

Factors Affecting Rental Income Tax Payers Compliance with Tax System: In Case of Hawassa City Administration, Snnprs, Ethiopia

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Abstract

The main objective of the study was to assess rental income tax payer's compliance with tax system in case of Hawassa city administration, SNNPRS. To achieve this objective, the researcher used both primary and secondary data. The collected data was analyzed by using the statistical software program namely Statistical Package for Social science (SPSS) version 20. The quantitative data was analyzed using descriptive statistics (frequency, percentage, mean and standard deviation) and a number of techniques of analysis were used including Reliability test, Correlation and Multiple Regressions. According to the response of the respondents, certain factors were found to be the major determinants of non residential house rental income tax payers' voluntary compliance. These are: financial constraints, referent group influences, awareness of tax payers, perception on tax fairness, understatement of income, educational status, absence of government incentives, trust in tax assessment and collection procedure and rental tax audit. Based on the findings some possible recommendations were given. These include, building understanding of tax payers, upholding tax fairness and equity, constructing capacity of the tax authority, and providing required social services to the general public to get trust from society and critical follow up over tax payers those evade tax by their personal problem.

Keywords: Rental income, Tax compliance, Tax system, Attitude

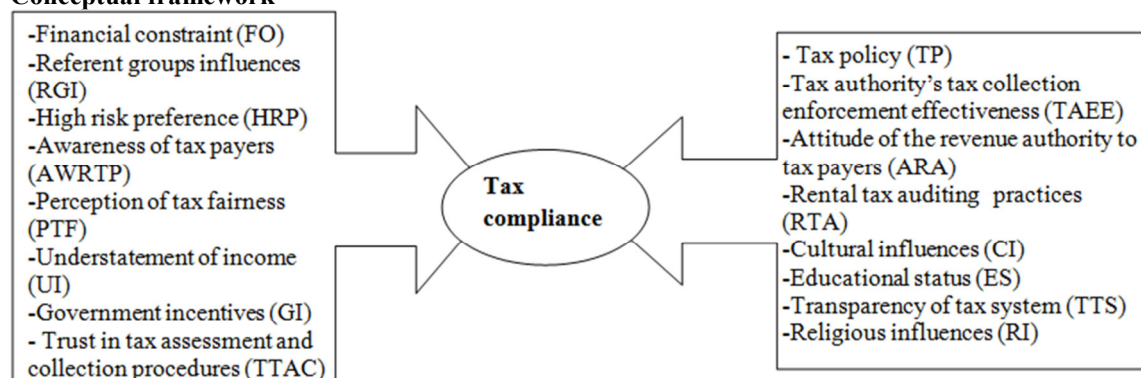
1.1. Introduction

Taxation relics to be the core sources of government revenue in both developed and developing countries. Tax compliance is the most neutral term to describe tax payer's willingness and motivation to pay their tax. Likewise, tax compliance is also defined by several tax authorities as the ability and eagerness of tax payers to comply with tax laws, announce the accurate income in each year and pay the exact amount of taxes on time (Singh, 2003). The tax system must be fair both to encourage the objective of a reasonable and equal distribution of income and to give surety continual voluntary compliance by the taxpayer (Eckstein, 1979 and Wallschutzky, 1995). In order to improve revenue collections, the government ought to develop environment that raises the awareness and willingness of tax payers toward returning tax voluntarily (Tesfaye, 2015). According to (Kassa, 2010; James, 2000; Lemessa, 2005 and Rizal, 2011) finding, fairness or equity, organizational strength of the tax authority, awareness, cultural factors, social factors and attitude towards the government are factors affecting tax payer's voluntary compliance with tax law.

Rental income taxes are a fundamental source of revenue to government in both developing and developed countries. However the amount of revenue to be generated from these sources for its expenditure program depends among other things, on the willingness of the individuals to comply with tax laws of a country (Kirchler, 2007).

With regard to rental income tax payers, (Rizal, 2011 and Kuria, 2013) found that there is attitudinal and knowledge difference, unfair tax rate, dishonesty of rental tax payers, lack of awareness, complexity of tax law and regulation and inadequacy of government spending. According to (Desta, 2010) taxpayers perceive that tax evasion as a crime and as it indicates that there is an attention towards taxation by taxpayers. But the problem here is that there is poor compliance even though tax evasion is considered as crime by the taxpayers because of they think unfair and less transparent system and tax rate used and also non-believing on government spending on public services. In several developing countries it's observed that there is low capacity of tax administration to monitor compliance among rental taxpayers. Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for long period of time (Tesfaye, 2015).

Conceptual framework



1.2. METHODOLOGY OF THE STUDY

The research design employed for the purpose of this investigation was descriptive and explanatory. To achieve the objectives of the study the researcher has employed a mixed (quantitative and qualitative) research approach. Thus, for this study the researcher used cross sectional survey design to assess rental income tax payer's compliance with tax system: in case of Hawassa city Administration, SNNPRS, Ethiopia

The population of the study was category B and C tax payers of the city due to the fact that the degree of non-compliance of these category rental taxpayers is high relatively to category "A" rental tax payers. Specially, category "C" tax payers are not required by law to declare their income or keep books of account, and considered as hard-to tax group.

A multi stage sampling procedure was used to select study area and eligible respondents. Three sub-cities (Misrak, Menaharia and Bahele Adarash) were selected purposively out of eight sub-cities (Tabor, Hayek Dar, Menaharia, Misrak, Hawella Tula , Bahale Adarash, Addis ketma and Mehale Ketema (kifle ketemas) based on the density of rental income taxpayers. That is, these three sub-cities are densely populated in terms of house rental income tax payers according to shown on Hawassa city revenue authority data. So, that they can represent the remaining others. Then proportional number of samples (tax payers) was allocated to main rental income tax payers of category "B" and "C" which can be considered as strata and the samples were randomly drawn from each category/strata. To sum, a combination of sampling techniques (stratified random sampling and purposive sampling) have been used to select sample of rental income tax payers from each three sub-city. Therefore, the total numbers of respondents in the study area are 763 (Misrak Sub city 350, Manahria Sub city 222 and Bahil Adarash Sub city 191) . The researcher used Yamane' (1967) formula to calculate sample size.

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

Where **n** is the sample size, **N** is the population size, and **e** is the level of precision. By using this formula at 93% confidence level and 7% level of precision the sample size was obtained as follows:

$$n = \frac{763}{1 + 763(0.07)^2} = 161 \quad \mathbf{n = 161}$$

With regards to key informants interview the researcher was purposively select 8 key informants like: head of tax revenue office, revenue and tax collection work process coordinator of the office of each three sub city and main office based on their administrative position and experience on the subject under study.

To undertake this study the researcher used both primary and secondary data. The primary data was collected through standard questionnaire and key informant interview with the concerned officials. Secondary data also collected through document analysis from published and unpublished sources. The collected data was analyzed by using the statistical software program namely Statistical Package for Social science (SPSS) version 20. The quantitative data was analyzed using descriptive statistics (frequency, percentage, mean, standard deviation) and a number of techniques of analysis were used including Reliability test, Correlation and Multiple Regression.

Findings from descriptive statistics do not tell the determinants of tax compliance. Therefore, Ordinary Least Squares (OLS) regression model was used to identify the determinants of tax compliance. The Ordinary Least Square (OLS) prediction equation is; $Y_i = \beta_0 + B_1 X_{i1} + B_2 X_{i2} + \dots + B_k X_{ki} + \epsilon_i$ ($i=1,2, \dots, n= n>k$, random sample of n observations), where Y denotes dependent variables , B stands for the coefficients, K denotes the number of predictor variable (factors explaining the dependent variable), X denotes independent variables and i denotes the i^{th} number of the sample population. OLS minimizes the SUM of the squared residuals (OLS minimized SUM ϵ^2). The residual ϵ_i is the difference between the actual Y and the predicted Y

and has a zero mean. Depending on the theoretical model and the measurements of the variables shown as conceptual frame work above, the empirical model that this study employs is given by:

$$TC = \beta_0 + \beta_1(FO) + \beta_2(RGI) + \beta_3(HRP) + \beta_4(AWRTP) + \beta_5(PTF) + \beta_6(UI) + \beta_7(CI) + \beta_8(RI) + \beta_9(ES) + \beta_{10}(GI) + \beta_{11}(TTAC) + \beta_{12}(TP) + \beta_{13}(TAE) + \beta_{14}(ARA) + \beta_{15}(RTA) + \beta_{16}(TTS) + \epsilon$$

Pilot test was made and pretested the instruments by the researcher to check whether the questionnaire is according to reliable scientific bases or not, and to check the extent to which it meets the survey objectives and to identify any defect in the questionnaire design. To ensure the validity of the questionnaire, the researcher used structure validity test (Spearman test) that used to test the validity of the questionnaire structure by testing the validity of each field and the validity of the whole questionnaire. The p-values (Sig.) are less than 0.05, so the correlation coefficients of all the fields are significant at $\alpha = 0.05$, so it can be said that the fields are valid to be measured what it was set for to achieve the main aim of the study. Cronbach's alpha is one of the most commonly accepted measures of reliability. It also indicates that whether a scale is one dimensional or multidimensional. The normal range of Cronbach's coefficient alpha value ranges between 0-1 and the higher values reflects a higher degree of internal consistency. Different authors accept different values of this test in order to achieve internal reliability, but the most commonly accepted value is 0.70 as it should be equal to or higher than to reach internal reliability (Hair et al., 2003). The values of Cronbach's Alpha for each field of the questionnaire and the entire questionnaire ranged from 0.859 and 0.967. This range is considered high as the result ensures the reliability of each field of the questionnaire. Cronbach's Alpha equals 0.910 for the entire questionnaire. This range is considered as an excellent reliability of the entire questionnaire. Therefore, based on the test, the results for the items are reliable and acceptable. According to Teferie(2013) and Sekaran(2000), closer the reliability coefficient gets to 1.0, is the better/excellent, a reliability factor less than 0.65 is considered poor, in the range of 0.65 to 0.80 acceptable and 0.80 and above is considered good.

1.3. RESULT AND DISCUSION

A total of 161 questionnaires were distributed across sample respondents in the study area. Of which 153 questionnaires were completed, retrieved and fully returned the rest eight were not returned or fully responded as a result the response rate was 95.03 percent.

The result of demographic and socio economic characteristics of respondents show that: Out of the total sample of the respondents ($n = 153$), only 11(7.2%) were females while 142(92.8 %) were males. This high ratio of males reflects the structure of income earners in the study area. The number of respondents whose age in between 44-56 years were 84 which accounts for 54.9% of the total respondents and those whose age was in between 31 to 43 and 57 and above years were 27 which represent 17.6% of the total respondents. Moreover, there were 15 rental tax payers in between 18 to 30 years. Thus, the majority of the respondents were in between 44 to 56 years. With respect to the average annual rental income distributions of sampled respondent, total respondents 36.6 percent earn between 25,001-50,000 birr, 24.2 percent earn below 25,000 birr, 11.8 percent earn between 50,001-75,000 birr, 9.2 percent earn between 75,001-100,000 birr and the remaining 18.3 percent earn above 100,000 birr per annum. With regards to major occupation of respondents half of the respondents (50.3%) are private employees, followed by 28.1% business men and 13.1% are government employees. The remaining 8.5% of respondents earning their life through the income that comes from pension.

Concerning educational qualification, 136(88.9%) of the respondents able to read and write whereas, 17(11.1%) of respondents were unable to read and write. Out of those who can read and write, majority, 61(39.9%) of them had completed secondary school and 50(32.7%) were primary school graduates. On the other hand, the number of respondents who hold certificate and diploma were 6 and 9; each of them representing 3.9% and 5.9% of the total respondents, respectively. Also there are few first degree (4.6%) and masters (2.0%) holders as tax payers. With respect to the renting experience of the respondents, figure 2 above depicts that, 68 respondents had the experience of 5 – 8 years which account for 44.44% of the total respondents and 52 respondents had the experience of 1-4 years which represent 34.0% of the total respondents. Moreover, there were 15 respondents whose renting experience was between 9-12 years and 10 respondents were in above 17 years; each of which constitutes 6.5% and 9.8% of the total respondents, respectively.

1.3.1. Rental income tax payers understanding about tax syste

The responses of the respondents for the variables indicated below were measured on five point Likert scale with: 1= strongly disagree, 2= disagree, 3 = neutral, 4= agree and 5= strongly agree.

But, while making interpretation of the results of mean and standard deviation the scales were reassigned as follows to make the interpretation easy and clear. 1 - 1.8= Strongly Disagree, 1.81 – 2.6 = Disagree, 2.61 – 3.4= Neutral, 3.41 – 4.20= Agree and 4.21 – 5 = Strongly Agree.

With respect to tax payer's knowledge on rental income tax, The understanding of rental income as its being taxable has scored a mean of 3.15 with standard deviation of 1.140 and 60.8% agree, 18 % strongly agree this result indicate that majority of respondents are felt as they understanding tax law but which is not enough

because of the remaining percents are not agree or not understanding tax law. Rental income tax burden imposed is fair has scored a mean of 2.13 with standard deviation of 1.376, which indicate disagreement, most of rental income tax payers registered obligatorily has scored a mean of 3.50 with standard deviation of 1.463 which indicate agreement and rental house owners should be taxed like other business owners has scored a mean of 3.50 with standard deviation of 1.381 which also indicate agreement with designed question. To sum up the grand mean in the range of disagree also show as rental income tax payers majority are still not compliant.

when tax payers were asked why they pay rental income taxes, 41.2 and 30.1 percent of the respondents strongly agreed and agreed respectively that they pay taxes because it is an obligation to the government or state and in the anticipation of public services from the government (50.3% agreed and 37.3% strongly agree). This indicates that there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be registered. On the other hand, 32.7percent agree and 11.8% strongly agree that they pay rental taxes since they hate to search opportunity to evade, and the rest 30.1percent agreed and 41.2% strongly agreed that they pay rental taxes to respect law not to avoid disturbances. Therefore we can easily understand that the rental income tax payers those pay rental income tax to avoid disturbances and no opportunity to evade (those disagree) are classified to none compliance tax payers group.

1.3.2. Attitude of rental income tax payers for tax system

Attitudes of rental taxpayers towards the tax system are important factors to be considered in analyzing this study. Thus, tax payers attitude towards rental income of this study indicates that respect to tax laws has scored a mean of 3.89 with standard deviation of 1.000, tax laws are not punitive to hard working citizens has scored a mean of 3.03 with standard deviation of 1.466, reducing tax rates increases willingness towards tax system has scored a mean of 3.61 with standard deviation of 1.462, making tax collection procedures simple increases willingness towards tax system has scored a mean 3.77 with standard deviation of 1.518, making tax system transparent increases willingness towards tax system has scored a mean of 4.04 with standard deviation of 1.242, HCRA should conduct adequate training to all rental tax payers before imposing the tax has scored a mean of 4.37 with standard deviation of 0.794, rental tax payers are interested to government services has scored a mean of 2.11 with standard deviation of 1.222, paying tax is good because we get equal return from the government has scored a mean of 2.73 with standard deviation 1.508 and obligation to inform and declared actual income received from all sources to revenue authority has scored a mean of 2.42 with standard deviation 1.190. Therefore based on the above discussion we can understand that the tax payers attitude on rental income regarding respect of tax laws, reducing tax rates increases willingness towards tax system, making the collection procedures simple, making tax system transparent, adequate training to all rental tax payers become best if this all improved.

In respect to question on tax laws are not punitive to hard working citizen the mean value is in the range of neutral by 3.03 which indicate half of the respondents are agree and half of them are disagree on this case and on the question with respect I have obligation to inform and declare actual income received from all sources to revenue authority that show majority of respondents (52.3% and 18.3% are disagree and strongly disagree respectively). The mean value of 2.11 for rental income tax payers interest to government service also show as majority of respondents disagree since its below average mean value. This case also supported by factors related to organization or revenue authority and government under fourth objective. So, we can understand as attitudes towards the tax generally depend on perceived use of the money collected by the government. To sum up based on overall above discussion also by considering its grand mean equal to 3.34 one can understand that rental income tax payers attitude towards tax system is not good or rental income taxpayers not have a very healthy perception towards the revenue authority and the Government in regards to taxation system. Consequently the status of tax compliance behavior may become low and low even in the future unless get attention by revenue authority and government.

1.3.3. Regression result

In this section, sixteen selected independent variables were entered in to Ordinary Least Squares (OLS) model to identify the major determinants of tax payer's compliances. Prior to the estimation of the model parameters, it was crucial to look into the problem of multicollinearity or association among the potential candidate variables. The Variance Inflation Factor (VIF) is a measure of multicollinearity among the continuous independent variables. As '*a rule of thumb*', if the mean VIF of variables exceeds ten, that variable is said to be highly collinear and it can be concluded that multicollinearity is a problem (Gujarati, 1995). The average value of VIF for variables of the study was 1.1118, less than ten.

Tax compliances were used as dependent variable. Multiple independent variables are presented as a linear function in much the same way as a single variable. Thus the fitted model regression equation based on the analysis of regression result is as follow:

$$TC = 3.698 + .154(FC) + .151(RGI) - .054(HRP) - .164(AWRTP) - .200(PTF) + .095(UI) - .134(CI) - .123(ES) + .010(RI) - .222(GI) - .039(TTAC) - .058(TP) + .070(TEE) - .214(ARA) - .205(RTA) - .040(TTS).$$

Dependent variable can be predicted, at least to some extent, by taking in to account the independent

variables. The partial depression coefficients identify the effect that each independent variable has on the dependent variable. The regression results have showed nine major predictors which are statistically significant in multivariate model that influence dependent variable. Some of the predictors are found to have relatively stronger influence on dependent variable while some others have medium effects, and the rest are found to have no significant effects on the dependent variable.

Testing the model through ANOVA (Goodness of fit statistic)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	47.469	9	5.274	1.935	.000 ^b
Residual	389.878	143	2.726		
Total	437.346	152			

It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 1.935 with a p-value of less than 0.05 (i.e. $p < 0.000$) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2 .

Goodness of fit through R Square

Model	R	R square	Adjusted R Square	Std. Error of the Estimate
1	.329 ^a	.789	.821	1.65119

Source: Own survey data (2017)

As shown in the above table, both R^2 and adjusted R^2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. Thus, as it is shown on above table, the value of adjusted R^2 is 0.821, indicating that; the independent variables in the model are explaining 82.1% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of tax compliance in the study area.

The below table shows the results of the regression model. The result reveals that, with cultural influences, high risk preferences, religious influences, tax policy, tax authority tax collection effectiveness, attitude of revenue authority to tax payers and transparency of tax system were insignificant. Whereas, there exists a significant relationship between independent variables such as financial constraints, referent group influences, awareness of tax payers, perception on tax fairness, understatement of income, educational status, government incentives, trust in tax assessment and collection procedure and rental income tax audit and dependent variable, i.e. tax compliances

Regression analysis table

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.698	.540		14.407	.000
Financial constraints	-.154	.107	.117	1.435	.023**
Referent groups influences	-.151	.101	.124	1.488	.013**
High risk preference	-.054	.098	.046	.555	.580
Awareness of tax payers	.164	.133	.100	1.234	.019**
Perception of tax fairness	.200	.103	.156	1.936	.045**
Understatement of income	-.095	.096	.081	.996	.021**
Cultural influences	-.134	.106	.104	1.265	.208
Educational status	.123	.109	.094	1.129	.000***
Religious influences	-.010	.108	.008	.089	.929
Government incentives	.222	.139	.131	1.598	.012**
Trust in tax assessment and collection procedures	.039	.139	.023	.281	.009***
Tax policy	.058	.148	.032	.396	.693
Tax authorities tax collection enforcement effective	.070	.104	.056	.668	.441
Attitude of the revenue authority to tax payers	.214	.128	.137	1.676	.096
Rental tax auditing practices	.205	.139	.120	1.477	.042**
Transparency of tax system	.040	.115	.029	.346	.730

Source: Own survey data (2017)

Thus, the effect of each independent variable tested under this study using multiple regression and analyzed based on the theoretical predictions, prior empirical studies and research questions formulated for this study.

There is a significant negative relationship between financial constraints of tax payers and tax

compliances with a regression coefficient of 0.154, t-statistic of 1.435 and P-value of 0.023. With respect to financial constraint, (Mohani, 2004) suggested that as financial distress faced by an individual and may encourage him/her to priorities what has to be paid first as basic survival needs or immediate demand on limited income may enforced rather than paying tax liabilities. There is also a significant negative relationship between referent groups like family, friends...etc influence and tax compliance, with a regression coefficient of 0.151, t-statistic of 1.488 and P-value of 0.013. According to (Karanja, 2014) there is always influence of one person on another during interaction that influences ones behavior. Karanja also state that Peer influence generally arises from friends, families, coworkers and business acquaintances. Alleged confidentiality of a taxpayer's tax evidence may have a substantial effect on tax non-compliance of another taxpayer. When one taxpayer happens to find out that another taxpayer reports a false amount of tax, the other taxpayer will too report false figure to the tax authorities. The norm is usually to comply rather than not to comply and knowledge about tax law is assumed to be important for preferences and attitudes towards taxation.

There is significant positive relationship between tax payer's awareness on rental tax and tax compliances, with a regression coefficient of -.164, t-statistic of 1.234 and P-value of .019. Taxpayers must receive clear, concise and up-to-date information on describing what amount is taxable, how to calculate their tax liabilities and procedures for calculating paying taxes, where and when they pay taxes (Teshale B. and Mohammed A, 2015). This indicates that, the awareness of tax payers increases the status of individual tax payer's compliances. There is also significant relationship between tax payer's perception on tax fairness and tax compliances, with a regression coefficient of - 0.200, t-statistic of 1.936 and P-value of 0.045. The most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. In this study also the regression result shows that, there is a significant relationship between perception of tax payers on tax fairness and tax compliances.

The regression result shows a significant negative relationship between tax payer's understatement of their income and tax compliances, with a regression coefficient of 0.095, t-statistic of .996 and P-value of 0.021. The failure to follow the tax provisions suggests that a rental taxpayer may be committing an act of noncompliance. Tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Kirchler, 2007). The significant relationship between educational status of tax payers and tax compliances, with a regression coefficient of, -.123, t-statistic of 1.129 and P-value of .000. (Rizal, 2011) found tax payers with highest level of education had a high compliance level than those with the lowest education level. This indicates that having better educational status highly influences individual tax payer's compliance status. The regression result shows also a significant relationship between government incentives and tax compliances, with a regression coefficient of -0.222, t-statistic of 1.598 and P-value of 0.012. This indicates that government providing incentives influences tax compliance of tax payers.

The regression result shows a significant relationship between trust on tax assessment and collection system and tax compliances, with a regression coefficient of -.039, t-statistic of .281 and P-value of .009. If taxpayers are not trust on tax assessment and collection system they become complain regularly about lack of clarity over tax regulations, arbitrary behavior of tax officials, high compliance costs, and a lack of transparency in the tax authority (Temtime, 2014). There is also a significant relationship between rental tax audit practices and tax compliances with a regression coefficient of -0.205, t-statistic of 6.180 and P-value of 0.000. Tax audits have a positive impact on tax evasions (Dubin, 2004). According to (Shanmugam, 2003), in self-assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Therefore one can conclude that when continuous tax audit practice is done by revenue authority the level of tax compliance status become positively changed.

1. 4. Conclusion

The main reason of tax gap (the deference between the amounts estimated and collected by revenue authority) is the non-compliance of taxpayers with the tax rules and regulations. One of the causes for non-compliance has been the attitudes of tax payers towards tax system. Hawassa city administration comprises a various set of cultures, languages, religion, beliefs and backgrounds. It is noticeable that these different population groups may have differing perceptions of taxation resulting from their understanding of tax law, general knowledge, cultural backgrounds or social histories. These perceptions may, in turn, influence their attitudes towards tax compliance. The study exposed that with the exception of minority of the rental income tax payers who hold certificate, diploma first degree and second degree, most of them were with an educational background of elementary and high school completed. Although majority of respondents (60.8 %) agree with understanding as rental income is taxable, the survey result show as still registered obligatorily. This was further supported by rental income tax payers those strongly felt that rental income tax rate should not be equitable compared to other business taxes. Respect of tax laws, reducing tax rates increases willingness towards tax system, making the collection

procedures simple, making tax system transparent, adequate training to all rental tax payer mean is greater than average mean value (i.e; 3.34). Hence all this factors expected to be focused by revenue authority and government. But some of rental tax payers feel as not their obligation to inform their income, no equal return from government and rental income tax is punitive to hard working citizen.

In relation to (Teshale and Mohammed, 2015) finding and the response of interview, the most challenge to control with regard to the house rental is the tax payers submit unreliable signed documents to the tax authority. They produce two documents signed by both the owner of house and rentee and submit the one with the less amount of agreement.

The significant factors affecting the attitude of rental income tax payers compliance with tax systems for the study area are: financial constraints, referent group influences, awareness of tax payers, perception on tax fairness, understatement of income, educational status, government incentives, trust in tax assessment and collection procedure and rental tax audit. Among these factors educational status and trust in tax assessment and collection procedures are the most significant in this study.

1.5 Recommendation

Numerous approaches are needed to reduce the tax gap. No single approach is likely to fully and cost-effectively address noncompliance, since; it has multiple causes and spans different types of taxes and taxpayers. Generally, understanding better these factors, and their interrelationships, that affect taxpayer behavior can help to develop targeted strategies which impact on the noncompliant without adversely affecting compliant taxpayers. The Government and Hawassa city revenue authority should employ strategies that would improve all of them to encourage rental income tax payers towards compliance with tax system. Those are:

The revenue authority must give priority to solve internal problem in respect to organization related challenge such as adequate and skilled human power, tax assessors and collectors attitude to tax payers, organizational efficiency and effectiveness and over all capacity through giving customer service training and cross functional training for employees so that they can have an understanding of the entire system of tax.

Making tax assessment and collection system simple, fair, transparent, free from bias and error, on time and specific place, following tax procedures and other mechanism by giving in to consideration unusual conditions. In addition development of persuasive communications between the tax authorities and taxpayers. The revenue authority must ready with new technology and updated tax rules and regulation. In addition Awareness conception is supposed to go beyond just giving tax education to taxpayers. It should be comprehensive to having consultative sessions with elderly, religious leaders, prominent personalities in the society or other influential individuals. The tax bureau should make a constructive association with third party to get relevant information about the taxpayer under audit to control the tax compliance status of each rental income tax payers since they may renew their contract after a given period of time for existing tax payers and to identify new entrants and especially should design how to control over fault agreement documents. Finally the researcher like to inspire future researchers for investigation on rental income taxpayer's compliance status and related title including rental income tax from house rent for residential purpose.

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