

# The Moderating of Financial Condition on Tax Compliance Behavior: Evidence from Mekelle City

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## Abstract

The factors underlying individual business profit taxpayers' compliance behavior in Mekelle City to come across the causes of noncompliance. In order to gain in-depth understanding of the occurrence, the study expands the basic tax compliance model to incorporate perceived tax service quality, tax system structure, attitude towards tax evasion, non-compliance opportunities as well as moderating effects of personal financial condition on factors influencing taxpayer's compliance behavior. Multi-stage cluster random sampling technique used to select the samples of the study from the population of individual business profit taxpayers residing in Mekelle city. The primary data, which were collected through self-administered questionnaires 185, cross sectional type, were treated statistically using multiple regressions analysis State 10 for test of hypothesis and through statistical package SPSS version 16 software for descriptive purpose and 10 in depth interview via content analysis. Business profit taxpayers randomly selected from four sub-city administration of Mekelle city, Tigray. The descriptive statistics on the surveyed sample perceived the tax service quality and tax system structure were ineffective and business profit taxpayers shown unfavorable attitude towards tax evasion. The findings also indicate income levels (low income) have significant effect. The financial condition significantly moderated the influences of attitude towards tax evasion changes the sign and non-professional occupation on tax compliance behavior. Financial condition besides of moderator, it has strong relations with tax compliance behavior, but some variables do not interacted. By implications, the findings of the study suggest extension to compliance model to incorporate these factors for better understanding of tax compliance behavior.

**Keyword:** Financial Condition, Tax Compliance, Tax Service Quality and Taxpayer's Non-Compliance opportunities.

## 1. Introduction

Tax is a compulsory contribution payable by an economic unit to a government without expectation of direct and equivalent return from the government for the contribution made (Bhatia, 2003), compulsory levy by government through its agencies on the income, consumption and capital of its subjects. Levied against company profit, capital gains and capital transfer (Bello, 2001). Therefore, taxation is a compulsory payment or transfer of resources from private to public sector levied because of the determined criterion and without reference to specific benefits received in order to accomplish some of the nation's economic and social objectives, and primarily aimed at generating revenue for government in order to cater for its expenditure (Al Zakari, 1995).

Tax disobedience is global phenomenon associated with tax administration in both developing and developed countries (Chau & Leung, 2009; Torgler, 2003). In developing countries, tax revenue loss because of noncompliance is proportionally greater than the amount in developed countries because of the presence of large informal economy. In addition the available statistic put the average tax revenue losses in developing countries to as much as between 35% and 55% of the Gross Domestic Product (GDP) in 2002 (Terkper, 2003).

Personal financial condition is a moderating variable and it is defined as the extent to which the taxpayer is satisfy with his/her financial condition and that of his/her household (Lago-Penas & Lago-Penas, 2008; Torgler, 2003). Behavioral literature indicates that individuals' financial condition (requirement) and family obligations moderate the relationship between individuals' taxpayer commitment and performance (Brett, Cron & Slocum, 1995). Furthermore, empirically some behavioral studies have shown support for the moderating effects of financial requirement on individual's behavior (Doran et al, 1991; Brett et al, 1995).

Whereas, tax compliance is a complying with tax laws involving true reporting of the tax base; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount due as tax any

behavior by the taxpayer contrarily to the above is noncompliance (Chatopadhyay & DasGupta, 2002; Franzoni, 2000). Likewise, in this study the researcher applied this definition.

According to Federal Democratic Republic Ethiopia (2012) report Tax revenue for 2009/10, 2010/2011 and 2011/2012 is 11.3, 11.5, 11.9 percent to GDP contribution respectively and projected for consecutive 5 years is shown as 11.9, 12, 12.2, 12.3, and 12.3 percent. Even though to some extent the incremental is there, but while comparing the contribution is not that much, this indicates non-compliance more. Currently the Ethiopian Revenue and Custom Authority (ERCA) are the main administering bodies of the tax laws in the Country and ERCA is responsible for the enforcement of the tax laws relating to income tax. Hence, the law has classified the business income tax payers in to three major categories with respect to their legal personality and annual turnover as category “A” taxpayers, category “B” taxpayers and category “C” taxpayers (Council of Ministers, 2002). Moreover, according to the current income tax proclamation tax authorities generate revenue by levying taxes most of the time from these categories.

Accordingly, a number of amendments have been took place in Ethiopia concerning income taxes starting from earliest regime until now like during Emperor Haileslasie as modern taxation (proclamation No. 66/1944, 107/1946, 19/1956, 173/1961, 255/1967); during Dergu regim (proclamation No. 77/1976, 152/1978) and in current government i.e. FDRE (proclamation No. 18/1990, 107/1994, 36/2001, 233/2001, 286/2002, and currently 608/2008 each amendments adds some article and sub articles in addition to previous as well as by replacing the old/existing one. Thus, changes were on the business income tax particularly on Taxable Income (the amount of income subject to tax after deduction of all expenses and other deductible items allowed under the Proclamation and Regulations). While approaching to the recent changes Proclamation No. 286/2002 replaced by Proclamation No. 608/2008 the amendments, include the change of the name of the Federal Inland Revenue to Ethiopian Revenue and Custom Authority (ERCA). It also allows deduction of the actual amount of maintenance and improvement expenses of a business asset. The amendment on the proclamation mainly focuses on the various tax rates, penalties and enforcement mechanisms. But factors on the other side of the system get little concentration, i.e. minor attention is given to the cultural background of tax payers, their awareness level, compliance behavior and its determinants when designing a given tax system (Eckstein, 1979). Likewise, determinants of tax compliance especially financial constraints of taxpayers, tax service quality, tax system structure and attitude towards tax evasion are not taking into account for their compliance behavior by the tax authorities.

According to the information the researcher obtained from Mekelle city tax administration Authority the extents of taxpayers with respect of each category of the business communities can be grouped in to three hence, green, yellow and white on their fulfilling tax obligations regardless of the existing powerful tax proclamation. Although in certain parts of study area shown improvements but not enough because the trends are not as expected by the tax authority and the majorities are not transferred the last two groups in the former one. In addition as parts of the society, the researcher observes, some of taxpayers are not willing to pay their obligations at a specified time with stated amounts. Therefore, the researcher hopes to answer this deemed perceptions of taxpayer’s things that make them non-complying particularly with relation to financial conditions.

Even though, a number of factors may be responsible for not comply in the administration of business profit tax in Ethiopia. However, taxpayers’ attitude towards tax evasion, tax system structure, quality of tax services, and type of occupation, income sources and income level has took to identify as factors that play important role in influencing tax compliance behavior. Besides, the influence of those factors on compliance behavior may be moderate by financial condition and this study investigates the interaction between dependent and the independent variables with moderator factor of financial condition in addition to main effects. Some specific questions that related to moderating of financial condition on tax compliance behavior:

- 1) To what extent taxpayers’ financial condition moderates the relationship between attitudes toward tax evasion with tax compliance behavior.
- 2) How Taxpayers financial condition moderates the relationship between tax system structures with tax compliance behavior?
- 3) How can ascertain the influence of perceived tax service quality as well as moderating effect of financial condition on taxpayer’s compliance behavior?

- 4) How financial condition moderates the relationship between taxpayer's non-compliance opportunities with tax compliance behavior?

## 2. Methodology of the Study and Data Analysis

### 2.1. Sampling Design And Sample Size Determination

#### 2.1.1. Sampling Design

The samples of the study selected from the population of 13,723 business profit taxpayers residing in Mekelle city using multi-stage cluster random sampling technique. There are several approaches to determine the sample size. In this study a simplified formula provided by Yamane- (1967), as cited by (Sekaran, 2010) applied to determine the required sample size at 95% confidence level, degree of variability = 0.05 and level of precision = 7%.

Where 'n' is the sample size, N is the total number of business profit taxpayers in four Wereda's of Mekelle city Administration and 'e' is the level of precision.

n = sample size, e = level of precision = 0.07, N = population size = 13,723, Confidence level = 95%, Degree of Variability = 0.05

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

$$n = \frac{13,723}{1 + 13,723(0.07)^2} = \text{Approximately 202 business profit taxpayers}$$

As a result, the sample size of 202 was determined using the above formula. However, the sample size increased up to 230 to compensate for non-response as suggested by (Sekaran, 2010). 220 questionnaires, which contain five point likert-types, dichotomous and categorical items were administered to these individuals including 10 interviews. At the end of the fieldwork, Out of these 230 responses collected 195 of usable questionnaires and interview for further analysis making a valid response rate representing approximately 85% response rate or 96% of predetermined sample size, is considered adequate according to Sekaran (2010) who state that the response rate of 30% is acceptable for any surveys.

The five-point type rating scale used in measuring responses to the questions, this scale indicates that interviewer bias tends to decrease and data quality tends to increase. The midpoint on the scale gives respondents independence and chance of expressing their views. Many literatures found that scale between 5 to 7 points were more reliable and valid than shorter or longer scales. Garland (1991), suggested that the decision lays largely on the preference of the researcher and there can be no single best method in scale construction, one may be better for one research problem but not be good for another.

This study focused on descriptive and explanatory research (hypothesis testing) type, since the objective of the study is to examine the interaction among the explanatory and dependent variables using moderated effect of financial condition in addition to the main effects. Moreover, the nature of the investigation is cross-sectional whereby data gathered on certain time using hand delivery questionnaire survey and face-to-face interview

Tabachnick and Fidell (2001) noted that ideally, samples are selected on randomly bases this indicates the representative of the population. The intention of this study will be to generalize the findings to all taxpayers and potential taxpayers in Mekelle City business profit taxpayers as well to obtain a large and sufficiently diverse sample in order to obtain a meaningful spread of sensitivity concerning tax issues. Therefore, the sample designs and mode of collecting data would be statistically representative of the idea of the all business profit taxpayers of Mekelle City.

In a sample design, a sample selection about broader potential respondents giving equal chance of selection is vital to increase the representativeness of the sample. Therefore, the target for the sample includes population consists of business profit taxpayers' categories in Mekelle City. There were 17,830 business profit taxpayers in Mekelle City as per the information gathered from the seven sub-city administration office in 2004 E.C. The

choice of a sample size has a bearing on the reliability of a study. However, this does not mean that large sample size always leads to high level of accuracy rather it is to indicate that sample size is one of the factors that contribute to the credibility of a survey estimate.

### 2.1.2. Sample Size Determination

In order to determine the sample size of the taxpayers which is representative of the population of business profit taxpaying has stratified into four from seven weredas'. Based on the large number of taxpayers using convenience sampling technique employ to draw four wereda's from seven from each stratum of wereda's and this was further stratified in to three sectors namely service, merchandise and trade and manufacturing sectors. Sampling technique has chosen for making sure that all characteristics in the population are reflects in the samples drawn.

According to the information obtained 13,723 individual business profit taxpayers selected as a target population based on their large number of taxpayers to generalize the results within the umbrella of business profit taxpayers four Wereda's. To represent the population and to avoid biasness in sample selection the researcher used systematic random sampling techniques, 202-business profit taxpayers selected as a sample from this 192 through self-administrative questionnaire on hand delivery, and 10 via interview. The following sample stages employed to select the sample of business profit taxpayers using systematic random sampling.

**Step 1:** the researcher used pervasive, based on the high number of taxpayers, sampling method to select the target population from seven weredas of Mekelle city administration. Hence, Kedamay-Weyane, Hawelt, Semen, and Adi-Haki have selected for their populous number of taxpayers by considering the representativeness

**Step 2:** Thus, the business profit taxpayers classified in to three sectors in the stated Wereda (manufacturing, service and merchandises and trade) each having three categories ("A", "B", and "C" business profit taxpayers). The percentage share of each Wereda determined using proportionate to taxpayers population size of kedemay weyane (7,474), Hawel (3,979), Adi-Haki (1,093), and Semen (1,177). Therefore, sample share of Kedemay Weyane determined to be (54.5%), Hawelt (29%), Sement (8.5) and Adi-Haki (8%) to targeted population.

**Step 3:** Since the planned business profit taxpayers, sample size is 202, using the sample shares determined; the sample size of the Kedamay-weyane identified to be 110, Hawelt (59), Semen (17), and Adi-Haki (16).

**Step 4:** For each Wereda consideration of sectors it grouped in to three groups of taxpayers, service 91(49%), merchandise and trade 104(56%) and manufacturing 6(3%).

**Step 5:** The sample size share of sectors, then calculated proportionate to number of stratified sectors. Therefore, the sample sizes of each stratum of business profit taxpayers were determined. This three sectors also further stratified in three categories A (9), B (27) and C (166)) taxpayers in each based on the annual turnover, and then the shares of sample size were determined.

**Step 6:** For each Wereda's sector, the sample share of categories selected by using proportionate sampling techniques.

**Step 7:** Finally, systematic random sampling used to take 110 samples of business profit taxpayers from kedemay-weyane, Hawelt (59), Semen (17), and Adi-Haki (16). The procedure used for conducting the systematic random sampling step by step were obtained list of taxpayers in each selected Wereda's dividing in to sectors the in to three categories each lastly take the determined sample using lottery method to avoid biasness'.

Formula: for proportionate random sampling method:

- I) **To find percentage** =  $\frac{\text{Elements in each stratum}}{\text{Total population size}}$
- II) To select the elements = percentage (%) X Sample size
- III) Select the required elements from each stratum.

The sample size taken from each sub-city administration computed depending on their number of respective population (weight) and the sample were selected using systematic random sampling techniques lottery method from each of three categories. This is to ensure that there is no bias in selecting the sample and determining the sample size. Table (3.1) shows the samples taken from each four sub-city administration.

**Table 3.1: The summary of determining sample size using stratified-multi-stage-proportionate sampling technique from the stratum**

| Sub city name, size, weight          | Name of sectors & its number      | Number of taxpayers in each category | Sample size In each category | sector Sample size |
|--------------------------------------|-----------------------------------|--------------------------------------|------------------------------|--------------------|
| Kedemay Weyane<br>(7,474)<br>(54.5%) | <b>Service sector<br/>(2,965)</b> | CA (151)                             | SS 2                         | 43                 |
|                                      |                                   | CB (752)                             | SS 11                        |                    |
|                                      |                                   | CC (2,062)                           | SS 30                        |                    |
|                                      | <b>Merchandise<br/>(4,389)</b>    | CA (118)                             | SS 2                         | 65                 |
|                                      |                                   | B (520)                              | SS 8                         |                    |
|                                      |                                   | CC (3,751)                           | SS 55                        |                    |
|                                      | <b>Manufacturing<br/>(120)</b>    | CA (5)                               | SS 0                         | 2                  |
|                                      |                                   | CB (35)                              | SS 1                         |                    |
|                                      |                                   | CC (80)                              | SS 1                         |                    |
| Hawelt (3979)<br>(29%)               | <b>Service sector<br/>(2,241)</b> | CA (33)                              | SS 1                         | 33                 |
|                                      |                                   | CB (40)                              | SS 1                         |                    |
|                                      |                                   | CC (2168)                            | SS 31                        |                    |
|                                      | <b>Merchandise<br/>(1,616)</b>    | CA (47)                              | SS 0                         | 23                 |
|                                      |                                   | CB(66)                               | SS 1                         |                    |
|                                      |                                   | CC (1,503)                           | SS 22                        |                    |
|                                      | <b>Manufacturing<br/>(122)</b>    | CA(17)                               | SS 0                         | 2                  |
|                                      |                                   | CB (15)                              | SS 0                         |                    |
|                                      |                                   | CC (90)                              | (2)                          |                    |
| Semen (1,117)<br>(8.5%)              | <b>Service sector<br/>(397)</b>   | CA (66)                              | SS 1                         | 6                  |
|                                      |                                   | CB (100)                             | SS 2                         |                    |
|                                      |                                   | CC (231)                             | SS 3                         |                    |
|                                      | <b>Merchandise<br/>(720)</b>      | CA (76)                              | SS 1                         | 10                 |
|                                      |                                   | CB (106)                             | SS 2                         |                    |
|                                      |                                   | CC (538)                             | SS 7                         |                    |
|                                      | <b>Manufacturing<br/>(60)</b>     | CA (6)                               | SS 0                         | 1                  |
|                                      |                                   | CB (4)                               | SS 0                         |                    |
|                                      |                                   | CC (50)                              | SS 1                         |                    |
| Adi-Haki (1093)<br>(8%)              | <b>Service sector<br/>(614)</b>   | CA (25)                              | SS 0                         | 9                  |
|                                      |                                   | CB (38)                              | SS 1                         |                    |
|                                      |                                   | CC (551)                             | SS 8                         |                    |
|                                      | <b>Merchandise<br/>(446)</b>      | CA (49)                              | SS 1                         | 6                  |
|                                      |                                   | CB (16)                              | SS 0                         |                    |
|                                      |                                   | CC (381)                             | SS 5                         |                    |
|                                      | <b>Manufacturing<br/>(33)</b>     | CA (3)                               | SS 0                         | 1                  |
|                                      |                                   | CB (11)                              | SS 0                         |                    |
|                                      |                                   | CC (19)                              | SS 1                         |                    |
| total                                | 13,723                            |                                      |                              | 185                |

Note: CA= Category “A”, CB= Category “B”, CC= Category “C”, SS= Sample Size

Source: Office of Mekelle City Administration (2004 E.C)

## 2.2. Methods of Data Analysis and Interpretation

In this study descriptive analysis were used on the moderate effect of financial condition on factors influencing taxpayer’s compliance behavior. Dependent variable is tax compliance and the independent variables are tax system structure, attitude of taxpayers towards tax evasion, non-compliance opportunity, and quality of tax service with two models. Moderated multiple regression analysis was used to test statistically the hypotheses of the study in line with procedures recommended by Darrow and Kahl (1982). Model one (main effect) for comparative analysis of the independent variable on the dependent variable. Model two shown as moderating effect of financial condition on the both variables.

In the analysis part, the basic features of the survey data was presented using text, tables, graph diagram and analyzing using descriptive statistical tools like mean, standard deviation, variance, minimum and maximum value for each items has been calculate. In addition, the frequency distributions also determine. The researcher used SPSS software version 16 so as to measures the descriptive statistics. Besides, the econometric analysis, which is multiple regression models, used to test hypothesis on the relationships between and among variables and to draw conclusions and Stata version 10 also used for econometric analysis purposes.

### 2.3. Variables

It is necessary to identify the potential explanatory and dependent variables and describe their measurements once the methodical procedure and its requirements determined. Even though, a number of variables expected to affect tax compliance behavior, the major variables that expected to influence on the tax compliance behavior are presents and explained below.

**Tax Compliance behavior:** is considers as complying with tax rules and regulations involving true reporting of the tax base; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount due as tax.

**Tax service quality:** is considered as the difference between what the customers are expecting from tax office service performance before the service encounter and their perceptions of the services they received this directly influence their willingness to pay taxes. In terms of interaction quality, Physical environment and Outcome quality

**Taxpayer's financial condition:** is a moderating variable and it is defined as the extent to which the taxpayer is satisfy with his financial condition and that of his/her household i.e. expenses of his household will not be more than his income. Prioritize what has to be paid first as basic survival needs (foods, clothing, housing etc.) or where immediate demand on limited income is enforced (i.e. perceived threat of action from moneylenders etc.) rather than tax liabilities.

**Tax system/structure:** this concerned with the Complexity of tax system, clarity of tax rules, penalty, tax rate, and probability of detection provided by tax authorities.

**Attitudes towards tax evasion:** Taxpayer's dispositions to respond favorably or unfavorably to tax cheat. Attitude of the taxpayer to tax evasion comprises his belief about tax evasion; feeling about tax evasion and behavior

**Moderator:** is a variable, which changes the relationship between Independent and Dependent Variables. A significant interaction between the moderator and the Independent Variables means that the effect of the Independent Variables on the Dependent Variables changes depending on the level of the moderator.

**Non-compliance opportunities:** the effect of taxpayer's compliance directly through their types of income, source of income and occupation and indirectly through their attitudes and perceptions

**Source of income:** The income source refers to the chance of earning untraceable income or amounts of money that do not appear in the records of the taxpayers.

**Income level:** the levels of income for each taxpayer can be state in terms of (1) low income level; (2) middle income level; and (3) high income level with comprehensive categories of income levels depending taxpayers situation like based on annual turnover and additional income earning from different dimensions.

**Types of Occupation:** the occupation of taxpayers may have a variety of employment status but the researcher will employ professional (e.g. manager and engineer) and nonprofessionals (e.g. included administrators, clerks, owner manager, and others).

**Non-compliance:** non-compliance it can be described as the failure to meet tax obligation whether such failure is intentional or unintentional.

### 2.4. Model Specification

The researcher applied two models first one main effect for comparative analysis of the independent variables on the dependent variable. The second Model concerned moderating effect of financial condition on the independent and dependent variables. An interaction occurs when an independent variable has a difference effect

on the outcome depending on the values of another independent variable. The moderated multiple regression models selected due to the nature of one independent variable used as moderate or interact.

$$TC = \beta_0 + \beta_1 TS_s + \beta_2 ATT + \beta_3 TSQ + \beta_4 Occ + \beta_5 IS + \beta_6 IL + U \dots \dots \dots 1$$

Where:  $\beta_0$  is the intercept,  $\beta_1 - \beta_6$  are coefficients and U is the error

TS<sub>s</sub>=Tax System Structure;

ATE=Attitude towards tax Evasion;

TSQ=Tax Service Quality

Occ. = types of occupation

IL=Income Level of taxpayers

SI= taxpayers source of income

$$TC = \beta_0 + \beta_1 TS_s + \beta_2 ATT + \beta_3 TSQ + \beta_4 Occ + \beta_5 IS + \beta_6 IL + \beta_7 FC + \beta_8 TS_s * FC + \beta_9 ATT * FC + \beta_{10} TSQ * FC + \beta_{11} Occ * FC + \beta_{12} IL * FC + \beta_{13} SI * FC + U \dots \dots \dots 2$$

Where  $\beta_0$  is the intercept,  $\beta_1 - \beta_{13}$  are coefficients and U is the error

TC=Tax Compliance;

FC=Financial Condition;

TSS\*FC= the interaction of Tax System Structure and Financial Condition;

ATE\*FC= the interaction of Attitude to Tax Evasion and Financial Condition;

TSQ\*FC= the interaction of Tax Service Quality and Financial Condition

Occ.\*FC= the interaction of Occupation and Financial Condition

IL\*FC= the interaction of Income Level and Financial Condition

SI\*FC= the interaction of Source of Income Financial Condition

## 2.5. Diagnosis, Tablets and Vaccines

For the purposed of testing the econometric assumption, the data that is used in this study is tested to detect hetroscedasticity, multicolinearity and non-linearity problem through hettest, VIF test and OV test respectively. Finally, the robust regression was used for the analysis purpose in model one, which makes the data free from every aforementioned problems, and without robust on the second model since it is concentrated on interaction among or between explanatory and dependent variables due to moderator of financial conditions.

## 3. Discussion and Data Analysis

### 3.1. Descriptive Statistics and Results

The principal data sources of this study were the survey on hand delivery questionnaires and in-depth interview conducted from business profit taxpayers Mekelle city to achieve the main and specific objectives. Financial condition as an interact variable with the dependent and explanatory variables. Moreover, the following discussion presents the results of the survey and in-depth interview therefore in section 4.2.1 presents survey results while in section 4.2.2 presents in-depth interview result.

#### 3.1.1. Survey Results Through Questionnaires

Regarding the above ideas, the main purpose of this section is to reveal the results from survey that conducted on business profit taxpayers Mekelle city administration. Therefore, it covers the demographic factors of respondents' in section 4.2.1.1. In section, 4.2.1.2 presents related to non-compliance opportunity, in section 4.2.1.3, tax compliance behavior, financial conditions of business profit taxpayers in section 4.2.1.4. In section 4.2.1.5 concerning the attitudes towards tax compliance behavior, tax system structure and tax service quality

presented in section 4.2.1.6 and 4.2.1.7 respectively. Lastly, section 4.2.1.8 and 4.2.1.9 presents interaction of financial condition and summary of descriptive statistics.

### 3.1.1.1. Demographic Factors of Respondents

This section describes respondents' demographic background including main business activities, types of business operation, respondent's position in the business, with relation to tax compliance behavior (age, gender, marital status, experience, level of educational of respondents), sectors distribution, respondents' annual turnover and additional income earned, and source of income by business profit taxpayers would presented below.

According to the federal income tax proclamation, No-286/2002 business profit taxpayers categorized into different categories of business sectors. For this study, the sectors distributions of respondents summarized below. As per the outcomes of the survey, about 146(78.9%) of the respondents were engaged in general merchandise/trading activities, while 33(17.8%) and 6(3.2%) were engaged in service and manufacturing sectors respectively. Therefore, as far as the survey result, more of the respondents were participated in general merchandising and trade followed by service and manufacturing sectors (Table 4.1).

**Table 3.1: Taxpayer's main business activity**

| Sector Distribution             | Frequency | Percentage |
|---------------------------------|-----------|------------|
| Manufacturing                   | 6         | 3.2        |
| Service                         | 33        | 17.8       |
| General merchandising and trade | 146       | 78.9       |
| Total                           | 185       | 100.0      |

Source: Business profit taxpayers survey and own computations (2015)

In terms of the form of business operation out of 185(100%) respondents, 135(73%) and 50(27%) of the survey taxpayer respondents were sole proprietors and partnership respectively, to mean that respondents were not grouped on the other sectors (Table 4.2).

**Table 3.2: Taxpayer's business operation**

| Types of ownership        | Frequency | Percentage |
|---------------------------|-----------|------------|
| Sole proprietorship       | 135       | 73.0       |
| Partnership               | 50        | 27.0       |
| Private limited companies | -         | -          |
| Share company             | -         | -          |
| Total                     | 185       | 100.0      |

Source: Business profit taxpayers survey and own computations (2015)

With regarding to knowing the position of the respondent in the sector they involved, out of 185 (100%) respondents, the result shown that about 133(71.9%), 31(16.8%) and 21(11.4%) of the respondents role were owners, managers and employees (Table 4.3).

**Table 3.3: Respondents position in the business**

| Position | Frequency | Percentage |
|----------|-----------|------------|
| Owner    | 133       | 71.9       |
| Manager  | 31        | 16.8       |
| Employee | 21        | 11.4       |
| Others   | -         | -          |
| Total    | 185       | 100.0      |

Source: Business profit taxpayers survey and own computations (2015)

Based on the results obtained from the respondents in (table 4.4) below shown that 57(30.8%) of the respondents were single, 110(59.5%) married, and 18(9.7%) were divorced and widowed/widower respectively. The majority of the respondents were married (table 4.4). Whereas Regardless of the comparison of business profit taxpayers



marital status with tax compliance behavior survey result shown that 41(22%), 76(41%), and 13(7%) were non-compliance related to single, married, and divorce respectively, non-compliance reveals combination of same what and moderate compliance. The remain lefts with 15(8%), 35(20%), and 5(2%) respondent respond fully compliance.

Within the given number of responses based on their respective involvement, the proportion of male and female indicated that male business profit taxpayers were non-compliance and fully compliance. This result supports Richardson & Sawyer (2001), Jackson and Milliron (1986) conclusions. On the other hand, concerning marital status married business taxpayers were proportionally non-compliance and compliance compare to others, but married respondents revealed compliance comparatively. This result may be due to these who have family size increased their expense would be increase as much. On another side, it might be due to the influence of wife on husband as table 4.4 results shown.

**Table 3.4: Gender and Marital status with tax compliance behavior**

| Items          | Alternatives | Non-compliance      |                      |        | Compliance       |        | frequency | percentage |
|----------------|--------------|---------------------|----------------------|--------|------------------|--------|-----------|------------|
|                |              | Somewhat compliance | Moderated compliance | MFpro. | Fully compliance | MFpro. |           |            |
| Gender         | Male         | 36(19%)             | 50(27%)              | 66%    | 37(20%)          | 67%    | 123       | 66%        |
|                | Female       | 20(11%)             | 24(13%)              | 34%    | 18(10%)          | 33%    | 62        | 34%        |
|                | Total        | 56(30%)             | 74(40%)              |        | 55(30%)          |        | 185       | 100%       |
| Marital status | Single       | 15(8%)              | 26(14%)              | 31%    | 15(8%)           | 26%    | 56        | 30%        |
|                | Married      | 34(18%)             | 42(23%)              | 59%    | 35(20%)          | 63%    | 111       | 60%        |
|                | Divorce      | 7(4%)               | 6(3%)                | 10%    | 5(2%)            | 1%     | 18        | 10%        |
|                | Total        | 56(30%)             | 74(40%)              |        | 55(30%)          |        | 185       | 100%       |

MFpro. Male and female proportion

Source: Business profit taxpayers survey and own computation (2015), Percentage in parenthesis

Based on the business profit taxpayers survey conducted, from the total 185 (100%) respondents, 49(26.5%), 48(25.9%), 37(20%) and 50(27%) under the age category of 20-30, 31-40, 41-50, and above 51 years old respectively, and the age grouping of majority of the respondents falls above 50 years 63(34%). These results shown that more or less the respondents were under the category of old Age (Table 4.5).

As it is indicated in table 4.5, majority of the respondents result shown that, the relationship between age of respondents with tax compliance behavior is 44(28%) out of 63(34%) were above 50 years old i.e. non-compliance, whereas 19(10%) were compliance. On the other hand, next to this category, 41 up to 50 years old covered 35(19%) from total respondents.

Under the age category of 31-40 and 20-30 revealed that, it covers 36(20%) and 15(8%) out of the total respondents respectively were non-compliance with tax rules and regulations. In addition, the remaining respondents were responds fully compliance with the weight of 7%, 12%, 17% with respective category of 20-30, 31-40, and 41-50 years old. Nevertheless, when we observe from the survey study, there is an indication of incremental in compliance and non-compliance behavior of business profit taxpayers when age of categories increase, but the degree of progress was not the same. So respondents under the age category of above 51 years old 44(24%) were non-compliance while 19(10%) were fully compliance.

Furthermore based on the proportion of age category above 50 were non-compliance followed by 31-40 years old, comparatively above 50 years old shows both compliance and non-compliance to the existing tax rules and regulations. This result implies consistent with Dubin and Wilde (1986) argued that age has positively related with compliance to mean as age of respondents increase tax compliance also increase.

In addition to the respondents position in the business, the result shows that the working experience of managers, owners and employees in the sectors that covers the period below 5 years 90(48.6%), the rest of the respondents work experience shown as 6 up to 10 years, above eleven years reveals 2(1%) and 1(0.5) just eminent. This experience may have an influence to be compliance or non-compliance with tax rule and regulations.

Accordingly, the survey result shown as up to six years experience to some extent there is an indication of incremental then declining in tax non-complying to mean shifting to compliance.

Working experiences of managers, owners and employees in the business determines to comply or not to comply. As a result, 66, 78 respondents below 3 and 4-6 year of experience, 46, 57 tax payers were non-compliance and 20, 21 was fully compliance respectively. As per the proportion of working experience, survey result shows less experience taxpayers were less compliance and fully compliance with tax rules and regulations when we compare. In contrary to this more experienced shown as compliance, therefore this indicates being experienced, they understands the overall of feature of paying taxes, willing to follow or internalize social norms.

In case of the educational qualification of respondents, the survey outcome indicated that about 8 (4.3%) had masters and 11(5.9%) and 52(28.1%) had a Bachelor Degree and diploma. Nearly 73(39.5%) of respondents indicated that they had secondary school, while 28(15.1%) and 13(7%) were primary school and no formal schooling respectively (table 4.5). Likewise, it is better to see the comparison of tax compliance with somewhat compliance, moderately compliance and fully compliance with educational levels. From the overall respondents 130(70%) non-compliance reveals the majority level of education laid on secondary school and diploma holder, so in the former level shows 50(27%) and the second 36(18%) respondents were non-compliance, and also these taxpayer were compliance as table 4.5 shown. In first degree, masters and above respondents were rear/small number but the results of the proportion is reverse.

**Table 3.5: The interaction of age, experience, and respondent's level of education with tax compliance behavior**

| Items                                     | Alternatives age of categories | Non-compliance      |                      |                  | Compliance       |                  | Total |
|---|--------------------------------|---------------------|----------------------|------------------|------------------|------------------|-------|
|   |                                | Somewhat compliance | Moderated compliance | Male & Female pr | Fully compliance | Male & Female pr |       |
| Age of business profit taxpayers          | 20-30                          | 5(3%)               | 10(5%)               | 12%              | 7(4%)            | 13%              | 22    |
|   | 31-40                          | 16(9%)              | 20(11%)              | 29%              | 12(7%)           | 22%              | 48    |
|   | 41-50                          | 16(9%)              | 19(10%)              | 27%              | 17(9%)           | 31%              | 52    |
|   | Above 51                       | 19(10%)             | 25(14%)              | 34%              | 19(10%)          | 35%              | 63    |
|   | Total                          | 56(30%)             | 74(40%)              |                  | 55(30%)          |                  | 185   |
| Experience of respondents in the business | Below 3                        | 21(11%)             | 25(13.5%)            | 35%              | 20(11%)          | 37%              | 66    |
|   | 4-6                            | 23(12.5%)           | 34(18%)              | 44%              | 21(11%)          | 38%              | 78    |
|   | 7-9                            | 11(6%)              | 14(8%)               | 19%              | 13(7%)           | 24%              | 38    |
|   | Above 10                       | 1(0.5%)             | 1(0.5%)              | 1%               | 1(0.5%)          | 1%               | 3     |
|   | Total                          | 56(30%)             | 74(40%)              |                  | 55(30%)          |                  | 185   |
| Level of education                        | No formal school               | 5(3%)               | 5(3%)                | 8%               | 4(2%)            | 7%               | 14    |
|   | Primary school                 | 8(4%)               | 12(6%)               | 15%              | 9(5%)            | 16%              | 29    |
|   | Secondary school               | 23(13%)             | 27(15%)              | 38%              | 21(11%)          | 38%              | 72    |
|   | Diploma                        | 14(6%)              | 22(12)               | 28%              | 16(9%)           | 29%              | 52    |
|   | First degree                   | 3(2%)               | 5(3%)                | 6%               | 2(1%)            | 4%               | 10    |
|   | Masters and above              | 3(2%)               | 3(2%)                | 5%               | 3(2%)            | 5%               | 9     |
|   | Total                          | 56(30%)             | 74(40%)              |                  | 55(30%)          |                  | 180   |

Source: Business profit taxpayers survey and own computation (2015), Percentage in parenthesis

### 3.1.1.2. Business profit taxpayers' non-compliant opportunity with tax compliance

With respect to non-compliance opportunity, taxpayers forwarded questions to state their current situation on the light of types of income level, source of income and type of occupation they involved. Regardless of the business profit taxpayers types of occupation, out of 185(100%) respondents, 19(10.3%), 166(89.7%) were professional and non-professional respectively. Therefore, more than 3/4<sup>th</sup> of the participant's employment status was non-professional.

As table 4.6 shown that, out of 130(70%) non-compliance taxpayers, 116(63%) involves in non-professional employment status and the rest 14(7%) were on professional. In addition out of 55(30%) compliance taxpayers 50(28%) and 5(2%) were placed non-professional and professional. On average of respondents response in case of tax compliance behavior with occupation laid on the moderate i.e. 74(40%).

According to table 4.6, more of the respondents categorized under low-income level as the survey result revealed. Out of 185(100%) business profit taxpayers 152(81%), 27(15%) and 6(4%) were grouped with in the lower, middle and high income levels. From these levels of income 108(58%) more than half were from the former level, whereas, 19(10%) and 3(2%) were noncompliance with tax issues especially on rules and regulations. On the other hand, comparatively even, it is less, but low income levels also more compliance than other does like 44(23%) of these 55(30%). Respondent grouped under low-income level were non-compliance and compliance but the degree is quite difference.

Concerning the source of income of respondents in addition to their business income, the respondent's responses shown as 76(41%) taxpayers, their source of income was from pension and others followed by self employed 44(24%), public 42(23%) and private employed 23(12%). Furthermore, out of 130(70%) non-compliance respondents 41(27%), 30(16%), 32(18%), 17(9%), sources of income obtained from pension and others, self-employee, public and private shown as non-compliance respectively. Again, respondents give their response on the last level 25(13%) also compliance while compared to the remaining sources.

In addition, based on the survey result, sources of income obtained from pension and others were associated with non-complying the rules and regulations on business income profits, despite the fact that comply but the degree of weight was not similar. As table 4.6 reveals, out of the sampled business profit taxpayer's non-professional, low-income level and sources obtain from pension and others were not complying with respective extent of influences.

**Table 3.6: The relationship between taxpayer's occupation, income level and source of income with tax compliance behaviors**

| Item                | Alternatives     | Non-compliance      |                      | Compliance      | frequency | percenta<br>ge |
|---------------------|------------------|---------------------|----------------------|-----------------|-----------|----------------|
|                     |                  | Somewhat compliance | Moderated compliance | Full compliance |           |                |
| Types of occupation | Non-professional | 48(26%)             | 68(37%)              | 50(28%)         | 123       | 91%            |
|                     | Professional     | 8(4%)               | 6(3%)                | 5(2%)           | 19        | 9%             |
|                     | Total            | 56(30%)             | 74(40%)              | 55(30%)         | 185       | 100%           |
| Level of income     | Low income level | 49(26%)             | 59(32%)              | 44(23%)         | 150       | 81%            |
|                     | Middle income    | 6(3%)               | 13(7%)               | 8(5%)           | 27        | 15%            |
|                     | High income      | 1(1%)               | 2(1%)                | 3(2%)           | 8         | 4%             |
|                     | Total            | 56(30%)             | 74(40%)              | 55(30%)         | 185       | 100%           |
| Sources of income   | Public employee  | 12(7%)              | 20(11%)              | 10(5%)          | 42        | 23%            |
|                     | Private employee | 6(3%)               | 11(6%)               | 6(3%)           | 23        | 12%            |
|                     | Self employee    | 15(8%)              | 15(8%)               | 14(8%)          | 44        | 24%            |
|                     | Pension & others | 23(12%)             | 28(15%)              | 25(13%)         | 76        | 41%            |
|                     | Total            | 56(30%)             | 74(40%)              | 55(30%)         | 185       | 100%           |

Source: Business profit taxpayers survey and own computations (2015)

As per table 4.7 demonstrated, out of the sampled business profit taxpayers 185(100%), these participated in non-professional type of occupation also not satisfied with their financial conditions 129(70%), and satisfied 37(20%), majority of these professionals were not satisfied 15(8%) but insignificant number of respondents were satisfied 4(2%) out of 19(10%). Furthermore, out of 150(81%) respondents engaged in low-income level, only 34(18%) were have no a financial constraints to pay their tax obligation, and the remaining 116(63%) respondents reveals that have such problems. On the other hand, taxpayers under low, middle, and high income level indicates a corresponding dissatisfying with financial condition was 116(63%), 22(12%), 6(3%) consecutively.

From the sampled size of taxpayers source of income obtained from pension fund and others constitutes 31% dissatisfied and 10% satisfied, whereas self, public and private employees composed of 35(19%), 9(5%); 31(17%), 11(6%) and 20(11%), 3(1%) respectively dissatisfied and satisfied.

**Table 3.7: The interaction of financial condition on occupation, level of income and source of income**

| Components              | Alternatives        | Financial condition |                | Frequency  | Percentage  |
|-------------------------|---------------------|---------------------|----------------|------------|-------------|
|                         |                     | Dissatisfied        | Satisfied      |            |             |
| Occupation of taxpayers | Professional        | 15(8%)              | 4(2%)          | 19         | (10%)       |
|                         | Non-professional    | 129(70%)            | 37(20%)        | 166        | (90%)       |
|                         | <b>Total</b>        | <b>144(78%)</b>     | <b>41(22%)</b> | <b>185</b> | <b>100%</b> |
| Level of income         | Low income level    | 116(63%)            | 34(18%)        | 150        | 81%         |
|                         | Middle income level | 22(12%)             | 5(3%)          | 27         | 15%         |
|                         | High income level   | 6(3%)               | 2(1%)          | 8          | 4%          |
|                         | <b>Total</b>        | <b>144(78%)</b>     | <b>41(22%)</b> | <b>185</b> | <b>100%</b> |
| Source of income        | Public employee     | 31(17%)             | 11(6%)         | 42         | 23%         |
|                         | Private employee    | 20(11%)             | 3(1%)          | 23         | 12%         |
|                         | Self employee       | 35(19%)             | 9(5%)          | 44         | 24%         |
|                         | Pension & others    | 58(31%)             | 18(10%)        | 76         | 41%         |
|                         | <b>Total</b>        | <b>144(78%)</b>     | <b>41(22%)</b> | <b>185</b> | <b>100%</b> |

Source: Business profit taxpayers survey and own computations (2015)

Investigation of business profit taxpayers survey in terms of their turnover in the fiscal year 2004 E.C shown that 150(81.1%) had a total turnover of Ethiopian Birr (ETB) less than 100,000 with specifically below 20,000, 4(2.2%); 20,001-50,000, and had turnover between ETB 100,001 and ETB 500,000, and above 500,000 ETB revealed that 27(14.6%) and 8(4.3) respectively. This is an indication of more of the respondents were category "C" taxpayers (Table 4.8).

**Table 3.8: business profit taxpayer's annual level of turnover**

| Annual turnover | Frequency  | Percentage  |
|-----------------|------------|-------------|
| below 20000     | 4          | 2.2         |
| 20001-50000     | 24         | 13.0        |
| 50001-100000    | 122        | 65.9        |
| 100001-200000   | 10         | 5.4         |
| 200001-500000   | 17         | 9.2         |
| above 500000    | 8          | 4.3         |
| <b>Total</b>    | <b>185</b> | <b>100%</b> |

Source: Business profit taxpayers survey and own computations (2015)

To understand the reason why taxpayers pay taxes, the survey result showed that 90(48.9%) of the respondents replayed that they pay taxes due to compulsory act while 36(19.5%) of the respondent said that due to anticipation in public services. On the other hand, 35(18.9%) of the respondent replayed that they have no opportunity to evade, and the remaining 14(7.6%) and 9(4.9%) of the respondents said that do not know and to avoid disturbances that pay taxes to escape from the government intimidation (table 4.9).

**Table 3.9: The reason why business profit taxpayers pay income tax**

| Reason for payment of tax                   | Frequency  | Percentage   |
|---|------------|--------------|
| To avoid disturbances                       | 9          | 4.9          |
| In anticipation of public services          | 36         | 19.5         |
| There is no opportunity to evade            | 35         | 18.9         |
| Obligation towards the government           | 90         | 48.6         |
| Do not know                                 | 14         | 7.6          |
| To avoid disturbances (penalties, sanction) | 1          | 0.5          |
| <b>Total</b>                                | <b>185</b> | <b>100.0</b> |

Source: Business profit taxpayers survey and own computations (2015)

### 3.1.1.3. Financial Constraints of Business Profit Taxpayers

With respect to the aspects of financial conditions of respondents on questions rose to state whether taxpayers were satisfied or not with their financial conditions based on the annual income obtained from the business and additional sources to cover their expenditures as well as tax liabilities. In this regard, the survey outcomes revealed as follows. All over the respondents survey result regardless of financial condition shown as more of the taxpayers were dissatisfied with their financial condition 144(78%), and the remaining respondents 41(22%) were satisfied with their financial conditions as the survey revealed.

Regardless of taxpayers financial conditions compared to tax compliance behavior 100(54%) which have financial constraints and 30(15%) absence of constraints were non-compliance, where as 44(24%) dissatisfied and 11(6%) satisfied taxpayers were compliance with tax rules and regulations; this indicates that not only the dissatisfied but also the satisfied were non-compliance (table 4.10). On the other hand, while comparing the proportion of satisfied and dissatisfied taxpayers with their compliance behavior, the researcher found that, significance number of the respondents these responds as dissatisfied and satisfied with their financial conditions were non-compliance and compliance with a great number of tendency.

Moreover, these satisfied were less compliance comparatively, where as dissatisfied justified fully compliance. This result is consistence with findings of (Mohani, 2001; Mohani and Sheehan, 2004). The reason behind this result stated that, greater financial capability has less concerned by the fixed penalty solutions as they have the resources to pay these penalties if caught evading (i.e. the threat of penalties imposed is less of a concern to those with greater financial resources), which those with greater financial constraints do not.

**Table 3.10: Interaction of personal financial condition of taxpayers with tax compliance**

| Items               | Alternatives | Non-compliance      |                      |        | Compliance      |         | Frequency  | %          |
|---------------------|--------------|---------------------|----------------------|--------|-----------------|---------|------------|------------|
|                     |              | Somewhat compliance | Moderated compliance | F.C pr | Full compliance | F.C pr. |            |            |
| Financial condition | Dissatisfied | 42(23%)             | 58(31%)              | 77%    | 44(24%)         | 80%     | 144        | 78%        |
|                     | Satisfied    | 14(7%)              | 16(9%)               | 23%    | 11(6%)          | 20%     | 41         | 22%        |
|                     | <b>Total</b> | <b>56(30%)</b>      | <b>74(40%)</b>       |        | <b>55(30%)</b>  |         | <b>185</b> | <b>100</b> |

Source: Business profit taxpayers survey and own computation (2015)

F.C pr. = Financial Condition proportion

### 3.1.1.4. Tax Compliance Behavior

To answer questions whether business profit taxpayers are complying with tax rules and regulations of the tax authority, the researched asked four questions to show their statues with regardless of somewhat compliance, moderately compliance and fully compliance. Therefore, the compliance behavior of the respondents towards tax rule and regulations were presented in table 4.11, and it reveals that from the overall respondents only about 55(30%) of the participants act in accordance with tax rule and regulations in declaring their income for tax purpose leaves about 130(70%) of the respondents as noncompliance in average moderately compliance. Almost the results on in income reporting compliance, tax claims reporting, return filling and tax payment was obtained 114(61.6%), 113(61.1%), 150(81.1%) and 142(76.7%) were noncompliance respectively.

The remaining respondents respond 71(38.4%), 72(38.9%), 35(18.9%), and 43(23.2%) were compliance. In addition, besides the responses towards the tax compliance behavior, the comparison using frequency and percentage, the scores of (1) (2) and (3) assigned to the options under each item of the scenario case and the values interpreted as somewhat compliant, moderately compliant and fully compliant. The aggregate mean score for tax compliance behavior was 1.996, approximately 2.00, which indicated that overall respondents had moderate tax compliance behavior with standard deviation of 0.369.

**Table 3.11: Descriptive statistics for Tax Compliance Behavior**

| Components           | Mean | Standard deviation | Non compliance      |                       | Compliance       |
|----------------------|------|--------------------|---------------------|-----------------------|------------------|
|                      |      |                    | Somewhat compliance | Moderately compliance | Fully Compliance |
| Income reporting     | 2.18 | .749               | 38(20.5)            | 76(41.1)              | 71(38.4)         |
| Tax claims reporting | 2.20 | .736               | 35(18.9)            | 78(42.2)              | 72(38.9)         |
| Return filling       | 1.81 | .731               | 70(37.8)            | 80(43.2)              | 35(18.9)         |
| Tax payment          | 1.79 | .797               | 82(44.3)            | 60(32.4)              | 43(23.2)         |
| Total                | 1.99 | 0.369              | 56(30)              | 74(40)                | 55(30)           |

**Note:** Percentage in parenthesis 1-Minimum for mean, 3 the maximum mean, Number of respondent-185

### 3.1.1.5. Attitude of Business Profit Taxpayers Towards Tax Evasion

With respect to attitudes towards tax evasion, the researcher asked different questions to get the perceptions of respondents behavior on tax compliance behavior, some of the questions inquired were about the respondents' ethical behavior, declaring their extra income and claiming nonexistent deduction on tax return serious offences and tax fairness, tax evasion of other taxpayers. Business profit taxpayer's attitude towards tax evasion, the survey outcomes revealed that attitudes of the respondents towards tax evasion were evaluated in items ATTEQ1 up to ATTEQ7 and the descriptive analysis of these items is shown in Table 4.12.

ATTEQ1 and ATTEQ2 evaluated the ethical behavior of the respondents and with the mean score above 4.00 for each of the items; it entail that the respondents had fair ethical behavior. In this regard, majority of the respondents (94.1% for ATTQ1 and 95.1% for ATTQ2) admitted that not declaring their extra income and claiming nonexistent deduction on tax return were serious offences. The reaction of the respondents towards tax fairness and tax evasion of other taxpayers captured in item ATTQ3 to ATTQ7 and each of these items has mean scores above 4.00 except ATTEQ6 and 7, which is below 4.00 and above 3.00 indicating that the respondents felt good sense about the involvement of others in tax evasions and tax fairness. Overall, going by the overall mean score of 3.98 and standard deviation of 0.21, the respondents had an unfavorable attitude towards tax evasion.

**Table 3.12: Descriptive statistics on perception of Attitude towards tax evasion of business profit taxpayers**

| Measures   | SD      | DA       | Neutral  | Agree      | S.A        | Mean | SD    |
|--|---------|----------|----------|------------|------------|------|-------|
|  | No. (%) | No. (%)  | No. (%)  | No. (%)    | No. (%)    |      |       |
| Sum of tax attitude to tax evasion   | 17(9)   | 88(47.5) | 42(22.7) | 924(483.7) | 253(137.4) | 3.98 | 0.21  |
| Not declaring my actual income on my tax return is serious offence   | 0       | 6(3.2)   | 5(2.7)   | 147(79.5)  | 27(14.6)   | 4.05 | .549  |
| Claiming a nonexistent deduction on my tax return is serious offence   | 0       | 2(1.1)   | 7(3.8)   | 143(77.3)  | 33(17.8)   | 4.12 | .497  |
| One can criticize a person who declares lower income than was the case on his/her tax return when there are so many others doing the same. | 1(.5)   | 1(.5)    | 3(1.6)   | 149(80.5)  | 31(16.8)   | 4.12 | .490  |
| One can criticize others who exploit the many possibilities there are to evade taxes   | 1(.5)   | 8(4.3)   | 9(4.9)   | 149(64.3)  | 48(25.9)   | 4.11 | .722  |
| I believe that I pay my fair share of tax burden under the current income tax system.  | 13(7)   | 38(20.5) | 8(4.3)   | 90(48.6)   | 36(19.5)   | 3.51 | 1.216 |
| We can defend people who evade taxes because the tax system is unfair  | 1(.5)   | 26(14.1) | 5(2.7)   | 116(62.7)  | 37(20)     | 3.88 | .909  |
| Serious enforcement and penalty by the tax authority may result if I evade taxes whatever the amount                                       | 1(.5)   | 7(3.8)   | 5(2.7)   | 131(70.8)  | 41(22.8)   | 4.10 | .664  |

1-Minimum for mean, 5-the maximum mean, No.-Number of respondent-185, percentage in parenthesis

Source: Business profit taxpayers survey and own computations (2015)

### Tax System Structure of Business Profit

With respect to tax system questions were asked to put their agreement and disagreement on the given tax system components statements, which were, evaluated in items TSSQ1 up to TSSQ10 and the descriptive analysis of these items shown in table 4.13. TSSQ1 up to TSSQ510 that are raised to answer the perceptions of tax system structure on tax return, complexity of tax system, tax rules to navigate, unclear/unfair tax system, procedural complexity, lawfulness to collect revenue and manage economy, tax rate, awareness creation and enforcement of categories has been evaluated.

As the result shown in table 4.13, all mean scores were above 3.00 except TSSQ6 for each of the items. It brings that the respondents have an indication of difficulty of understand tax return form 119(64.3%), too complexity of business profit tax 138(74.6%). Bulkiness of tax rules to navigate 131(70.8%), complexity of procedures and unfair/unclear treatment encompasses 137(74.1) each. Heaviness of tax burden 109(59%), less awareness creation 127(68.7%), tax rate is not fair, and transfer of category with official enforcement 115(62.2%) and 137(74%) respectively given response from the alternative on agree and disagree. whereas the income tax is not legitimate to collect revenue and manage economy the mean value reveals 1.86 below average. Overall, going the overall mean score of 3.34 and standard deviation of 0.52, the respondents had a perception of business profit tax system is ineffective (table 4.13).

| <b>Table 3.13: Descriptive statistics on perception of tax system structure on Mekelle city business profit taxpayers</b> |                   |                   |                  |                   |                   |             |      |
|---|-------------------|-------------------|------------------|-------------------|-------------------|-------------|------|
| Measures  | Strongly disagree | Disagree          | Neutral          | Agree             | Strongly agree    |             |      |
|   | No. (%)           | No. (%)           | No. (%)          | No. (%)           | No. (%)           | M           | SD   |
| Sum of tax system structure   | <b>211(114)</b>   | <b>372(201.6)</b> | <b>106(57.3)</b> | <b>895(483.8)</b> | <b>265(143.3)</b> | <b>3.34</b> | 0.52 |
| The term used in the tax return forms are difficult to understand   | 20(10.8)          | 34(18.4)          | 12(6.5)          | 71(38.4)          | 48(25.9)          | 3.5         | 1.34 |
| The Ethiopian business profit tax system is too complicated   | 14(7.6)           | 25(13.5)          | 8(4.3)           | 104(56.2)         | 34(18.4)          | 3.64        | 1.53 |
| The Ethiopian business profit tax rules are bulky and hard for taxpayers like us to navigate                              | 15(8.1)           | 29(15.7)          | 10(5.4)          | 106(57.3)         | 25(13.5)          | 3.52        | 1.15 |
| Most of the time, I need to refer to others (professionals) for assistance in dealing with the tax matters.               | 101(54.3)         | 43(23.2)          | 7(3.8)           | 33(17.7)          | 1(0.5)            | 1.86        | 1.15 |
| I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes    | 4(2.7)            | 14(7.6)           | 10(5.4)          | 132(71.4)         | 24(13)            | 3.84        | 0.84 |
| The income tax system is not a legitimate way for the government to collect revenue & to manage an economy                | 10(5.4)           | 64(34.6)          | 17(9.2)          | 73(39.5)          | 21(11.4)          | 3.17        | 1.18 |
| The burden of tax is so heavy that many people are forced to evade it in order to survive                                 | 13(7)             | 51(27.6)          | 12(6.5)          | 73(39.5)          | 36(19.5)          | 3.37        | 1.27 |
| The tax authority does not provide me any awareness creation about the tax system   | 9(4.9)            | 36(19.5)          | 13(7)            | 100(54.1)         | 27(14.6)          | 3.54        | 1.11 |
| As far as I know the business profit, tax rate is not fair.   | 15(8.1)           | 45(24.3)          | 10(5.4)          | 96(51.9)          | 19(10.3)          | 3.32        | 1.19 |
| Tax payers are transfer from one category to the next with official enforcement   | 10(5.4)           | 31(16.8)          | 7(3.8)           | 107(57.8)         | 30(16.2)          | 3.63        | 1.11 |

Source: Business profit taxpayers survey and own computations (2015)1-minimum for mean, 5-maximum,

### 3.1.1.6. Quality of Tax Service Provided by Tax Authorities

Respondents were forward questions through questionnaire to give their perception on quality of tax service provided by tax authorities then the respondents' views on the quality of tax service of business profit taxpayers of Mekelle city expressed through items TSQ1 to TSQ20 and presented in table 4.14. Their perception about the quality of interaction between tax employees and individual taxpayers organized in items TSQ1- TSQ5, the mean scores of these items were less than 2.5 almost on the average, TSQ1, and TSQ2 has the lowest mean score of 1.76 and 1.70 respectively. Moreover, respondents had expressed their disagreement with the item i.e., 165(89.7%) tax office employees friendliness and 178(96%) tax employees willingness to help taxpayers. In addition, respondents had expressed disagreement with the item that is tax employees respond quickly to tax service needs, tax office employees' knowledge of their job, tax employees' respond to tax service needs has a mean value of 2.5. This all is an indication of taxpayers were less interaction quality with the tax authority.

In addition, items TSQ7 up to TSQ15 revealed the perception of the respondents on the quality of tax office physical environment. The descriptive statistics of these items as presented in table 4.14 indicate that the mean scores of the items range from 2.26 to 3.38. Comparative analysis of these items, reveals that more respondents



125(67.5%), 126(68%), 123(66.5%), 130(70.30%) disagreed with TSQ6, TSQ7, TSQ8, and TSQ9, (easiness of location and appropriate person, Compare ambiance at the tax office to any office person, importance of atmosphere to tax office and impresses of tax office outlay). The remaining item ranges from 2.5 to 3.34 as combination the average mean score of these nine item shows 2.62 above average.

The third classification of tax service quality under this study is outcome quality and it covers six items. Table 4.14 further reveals the views of the respondents on the quality of actual services rendered by tax offices in Mekelle city. These inspections were expressed through items TSQ15 up to TSQ20 and these items have a mean score of greater than 3 except for TSQ15 which has 2.97. This statistical description is an signal of the respondents perceived the quality of actual tax service is high. On item by item, TSQ15 has fewer respondents 95(51.3%) who expressed disagreement with the item than other five items. Even though the mean score of the five item were 3.31, in general, the overall mean score of tax service quality reveals 2.631 and standard deviation of 0.425, the respondents generally perceived tax service quality in Mekelle is low (table 4.14).

This result suggests in line with the submissions of OECD (2007) and Torgler (2007) that an improvement in the quality of tax service provided by the revenue authorities would enhance taxpayer's compliance behavior. Similarly, the finding follows the theoretical prediction concerning the influence of service quality provided by experts on compliance behavior. Although studies measuring the direct relationship between the perceived taxes service quality and tax compliance behavior are rare. That improper treatment of taxpayers in the course of the provision of service in the tax office influences future compliance behavior. The evidence from this descriptive suggests that a low perception of taxpayer about the quality of tax service provided by revenue authorities may have contributed significantly to the low tax compliance level in Mekelle city.

**Table 3.14: Descriptive statistics on perception of Tax service quality on Mekelle city business profit taxpayers**

| Measures   | SDA      | D.A       | Neutral  | Agree    | S.A.    |             |       |
|--|----------|-----------|----------|----------|---------|-------------|-------|
|  | No. (%)  | No. (%)   | No. (%)  | No. (%)  | No. (%) | M           | SD    |
| <b>Interaction quality</b>   |          |           |          |          |         | <b>1.97</b> |       |
| I can count on the employees of tax office as being friendly.  | 78(42.7) | 87(47)    | 6(3.2)   | 14(7.6)  | 0       | 1.76        | .389  |
| The attitude of tax employees demonstrates their willingness to help me.                             | 65(35.1) | 113(61.1) | 5(2.7)   | 2(1.1)   | 0       | 1.70        | .576  |
| Tax employees respond quickly to my tax service needs  | 50(27)   | 103(55.7) | 10(5.4)  | 14(7.6)  | 8(4.3)  | 2.06        | 1.009 |
| I can count on tax employees knowing their tax job well.   | 44(23.8) | 89(48.1)  | 14(7.6)  | 33(17.8) | 5(2.7)  | 2.28        | 1.096 |
| Tax employees understand that I rely on their tax knowledge to meet my needs.                        | 51(27.6) | 100(54.1) | 11(5.9)  | 22(11.9) | 1(.5)   | 2.04        | 0.926 |
| <b>Physical environment</b>  |          |           |          |          |         | <b>2.62</b> |       |
| It is ease in locating and contacting appropriate persons in offices                                 | 50(27)   | 75(40.5)  | 15(8.1)  | 42(22.7) | 3(1.6)  | 2.31        | 1.146 |
| Tax office's environments have ambiance that i am looking for in any office.                         | 42(22.7) | 84(45.4)  | 27(14.6) | 32(17.3) | 0       | 2.26        | 1.00  |
| Tax office understands that its atmosphere is important to me.                                       | 40(21.6) | 83(44.9)  | 21(11.4) | 34(18.4) | 7(3.8)  | 2.38        | 1.127 |
| Tax office's outlay to impress me  | 20(10.8) | 110(59.5) | 15(8.1)  | 40(21.6) | 0       | 2.41        | 0.946 |
| Tax office understands that the design of its facility is important to me                            | 25(13.5) | 80(43.5)  | 15(8.1)  | 56(30.3) | 9(4.9)  | 2.70        | 1.177 |
| I find that other taxpayers consistently leave the tax office with a good impression of its service. | 26(14.1) | 66(35.7)  | 24(13)   | 63(34.1) | 6(3.2)  | 2.77        | 1.159 |
| Tax office understands that the other  | 34(18.4) |           |          |          |         |             |       |

|   |          |          |          |           |          |              |              |
|---|----------|----------|----------|-----------|----------|--------------|--------------|
| taxpayers' patronage affect my perception of its service.   |          | 76(41.1) | 25(13.5) | 44(23.8)  | 6(3.2)   | 2.52         | 1.138        |
| I would say that tax office's physical environment is one of the best office environments than other offices. | 6(3.2)   | 89(48.1) | 13(7)    | 66(35.7)  | 11(5.9)  | 2.93         | 1.099        |
| I would rate tax office's physical environment highly   | 19(10.3) | 37(20)   | 17(9.2)  | 86(46.5)  | 26(14)   | 3.34         | 1.237        |
| <b>Outcome quality</b>  |          |          |          |           |          | <b>3.31</b>  |              |
| Waiting time at tax office is predictable   | 30(16.2) | 51(27.6) | 9(4.9)   | 85(45.9)  | 10(5.4)  | 2.97         | 1.268        |
| Tax office tries to keep my waiting time to a minimum   | 5(2.7)   | 17(9.2)  | 7(3.8)   | 130(70.3) | 26(14.1) | 3.84         | 0.876        |
| I like tax office because it has modern equipment to provide service  | 3(1.6)   | 17(9.2)  | 9(4.9)   | 119(64.3) | 37(20)   | 3.92         | 0.872        |
| Tax office knows the kind of the service that the taxpayers are looking for                                   | 36(19.5) | 49(26.5) | 5(2.7)   | 84(45.4)  | 11(5.9)  | 2.92         | 1.138        |
| When i leave tax office I usually feel that i had good experience   | 2(1.1)   | 55(29.7) | 8(4.3)   | 101(54.6) | 19(10.3) | 3.43         | 1.057        |
| I would say that tax office provide superior service  | 14(7.6)  | 67(36.2) | 18(9.7)  | 67(36.2)  | 19(10.3) | 3.05         | 1.201        |
| Over all  |          |          |          |           |          | <b>2.631</b> | <b>0.425</b> |

Source: Business profit taxpayers survey and own computations (2015)

### 3.1.1.7. The Interaction of Financial Condition With Attitude Towards Tax Evasion, Tax System Structure and Tax Service Quality

This part encompasses survey result of the three major variables with interaction variable (financial condition). Table 4.15, describes about the relationship among/between financial constraints of business profit taxpayers and their attitude towards tax evasion particularly with items of its components discussed. On ethical behavior, declaring their extra income, claiming nonexistent deduction on tax return serious offences and tax fairness, tax evasion of other taxpayers as discussed in table 4.12 above.

The below table 4.15 is a result of respondents respond on the average of each items ATTEQ1 to ATTEQ7 summarized as stated below in to five alternatives using SPSS crosstab. Therefore, 126(68%) respondents from 185(100%) replies their agreement with stated items even though they are dissatisfied with their financial conditions. On the reverse, respondents 36(19%), which have agreed with the stated items also, satisfied with their financial conditions. In addition, respondents 13(7%) not agreed with the raised ideas on attitude towards tax evasion and have financial constraints, on the contrary, 4(2%) respondents did not agreed with the elements but they have no constraints financially.

Out of total respondents 7(4%) replied neutral/no suggestions were given 5(3%) without financial constraints and 2(1%) have financial problems to pay his/her tax liabilities. Therefore, this result shows that, more of the respondents on the line of financial problem tend to agree with the components of attitude towards tax evasion but it does not mean that financial condition will not moderate the relationship with tax compliance.

**Table 3.15: The interaction of financial condition and attitude towards tax evasion**

| Components                   | Alternatives      | Financial condition |           | Frequency | Percentage |
|------------------------------|-------------------|---------------------|-----------|-----------|------------|
|                              |                   | Dissatisfied        | Satisfied |           |            |
| Attitude towards tax evasion | Strongly disagree | 3(2%)               | 1(0.5%)   | 4         | 2.5%       |
|                              | Disagree          | 10(5%)              | 3(1.5%)   | 13        | 6.5%       |
|                              | Neutral           | 5(3%)               | 2(1%)     | 7         | 4%         |
|                              | Agree             | 98(53%)             | 28(15%)   | 126       | 68%        |
|                              | Strongly agree    | 28(15%)             | 8(4%)     | 36        | 19%        |
|                              | Total             | 144(78%)            | 41(22%)   | 185       | 100%       |

Source: Business profit taxpayers survey and own computations (2015)

As table 4.13 shown above, the items of tax system structure measured using 10 elements TSSQ1 up to TSSQ10. In addition, the purpose of this part is to relate the average response of respondents in each element as in table 4.16 described with the association of financial condition with perceptions of tax system structure. Variables which is integrated with on tax return, complexity of tax system, tax rules to navigate, unclear/unfair tax system, procedural complexity, lawfulness to collect revenue and manage economy, tax rate, awareness creation and enforcement of categories while transferring. So the researcher found that the interaction of taxpayers financial condition (satisfied, dissatisfied) with related to tax system structure as demonstrated below.

As survey results indicted in table 4.16 below, the respondent 98(53%) agreed with elements these who is not satisfied with his/her financial condition. However, 30(16%) respondents financially has no problem replied disagreement with the raised questions. Furthermore, 34(20%) respondents were disagreeing with the items, but financially satisfied, in contrary of this, 9(4%) respondents disagree with the statements even though no constraints with financial condition.

Lastly sampled business profit taxpayers responds no suggestion about 9(5%), 2(1%) were dissatisfied and stratified with their financial conditions respectively. Although this is the case but the results should reversed since the items of the questions were in a negative way. The researcher suggested treating tax system results interpreted as high mean is law tax system.

**Table 3.16: The interaction of financial condition and tax system structure**

| Components           | Alternatives      | Financial condition |                 | Frequency      | Percentage |
|----------------------|-------------------|---------------------|-----------------|----------------|------------|
|                      |                   | Dissatisfied        | Satisfied       |                |            |
| Tax system structure | Strongly disagree | 10(5%)              | 2(1%)           | 12             | 6%         |
|                      | Disagree          | 25(15%)             | 7(4%)           | 32             | 19%        |
|                      | Neutral           | 9(5%)               | 2(1%)           | 11             | 6%         |
|                      | Agree             | 76(41%)             | 24(13%)         | 100            | 54%        |
|                      | Strongly agree    | 22(12%)             | 6(3%)           | 28             | 15%        |
|                      | <b>Total</b>      |                     | <b>144(78%)</b> | <b>41(22%)</b> | <b>185</b> |

Source: Business profit taxpayers survey and own computations (2015)

Table 4.17 is an extension of table 4.10 and 4.14, which provides a clue on the interaction of financial condition and tax service quality which rendered by tax authority. As the result of this, according to the survey result a significant number of responses 78(42%) revealed disagree with services provided and these dissatisfied with his/her financial conditions, while 23(13%) disagreed but satisfied or has no financial constraints.

On the other hand from the overall respondents 14(8%) did not get side with agree or disagree rather neutral/no suggestion, 10(6%), 4(2%) respectively were dissatisfied and satisfied on their financial conditions. In conjunction of table 4.10 and 4.14, the majority of respondent's response reveals that, these perceived tax service quality is low also dissatisfied with their financial conditions. It is inevitable that having high tax service quality, taxpayers expected to be more compliance. Nevertheless, the question is the contribution of financial condition (satisfied or dissatisfied) with low or high tax service quality.

**Table 3.17: The interaction of financial condition and tax service quality**

| Components          | Alternatives      | Financial condition |                 | Frequency      | Percentage |
|---------------------|-------------------|---------------------|-----------------|----------------|------------|
|                     |                   | Dissatisfied        | Satisfied       |                |            |
| Tax service quality | Strongly disagree | 26(14%)             | 7(4%)           | 33             | 18%        |
|                     | Disagree          | 52(28%)             | 16(9%)          | 68             | 37%        |
|                     | Neutral           | 10(6%)              | 4(2%)           | 14             | 8%         |
|                     | Agree             | 47(25%)             | 12(6%)          | 59             | 31%        |
|                     | Strongly agree    | 9(5%)               | 2(1%)           | 11             | 6%         |
|                     | <b>Total</b>      |                     | <b>144(78%)</b> | <b>41(22%)</b> | <b>185</b> |

Source: Business profit taxpayers survey and own computations (2015)

### 3.1.1.8. Summary of Descriptive Statistics

Table 4.18 shows summary of the descriptive statistics of dependent and independent variables that are included in the study. It contains the mean distribution, standard deviations, minimum and maximum values of each variable in the sampled business profit taxpayers. These business profit taxpayers that are surveyed in this study out of 185(100%), 81, 15 and 4 percent were in category “C”, “B” and “A” respectively. More or less the sampled population is the former category. Having this output in mind, according to the survey result, the extent of tax compliance revealed 70 percent non-compliance (somewhat compliance 40%, moderately compliance 30%) and 30 percent compliance with overall mean of 1.99 (lied in moderate compliance) and SD 0.369. This result encompasses that 46 percent male, and 24 percent female were non-compliance where as 20, 10 percent male and female were compliance. In addition, on the survey result revealed 41(22%), 76(31%), 13(7%) were single, married and divorce marital status respectively non-compliance.

Based on the survey, the perception of attitude towards tax evasion’s overall mean score shows above the average i.e. 3.98 with standard deviation of 0.321, so this shows respondents had a negative attitude towards tax evasion. Concerning tax system structure the mean score shows above average i.e. 3.34 even few items are below this. The respondents survey result shows interaction quality mean score of 1.97, physical environment 2.62, outcome quality 3.31 and total tax service quality revealed a little bit above average 2.631 this indicates low service quality provide by tax authority. Apart from this, interaction of financial condition with respect to attitude towards tax evasion, tax system structure and tax service quality has discussed in addition to crosstab of tax compliance with certain variables.

**Table 3.18: Summery of descriptive statistics**

| Variables   | Observation | Mean  | SD    | Min | Max |
|---|-------------|-------|-------|-----|-----|
| Tax compliance : 1=non-compliance , 2=moderate compliance , 3=Fully compliance                        | 185         | 1.99  | 0.369 | 1   | 3   |
| Attitude towards tax evasion**  | 185         | 3.98  | 0.321 | 1   | 5   |
| Tax system structure **   | 185         | 3.34  | 0.520 | 1   | 5   |
| Tax service quality **  | 185         | 2.631 | 0.425 | 1   | 5   |
| Interaction quality *   |             | 1.97  | 0.595 | 1   | 5   |
| Physical environment*   |             | 2.62  | 0.555 | 1   | 5   |
| Outcome quality*  |             | 3.31  | 0.560 | 1   | 5   |
| Financial condition: 1=dissatisfied , 0=Satisfied   | 185         | 0.22  | 0.416 | 0   | 1   |
| Occupation : 0=Professional, 1=Non-professional   | 185         | 0.90  | 0.304 | 0   | 1   |
| Income level: 1=Low income level , 2=Middle income level, 3=High income level                         | 185         |       |       | 1   | 3   |
| Source of income,1= employee in public , 2= employee in private 3= self employee 4=pension and others | 185         |       |       | 1   | 4   |

Source: Stata result from survey data (2015).

\* Indicate that components of tax service quality

\*\* Indicate that use five point likert-scales to measure

The mean is the sum of the observations divided by the total number of observations. The standard deviation is the squared root of the variance. Indicates how close the data is to the mean. The variance measures the dispersion of the data from the mean. It is the simple mean of the squared distance from the mean. Minimum refers to the lowest value in the variable and maximum is the largest value in the variable.

### 3.1.2. Survey Results Thorough in Depth Interview

Other than, the above discussions so far, survey respondents given the opportunity to comment on the overall factors influencing tax compliance behavior. More particularly, open-ended questions, concerning interaction effect of financial condition with tax compliance behavior and factors affecting tax compliance behavior like; attitude towards tax evasion, perceptions on tax compliance, tax service quality, tax knowledge, financial condition, tax system structure, and related with their type of occupation, income level and source of income.

Even though open-ended interview questions are difficult to data analysis, under this study the researcher used content analysis as data reduction techniques that have used extensively to pick out patterns like analysis of key words and phrases. The researcher, after all reading the comments that respondents have provides, then gets feelings for what people are saying, and offer the following results.

Therefore, the following results were drawn from the in-depth face-to-face interview: Chapter three in the methodology part is stated 10 respondents were selected for interview to meet the practicing research approaches i.e., mixed and to support valuable information besides the data collected via questionnaire.

The first question forwarded for respondents, was concerning their perception towards tax evasion, majority of the interviewee 8(80%) responds as they have knowledge while understating income as well overstating income is violating the rules and regulations of tax authority and in case it would have enforcement to pay with punishments. Whereas, 20 percent of the respondents respond if they had get the way as they do it. Having knowledge of the benefits of levying tax-to-tax authority, more than half of the interviewee expresses their perception negatively towards tax evasion. With questions regarding whether those taxpayers defend other people who evade taxes because of different reasons they respond as they do as well for reasonable aspects since it hinders the government's proper functioning.

The respondents selected via random sampling for the purpose was six from category "C" and the remaining three and one from category "B" and "A" correspondingly. As a result, the former categories respond even if they have positive thinking on timely payment and following the rule and regulations, sometimes intentionally they made defaults that makes them to delay to pay the required amount as a reason do to high burden of tax. As they responded, lastly they lead them to appeal. Furthermore, on the other side under "B" and "A" as they have a reservation on tax system and they believed as they were paying taxes more than others compare to informal business. Except in this case, in other way they described as they governed by the tax authorities rules and regulations like reporting actual income, claiming real deductions, fill return and timely payments with the exception of time limitation to submit the report.

In addition to the above questions raised, the researcher were asked about the perceptions of tax service quality related with interaction, physical and outcome quality provided by tax authority. Moreover, they responds the last two services were not that much satisfactory, but the former one were that as they were expected. All over the interview results perceived low tax service quality provided by Mekelle city tax authority.

Concerning perceptions of tax system structure, that interviewee replied on the key elements like on tax return forms difficulty to understand, complexity of tax system, bulkiness of tax rules, a need of assistance due to unfair and unclear treatment of tax system, not legitimate way to collect revenue and manage an economy and lastly heaviness of tax burden. More than half 7(70%) of the interviewee responds on the above point that all exists in the current tax system structure except tax system provides a legitimate way to collect revenue and manage an economy. Whereas 3(30%) all items exist in the business profit tax system.

Furthermore, the respondents asked which part needs improvement from tax service quality and tax system structure, and their responds were inconclusive but more or less the former one needs urgent attention as they suggested.

Besides the above-mentioned ideas, survey respondents were also given the opportunity to comment on the tax knowledge and training regarding issue of tax. Accordingly, the respondents replied different responses. Moreover, this summarized as, 40 percent of the respondents have a knowledge how to compute, why and when business tax profit are paying and have get a chance of training in 2004 E.C two wise a year. While 60 percent, of the respondents were respond half of them have knowledge on the above stated and the remaining have no knowledge and did not get training on the tax issues.

Concerning financial constraints, business profit taxpayers respond 20 percent of the interviewee was satisfied with their financial condition after covering personal expenditure and liabilities that were not permitted for deduction by the tax authority and the other 80 percent reveals have financial constraints. Lastly questions forwarded on income level, sources of income and types of occupation they involved. Moreover, 20% of the respondents incorporated in middle-income level and the remaining lower income level and all were self-employed. In addition, all interviewee participates in non-professional occupation.

### 3.2. Econometrics Analysis and Discussions

In addition to the descriptive analysis this section also presents the result of the models through multiple regression analysis such as p-value, R-squares ( $R^2$ ), adjusted R-square, significance test, beta coefficients using State version 10. In this study, the conceptual framework discussed in the earlier chapter guided the selection of the explanatory variables. The explanatory variables include in the first model i.e. main effect of tax service quality, attitude towards tax evasion, tax system structure, types of occupation, sources of income, and types of income. In addition, financial condition as moderate variables with all explanatory variables included in the first model would be regressed in model 2. While entered the dependent variable in the second model, the main effects also entered and regressed besides of two-way interactions.

Thus, the data collected from 185-business profit taxpayers in Mekelle City had been examined using a moderated multiple regressions, simply a multiple regression which includes interaction terms as well as main effects. It fits tests, the estimates and tests of the interaction term are unaffected. There are three types of multiple regressions; each of them has motives to answer a different question: Standard multiple regressions utilize to evaluate the relationships between a set of independent variables and a dependent variable. Hierarchical regression employ to examine the relationships between a set of independent variables and a dependent variable, after controlling for the effects of some other independent variables on the dependent variable. In addition, Stepwise, or statistical, regression is used to identify the subset of independent variables that has the strongest relationship to a dependent variable. On this study, the researcher used hierarchical multiple regression since the purpose is to investigate the moderating effect of financial condition on tax compliance behavior in addition to main effect.

The researcher used regression analysis specifically; multiple regression models have been employed, to analyze the relationship between dependent and independent variables and to show the interaction of financial condition. Since the dependent variable is categorical, the appropriate econometric model for such variables is linear regression model. The primary objectives in regression analysis are to find out how the average value of the dependent variable (or regressed) varies with the given value of the explanatory variable (or repressor).

Under this model, the independent variables were entering in two stages. In the first stage, the independent variables that we want to control for are entering into the regression. In the second stage, the independent variables whose relationship we want to examine after the controls are enter. Before the regression analysis carried out, the assumptions of multiple regressions evaluated properly, and in order to reduce the effect of multicollinearity, the variables has centered as suggested by Aiken and West (1991).

Generally, the assumptions of multiple regressions were fairly complied and achieved by centering the predictors prior to calculating the interaction/product term. This can be use by dummy, effect and contrast coding and the researcher used the second one. Centering simply involves transforming the predictor by subtracting its original mean value from all observed values (effect coding).

This study adopted a technique of multiple regressions otherwise referred to as the moderated regression particularly hierarchical is the appropriate technique to detect the presence of moderating effects of financial condition on tax compliance and its determinants. To do so, it needs take into account the nature of the conceptual framework of the study's procedures, as recommended by Darrow and Kahl (1982) for the purpose of the analysis.

To make the data ready for analysis and to get reliable output from the research different tests run. In this study as mentioned in chapter three diagnostic tests carried out to ensure that the data fits the basic assumptions of classical linear regression model, i.e. the OLS assumptions, are fulfilled when the explanatory variables are regressed against the dependent variables.

Test results for the classical linear regression model assumptions applied properly. The Pearson correlation matrix shows that the correlation between and among each independent and dependent variable is not strong, suggesting multi-collinearity problems are either not severe or non-existent. Since as a general rule of thumb multi-collinearity is a problem when the correlation result is above 0.80 and below -0.80, but in this case, it is under 0.49 and over -0.46 (see appendix A). Variance inflating factor (VIF) was used to check for multi-collinearity problem among and between variables.

VIF result shows that there is no perfect collinearity among and between variables on both models because the VIF value is below 2.11, multi-collinearity can be a problem if and only if VIF value exceeds 10 (see appendix B). The hettest was used to check whether there is hetroscedasticity problem or not and the OV test was carried

out to check whether there is any mistreated non-linearity in the data or not. As Breusch-Pagan/Cook-Weisberg test shows the null hypothesis (i.e.,  $H_0$ : model has no omitted variables) and as Ramsey RESET test shows the null hypothesis i.e.,  $H_0$ : Constant variance (see appendix C). As a result, the robust regression used to avoid the aforementioned problem in the data. The various goodness-of-fit measures validate that the model fits the data well (see appendix D).

### 3.3. Factors Influencing Taxpayer’s Compliance Behavior Using Multiple Regression

The factors that significantly contribute to influence go beyond the descriptive analysis and require employing econometric analysis. Multivariate econometric analysis helps us to identify factors that significantly influence the tax compliance behavior. As it discussed in the methodology parts of this study, a multiple regression model was used to identify the major factors influencing taxpayer’s compliance behavior on the main effect by keeping interaction variable. The variables described in the descriptive analysis are used as explanatory variables in moderate multiple regression.

The researcher used tax compliance behavior as a dependent variable where by a value of 1 is given to somewhat compliance, 2 for moderate compliance and 3 fully compliance. The following table (4.19) shows types, codes and values attached to each variable in both models.

**Table 3.19: Names, types, codes and values of the variables**

| Names                        | Types       | Codes   |         | Values   |
|------------------------------|-------------|---------|---------|--|
|                              |             | Model 1 | Model 2 |  |
| Tax compliance               | Categorical | TC2     | TC2     | If taxpayers somewhat1, moderate 2 and fully compliance 3                |
| Tax service quality          | Scale       | TSQ     | CTSQ    | Based on 1-5 likert scale strongly agree up to strongly disagree         |
| Attitude towards tax evasion | Scale       | ATT     | CATT    | Based on 1-5 likert scale strongly agree up to strongly disagree         |
| Tax system structure         | Scale       | TSS     | CTSs    | Based on 1-5 likert scale strongly agree up to strongly disagree         |
| Types of Occupation          | Dummy       | Occ.    | Occ.    | 0 if the business profit taxpayers non-professional, otherwise 1         |
| Types of sources of income   | Dummy       | SI      | SI      | Business profit taxpayers involvement to earn additional income          |
| Types of level of income     | Dummy       | LI      | LI      | In which stage of business profit taxpayers found in high, middle or low |

Source: Researcher’s own design (2015)

Note: ‘C’ in prefix represents Centered variable in the second model to minimize multicollinearity.

In model two, these individual variables were interacted in two ways to get the changes due to interaction in sign as well as  $R^2$ , adjusted  $R^2$ , p value and T values for comparison. Table 4.20 shows the result of multiple regressions on the relationship between dependent and explanatory variables. Some explanatory variables in the model have the signs that conform to the researcher’s prior expectations except a few variables especially in the first model. In this case, tax compliance behavior was regressed on explanatory variables in the first stage to obtain the main effect while in the second stage; the dependent variable was regressed on independent variable, moderator(s) and the product of the independent variable and moderator(s). The results of the multiple regressions presented in table 4.20. However, before the regressions, the study followed the suggestion of Aiken & West (1991) to center the continuous variables in order to reduce the effect of multicollinearity. The following table (4.20) summarizes the result of the two models.

**Table 3.20: Result of Multiple Regressions for the Moderating Effect of Financial Condition**

| Variables  | Model 1          |          | Model 2     |          |
|--|------------------|----------|-------------|----------|
|  | Beta Coefficient | T value  | Coefficient | T value  |
| Tax System Structure                             | .700             | 12.35*** |             |          |
| Tax Service Quality                              | -.099            | -3.66*** |             |          |
| Attitude towards tax evasion                     | .3146            | 15.99*** |             |          |
| Occupation                                       |                  |          |             |          |
| Non-professional                                 | -.0566           | -1.45    |             |          |
| Types of source of income                        |                  |          |             |          |
| Public sector                                    | .0839            | 1.99*    |             |          |
| Self employed                                    | .0682            | 1.90*    |             |          |
| Pension and others                               | .0737            | 2.35**   |             |          |
| Level of income                                  |                  |          |             |          |
| Lower income                                     | .0665            | 1.92*    |             |          |
| High income                                      | -.0293           | -0.45    |             |          |
| Financial Condition                              |                  |          | .846        | 10.31*** |
| Financial condition*tax system structure         |                  |          | -.240       | -2.08**  |
| Financial condition*tax service quality          |                  |          | .0637       | 0.94     |
| Financial condition*Attitude towards tax evasion |                  |          | -.132       | -1.82*   |
| Occupation                                       |                  |          |             |          |
| Financial condition*non-professional             |                  |          | .1062       | .92*     |
| Types of source of income                        |                  |          |             |          |
| Financial Condition* Public sector               |                  |          | -.0492      | -0.61    |
| Financial condition*Self employed                |                  |          | -.0578      | -0.83    |
| Financial condition*Pension and others           |                  |          | -.0317      | -0.52    |
| level of income                                  |                  |          |             |          |
| Financial condition*low income                   |                  |          | .0823       | 1.23     |
| Financial condition*middle income                |                  |          | .176        | 1.40     |
| R <sup>2</sup>                                   | 0.72             |          | 0.7513      |          |
| Adjusted R <sup>2</sup>                          | 0.7069           |          | 0.7243      |          |
| F value  | 50               |          | 65          |          |
| P value  | .000             |          | .000        |          |

Note: 1.T Statistics in parenthesis, 2. Significant levels are: \*\*\* P<.01, \*\* P<.05 and \* P<.10

Source: Stata result & researcher's own analysis (2015)

### 3.3.1. Interpretation of the Model's Output (Moderated Multiple Regression)

The results of multiple regressions are documented in Table 4.20, the statistical analyses reveals that model 1 and model 2 were statistically significant as indicated by the F ratio of 50 (P=.000) and 65 (P=.000), respectively. The regression result indicates the moderating effect of financial condition on the independent variables as represented in model 2 are presented in 4.20 in conjunction with the result of model 1(main effect) for comparative analysis.

As output of the model 1 shown the most influential explanatory variable in influencing, tax compliance behavior are Tax System Structure, Tax Service Quality and Attitude towards tax evasion at 1% significance level. This suggests that both models have a significant ability to predict business profit taxpayers' behavior in Mekelle city. The table also reveals that model 2 has R<sup>2</sup> 0.75 compared to R<sup>2</sup> 0.72 for model1, which is an indication that all the study's variables in the presence of the moderating effect of financial condition would account for 75% of the variance for the dependent variable (tax compliance behavior). However, a conservative estimate provided by the adjusted R<sup>2</sup> indicates that model 1 and model 2 could only explain about 71% and 72% of the compliance behavior of the taxpayers, respectively. On the impact of moderating effect of financial condition on model 2 as a whole, and there is incremental value of change R<sup>2</sup> from 0.71 in model 1 to .72 model 2 is significant (P=.000). On the contribution of each variable, seven variables to model 1 and three in model 2,



variables made a significant contribution while the contributions of other variables were insignificant. As a result, the results of each hypothesis tests presented below.

Research hypothesis one and two was formulated to estimate the relationship between unfavorable attitude towards tax evasion and tax compliance behavior and the interaction of financial condition on taxpayers attitude and tax compliance behavior. The result of the main effect in model 1 shows taxpayer's attitude towards tax evasion ( $\beta=0.31$ ;  $P<0.01$ ) significantly and positively related to compliance behavior. Specifically, the regression analysis provides evidence in support of the prediction in hypothesis (H1) which indicates that taxpayers' attitude towards tax evasion significantly and positively related to their compliance behavior and this suggests that taxpayers with unfavorable attitude towards tax evasion are more likely to show positive behavior towards complying with tax rule and regulations. This finding is consistent with the theoretical prediction that attitude is indication of behavior (Ajzen, 1991). The result equally agrees with previous studies, which reported significant positive relationship between attitude towards tax evasion and compliance behavior (Alabede et. al., 2012, & Kirchler et al., 2008).

Again, the descriptive statistics result shows mean value (3.98) above average, these shows the respondents have unfavorable attitude towards tax evasion. In addition, the evidence provided by the finding indicates that the relationship between taxpayers' attitude to tax evasion and compliance behavior is a strong relationship.

In model 2, financial condition and the product term of attitude towards tax evasion and financial condition were entered and the regression result indicates that financial condition ( $\beta=-0.132$ ;  $P<0.10$ ) significance but negative interaction with attitude towards tax evasion and tax compliance behavior. Whereas, financial conditions moderating the relationship on taxpayer's attitude towards tax evasion and tax compliance behavior significantly and negatively, as a result the researcher fails to support hypothesis (H2) inconsistency with the previous studies.

The interesting aspect of this finding is that the absence of the taxpayers' financial condition on the relationship between the taxpayer's attitude towards tax evasion and compliance behavior transformed the relationship between the two variables from positive to negative. This indicates that the effect of financial condition had weakened the influence of the attitude towards tax evasion on taxpayers' compliance behavior, and, accordingly, it suggests that in the absence of financial condition, with unfavorable taxpayer's attitude towards tax evasion, taxpayers are likely to be less compliant.

Research hypothesis three and four formulated to estimate the moderating effect of financial condition and the relationship between tax system structure and tax compliance behavior. The result of the main effect in model 1, shows taxpayer's tax system structure has ( $\beta=0.70$ ,  $P<0.01$ ), strongly positive and significance effect related to compliance behavior. This indicates that when the tax system structure is clear and fair the taxpayer will motivate to pay their tax obligation and the reverse is true. While on the descriptive statistics reveals 3.34 and standard deviation of 0.52, high mean value for tax system structure to be treat as the tax system is ineffective and as the survey's result shown business profit taxpayers respond as low tax system that makes them non-complying with tax rules and regulations. The result provides evidence in support of hypothesis (H3) Hence; the tax system structure had more influence on their tax compliance behavior.

In model 2, the regression result provides evidence indicating that taxpayers' financial condition ( $\beta=-0.240$ ;  $P<0.05$ ) negative significantly moderated the influence of tax system structure on tax compliance behavior. The exciting feature of this finding is that the absence of the taxpayers' financial condition on the relationship between the tax system structure and compliance behavior transformed the relationship between the two-tax system structure and dependent variables from positive sign to negative. Therefore, this is an indication of the effect of financial condition had undermined the influence of the tax system structure on taxpayers' compliance behavior, and, for that reason, it indicates with problem of financial condition, and increase in the tax system structure effectiveness, taxpayers are likely to be less compliant.

In this finding, the researcher came across in the direction, indicating that a great number of the respondents who were noncompliant were also dissatisfied with their financial situation. The result on the moderating effect of the financial condition on tax system structure and compliance behavior is not surprising for developing countries with a high poverty rate and inefficient tax system structure. This finding directly agrees with the suggestion in Ritsema and Thomas (2003) that individual taxpayers with meager financial resources may be tempted by bad financial conditions to be less compliant. Consequently, the tax system structure had less influence on their compliance behavior. The study support hypothesis (H4) and the result have similarity with (Alabede et. al. 2012).

Research hypothesis five and six was concerning the effect of tax service quality and the interaction of financial condition to tax compliance behavior. In this regard, the effect of tax service quality with tax compliance behavior result reveals under model 1 as follows: The result of model 1 indicates that perceived tax service quality ( $\beta=-0.0996$ ;  $P<.01$ ) has significant and negative relationship with taxpayers' compliance behavior as a result, this fails to support hypothesis (H5). Hence, this shown as, while tax service quality is low taxpayers being compliance behavior is less, will negatively affected, that's why the survey results revealed a mean of a little bit on the average, this indicates, business profit taxpayers were not satisfied with tax service quality provided by the tax authority also dissatisfied with financial situation.

In model 2, financial condition and the product term of perceived tax service quality and financial condition were entered and the regression result reveals that financial condition ( $\beta=.064$ ) has positive and insignificance relation to tax compliance behavior. In this case, the study fails to support hypothesis (H6). Furthermore, more than 3/4<sup>th</sup> of the respondents were not satisfied with tax service quality and dissatisfied with their financial condition, but as model 2, results shown financial condition does not moderate the relationship between tax service quality and tax compliance behavior. This means that whether business profit taxpayers are satisfied or dissatisfied with their financial condition it does not affect their tax compliance behavior.

As a determinant and moderate factor, in model 2, financial condition and the product term were entered and the regression result reveals that financial condition (0.85;  $P<.01$ ) has strong positive relationship with tax compliance behavior. This implies that, even though taxpayers have financial constraints they are able to obedience with the tax rules and regulations. Vogel (1974) illustrate that people with no financial constraints exercise tax evasion and surprisingly, the level of evasion they exhibit can be more serious other than people in financial distress.

In Model 1 regression, regardless of taxpayers non-compliance opportunity, the result shows taxpayers' source of income from the public sector ( $\beta=0.084$ ;  $p<0.10$ ) significantly and positively related to their compliance behavior. The same result was obtained on the relationship between the self-employee ( $\beta=0.068$ ;  $p<0.10$ ), pension and others ( $\beta=0.0737$ ;  $p<0.05$ ), it supports to accept hypothesis (H9). Therefore, this indicates that if taxpayers have additional source of income such as like the above mentioned their behavior towards tax compliance will have positive image and leads them to comply with rules and regulations. Whereas low-income level ( $\beta=0.066$ ;  $p<0.10$ ) have weak positive and significant relation to tax compliance behavior.

However, the relationship between non-professional occupation ( $\beta=-0.057$ ) and tax compliance behavior were not significance, the researcher fails to support hypothesis (H7). As well as income level (high income) ( $\beta=0.029$ ).

In Model 2, financial condition and the product term of each of the explanatory factors were entered and among the regression results, financial condition had a weak positive moderating effect on relationship between nonprofessional occupation ( $\beta=0.106$ ;  $p<0.10$ ) and tax compliance behavior which is changed from insignificance effect with tax compliance to negative and significance due to interaction variable. The result also indicates that financial condition had weak negative insignificance moderating effect on the relationship between source of income public sector ( $\beta=-0.049$ ), self employee ( $\beta=-0.0579$ ); Pension and others (-0.0317) whereas, low-income level ( $\beta=0.082$ ), high-income level ( $\beta=0.176$ ), and tax compliance behavior was positive but not significant.

Unlike the attitudes towards tax evasion, tax system structure and non-professional occupation, the regression results did not provide proof concerning the moderating effects of financial condition on the relationship between tax compliance and each of the other determinants even though independent variables explained the dependent variable increased on the  $R^2$ , adjusted  $R^2$ .

Research hypothesis seven and eight in this study was primarily concerns, the moderating effects of taxpayers' financial condition on the relationship between noncompliance opportunity and tax compliance behavior besides of the main effect. The study produced statistically does not evidence in support of some of the hypotheses. The regression analysis provides evidence, which is inconsistent with hypothesis (H8) indicating that taxpayers' financial condition demonstrated weak positive moderating effect on the influence of nonprofessional occupation on tax compliance behavior. This suggests that taxpayers in nonprofessional occupation such as artisans, teacher, owner managers, daily laborer etc., are likely to be compliant in the absence of their financial condition. Although, no evidence in the literature on the moderating effect of financial condition on relationship between occupation and tax compliance behavior, however, this result is inconsistency with previous findings that taxpayers who are in nonprofessional occupation more likely to be less compliant (Alabede et. al., 2012).

Other results on the moderating effect of financial condition failed to provide support for hypothesis (H10) and (H12). This suggests that financial condition did not exert significant effect on the influences of taxpayers' level of income as well as income source on tax compliance behavior. However, it is not clear why financial condition failed to moderate the influence of taxpayers' level of income as may be expected which is consistent with previous research. The following table (4.21) summarizes the hypotheses tests performed and the decision made.

Table 3.21 Summary of hypotheses tests

| Hypothesis |   | Decision | Significance level |         |
|------------|---|----------|--------------------|---------|
|            |   |          | Model 1            | Model 2 |
| H1         | Taxpayer with unfavorable attitude towards tax evasion is more likely to exhibit positive compliance behavior                 | Accept   | 0.01               | -       |
| H2         | Tax system structure has positive and significant relationship with his/her compliance behavior                               | Accept   | 0.01               | -       |
| H3         | Perception of taxpayer about tax service quality has positive and significantly with his/her compliance behavior.             | Accept   | 0.01               | -       |
| H9         | Taxpayer's source of income, has positively and significantly related with his/her compliance behavior                        | Accept   | 0.10               | -       |
| H 11       | Income level of taxpayers has positive and significance relation with his/her compliance behavior.                            | Accept   | 0.10               | -       |
| H2         | Taxpayer's financial condition moderates the relationship between his/her attitude toward tax evasion and compliance behavior | -        | 0.10               | Accept  |
| H4         | Financial condition moderates the relationship between tax system structure and tax compliance behavior.                      | -        | 0.05               | Accept  |
| H8         | Financial condition moderates the relationship between taxpayer's types of occupation and tax compliance behavior.            | -        | 0.10               | Accept  |

Source: Stata result & researcher's own analysis (2012)

Generally, this chapter discussed the results of the survey analysis using descriptive statistics and moderated multiple regression models to test hypothesis. In addition, it illustrates how the independent variables influence the dependent variable. Models that are used to test the hypothesis developed was moderated multiple regression/Hierarchical regression to examine the relationship between independent and dependent variables besides the two-way interaction of financial conditions with explanatory and tax compliance behavior. Thus, a discussion of the result indicates that three variables accepted at less than 1% significance level and two at 10% in the main effect, whereas in model 2 three hypotheses accepted at less than 10% and at less than 5% significance level, the moderate variable also significance effect on tax compliance behavior.

#### 4. Conclusion

The results suggest that, over three-fifth of business profit taxpayers that found in Mekelle city are same one compliance and about two-fifth of them are equally share for moderately and fully compliance. In addition, the survey covers sole proprietorship and partnership engaging in activities of merchandise and trade, service and manufacturing sectors licensed as a business before 2004 E.C. From the types of categories business profit taxpayers, category "C" covers more than 85%.

Male tax payers shown less compliance and fully compliance, but comparatively they are less compliant, while married was fully compliance than other marital statues towards tax rules and regulations due to the influence of wife on husband. Furthermore, as age of taxpayers increases, the act of non-compliance decreased comparatively, even though it has the same directions towards tax rules and regulations. The working experiences of managers, employees and owners have an influence on tax compliance and less experience have less compliance. This may be due to they understand the overall features of tax through time and internalized social norms and the reverse are true. Further, more in connection with educational levels, secondary school and diploma weights less compliance than degree of fully compliance.

Out of 91% of non-professional taxpayers around 2/3rd, taxpayers depends under the source of other income, and grouped in lower income levels are less tax compliance than others relatively. In addition, these are also fully compliance with less degree than non-compliance but more than the other alternatives.

Finally, the pattern of relationship between the dependent and independent variable that found in descriptive statistics properly tested using an extended econometric model that includes attitude towards tax evasion, tax system structure, tax service quality, financial condition, and non-compliance opportunity factors.

The evidence from the study shows that taxpayers' financial condition had a strong moderating effect on tax compliance and some of its determinants.

Source of income has a positive and significant relation with tax compliance behavior, Public sector, and self-employed at 10%, pension and other at 5%, low income at 10% positively, and negatively but insignificant with Non-professional occupation and high income.

The aggregate mean score for tax compliance behavior was 1.996, which indicated that overall respondents had moderate tax compliance behavior with standard deviation of 0.369 on the existing rules and regulations. However when it is measured separately most of taxpayers are compliance on claiming deductions.

Compare to financial condition dissatisfied taxpayers are less compliance and fully compliance compare to satisfied but comparatively the proportion shows fully than less compliance. Financial condition as explanatory variable regressed in the second model results a positive and significant influence on the tax compliance behavior. As a result, when financial conditions of taxpayers increase their tax compliance behavior affected negatively.

By incorporating the moderating effect of taxpayer's financial condition specifically, it determined the moderating effect of taxpayer's financial condition on the relationship between noncompliance opportunity and tax compliance behavior. The regression results indicate that financial condition had significant effect on the influence of nonprofessional occupation on the tax compliance behavior.

Financial condition had a weak positive moderating effect on relationship between nonprofessional occupation and tax compliance behavior at 1% significance level. In addition, it had negative and insignificant moderating effect on the relationship between source of income from sole proprietorship, public sector as well as pension and others and tax compliance behavior. Likewise, it results positive and insignificant effect of financial condition on the relationship between low income, high income, and tax compliance behavior. The measurement of Attitude towards tax evasion evaluated the ethical behavior and respondents had fair ethical behavior towards tax system. Supports not declaring their extra income and claiming nonexistent deduction on tax return were serious offences. The reaction of respondents felt good sense about the involvement of others in tax evasions and tax fairness. Overall, going by the overall mean score of 3.98 and standard deviation of 0.21, the respondents had an unfavorable attitude towards tax evasion. Taxpayer's attitude towards tax evasion has a strong positive and significant relation with tax compliance behavior at 1%. While financial condition and attitude towards tax evasion entered and the regression result indicates, financial condition significance but negative moderated with attitude towards tax evasion and tax compliance behavior at 10%. It changes the effect from positive to negative due the interaction variable. Therefore, this indicated with presence of financial condition their behavior changed to favorable attitude towards tax evasion. The same results also forwarded using crosstab. On the crosstab results of financial condition and attitude towards tax evasion, more of the respondents on the line of financial problem tend to agree with the components of attitude towards tax evasion. It suggests that in the absence of financial condition, with unfavorable taxpayer's attitude towards tax evasion, taxpayers are likely to be less compliant.

Tax system structure questions, evaluated on tax return, complexity of tax system, difficult to understand tax rules to navigate, unclear/unfair tax system, procedural complexity, and, tax rate, awareness creation and enforcement of categories has been measured and resulted low tax system except lawfulness to collect revenue manage economy perceived positively. In addition, the overall mean score of tax system structure and standard deviation shows 3.34, 0.52 respectively. Therefore, business profit taxpayers treated the value of tax system structure, as tax system is low.

Similar results using crosstab between financial condition and tax system structure, out of 78% unsatisfied with their financial condition, more than 90% agreed with the elements of tax system structure. The finding Shows taxpayer's tax system structure has strongly positive and significance effect related to compliance behavior at

1%. This indicates that when the tax system structure is clear and fair the taxpayer will motivate to pay their tax obligation. The regression result provides evidence indicating that taxpayers' financial condition has negatively significance at 5% moderated the influence of tax system structure on tax compliance behavior. With the presence of financial condition and increase in tax system structure, taxpayers are likely to be less compliant. On the other hand, respondents who were noncompliance were also dissatisfied with their financial situation. Consequently, the tax system structure had less influence on their compliance behavior.

Business profit taxpayers measured their perception on the component of tax service quality. Their observation about the quality of interaction between tax employees and individual taxpayers on tax office employees friendliness, tax employees willingness to help taxpayers, tax employees respond quickly to tax service needs, tax office employees' knowledge of their job, tax employees' respond to tax service needs has on average less quality.

Perception of the respondents on the quality of tax office physical environment like on easiness of location and appropriate person, Compare ambiance at the tax office to any office person, importance of atmosphere to tax office and impresses of tax office outlay also shows less perception. Perceptions on actual services outcome the respondents perceived the quality of actual tax service is low except on certain elements. The descriptive statistics on the data of this study provide strong evidence indicating that individual business profit taxpayers have a low perception about the quality of tax services provided by the tax revenue authorities. The overall mean score of tax service quality is 2.631 and standard deviation of 0.425, the respondents generally perceived tax service quality in Mekelle city is ineffective.

Perceived tax service quality has strongly negative and significant relationship with taxpayers' compliance behavior at 1% significance level. While tax service quality is low, taxpayers being compliance behavior is less. Perceived tax service quality and financial condition regression result reveals that financial condition has positive and insignificance relation to tax compliance behavior. This means tax payers did not affect their financial condition to be compliance or not with related to low tax service quality. In addition to the relation, using crosstab shows from 78% having financial problem 2/3<sup>rd</sup> of them stated their disagreement on the raised perceived tax service issue.

Generally, the evidence from the study shows that taxpayers' financial condition had a strong moderating impact on tax compliance and some of its determinants. Specifically, the study found that the presence of financial condition in the tax compliance model significantly moderated the influence of tax system structure (5% significant level negatively), taxpayers' attitude towards tax evasion (10% significant level negatively) and nonprofessional occupation (10% significant level positively) on tax compliance behavior.

To support the results from survey respondents analyzed via descriptive statistics and econometrics model, the researcher also collect data using in depth interview open ended questions to provide comments over all the questions included in the survey. Therefore, the data analyzed using content analyses were as follows: questions that given an opportunity to provide comments on the overall factors influencing tax compliance behavior. More particularly with tax compliance behavior and factors affecting the tax compliance behavior like; attitude towards tax evasion, perceptions on tax compliance, tax service quality, tax knowledge, financial condition, tax system structure, and related with their type of occupation, income level and source of income. Number interviewee covers 3/5<sup>th</sup> were category "C" and the remaining share equal on the two categories. Results drawn from the in-depth face-to-face interview, as the interviewee responds, more than 3/4<sup>th</sup> has knowledge overstating deductions and understating income as violating the rules and regulations of tax and results penalties and enforcement. Moreover, insignificant number responds did not know.

As the analysis shown, most of them know benefits of paying tax, as a result they have negative attitude towards tax evasion. Tax service quality related with interaction, physical and outcome quality provided by tax authority. More of they are satisfied as they expected in the physical and outcome quality, and perceived low quality on the interaction. On tax system structure more than 3/4<sup>th</sup>, they perceived that tax return file difficult to understand, complexity and bulkiness of tax rules, unfair and unclear treatment of tax system but positively perceived, as tax is a legitimate way to collect and manage the economy. While asked, that needs urgent attention, they suggested on tax service quality. 2/5<sup>th</sup> of the respondents have tax knowledge how to compute get training two-wise a year, and 3/5<sup>th</sup> of them have no knowledge and did not get training on tax issues. 1/5<sup>th</sup> of interviewee have no financial constraints where as 4/5<sup>th</sup> do have this problem. Lastly, all those employment statues engaged in non-professional occupation grouped under low-income level; more of their source is pension and others. The next chapter presents the overall findings of the study with conclusions, recommendations and research future directions.

The findings of this study have some interested implications, this study demonstrates the importance of the moderating effect of taxpayer's financial condition on tax compliance and some of its determinants and such effect cannot be undervalue theoretically. The findings have provided proof in support of the suggestion from the literature that the relationship between compliance behavior and its determinants moderated by certain variables.

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