and tax evasion, indicating that the stronger one's sense of moral obligation to pay taxes, the less likely they are to engage in tax evasion.
- ✓ There is a negative correlation (-0.447\*\*) between subjective norms and tax evasion, meaning that the more an individual perceives social pressure to pay taxes, the less likely they are to engage in tax evasion.
- ✓ There is a negative correlation (-0.426\*\*) between tax knowledge and tax evasion, implying that the more knowledge one has about taxation, the less likely they are to engage in tax evasion.
- ✓ There is a negative correlation (-0.602\*\*) between tax fairness and tax evasion, indicating that the perception of tax fairness can act as a deterrent to tax evasion.
- ✓ There is a negative correlation (-0.382\*\*) between tax rate and tax evasion, implying that the higher the tax rate, the less likely individuals are to engage in tax evasion.

### **Regression statistics**

- ✓ The standardized coefficient for moral obligation is -0.545, indicating that a one-unit increase in moral obligation is associated with a 0.545 unit decrease in tax evasion, controlling for the other variables in the model. This coefficient is statistically significant at  $p < .001$ , suggesting a strong relationship between moral obligation and tax evasion.
- ✓ The standardized coefficient for subjective norms is -0.119, indicating that a one-unit increase in subjective norms is associated with a 0.119 unit decrease in tax evasion, controlling for the other variables in the model. This coefficient is statistically significant at  $p < .001$ , suggesting a moderate relationship between subjective norms and tax evasion.
- ✓ The standardized coefficient for tax knowledge is -0.188, indicating that a one-unit increase in tax knowledge is associated with a 0.188 unit decrease in tax evasion, controlling for the

other variables in the model. This coefficient is statistically significant at  $p < .001$ , suggesting a moderate relationship between tax knowledge and tax evasion.

- ✓ The standardized coefficient for tax fairness is -0.328, indicating that a one-unit increase in perceived tax fairness is associated with a 0.328 unit decrease in tax evasion, controlling for the other variables in the model. This coefficient is statistically significant at  $p < .001$ , suggesting a strong relationship between tax fairness and tax evasion.
- ✓ Finally, the standardized coefficient for tax rate is -0.090, indicating that a one-unit increase in tax rates is associated with a 0.090 unit decrease in tax evasion, controlling for the other variables in the model. However, this coefficient is not statistically significant at  $p = .199$ , suggesting that there is not enough evidence to conclude that there is a relationship between tax rates and tax evasion.

## 5.2 Conclusion

- ✓ The relatively high mean value of 2.87 suggests that respondents feel a moderate sense of moral obligation to comply with tax laws. This could imply that efforts to reinforce the moral and ethical dimensions of tax compliance could be effective in promoting compliance behaviors.
- ✓ The moderate mean value of 2.87 indicates that respondents feel a moderate level of social pressure to comply with tax laws. This suggests that efforts to increase social norms around tax compliance could be useful in promoting compliance behaviors.
- ✓ The relatively high mean value of 3.05 suggests that respondents have a moderate level of understanding of tax laws and regulations. This could imply that efforts to improve tax education and increase transparency around tax policies could be effective in promoting compliance behaviors.
- ✓ The moderate mean value of 3.03 suggests that respondents have a moderate perception of the fairness of tax laws and regulations. This could imply that efforts to increase the perceived fairness of tax policies could be useful in promoting compliance behaviors.

- ✓ The moderate mean value of 3.03 indicates that respondents have a moderate perception of the tax rates they are subject to. This could imply that efforts to increase transparency around tax rates and provide more information about how taxes are used could be effective in promoting compliance behaviors.
- ✓ The high mean value of 4.27 suggests that respondents have a relatively high level of agreement with engaging in tax evasion behaviors. This could imply that there is a significant problem with tax evasion in the population being studied, and that efforts to deter tax evasion and increase the perceived risks and costs of engaging in tax evasion could be necessary to promote compliance behaviors.
- ✓ Given the negative correlation between moral obligation and tax evasion, policymakers and tax authorities could focus on strategies that strengthen individuals' sense of moral obligation to pay taxes, such as emphasizing the importance of social responsibility and promoting the idea that tax evasion is a form of cheating.
- ✓ As tax knowledge is negatively correlated with tax evasion, it suggests that increasing individuals' understanding of the tax system and their tax obligations could reduce the likelihood of tax evasion. This could involve improving tax education programs and providing clear and accessible information on tax rules and regulations.
- ✓ The negative correlation between tax fairness and tax evasion highlights the importance of a fair and equitable tax system. Policymakers could work to create a tax system that is perceived as fair and just, with policies that ensure the wealthy and powerful pay their fair share of taxes.
- ✓ The negative correlation between subjective norms and tax evasion suggests that social pressure can act as a deterrent to tax evasion. Tax authorities could leverage this by emphasizing the social norms around tax compliance and using public campaigns to promote a culture of tax compliance.

- ✓ The negative correlation between tax rates and tax evasion suggests that increasing tax rates could reduce the likelihood of tax evasion. However, policymakers should also consider the potential negative impact of high tax rates on economic growth and individual incentives to work and invest.
- ✓ The coefficient for moral obligation is that tax authorities are focus on strengthening individuals' sense of moral obligation to pay taxes by emphasizing social responsibility and promoting the idea that tax evasion is a form of cheating.
- ✓ The coefficient for subjective norms is that tax authorities are leverage social pressure to deter tax evasion by emphasizing social norms around tax compliance and using public campaigns to promote a culture of tax compliance.
- ✓ The coefficient for tax knowledge is that tax authorities work to improve tax education programs and provide clear and accessible information on tax rules and regulations to increase individuals' understanding of the tax system and their tax obligations.
- ✓ The coefficient for tax fairness is that tax authorities are working to create a tax system that is perceived as fair and just, with policies that ensure the wealthy and powerful pay their fair share of taxes.
- ✓ The coefficient for tax rate is inconclusive as the coefficient is not statistically significant. Tax authorities are considering the potential negative impact of high tax rates on economic growth and individual incentives to work and invest, while also exploring other factors that may affect tax evasion.



### 5.3 Recommendation

Based on the finding of the study, the author would forward the policy recommendations points of view as follows:

- ✓ Emphasize the moral obligation to pay taxes: Organizations should emphasize the moral obligation to pay taxes through training and communication programs. This can help to reinforce the idea that paying taxes is a civic duty and not paying taxes is ethically wrong.
- ✓ Increase awareness of social norms: Organizations can also increase awareness of social norms surrounding tax payment through campaigns and training programs. This can help to increase the perception of social pressure to pay taxes and reduce tax evasion.
- ✓ Provide tax knowledge training: Organizations should provide tax knowledge training to employees, especially to those who are responsible for tax payment. This can help to improve their understanding of the tax system and reduce the likelihood of mistakes that can lead to tax evasion.
- ✓ Ensure tax fairness: Organizations should ensure that the tax system is perceived as fair by taxpayers. This can be achieved through transparency in the tax system, clear communication of tax policies and procedures, and appropriate distribution of tax revenue.
- ✓ Implement appropriate tax rates: While the relationship between tax rates and tax evasion is not statistically significant, organizations should still consider implementing appropriate tax rates that do not excessively burden taxpayers. This can help to maintain taxpayer trust in the tax system.
- ✓ Conduct regular tax compliance checks: Gullele Sub City should conduct regular tax compliance checks to ensure that all tax payments are made on time and correctly. This can help to identify and address any potential issues before they lead to tax evasion.

- ✓ Provide incentives for tax compliance: Gullele Sub City can provide incentives, such as bonuses or recognition, for employees who comply with tax payment requirements. This can help to create a culture of compliance and reduce the likelihood of tax evasion.
- ✓ Foster a culture of honesty: Gullele Sub City should foster a culture of honesty and transparency by encouraging open communication and discouraging unethical behavior. This can help to reduce the likelihood of tax evasion as employees are more likely to feel a sense of responsibility to comply with tax requirements.
- ✓ Monitor tax compliance rates: Gullele Sub City should monitor tax compliance rates to identify any patterns or trends in tax evasion. This can help to target areas where tax evasion is more likely to occur and take appropriate action.
- ✓ Enforce consequences for tax evasion: Gullele Sub City should enforce consequences for tax evasion to deter employees from engaging in such behavior. This can include penalties, fines, or legal action if necessary. Enforcing consequences sends a clear message that tax evasion will not be tolerated and helps to maintain the integrity of the tax system.

#### **5.4 Direction for Future Research**

- ✓ Investigating the relationship between moral obligation and tax evasion across different cultures: The
- ✓ current study did not explore the potential impact of cultural differences on the relationship between moral obligation and tax evasion. Future research could explore whether this relationship holds true across different cultures and whether there are any cultural factors that could moderate this relationship.
- ✓ Examining the role of social norms in tax compliance: The results showed a negative correlation between subjective norms and tax evasion, indicating that individuals who perceive social pressure to pay taxes are less likely to engage in tax evasion. Future research could explore the specific types of social norms that influence tax compliance, as well as the mechanisms through which social norms influence tax compliance.

- ✓ Investigating the impact of tax education and literacy programs on tax compliance: The study found a negative correlation between tax knowledge and tax evasion, suggesting that individuals with greater tax knowledge are less likely to engage in tax evasion. Future research could explore the impact of different tax education and literacy programs on tax compliance, as well as the factors that facilitate or hinder the effectiveness of these programs.
- ✓ Exploring the impact of tax fairness on tax compliance in different contexts: The study found a negative correlation between tax fairness and tax evasion, suggesting that individuals who perceive the tax system as fair are less likely to engage in tax evasion. Future research could explore whether this relationship holds true across different contexts, such as different income levels or different types of taxes.
- ✓ Investigating the role of tax rates in tax compliance: While the study found a negative correlation between tax rates and tax evasion, this relationship was not statistically significant. Future research could explore whether there is a threshold beyond which higher tax rates are associated with lower tax compliance, or whether other factors, such as the perceived fairness of tax rates, may mediate this relationship.

## **5.5 Practical Implications:**

- ✓ The findings of the study have several practical implications for policymakers and tax authorities. First, the study suggests that policymakers and tax authorities should focus on strengthening individuals' sense of moral obligation to pay taxes by emphasizing social responsibility and promoting the idea that tax evasion is a form of cheating. This could be done through public campaigns and education programs that emphasize the importance of tax compliance and the negative consequences of tax evasion.
- ✓ Second, the study highlights the importance of tax knowledge in reducing tax evasion. Policymakers and tax authorities could improve tax education programs and provide clear and accessible information on tax rules and regulations to increase individuals' understanding of the tax system and their tax obligations.

- ✓ Third, the study suggests that a fair and equitable tax system is crucial in reducing tax evasion. Policymakers should work to create a tax system that is perceived as fair and just, with policies that ensure the wealthy and powerful pay their fair share of taxes.
- ✓ Fourth, the study highlights the importance of social pressure in deterring tax evasion. Tax authorities could leverage this by emphasizing the social norms around tax compliance and using public campaigns to promote a culture of tax compliance.
- ✓ Finally, the study suggests that tax rates may not be a significant factor in reducing tax evasion. Policymakers should consider the potential negative impact of high tax rates on economic growth and individual incentives to work and invest, while exploring other factors that may affect tax evasion.

## **5.6 Contributions of the Study:**

- ✓ The study contributes to the literature on tax compliance by providing empirical evidence on the factors that influence tax evasion in a developing country context. The study's findings could inform tax policy and administration in other developing countries facing similar challenges of tax evasion.
- ✓ The study contributes to the existing body of knowledge on tax compliance by examining the relative importance of various factors that influence tax evasion. The study finds that moral obligation, subjective norms, tax knowledge, tax fairness, and tax rates all play a role in reducing tax evasion.
- ✓ The study's findings have practical implications for policymakers and tax authorities in developing effective strategies to reduce tax evasion. The study highlights the importance of creating a fair and equitable tax system, improving tax education programs, leveraging social pressure to promote tax compliance, and focusing on strengthening individuals' sense of moral obligation to pay taxes.

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**Appendixes**  
**Saint Mary University**  
**School of Business and Economics**  
**Department of Accounting & Finance**

**Dear Respondents,**

This study is entitled Determinants of Tax Evasion: The Case of at Gullele Sub City Small Tax Payers Category “A” Taxpayers. It is conducted by Firew Gedefa Adugnain partial fulfilment of the requirements for the Master’s Degree in Accounting & Finance at saint Mary University. Its main objective is to identify and understand the determinants of tax evasion. The purpose of this questionnaire is to obtain your perceptions and views regarding various aspects of determinants of tax evasion. Therefore, there is not right or wrong answer. The information provided is purely for academic purpose and strictly confidential. In order to accomplish this study, you are kindly request to answer every question; your kind cooperation is highly appreciated.

I thank you very much in advance for your cooperation.

MSC student at SMU

**Section I: Background information Please tick ( ) where appropriate**

Gender:

A. Male

B. Female

Age:

A. 25-30

C. 40-45

B. 30-35

D. 45 and above

Educational status

A. Bachelor degree

B. Masters

C. Diploma

**Section Two: Please indicate the level of your agreement or level of disagreement with the statement below.**

Please indicate the extent of your level of agreement or disagreement with each statement as objectively as you can select from 1-5 by a tick mark ( ) in front of the following items regarding the following tax evasion scales in your revenue authority. Keeping the statement in mind:

Very disagreement  
Disagreement

Neither (Neutral)  
Agree

Very disagree

| S/N         | Dimensions   | SD       | D        | N        | AG       | SA       |
|-------------|--|----------|----------|----------|----------|----------|
| <b>I.</b>   | <b>MORAL OBLIGATION</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1           | I think it would be morally wrong to engage in tax evasion   |          |          |          |          |          |
| 2           | I always fulfill my tax obligations with honesty and integrity, and I take pride in doing so.                        |          |          |          |          |          |
| 3           | Filing my taxes honestly and accurately is a principle that I always uphold.   |          |          |          |          |          |
| 4           | It would be morally wrong for me to cheat on taxes   |          |          |          |          |          |
| <b>II.</b>  | <b>SUBJECTIVE NORMS</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1           | Most people I know would approve of me cheating on taxes.  |          |          |          |          |          |
| 2           | If I cheated on my taxes, most people who are important to me would.   |          |          |          |          |          |
| 3           | No one who is important to me thinks it is ok to cheat on taxes.   |          |          |          |          |          |
| 4           | Most people who are important to me will look down on me if I cheat on taxes.  |          |          |          |          |          |
| <b>III.</b> | <b>TAX KNOWLEDGE</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1           | I feel that taxpayers have enough knowledge on tax evasion   |          |          |          |          |          |
| 2           | The authority given training on the Ethiopian tax law and its procedure to taxpayer to build tax evasion knowledge.  |          |          |          |          |          |
| 3           | I am able to interpret taxation laws when computing taxes  |          |          |          |          |          |
| 4           | I feel that every taxpayer has knowledge an obligation to fill a tax return form and calculate his own tax liability |          |          |          |          |          |
| <b>IV.</b>  | <b>TAX FAIRNESS</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1           | I feel while the tax burden imposed upon large business firms is fair  |          |          |          |          |          |
| 2           | I believe that a fair tax system would decreases tax evasion of taxpayer   |          |          |          |          |          |
| 3           | Every large business pays fair tax under the current income tax system   |          |          |          |          |          |



|            |  |          |          |          |          |          |
|------------|--|----------|----------|----------|----------|----------|
| 4          | I believe that the overall tax system is equitable                                   |          |          |          |          |          |
| <b>V.</b>  | <b>TAX RATE</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1          | VAT rate have effect on tax evasion.   |          |          |          |          |          |
| 2          | Exempted or Zero-Rated Goods affect VAT cause to increase tax evasion                |          |          |          |          |          |
| 3          | Reducing the rate of VAT might encourage taxpayers' tax evasion                      |          |          |          |          |          |
| 4          | Raising the rate of tax will encourage taxpayers' voluntary tax evasion.             |          |          |          |          |          |
| <b>VI.</b> | <b>TAX EVASION</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1          | The government does not do enough to enforce tax laws and regulations.               |          |          |          |          |          |
| 2          | Taxpayers who engage in tax evasion should face severe penalties.                    |          |          |          |          |          |
| 3          | Tax evasion undermines the fairness of the tax system.                               |          |          |          |          |          |
| 4          | The government should simplify the tax code to make it more difficult to evade taxes |          |          |          |          |          |
| 5          | Engaging in tax evasion is (foolish-wise).   |          |          |          |          |          |
| 6          | Tax evasion can be (useless-useful).   |          |          |          |          |          |
| 7          | I find the concept of tax evasion (unattractive-attractive).                         |          |          |          |          |          |
| 8          | I think I would pay less taxes if I engaged in tax evasion (unlikely-likely).        |          |          |          |          |          |
| 9          | Cheating on taxes is (unpleasant-pleasant).  |          |          |          |          |          |
| 10         | Tax authority employees are the reason for tax evasion.                              |          |          |          |          |          |

**Thank you for your Cooperation!!**